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## AGENDA FOR THE PENSIONS SUB COMMITTEE

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Members of the Pensions Sub Committee are summoned to a meeting which will be held in Committee room 1, Islington Town Hall, Upper Street, N1 2UD, on **24 March 2020 at 7.00 pm.**

Enquiries to : Mary Green  
Tel : (0207 527 3005  
E-mail : [democracy@islington.gov.uk](mailto:democracy@islington.gov.uk)  
Despatched : 16 March 2020

### Membership 2019/20

Councillor Paul Convery (Chair)  
Councillor Satnam Gill  
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 - 4 |
|----|---------------------------------|-------|

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

- |    |   |         |
|----|---|---------|
| 1. | Pension Fund performance                                | 5 - 44  |
| 2. | Pension Fund Forward Plan                               | 45 - 48 |
| 3. | Draft Funding Strategy consultation results (to follow) |         |

4.	London CIV update	49 - 54
5.	Mercer presentation - Investment strategy update	55 - 58

**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.	London CIV update - exempt appendices	59 - 70
2.	Mercer presentation - Investment strategy update - exempt appendix	71 - 106

**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 22 June 2020

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London Borough of Islington

## **Pensions Sub Committee - 3 December 2019**

Non-confidential minutes of the meeting of the Pensions Sub Committee held on 3 December 2019 at 7.30 pm.

**Present:**      **Councillors:**      Paul Convery (Chair), Sue Lukes, Michael O'Sullivan and David Poyser

Alan Bee (Independent member, Pensions Board),  
Valerie Easmon-George (Pensions Board)  
Tony English, Nikeeta Kumar, Tomi Nummela and  
Anikhet Bhaduri – Mercer  
Karen Shackleton – MJHudson Allenbridge

### **Councillor Paul Convery in the Chair**

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

Received from Councillor Andy Hull.

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

Councillor David Poyser substituted for Councillor Andy Hull.

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

Councillor Paul Convery declared a personal interest as a member of the Pension Fund.

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

**RESOLVED:**

That the minutes of the meeting held on 10 September 2019 be confirmed as an accurate record of proceedings and the Chair be authorised to sign them.

**102     PENSION FUND PERFORMANCE FROM 1 JULY TO 30 SEPTEMBER 2019 (Item B1)**

**RESOLVED:**

(a) That the performance of the Fund from 1 July to 30 September 2019, as set out in the BNY Mellon interactive performance report, and detailed in the report of the 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.

**103      PRESENTATION FROM LEGAL AND GENERAL - MONITORING CURRENT POSITION OF EQUITY PROTECTION STRATEGY (Item B2)**

Richard Lubbock, Client Manager, and Femi Bart- Williams, Senior Solutions Strategy Manager, Legal and General, gave an overview of the equity protection strategy. Options were performing as expected and provided protection during market downturns, whilst the Fund continued to participate during equity market growth. Current options were due to expire in March 2020, before which time the Sub-Committee would have to decide whether to let the options expire, or approve a different equity protection structure.

Richard Lubbock and Femi Bart-Williams were thanked for their presentation.

**104      EQUITY PROTECTION STRATEGY - REVIEW (Item B3)**

**RESOLVED:**

(a) That Mercer's presentation paper on equity protection (exempt appendix E3) and their presentation be noted.

(b) That, having considered the options, current options continue beyond March and June.

**105      DECARBONISATION POLICY MONITORING - CLIMATE SCENARIO ANALYSIS (Item B4)**

**RESOLVED:**

(a) That the climate scenario analysis of the Fund produced by Mercer, attached as exempt appendix 1 to the report of the Corporate Director of Resources, be noted.

(b) That the climate-related investment impact, as detailed in the exempt appendix, be noted.

(c) That officers continue to monitor the decarbonisation policy.

**106      SETTING OBJECTIVES FOR PROVIDERS OF INVESTMENT CONSULTANCY SERVICES (Item B5)**

**RESOLVED:**

(a) That the legal requirement for trustees of occupational pensions (including LGPS) to set strategic objectives for investment consultancy providers with effect from 10 December 2019 be noted, as detailed in the report of the Corporate Director of Resources.

(b) That the draft objectives set out in Appendix 1 of the report to monitor the performance of Islington's investment consultancy provider be approved.

(c) That the objectives be reviewed at least annually, or when there is a change in the Fund's requirements.

**107      2019 ACTUARIAL VALUATION - DRAFT FUNDING STRATEGY STATEMENT FOR CONSULTATION (FOR INFORMATION) (Item B6)**

**RESOLVED:**

(a) That the summary of the main updates in the draft Funding Strategy Statement, upon which employers were to be consulted between December 2019 and January 2020, as detailed in paragraph 3.1.2 of the report of the Corporate Director of Resources, be noted.

(b) That officers and the Fund Actuary update the Funding Strategy Statement for consultation with employers admitted to the Fund.

**108      LONDON CIV UPDATE (Item B7)**

**RESOLVED:**

(a) That the progress and activities detailed in the news briefing "Collective Voice – October", attached as exempt appendix 1 to the report of the Corporate Director of Resources, be noted.

(b) That the letter from the CEO at London CIV on the update after remuneration policy review, attached as exempt appendix 2 to the report, be noted only at this stage.

(c) That officers explore alternative pooling opportunities and report back to the Committee in due course.

**109      PENSION FUND FORWARD PLAN 2019/20 (Item B8)**

**RESOLVED:**

That the Appendix to the report of the Corporate Director of Resources, detailing agenda items for forthcoming meetings, be approved.

**110      PENSION ADMINISTRATION PERFORMANCE - AMENDMENT TO REGULATIONS (N.B. - THIS REPORT IS ALSO TO BE CONSIDERED BY THE PENSIONS BOARD. ASSUMING THE PROPOSALS IN THE REPORT ARE AGREED, THE PENSIONS SUB-COMMITTEE IS TO BE ASKED TO APPROVE THE NECESSARY CHANGES TO THE REGULATIONS) (Item B9)**

The Sub-Committee noted that the Pensions Board, which had met immediately prior to this meeting, had considered and approved the recommendations in the report on "Pensions administration performance", including a recommendation that the Sub-Committee agree an amendment to regulation 40, 43 and 46 of the LGPS, concerning employer discretions.

**RESOLVED:**

That, in order to avoid any delay in the payment of death grants to the executor of the estate of a deceased member, the Chief Executive, the Head of Treasury Management and Pension Fund, the Chief Accountant and the Director Service Finance be authorised to sign off payment of death grants, in the absence of the Corporate Director of Finance and Property.

**111 INVESTMENT STRATEGY UPDATE- HEARTHSTONE (Item B10)**

**RESOLVED:**

(a) That the summary findings detailed in the exempt appendix to the report (agenda item E4) be noted.

(b) That officers, in consultation with the Chair of the Pensions Sub-Committee, be authorised to consider and agree with Hearthstone other proposals that will help make the Fund more attractive to investors and reduce Islington's holdings over time.

**112 LONDON CIV UPDATE - EXEMPT APPENDICES (Item E1)**

**RESOLVED:**

That the contents of the exempt appendix be noted.

**113 DECARBONISATION POLICY MONITORING - CLIMATE SCENARIO ANALYSIS - EXEMPT APPENDIX (Item E2)**

**RESOLVED:**

That the contents of the exempt appendix be noted.

**114 EQUITY PROTECTION STRATEGY - REVIEW - EXEMPT APPENDIX (Item E3)**

**RESOLVED:**

That the contents of the exempt appendix be noted.

**115 INVESTMENT STRATEGY UPDATE- HEARTHSTONE - EXEMPT APPENDIX (Item F1)**

**RESOLVED:**

That the contents of the exempt appendix be noted.

**START TIME FOR FUTURE MEETINGS**

**RESOLVED:**

That future meetings of the Sub-Committee commence at 7.00pm.

The meeting ended at 9.35 pm

**CHAIR**





**Finance Department**  
**7 Newington Barrow Way**  
**London N7**  
**7EP**

**Report of: Interim Section 151 Officer**

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	24 <sup>th</sup> March 2020		

Delete as appropriate	Exempt	Non-exempt

## **Subject: PENSION FUND PERFORMANCE 1 OCTOBER TO 31 DECEMBER 2019**

<b>1.</b>	<b>Synopsis</b>
1.1	This is a quarterly report to the Pensions Sub-Committee to allow the Council as administering authority for the Fund to review the performance of the Fund investments at regular intervals and review the investments made by Fund Managers quarterly.
<b>2.</b>	<b>Recommendations</b>
2.1	To note the performance of the Fund from 1 October to 31 December 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 January 2020 LGPS Current Issues attached as Appendix 2
<b>3.</b>	<b>Fund Managers Performance for 1 October to December 2019</b>
3.1	The fund managers' latest quarter net performance figures compared to the benchmark and Mercer ESG ratings is shown in the table below.

Mercer's ESG ratings provide an assessment of the integration of ESG issues into the investment process and provides an overall rating – ESG 1 is the highest possible rating and ESG 4 is the lowest possible rating. As such, Mercer has provided the 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 (Oct-Dec'19) Gross of fees		12 Months to Dec' 2019-Performance Gross of fees	
				Portfolio	Benchmark	Portfolio	Bench Mark
LBI-In House	12.5%	UK equities	N	3.3%	4.16%	17.6%	19.2%
London Sustainable EQ- RBC	9.1%	Global equities	N	3.1%	0.9%	n/a	n/a
LCIV -Newton	16.8%	Global equities	2	1.1	1.5%	20.7%	22.4%
Legal & General	12.5%	Global equities	1	1.7	1.8%	21.9%	22.0%
Standard Life	11.5%	Corporate bonds	2	-0.6	-0.7%	9.7%	9.3%
Aviva (1)	8.6%	UK property	3	1.9%	-4.6% 0.31%	6.8%	8.3% 2.1%
Columbia Threadneedle Investments (TPEN)	5.8%	UK commercial property	2	-6.3%	0.3	-5.3%	1.6%
Hearthstone	2%	UK residential property	4	0.34%	0.31%	1.8%	2.1%
Schroders	8.3%	Diversified Growth Fund	4	2.4%	1.5%	10.8%	7.2%
BMO Investments-LGM	5.3%	Emerging/ Frontier equities	2	-1.1%	4.1%	6.6%	14.1%

-4.6% & 8.3% = original Gilts benchmark; 0.31% and 2.1% 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 December 2019 is shown in the table below.

Combined Fund Performance hedge	Latest Quarter Performance <b>Gross</b> of fees		12 Months to December 2019 Performance Gross of fees	
	Portfolio %	Benchmark %	Portfolio %	Benchmark %
	0.45	1.01	11.9	14.3

3.4	Copies of the latest quarter fund manager’s reports are available to members for information if required.												
3.5	<p><b>Total Fund Position</b></p> <p>The Islington combined fund absolute performance with the hedge over the 1, 3 and 5 years’ period to December 2019 is shown in the table below.</p> <table><tr><td>Period</td><td>1 year per annum</td><td>3 years per annum</td><td>5 years per annum</td></tr><tr><td>Combined LBI fund performance hedged</td><td>11.9%</td><td>7.12%</td><td>7.45%</td></tr><tr><td>Customised benchmark</td><td>14.3%</td><td>6.85%</td><td>7.39%</td></tr></table>	Period	1 year per annum	3 years per annum	5 years per annum	Combined LBI fund performance hedged	11.9%	7.12%	7.45%	Customised benchmark	14.3%	6.85%	7.39%
Period	1 year per annum	3 years per annum	5 years per annum										
Combined LBI fund performance hedged	11.9%	7.12%	7.45%										
Customised benchmark	14.3%	6.85%	7.39%										
3.6	<p><b>LCIV RBC Sustainability Fund</b></p> <p>3.6.1 RBC is the fund’s global sustainable equity manager on the LCIV platform and was originally appointed in November 2018 to replace our Allianz mandate also on the LCIV platform.</p> <p>3.6.2 LCIV RBC Sustainability was fully funded on 5 August 2019. Mandate guidelines include the following;</p> <ul style="list-style-type: none"><li>• The sub fund manager will invest only where they find all four forces of competitive dynamics( business model, market share opportunity, end market growth &amp; management and ESG</li><li>• Target performance is MSCI World Index +2%p.a. net of fees over a three-year period.</li><li>• Target tracking error range over three years 2%p.a – 8.0%.</li><li>• Number of stocks 30 to 70</li><li>• Active share is 85% to 95%</li></ul> <p>3.6.3 The fund outperformed its quarterly performance to December by 2.0%. As the portfolio inception is August 2019, a 12- month performance is not applicable. The outperformance was mainly due to stock selection within financials, and consumer staples was the biggest detractor.</p>												
3.7	<p><b>Newton Investment Management</b></p> <p>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.</p> <p>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.</p>												

3.7.3	The fund returned 1.1% against a benchmark 1.5% for the December quarter. Since inception the fund has delivered an absolute return of 9.8% but relative under performance of -0.1% net of fees per annum
3.7.4	The under performance this quarter was driven mainly by overweight sector positions in consumer staples, information technology and underweight in materials and utilities.
3.8	<b>In House Tracker</b>
3.8.1	Since 1992, the UK equities portfolio of the fund has been managed in-house by officers in the Loans and Investment section by passive tracking of the FTSE 350 Index. The mandate was amended as part of the investment strategy review to now track the FTSE All Share Index within a +/- 0.5% range per annum effective from December 2008. After a review of the fund's equities, carbon footprint Members agreed to track the FTSE UK All Share Carbon Optimised Index and this became effective in September 2017.
3.8.2	The fund returned 3.4% against FTSE All Share Index benchmark of 4.2% for the December quarter and a relative over performance of 0.30% since inception in 1992. The portfolio is now mirroring the low carbon index and dividend income of £19m used to support the cashflow needs of the pension bank account.
3.9	<b>Standard Life</b>
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 December quarter, the fund returned -0.5% against a benchmark of -0.7% and an absolute return of 6.8% per annum since inception.
3.9.2	The drivers behind the out performance in this quarter being underweight (versus the benchmark) in higher-rated issuers (particularly AAA and AA rated supranationals) and overweight in banks and utilities. Stock selection made a positive contribution.
3.9.3	The agreed infrastructure mandates are being funded from this portfolio and to date 5% has been drawn down.
3.10	<b>Aviva</b>
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 1.9% against a gilt benchmark of -4.6%. The All Property IPD benchmark returned 0.3% for this quarter. Since inception, the fund has delivered an absolute return of 5.9% net of fees.
3.10.3	This December quarter the fund's unexpired average lease term is now 20.04 years. The Fund holds 84 assets with 52 tenants. One acquisition of £106 million was completed this quarter comprising a

	hotel in East London let to Premier Inn on a 35-year lease with CPI rent reviews. The fund has £94m of uncommitted investible capital.
3.11	<b>Columbia Threadneedle Property Pension Limited (TPEN)</b>
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 December was £89million.
3.11.2	<p>The agreed mandate guidelines are as listed below:</p> <ul style="list-style-type: none"> <li>• Benchmark: AREF/IPD All Balanced Property Fund Index (Weighted Average) since 1 April 2014.</li> <li>• Target Performance: 1.0% p.a. above the benchmark (net of fees) over three year rolling periods.</li> <li>• Portfolio focus is on income generation with c. 75% of portfolio returns expected to come from income over the long term.</li> <li>• Income yield on the portfolio at investment of c.8.5% p.a.</li> <li>• Focus of portfolio is biased towards secondary property markets with high footfall rather than on prime markets such as Central London. The portfolio may therefore lag in speculative/bubble markets or when the property market is driven by capital growth in prime markets.</li> </ul>
3.11.3	<p>The fund returned a relative under performance of -6.5% against its benchmark 0.3% for the December quarter mainly due to changes in default pricing basis from bid price to offer price.</p> <p>The cash balance now stands at 9% compared to 8% last quarter. During the quarter, there were four acquisitions and one disposal. There is a strong asset diversification at portfolio level with a total of 273 properties.</p>
3.11.4	The medium to long term prospects of commercial property investment are likely to face ongoing uncertainty until there is some form of post-Brexit clarity, but the fund is cushioned by its high relative income return and maximum diversification at both portfolio and client level.
3.12	<b>Passive Hedge</b>
3.12.1	The fund currently targets to hedge 50% of its overseas equities to the major currencies dollar, euro and yen. The passive hedge is run by BNY Mellon our custodian. At the end of the December quarter, the hedged overseas equities were valued at £6.8m.
3.12.2	Members agreed to reinstate the full 50% to the current global portfolios in their last meeting and the legal and fund documentation is being completed to implement the hedge
3.13	<b>Franklin Templeton</b>
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

	<p>\$40million to Fund II to keep our investments at the same level following return of capital through distributions from Fund I. The agreed mandate guidelines are listed below:</p> <ul style="list-style-type: none"><li>• Benchmark: Absolute return</li><li>• Target Performance: Net of fees internal rate of return of 15%. Preferred rate of return of 10% p.a. with performance fee only applicable to returns above this point.</li><li>• Bulk of capital expected to be invested between 2 – 4 years following fund close.</li><li>• Distributions expected from years 6 – 8, with 100% of capital expected to be returned approximately by year 7.</li></ul>												
3.13.2	<p>Fund I is now fully committed and drawn down, though \$7.1m can be recalled in the future as per business plans. The final portfolio is comprised of nine funds and five co-investments. The funds is well diversified as shown in table below:</p> <table><tr><td>Commitments</td><td>Region</td><td>% of Total Fund</td></tr><tr><td>5</td><td>Americas</td><td>36</td></tr><tr><td>4</td><td>Europe</td><td>26</td></tr><tr><td>5</td><td>Asia</td><td>38</td></tr></table> <p>The total distribution received to the end of the December quarter is \$58.4m.</p>	Commitments	Region	% of Total Fund	5	Americas	36	4	Europe	26	5	Asia	38
Commitments	Region	% of Total Fund											
5	Americas	36											
4	Europe	26											
5	Asia	38											
3.13.3	<p>Fund II is fully invested and the completed portfolio of 10 holdings consist of a diverse mix of property sectors including office, retail and industrial uses and the invested geographic exposure is 6% Asia, US 26% and 68% 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 \$35.7m and a distribution of \$9.4m. There were no calls or distributions during the quarter</p>												
3.14.	<b>Legal and General</b>												
3.14.1	<p>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.</p> <p>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.</p>												
3.14.2	<p>The components of the new mandate as at the end of June inception was £138m and benchmarked against MSCI World Low Carbon Index and £34m benchmarked against RAFI emerging markets.</p> <p>For the December quarter, the fund totalled £181m with a performance of 1.68%.</p> <p>The equity protection value as at 2<sup>nd</sup> March was £22m.</p>												
3.15	<b>Hearthstone</b>												
3.15.1	<p>This is the fund’s residential UK property manager. The fund inception date was 23 April 2013, with an initial investment of £20million funded by withdrawals from our equities portfolios. The agreed mandate guidelines are as follows:</p>												

3.15.2	<ul style="list-style-type: none"> <li>• Target performance: UK HPI + 3.75% net income.</li> <li>• Target modern housing with low maintenance characteristics, less than 10 years old.</li> <li>• Assets subject to development risk less than 5% of portfolio.</li> <li>• Regional allocation seeks to replicate distribution of UK housing stock based on data from Academics. Approximately 45% London and South East.</li> <li>• 5-6 locations per region are targeted based on qualitative and quantitative assessments and data from Touchstone and Connells.</li> <li>• Preference is for stock which can be let on Assured Shorthold Tenancies (ASTs) or to companies.</li> <li>• Total returns expected to be between 6.75% and 8.75% p.a., with returns split equally between income and capital growth. Net yields after fund costs of 3.75% p.a.</li> <li>• The fund benchmark is the LSL Academetrics House Price Index</li> </ul> <p>For the December quarter the value of the fund investment was £28.9m and total funds under management is £61.5m. Performance net of fees was 0.34% compared to the LSL benchmark of 1.1% The portfolio has 195 properties 2 less than the September quarter. Average annual occupancy 95.8%.</p> <p>Officers continue to monitor the fund on a quarterly basis and discussion are under way to switch from our current accumulation share class to an income share class once that is launched on 16 March.</p>
A 3.16 3.16.1	<p><b>Schroders-</b></p> <p>This is the Fund's diversified growth fund manager. The fund inception date was 1 July 2015, with an initial investment of £100million funded by withdrawals from our equities portfolios. The agreed mandate guidelines are as follows:</p> <ul style="list-style-type: none"> <li>• Target performance: UK RPI+ 5.0% p.a.,</li> <li>• Target volatility: two thirds of the volatility of global equities, over a full market cycle (typically 5 years).</li> <li>• Aims to invest in a broad range of assets and varies the asset allocation over a market cycle.</li> <li>• The portfolio holds internally managed funds, a selection of externally managed products and some derivatives.</li> <li>• <b>Permissible asset class ranges (%):</b> <ul style="list-style-type: none"> <li>• 25-75: Equity</li> <li>• 0- 30: Absolute Return</li> <li>• 0- 25: Sovereign Fixed Income, Corporate Bonds, Emerging Market Debt, High Yield Debt, Index-Linked Government Bonds, Cash</li> <li>• 0-20: Commodities, Convertible Bonds</li> <li>• 0- 10: Property, Infrastructure</li> <li>• 0-5: Insurance-Linked Securities, Leveraged Loans, Private Equity.</li> </ul> </li> </ul>
3.16.2	<p>This is the 18th quarter since funding and the value of the portfolio is now £120m. The aim is to participate in equity market rallies, while outperforming in falling equity markets. The December quarter performance before fees was 2.43% against the benchmark of 1.5% (inflation+5%). The one -year performance is 10.8% against benchmark of 7.2% before fees.</p>

3.16.3	Positions in equity positions and alternatives were the largest contributors to performance. Credit and government debt were flat and cash and currency detracted from returns.
3.17	<p><b>BMO Global Assets Mgt</b></p> <p>This is the new emerging and frontier equity manager seeded in July 2017 with a total £74.4m withdrawn from LGIM. The mandate details as follows:</p> <ul style="list-style-type: none"> <li>• A blended portfolio with 85% invested in emerging market and 15% in frontier markets</li> <li>• Target performance MSCI Emerging Markets Index +3.0% (for the global emerging markets strategy)</li> <li>• Expected target tracking error 4-8% p.a</li> <li>• The strategy is likely to have a persistent bias towards profitability, and invests in high quality companies that pay dividend</li> </ul>
3.17.1	<p>The December quarter saw a combined performance of -1.08% against a benchmark of 4.1% before fees.</p> <p>Given the companies, we are invested in and their current valuations, we believe there is a compelling reason why we can deliver strong long-term returns on your capital. If one can withstand the current pain and take a long-term view.</p> <p>The strategy remains to continue to research new companies that we suspect might be worthy of your hard earned capital and continue to have a close communication with our existing investments to push them to higher business and governance standards which we believe will ultimately enhance your long term return.</p>
3.17.2	<p>A meeting has been arranged with the new CIO for the reassurance that, the strategy remains to deliver better returns in the long term.</p>
3.18	<p><b>Quinbrook Infrastructure</b></p> <p>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:</p> <ul style="list-style-type: none"> <li>• Low carbon strategy, in line with LB Islington's stated agenda</li> <li>• Very strong wider ESG credentials</li> <li>• 100% drawn in 12-18 months</li> <li>• Minimal blind pool risk</li> <li>• Estimated returns 7%cash yield and 5% capital growth</li> </ul> <p><b>Risks:</b> Key Man risk</p> <p>Drawdown to December 2019 is \$50.164m</p> <p><b>Pantheon Access-</b> is the other infrastructure manager also appointed in November 2018. Total allocation was \$100m and merits of allocation included:</p> <ul style="list-style-type: none"> <li>• 25% invested with drawdown on day 1</li> <li>• Expect fully drawn within 2-3 years</li> <li>• Good vintage diversification between secondary's and co-investments</li> <li>• Exposure to 150 investments</li> <li>• Estimated return 5% cash yield and 6% capital growth</li> </ul> <p><b>Risks:</b> No primary fund exposure.</p> <p>Drawdown to December 2019 is \$27.15m and distribution of \$1.25m</p>



<b>4.</b>	<b>Implications</b>
4.1	<p><b>Financial implications:</b> The fund actuary takes investment performance into account when assessing the employer contributions payable, at the triennial valuation.</p> <p>Fund management and administration fees and related cost are charged to the pension fund.</p>
4.2	<p><b>Legal Implications:</b> As the administering authority for the Fund, the Council must review the performance of the Fund investments at regular intervals and review the investments made by Fund Managers quarterly.</p>
4.3	<p><b>Resident Impact Assessment:</b> The Council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The Council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The Council must have due regard to the need to tackle prejudice and promote understanding".</p> <p>An equalities impact assessment has not been conducted because this report is an update on performance of existing fund managers and there are no equalities issues arising.</p>
4.4	<p><b>Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:</b> Environmental implications will be included in each report to the Pensions-sub committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of the fund in green opportunities. The link to the full document is <a href="https://www.islington.gov.uk/~media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonboroughngtonpensionfundinvestmentstrategystatement.pdf">https://www.islington.gov.uk/~media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonboroughngtonpensionfundinvestmentstrategystatement.pdf</a></p>

## 5. Conclusion and reasons for recommendations

- 5.1 Members are asked to note the performance of the fund for the quarter ending December 2019 as part of the regular monitoring of fund performance and Appendix 1- MJ Hudson commentary on managers and LGPS Current Issues bulletin January 2020.

**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:**

<b>Received by:</b>	Interim Section 151 Officer	Date
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	Head of Democratic Services	Date
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# **London Borough of Islington**

Report to 31st December 2019

MJ Hudson Allenbridge

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MARCH 2020

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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 INDIVIDUAL S	PERFORMANCE	ASSETS UNDER MANAGE- MENT	CHANGE IN STRATEG Y/RISK	MANAGER SPECIFIC CONCERN S
London CIV – Newton (active global equities)	Iain Stewart (who was the founder and originally the lead manager for the fund) retired at the end of December 2019.	Underperformed the benchmark by -0.34% in the quarter. Over three years the fund is behind the benchmark return by -0.07% and failing to achieve the performance target of +1.5% p.a.	As at end December the sub- fund's value was £667.7 million. London Borough of Islington owns 36.3% of the sub-fund.		
BMO/LGM (emerging and frontier equities)	No updates were reported in Q4 2019.	Underperformed the benchmark by -5.19% in the quarter to December 2019. The fund is behind over one year by -7.75%.	Not reported.		

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT	CHANGE IN STRATEGY/RISK	MANAGER SPECIFIC CONCERNS
Standard Life (corporate bonds)	10 joiners, 43 leavers (including 11 across credit, treasury, emerging market debt, and private credit).	The fund was ahead of the benchmark by +0.16% in the quarter to December 2019. Over three years the fund is 0.41% p.a. ahead of the benchmark return net of fees, but behind the performance target of +0.8% ahead p.a.	Fund value rose to £2,560.0 million in Q4 2019, a rise of £110.7 million. London Borough of Islington's holding stood at 6.5% of the fund's value.		
Aviva (UK property)	4 new joiners and 12 leavers across the firm. On the Lime Fund team there were no changes.	Outperformed the gilt benchmark by 6.45% for the quarter to December 2019 and outperformed by +1.81% p.a. over three years, net of fees.	Fund was valued at £2.70 billion as at end Q4 2019. London Borough of Islington owns 4.6% 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)	Two joiners and two leavers in Q4 2019, but no changes to the team managing the Islington portfolio.	Underperformed the benchmark return by -6.25% in Q4 2019, due to a change in the pricing methodology for the fund. They marginally underperformed the benchmark by -0.09% p.a. over three years, below the target of 1% p.a. outperformance.	Pooled fund has assets of £2.05 billion. London Borough of Islington owns 4.09% of the fund.		
Legal and General (passive equities)	Within the corporate governance team, there were two new joiners in Q4, an ESG manager and a sustainability and responsible investment manager.	Funds are tracking as expected. Both marginally underperformed the index in Q4.	Assets under management of £1.2 trillion at end December 2019. Net flows of +£60.3 billion in first six months of 2019.		
Franklin Templeton (global property)	There were four leavers during Q4 2019. Three from the closure of the Singapore office.	Portfolio return over three years was +17.37% p.a., well ahead of the target of 10% p.a.	\$698.3 billion of assets under management as at end December 2019.		The acquisition of Legg Mason runs the risk of diverting senior management time.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGE- MENT	CHANGE IN STRATEGY/ RISK	MANAGER SPECIFIC CONCERNS
Hearthstone (UK residential property)	No leavers or joiners in Q4.	Marginally outperformed the IPD UK All Property Index by +0.03% in Q4. Trailing the IPD benchmark over three years by -3.94% p.a. to end December 2019.	Fund was valued at £61.4m at end Q4 2019. London Borough of Islington owns 47.1% of the fund.		
Schroders (multi-asset diversified growth)	During Q4, no changes to investment team.	Fund returned +2.43% during the quarter and +4.45% p.a. over 3 years, -3.55% behind the target return.	Total AUM stood at £500.2 billion as at end December 2019.	The volatility of the fund is at the low end of expectations at present. At end December it was 43% of equity market volatility compared with an expected maximum of 66%.	
Quinbrook (renewable energy infrastructure)	Two new joiners to the investment team: a vice president, and an analyst.	Over Q4 2019 the fund returned -4.73%, behind the benchmark return of +2.87% although performance should be assessed over a longer time period for this fund			

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGE- MENT	CHANGE IN STRATEGY/ RISK	MANAGER SPECIFIC CONCERNS
Pantheon (Private Equity and Infrastructure Funds)		The combined funds returned -7.46% in Q4, compared to the benchmark return of +1.41%. Over three years, the combined return was +22.42%, ahead of the benchmark return of +10.38%.			

Source: MJ Hudson Allenbridge

Minor Concern

Major Concern

## Individual Manager Reviews

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

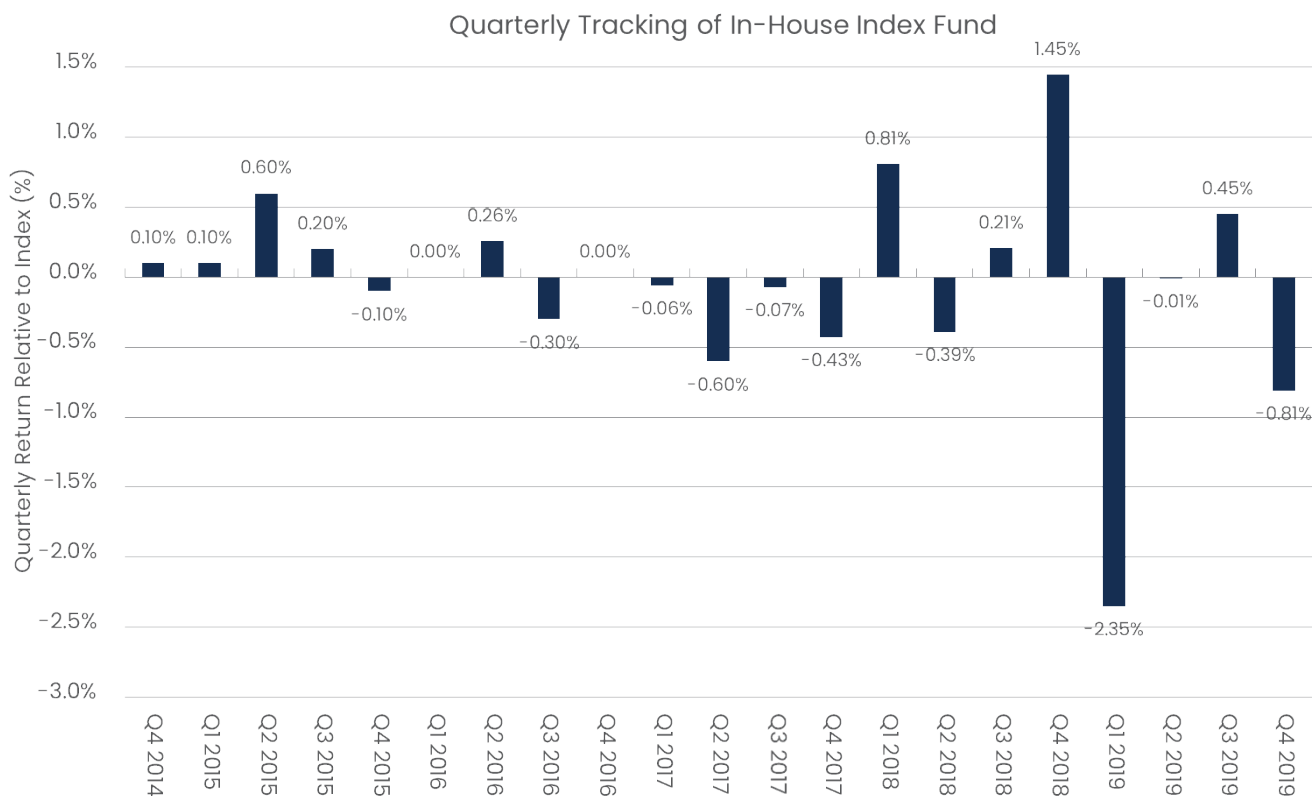
**Headline Comments:** At the end of Q4 2019 the fund returned +3.35%, this was behind the FTSE All-Share index return of +4.16%. Also, over three years the fund has returned +6.81% p.a., marginally behind the FTSE All-Share Index by -0.05%.

**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 marginally underperformed its three-year benchmark by -0.05% p.a.

**CHART 1:**



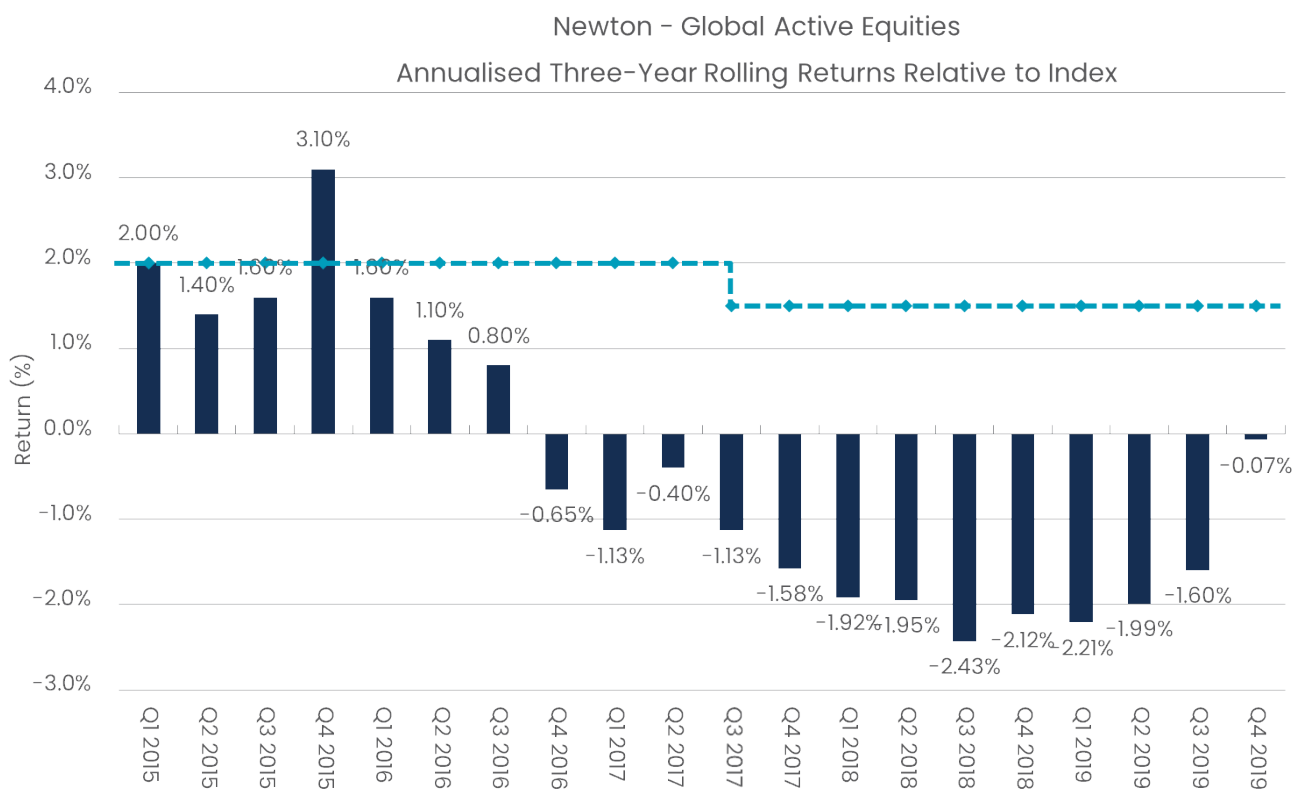
Source: MJH Allenbridge; BNY Mellon

## London CIV – Newton – Global Active Equities

**Headline Comments:** The London CIV – Newton sub-fund marginally underperformed its benchmark during Q4 2019 by -0.34%. Over three years the portfolio continues to marginally underperform the performance target of benchmark +1.5% p.a.

**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 22<sup>nd</sup> 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 Q4 2019, the fund has trailed the benchmark by -0.07% p.a. This means it is trailing the performance objective by -1.57% (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 performance in the quarter to December 2019 to progress in trade negotiations, de-escalation of geopolitical uncertainty, and Federal Reserve interest rate cuts supporting global equities. Positions in industrials and materials performed strongly, whilst consumer staples, utilities, and healthcare detracted somewhat.

Positive contributions to the total return came from holdings such as Apple (+0.41%) and Ferguson Plc (+0.34%). Meanwhile, Cisco Systems was the biggest detractor (-0.47%) from the fund's quarterly return of +1.11%, followed by Swedbank Ab (-0.18%).

The London CIV has expressed concern over recent lacklustre performance, particularly over the past 12 months, with the fund return trailing the benchmark by -1.68%.

**Portfolio Risk:** the active risk on the portfolio stood at 3.28% as at quarter end, marginally higher than as at end September when it stood at 3.27%. The portfolio remains defensive, with the beta on the portfolio at end December standing at 0.86, a decrease on the previous quarter when it stood at 0.90 (if the market increases by +10% the portfolio can be expected to rise +8.6%).

At the end of Q4 2019, the London CIV sub-fund's assets under management were £668m, compared with £660m last quarter. London Borough of Islington now owns 36.3% of the sub-fund.

**Portfolio Characteristics:** The number of stocks in the portfolio stood at 58 as at quarter-end (up from 56 last quarter). The fund added three positions, Mastercard Inc, Lonzo Group, and Rolls-Royce Holdings, and completed the sale of one position, ABB.

**Staff Turnover:** Newton announced in Q2 that Iain Stewart would 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. Ilga Haubelt joined in November to oversee global equity opportunities. She was previously head of global equities at Deka Investment. Andrew Barry joined as head of sustainable investing, joining from Hermes.

The London CIV has expressed concerns over the high level of staff turnover in the team over the past 12 months, and they do not consider that Ilga Haubelt has a clearly defined role at this stage. They will be meeting with her during the quarter to end March 2020 to discuss further.

## BMO/LGM – Emerging Market Equities

**Headline Comments:** The total portfolio delivered a return of -1.08% in Q4 2019, compared with the benchmark return of +4.11%, an underperformance of -5.19%. The emerging market component of this portfolio returned +6.69% (source: BMO, and in US dollars) compared with the index return of +11.84%. The frontier markets portfolio was also behind its index return of +4.46%, delivering a positive return of +4.00% (source: BMO, and in US dollars). Over one year, the total fund is behind of the benchmark return by -7.75%.

**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 ICICI Bank Ltd (+0.8%), Mr Price Group Ltd (+0.6%) and Sands China Ltd (+0.6%). Companies which detracted most from performance included British American Tobacco (-0.3%), ITC Ltd (-0.3%) and Aguas Andina SA (-0.2%).

In the frontier market portfolio, positive contributors included United Bank Ltd (+0.9%), Bank of Georgia Group Plc (+0.7%) and Sonatel (+0.7%). Companies which detracted from performance included Tanzania Breweries Ltd (-0.4%), Aramex PJSC (-0.4%) and ASA International Group (-0.3%).

It is worth noting that, over one year, the frontier market portfolio return was -4.47% versus the benchmark return of +13.17% (source BMO, in US dollars). This is of some concern, however, BMO LGM have commented that the performance of the portfolio is not “a fair reflection of the health of the companies we are invested in”. The level of underperformance is something to monitor closely over coming months.

**Portfolio Risk:** Within the emerging markets portfolio, 18.5% was allocated to developed or frontier markets, and cash was at 3.5% as at quarter-end. Turnover for the previous 12 months was 19.8%. The largest overweight country allocation in the emerging markets portfolio remained India (+8.3% overweight). The most underweight country allocation remained South Korea (-11.7%) where the fund has no allocation.

Within the frontier markets portfolio, it is worth noting that 67.3% of the portfolio was invested in countries that are not in the benchmark index, including Egypt, Pakistan, Costa Rica and Peru. This explains the high tracking error of returns versus the benchmark (7.4% as at end December 2019). The most overweight country allocation remained Egypt (+13.0%) and the most underweight was Vietnam (-14.1%).

**Portfolio Characteristics:** The frontier markets portfolio held 41 stocks as at end December compared with the benchmark which had 92. The emerging markets portfolio held 43 stocks as at end December compared with the benchmark which had 1,404.

**Organisation:** LGM did not indicate any changes to the investment team in Q4 2019.

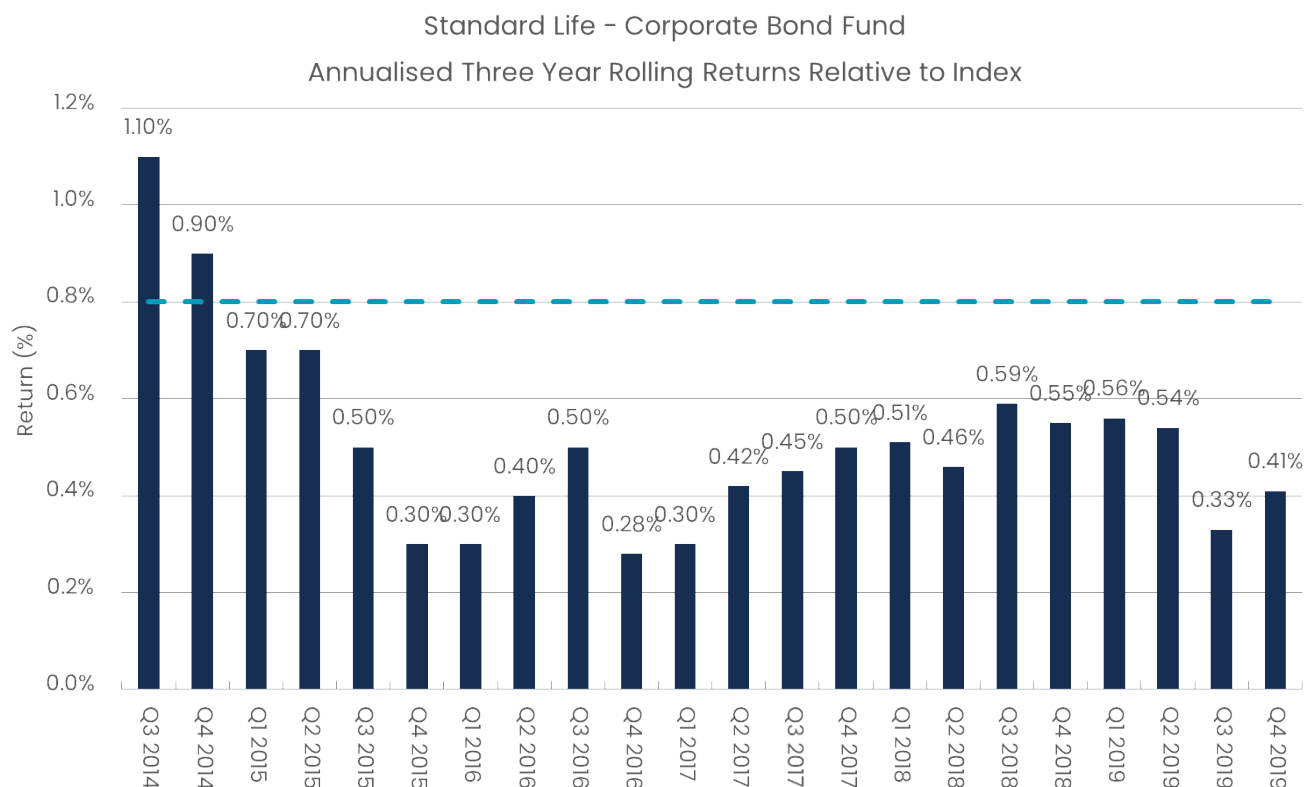
## Standard Life – Corporate Bond Fund

**Headline Comments:** The portfolio was marginally ahead of the benchmark return during the quarter by +0.16%. Over three years, the fund was ahead of the benchmark return (by +0.41%) 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 continues to be ahead of the benchmark over three years whilst 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 +4.31% p.a. net of fees, compared to the benchmark return of +3.90% p.a. Over the past three years, stock selection has added +0.33% value, followed by asset allocation (+0.15%) and curve plays (+0.07%).

**Portfolio Risk:** The largest holding in the portfolio at quarter-end was UK (Govt of) 4.25% 2055 at 2.1% of the portfolio. The largest overweight sector position remained Financials (+5.2%) and the largest underweight position remained sovereigns and sub-sovereigns (-14.2%). Contribution from the curve effect was negative this quarter.

The fund holds 3.1% 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 December 2019 stood at £2,560.0m, £110.7m higher than at the end of September 2019. London Borough of Islington's holding of £166.53m stood at 6.5% of the total fund value (compared to 6.8% last quarter).

**Staff Turnover:** there were 10 joiners, but 43 people left the firm during the quarter. Of the 43 leavers, 11 were from the credit, treasury, emerging market debt, and private credit teams.



## Aviva Investors – Property – Lime Property Fund

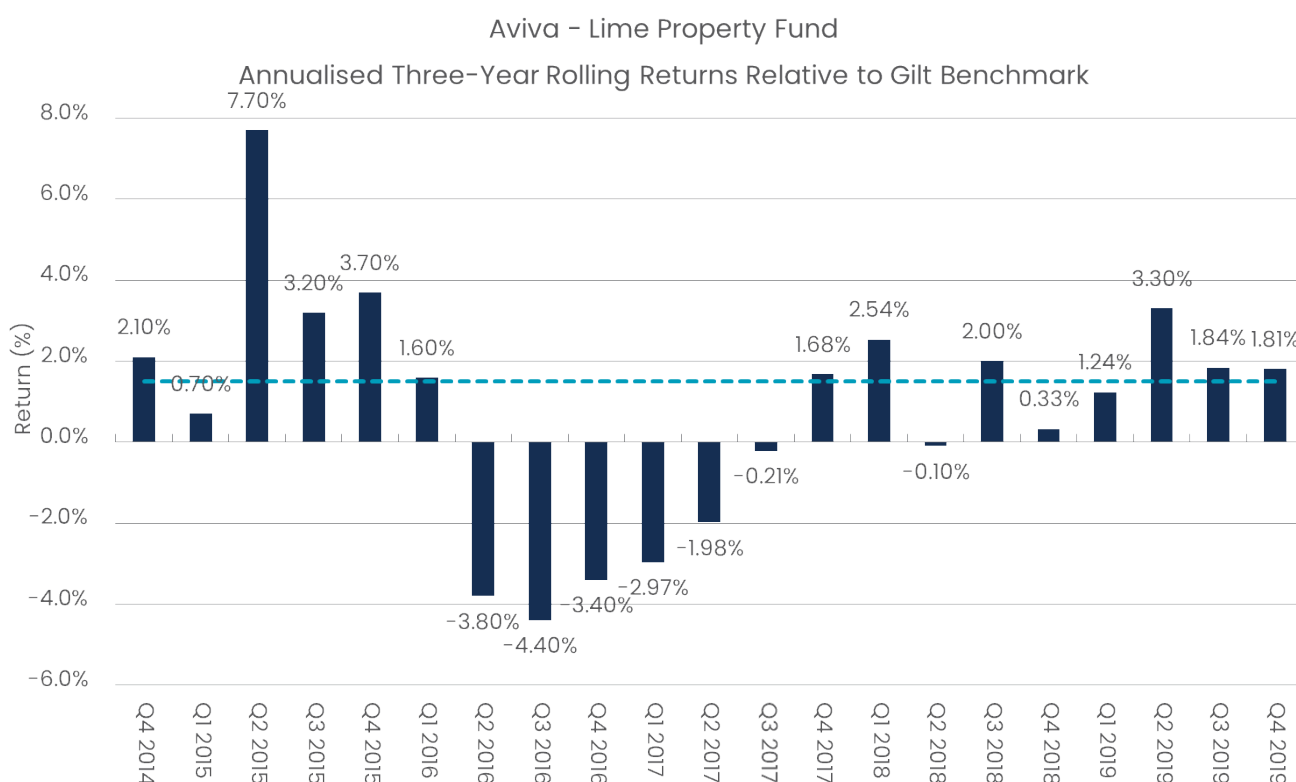
**Headline Comments:** The Lime Fund delivered another quarter of steady and positive returns, far ahead of the gilt benchmark return, as that market performed negatively in Q4. Over three years, the fund is ahead of the benchmark return.

**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 Q4 2019 return was attributed by Aviva to +1.01% capital return and +0.94% income return.

Over three years, the fund has returned +5.63% p.a., ahead of the gilt benchmark of +3.82% p.a., by +1.81% p.a., ahead of its outperformance target of +1.5% p.a., as can be seen in Chart 5 overleaf.

**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 £106m investment by acquiring a new 400 bed hotel in the London Docklands. The investment provides 35-year CPI linked cashflow.

The fund completed the sale of four investments that were seen as no longer adding value to the portfolio. The total price was between £50m and £66m. These sales improved unexpired lease length, percentage of income linked to inflation, and the forecast return (IRR) of investments of the fund.

The fund has £94 million of uncommitted investible capital, and a £102 million pipeline of investments.

The average unexpired lease term was 20.0 years as at end December 2019. 15.3% of the portfolio's lease exposure in properties is in 30+ year leases, the largest sector exposure remains offices at 25.8%, and the number of assets in the portfolio fell to 84. The weighted average unsecured credit rating of the Lime Fund remained A-.

**Portfolio Characteristics:** As at end December 2019, the Lime Fund was valued at £2.70bn, an increase of £99.4m from the previous quarter end. London Borough of Islington's investment represents 4.6% of the total fund. The fund had 74.3% allocated to inflation-linked rental uplifts as at end December 2019.

**Staff Turnover/Organisation:** Overall there were 12 leavers and 4 joiners across the whole Real Assets franchise. Regarding the Lime Fund in particular, there were no changes to the team.

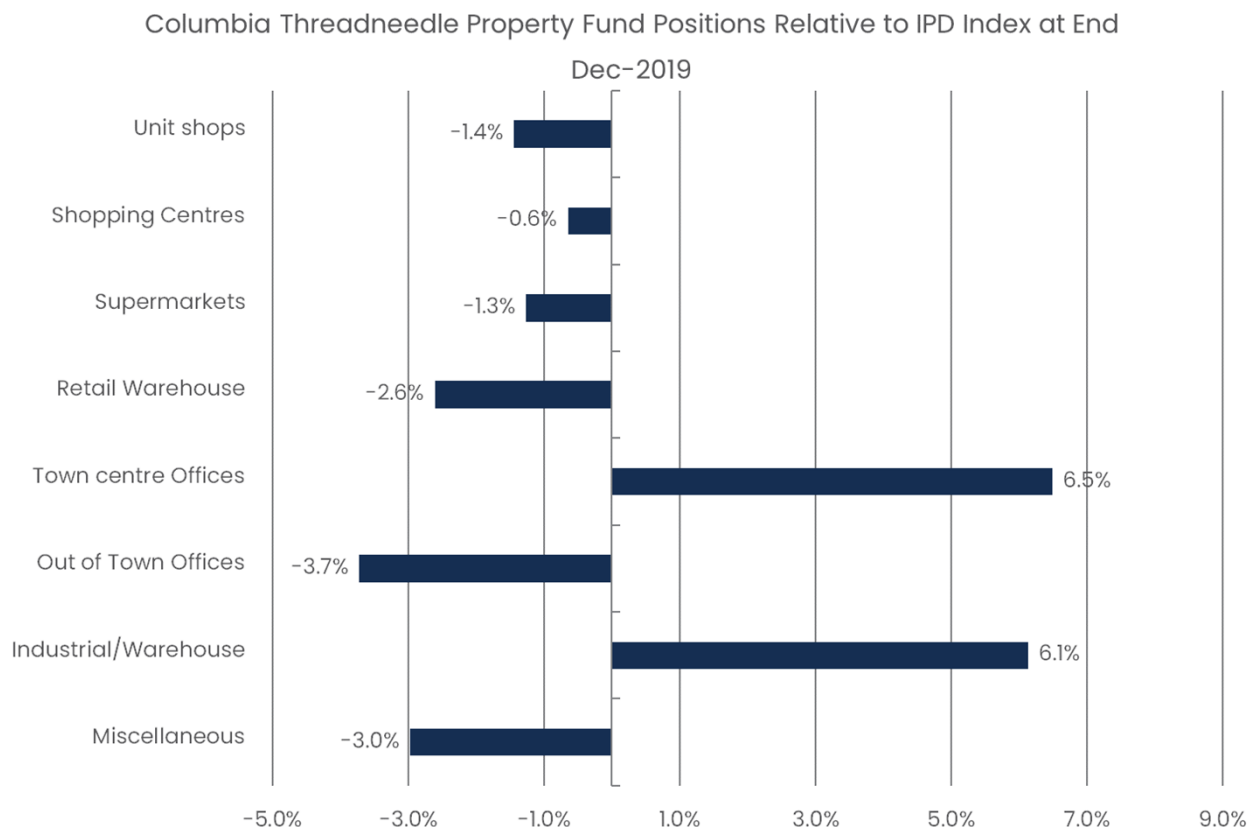
## Columbia Threadneedle – Pooled Property Fund

**Headline Comments:** The fund was behind the benchmark return in Q4 2019 due to the way Columbia Threadneedle is pricing its fund. Over three years, the fund has slightly underperformed the benchmark, by -0.09% and as such is behind the performance target of +1.0% p.a. above benchmark.

**Mandate Summary:** An actively managed UK commercial property portfolio, the Columbia Threadneedle Pooled Property Fund invests in a diversified, multi-sector portfolio of UK property assets. Its performance objective is to outperform the AREF/IPD All Balanced – Weighted Average (PPFI) Index by at least 1.0% p.a., net of fees, on a rolling three-year basis.

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

## CHART 6:



Source: MJH Allenbridge; Columbia Threadneedle

During the quarter, the fund sold four assets, including a secondary retail parade in Woking for £3.8m. As well as this, during Q4, the fund acquired an industrial estate in Tilbury, with a 5.5-year lease, for £7.6m.

The fund's void rate has fallen from 7.7% as at end September to 7.6% at end December, 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 December was 9.0%.

**Performance Attribution:** The portfolio underperformed the benchmark by -6.56% in Q4 2019, delivering a return of -6.25%. However, this was a result of Columbia Threadneedle moving from a bid-ask pricing methodology to a swing price, where only one price is quoted but where that price moves to reflect demand for purchases/sales. Stripping out the impact of this pricing change, the fund return was in line with the benchmark (source: Columbia Threadneedle).

Over three years, the fund is slightly behind its benchmark by -0.09% p.a., with a return of +5.93% p.a., this means the fund is underperforming the target of +1.0% p.a. above the benchmark.

**Portfolio Characteristics:** As at end December 2019, the fund was valued at £2.05bn, an increase of £11.8m compared with September 2019. London Borough of Islington's investment represented 4.09% of the fund.

**Staff Turnover:** There were two joiners and two leavers across the firm in Q4 2019. No one directly involved with the London Borough of Islington portfolio was among these.

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

**Headline Comments:** The two passive index funds were within the expected tracking range when compared with their respective benchmarks. Both FTSE-RAFI Emerging Markets and MSCI World Low Carbon Target index funds marginally underperformed their benchmarks.

**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:**

	Q4 2019 FUND	Q4 2019 INDEX	TRACKING
FTSE-RAFI Emerging Markets	+3.89%	3.93%	-0.05%
MSCI World Low Carbon Target	+1.17%	+1.18%	-0.01%

Source: LGIM

**Portfolio Risk:** The tracking errors are all within expected ranges. The allocation of the portfolio, as at quarter end, was 80.85% to the MSCI World Low Carbon Target index fund, and 19.15% allocated to the FTSE RAFI Emerging Markets index fund.

**Staff Turnover/Organisation:** In Q4, the LGIM corporate governance team had two joiners (an ESG manager, and a sustainability and responsible investment manager).

## 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 by +7.37%.

**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 December 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 currently in its distribution phase. Distribution activity has been strong, and the fund has paid across 153.9% of the initial commitment. Only four funds remain in the portfolio, at this stage. Leverage stood at 47% as at end Q4 2019.

The largest remaining allocation in Fund I is to the US (48% of funds invested), followed by Spain (34%) and Japan (7%). 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 December 2019, 62.4% of committed capital had been distributed. Leverage stood at 55%.

The largest allocation in Fund II is to Italy (64% of funds invested), followed by the US (27%) and China (4%).

Three of the underlying funds are performing well ahead of expectations, two are above expectations, and five are on target.

**Staff Turnover/Organisation:** There were four leavers in Q4. Franklin Templeton have now closed their Singapore investment office which will lead to the departures of Woon Pin Chong (Managing Director), Wenning Jung (Senior Vice President), and Karen Gu (Associate). In addition, Julie Donegan (Senior Vice President) is leaving.

The manager also announced that it has agreed to acquire Legg Mason, Inc. Of the benefits highlighted by Franklin Templeton, the most relevant for Islington is the addition of the real estate manager Clarion Partners. However, such an acquisition is likely to take up time from senior management, and the integration of Legg Mason (including Clarion Partners) into Franklin Templeton may raise business-related issues for the manager.

## Hearthstone – UK Residential Property Fund

**Headline Comments:** The portfolio marginally outperformed the benchmark for the quarter ending December 2019 but underperformed over three years.

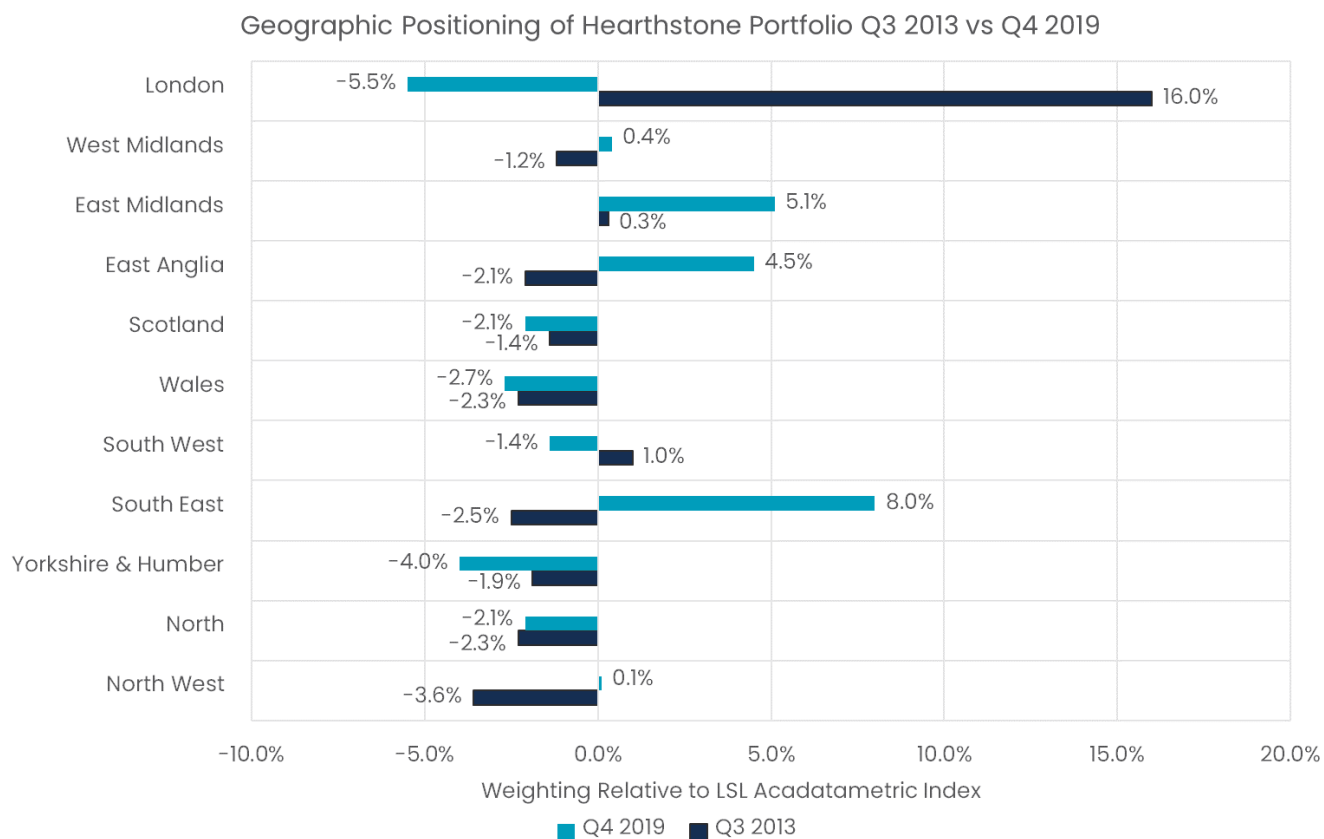
**Mandate Summary:** The fund invests in private rented sector housing across the UK and aims to outperform the LSL Acadametrics House Price Index (note that this excludes income), as well as providing an additional income return. The benchmark used by BNY Mellon is the IPD UK All Property Monthly Index.

**Performance Attribution:** The fund underperformed the IPD index over the three years to December 2019 by -3.69% p.a., returning +3.18% p.a. versus the index return of +6.87% p.a. The gross yield on the portfolio as at December 2019 was 4.85%. Adjusting for voids, however, the yield on the portfolio falls to 4.64%.

**Portfolio Risk:** The cash and liquid instruments on the fund stood at 20.16%.

Chart 8 compares the regional bets in the portfolio in Q4 2019 (turquoise bars) with the regional bets at the start of the mandate, in Q3 2013 (navy bars).

## CHART 8:



Source: MJH Allenbridge; Hearthstone

**Portfolio Characteristics:** By value, the fund has a 10% allocation to detached houses, 44% allocated to flats, 25% in terraced accommodation and 21% in semi-detached.

As at end December there were 195 properties in the portfolio and the fund stood at £61.4m. London Borough of Islington's investment represents 47.1% of the fund. This compares with 72% at the start of this mandate in 2013.

**ESG:** Hearthstone arranged for 3D Investing to undertake ESG due diligence on the fund in Q4 2019. The report highlighted the fund's focus on residential housing, and that the energy and environmental standards of the portfolio were far above the national average. Overall, 3D Investing rated the fund as "best in class".

**Organisation and Staff Turnover:** In Q4 there were two leavers, neither of whom were on the investment team.

## Schroders – Diversified Growth Fund (DGF)

**Headline Comments:** The DGF delivered a positive return in Q4 2019, and it was ahead of 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 +2.43% in Q4 2019. This is +0.91% ahead of the RPI plus 5% p.a. target return of +1.52% for Q4. Over three years, the DGF delivered a return of +4.45% p.a. compared with the target return of +8.00% p.a., behind the target by -3.55% p.a. This underperformance remains a concern, particularly as the underperformance over three years has only slightly improved since Q2 2018, when it was at -3.81%.

In Q4 2019, equity positions contributed 3.4% to the total return, alternatives added +0.4%, credit and government debt were flat, and cash and currency added detracted -1.2% (figures are gross of fees).

The return on global equities was +10.3% p.a. for the three years to December 2019 compared with the portfolio return of +4.45% (a 43% 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 28% in internally managed funds (down from last quarter's 34% allocation), 36% in internal bespoke solutions (down from 39% last quarter), 3% in externally managed funds (same as last quarter), and 31% in passive funds (up from 20% last quarter) with a residual balance in cash, as at end December 2019. In terms of asset class exposure, 47.6% was in equities, 23.1% was in alternatives and 26.3% 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:** An investment made by London Borough of Islington of \$67 million made at the end of December 2018. Performance from September 30<sup>th</sup> to December 31<sup>st</sup> 2019 negative at -4.73%, below 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 approximately \$730 million committed by 15 limited partners.

**Portfolio Characteristics:** As at Q4 2019, on an unaudited basis, the fund had invested \$453.2m into 45 projects ranging from onshore wind farms, solar power plants, battery storage and natural gas peaking facilities (power plants that generally run only when there is a high demand for electricity, in order to balance the grid).

**Organisation:** During the quarter, the investment team had two joiners: a vice president, and an analyst, both with previous experience in the renewable energy sector.

## Pantheon – Infrastructure and Private Equity Funds

**Headline Comments:** Over three years the return on the combined private equity and infrastructure funds was +22.42%, ahead of the benchmark by +10.38%.

**Mandate Summary:** London Borough of Islington have made total commitments of US\$148.6m across five Pantheon strategies including two US primary funds, two global secondary funds and one global infrastructure fund. This infrastructure fund, Patheon Global Infrastructure Fund III “PGIF III”, was the most recent commitment from Islington in 2018 totalling US\$100m.

**Portfolio Characteristics:** Over the period Q4 2019, US\$2.2m was drawn down to PGIF III (the infrastructure fund) with distributions of US\$1.3 million. Across all strategies, distributions were strong, with a total of US\$2.1m paid over the period. Strong distributions are likely to continue over the following quarters as the historic private equity funds continue to realise value.

Karen Shackleton

Senior Adviser, MJ Hudson Allenbridge

5<sup>th</sup> March 2020



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# LGPS CURRENT ISSUES

## NEWS IN BRIEF

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### UK GENERAL ELECTION RESULT

The Conservative Party, led by Boris Johnson, won a large overall majority, which means Johnson is set to remain as Prime Minister for a five-year term. The Conservatives have a majority of 80, their largest majority since 1987, allowing Johnson considerable latitude to implement his domestic policies. On the Brexit front, the UK is likely to leave the European Union (EU) on 31st January 2020, but Johnson's ability to agree a comprehensive free trade agreement with the EU by the end of 2020 will depend both on the EU and his willingness to compromise. The resounding victory by Boris Johnson and the Conservatives removes some of the uncertainty around Brexit and the UK economy. This should boost economic activity although the extent to which it does depends on whether business in particular view Brexit as having been done, or whether they fear a no deal at the end of 2020.

In terms of the economy, the UK economic growth rate largely stalled in the second half of 2019. Growth next year is likely to recover as some of the uncertainty around UK politics and Brexit is removed. How strong the recovery is will depend on whether businesses think that Brexit is done or whether they fear the possibility of a no deal at the end of 2020. Increased government spending should also support economic activity. Our best guess is that growth recovers to about trend (1.5%-2% p.a.) by mid-year.

At its most recent meeting two members of the nine-member Monetary Policy Committee voted to cut rates from 0.75%, although the other seven did not sound like they were likely to want to cut rates soon. The removal of some political uncertainty is likely to push the Bank back to unanimously on hold, while they wait to see whether and to what extent the economy recovers in 2020. Overall we expect the Bank of England to remain on hold all year, with an upward bias in subsequent years.

### MCCLLOUD UPDATE

On 18 December 2019, the Employment Tribunal made an interim order on the Firefighter Pension Schemes' transitional protections claims (the Sargeant case). The order treats members as if they satisfied the age criteria, regardless of their actual age (so long as they meet the other criteria e.g. they were in the scheme at the appropriate dates). Whilst it appears that the order only applies until the final remedy has been agreed, this means that members are entitled to be treated as if they remained in the previous Fire Pension Scheme in this period. The final determination in regards to membership of the scheme is expected to be resolved during July 2020.

A circular from the Home Office notes that some members may be better off due to the introduction of the new career average scheme. The Government intends to allow the benefits to remain unchanged for these members. There is therefore a long way to go until the remedies for the public service pension schemes can be resolved.

## TPR AND DATA QUALITY

The Pensions Regulator continues to put pressure on funds to improve the quality of their member data. Failure to comply with the Regulator could result in financial penalties or an improvement notice. Therefore, as we approach the year end, it is an important time to engage with employers on their data. We will soon be providing a summary of the quality of the valuation data. This can be provided to employers to highlight any problem areas and ensure that these do not happen again in their next data submission at year end.

## PENSION SCHEMES BILL

The Pension Schemes Bill was reintroduced on 19 December following the announcement in the Queen's Speech. A significant thrust of the Pension Schemes Bill introduced in 2019 was to protect members' benefits in defined benefit schemes, largely through enhanced powers for the Pensions Regulator and a more prescriptive statutory scheme funding regime. The Bill will create a legislative framework for the introduction of pensions dashboards, to strengthen the Pensions Regulator's powers to take action against employers and introduce regulations covering the right to a pension transfer. It introduces new financial penalties, including in relation to certain corporate actions such as providing false or misleading information, of up to £1m.

The theme underlying the proposals has been one of improving the protection of DB members' benefits. It seems likely that the new powers will allow the Regulator to intervene more quickly where it has concerns and with a greater threat of regulatory action.

## RESPONSIBLE INVESTMENT GUIDANCE CONSULTATION

The Scheme Advisory Board met on 6<sup>th</sup> November where approval was granted for the consultation on the first part of guidance on responsible investment. The consultation ran from 22 November 2019 until 11 January 2020. The purpose of the first part of the guidance is to support investment decision to "...identify the parameters of operation within scheme regulations, statutory guidance, fiduciary duty and the general public law and the scope for integrating ESG policies as part of investment strategy statements...".

The Board also agreed to draft part 2 of the guidance "...the aim of which is to provide investment decision makers with a toolkit they can use to further integrate ESG policies as part of their investment strategy...". The aim is to provide this draft of the second part of the guidance to the Board when they next meet on 3<sup>rd</sup> February 2020.

## EQUITABLE LIFE UPDATE

The UK High Court hearing approved the proposals on the Scheme and the change to the articles, confirmation of this was received in December 2019. The proposed changes were therefore implemented with effect from 1 January 2020. If funds have not already done so, they should seek regulatory advice on the transfer, including the appropriate default investments.

## UK STEWARDSHIP CODE 2020

The UK Financial Reporting Council (FRC) recently launched its revised stewardship code: UK Stewardship Code 2020. The new Code, which takes effect from 1 January 2020, is not simply a refresh of the previous 2012 Code. Rather the Code has been overhauled since it was first introduced over a decade ago to ensure it remains fit for purpose in an environment of increased investor expectations on Environmental, Social and Governance (ESG) integration, stewardship and climate change.

The 2020 Code takes a broader, more comprehensive, approach than previous iterations, which largely focused on voting and engagement activity with respect to equity assets. The latest Code defines stewardship as “the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society”. It sets out 12 principles for asset owners (such as pension schemes) and asset managers and also sets out 6 largely similar principles for service providers. This code should be used to evaluate Responsible Investment policies alongside forthcoming SAB guidance.

## GOOD GOVERNANCE UPDATE

The Scheme Advisory Board met on 6<sup>th</sup> November and agreed the proposals put forward by the working groups in the Good Governance Phase II report. The report sets out clearly the outcomes and standards that the working groups wish funds to achieve, and how these outcomes should be achieved. The SAB have agreed to initiate phase III of the project which will include drafting statutory guidance on governance compliance statements and establishing a set of KPIs. The aim is to provide final proposals for Phase III to the Board when they next meet on 3<sup>rd</sup> February 2020.

## STRUCTURE REVIEW OF THE SCOTTISH LGPS

A 2018 consultation was carried out by the Scottish SAB regarding the structure of the Scottish LGPS. The outcome was that the current scheme has a number of flaws and raised the case for the Scottish Government to evaluate the case for mergers between funds in the Scheme. The final report from the Pensions institute, appointed by the Scottish SAB was published on 4 November 2019. The report set out four suggested actions including; evaluating the case for mergers of Scottish LGPS funds, improving the reporting on investment management costs, considering whether large multi-fund employers could address some operational issues by shifting to an individual fund, and whether the Scottish Government can assist with boosting the supply of Scottish infrastructure investments. The Scottish SAB will now consider these suggested actions and what support may be required in order to take the review forward.

## DATES TO REMEMBER

DATE	ISSUE	THE LATEST
31 March 2020	2019 Actuarial Valuation	Deadline in England and Wales for the Funding Strategy Statement to be formally updated in order for the actuarial valuation to be signed off by the Fund Actuary.
31 March 2020	2019 Actuarial Valuation	Deadline for 2019 England and Wales actuarial valuation exercises to have been signed off by the Fund Actuary. This is also the effective date of the Scottish LGPS actuarial valuations.
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.

# MEET SOME OF THE TEAM

## THINGS YOU MAYBE DIDN'T KNOW



**Name:** Lauren Johnson

**Role:** Investment Analyst

**Joined Mercer:** 2017

**Place of Birth:** Liverpool

**How did you spend the holidays?:** Catching up with a lot of family and friends

**What was your favourite Christmas present?** Carolina Herrera Perfume

**Did you make a New Year's resolution and what was it?:** Cut down to 1 sugar in tea.



**Name:** Alison Gent

**Role:** Pensions Actuary

**Joined Mercer:** 2011 (but joined the Liverpool Office in 2018)

**Place of Birth:** Aylesbury

**How did you spend the holidays?:** Skiing in Austria and with family

**What was your favourite Christmas present?** A mini greenhouse

**Did you make a New Year's resolution and what was it?:** To get outside more – so far its working!



**Name:** Nick Buckland

**Role:** Senior Consultant & LGPS Adviser

**Joined Mercer:** Good question...joined JLT in September 2016, and then I think I officially moved to Mercer in January 2020

**Place of Birth:** South London – so I should be Crystal Palace fan, but I'm not.

**How did you spend the holidays?:** I was at home with my wife and two boys. Most of the break was spent putting together Play-mobile and Lego with the younger one, or playing X-box with the older one.

**What was your favourite Christmas present?** As I mentioned earlier, I enjoy playing with all the boys presents. My own favourite present was a night out with my wife and ticket to see Jack Whitehall. These nights out are rare!

**Did you make a New Year's resolution and what was it?:** Not really, I'm not very good at sticking to them. I have the usual aims to lose weight, exercise more and drinking less...but I'm sure they won't last!



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**Finance Department  
7 Newington Barrow Way  
London N7 7EP**

**Report of: Interim Section 151 Officer**

<b>Meeting of:</b>	<b>Date</b>	<b>Agenda item</b>	<b>Ward(s)</b>
Pensions Sub-Committee	24 March 2020		n/a

<b>Delete as appropriate</b>		Non-exempt
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### **SUBJECT: PENSIONS SUB-COMMITTEE 2020/21– 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 and contribution to achieving a net zero carbon Islington by 2030:**

None applicable to this report. Environmental implications will be included in each report to the Pension Board Committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of the fund in green opportunities. The link to the full document is <https://www.islington.gov.uk/~media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonboroughofislingtonpensionfundinvestmentstrategystatement.pdf>

**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

An equalities impact assessment has not been conducted because this report is seeking opinions on updating an existing document and therefore no specific equality implications arising from this report

**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:**

<b>Received by:</b>	<b>Interim Section 151 Officer</b>	Date
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	Head of Democratic Services	Date
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Report Author: Joana Marfoh  
Tel: (020) 7527 2382  
Email: Joana.marfoh@islington.gov.uk

**Pensions Sub-Committee Forward Plan for March 2020 to March 2021**

Date of meeting	Reports
	<p>Please note: there will be a standing item to each meeting on:</p> <ul style="list-style-type: none"> <li>• Performance report- quarterly performance and managers' update</li> <li>• CIV update report</li> </ul>
24 March 2020	Employer consultation results on draft FSS Actuarial valuation report Investment strategy update
22 June 2020	Final position report on equity protection 4 year Business plan review Annual Fund performance
15 September 2020	
8 <sup>th</sup> December 2020	
24 <sup>th</sup> March 2021	

**Past training for Members before committee meetings-**

Date	Training
November 2018	Actuarial update
June 2019-4pm	Actuarial review

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**Finance Department  
7 Newington Barrow Way  
London N7 7EP**

**Report of: Corporate Director of Resources**

<b>Meeting of:</b>	<b>Date</b>	<b>Agenda item</b>	<b>Ward(s)</b>
Pensions Sub-Committee	24 <sup>th</sup> March 2020		

<b>Delete as appropriate</b>	Exempt	Non-exempt
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**Appendix 1 and 2 and 3 attached** is exempt and not for publication as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: Information relating to the financial or business affairs of any particular person (including the authority holding that information).

## **SUBJECT: The London CIV Update**

### **1. Synopsis**

- 1.1 This is a report informing the committee of the progress made at the London CIV in launching funds, running of portfolios and reviewing governance and investment structure, over the period November to January 2020

### **2. Recommendations**

- 2.1 To note the progress and activities in the news briefing Collective Voice-January attached as Appendix 1 (private and confidential)
- 2.2 To note the minutes from the 30 January Shareholder's General Meeting attached as Appendix 2(private and confidential)
- 2.3 To consider and agree to sign the LCIV pension guarantee and delegate authority to the Interim Section 151 officer to complete the documentation before 31 March 2020.

- 2.4 To consider the pension recharge guarantee and delegate authority to the Section 151 officer and Monitoring officer to review and take appropriate action in conjunction with the Chair.

### **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 February 2020**

##### **3.5.1 The LCIV Collective Voice**

The LCIV now publish a monthly news bulletin called the Collective Voice- a copy is attached for information as Appendix 1(private and confidential). Highlights include;the new fund launch, breadth of information on the recent happenings at LCIV and events .

The Annual General Meeting was held on 30<sup>th</sup> January for Shareholders represented by Councillors . A copy of the minutes is attached as Appendix 2 (private and confidential)

### 3.5.2

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

Members were updated in September about proposals and a questionnaire that all boroughs were asked to complete by 16<sup>th</sup> September. 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.

#### 3.5.2.1

To complete the outstanding formal processes of setting up the LGPS scheme that begun in 2015 all boroughs are required to sign the existing guarantee agreement so that the Admission Agreement can be signed off. This must be done before the scheme can be closed to new entrants.

3.5.2.2 The CEO has now written to all boroughs updating on the London CIV board's decisions to close the scheme to all new entrants once the guarantee and recharge documents are signed off by all 32 boroughs, as well as assurances to limit liabilities to boroughs. Members are asked to consider the new update(attached as Exempt Appendix 3 )

3.5.2.3 The first agreement Islington is being asked to sign is a guarantee that covers City of London the administrating Fund from all liabilities on termination. The LCIV has now agreed to limit the application of discretionary policies (to the remuneration committee) and employees who progress to 120k salary during employment will have an alternative pension scheme. The scheme is going to remain open to new employees until all 31 Boroughs sign. Memnber are recommended agree to sign the pension guarantee letter with the proviso that LCIV will offer alternative pension schemes to new employees after 31 March 2020, the current deadline to get all signatures.

3.5.2.4 The second agreement concerns FRS102 accounting liability, this is an accounting calculation of the deficit of the accrued benefits of members of the LCIV defined benefit scheme. It has an impact on the organisations balance sheet. The recharge agreement allows LCIV to recover the capital hit on an annul basis through the annual service charge. This agreement is on an individual shareholder basis. Members are asked to delegate authority to the Section 151 officer and Monitoring officer to review and take appropriate action in conjunction with the Chair.

### 3.5.3 **Responsible investment**

An ESG workshop was held in February to explore boroughs views on ESG and impact investing. Voting and engagement service providers made presentations to LCIV and some borough representatives in March. All these will form part of enabling the LCIV to gauge what to provide for its shareholders.

### 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 and contribution to achieving a net zero carbon Islington by 2030:**

4.3.1 None applicable to this report. Environmental implications will be included in each report to the Pension Board Committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of the fund in green opportunities. The link to the



full document is <https://www.islington.gov.uk/~media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonboroughcouncilpensionfundinvestmentstrategystatement.pdf>

#### 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 and consider the pension guarantee agreements.

#### **Background papers:**

Final report clearance:

#### **Signed by:**

<b>Received by:</b>	Interim Section 151 Officer	Date
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	Head of Democratic Services	Date
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Report of: Interim Section 151 Officer

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	24 March 2020		n/a

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

## SUBJECT: INVESTMENT STRATEGY REVIEW UPDATE

### 1. Synopsis

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

### 2. Recommendations

- 2.1 To receive the presentation from Mercer attached as Exempt Appendix 1
- 2.2 To consider and agree the target best estimate return of CPI + 2.7 or 2.8%.(target agreed in June was CPI +3.2%)
- 2.3 Subject to 2.2 consider the asset allocation and investment strategy that can deliver the agreed investment return
- 2.4 To agree next steps taking into consideration our short to medium term negative cashflow positions and our decarbonisation policy.

### 3. Background

#### Introduction

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

- 3.1.1 The Pensions Sub-Committee agreed a revised investment strategy for the Fund at its November 2014 meeting. The revised strategy maintained the Fund's 75% growth, 25% defensive split and included a 15% flexible allocation to infrastructure and social housing. Most of this strategy is now implemented bar Social Housing with the allocation between the assets dependent on market conditions.
- 3.1.2 At the June 2019 meeting, Members agreed a best estimate investment return of CPI +3.2% and risk budget to support the desired level of contributions over the recovery period of 19 years. An asset allocation profile was also agreed and training was received on some of the newer assets.
- 3.1.3 The presentation prepared by Mercer (attached as exempt Appendix 1) is to re-evaluate the above position in the current market outlook and perform some analysis to determine if the desired contribution can be supported through the existing strategy and investment returns. The risk and return target options are also discussed and Members after consideration are asked to agree the new target investment return of CPI + 2.7 or 2.8%.
- 3.1.4 If the new target return is agreed, then members are asked to look at options of risk and return portfolios to deliver this return and asset allocation changes that will support the short to medium term net negative cashflow position of the Fund that also achieves our decarbonisation and governance goals.
- 3.1.5 Members are also asked to review the current DGF and the and the next steps for any change implementation.

## **4. Implications**

### **4.1 Financial implications**

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

### **4.2 Legal Implications**

No legal implications

### **4.3 Environmental Implications**

Environmental considerations can lawfully be taken into account in investment decisions

### **4.4 Resident Impact Assessment**

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

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

- 5.1 Members asked consider the Mercer presentation and agree a new target investment return rate and implications on asset allocation and cashflow position. Members should review the DGF portfolio and the next steps of any change implementation

**Background papers:**

None

Final report clearance:

**Signed by:**

<b>Received by:</b>	Interim Section 151 Officer	Date
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	Head of Democratic Services	Date
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