

London Borough of Islington

Pensions Sub Committee - 30 June 2020

Non-confidential minutes of the meeting of the Pensions Sub Committee held virtually, via Zoom, on 30 June 2020 at 7.00 pm.

Present: Councillors: Paul Convery (Chair), Satnam Gill, Sue Lukes and Michael O'Sullivan

Alan Begg (Independent member, Pensions Board)
Valerie Easmon-George (Pensions Board)
Maggie Elliott (Pensions Board)
George Sharkey (Pensions Board)
Tony English and Alex Goddard – Mercer
Karen Shackleton – MJHudson Allenbridge

Councillor Paul Convery in the Chair

116 APOLOGIES FOR ABSENCE (Item A1)

None.

117 DECLARATION OF SUBSTITUTES (Item A2)

None.

118 DECLARATION OF INTERESTS (Item A3)

Councillor Convery declared a personal interest in items on the agenda as a member of the Pension Fund.

119 MINUTES OF THE PREVIOUS MEETING (Item A4)

RESOLVED:

That the minutes of the meeting held on 3 December 2019 be confirmed as an accurate record of proceedings and the Chair be authorised to sign them.

Matters arising

The Chair noted that he, in consultation with the S151 Officer, had approved proposals relating to Hearthstone Investments that would help make the Fund more attractive to investors and reduce Islington's holdings over time, as detailed in minute no 111 on the Investment Strategy update.

With regard to minute 107, relating to the Actuarial Valuation and Funding Strategy Statement, it was noted that the discount rate for future service had been agreed as CPI +2.8% p.a., with a recovery period of 19 years.

The Chair welcomed Councillor Gill to his first meeting of the Sub-Committee, by virtue of his role as the Executive Member for Finance and Performance. He noted that it was customary for that postholder to also hold the position of Vice-Chair of the Pensions Sub-Committee.

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ANNUAL FUND PERFORMANCE PRESENTATION BY PIRC (Item B1)

Neil Sellstrom, Client Services Manager at PIRC Limited, gave a presentation to the Sub-Committee detailing the annual review of the Fund.

The following points were noted:

- The Average UK LGPS Fund produced a return of -4.8% for the year
- Following the market collapse from Covid 19, equities were the worst performing asset class
- All regions suffered significant falls, but the UK was the poorest performing at -18.3% in the year
- Multi Asset Credit Funds also suffered significant losses
- Bonds performed better
- Alternatives were the strongest performers with Private Equity delivering the best returns overall
- DGF were the poorest performers, even when market conditions offered them opportunities to add value.
- Islington's asset allocation was different to the Universe average, with a relatively high allocation to property and diversified growth and a lower exposure to alternatives and bonds
- The Fund was overweight in its equity benchmark at the year end which had been positive until the last month of the year
- The structure had a small positive impact on relative performance in the latest year mainly due to the equity protection
- Manager performance had been mixed, with Newton doing reasonably well, Schroders DGF underperforming and positive returns from private equity. Overall, there had been good performance over the year
- On longer term performance, equities and bonds had delivered returns of 5-6% p.a. over the last twenty years, Both alternatives and property had performed ahead of this, with returns of around 7% p.a. However, DGF Funds had delivered a negative return over 3 years
- There had been a shift from domestic to global equity assets over time
- The Fund was in the top quartile over the latest three year period, but had been below average over the longer term. However, improvement in recent years had brought it into line with the average over the medium
- Over the last ten years, the Fund had experienced a lower than average level of volatility, but this had delivered a slightly below average return.
- Over the last five years the picture had improved, with the Fund reducing its overall level of volatility whilst managing to deliver a return in line with average – it was more efficient than most of its peers.
- The equity protection insurance had protected the Fund

The Sub-Committee thanked Neil Sellstrom for his presentation.

**121 PENSION FUND PERFORMANCE FROM JANUARY TO MARCH 2020
(Item B2)**

Members of the Sub-Committee briefly discussed timings and practicalities of restructuring the Fund, particularly with a view to further decarbonisation of the Fund and minimising transaction costs. Members were looking to have a more diversified portfolio and hoped to review the asset classes in the Fund in September 2020 or, if the Covid19 emergency was ongoing, by no later than the end of the year.

RESOLVED:

- (a) That the performance of the Fund from 1 January to 31 March 2020 as per BNY Mellon interactive performance report and detailed in the report of the Corporate Director of Resources, be noted.
- (b) That the presentation by MJ Hudsons Allenbridge, on fund managers' quarterly performance, attached as Appendix 1 to the report, be noted.
- (c) That the May 2020 LGPS "Current Issues", attached as Appendix 2 to the report, be noted.
- (d) That a review of the asset classes of the Fund take place at the September 2020 meeting or, if the Covid19 emergency was ongoing, by no later than the end of this year.

**122 DECARBONISATION POLICY MONITORING - PROGRESS UPDATE
(Item B3)**

Members noted progress to date on the agreed monitoring plan on the Sub-Committee's decarbonisation policy, as detailed in the report of the Corporate Director of Resources. However, they noted that it had not yet been possible to obtain accurate information on the carbon footprint reserves. Mercer's representative offered to provide this service. In view of the importance of the availability of this information to the Council's overall ambition to be carbon neutral, including the Pension Fund, the Sub-Committee agreed that the Head of the Pension Fund and Treasury Management negotiate the provision of this service from Mercer.

RESOLVED:

- (a) That progress to date on the agreed monitoring plan on the Sub-Committee's decarbonisation policy, as detailed in the report of the Corporate Director of Resources, be noted.
- (b) That the Head of the Pension Fund and Treasury Management be authorised to negotiate with Mercer the provision of monitoring information on the carbon footprint reserves.
- (c) That a detailed report be submitted to the next meeting of the Sub-Committee.

123 FORWARD PLAN OF BUSINESS (Item B4)

RESOLVED:

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

124 INVESTMENT STRATEGY REVIEW UPDATE (Item B5)

Members of the Sub-Committee considered proposed changes to the Multi Asset Credit asset allocation.

RESOLVED:

(a) That the presentation from Mercer on "Multi Asset Credit Implementation considerations", attached as Exempt Appendix 1 to the report of the Corporate Director of Resources, be noted.

(b) That an update report be submitted to the next meeting of the Sub-Committee.

125 LONDON CIV UPDATE (Item B6)

RESOLVED:

(a) That the progress and activities in the news briefing "Collective Voice -May" attached as Appendix 1 (private and confidential), to the report of the Corporate Director of Resources, be noted.

(b) That it be noted that LCIV had now closed their LGPS pension provision to new entrants.

126 EQUITY PROTECTION STRATEGY SETTLEMENT POSITION (Item C1)

The Chair had agreed that this report be considered as urgent business in order that members of the Sub-Committee could be informed of the outcome of the final cash position after settlement and the end of the strategy.

RESOLVED:

That the report of the Corporate Director of Resources, providing a recap of the Fund's objectives for implementing the equity protection strategy managed by LGIM and the cash position realised after maturity on the settlement dates, be noted.

EXCLUSION OF PRESS AND PUBLIC

RESOLVED:

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

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

<u>Agenda item E1</u>	<u>Title</u>	<u>Reasons for exemption</u>
	Investment Strategy update – exempt appendix	Category 3 – Information relating to the financial or business affairs of any particular person (including the authority holding that information)
Item E3	London CIV update – exempt appendix	- ditto -

- 127** **INVESTMENT STRATEGY REVIEW UPDATE - EXEMPT APPENDIX (Item E1)**
Tony English and Alex Goddard, from Mercer, gave a comprehensive presentation to the Sub-Committee on the options available.

RESOLVED:

- (a) That Tony English and Alex Goddard, from Mercer, be thanked for their comprehensive presentation on the proposed allocation of Fund assets to Multi-Asset Credit.
(b) That the contents of the exempt appendix be noted.
(c) That the following additional criterion be added to the list for the selection of a manager in this category: "Sound business ethics and protection of investors' reputation".

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

RESOLVED:

That the contents of the exempt appendix be noted.

The meeting ended at 9.30 pm

CHAIR