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ISLINGTON

Resources
Town Hall, Upper Street, London, N1 2UD

AGENDA FOR THE PENSIONS SUB COMMITTEE

Members of the Pensions Sub Committee are summoned to a meeting which will be held remotely via Zoom on **30 June 2020 at 7.00 pm.**

Enquiries to	:	Mary Green
Tel	:	(0207 527 3005
E-mail	:	democracy@islington.gov.uk
Despatched	:	22 June 2020

Link to the meeting: https://weareislington.zoom.us/j/9156168130
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Membership	Substitute Members
Councillor Paul Convery (Chair)	Councillor Dave Poyser
Councillor Satnam Gill OBE	Councillor Mouna Hamitouche MBE
Councillor Sue Lukes	Councillor Roulin Khondoker
Councillor Michael O'Sullivan	

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.	Annual Fund performance presentation by PIRC	
2.	Pension Fund performance from January to March 2020	5 - 54
3.	Decarbonisation Policy monitoring - progress update	55 - 60

4.	Forward Plan of business	61 - 64
5.	Investment Strategy Review update	65 - 68
6.	London CIV update	69 - 74

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.	Investment Strategy Review update - exempt appendix	75 - 92
2.	London CIV update - exempt appendix	93 - 96

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 15 September 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

Agenda Item B2

ISLINGTON

Finance Department
7 Newington Barrow Way
London N7
7EP

Report of: Corporate Director of Resources

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	30 June 2020		

Delete as appropriate	~~Exempt~~	Non-exempt

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Subject: PENSION FUND PERFORMANCE 1 JANUARY TO 31 MARCH 2020

1.	**Synopsis**
1.1	This is a quarterly report to the Pensions Sub-Committee to allow the Council as administering authority for the Fund to review the performance of the Fund investments at regular intervals and review the investments made by Fund Managers quarterly.
2.	**Recommendations**
2.1	To note the performance of the Fund from 1 January to 31 March 2020 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 May 2020 LGPS Current Issues attached as Appendix 2
2.4	To receive the Annual Fund Performance presentation by PIRC
3.	**Fund Managers Performance for 1 January to March 2020**

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 (Jan-Mar'20) Gross of fees		12 Months to March' 2020-Performance Gross of fees	
				Portfolio	Benchmark	Portfolio	Bench Mark
LBI-In House	9.8%	UK equities	N	-24.2%	-25.1%	-17.7%	-18.4%
London Sustainable EQ- RBC	8.3%	Global equities	N	-14.7%	-15.6%	n/a	n/a
LCIV -Newton	15.6%	Global equities	2	-12.6%	-15.9%	-2.8%	-6.2%
Legal & General	11.1%	Global equities	1	-17.1%	-17.0%	-7.5%	-7.4%
Standard Life	11.4%	Corporate bonds	2	-2.8	-3.4%	2.5%	1.5%
Aviva (1)	9.2%	UK property	3	1.1%	7.4% -1.4%	6.1%	11.7% 0.1%
Columbia Threadneedle Investments (TPEN)	6.1%	UK commercial property	2	-1.3%	-1.3%	-0.3%	0.0%
Hearthstone	2.1%	UK residential property	4	0.27%	-1.4%	1.7%	0.1%
Schroders	7.9%	Diversified Growth Fund	4	-11.3%	1.4%	-6.3%	7.6%
BMO Investments-LGM	4.9%	Emerging/ Frontier equities	2	-22.3%	-18.3%	-21.4%	-13.1%

7.4% & 11.7% = original Gilts benchmark; -1.4% and 0.1% 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 March 2020 is shown in the table below.

	Latest Quarter Performance **Gross** of fees	12 Months to March 2020 Performance Gross of fees

Combined Fund Performance hedge	Portfolio %	Benchmark %	Portfolio %	Benchmark %
	-5.6	-8.9	-1.3	-1.8

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

3.5 **Total Fund Position**

The Islington combined fund absolute performance with the hedge over the 1, 3 and 5 years' period to March 2019 is shown in the table below.

Period	1 year per annum	3 years per annum	5 years per annum
Combined LBI fund performance hedged	-1.3%	3.2%	4.9%
Customised benchmark	-1.8%	2.5%	4.4%

PIRC have been invited to present the annual fund performance in comparison to the LA universe.

3.6 **LCIV RBC Sustainability Fund**

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.

3.6.2 LCIV RBC Sustainability was fully funded on 5 August 2019. Mandate guidelines include the following;

- The sub fund manager will invest only where they find all four forces of competitive dynamics (business model, market share opportunity, end market growth & management and ESG
- Target performance is MSCI World Index +2%p.a. net of fees over a three-year period.
- Target tracking error range over three years 2% p.a – 8.0%.
- Number of stocks 30 to 70
- Active share is 85% to 95%

3.6.3 The fund outperformed its quarterly benchmark to March by 0.97%. As the portfolio inception is August 2019, a 12- month performance is not applicable. The outperformance was mainly due to stock selections in the healthcare sector.

3.7 **Newton Investment Management**

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

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

3.7.3 3.7.4	The fund returned -12.6% against a benchmark of -15.9% for the March quarter. Since inception the fund has delivered an absolute return of 10.6% but relative under performance of 0.2% net of fees per annum The out performance this quarter was driven mainly by defensive stocks and sector positions in healthcare, financials as well as geographical exposure to North America. There have been some big team changes and LCIV are monitoring the manager closely for assurances that the current team can deliver the fund objectives.
3.8 3.8.1 3.8.2	**In House Tracker** 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 March 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. The fund returned -24.2% against FTSE All Share Index benchmark of -25.1% for the March 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 was used to support the cashflow needs of the pension bank account for the fiscal year.
3.9 3.9.1 3.9.2 3.9.3	**Standard Life** Standard Life has been the fund's corporate bond manager since November 2009. Their objective is to outperform the Merrill Lynch UK Non Gilt All Stock Index by 0.8% per annum over a 3 -year rolling period. During the March quarter, the fund returned -2.8% against a benchmark of -3.4% and an absolute return of 6.4% per annum since inception. The drivers behind the out performance in this quarter were due to being underweight (versus the benchmark) in higher-rated issuers (particularly AAA and AA rated supranational) and overweight in banks and utilities. Stock selection made a positive contribution. The agreed infrastructure mandates are being funded from this portfolio and to date 5% has been drawn down.
3.10 3.10.1 3.10.2	**Aviva** 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. The fund for this quarter delivered a return of 1.12% against a gilt benchmark of 7.4%. The All Property IPD benchmark returned -1.4% for this quarter. Since inception, the fund has delivered an absolute return of 5.9% net of fees.

3.10.3	This March quarter the fund's unexpired average lease term is now 20.2 years. The Fund holds 85 assets with 53 tenants. A £50 million new investment was acquired this quarter comprising a development funding of new student accommodation in Falmouth, pre-let on a 40 year income strip lease with RPI rent reviews with an effective Guarantee from Falmouth University. The fund has £129m of uncommitted investible capital.
3.10.4	One of the immediate impacts of COVID-19 crisis on the real estate industry has been a significant reduction in transaction activity. In light of this, valuers across the UK and Europe have concluded that this has created material uncertainty for valuations. The material uncertainty clause challenges their ability to calculate a unit price. Therefore, in the interests of protecting investors, they think it is prudent to pause drawing down investors' capital from the queue and issuing new units in the short-term units. This has meant the quarterly income that we would normally re-invest is being distributed and will remain under review until the material uncertainty clause falls below 20%.
3.10.5	The Fund's portfolio is also well diversified across assets, tenants and sectors with the majority of its exposure to public sector tenants and limited exposure to leisure and discretionary spend retail. It believes it is well positioned to be able to weather the outcome with minimal disruption.
3.11	**Columbia Threadneedle Property Pension Limited (TPEN)**
3.11.1	This is the fund's UK commercial pooled property portfolio that was fully funded on 14 January 2010 with an initial investment of £45 million. The net asset value at the end of March was £82.6 million.
3.11.2	The agreed mandate guidelines are as listed below: • Benchmark: AREF/IPD All Balanced Property Fund Index (Weighted Average) since I April 2014. • Target Performance: 1.0% p.a. above the benchmark (net of fees) over three year rolling periods. • Portfolio focus is on income generation with c. 75% of portfolio returns expected to come from income over the long term. • Income yield on the portfolio at investment of c.8.5% p.a. • Focus of portfolio is biased towards secondary property markets with high footfall rather than on prime markets such as Central London. The portfolio may therefore lag in speculative/bubble markets or when the property market is driven by capital growth in prime markets.
3.11.3	To protect the interests of investors in the Fund, Columbia Threadneedle Investments temporarily suspended dealing in the Threadneedle Pensions (TPEN) Property Fund ("the Fund") from the 12 noon valuation point on 20 March 2020. This means policyholders are temporarily unable to buy or sell shares in the Fund. This decision has been taken by the TPEN Board due to the fact that the Fund's independent property valuer, CBRE, has deployed a 'market uncertainty clause', which means that they are unable to provide an accurate valuation of the Fund's assets in the current exceptional market environment.

3.11.4 The fund returned a performance of -1.3% against its benchmark -1.3% for the March quarter mainly due to higher income return, overweight positions to industrials and underweight exposure to retail. Above average capital expenditure on assets in the South East was a drag on performance.

3.11.5 The cash balance now stands at 10% compared to 9% last quarter. During the quarter, there were no acquisitions and disposals. There is a strong asset diversification at portfolio level with a total of 273 properties and 1660 tenancies. Rent collection was 67% at the end of March and tenants are being dealt with on a case by case to enable their viability on the short to medium term.

3.11.6 The sound underlying health of the UK commercial property market does allow a degree of optimism with respect to a robust recovery when economic activity is normalised The medium to long term prospects of commercial property investment are likely to face ongoing uncertainty, but the fund is cushioned by its high relative income return and maximum diversification at both portfolio and client level.

3.12 **Passive Hedge**

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

3.12.2 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 **Franklin Templeton**

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

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

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

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

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

	The total distribution received to the end of the March quarter is \$60.1m.
3.13.3	The Fund is in the harvesting phase of its life cycle and continues to benefit from the realization of investments. The COVID-19 pandemic has interrupted progress on real estate business plans across the globe. Our expectation is that the primary effect upon the Fund will be a delay in execution of asset sales.
3.13.4	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 had been extended with our consent through to June 2017. The total capital call to the quarter end was \$35.7m and a distribution of \$29.4m. There were no calls or distributions during the quarter.
3.14. 3.14.1	**Legal and General** This is the fund's passive overseas equity index manager. The fund inception date was 8 June 2011 with an initial investment of £67million funded from transfer of assets from AllianzGI (RCM). The funds were managed passively against regional indices to formulate a total FTSE All World Index series. Member agreed restructuring in 2016, and the funding of BMO (our emerging market manager and restructuring of the fund to the MSCI World Low Carbon was completed on 3rd July 2017.
3.14.2	The components of the new mandate as at the end of June inception was £138m and benchmarked against MSCI World Low Carbon Index and £34m benchmarked against RAFI emerging markets. For the March quarter, the fund totalled £150m with a performance of -17.1%. The equity protection strategy was settled at 12 June with a total cash value of £74.6m.
3.15 3.15.1	**Hearthstone** This is the fund's residential UK property manager. The fund inception date was 23 April 2013, with an initial investment of £20million funded by withdrawals from our equities portfolios. The agreed mandate guidelines are as follows: • Target performance: UK HPI + 3.75% net income. • Target modern housing with low maintenance characteristics, less than 10 years old. • Assets subject to development risk less than 5% of portfolio. • Regional allocation seeks to replicate distribution of UK housing stock based on data from Academics. Approximately 45% London and South East. • 5-6 locations per region are targeted based on qualitative and quantitative assessments and data from Touchstone and Connells. • Preference is for stock which can be let on Assured Shorthold Tenancies (ASTs) or to companies. • Total returns expected to be between 6.75% and 8.75% p.a., with returns split equally between income and capital growth. Net yields after fund costs of 3.75% p.a. • The fund benchmark is the LSL Academetrics House Price Index

3.15.2	For the March quarter the value of the fund investment was £29.1m and total funds under management is £61.1m. Performance net of fees was 0.27% compared to the LSL benchmark of 1.1% The portfolio has 203 properties. Average annual occupancy 94.6%. Officers continue to monitor the fund on a quarterly basis with discussions with management. 1 July is the agreed date to switch from our current accumulation share class to an income share class that will enable cash dividend to be distributed to us.
3.15.3	As with most property funds, Covid-19 uncertainty has led to the suspension of the fund. Income from residential rents has been more sustainable than many other sources of income, 95% of rent demanded was collected in April. They are working closely with their tenants to help them through this period and they in turn have been amazing in engaging with them.

A 3.16
3.16.1
	Schroders-
	This is the Fund's diversified growth fund manager. The fund inception date was 1 July 2015, with an initial investment of £100million funded by withdrawals from our equities portfolios**.** The agreed mandate guidelines are as follows:
	• Target performance: UK RPI+ 5.0% p.a.,
	• Target volatility: two thirds of the volatility of global equities, over a full market cycle (typically 5 years).
	• Aims to invest in a broad range of assets and varies the asset allocation over a market cycle.
	• The portfolio holds internally managed funds, a selection of externally managed products and some derivatives.
	• **Permissible asset class ranges (%):**
	  • 25-75: Equity
	  • 0- 30: Absolute Return
	  • 0- 25: Sovereign Fixed Income, Corporate Bonds, Emerging Market Debt, High Yield Debt, Index-Linked Government Bonds, Cash
	  • 0-20: Commodities, Convertible Bonds
	  • 0- 10: Property, Infrastructure
	  • 0-5: Insurance-Linked Securities, Leveraged Loans, Private Equity.

3.16.2 3.16.3	The value of the portfolio is now £106m**.** The aim is to participate in equity market rallies, while outperforming in falling equity markets. The March quarter performance before fees was -11.3% against the benchmark of 1.43% (inflation+5%). The one -year performance is -6.3% against benchmark of 7.6% before fees. Equity positions and alternatives were the largest detractors to performance. Credit and government debt, cash and underweight in currency contributed positively to returns. The focus is on defence and quality before taking advantage of any opportunities that arise from the Covid-19 crisis.
3.17	**BMO Global Assets Mgt** This is the new emerging and frontier equity manager seeded in July 2017 with a total £74.4m withdrawn from LGIM. The mandate details as follows: • A blended portfolio with 85% invested in emerging market and 15% in frontier markets

	• Target performance MSCI Emerging Markets Index +3.0% (for the global emerging markets strategy) • Expected target tracking error 4-8% p.a • The strategy is likely to have a persistent bias towards profitability, and invests in high quality companies that pay dividend
3.17.1	The March quarter saw a combined performance of -22.3% against a benchmark of -18.3% before fees. Underperformance in the emerging market was mainly due to underweight position in China and overexposure to India and Indonesia. Frontier market's high exposure to consumer discretions also was a detractor to performance. The strategy remains to continue to research new companies that we suspect might be worthy of your hard earned capital and continue to have a close communication with our existing investments to push them to higher business and governance standards which we believe will ultimately enhance your long term return.
3.17.2	A meeting was held with the new CIO for the reassurance that, the strategy remains and can deliver better returns in the long term. The medium term and the pandemic effects will be volatile.
3.18	**Quinbrook Infrastructure** This one of the infrastructure managers appointed in November 2018. The total fund allocation infrastructure was 10% circa £130m. 40% of the allocation equivalent to $67m was allocated to low carbon strategy. Merits of Quinbrook include: • Low carbon strategy, in line with LB Islington's stated agenda • Very strong wider ESG credentials • 100% drawn in 12-18 months • Minimal blind pool risk • Estimated returns 7%cash yield and 5% capital growth **Risks:** Key Man risk Drawdown to March 2020 is $54.9m **Pantheon Access-** is the other infrastructure manager also appointed in November 2018. Total allocation was $100m and merits of allocation included: • 25% invested with drawdown on day 1 • Expect fully drawn within 2-3 years • Good vintage diversification between secondary's and co-investments • Exposure to 150 investments • Estimated return 5% cash yield and 6% capital growth **Risks:** No primary fund exposure. Drawdown to March 2020 is $28.15m and distribution of $1.25m
4.	**Implications**
4.1	**Financial implications:** The fund actuary takes investment performance into account when assessing the employer contributions payable, at the triennial valuation.

	Fund management and administration fees and related cost are charged to the pension fund.
4.2	**Legal Implications:** As the administering authority for the Fund, the Council must review the performance of the Fund investments at regular intervals and review the investments made by Fund Managers quarterly.
4.3	**Resident Impact Assessment:** The Council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The Council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The Council must have due regard to the need to tackle prejudice and promote understanding". An equalities impact assessment has not been conducted because this report is an update on performance of existing fund managers and there are no equalities issues arising**.**
4.4	**Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:** 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 t fund in green opportunities. The link to the full document is https://www.islington.gov.uk/~/media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonborougho ngtonpensionfundinvestmentstrategystatement.pdf

5. Conclusion and reasons for recommendations

5.1 Members are asked to note the performance of the fund for the quarter ending March 2020 as part of the regular monitoring of fund performance and Appendix 1- MJ Hudson commentary on managers and LGPS Current Issues bulletin May 2020-Appendix2.

Background papers:
1. Quarterly management reports from the Fund Managers to the Pension Fund.
2. Quarterly performance monitoring statistics for the Pension Fund – BNY Mellon

Final report clearance:

Signed by:

	Corporate Director of Resources	Date

Received by:

	Head of Democratic Services	Date

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

London Borough of Islington

Report to 31st March 2020

MJ Hudson Allenbridge

JUNE 2020

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Contacts

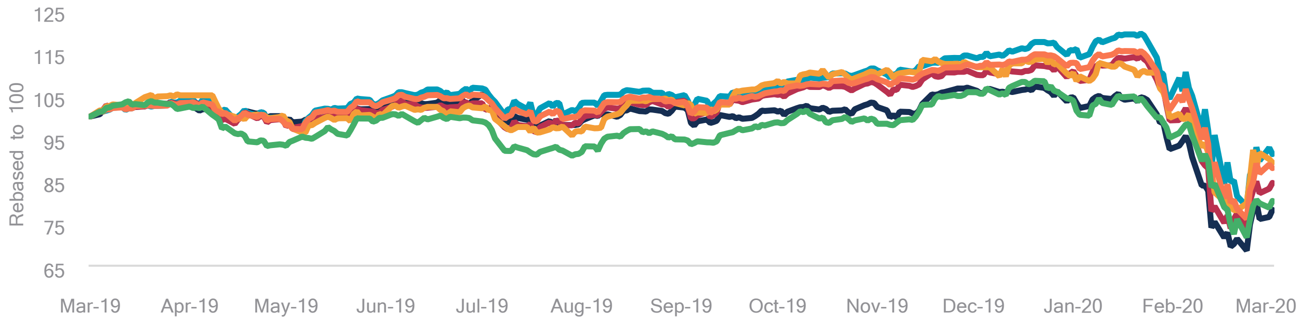
Karen Shackleton
Senior Adviser
+44 20 7079 1000
karen.shackleton@mjhudson.com

The Covid-19 pandemic

This quarterly report covers the period during which the Covid-19 pandemic began escalating rapidly around the world. The likelihood of a global recession began to emerge during this period, as governments responded to the outbreak of the new coronavirus. Large-scale lockdowns, motivated by the need to reduce the spread of the disease, began to have a dire economic impact. GDP growth expectations for the second quarter were slashed. Both the Federal Reserve and the Bank of England announced two emergency rate cuts each. Whilst the European Central Bank and the Bank of Japan (with little scope to cut rates) did not follow suit, all major central banks either restarted or expanded their quantitative easing programmes in the face of the economic disruption due to the coronavirus outbreak.

As a consequence, the markets were volatile and sharp falls were seen. Overall, equities declined by approximately -20% to -25% in the quarter to March 2020. However, after a severe drop in the middle of March, equities across the globe began to experience a strong rebound which continued after the quarter end. This is shown in Chart 1 below.

CHART 1: GLOBAL EQUITY MARKETS PERFORMANCE



Source: Bloomberg. All in local currency. FTSE All-Share Index (Ticker: ASX Index), S&P 500 Index (Ticker: SPX Index), STOXX Europe 600 (Ticker: SXXP Index), Nikkei 225 Index (Ticker: NKY Index), MSCI World Index (Ticker: MXWO Index), MSCI Emerging Markets (Ticker: MXEF Index)

Industry experts are still debating whether or not to label Covid-19 a 'black swan' event. (These are events that have an extremely low probability but a very high impact). The concern is that by treating it as a black swan event, we will fail to prepare for the next pandemic. What we can say with certainty, however, is that markets have not seen anything like the speed of economic slowdown that was experienced in February and March of 2020, which makes it a unique and unprecedented crisis. The performance numbers should be considered in light of the above. As always, it is the longer-term performance that is the best measure of the pension fund's ability to meet its future liabilities.

Fund Manager Overview

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

TABLE 1:

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT	CHANGE IN STRATEGY/ RISK
LCIV Global Equity Fund (Newton) (active global equities)	Nick Clay, global income equity head, left the firm. Robert Hay (portfolio manager for the fund) changed roles within the firm, Jeff Munroe is now sole portfolio manager on the global equity strategy. Due to the multiple changes of the team, the situation is being monitored closely by LCIV.	Outperformed the benchmark by +3.30% in the quarter. Over three years the fund is ahead of the benchmark return by +1.73% and beating the performance target of +1.5% p.a. for the first time since Q4 2015.	As at end March the sub- fund's value was £584 million. London Borough of Islington owns 36.3% of the sub-fund.	
LCIV Sustainable Equity Fund (global equities)		In Q1 2020 the fund delivered a return of -14.68, ahead of the benchmark return of -15.65%.	As at end March the sub- fund's value was £382.2 million. London Borough of Islington owns 29.4% of the sub-fund.	
BMO/LGM (emerging and frontier equities)	Pamela Macedo, a junior analyst on the research team, resigned in March.	Underperformed the benchmark by -4.00% in the quarter to March 2020. The fund is behind over one year by -8.24%.	Not reported.	

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MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT	CHANGE IN STRATEGY/ RISK
Standard Life (corporate bonds)	7 joiners, 23 leavers, none of them were from fixed income.	The fund was ahead of the benchmark by +0.59% in the quarter to March 2020. Over three years the fund is +0.52% 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 £2,458.1 million in Q1 2020, a fall of £101.9 million. London Borough of Islington's holding stood at 6.3% of the fund's value.	
Aviva (UK property)	Not reported by Aviva.	Underperformed against the gilt benchmark by -6.29% for the quarter to March 2020 and performed in line with the benchmark over three years, delivering a return of +5.60% p.a., net of fees.	Fund was valued at £2.72 billion as at end Q1 2020. London Borough of Islington owns 4.6% of the fund.	
Columbia Threadneedle (UK property)	Four joiners and two leavers in Q1 2020, but no changes to the team managing the Islington portfolio.	The fund performed in line with benchmark return in Q1 2020, both returning -1.3% over the quarter. Underperformed by - 0.3% p.a. over three years, below target of 1% p.a. outperformance. (source: Columbia Threadneedle)	Pooled fund has assets of £2.03 billion. London Borough of Islington owns 4.08% of the fund.	This fund was suspended for dealing on 20th March 2020 due to the difficulty in valuing assets, this was caused by the market uncertainty surrounding the Covid-19 pandemic.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT	CHANGE IN STRATEGY/RISK
Legal and General (passive equities)	Not reported by LGIM.	Funds are tracking as expected. The emerging markets fund marginally outperformed the index in Q1, while the World Low Carbon fund was exactly in line with the index.	Assets under management of £1.2 trillion at end December 2019. Net flows of +£86.4 billion in 2019.	
Franklin Templeton (global property)	During Q1 2020 there were three new joiners.	The portfolio return over three years was +20.26% p.a., well ahead of the target of 10% p.a.	$580.3 billion of assets under management as at end March 2020.	
Hearthstone (UK residential property)	There was one leaver in Q1, Iman Askari, a business development manager, who left in January.	The fund outperformed the IPD UK All Property Index by +1.75% in Q1. Trailing the IPD benchmark over three years by -2.44% p.a. to end March 2020.	Fund was valued at £61.3m at end Q1 2020. London Borough of Islington owns 47.4% of the fund.	This fund was suspended for dealing in March due to the difficulty in valuing assets, this was caused by the market uncertainty surrounding the Covid-19 pandemic.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT	CHANGE IN STRATEGY /RISK
Schroders (multi-asset diversified growth)	During Q1, no changes to investment team.	Fund returned -11.31% during the quarter and -0.45% p.a. over 3 years, -8.26% behind the target return.	Total AUM stood at £470.5 billion as at end March 2020.	Fund volatility at low end of expectations at present. At end March it was 49.6% of equity market volatility compared with an expected maximum of 66%.
Quinbrook (renewable energy infrastructure)	No changes to the investment team during Q1 2020.	For the year to Q1 2020 the fund returned +9.05%, behind the target return of +12.00%, although performance should be assessed over a longer time period for this fund.		
Pantheon (Private Equity and Infrastructure Funds)		The combined funds returned +25.67% p.a. over three years.		

Source: MJ Hudson Allenbridge

Minor Concern

Major Concern

Individual Manager Reviews

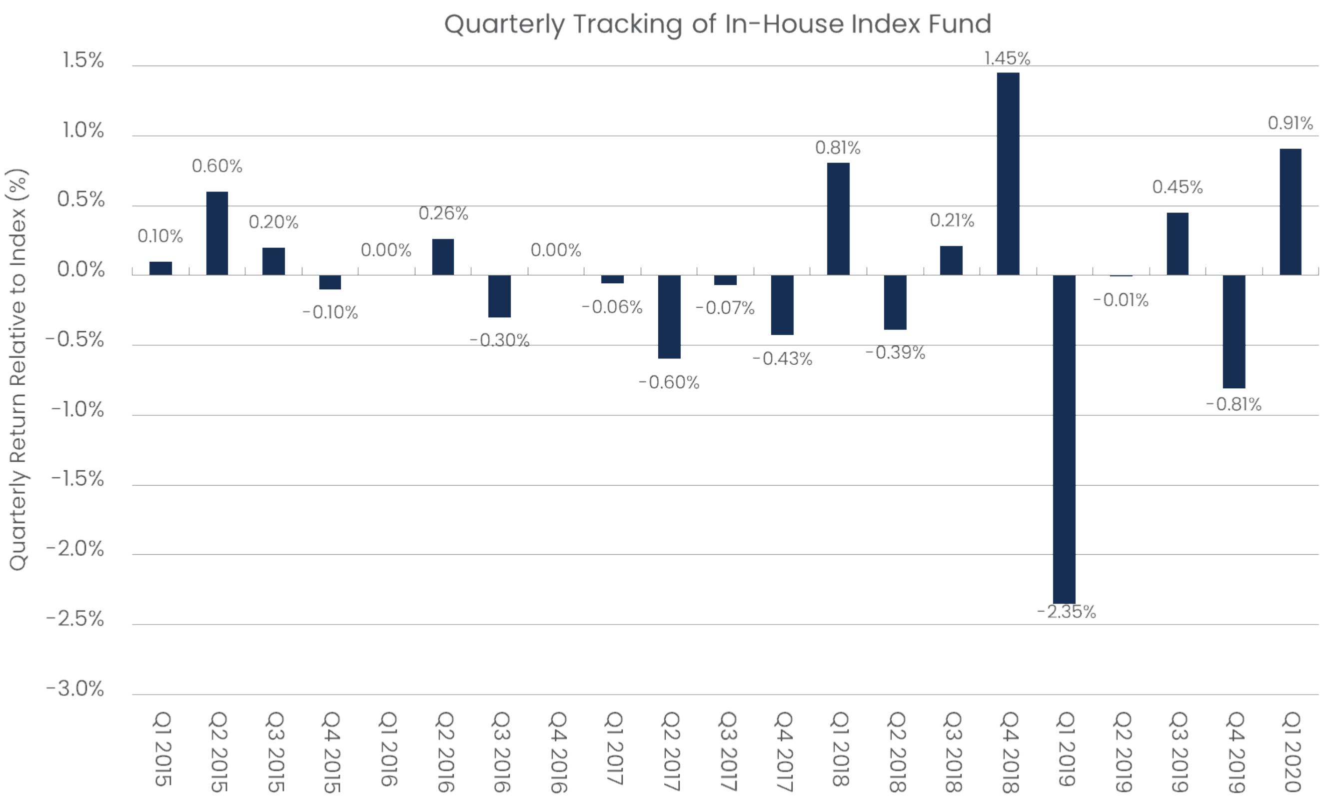
In-house – Passive UK Equities – FTSE UK Low Carbon Optimisation Index

Headline Comments: At the end of Q1 2020 the fund returned -24.22%, this was ahead of the FTSE All-Share index return of -25.13%. Also, over three years the fund has returned -3.88% p.a., ahead of the FTSE All-Share Index by +0.36%.

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 2 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 outperformed its three-year benchmark by +0.36% p.a.

CHART 2:



Source: MJH Allenbridge; BNY Mellon

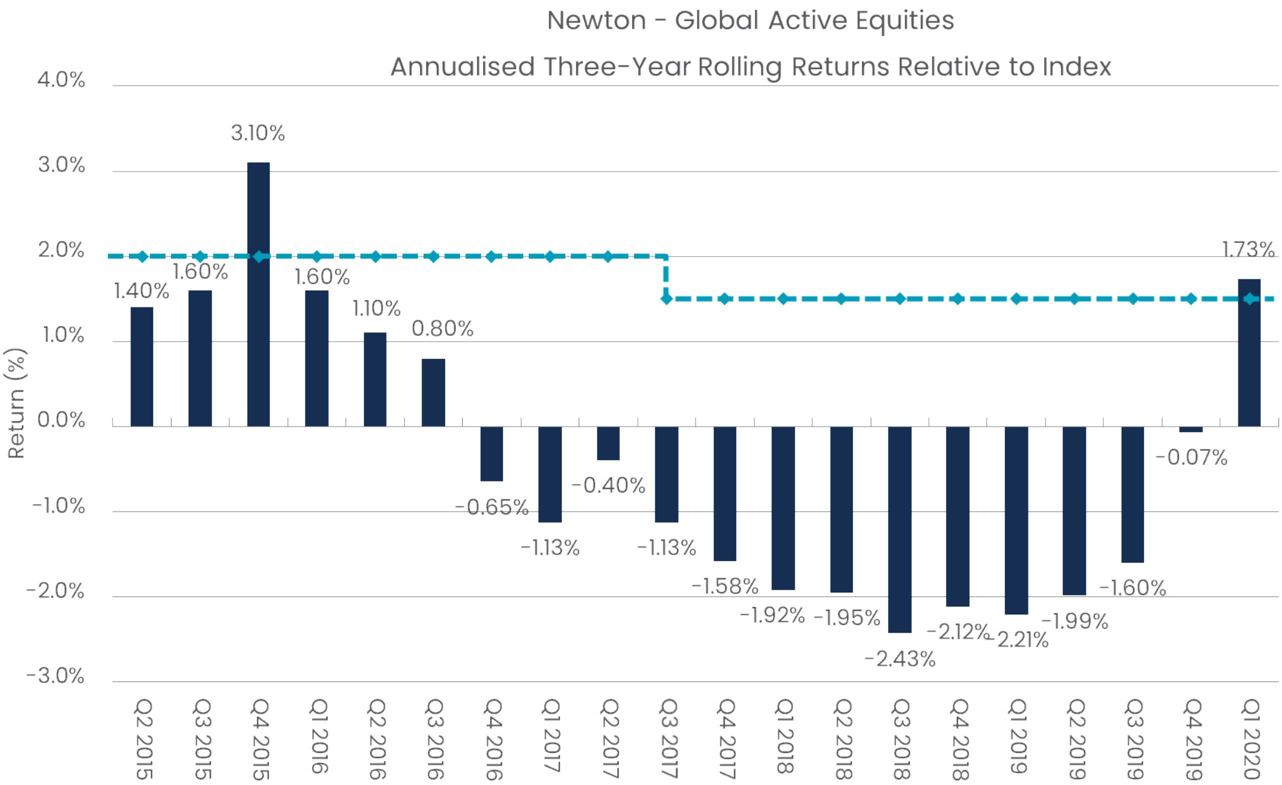
LCIV Global Equity Fund (Newton) – Global Active Equities

Headline Comments: The LCIV Global Equity Fund outperformed its benchmark during Q1 2020 by +3.30%. Over three years the portfolio outperformed the performance target of benchmark +1.5% p.a. This was the first time the manager was ahead of the performance target since Q4 2015.

Mandate Summary: An active global equity portfolio. Newton operates a thematic approach based on 12 key themes that they believe will impact the economy and industry. Some are broad themes that apply over the longer term; others are cyclical. Stock selection is based on the industry analysts' thematic recommendations. The objective of the fund since 22nd May 2017 is to outperform the FTSE All-World Index by +1.5% p.a. over rolling three-year periods, net of fees.

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

CHART 3:



Source: MJH Allenbridge; BNY Mellon

For the three-year period to the end of Q1 2020, the fund is ahead of the benchmark by +1.73% p.a. This means it is outperforming the performance objective by +0.23% (the performance

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objective is shown by the dotted line and dropped in May 2017 when the assets transferred into the London CIV sub-fund) for the first time in over four years.

London CIV attributed the performance in the quarter to March 2020 to the global outbreak of the Covid-19 pandemic. While markets fell around the world, its exposure to North America (which experienced some gains towards the end of March) helped the fund. A low exposure to oil and gas companies also helped: the manager has only one oil company in the portfolio, Royal Dutch Shell, which is less than 2% of the portfolio. Meanwhile, exposure to UK markets proved to be one of the fund's main detractors from performance.

Positive contributions to the total return came from holdings such as Microsoft (+0.43% contribution to the total return) and Amazon.com (+0.35%). Meanwhile, Citigroup Inc was the biggest detractor (-1.25%) followed by Ferguson Plc (-0.78%).

Although previously the London CIV has expressed concern over recent lacklustre performance, the fund return is now outperforming the benchmark by +3.38% over one year.

Portfolio Risk: the active risk on the portfolio stood at 2.78% as at quarter end, lower than as at end December when it stood at 3.28%. The portfolio remains defensive, with the beta on the portfolio at end March standing at 0.89, an increase on the previous quarter when it stood at 0.86 (if the market increases by +10% the portfolio can be expected to rise +8.6%).

At the end of Q1 2020, the London CIV sub-fund's assets under management were £584m, compared with £668m 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 56 as at quarter-end (down from 58 last quarter). The fund added three positions, Ping An Insurance, Lennar, and Kasikornbank, and completed the sale of five positions, Walgreens Boots Alliance, Deutsche Wohnen SE, Conocophillips, Alcon, and Aib Group.

Staff Turnover: In Q1 Newton saw multiple changes to its team. Nick Clay, global equity income head, left the firm. Robert Hay and Ilga Haubelt, previously on the global equity team, moved to a different team at the firm. Jeff Munroe is now the sole portfolio manager on the global equity strategy. Charles French, deputy CIO, will replace Ilga in the short term as head of equity opportunities.

Continuing movements within the team mean that LCIV are still closely monitoring changes in the team at Newton.

LCIV Sustainable Equity Fund

Headline Comments: Over Q1 2020 the fund delivered a return of -14.68%, this was ahead of the benchmark return of -15.65%. Islington's investment makes up 29.40% of the total fund.

Mandate Summary: A global equities fund that considers environmental, social and governance factors. The fund aims to deliver, over the long term, a carbon footprint which is lower than that of the MSCI World Index Net (Total Return). The fund also aims to achieve capital growth by outperforming the MSCI World Index Net (Total Return) by 2% per annum net of fees annualised over rolling three-year periods.

Portfolio Characteristics: As at end of March 2020 the fund had 37 holdings across 15 countries. The tracking error of the fund was 3.44% meanwhile volatility stood at 13.71%. Over the quarter the largest contributors to return include Roche Holdings (+0.53%), Amazon.com (+0.41%), and Nvidia (+0.33%). Meanwhile, the largest detractors to return included EOG Resources (-1.58%), Anheuser-Busch Inbev (-1.26%), and Gartner (-0.92%).

BMO/LGM – Emerging Market Equities

Headline Comments: The total portfolio delivered a return of -22.34 % in Q1 2020, compared with the benchmark return of -18.34%, an underperformance of -4.00%. The emerging market component of this portfolio returned -26.65% (source: BMO, and in US dollars) compared with the index return of -23.60%. The frontier markets portfolio was also behind the index return of -26.86%, delivering a return of -31.90% (source: BMO, and in US dollars). Over one year, the total fund is behind of the benchmark return by -8.24% (source BNY Mellon, in sterling).

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 Ping An Healthcare and Technology (+0.4%). Companies which detracted most from performance included Bank Mandiri Perseo (-2.7%), HDFC Bank (-2.2%), and ICICI Bank (-1.8%).

In the frontier market portfolio, there were no positive contributors to performance. Companies which detracted the most from performance were Famous Brands Ltd (-2.9%), Phu Nhuan Jewelry (-2.7%), and United Bank (-2.4%).

Over one year, the frontier market portfolio continues to trail behind the benchmark. The return over 12 months was -36.04% versus the benchmark return of -21.51% (source BMO, in US dollars). The level of underperformance is something to monitor closely over coming months.

The manager acknowledged that they expected their performance in both portfolios to be better through this crisis, than it has been. The portfolios had been performing well until January 2020 but fell behind in February and March. Currency falls have been the main reason. In the Index, China, Taiwan and South Korea form around 40-45% of the benchmark. Unlike the holdings in their portfolio, these markets barely corrected. Other markets fell by much more which hurt their performance relative to the index.

Portfolio Risk: Within the emerging markets portfolio, 14.0% was allocated to developed or frontier markets, and cash was at 5.9% as at quarter-end. Turnover for the previous 12 months was 21.8%. The largest overweight country allocation in the emerging markets portfolio remained India (+13.2% overweight). The most underweight country allocation was China/HK (-14.1%).

Within the frontier markets portfolio, it is worth noting that 66.5% 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 (7.7% as at end March 2020). The most overweight country allocation remained Egypt (+14.5%) and the most underweight was Morocco (-13.1%).

Portfolio Characteristics: The frontier markets portfolio held 40 stocks as at end March compared with the benchmark which had 93. The emerging markets portfolio held 39 stocks as at end March compared with the benchmark which had 1,404.

Organisation: Pamela Macedo, who worked as a junior analyst on the research team, resigned from her role in March 2020.

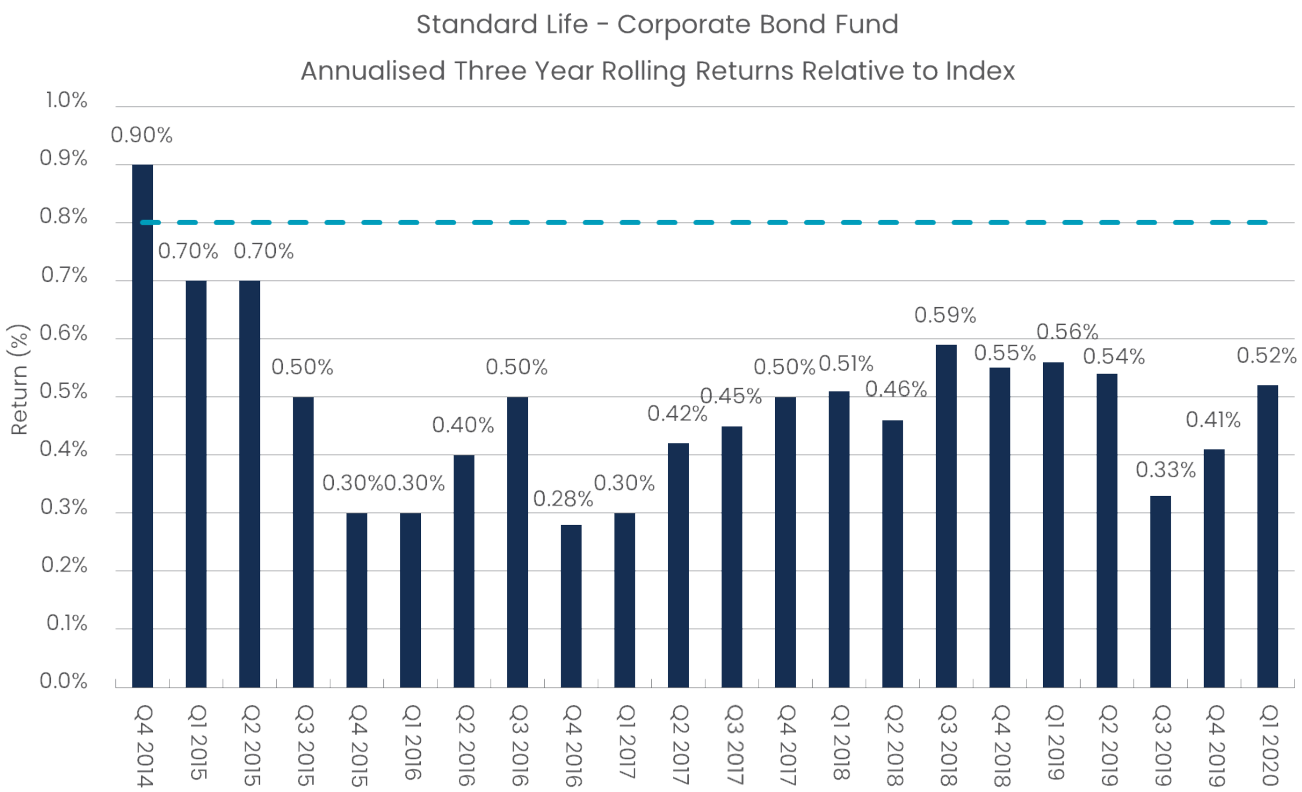
Standard Life – Corporate Bond Fund

Headline Comments: The portfolio was marginally ahead of the benchmark return during the quarter by +0.59%. Over three years, the fund was ahead of the benchmark return (by +0.52%) 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 +2.63% p.a. net of fees, compared to the benchmark return of +2.11% p.a. Over the past three years, stock selection has added +0.44% value, followed by curve plays +0.04%, meanwhile asset allocation has detracted -0.09%.

Portfolio Risk: The largest holding in the portfolio at quarter-end was UK (Govt of) 4.25% 2055 at 2.0% of the portfolio. The largest overweight sector position remained Financials (+6.1%) and the largest underweight position remained sovereigns and sub-sovereigns (-15.9%). The fund holds 2.2% of the portfolio in non-investment grade (off-benchmark/BB and below) bonds.

Portfolio Characteristics: The value of Standard Life's total pooled fund at end March 2020 stood at £2,458.1m, £101.9m lower than at the end of December 2019. London Borough of Islington's holding of £155.01m stood at 6.3% of the total fund value (compared to 6.5% last quarter).

Staff Turnover: there were 7 joiners, but 23 people left the firm during the quarter. None of these was from the fixed income team, however.

Aviva Investors – Property – Lime Property Fund

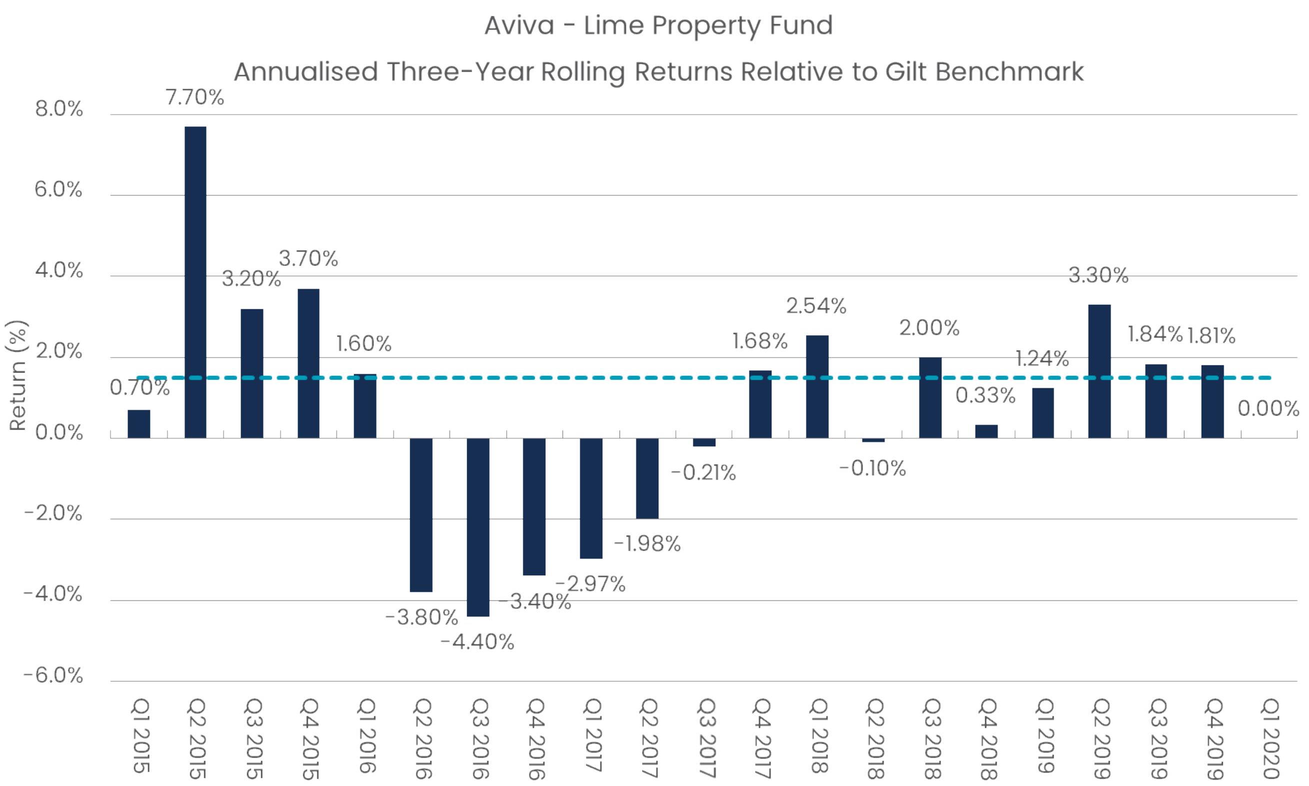
Headline Comments: The Lime Fund delivered another quarter of steady and positive absolute returns, although it failed to beat the fund benchmark return, with a relative underperformance of -6.29% in Q1. Over three years, the fund is in line with the benchmark return.

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

Performance Attribution: The fund's Q1 2020 return was attributed by Aviva to +0.24% capital return and +0.86% income return.

Over three years, the fund has returned +5.60% p.a., in line with the gilt benchmark of +5.60% p.a., although behind its outperformance target of +1.5% p.a., as can be seen in Chart 5.

CHART 5:



Source: MJH Allenbridge; BNY Mellon

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

Portfolio Risk: This quarter the fund added a new investment of approximately £50m by acquiring a development of new student accommodation in Falmouth, with a total of 528 bedrooms. The investment comes pre-let and provides 40-year RPI linked cashflow.

As well as the above, the fund also completed on a re-gear and lease extension of an academic building let to Leeds Beckett University. This provides 30-year inflation linked cashflow.

The fund has £54 million of uncommitted investible capital. Unlike many property funds, Aviva have taken the decision not to formally suspend their Fund, however, they do not anticipate drawing down investors' capital in the short term.

The average unexpired lease term was 20.3 years as at end March 2020. 11.0% of the portfolio's lease exposure in properties is in 30+ year leases, the largest sector exposure remains offices at 25.7%, and the number of assets in the portfolio increased from 84 last quarter to 85 in Q1. The weighted average unsecured credit rating of the Lime Fund remained A-.

Portfolio Characteristics: As at March 2020, the Lime Fund was valued at £2.72bn, an increase of £13.6m from the previous quarter end. London Borough of Islington's investment represents 4.6% of the total fund. The fund had 77% allocated to inflation-linked rental uplifts as at end March 2020.

Staff Turnover/Organisation: Not reported by Aviva.

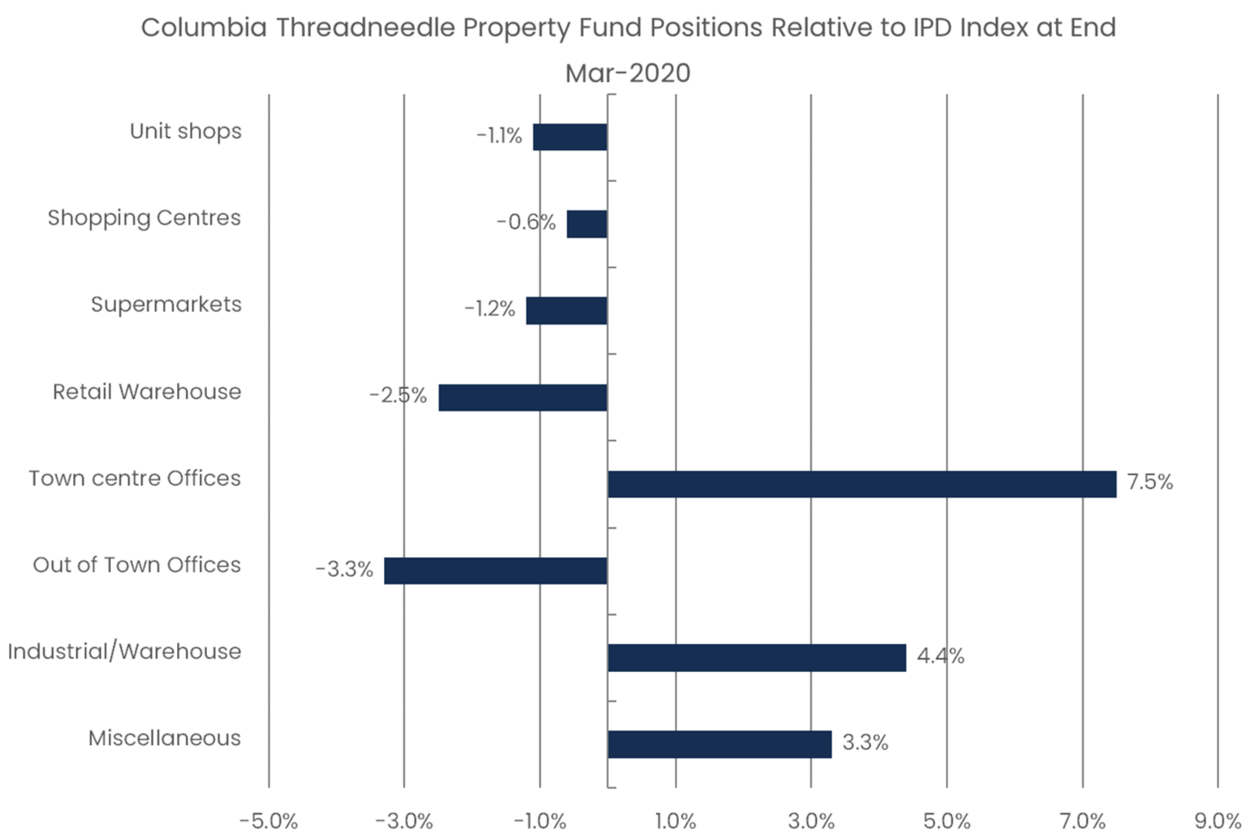
Columbia Threadneedle – Pooled Property Fund

Headline Comments: The fund was in line with the benchmark return in Q1 2020 (source: Columbia Threadneedle). Over three years, the fund has underperformed the benchmark by -0.3% (source: Columbia Threadneedle) and as such is behind the performance target of +1.0% p.a. above benchmark. This fund was suspended on 20th March 2020 due to the difficulty in valuing the assets caused by the market uncertainty surrounding the Covid-19 pandemic.

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 made no acquisitions or sales, and the deal pipeline was held in obeyance until the fund's suspension ends.

The fund's void rate has increased from 7.6% as at end December to 8.5% at end March, versus the benchmark's 8.4%. 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 March was 10.0%.

Performance Attribution: The portfolio was in line with the benchmark in Q1 2020, both delivering a return of -1.30% (source: Columbia Threadneedle). Over three years, the fund is behind its benchmark by -0.3% p.a., with a return of +4.5% p.a., this means the fund is underperforming the target of +1.0% p.a. above the benchmark (source: Columbia Threadneedle).

Portfolio Characteristics: As at end March 2020, the fund was valued at £2.03bn, a decrease of -£22.8m compared with December 2019. London Borough of Islington's investment represented 4.08% of the fund.

Staff Turnover: There were two leavers and four joiners across the firm in Q1 2020. 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 performed in line with 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. For comparison, the return on FTSE World for the quarter was -16.14 and the return on MSC World was -15.53%.

TABLE 2:

	Q1 2020 FUND	Q1 2020 INDEX	TRACKING
FTSE-RAFI Emerging Markets	-24.91%	-24.95%	+0.04%
MSCI World Low Carbon Target	-15.32%	-15.32%	+0.00%

Source: LGIM

Portfolio Risk: The tracking errors are all within expected ranges. The allocation of the portfolio, as at quarter end, was 82.64% to the MSCI World Low Carbon Target index fund, and 17.36% allocated to the FTSE RAFI Emerging Markets index fund.

Staff Turnover/Organisation: Not reported by LGIM.

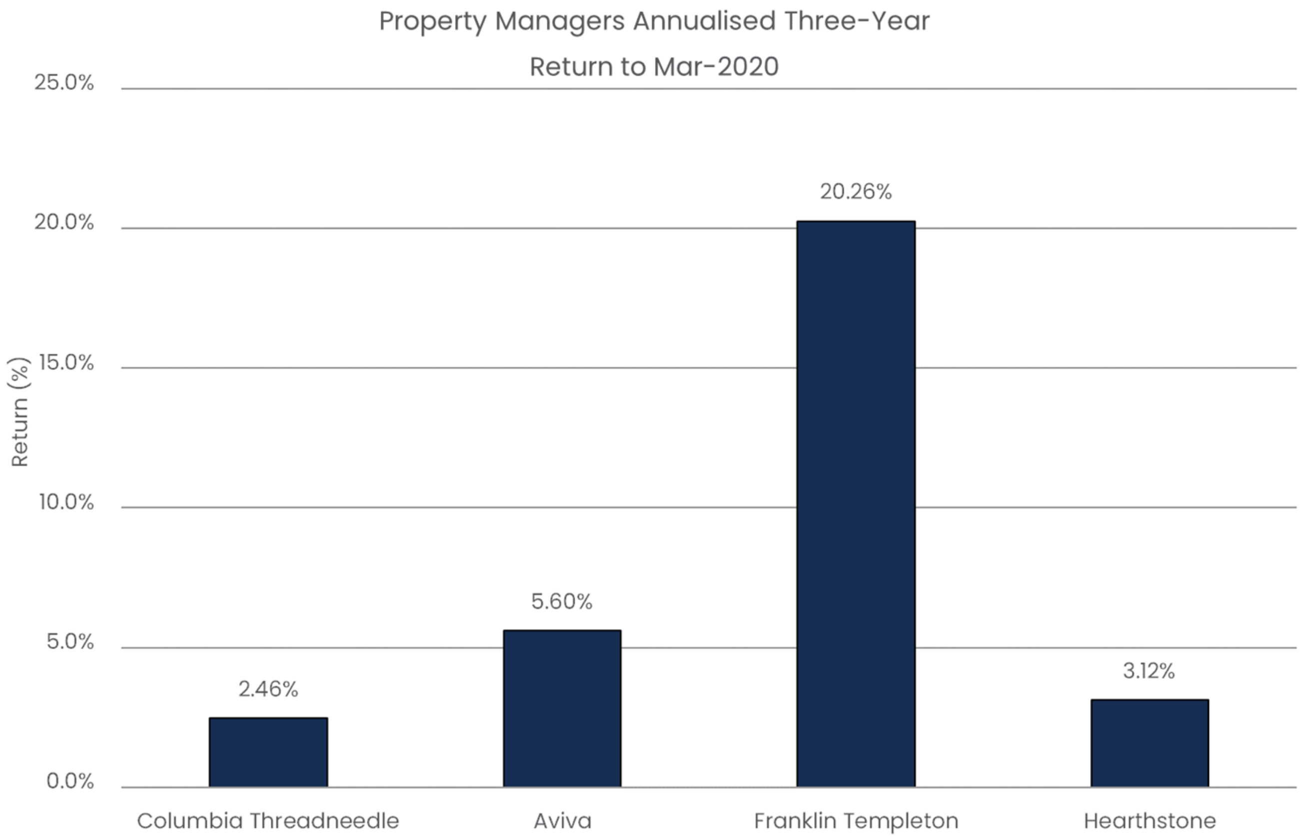
Franklin Templeton – Global Property Fund

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 +10.26%.

Mandate Summary: Two global private real estate fund of funds investing in sub-funds. The performance objective is an absolute return benchmark over the long term of 10% p.a.

Performance Attribution: Over the three years to March 2020, 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 35% as at end Q1 2020.

The largest remaining allocation in Fund I is to the US (42% of funds invested), followed by Spain (36%), UK (7%), and Italy (7%). As the fund distributes, the geographic exposure is likely to become increasingly concentrated.

Of all the underlying funds (realised and unrealised), three are performing well ahead of expectations, five are above expectations, four are on target and two are below expectations (Sveafastigheter III, which is expected to complete in the second half of 2020, and Lotus Co-Investment,which has now been fully liquidated).

Fund II is now fully invested and is beginning to make distributions. As at end March 2020, 62.4% of committed capital had been distributed. Leverage stood at 52%.

The largest allocation in Fund II is to Italy (54% of funds invested), followed by the US (35%) and China (5%).

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

Staff Turnover/Organisation: During Q1 2020 there were three new joiners. Gaston Brandes, an institutional portfolio manager (based in Frankfurt), Jennifer McCabe a legal transaction manager and Louise Evans as Head of Asset Management (both based in London).

Hearthstone – UK Residential Property Fund

Headline Comments: The portfolio outperformed the benchmark for the quarter ending March 2020 but continued to underperform over three years. Like Columbia Threadneedle, this fund suspended for dealing in March, because of the uncertainty in valuations.

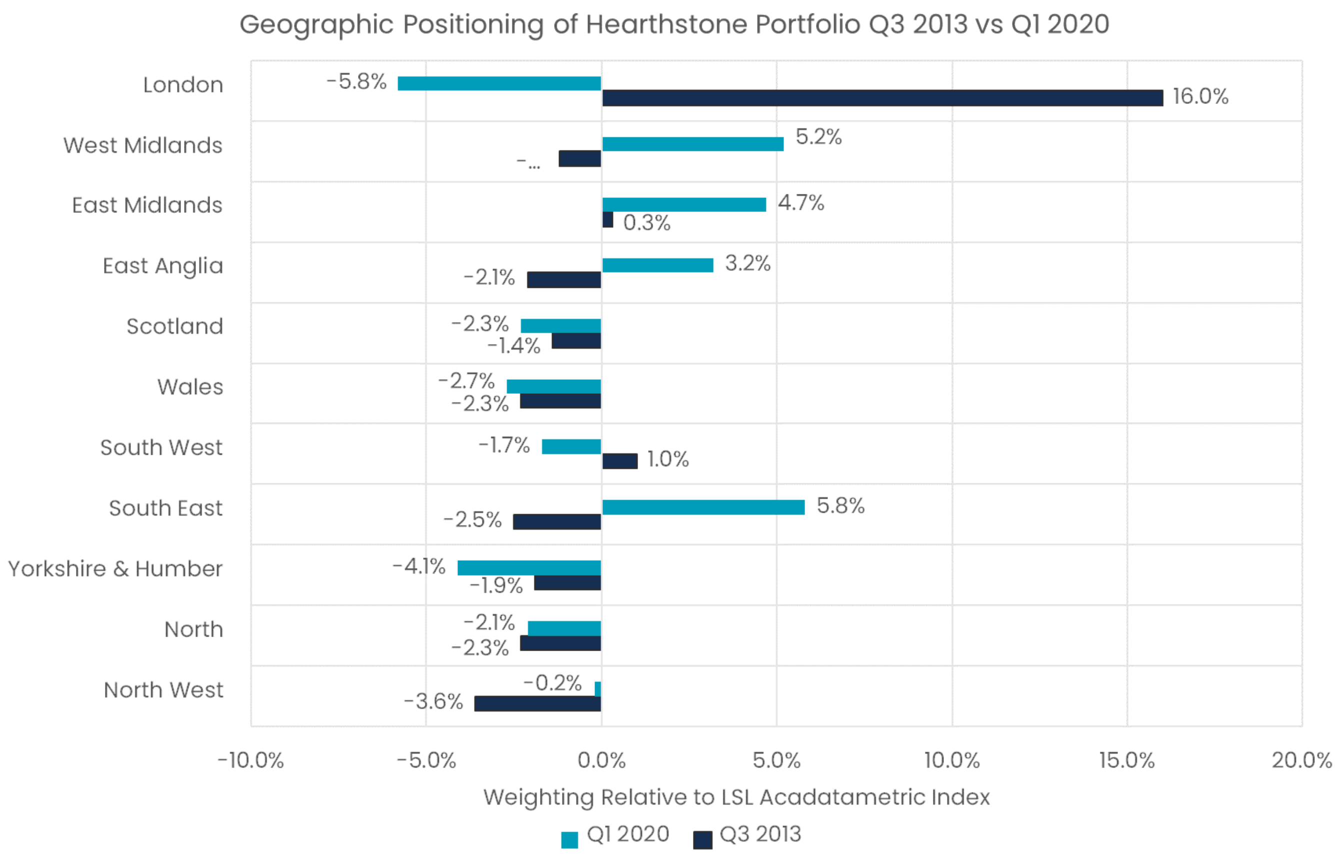
Mandate Summary: The fund invests in private rented sector housing across the UK and aims to outperform the LSL Acadametrics House Price Index (note that this excludes income), as well as providing an additional income return. The benchmark used by BNY Mellon is the IPD UK All Property Monthly Index.

Performance Attribution: The fund underperformed the IPD index over the three years to March 2020 by -2.44% p.a., returning +3.12% p.a. versus the index return of +5.57% p.a. The gross yield on the portfolio as at March 2020 was 4.89%. Adjusting for voids, however, the yield on the portfolio falls to 4.35%.

Portfolio Risk: The cash and liquid instruments on the fund stood at 17.18%.

Chart 8 compares the regional bets in the portfolio in Q1 2020 (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 9% allocation to detached houses, 42% allocated to flats, 26% in terraced accommodation and 23% in semi-detached.

As at end March there were 203 properties in the portfolio and the fund stood at £61.3 million. London Borough of Islington's investment represents 47.4% of the fund. This compares with 72% at the start of this mandate in 2013.

Organisation and Staff Turnover: In Q1 there was one leaver, Iman Askari, a business development manager, who left in January.

Schroders – Diversified Growth Fund (DGF)

Headline Comments: The DGF delivered a negative return in Q1 2020, and in relative terms it underperformed against its benchmark. Over three years, the fund is behind the target return of RPI plus 5% p.a. by -8.26%.

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 -11.31% in Q1 2020. This is -12.74% behind the RPI plus 5% p.a. target return of +1.43% for Q1. Over three years, the DGF delivered a return of -0.45% p.a. compared with the target return of +7.80% p.a., behind the target by –8.26% p.a. This underperformance remains a concern, particularly as the underperformance over three years has not improved since Q2 2018, when it was trailing its target by -3.81%.

In Q1 2020, equity positions contributed -9.7% to the total return, alternatives -1.1%, credit and government debt -0.4%, and cash and currency added detracted -0.4% (figures are gross of fees).

The return on global equities was +0.4% p.a. for the three years to March 2020 compared with the portfolio return of -0.45%. 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 7.0% compared to the three-year volatility of 14.1% in global equities (i.e. 50% of the volatility) so is less risky than expected.

Portfolio Characteristics: The fund had 31% in internally managed funds (up from last quarter's 28% allocation), 38% in internal bespoke solutions (up from 36% last quarter), 3% in externally managed funds (same as last quarter), and 11% in passive funds (down from 31% last quarter) with a residual balance in cash, 17% (up from 3% last quarter), as at end March 2020. In terms of asset class exposure, 36.7% was in equities, 22.6% was in alternatives and 24.3% in credit and government debt, with the balance in cash. It is worth nothing that this allocation towards cash is significantly higher in any previous quarter. The manager comments that the elevated cash position was a defensive action against the market impact of Covid 19 and allows them to take advantage of future opportunities.

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 for the year to March 31st 2020 was positive at +9.05 %, below the target return of +12.0%%.

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 Q1 2020, on an unaudited basis, the fund had invested $465.1m into 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). The total operational generating capacity of operational projects which the Fund is invested in is 996MW (including those with minority stakeholders) as at 31 March 2020.

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

Pantheon – Infrastructure and Private Equity Funds

Headline Comments: Over three years the return on the combined private equity and infrastructure funds was +25.67% per annum.

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 Q1 2020, US$1.0m was drawn down to PGIF III (the infrastructure fund) and $0.8m drawn down to Pantheon USA Fund VII (the private equity fund). Across both strategies total distributions were US$0.7 million for Q1.

Karen Shackleton
Senior Adviser, MJ Hudson Allenbridge
10th June 2020

1 Frederick's Place, London, EC2R 8AE, United Kingdom | +44 20 7079 1000 | london@mjhudson.com | mjhudson.com | mjhudson-allenbridge.com

MERCER

LGPS CURRENT ISSUES

MAY 2020

welcome to
brighter

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COVID-19
Impact and consideration for LGPS Funds

The uncertainty surrounding COVID-19 has triggered the most significant fall in domestic and overseas equities since the global financial crisis of 2008. Since the outbreak, the FTSE100 price index has fallen by around 20%. Whilst some funds may have some form of protection in place (whether through their investment strategies or more directly e.g. equity protection), funding levels will still be impacted by the volatility that COVID-19 has produced.

The potential impact of COVID-19 is creating a lot of uncertainty in a number of areas for us all. As well as falls in funding levels, it has the potential to affect a fund's operational arrangements and the affordability constraints of employers. Our key message to funds has been to plan carefully and ensure that the response is proportionate.

All English and Welsh funds formally concluded their 2019 actuarial valuations at the end of March, whereas for the Scottish funds, the process has only just commenced. The uncertainty and volatility in the markets will have affected the position for all funds and employers significantly since then. The contributions and/or prepayments agreed as part of the recent valuation may no longer be affordable, and Scottish funds are striking their valuation dates at a particularly challenging time.

Reflecting our view that funds need to take a proportionate and pragmatic approach, we have set out a list of points that all funds should be considering:

- **Communicate regularly with employers** – particularly those that may exit the fund in the short term or those that are key to ensuring that the fund receives sufficient cashflow to pay benefits. Funds should be identifying employers that are the highest risk so that action can be taken if contributions are not received on time. They should also stay in touch with those expecting to exit in case plans change.

- **Monitoring employer covenant** – particularly those that are the highest risk to the fund (e.g. those without a guarantee or any security) and those in a sector that may be particularly impacted by the crisis.

- **Funding levels will have fallen** – This will affect those that are close to termination and so funds should open communication with such employers. Updated funding positions can be provided where necessary in order to give funds an idea of their current funding level.

- **Consider the policy on suspending/delaying contributions** – under the Regulations; it is possible for funds to allow employers to delay payment of contributions for a short period (e.g. 3 months). However, it is important that the fund is confident that the employer can make up any missed payments by 31 March 2021, to ensure that they comply with the Rates and Adjustments Certificate. It is also important that funds do not jeopardise their own position (e.g., there may be cases where delaying contributions could lead to cashflow problems).

- **Data Quality** – consider what the fund can do to ensure that the quality of data does not fall, at a time when employers may not be available to provide the data or respond to queries, and funds are stretched/working in unusual circumstances which may limit the time/tools that are usually available.

- **Regulation updates** – we are currently expecting that new Regulations will proceed to allow for the review of contributions in-between valuations. Funds will therefore need to consider any policy or FSS updates that are required which then set out the times at which this regulation would be enforced.

- **Impact on life expectancy and other actuarial assumptions**– we recently provided our paper "Looking to the longer term: the impact of COVID-19 on longevity" which discussed the potential implications that the pandemic may have in the shorter and longer term. Recent ONS analysis has confirmed that in the short term, we are seeing higher than average deaths, which will reduce liabilities (all other things equal). However, this will need to be undertaken in a holistic way, taking into account all potential drivers of future changes in medium and long-term longevity. As greater clarity emerges on the impact of COVID-19, we would expect Funds to make some allowance for this in their longevity assumptions. In our view, the impact on contributions of changing longevity assumptions will also need to be considered well before the next valuation in 2022, to aid budget planning in conjunction with the potential long-term impact on asset returns and inflation. In addition, investment strategies may need to be modified due to longevity given the effect on funding levels and projected pension payments.

- **How can we help – we can provide assistance with:**

  - Employer covenant reviews and questionnaires – We can review covenants where required or provide you with the right questions to ask employers that will provide you with the information you need to identify relevant employers and develop the next steps.
  - PFaroe (our online monitoring tool) – which monitors employer funding levels on a daily basis and flag employers that fall below a set threshold.
  - Assist with the updating of Fund policies – For example with regard to suspending contributions, updates to termination policies, covenant review policies or a policy on exit credits (e.g. the process that you require the relevant parties to adhere to when making representation and/or disputing/appealing a decision on exit credits).
  - Our COVID checklist is also a useful wide-ranging document, which steps through a number of areas covering the wider governance and operational aspects for funds to help ensure member benefits continue to be paid whilst managing risk.

COVID-19 – IMPACT ON INVESTMENTS

Volatility across financial markets and asset classes continues and, whilst this has fallen significantly from the exceptional levels hit in March and April 2020, it remains elevated. Some investment markets, in particular equities, have recouped a significant proportion of the losses incurred from the lows of late March. However, the outlook remains highly uncertain for financial markets and the wider "real" economy, both in the UK and globally. However the economic recovery unfolds, markets will follow a different path.

While LGPS Funds are long term investors, the sheer magnitude of the COVID-19 impact cannot be ignored and simply seen as a short term, temporary issue. There have already been some attractive and potentially rewarding investment opportunities - for example in sub-investment grade credit markets - arise in the interim period since COVID-19 became a global focus in the first quarter of 2020.

What could COVID-19 mean in the longer term?

It could result in some pre COVID-19 trends accelerating, including:

- Increased geopolitical conflict between US and China.
- From globalisation to "regionalisation" (i.e. disrupted supply chains, intra-regional trade dominates).
- Increasing government and central bank intervention in economies and markets.
- Shareholder to stakeholder capitalism.

How to progress from here

Going forward our advice remains "plan, don't panic". In this regard we recommend Funds assess their own specific circumstances against the following "checklist":

- Stress test portfolios against the various scenarios: A combination of traditional modelling techniques will be required given the unprecedented conditions.
- Actively monitor liquidity: Allow for potential collateral calls on risk management frameworks (e.g. Liability Driven Investment mandates), currency hedges or drawdowns on private markets commitments.
- Create some "dry powder": Some managers or investment strategies may have failed to deliver to their objectives, Liability Driven Investment portfolios may have excess collateral or leverage within these portfolios could be increased to generate cash.
- Identify potential opportunities and develop an implementation plan: Top-up existing mandates or assess new asset classes and strategies.

SCHEME ADVISORY BOARD SURVEYS

The Scheme Advisory Board have conducted a number of surveys during the COVID crisis (with a response rate of c80%), including:

- The outcomes of the 'Survey of LGPS resilience' showed that there is a high level of confidence in the ability to continue to pay more than 1.5 million LGPS pensioners, only a minority of employers are in current difficulties and there are some concerns around accessing required information for new benefits.

- The 'Survey of LGPS Cashflow' showed a small minority who are anticipating issues due to loss of dividend income or delayed employer contributions.
- A 'Survey of LGPS governance during COVID-19' has now been released for completion.

More details can be found at http://lgpsboard.org/index.php/structure-reform/covid19

NEW FORMAT FOR COMMITTEE MEETINGS

The 1972 Local Government Act required elected councillors to be "physically present" at meetings (with an exception in Wales where councillors could attend via video conference in certain circumstances). However, the Coronavirus Act 2020 (which gained Royal Assent on 25 March 2020) allows "persons to attend, speak at, vote in, or otherwise participate in, local authority meetings without all of the persons, or without any of the persons, being together in the same place" for any meetings held before 7 May 2021. This will ease the obvious governance challenges for funds to maintain their business as usual activity.

EXTENSION OF ACCOUNTING DEADLINES

With effect from 30 April 2020, The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 extend the publication date for local authority audited accounts from 31 July 2020 to 30 November 2020. This relaxation in deadlines serves to ease pressure on funds and employers when finalising their accounts.

THE PENSIONS REGULATOR – COMMUNICATING WITH MEMBERS

The Pensions Regulator has issued a statement on communicating with members during COVID-19 to ensure that members do not make hasty decisions that they may regret. The statement can be found in the link below:

https://www.thepensionsregulator.gov.uk/en/covid-19-coronavirus-what-you-need-to-consider/communicating-to-members-during-covid-19

The guiding principles are that pension funds should ensure that:

- Members are able to contact them with any queries via the usual channels. They should also clearly communicate any delays to members and the steps being taken to restore normal services.
- Members do not make transfers out of the scheme without the help required to make an informed decision e.g. encouraging members to take regulated independent financial advice to understand their options, providing appropriate warnings of the risks and implications of their chosen option etc.
- There is also additional guidance for DB to DC transfers including a template letter that should be sent to all members that request a CETV quote. It was prepared jointly by TPR, the FCA, and the Pensions Advisory Service to confirm the points that members should consider before making a decision.

Other Current Issues

MCCLOUD UPDATE

Despite the difficult stresses that funds are currently under, all evidence so far indicates that the McCloud remedy will contribute to progress.

On 25 March 2020, the Minister of State, Lord Agnew made a statement regarding the progress in responding to the McCloud ruling. The statement confirmed that no qualifying scheme member will need to make a claim for the McCloud remedy to apply to them. However, we suspect that this was aimed at the other schemes such as the Teachers', Police and Fire who had a choice of two schemes. Whereas the LGPS only has one CARE scheme with a final salary underpin for protected members and so no claim would be required.

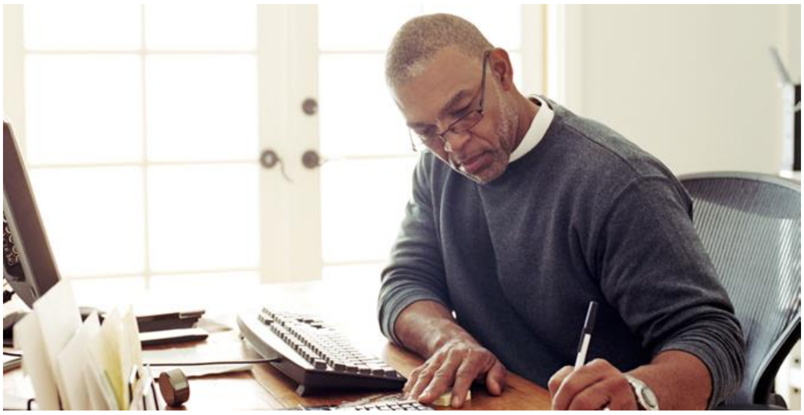
A McCloud Q&A was released for Administering Authorities on 30 March, that:

- Outlined the potential timescales, outcomes and the impact on the cost cap process. As part of this, the next steps included deciding which members will be protected, the extent of the protection, the effect on other benefits (e.g. transfers, spouses etc.) and ensuring that the remedy is robust and comprehensive for the LGPS.
- Confirmed the setup of two working groups to assist with the development of the remedy; a policy group (which will assist MHCLG) and a larger implementation group (which will include member representatives, actuaries and software providers) to consider the steps of implementing the remedy.

It is clear that the main challenge for funds, once the remedy is confirmed, will be the level of input required by the administrators. The potential burden on Administrators will be material, as they will be required to gather member data, update their records, complete calculations, uplift pensions in payments and contact affected members to inform them of any changes.

RPI REFORM CONSULTATION

A consultation has been launched by the UK Statistics Authority and HM Treasury, on proposals to use the CPIH method to calculate RPI from a date between 2025 and 2030. Benefits in the LGPS are not linked to RPI so the change does not directly impact on member benefits. However, the change will impact on the value of index-linked bonds held by funds, and how inflation assumptions are determined relative to market implied RPI.



The main focus of the consultation is not whether the change should happen, but the timing of the change between 2025 and 2030. This is largely due to the Chancellor's limited role in changes to the measurement of RPI (which sits with the UK Statistics Authority). However the consultation does ask questions on the potential impact of the change on index-linked gilt holders, and it seeks evidence on the unintended and diverse impact the change in RPI could have. We would urge funds to respond to the consultation, which now has an extended deadline of 21 August 2020.

UTMOST LIFE AND PENSIONS

From 1 July 2020, legacy Equitable Life investments now with Utmost within the Secure Cash Fund must (at least) start to move into other Utmost funds. This can be immediately, or in stages over a 1, 3 or 6 month transition period. The Secure Cash Fund will close on 31 December 2020. Subsequently, the available fund options with Utmost do not provide any guarantees.

Funds will need to confirm each member's investment choice to Utmost by mid-June 2020 and, if not done so already, we recommend that members are contacted to inform them that they need to make an investment decision. In the absence of any direct member decision, Funds will need to select a default investment choice for members.

Since the outbreak of the COVID-19 pandemic, we have modified our advice regarding the default strategies for members offered by Utmost and Funds we have been advising have been contacted about this. We will of course continue to monitor the position and will review these investments again when our judgement is markets have stabilised.

GAD DATA REPORTS

The Government Actuary's Department has issued data reports to English and Welsh funds following the provision of member data in autumn 2019. Despite the additional resource that many Funds have diverted to data quality in recent years, the results of GADs reports for a large number of funds were, when taken at face value, disappointing. They highlighted that there was still a lot of work to do before the next set of data is due in autumn 2020, which will be required to perform the Cost Cap valuation.

We have held a number of detailed discussions with GAD in order to understand their approach to producing the data reports. The dialogue was extremely useful and highlighted the **high-level nature** of the report and its limitations. In many cases, the "raw results" of the reports presented an incomplete appraisal of the true position of the underlying data.

Whilst data cannot take precedence over the member-critical day-to-day operations, it is important that the GAD receive as clean data as possible, as the conclusions from their analysis will likely have far-reaching implications for members. **We would be delighted to discuss this further with Funds that have any concerns relating to this work or GADs findings.** We can also provide our own independent data quality analysis to compare with GADs report and to identify the most impactful areas of focus for data cleansing during 2020.

CHANGES TO THE TAPERED ANNUAL ALLOWANCE FROM 6 APRIL 2020

In the Budget on 11 March, it was announced the tapered annual allowance will be amended such that it only applies to individuals with 'adjusted income' (broadly total taxable income from all sources plus the value of pension accrual) of over £240,000 (compared to the 2019/20 tax year where it applied to individuals with adjusted income over £150,000). The minimum level to which the annual allowance can taper down will reduce from £10,000 to £4,000, which will only impact people with an adjusted income in excess of £300,000. This means that the tapered annual allowance is expected to affect far fewer people than previously.

In addition, as set out in the current legislation, the Lifetime Allowance (LTA) increased to £1,073,100 from 6 April 2020 (in line with the increase in CPI to September 2019 of 1.7%).

SECTION 13 SUBMISSIONS

The Section 13 process has nearly been completed for all Mercer-advised funds. We are pleased to report that this work has progressed smoothly despite the obvious challenges presented by the lockdown in recent weeks.

EXIT CREDITS: PARTIAL RESPONSE TO CONSULTATION AND REGULATION CHANGES

A partial Government response on Changes to the Local Valuation Cycle and the Management of Employer Risk covering Exit Credits has been published. The enabling Regulation changes (The Local Government Pension Scheme (Amendment) Regulations 2020) were laid on 27 February 2020 and came into force on 20 March 2020. The response to the remaining parts of the consultation e.g. moving to a 4-year valuation cycle are promised "in due course" and no timescale is given.

This change was intended to clarify the position on Exit Credits payable to employers exiting from a Fund where there are risk-sharing arrangements between the employer and the original contracting authority and is backdated to apply from 14 May 2018 when Exit Credits were first introduced into the LGPS. Whilst the Regulations undoubtedly provide the regulatory support to Funds when they determine their policies on payment of Exit Credits, whether they provide absolute clarity to Administering Authorities is perhaps debatable in terms of how the process is governed.

It is therefore paramount that Funds ensure their policy on payment of Exit Credits where there is a risk sharing arrangement is in place and the process they require the relevant parties to adhere to when making representation and/or disputing/appealing a decision. Your lead consultant can assist you with reviewing and drafting any employer policies.

SUPREME COURT DECISION ON LGPS

Under his statutory power, the Secretary of State for Housing, Communities and Local Government (MHCLG) issued Guidance on Preparing and Maintaining an Investment Strategy Statement (ISS) ("the guidance"). Under the LGPS (Management and Investment of Funds) Regulations 2016 ("the regulations"), LGPS administering authorities in England and Wales are required to follow that guidance when formulating their ISS. The guidance included two passages that provoked a legal challenge led by the Palestine Solidarity Campaign Ltd.

On 29 April 2020, the Supreme Court handed down its judgment, ruling against the Secretary of State. The court decided that by including these two passages in the guidance the Secretary of State had exceeded his statutory powers. In his judgment, Lord Wilson concluded that the Government's statutory "power to direct how administrators should approach the making of investment decisions by reference to non-financial considerations does not include power to direct... what investments they should not make".

The Government is expected to respond to the ruling in the coming weeks. This ruling will likely be disappointing to the Government, albeit one which it will have to accept. We believe that there will be a number of potential implications for LGPS Funds, and set out some comments below:

- **Increase in correspondence from campaign groups –** There is a possibility that these groups will see this ruling as giving LGPS Funds a green light to pursue a range of divestment strategies, and will want to ensure that their particular area is included. In our view, Funds need to prepare themselves for this increase in interest, and ensure that they have the necessary governance and processes in place to manage it.
- In particular, **administering authorities should remain aware of the lawful requirements of the guidance,** including those regarding ESG. The guidance directs that Funds may take purely non-financial considerations into account (in addition to financial considerations), provided that doing so would not involve significant risk of financial detriment to the scheme and where they have good reason to think that scheme members would support their decision.
- **Consider reviewing ISS and Responsible Investment policies** – whilst we do not believe that the existing guidance would have stopped any LGPS Funds from setting out their views as a Responsible Investor, any updated guidance from MHCLG will need to be reviewed in due course.
- **Role of central government in "guiding" LGPS investment strategy** – Lord Wilson held that Fund assets are not public monies, and the Supreme Court has now made it clear that responsibility for investment decisions rests with the administering authorities. This clarification is likely to be welcomed.
- **The Government's response** – it will be interesting to see whether the MHCLG responds to this ruling, beyond deleting the unlawful passages from its guidance, given that this judgment cannot be appealed. Other matters concerning the Government at present may drive the timing of any response. We note that the version of the guidance currently published on gov.uk no longer includes the two passages that were ruled unlawful.

The SAB issued its own statement on 11 May stating "The SAB welcomes the clarity brought by the judgment" and "It is the Board's view that Responsible Investment policy decisions belong at the local level reflecting: the need to pay pensions both now and in the future; local democratic accountability and the views of scheme members; and that outcomes of policy developments should not be subject to restrictions based on unrelated matters". The SAB have commenced work on a draft summary of the judgment, which will be published in due course.

STRUCTURE REVIEW OF THE SCOTTISH LGPS

A consultation covering views on changes to the LGPS in Scotland was published by the Scottish Public Pensions Agency (SSPA) in January and closed on 9 March. The two key areas covered by the consultation were:

1. Moving to a four-year valuation cycle
2. Seeking to assess the impact of changes introduced in 2018 to the provisions in Regulation 61, which provide Administering Authorities with the option of suspending an employer's liability to pay an exit payment when managing the process of an employer exiting the scheme.

Dates to remember

DATE	ISSUE	THE LATEST
31 March 2020	2019 Actuarial Valuation	The effective date of the Scottish LGPS actuarial valuations.
6 April 2020	Change in the lifetime Allowance (LTA)	The LTA for 2020/21 is increased from £1,055,000 to £1,073,000 in line with CPI increases.
6 April 2020	Change in tapered Annual Allowance (TAA)	The TAA is to increase so it only applies to individuals with “adjusted income” of over £240,000. The minimum TAA changes from £10,000 to £4,000.
Q2 2020 (expected)	Call for evidence on pension tax administration for low earners	In the March 2020 Budget the government announced it would launch a call for evidence concerning the different outcomes for lower earners depending on whether their pension schemes use the relief at source or net pay method of tax relief.

Meet the team

Name: Iain Campbell
Role: Investment Consultant
Joined Mercer: Originally in July 2011, then again in April 2019 through the merger
Place of Birth: Doncaster
Have you been binge watching any TV shows: It's Always Sunny in Philadelphia
What have you been doing to keep yourself entertained during lockdown: I moved house in February so it has been endless DIY, decorating and flat-pack furniture building
What are you most looking forward to doing when lockdown is over: Going to watch Everton (though after five minutes I'll likely wish I was in lockdown again)

Name: Jonathan Perera
Role: Actuarial and Benefits Consultant
Joined Mercer: 2001
Place of Birth: Hull
Have you been binge watching any TV shows: Trying to juggle work and home schooling doesn't leave a lot of time for binge watching! As a family we've watched a lot of Modern Family recently. We have also watched The Sinner and White Lines on Netflix (without the kids for the avoidance of doubt!)
What have you been doing to keep yourself entertained during lockdown: Alongside zoom quizzes / bingo, we've also attempted various challenges in the garden e.g. "top-bins", beep test, catching etc. If it hadn't been for the weather we've had, I would have gone mad by now I think!
What are you most looking forward to doing when lockdown is over: Being able to catch-up properly with family and friends (not virtually) and taking the holiday we've had to cancel. Hopefully sooner than later!

Name: Nikki Gemmell
Role: Actuarial Consultant
Joined Mercer: June 2007
Place of Birth: Bellshill, Scotland (you wouldn't know that from my accent!)
Have you been binge watching any TV shows: I haven't binge watched anything in particular but we've been having movie nights so watching a lot of films!
What have you been doing to keep yourself entertained during lockdown: Trying to increase exercise (walking and cycling) to make up for all the food I am eating while working in the kitchen!
What are you most looking forward to doing when lockdown is over: Seeing family and friends and just being able to go to a coffee shop (and holidays one day of course!)

CONTACTS

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

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

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

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

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

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

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

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

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

Karen Scott
karen.scott@mercer.com
07584 187645

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

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

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Agenda Item B3

ISLINGTON

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	30 June 2020		n/a

Delete as appropriate	Exempt	Non-exempt

SUBJECT: DECARBONISATION POLICY MONITORING – PROGRESS UPDATE

1. Synopsis

1.1 This report discusses progress to date on the agreed monitoring plan on our decarbonisation policy and for Members to review the plan.

2. Recommendation

2.1 To note the progress to date

2.2 To review the monitoring plan on our decarbonisation policy

3. Background

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

3.2 **Progress to date**

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

The agreed targets are as follows:

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

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

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

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

Measures agreed to monitor and guide decarbonisation and allocation to sustainability include:
1) The Fund adopting TCFD supplemental guidance for asset owners where applicable.

2) The Fund reviewing targets annually.

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

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

3.2.2 **Investing at least 15% per cent of the Fund in sustainability-themed investment**
In December 2018, as part of the Fund's 10% asset allocation to infrastructure, a renewable infrastructure manager –Quinbrook, was appointed as one of the Fund's infrastructure manager with a 4% commitment.
In August 2019, a global equity mandate with Allianz on the LCIV platform was transferred to a sustainable- themed manager RBC also on the LCIV platform. This is allocation is around 9% of the Fund.

3.2.3 **Measuring carbon footprint of equities portfolio annually**
The carbon footprint measure comprises of two elements; future emissions that is reserve based, and exposure to carbon intensive companies. The results as at 31 March 2019 was not finalised because of differences in measurement methodology of a new service provider making comparison and as such accurate reduction percentages less meaningful. As asset valuations for 31March 2020 are now available a new procurement to measure the carbon footprint is being designed so it can be reported at the next meeting.

3.2.4 **Climate scenario analysis in December 2019**
Members explored how the total investment portfolio, individual asset classes and industry sectors for global equities are impacted by three climate scenarios (global heating scenarios of 2ºC, 3ºC and 4ºC applied over different time horizons (10 years, 2050, 2100). A stress

approach outlined the potential climate-related price impact. Recommendations noted included:

(i) *Investment beliefs*: continue to review investment beliefs and strategic narrative to take account new climate change opportunities.

(ii) *Investment policy:* review Islington's fund policies at least annually and refine belief on climate change if required, report of the Fund's progress to meet adopted metric and targets and continue to communicate Islington's climate leadership.

(iii) *Investment process*: continue to integrate climate change considerations into investment decision making and manager selection.

3.3 Members are asked to note progress to date and review the monitoring plan for a detailed report to be prepared for the next meeting if required.

4. Implications

4.1 Financial implications

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

4.2 Legal Implications

The LGPS (Management and Investment of Funds) Regulation 2016, Regulation7 (1) requires an administering authority to formulate an investment strategy which must be in accordance with the guidance issued by the Secretary of State. The ISS must include:
The authority's policy on how social environmental or corporate governance considerations are taken into account in the selection, non- selection, retention and realisation of investments

The Sub-Committee holds a key fiduciary responsibility to manage the Fund's investments in the best interests of the beneficiary members and the council taxpayers, where the primary focus must be on generating an optimum risk adjusted return. It is vital that any investment decisions or strategies developed, such as a carbon strategy, must not negatively influence this primary responsibility.

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

4.3 Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:

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 t fund in green opportunities. The link to the full document is

https://www.islington.gov.uk/~/media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonborougho
ngtonpensionfundinvestmentstrategystatement.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

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

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5. Conclusion and reasons for recommendation

5.1 Members are asked to note the progress to date and review the monitoring plan.

Background papers:
None

Final report clearance:

Signed by:

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

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

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ISLINGTON

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	30 June 2020		n/a

Delete as appropriate		Non-exempt

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:

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

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

APPENDIX A

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

Date of meeting	Reports
	Please note: there will be a standing item to each meeting on: • Performance report- quarterly performance and managers' update • CIV update report
30 June 2020	Final position report on equity protection Update on Investment Strategy Annual Fund performance presentation
15 September 2020	4 year Business plan review Update on Investment strategy Carbon monitoring Update
8th December 2020	
24th March 2021	

Past training for Members before committee meetings -

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

ISLINGTON

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: Corporate Director of Resources

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	30 June 2020		n/a

Delete as appropriate	Exempt	~~Non-exempt~~

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

SUBJECT: INVESTMENT STRATEGY REVIEW UPDATE – MULTI ASSET CREDIT ALLOCATION

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.

1.2 Mercer, our investment advisors has prepared a report attached as Exempt Appendix 1 discussing next steps to implement the proposed strategic asset allocation to Multi Asset Credit to achieve the agreed target returns within risk paramenters.

2. Recommendations

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

2.2 To agree next steps to implement an asset allocation to Multi Asset Credit

2.3 To agree to receive an update report at the next meeting in September

3. Background

Introduction

3.1 The 2019 actuarial valuation is now completed and as part of the process preparatory work was undertaken to determine the funding position and investment strategy review that could 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 report prepared by Mercer at the March 2020 agenda re-evaluated the above position in the current market outlook and performed some analysis to determine if the desired contribution could be supported through the existing strategy and investment returns. The risk and return target options were also discussed and a new target investment return of CPI + 2.7 or 2.8% was proposed with asset allocation changes that would support the short to medium term net negative cashflow position of the Fund and also achieve our decarbonisation and governance goals.

3.1.4 The Chair was consulted on the target and agreed it as part of the process to finalise the 2019 Actuarial Valuation that had to be signed off by 31 March 2020.

3.1.5 Mercer have prepared a further update on next steps to implement some of the proposed changes to the strategic asset allocation as part of the agreed investment strategy. The report discusses the implementation of Multi Asset Credit asset allocation.

3.1.6 Members are asked to receive the presentation from Mercer and agree the next steps and a further update report on progress at the next meeting in September.

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 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 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

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5. Conclusion and reasons for recommendation

5.1 Members asked consider the Mercer presentation –Exempt Appendix 1 and agree the next steps and a further update report on progress at the next meeting in September.

Background papers:
None

Final report clearance:

Signed by:

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

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

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ISLINGTON

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: Corporate Director of Resources

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	30th March 2020		

Delete as appropriate	Exempt	Non-exempt

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

SUBJECT: The London CIV Update

1. Synopsis

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

2. Recommendations

2.1 To note the progress and activities in the news briefing Collective Voice-May attached as Appendix 1 (private and confidential).

2.2 To note that LCIV have now closed their LGPS pension provision to new entrants.

3. Background

3.1 **Setting up of the London CIV Fund**

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

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

3.3 **Launching of the CIV**

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

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

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

3.5 **Update to May 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 .

London CIV Remuneration Policy Review

3.5.2 In the March agenda, Members were recommended to agree to sign a guarantee by 31 March that covers City of London, the administrating Fund for LCIV, 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 was going to remain open to new employees until all 31 Boroughs sign.

3.5.2.1 In consultation with the Chair and Legal officer, the Interim Section 151 officer signed the Islington guarantee and we can now report that all 31 boroughs have signed their guarantee and the LCIV admission agreement has now been signed off and is closed to new entrants effective from 1 June 2020. A new DC scheme is in place for any new LCIV employees.

3.5.3 **Responsible investment**

The LCIV has engaged Dawn Turner to lead on gauging with shareholders what to provide for its clients. 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 after which a follow up with attendees agreed a summary report to LCIV. Another meeting was held in April to discuss benchmarking and carbon footprinting experiences. The LCIV were to consider her findings and move this forward once the new ESG director took post in June.

3.5.4 **Fund Launches and Pipeline**

The LCIV Inflation Plus Fund with Aviva as the underlying manager, and with seed investment from two client funds, has now been launched. In terms of other fund developments, there is on going progress with the development of a renewables mandate, 13 client funds have been participating and providing useful feedback to help shape the mandate. Additionally initial Seeding Invest meeting is being planned for the London Fund (this is in partnership with LPFA and LPP) to establish whether there is sufficient demand for this mandate before progressing into the development stage

3.5.6 **People**

Cameron McMullen has joined as Client Relations Director. Jacqueline Jackson will joins as Head of Responsible Investment on 16th June and Jason Fletcher joins as CIO on 1st July. Kevin Corrigan will continue as the interim CIO and provide some handover to Jason, so there will be no gap in the critical role.

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.
In April 2020 annual service charge of 25k (+ VAT) and 8.6k for LGIM recharge.

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.
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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/20192020/20190910londonboroughc ngtonpensionfundinvestmentstrategystatement.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.

Background papers:
Final report clearance:

Signed by:

Corporate Director of Resources Date

Received by:

Head of Democratic Services Date

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

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