

London Borough of Islington

Pensions Sub Committee - 15 September 2020

Non-confidential minutes of the meeting of the Pensions Sub Committee held virtually, via Zoom, on 15 September 2020 at 7.00 pm.

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

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

Councillor Paul Convery in the Chair

129 APOLOGIES FOR ABSENCE (Item A1)

None.

130 DECLARATION OF SUBSTITUTES (Item A2)

None.

131 DECLARATION OF INTERESTS (Item A3)

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

132 MINUTES OF THE PREVIOUS MEETING (Item A4)

RESOLVED:

That the minutes of the meeting held on 30 June 2020 be confirmed as an accurate record of proceedings and the Chair be authorised to sign them.

133 PENSION FUND PERFORMANCE FROM APRIL TO JUNE 2020 (Item B1)

Members discussed the uncertainty of retail property markets going forward, given the insecurity of some rental income and pressure on town centre retail outlets.

Given the effects of Covid on frontier markets, particularly in India and Egypt, members of the Sub-Committee suggested that it would be helpful for discussions to be held with managers as to their holdings in order to ascertain any vulnerabilities.

The Head of the Pension Fund highlighted to the Sub-Committee that, as part of the re-instatement of currency hedge of global equities, it should be noted that because the assets being hedged were held by a third party, the Council would need to provide around 3% of the NAV assets as collateral.

RESOLVED:

(a) That the performance of the Fund from 1 April to 30 June 2020 as per BNY Mellon interactive performance report and detailed in the report of the Corporate Director of Resources, be noted.

(b) That the presentation by MJ Hudsons Allenbridge, on fund managers' quarterly performance, attached as Appendix 1 to the report, be noted.

(c) That the In-House Tracker Fund Manager be thanked for his many years of valuable service to the Council and his very successful management of the Fund over many years.

134

CARBON MONITORING AND ESG RATING (Item B2)

Members noted the good progress made to date on achieving targets on the agreed monitoring plan on the decarbonisation policy and the ESG ratings of portfolios and the carbon footprint of equity holdings. They also noted the carbon intensive stocks in the LGIM emerging RAFI portfolio and agreed that it would be preferable to move away from this fund. Recognising that it would be challenging, Members were nonetheless keen to see the Pension Fund aligning with the Council's resolution to achieve net zero carbon by 2030.

It was noted that officers would continue to engage with managers on their ESG ratings, communicating Islington's expectations on ESG and climate integration and a strategic approach to climate risk.

RESOLVED:

(a) That the ESG ratings of individual portfolios and average rating of 2.1 (previous rating 2.3) for the whole Fund, be noted.

(b) That the carbon footprint of the Fund's public equities, as detailed in the report of the Corporate Director of Resources, be noted.

(c) That it be noted that the Fund had reduced by more than 25% since 2016 exposure to carbon intensive companies and absolute emissions by more than 34%.

(d) That engagement with portfolio managers continue in order to improve ESG ratings and achieve the targets set in 2022 for the whole Fund.

(e) That officers report to the next meeting on how the Fund might be reconfigured to achieve net zero carbon by 2030.

(f) That officers report to the next meeting on options for exiting the RAFI fund, whilst remaining in very low carbon investments in emerging markets.

(g) That officers report to the next meeting on options for alternative investments for the In-House Tracker.

135 FORWARD PLAN OF BUSINESS (Item B3)

RESOLVED:

That the Appendix to the report of the Corporate Director of Resources, detailing agenda items for forthcoming meetings, together with the additional reports detailed below for the Sub-Committee scheduled for 8 December 2020 (see resolution 134 above), be approved:

- (i) That officers report to the next meeting on how the Fund might be reconfigured to achieve net zero carbon by 2030.
- (ii) That officers report to the next meeting on options for exiting the RAFI fund, whilst remaining in very low carbon investments in emerging markets.
- (iii) That officers report to the next meeting on options for alternative investments for the In-House Tracker.

136 INVESTMENT STRATEGY UPDATE COVID STRESS TESTING (Item B4)

The Head of the Pension Fund and Treasury Management noted that the shortlisting of managers for the multi-asset credit mandate would be taking place in the forthcoming week and invited attendance of members of the Sub-Committee. It was anticipated that the appointment of the successful manager would take place in December 2020 and that an additional meeting of the Sub-Committee would be arranged for this purpose.

Having considered the options of portfolio 1 and portfolio 2 in the exempt appendix produced by Mercer, members decided to opt for portfolio 2 and that they would consider final options at the next meeting of the Sub-Committee.

RESOLVED:

- (a) That the presentation from Mercer attached as Exempt Appendix 1 to the report of the Corporate Director of Resources be noted.
- (b) That the COVID 19 recovery options over the period to early 2022 and its likely impact on proposed strategic asset allocation of options 1 and 2 in the exempt appendix be noted.
- (c) That option 2 be adopted and the Investment Strategy Statement with the new investment benchmark be updated in due course.
- (d) That the next steps to implement the agreed strategic asset allocation be considered by the Sub-Committee in December 2020.

137 5 YEAR BUSINESS PLAN REVIEW (Item B5)

Having reviewed the key objectives of their five year plan, as detailed on page 56 of the agenda pack, members decided the following amendments to the objectives be made:

Addition to bullet point 1: "plus an expectation of strong business ethics from fund managers also"

Addition to bullet point 3: " and a focus on strong business ethics and reputation to ensure the safeguarding of the Fund and its members"

RESOLVED:

(a) That progress made to date on some of the action plans in the agreed five year business plan, detailed in Appendix A of the report of the Corporate Director of Resources, be noted.

(b) That, subject to the following amendments to the objectives, the business plan be agreed for the next four years:

Addition to bullet point 1: "plus an expectation of strong business ethics from fund managers also"

Addition to bullet point 3: " and a focus on strong business ethics and reputation to ensure the safeguarding of the Fund and its members"

138 LONDON CIV UPDATE (Item B6)

RESOLVED:

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

(b) That the fee income funding model review and future consultations, detailed in the exempt appendix, be noted.

139 COUNCILLOR SUE LUKES

Councillor Convery noted that Councillor Sue Lukes had been appointed as the Executive Member for Community Safety and would step down from the Pensions Sub-Committee. On behalf of the Sub-Committee, he thanked Councillor Lukes for her valuable contributions to the Sub-Committee's debates and wished her success in her new role. It was anticipated that Councillor Dave Poyser would be appointed as her successor at the forthcoming Audit Committee.

140 EXCLUSION OF PRESS AND PUBLIC

RESOLVED:

That the press and public be excluded during consideration of the following items as the presence of members of the public and press would result in the disclosure of exempt information within the terms of Schedule 12A of the Local Government Act 1972, for the reasons indicated:

<u>Agenda item E1</u>	<u>Title</u>	<u>Reasons for exemption</u>
	Carbon monitoring and ESG rating - exempt appendices	Category 3 – Information relating to the financial or business affairs of any particular person (including the authority holding that information)

Item E2 - Investment strategy update COVID stress testing - exempt appendix - ditto -

Item E3 London CIV update – exempt appendix - ditto -

141 **CARBON MONITORING AND ESG RATING - EXEMPT APPENDICES (Item F1)**

Noted.

142 **INVESTMENT STRATEGY UPDATE COVID STRESS TESTING - EXEMPT APPENDIX (Item F2)**

Noted.

143 **LONDON CIV UPDATE - EXEMPT APPENDIX (Item F3)**

Noted.

The meeting ended at 9.10 pm

CHAIR