



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 **15 September 2020 at 7.00 pm.**

Link to the meeting: <https://weareislington.zoom.us/j/98613624244>.

Enquiries to : Mary Green
Tel : (0207 527 3005
E-mail : democracy@islington.gov.uk
Despatched : 7 September 2020

Membership

Councillor Paul Convery (Chair)
Councillor Satnam Gill OBE
Councillor Sue Lukes
Councillor Michael O'Sullivan

Substitute Members

Councillor Dave Poyser
Councillor Mouna Hamitouche MBE
Councillor Roulin Khondoker

Quorum is 2 members of the Sub-Committee



A. Formal Matters

1. Apologies for absence
2. Declaration of substitutes
3. Declaration of interests

If you have a Disclosable Pecuniary Interest* in an item of business:

- if it is not yet on the council's register, you must declare both the existence and details of it at the start of the meeting or when it becomes apparent;
- you may choose to declare a Disclosable Pecuniary Interest that is already in the register in the interests of openness and transparency.

In both the above cases, you must leave the room without participating in discussion of the item.

If you have a personal interest in an item of business and you intend to speak or vote on the item you must declare both the existence and details of it at the start of the meeting or when it becomes apparent but you may participate in the discussion and vote on the item.

***(a)** Employment, etc - Any employment, office, trade, profession or vocation carried on for profit or gain.

(b) Sponsorship - Any payment or other financial benefit in respect of your expenses in carrying out duties as a member, or of your election; including from a trade union.

(c) Contracts - Any current contract for goods, services or works, between you or your partner (or a body in which one of you has a beneficial interest) and the council.

(d) Land - Any beneficial interest in land which is within the council's area.

(e) Licences- Any licence to occupy land in the council's area for a month or longer.

(f) Corporate tenancies - Any tenancy between the council and a body in which you or your partner have a beneficial interest.

(g) Securities - Any beneficial interest in securities of a body which has a place of business or land in the council's area, if the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body or of any one class of its issued share capital.

This applies to **all** members present at the meeting.

4. Minutes of the previous meeting 1 - 6

B. Non-exempt items

1. Pension Fund performance from April to June 2020 7 - 40
2. Carbon monitoring and ESG rating 41 - 46
3. Forward Plan of business 47 - 50

4.	Investment strategy update COVID stress testing	51 - 54
5.	5 year Business Plan review	55 - 62
6.	London CIV update	63 - 68

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.	Carbon monitoring and ESG rating - exempt appendices	69 - 116
2.	Investment strategy update COVID stress testing - exempt appendix	117 - 140
3.	London CIV update - exempt appendix	141 - 146

F. Urgent exempt items

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

The next meeting of the Pensions Sub Committee is scheduled for 8 December 2020

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London Borough of Islington

Pensions Sub Committee - 30 June 2020

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

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

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

Councillor Paul Convery in the Chair

116 APOLOGIES FOR ABSENCE (Item A1)

None.

117 DECLARATION OF SUBSTITUTES (Item A2)

None.

118 DECLARATION OF INTERESTS (Item A3)

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

119 MINUTES OF THE PREVIOUS MEETING (Item A4)

RESOLVED:

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

Matters arising

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

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

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

120

ANNUAL FUND PERFORMANCE PRESENTATION BY PIRC (Item B1)

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

The following points were noted:

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

The Sub-Committee thanked Neil Sellstrom for his presentation.

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

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

RESOLVED:

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

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

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

RESOLVED:

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

123 FORWARD PLAN OF BUSINESS (Item B4)

RESOLVED:

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

124 INVESTMENT STRATEGY REVIEW UPDATE (Item B5)

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

RESOLVED:

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

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

125 LONDON CIV UPDATE (Item B6)

RESOLVED:

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

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

126 EQUITY PROTECTION STRATEGY SETTLEMENT POSITION (Item C1)

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

RESOLVED:

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

EXCLUSION OF PRESS AND PUBLIC

RESOLVED:

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

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

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

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

RESOLVED:

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

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

RESOLVED:

That the contents of the exempt appendix be noted.

The meeting ended at 9.30 pm

CHAIR

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Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	15 September 2020		

Delete as appropriate	Exempt	Non-exempt

Subject: PENSION FUND PERFORMANCE 1 APRIL TO 30 JUNE 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 April to 30 June 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.
3.	Fund Managers Performance for 1 April to June 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 (Apr-June'20) Gross of fees		12 Months to June' 2020-Performance Gross of fees	
				Portfolio	Benchmark	Portfolio	Bench Mark
LBI-In House	12.4%	UK equities	N	10.13%	10.17%	-12.3%	-12.9%
London Sustainable EQ- RBC	9.1%	Global equities	N	22.9%	19.8%	n/a	n/a
LCIV -Newton	16.5%	Global equities	2	18.5%	19.8%	8.2%	5.7%
Legal & General	11.7%	Global equities	1	18.7%	18.8%	3.0%	3.4%
Standard Life	10.9%	Corporate bonds	2	7.2	6.95%	7.5%	6.4%
Aviva (1)	8.2%	UK property	3	0.68%	2.8% -2.26%	5.14%	12.9% -2.7%
Columbia Threadneedle Investments (TPEN)	5.3%	UK commercial property	2	-2.0%	-1.97%	-2.56%	6.4%
Hearthstone	2.1%	UK residential property	4	-0.27%	-2.26%	0.83%	-2.8%
Schroders	7.7%	Diversified Growth Fund	4	10.1%	1.29%	1.4%	6.1%
BMO Investments-LGM	4.6%	Emerging/ Frontier equities	2	16.7%	18.6%	-21.4%	-13.1%

2.8% & 12.9% = original Gilts benchmark; -2.26% and -2.8% are the IPD All property index; for information

3.2 BNY Mellon our new performance monitoring service provider now provides our quarterly interactive performance report. Performance attributions can be generated via their portal if required.

3.3 The combined fund performance and benchmark for the last quarter ending June 2020 is shown in the table below.

Combined Fund Performance hedge	Latest Quarter Performance Gross of fees		12 Months to June 2020 Performance Gross of fees	
	Portfolio %	Benchmark %	Portfolio %	Benchmark %
		9.5	9.4	4.2

3.4	Copies of the latest quarter fund manager’s reports are available to members for information if required.												
3.5	<p>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.</p> <table border="1" data-bbox="204 465 1485 663"> <thead> <tr> <th data-bbox="204 465 703 539">Period</th> <th data-bbox="703 465 935 539">1 year per annum</th> <th data-bbox="935 465 1209 539">3 years per annum</th> <th data-bbox="1209 465 1485 539">5 years per annum</th> </tr> </thead> <tbody> <tr> <td data-bbox="204 539 703 618">Combined LBI fund performance hedged</td> <td data-bbox="703 539 935 618">4.2%</td> <td data-bbox="935 539 1209 618">5.7%</td> <td data-bbox="1209 539 1485 618">7.1%</td> </tr> <tr> <td data-bbox="204 618 703 663">Customised benchmark</td> <td data-bbox="703 618 935 663">3.7%</td> <td data-bbox="935 618 1209 663">5.3%</td> <td data-bbox="1209 618 1485 663">6.9%</td> </tr> </tbody> </table>	Period	1 year per annum	3 years per annum	5 years per annum	Combined LBI fund performance hedged	4.2%	5.7%	7.1%	Customised benchmark	3.7%	5.3%	6.9%
Period	1 year per annum	3 years per annum	5 years per annum										
Combined LBI fund performance hedged	4.2%	5.7%	7.1%										
Customised benchmark	3.7%	5.3%	6.9%										
3.6	<p>LCIV RBC Sustainability Fund</p> <p>3.6.1 RBC is the fund’s global sustainable equity manager on the LCIV platform and was originally appointed in November 2018 to replace our Allianz mandate also on the LCIV platform.</p> <p>3.6.2 LCIV RBC Sustainability was fully funded on 5 August 2019. Mandate guidelines include the following;</p> <ul style="list-style-type: none"> • 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% <p>3.6.3 The fund outperformed its quarterly benchmark to June by 3.19%. 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 and financial sectors.</p>												
3.7	<p>Newton Investment Management</p> <p>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.</p> <p>3.7.2 The inception date for the LCIV NW Global Equity Fund was 22 May 2017. The new benchmark is the MSCI All Country World Index Total return. The outperformance target is MSCI All Country Index +1.5% per annum net of fees over rolling three- year periods.</p> <p>3.7.3 The fund returned 18.5% against a benchmark of 19.7% for the June quarter. Since inception the fund has delivered an absolute return of 11.9% but relative under performance of 0.07% net of fees per annum</p>												

3.7.4	The performance this quarter was attributed to defensive stocks and sector positions in information technology and underweight in financials as well as geographical exposure to Emerging markets and Japan.
3.8	In House Tracker
3.8.1	Since 1992, the UK equities portfolio of the fund has been managed in-house by officers in the Loans and Investment section by passive tracking of the FTSE 350 Index. The mandate was amended as part of the investment strategy review to now track the FTSE All Share Index within a +/- 0.5% range per annum effective from 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.
3.8.2	The fund returned 10.13% against FTSE All Share Index benchmark of 10.17% for the June quarter and a relative over performance of 0.30% since inception in 1992. Our internal fund manager has decided to retire at the end of September after 43 years of service and 28 years of managing the fund.
3.9	Standard Life
3.9.1	Standard Life has been the fund's corporate bond manager since November 2009. Their objective is to outperform the Merrill Lynch UK Non Gilt All Stock Index by 0.8% per annum over a 3 -year rolling period. During the June quarter, the fund returned 7.2% against a benchmark of 7.0 % and an absolute return of 6.9% per annum since inception.
3.9.2	The drivers behind the out performance were due to verweight exposure to the banking sector and utilities both made positive contributions. Banks recouped some of the underperformance from the first quarter, while utilities benefited from a strong demand for higher-rated noncyclical longer dated bonds. The biggest contributor, however, was the Fund's underweight to supranationals.
3.9.3	The agreed infrastructure mandates are being funded from this portfolio and to date 5% has been drawn down.
3.10	Aviva
3.10.1	Aviva manages the fund's UK High Lease to Value property portfolio. They were appointed in 2004 and the target of the mandate is to outperform their customised gilts benchmark by 1.5% (net of fees) over the long term. The portfolio is High Lease to Value Property managed under the Lime Property Unit Trust Fund.
3.10.2	The fund for this quarter delivered a return of 0.68% against a gilt benchmark of 2.83%. The All Property IPD benchmark returned -2.26% for this quarter. Since inception, the fund has delivered an absolute return of 6.7% net of fees.
3.10.3	This June quarter the fund's unexpired average lease term is now 20.2 years. The Fund holds 85 assets with 53 tenants. During the quarter there was a sale of supermarket with a 9.5year unexpired lease and a purchase of a distribution facility with a 26year unexpired lease. The fund has £310m of investible capital.

3.10.4	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 June was £81 million.
3.11.2	<p>The agreed mandate guidelines are as listed below:</p> <ul style="list-style-type: none"> • Benchmark: AREF/IPD All Balanced Property Fund Index (Weighted Average) since 1 April 2014. • Target Performance: 1.0% p.a. above the benchmark (net of fees) over three year rolling periods. • Portfolio focus is on income generation with c. 75% of portfolio returns expected to come from income over the long term. • Income yield on the portfolio at investment of c.8.5% p.a. • Focus of portfolio is biased towards secondary property markets with high footfall rather than on prime markets such as Central London. The portfolio may therefore lag in speculative/bubble markets or when the property market is driven by capital growth in prime markets.
3.11.3	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 -2.01% against its benchmark -2.01% for the June 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 11% compared to 10% 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 1656 tenancies and a vacancy rate of 9.3% . Rent collection 67% the end of June 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 UK commercial real estate market is forecast to experience significant turbulence until the economy returns to some form of normality following the debilitating effects of a prolonged lockdown' period. In times of such material uncertainty, defensively positioned Property Funds with high relative income yields and significant levels of portfolio diversification are considered

	<p>to be best positioned to deliver relative out-performance. Here are some of TPEN features that cushions its prospects:</p> <ul style="list-style-type: none"> • Maximum diversification at both portfolio (273 properties, 1,344 tenancies) and at client levels (65 Pension Fund clients) • Highly liquid average lot size of c.£6.4 million • Strategic portfolio positioning, with a focus on the strongest underlying subsectors (c.42%* of direct property exposure to the buoyant industrial market, with a 'last mile' focus) • Significant unrealised potential to add value through pro-active asset management across the portfolio • Defensive Fund positioning with ZERO property-level debt, no exposure to property company shares and no speculative property development • Proven track record of delivering relative out-performance in periods of significant macroeconomic volatility. 												
<p>3.12</p> <p>3.12.1</p> <p>3.12.2</p>	<p>Passive Hedge</p> <p>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.</p> <p>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.</p>												
<p>3.13</p> <p>3.13.1</p>	<p>Franklin Templeton</p> <p>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:</p> <ul style="list-style-type: none"> • 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. 												
<p>3.13.2</p>	<p>Fund I is now fully committed and drawn down, though \$7.1m can be recalled in the future as per business plans. The final portfolio is comprised of nine funds and five co-investments. The funds is well diversified as shown in table below:</p> <table border="1" data-bbox="204 1776 1161 1937"> <thead> <tr> <th>Commitments</th> <th>Region</th> <th>% of Total Fund</th> </tr> </thead> <tbody> <tr> <td>5</td> <td>Americas</td> <td>36</td> </tr> <tr> <td>4</td> <td>Europe</td> <td>26</td> </tr> <tr> <td>5</td> <td>Asia</td> <td>38</td> </tr> </tbody> </table> <p>The total distribution received to the end of the June quarter is \$60.1m.</p>	Commitments	Region	% of Total Fund	5	Americas	36	4	Europe	26	5	Asia	38
Commitments	Region	% of Total Fund											
5	Americas	36											
4	Europe	26											
5	Asia	38											

3.13.3	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	<p>Fund II is fully invested and the completed portfolio of 10 holdings consist of a diverse mix of property sectors including office, retail and industrial uses and the invested geographic exposure is 6% Asia, US 26% and 68% Europe. The Admission period to accept new commitments from investors had been extended with our consent through to June 2017. The total capital call to the quarter end was \$36m and a distribution of \$33.9m. There was one calls and distribution during the quarter.</p> <p>Members should note that with both Fund I & II fully drawn down, if members are to maintain our asset allocation there is an opportunity to commit to Fund III.</p>
3.14.	<p>Legal and General</p> <p>3.14.1 This is the fund's passive overseas equity index manager. The fund inception date was 8 June 2011 with an initial investment of £67million funded from transfer of assets from AllianzGI (RCM). The funds were managed passively against regional indices to formulate a total FTSE All World Index series.</p> <p>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.</p>
3.14.2	<p>The components of the new mandate as at the end of June inception was £138m and benchmarked against MSCI World Low Carbon Index and £34m benchmarked against RAFI emerging markets. For the quarter, the fund totalled £178m with a performance of 18.7%.</p> <p>The equity protection strategy was settled at 12 June with a total cash value of £74.6m now invested in a money market fund.</p>
3.15	<p>Hearthstone</p> <p>3.15.1 This is the fund's residential UK property manager. The fund inception date was 23 April 2013, with an initial investment of £20million funded by withdrawals from our equities portfolios. The agreed mandate guidelines are as follows:</p> <ul style="list-style-type: none"> • 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 Academics House Price Index

3.15.2	<p>For the June quarter the value of the fund investment was £28.9m and total funds under management is £61.2m. 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%.</p> <p>Officers continue to monitor the fund on a quarterly basis with discussions with management. On 1 July as agreed, we have switched from our current accumulation share class to an income share class that will enable annual cash dividend distribution at around 800k.</p>
3.15.3	<p>As with most property funds, Covid-19 uncertainty led to the suspension of the fund but has now been lifted. Income from residential rents has been more sustainable than many other sources of income, 97% of rent demanded was collected in July. They are working closely with their tenants to help them through this period and they in turn have been amazing in engaging with them.</p>
<p>A 3.16 3.16.1</p>	<p>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:</p> <ul style="list-style-type: none"> • 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 (%): <ul style="list-style-type: none"> • 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.
<p>3.16.2 3.16.3</p>	<p>The value of the portfolio is now £117m. The aim is to participate in equity market rallies, while outperforming in falling equity markets. The June quarter performance before fees was -10.1% against the benchmark of 1.29% (inflation+5%). The one -year performance is 1.43% against benchmark of 6.1% before fees.</p> <p>Equity positions, credit and government debt, and alternatives were the largest contributors to performance. The focus is on defence and quality before taking advantage of any opportunities that arise from the Covid-19 crisis.</p>
3.17	<p>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:</p> <ul style="list-style-type: none"> • A blended portfolio with 85% invested in emerging market and 15% in frontier markets

	<ul style="list-style-type: none"> • 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	<p>The June quarter saw a combined performance of 16.7% against a benchmark of 18.6% before fees. Position in China and Russia, and off index investment in Eastern European airline added most value to performance. Positions in Mexico and South Africa were detractors to performance.</p> <p>The strategy remains to continue to research new companies that we suspect might be worthy of your hard earned capital and continue to have a close communication with our existing investments to push them to higher business and governance standards which we believe will ultimately enhance your long term return.</p>
3.17.2	<p>A further meeting was held with the fund manager following management changes .</p>
3.18	<p>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:</p> <ul style="list-style-type: none"> • 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 <p>Risks: Key Man risk</p> <p>Drawdown to June 2020 is \$59.7m</p> <p>Pantheon Access- is the other infrastructure manager also appointed in November 2018. Total allocation was \$100m and merits of allocation included:</p> <ul style="list-style-type: none"> • 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 <p>Risks: No primary fund exposure.</p> <p>Drawdown to June 2020 is \$28.15m and distribution of \$2.05m</p>
4.	Implications
4.1	<p>Financial implications: The fund actuary takes investment performance into account when assessing the employer contributions payable, at the triennial valuation.</p> <p>Fund management and administration fees and related cost are charged to the pension fund.</p>

4.2	<p>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.</p>
4.3	<p>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".</p> <p>An equalities impact assessment has not been conducted because this report is an update on performance of existing fund managers and there are no equalities issues arising.</p>
4.4	<p>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 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/20192020/20190910londonboroughngtonpensionfundinvestmentstrategystatement.pdf</p>

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.

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

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London Borough of Islington

Report to 30th June 2020

MJ Hudson Allenbridge

AUGUST 2020

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Fund Manager Overview

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

TABLE 1:

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANC E	ASSETS UNDER MANAGEMENT	CHANGE IN STRATEGY/ RISK
LCIV Global Equity Fund (Newton) (active global equities)	Hanneke Smits, CEO of Newton, was promoted to CEO of BNY Mellon Investment Management. Naomi Waistell, a member of the secondary team, has departed.	Underperformed the benchmark by -1.36% in the quarter. Over three years the fund is ahead of the benchmark return by +1.04%, below the performance target of +1.5% p.a.	As at end June the sub-fund's value was £692 million. London Borough of Islington owns 36.3% of the sub-fund.	
LCIV Sustainable Equity Fund (global equities)		In Q2 2020 the fund delivered a return of +22.91%, ahead of the benchmark return of +19.78%.	As at end June the sub-fund's value was £469.6million. London Borough of Islington owns 29.4% of the sub-fund.	
BMO/LGM (emerging and frontier equities)	Frederik Axsater joined as CEO of LGM Investment Management.	Underperformed the benchmark by -1.87% in the quarter to June 2020. The fund is behind over three years by -5.66%.	Not reported.	

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT	CHANGE IN STRATEGY/ RISK
Standard Life (corporate bonds)	13 joiners, 19 leavers, one joiner and three leavers relate to fixed income.	The fund was ahead of the benchmark by +0.28% in the Q2 2020. Over three years the fund is +0.44% 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 £2,628.1 million in Q2 2020, a rise of £170 million. London Borough of Islington's holding stood at 6.3% of the fund's value.	
Aviva (UK property)	None reported at the time of writing.	Underperformed against the gilt benchmark by -2.15% for the quarter to June 2020 and underperformed the benchmark over three years, delivering a return of +5.15% p.a., net of fees.	Fund was valued at £2.71 billion as at end Q2 2020. London Borough of Islington owns 4.6% of the fund.	
Columbia Threadneedle (UK property)	Three joiners and five leavers in Q2 2020, but no changes to the team managing the Islington portfolio.	The fund performed in line with benchmark return in Q2 2020, both returning -2.0% over the quarter. Underperformed the benchmark by -0.1% p.a. over three years, below the target of 1% p.a. outperformance. (source: Columbia Threadneedle)	Pooled fund has assets of £1.99 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. As of the end of June 2020, this remains in place.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANC E	ASSETS UNDER MANAGEMENT	CHANGE IN STRATEGY/RISK
Legal and General (passive equities)	Not reported by LGIM.	Funds are tracking as expected. However, both funds marginally underperformed the index in Q2.	Assets under management of £1.2 trillion at end June 2020. Net flows of +£45 billion in H1 2020.	
Franklin Templeton (global property)	During Q2 2020 there was one leaver and no new joiners.	The portfolio return over three years was +21.27% p.a., well ahead of the target of 10% p.a.	\$622.8 billion of assets under management as at end June 2020.	
Hearthstone (UK residential property)	There were no leavers or joiners in Q2.	The fund outperformed the IPD UK All Property Index by +2.05% in Q2. Trailing the IPD benchmark over three years by -1.53% p.a. to end June 2020.	Fund was valued at £61.2m at end Q2 2020. London Borough of Islington owns 47.4% of the fund.	The 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. The suspension was lifted on 21 st July 2020, just after the quarter end.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANC E	ASSETS UNDER MANAGEMENT	CHANGE IN STRATEGY /RISK
Schroders (multi-asset diversified growth)	During Q2, no changes to investment team.	Fund returned +10.15% during the quarter and +2.49% p.a. over 3 years, -4.95% behind the target return.	Total AUM stood at £525.8 billion as at end June 2020.	Fund volatility at low end of expectations at present. At end June it was 50.6% of equity market volatility compared with an expected maximum of 66%.
Quinbrook (renewable energy infrastructure)	There were three additions to the investment team during Q2 2020: Val Angelkov (Senior Director), Shalini Ramanathan (Director), and Alex Dempsey (Associate).	For the year to Q2 2020 the fund returned -2.35%, behind the annual benchmark 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 +14.35% p.a. over three years.		

Source: MJ Hudson Allenbridge

Minor Concern

Major Concern

Individual Manager Reviews

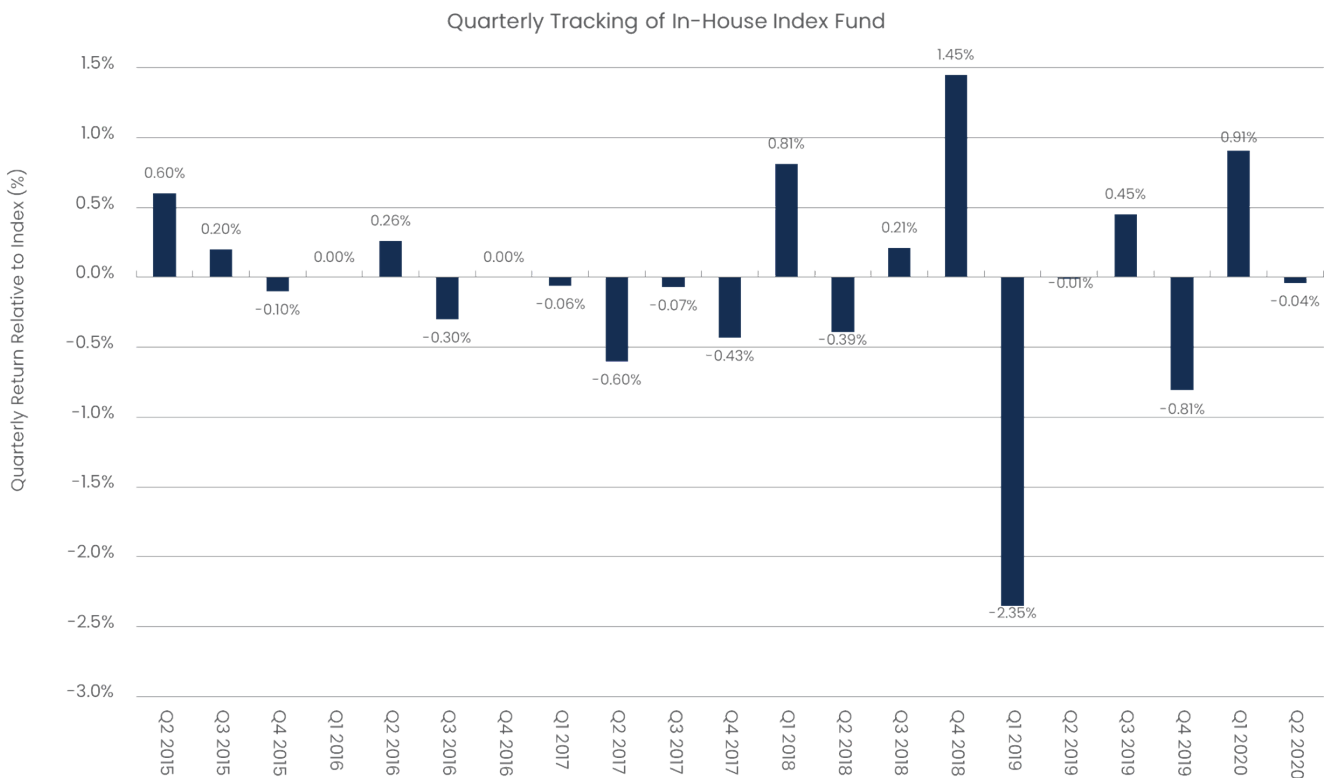
In-house – Passive UK Equities – FTSE UK Low Carbon Optimisation Index

Headline Comments: At the end of Q2 2020 the fund returned +10.13% for the quarter, this was in line with the FTSE All-Share index return of +10.17%. Also, over three years the fund has returned -1.00% p.a., ahead of the FTSE All-Share Index by +0.55%.

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 +0.55% p.a.

CHART 2:



Source: MJH Allenbridge; BNY Mellon

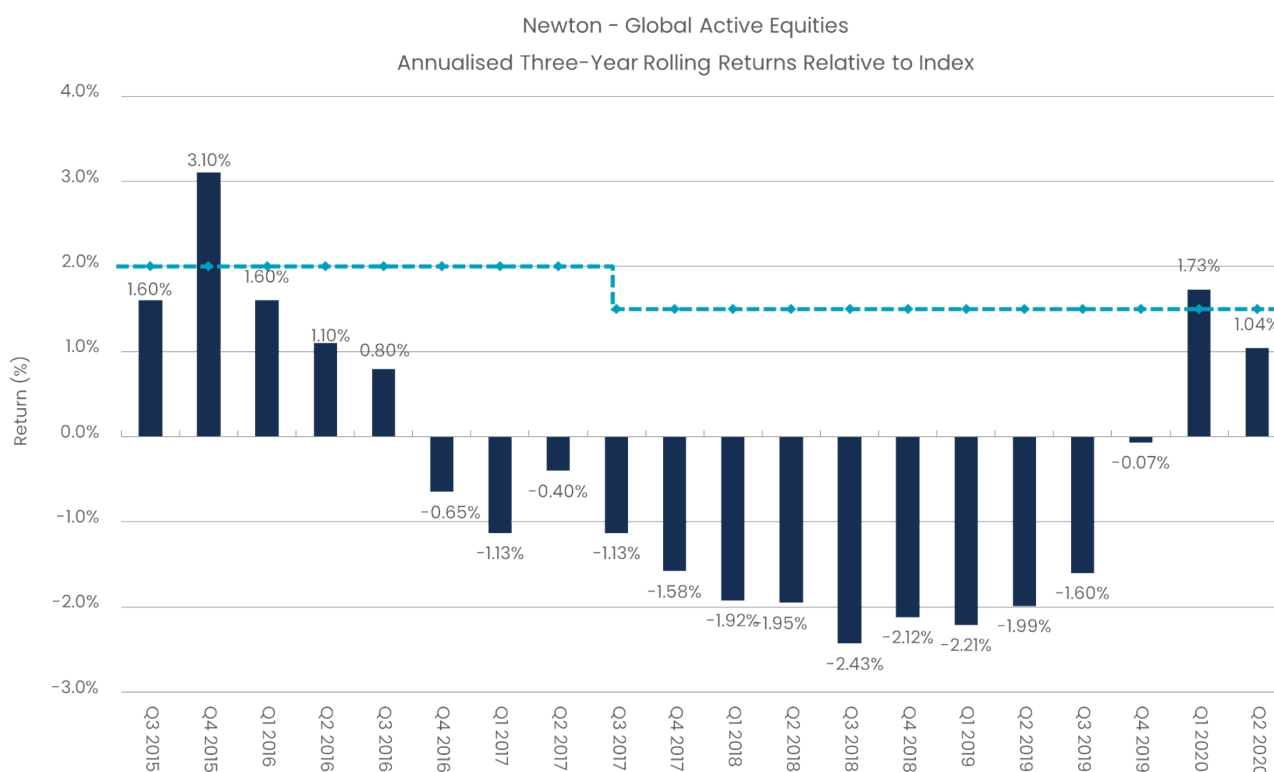
LCIV Global Equity Fund (Newton) – Global Active Equities

Headline Comments: The LCIV Global Equity Fund underperformed its benchmark during Q2 2020 by -1.36%. Over three years the portfolio underperformed the performance target of benchmark +1.5% p.a, only outperforming the benchmark by 1.04%. The manager has only been ahead of the performance target once 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 Q2 2020, the fund is ahead of the benchmark by +1.04% p.a. This means it underperformed the performance objective by -0.46% (the performance

objective is shown by the dotted line and dropped in May 2017 when the assets transferred into the London CIV sub-fund).

London CIV attributed the performance in the quarter to June 2020 to the differing pace of economic reopening after the global outbreak of the Covid-19 pandemic. With Asian economies reopening before Western economies, emerging market and Japanese equities outperformed North American and European equities. Overweight exposure to information technology boosted the fund, and a low exposure to financials also helped. In contrast to Q1, the underweight allocation to the oil and gas sector detracted from the relative returns in Q2, as oil prices rebounded. In addition, the sole oil and gas holding (Royal Dutch Shell) of the fund provided negative returns in both Q1 and Q2.

Positive contributions to the total return came from holdings such as Apple (+1.52% contribution to the total return), Microsoft (+1.47%) and Amazon.com (+1.31%).

Although previously the London CIV has expressed concern over recent lacklustre performance, the fund return is now outperforming the benchmark by +2.51% over one year.

Portfolio Risk: the active risk on the portfolio stood at 3.09% as at quarter end, greater than as at end March when it stood at 2.78%. The portfolio remains defensive, with the beta on the portfolio at end June standing at 0.89, in line with the previous quarter (if the market increases by +10% the portfolio can be expected to rise +8.9%).

At the end of Q2 2020, the London CIV sub-fund's assets under management were £692m, compared with £584m 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 59 as at quarter-end (up from 56 last quarter). The fund added three positions, Alibaba Group Holding, Taiwan Semiconductor, and Continental AG.

Staff Turnover: In Q2 there were several more relevant departures. Hanneke Smits, the CEO of Newton, was promoted to the CEO of BNY Mellon Investment Management, the parent company of Newton. At the time of writing, Newton had not announced a replacement. In addition, Naomi Waistell, a member of the secondary team for the fund, departed. The London CIV is engaging closely with the manager on these changes and is monitoring the situation closely.

LCIV Sustainable Equity Fund

Headline Comments: Over Q2 2020 the fund delivered a return of +22.91%, this was ahead of the benchmark return of +19.78%. Islington's investment makes up 29.41% 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.

Performance Attribution: The portfolio has overweight allocations to the financial and healthcare sectors, both of which contributed to the outperformance during Q2. Exposure to tech stocks such as Amazon and Microsoft also helped.

Portfolio Characteristics: As at end of June 2020 the fund had 37 holdings across 13 countries. The tracking error of the fund was 3.51% meanwhile volatility stood at 16.48%. Over the quarter the largest contributors to return include Amazon.com (+1.58%), Microsoft (+1.58%), and Danaher (+1.47%). There were no detractors.

BMO/LGM – Emerging Market Equities

Headline Comments: The total portfolio delivered a return of +16.73 % in Q2 2020, compared with the benchmark return of +18.60%, an underperformance of -1.87%. The emerging market component of this portfolio returned +17.20% (source: BMO, and in US dollars) compared with the index return of +18.08%. The frontier markets portfolio was also behind the index return of +15.99%, delivering a return of +9.82% (source: BMO, and in US dollars). Over one year, the total fund is behind of the benchmark return by -11.61% (source BNY Mellon, in sterling). Over three years, the fund has returned -1.67%, compared to the index return of +3.99%. The fund has underperformed the index by -5.66%.

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: For the total portfolio, the manager reported that the biggest detractor for the year to date has been their financial investments, which they attributed to the COVID-19 crisis. They also point to the underperformance of their consumer discretionary investments which has again been hit by lockdowns in the region, as a result of COVID-19.

During the quarter, the largest positive contributors to performance for the emerging markets portfolio came from Wizz Air Holdings (+1.5%), Ping An Healthcare and Technology (+1.3%),

and HDFC Bank (+1.3%). Companies which detracted most from performance included Clicks Group (-0.5%), BK Rakyat Indonesia (-0.1%), and Vitasoy International Holdings (-0.1%).

In the frontier market portfolio, the top positive contributors to performance were Aramex PJSC (+1.5%), Phu Nhuan Jewelry (+1.4%), and Abbott Laboratories Pakistan (+1.3%). Companies which detracted the most from performance were Florida Ice & Farm Co (-1.3%), Tanzania Breweries Ltd (-0.8%), and Fan Milk (-0.4%).

Over one year, the frontier market portfolio continues to trail behind the benchmark. The return over 12 months was -26.91% versus the benchmark return of -12.01% (source BMO, in US dollars). The level of underperformance is something to monitor closely over coming months.

Portfolio Risk: Within the emerging markets portfolio, 16.8% was allocated to developed or frontier markets, and cash was at 2.9% as at quarter-end. Turnover for the previous 12 months was 37.6%. The largest overweight country allocation in the emerging markets portfolio remained India (+15.3% overweight). The most underweight country allocation was China/HK (-14.7%).

Within the frontier markets portfolio, it is worth noting that 63.2% 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 June 2020). The most overweight country allocation remained Egypt (+15.3%) and the most underweight was Vietnam (-11.9%).

Portfolio Characteristics: The frontier markets portfolio held 40 stocks as at end June compared with the benchmark which had 89. The emerging markets portfolio held 36 stocks as at end June compared with the benchmark which had 1,385.

Organisation: Frederik Axsater joined BMO Global Asset Management as CEO of LGM Investment Management on 16th July 2020.

Standard Life – Corporate Bond Fund

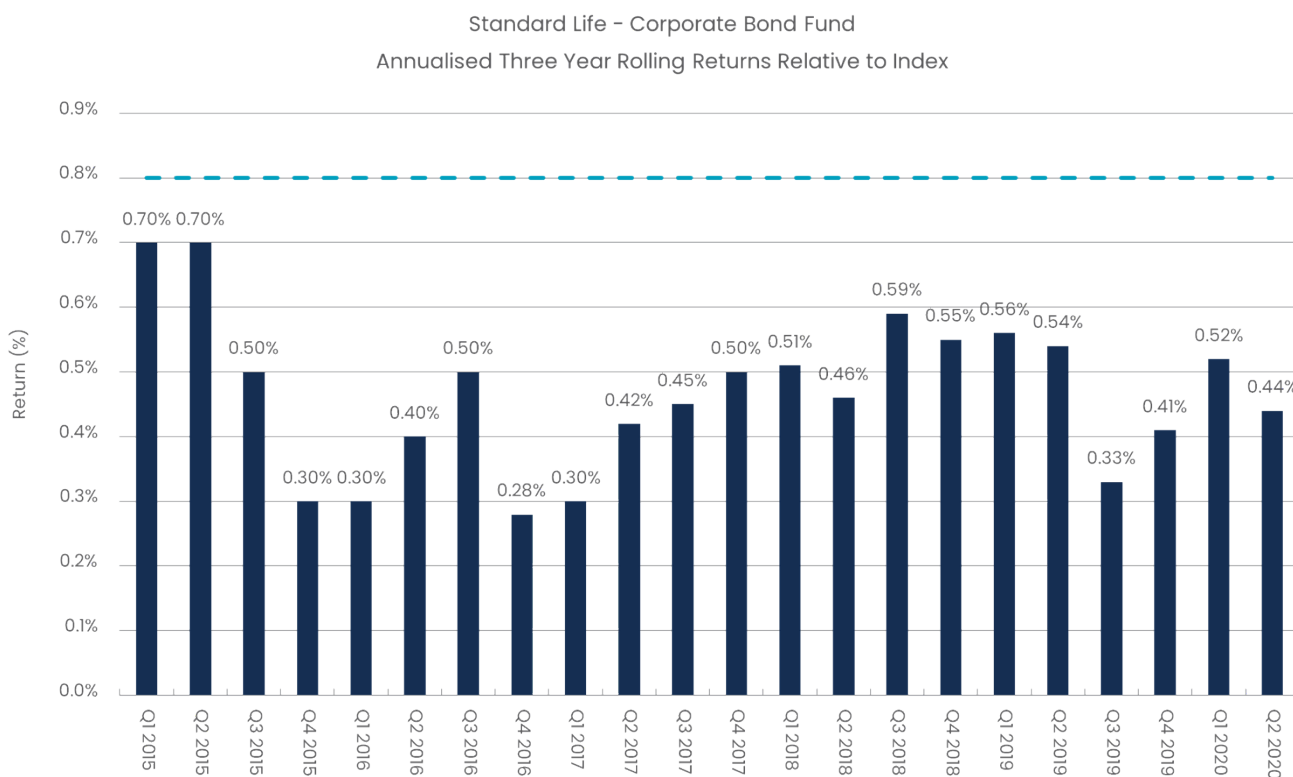
Headline Comments: The portfolio was marginally ahead of the benchmark return during the quarter by +0.28%. Over three years, the fund was ahead of the benchmark return (by +0.44%) but behind the performance target of benchmark +0.8% p.a.

Mandate Summary: The objective of the fund is to outperform the iBoxx Sterling Non-Gilt Index (a UK investment grade bond index) by +0.8% p.a. over rolling three-year periods.

Performance Attribution: Chart 4 shows the three-year performance of the Corporate Bond Fund compared to the Index, over the past five years. This shows the fund continues to be

ahead of the benchmark over three years whilst trailing the performance objective (shown by the dotted line in Chart 4).

CHART 4:



Source: MJH Allenbridge; BNY Mellon

Over three years, the portfolio has returned +4.71% p.a. net of fees, compared to the benchmark return of +4.27% p.a. Over the past three years, stock selection has added +0.29% value, followed by curve plays +0.02%, meanwhile asset allocation has detracted -0.02%.

Portfolio Risk: The largest holding in the portfolio at quarter-end was EIB 5.625% 2032 at 1.6% of the portfolio. The largest overweight sector position remained Financials (+7.2%) and the largest underweight position remained sovereigns and sub-sovereigns (-15.5%). The fund holds 3.3% of the portfolio in non-investment grade (off-benchmark/BB and below) bonds.

Portfolio Characteristics: The value of Standard Life’s total pooled fund at end June 2020 stood at £2,628.1m, £170m higher than at the end of March 2020. London Borough of Islington’s holding of £166.22 stood at 6.3% of the total fund value (compared to 6.3% last quarter).

Staff Turnover: there were 13 joiners, but 19 people left the firm during the quarter. One of the joiners, and three of the leavers related to the fixed income group.

Aviva Investors – Property – Lime Property Fund

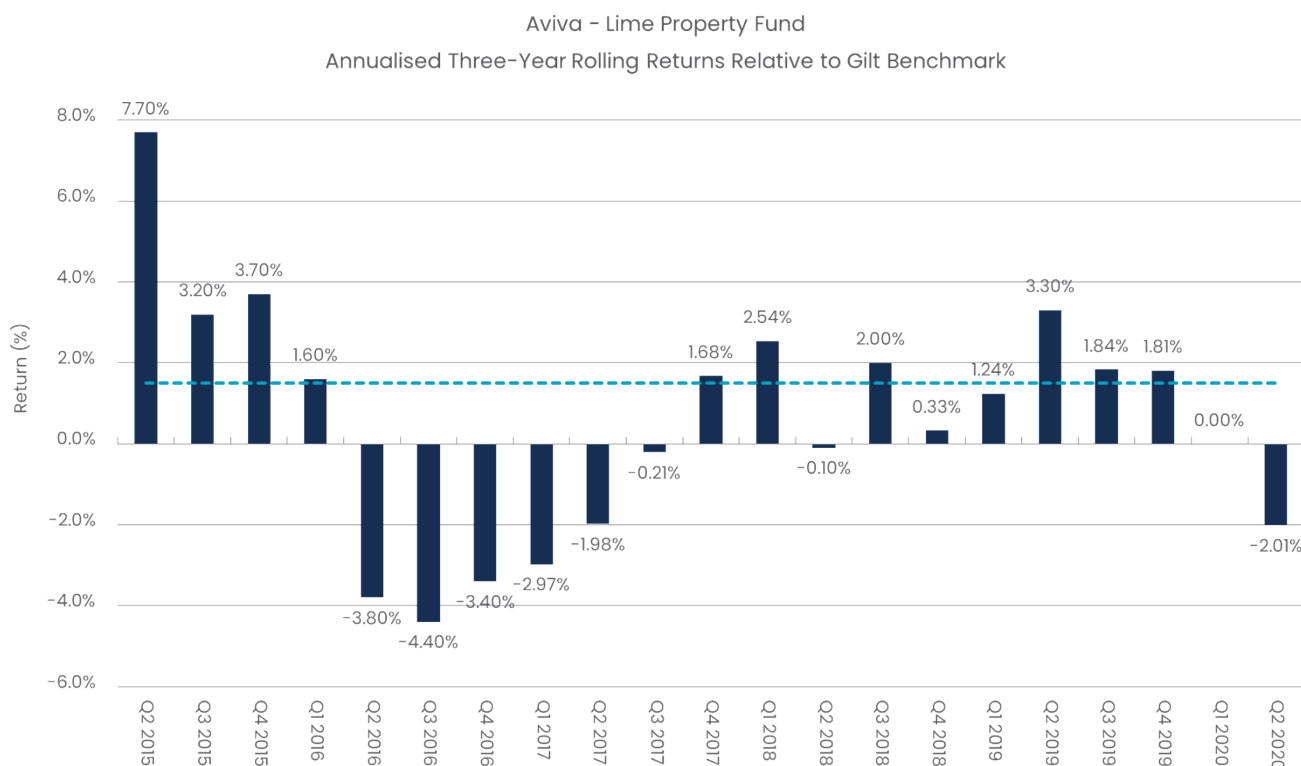
Headline Comments: The Lime Fund delivered another quarter of steady and positive absolute returns, although it failed to beat the fund benchmark return, with a relative underperformance of -2.15% in Q2. Over three years, the fund is behind the benchmark return by -2.01%. The fund suspended trading in March 2020 due to the uncertainty of property valuations. Normal trading resumed just after the end of the quarter.

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

Performance Attribution: The fund's Q2 2020 return was attributed by Aviva to -0.2% capital return and +0.8% income return.

Over three years, the fund has returned +5.15% p.a., below the gilt benchmark of +7.16% p.a., and 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, 58% of the return came from income and 42% from capital gain.

Portfolio Risk: This quarter the fund added a new investment of approximately £110m in a sale and leaseback of three distribution centres in West Yorkshire. They are let for 26 years with annual rent reviews of CPIH+1%, and a net initial yield of 4.5%.

The fund sold a supermarket investment in Prestwich for £40m as part of a strategy to sell investments that do not contribute to the fund's portfolio, in this case the sale improved the tenant credit rating, average weighted unexpired lease term and the future forecast returns on the portfolio.

The fund has £310 million of investible capital and the manager believes the current drawdown period for new capital is 12-15 months.

The average unexpired lease term was 20.9 years as at end June 2020. 11.9% of the portfolio's lease exposure in properties is in 30+ year leases, the largest sector exposure remains offices at 24.4%, and the number of assets in the portfolio stayed constant at 85 in Q2. The weighted average unsecured credit rating of the Lime Fund remained A-.

Portfolio Characteristics: As at June 2020, the Lime Fund was valued at £2.71 billion, a decline of £5.6 million from the previous quarter end. London Borough of Islington's investment represents 4.6% of the total fund. The fund had 78% allocated to inflation-linked rental uplifts as at end June 2020.

Staff Turnover/Organisation: There were no leavers or joiners at the time of writing.

Columbia Threadneedle – Pooled Property Fund

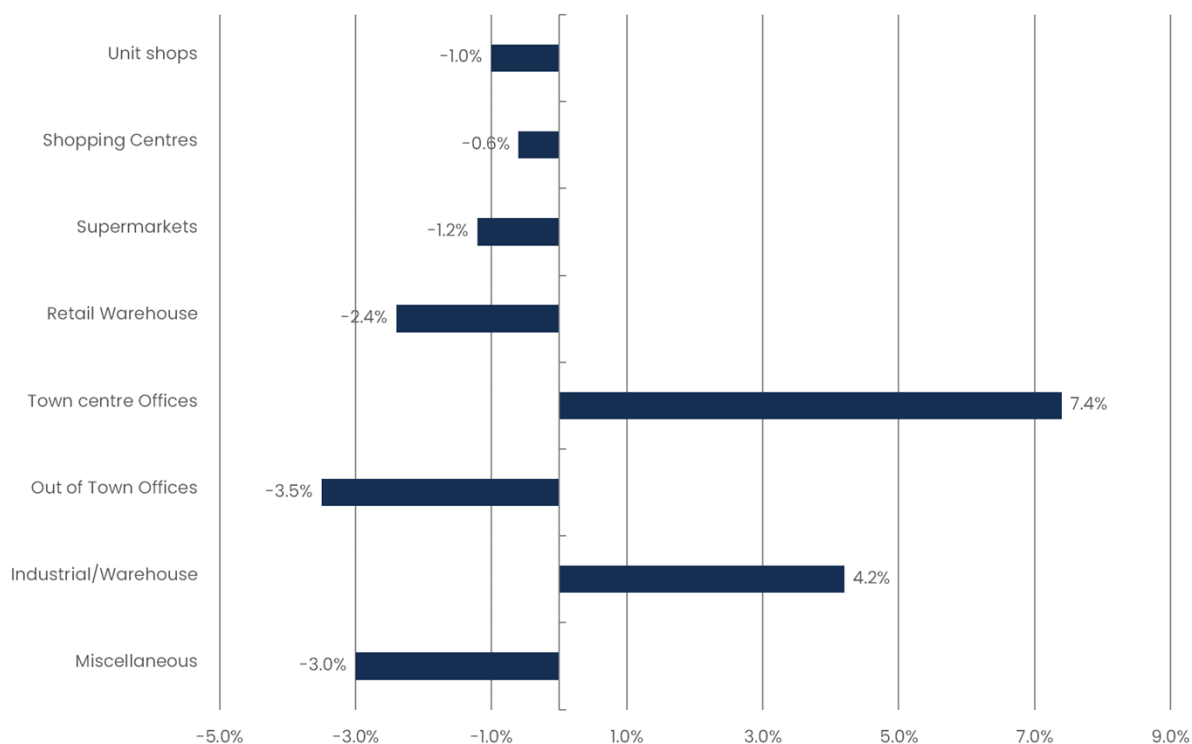
Headline Comments: The fund was in line with the benchmark return in Q2 2020 (source: Columbia Threadneedle). Over three years, the fund has underperformed the benchmark by -0.1% (source: Columbia Threadneedle) and as such is behind the performance target of +1.0% p.a. above benchmark. This fund was suspended on 20th March 2020 due to the difficulty in valuing the assets caused by the market uncertainty surrounding the Covid-19 pandemic. The fund remained suspended as at end June 2020.

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:

Columbia Threadneedle Property Fund Positions Relative to IPD Index at End Jun-2020



Source: MJH Allenbridge; Columbia Threadneedle

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

The fund's void rate has increased from 8.5% as at end March to 9.3% at end June, versus the benchmark's 8.8%. This has been monitored because a higher-than-benchmark void rate could pull the performance down on a relative basis. The cash balance at end June was 11.0%.

Performance Attribution: The portfolio was in line with the benchmark in Q2 2020, both delivering a return of -2.00% (source: Columbia Threadneedle). Over three years, the fund is behind its benchmark by -0.1% p.a., with a return of +3.3% 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 June 2020, the fund was valued at £1.99bn, a decrease of

-£33.0m compared with March 2020. London Borough of Islington’s investment represented 4.08% of the fund.

Staff Turnover: There were five leavers and two joiners across the firm in Q2 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.

TABLE 2:

	Q2 2020 FUND	Q2 2020 INDEX	TRACKING
FTSE-RAFI Emerging Markets	+13.04%	+13.11%	-0.07%
MSCI World Low Carbon Target	+19.89%	+19.94%	-0.05%

Source: LGIM

Portfolio Risk: The tracking errors are all within expected ranges. The allocation of the portfolio, as at quarter end, was 83.47% to the MSCI World Low Carbon Target index fund, and 16.53% allocated to the FTSE RAFI Emerging Markets index fund.

Staff Turnover/Organisation: Not reported by LGIM.

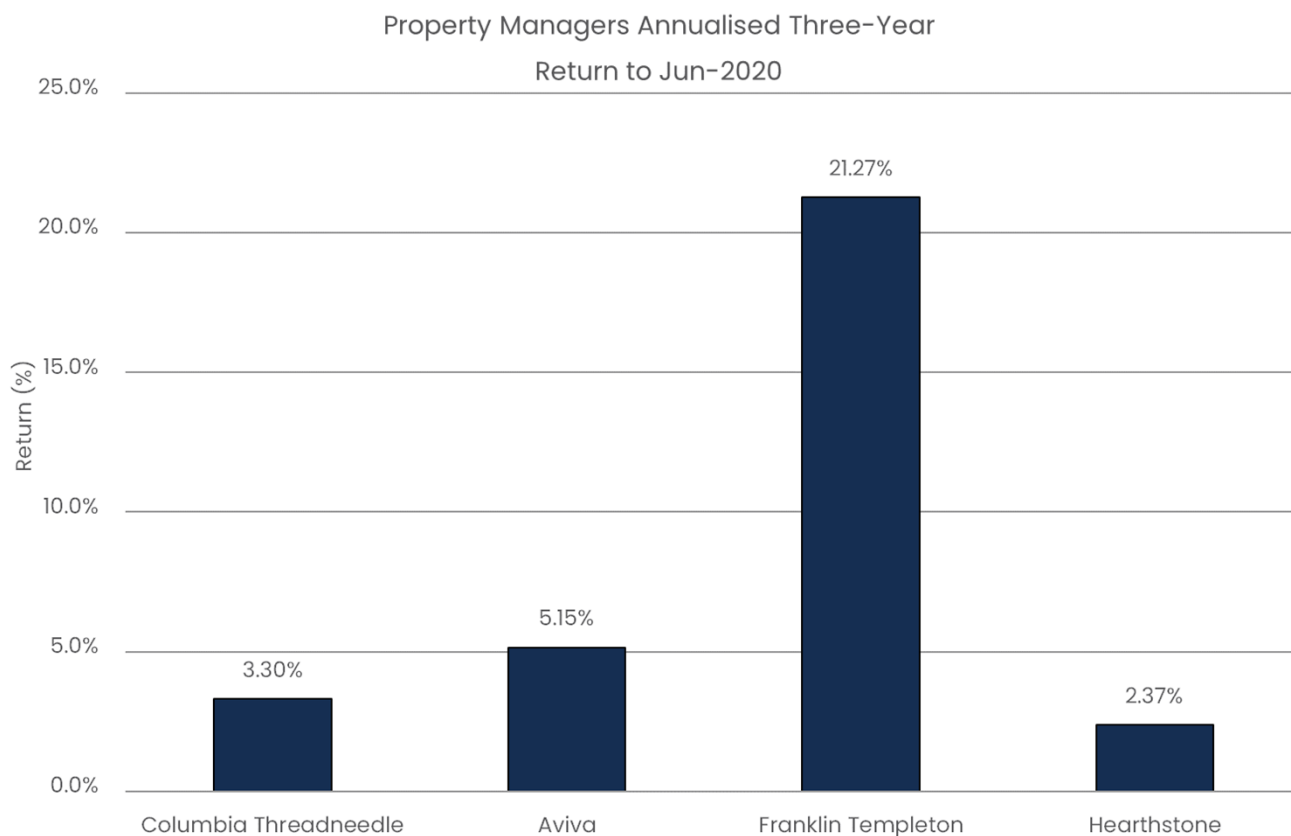
Franklin Templeton – Global Property Fund

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 +11.27%.

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

Performance Attribution: Over the three years to June 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 154.8% of the initial commitment. Only five funds remain in the portfolio, at this stage. Leverage stood at 38% as at end Q2 2020.

The largest remaining allocation in Fund I is to the US (43% of funds invested), followed by Spain (35%), Italy (7%), and Japan (7%). As the fund distributes, the geographic exposure is likely to become increasingly concentrated.

Of all the underlying funds (realised and unrealised), three have performed well ahead of expectations, five were above expectations, four were on target and two were below expectations (Sveafastigheter III, which is expected to complete towards the end of the year, 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, 74.0% of committed capital had been distributed. Leverage stood at 53%.

The largest allocation in Fund II is to Italy (54% of funds invested), followed by the US (37%) 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 Q2 2020 there were no new joiners. Amy Tonnessen, asset manager of direct real estate investment initiatives in Europe, left the firm.

On 31st July, Franklin Templeton completed the acquisition of the investment manager Legg Mason, which had assets under management of \$731bn as of 31st December 2019. This acquisition was first announced in February 2020. The deal will bring added expertise in core fixed income, equities and alternatives to Franklin Templeton, while expanding its multi-asset investment solutions.

Hearthstone – UK Residential Property Fund

Headline Comments: The portfolio outperformed the benchmark for the quarter ending June 2020 but continued to underperform over three years. Like Columbia Threadneedle, this fund suspended for dealing in March, because of the uncertainty in valuations. The suspension was lifted on 21st July 2020, after the end of Q2.

The new Income share classes launched in April. Islington's share class was changed from Accumulation to Income on 1st July 2020.

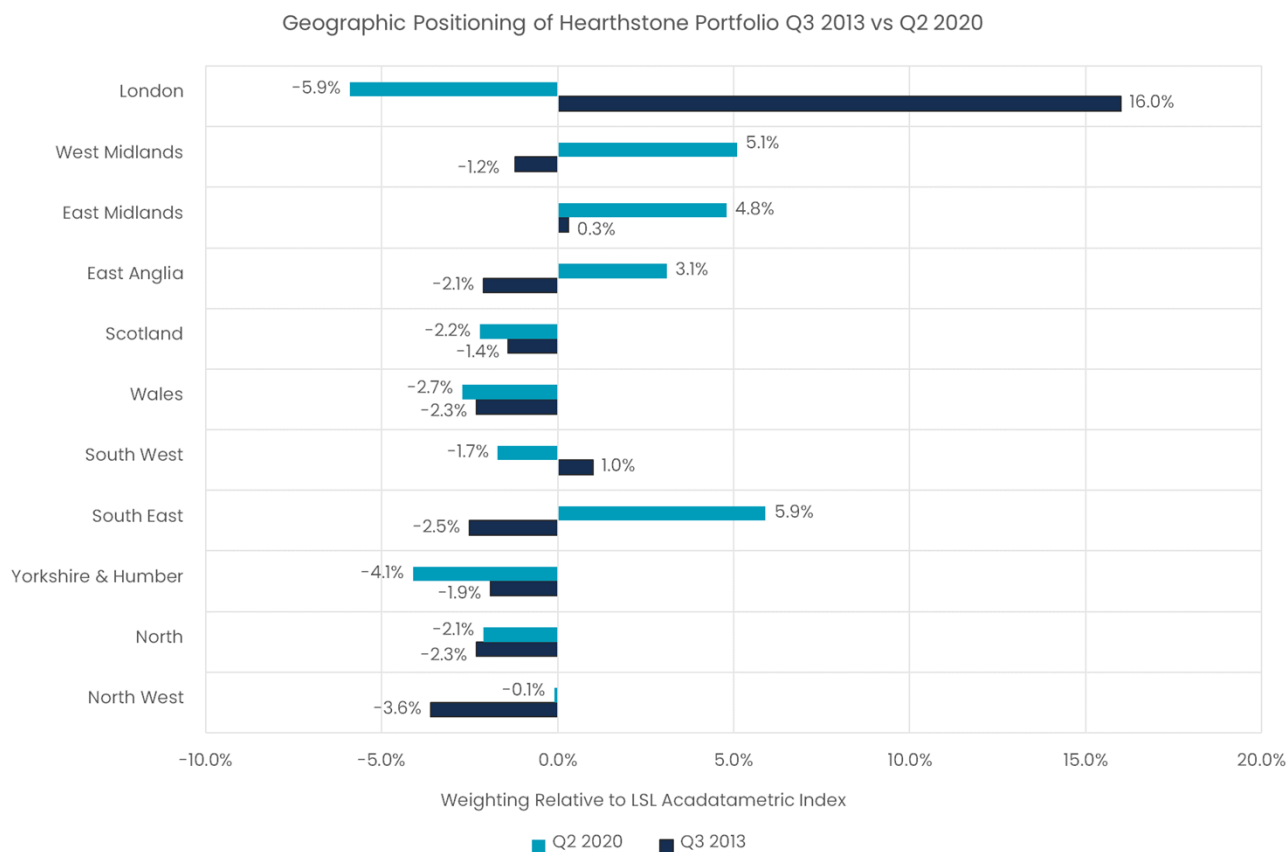
Mandate Summary: The fund invests in private rented sector housing across the UK and aims to outperform the LSL Acadametrics House Price Index (note that this excludes income), as well as providing an additional income return. The benchmark used by BNY Mellon is the IPD UK All Property Monthly Index.

Performance Attribution: The fund underperformed the IPD index over the three years to June 2020 by -1.53% p.a., returning +2.37% p.a. versus the index return of +3.90% p.a. The gross yield on the portfolio as at June 2020 was 4.90%. Adjusting for voids, however, the yield on the portfolio falls to 4.38%.

Portfolio Risk: The cash and liquid instruments on the fund stood at 17.38%.

Chart 8 compares the regional bets in the portfolio in Q2 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 June there were 203 properties in the portfolio and the fund stood at £61.2 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 Q2 there were no leavers or joiners. As of 1st October 2020, Stuart Springham is due to take over day to day management of the fund. This is a planned transition, with Stuart Springham having joined Hearthstone in September 2019.

Schroders – Diversified Growth Fund (DGF)

Headline Comments: The DGF delivered a positive return in Q2 2020, and in relative terms it outperformed against its benchmark. Over three years, the fund is behind the target return of RPI plus 5% p.a. by -4.95%.

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 +10.15% in Q2 2020. This is +8.86% ahead of the RPI plus 5% p.a. target return of +1.29% for Q2 but followed a poor Q1 return. Over three years, the DGF delivered a return of +2.49% p.a. compared with the target return of +7.44% p.a., behind the target by -4.95% 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 Q2 2020, equity positions contributed +6.8% to the total return, alternatives +0.7%, credit and government debt +2.8%, and cash and currency added +0.1% (figures are gross of fees).

The return on global equities was +5.1% p.a. for the three years to June 2020 compared with the portfolio return of +2.49%. 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 7.8% compared to the three-year volatility of 15.4% in global equities (i.e. 51% of the volatility) so is less risky than expected (the manager expects volatility to be approximately two-thirds the volatility of the equity market).

Portfolio Characteristics: The fund had 34% in internally managed funds (up from last quarter's 31% allocation), 37% in internal bespoke solutions (down from 38% last quarter), 3% in externally managed funds (same as last quarter), and 26% in passive funds (up from 11% last quarter) with a residual balance in cash, 1% (down from 17% last quarter), as at end June 2020. In terms of asset class exposure, 40.5% was in equities, 18.5% was in alternatives and 39.9% in credit and government debt, with the balance in cash. It is worth noting that this allocation towards cash is significantly lower than in Q1 2020. At the time, the manager commented that the elevated cash position was a defensive action against the market impact of Covid 19, which allowed them to take advantage of buying opportunities in Q2.

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 30th June 2020 was negative at -2.35%, 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 Q2 2020, on an unaudited basis, the fund had invested \$521.5 million 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 1,175MW (including those with minority stakeholders) as at 30 June 2020.

Organisation: During the quarter there were three new joiners: Val Angelkov (Senior Director), Shalini Ramanathan (Director), and Alex Dempsey (Associate).

Pantheon – Infrastructure and Private Equity Funds

Headline Comments: Over three years the return on the combined private equity and infrastructure funds was +14.35% 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, Pantheon Global Infrastructure Fund III “PGIF III”, was the most recent commitment from Islington in 2018 totalling US\$100m.

Portfolio Characteristics: Over the period Q2 2020, a total of US\$3.0m was drawn down, wholly to PGIF III. Distributions were received across all strategies, totalling US\$2.3m over the period.

Karen Shackleton

Senior Adviser, MJ Hudson Allenbridge

24th August 2020



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Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	15 September 2020		n/a

Delete as appropriate	Exempt	Non-exempt

Appendix 1 and 2 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: DECARBONISATION POLICY MONITORING – ESG RATINGS AND CARBON FOOTPRINTING RESULTS

1. Synopsis

- 1.1 This report discusses progress to date on the agreed monitoring plan on our decarbonisation policy and to note ESG ratings of our portfolios and carbon footprint of our equity holdings.
- 1.2 Mercer have prepared a presentation discussing their ESG ratings results of our portfolios and this is attached as Exempt Appendix 1.
- 1.3 Mercer have undertaken a carbon foot printing measure of our equities holdings and presented the results in a briefing attached as Exempt Appendix 2.

2. Recommendation

- 2.1 To note the ESG ratings of individual portfolios and average rating of 2.1(previous rating 2.3) for the whole Fund
- 2.2 To note carbon footprint of our public equities
- 2.3 To note the fund has reduced since 2016 exposure to carbon intensive companies by more than 25% and absolute emissions by more 34%

- 2.4 To continue to engage with our portfolio managers to improve ESG ratings and achieve the targets set in 2022 for the whole fund

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 CO₂e), 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 2°C to 4°C.

ESG ratings

- 3.2.2 Mercer has conducted a review of ESG ratings for the Fund’s underlying investment Managers. 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 ESG ratings to the Fund's 9 strategies across equities, fixed income, DGFs, property and private equity.

Members are asked to consider the presentation, -Exempt Appendix 1 on the ESG ratings of our 11 managers and focus on integration ; having regular follow up discussions with managers as an important element of communicating expectations on ESG and climate integration and a strategic approach to climate risk. The average rating has improved from 2.3 to 2.1.

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. At the June meeting members agreed that since asset valuations for 31 March 2020 were now available a new procurement to measure the carbon footprint was undertaken so it could be reported at the next meeting.

3.2.4 Mercer have conducted the exercise to capture the equity holdings of the fund and results are presented in Exempt Appendix 2. Members are asked to consider the individual portfolios and the total level of emissions and reserves for the fund.

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, Regulation 7 (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 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/20192020/20190910londonboroughlondonpensionfundinvestmentstrategystatement.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.

5. Conclusion and reasons for recommendation

- 5.1 Members are asked to note the ESG ratings and carbon foot print to March 2020 and continue to engage with our fund managers on climate risk.

Background papers:

None

Final report clearance:

Signed by:

Received by: Corporate Director of Resources Date

Head of Democratic Services Date

Report Author: Joana Marfoh
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Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	15 September 2020		n/a

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SUBJECT: PENSIONS SUB-COMMITTEE 2020/21– FORWARD PLAN

1. Synopsis

- 1.1 The Appendix to this report provides information for Members of the Sub-Committee on agenda items for forthcoming meetings and training topics.

2. Recommendation

- 2.1 To consider and note Appendix A attached.

3. Background

- 3.1 The Forward Plan will be updated as necessary at each meeting, to reflect any changes in investment policy, new regulation and pension fund priorities after discussions with Members.
- 3.2 Details of agenda items for forthcoming meetings will be reported to each meeting of the Sub-Committee for members' consideration in the form of a Forward Plan. There will be a standing item to each meeting on performance and the LCIV.

4. Implications

4.1 Financial implications

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

4.2 Legal Implications

None applicable to this report

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

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

4.4 **Resident Impact Assessment**

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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

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

Date of meeting	Reports
	<p>Please note: there will be a standing item to each meeting on:</p> <ul style="list-style-type: none"> • Performance report- quarterly performance and managers' update • CIV update report
15 September 2020	4 year Business plan review Update on Investment strategy Carbon monitoring Update
8 th December 2020	ISS update Multi asset credit update Funding review update Implementation of strategic asset allocation
24 th March 2021	Review of investment consultancy providers objectives Strategic asset allocation implementation update

Past training for Members before committee meetings-

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

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Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	15 September 2020		n/a

Delete as appropriate	Exempt	Non-exempt

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SUBJECT: INVESTMENT STRATEGY REVIEW UPDATE

1. Synopsis

- 1.1 This is a further update report on 2019 Actuarial review position and the targeted investment returns required to keep contributions to the fund sustainable, and the investment strategy implications on asset allocation.
- 1.2 COVID 19 Scenario analysis has been undertaken to stress test current asset allocation and proposed options to deliver the agreed targeted investment return of 2.8% with risk parameters
- 1.3 Mercer, our investment advisors have prepared a report attached as Exempt Appendix 1 discussing the scenario analysis of different Covid19 recovery options and likely outcomes on proposed option 1 and 2 strategic asset allocations

2. Recommendations

- 2.1 To receive the presentation from Mercer attached as Exempt Appendix 1
- 2.2 To consider the COVID 19 recovery options over the period to early 2022 and its likely impact on proposed strategic asset allocation of option1 and 2.
- 2.3 To agree to adopt option I or 2 and update Investment Strategy Statement(ISS) with the new investment benchmark

2.4 To agree the next step to implement the agreed strategic asset allocation as per para 2.3

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.

Update on Multi-asset credit procurement

3.1.5 At the June 2020 meeting, members agreed the Multi-asset credit mandate specification for the tendering process to commence. Islington with another London borough have now completed the long listing of best-suited managers and will be progressing to reviewing the longlist to a short list in the middle of September. Our investment advisors and BFinance are advising officers through this tendering and due diligence exercise. A further update and possible appointment of manager(s) is planned by December.

COVID 19 stress testing scenario analysis

3.1.6 Members also asked Mercer to review the current agreed asset allocation post COVID 19 to determine how resilient it would be to the likely impact and recovery options. Mercer have prepared a presentation attached Exempt Appendix1 to discuss likely outcomes and impact on assets. Members are asked to receive the presentation, consider the likely scenario impacts and agree on asset allocation option 1 or 2.

3.1.7 Members are also asked to agree for the agreed asset allocation option to be used to update the investment benchmark in the ISS and receive a follow up report in December on the implementation of the agreed strategic asset allocation.

4. Implications

4.1 Financial implications

- 4.1.1 The cost of providing 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

5. Conclusion and reasons for recommendation

- 5.1 Members asked consider the Mercer presentation –Exempt Appendix 1 and agree asset allocation option to update the ISS investment benchmark and next steps. Members are also to note progress made on the procurement of Multi asset credit allocation.

Background papers:

None

Final report clearance:

Signed by:

Corporate Director of Resources

Date

Received by:

Head of Democratic Services

Date

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Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	15 September 2020		n/a

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SUBJECT: ANNUAL REVIEW AND PROGRESS ON THE 2018-2022 PENSION BUSINESS PLAN

1. Synopsis

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

2. Recommendation

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

3. Background

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

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

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

3.4 The key objectives of the five- year business plan agreed at the June 2019 Pensions sub-committee:

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

3.5 The five- year business plan with progress to June 2020 is attached as Appendix A. Members are asked to consider and note progress made and undertake a review of the plan's objectives for any amendments for the next 4 years.

4. Implications

4.1 Financial implications

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

4.2 Legal Implications

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

4.3 Environmental Implications 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 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/20192020/20190910londonboroughofngtonpensionfundinvestmentstrategystatement.pdf>

4.4 **Resident Impact Assessment:**

The Council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The Council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The Council must have due regard to the need to tackle prejudice and promote understanding”.

5. **Conclusion and reasons for recommendation**

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

Background papers:

None

Final report clearance:

Signed by:

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

Action to be taken	Timescale	Details (primary responsibility)	Progress to May 2018	Progress to June 2019	Progress to June 2020
1. "To achieve best practice in managing our investments in order to ensure good long- term performance, sustainability of the Fund, value for money and a reduction in managers' fees wherever possible and pursue new investment opportunities"					
(a) Consider an interim valuation and LGPS scheme changes	Ongoing	Use results to review funding level and any potential effect of the scheme changes	Actuary presented an update on Equity gains and its impact on funding level	Actuary presented an update on 2019 actuarial valuation since the last valuation in 2016	Actuary valuation was signed off on March 2020
(b) Review investment strategy to reflect asset/liability position To commence as part of the 31 March 2019 actuarial valuation process	2019-2023	To use results and other analyses to set benchmark asset allocations and Fund outperformance targets and risk levels (<i>Pensions sub-cttee, Investment advisers</i>).	Members agreed to reallocate £50m from its bond portfolio to the HLV property	Members agreed to review its listed equity on the LCIV platform	As part of actuarial valuation members agreed a new investment target return from amended strategic asset allocation within a risk budget.
(c) Implement any resulting changes to asset allocation, portfolio and fund management structures.	Ongoing	Plan procurement and tendering process with transition of assets requirement to minimize cost and optimize value of assets	An equity protection strategy was implemented in February 2018 to March 2020 with the payment of a one off premium	Members agreed to appoint 2 infrastructure managers to be funded from its bond portfolio	Members agreed to tender for a new Multi asset credit mandate
(d) Review all contracts on a rolling basis including, actuary, voting services, investment advisers and custodial services.	2018-2022	Committee to agree conclusions of all reviews. Corporate Director of Resources to have delegated authority to review contracts and performance and fee levels when required. (<i>Pensions Sub-Committee, Officers</i>).	The independent adviser service was retendered and an initial 5year contract awarded to Allenbridge MJ Hudson	Members reviewed all the bodies it is affiliated to and agreed to continue its associations until the next review.	Work in progress
(e) Closely monitor new legislation affecting the LGPS or pension provision.	Ongoing	Consider reports on the implications for the Fund and agree actions necessary to ensure full compliance when final legislation is enacted including meeting deadlines. (<i>Pensions sub-committee, Officers, Actuary</i>).	Members agreed to be elected for professional client status and complete the necessary application for MIFID II effective from 3 Jan 2018.	Members have responded to MHCLG consultations on the LGPS pooling, 4 year cycle valuation and fair deal	Members complied with TPR directives of agreeing objectives with investment consultancy service providers by December 2019
2. To continually improve our administration and governance in order to deliver an excellent and cost effective service to all fund members					
(a) Agree key performance indicators for the administration of the Fund and continue to benchmark against similar funds.	Ongoing.	Pension Board now monitors the administration and governance of the Fund. Continue ongoing CIPFA benchmarking. (<i>Officers</i>).	A speaker from Carbon Trust presented at Annual meeting in Oct'17	Pension Board agreed to meet 4 times a year instead 2.	Pension board review draft statement of accounts before auditing and monitor pension's admin cashflow .
(b) Carry out a survey to gain feedback from pensioners and active employees on customer satisfaction and implement changes	Ongoing	Analyse survey results (pension board, officers)	Annual benefit statements are due out before 31 August. Pension Board discussed bulk transfer commutation and requested further analyses on the data.	After further review of Bulk transfer data action was deferred. Feed back results are feed back to the pension board every quarter.	The board challenge officers on targets and benchmarking and recommended more resource that is now in place.

APPENDIX A
Actions to be taken

	Timescale	Details (primary responsibility)	Progress to May 2018	Progress to June 2019	Progress to June 2020
c) Ensure governance of the admin	Ongoing	Changes required from survey to be implemented. (<i>Pensions sub cttee, Officers including LBI communications team</i>)		Pension board have an agreed workplan and forward plan to decide committee agenda	As part of the workplan the board have asked to scrutinise COVID 19 checklist and impact on service.
d) To devise a communication plan and consultation to stakeholders	Ongoing	Newsletters, annual benefit statements, annual reports, AGM and employers' meetings to continue as previously (<i>Officers</i>).	Pension Board gave their comments on a frequently asked question (FAQ) page in the 2017 Annual report and received and noted the pension fund year end accounts	Board agreed to include death benefits in annual statement and publish death benefits online	Board have also implemented regular reviews of new members through auto enrolment and opt-out numbers and commented on new website layout and contents.
3. To engage with companies as an active and responsible investor with a focus on good corporate governance and environmental sustainability, whilst achieving a financial return for the fund and addressing societal impact.					
(a) Continue to engage with companies through active membership of LAPFF, IIGCC and other suitable bodies.	Ongoing.	Key themes will be corporate governance especially relating to human rights, employment practices and protection of the environment. (<i>Pensions sub cttee, Investment advisers, PIRC, Officers.</i>)	Work with LAPFF and IIGCC, and the LCIV continues	Work with LAPFF and IIGCC, and the LCIV continues	Work with LAPFF , LCIV and the IIGCC continues
(b) Develop improved monitoring of fund manager engagement activity.	Ongoing.	To include engagement with managers on their own corporate governance as part of terms of reference on appointment. (<i>Pensions sub cttee, investment advisers, Officers</i>).	Members received a presentation from Mercer on ESG rating and climate risk assessment of our existing fund managers, this becoming a basis for monitoring and reporting.	Members have restated their ESG beliefs and revised their ISS restating their policy on decarbonisation detailing their targets and monitoring plan.	Carbon policy is published and Members have shared their story with other LAs.
(c) Improve communication of engagement activities to stakeholders and public.	Ongoing	To include potential for publication of LBI voting record. (<i>Officers and PIRC</i>).		Voting records are published	Members continue to encourage and support the LCIV on engagement on ESG factors.
(d) Integrate our responsible investment policy into the Fund's investment review	Ongoing	To include consideration of appropriate responsible investment funds. Manager policies on equalities, environment and corporate governance to form review criteria alongside performance and fee considerations. (<i>Pensions sub cttee, Investment advisers, Officers</i>).	Received a presentation from PIRC on LAPFF engagement and governance	Appointed a renewable infrastructure manager and sustainable global equity manager	Voting records are published
			Low carbon property workplace fund manager presented to members in June 2017	Members agreed and signed up to join Pension for Purpose a free affiliation to promote impact investing	Current investment review in 2019 reaffirmed responsible investment in strategic asset allocations
					Climate scenario analysis was undertaken for the whole fund in December 2019
4. To actively monitor and challenge poor performance in managers and to pursue new investment opportunities					

Actions to be taken	Timescale	Details (primary responsibility)	Progress to May 2018	Progress to June 2019	Progress to June 2020
(a) Review current fund manager performance against agreed targets over three- to five year rolling periods	Ongoing	Use existing terms of reference for appointment and firing of managers as a guideline to monitor performance of fund managers (<i>Pensions sub cttee, Investment advisers, Officers</i>).	Ongoing	Ongoing	Ongoing
(b) Review current fund manager quarterly monitoring arrangements	Ongoing	Agree a forward plan for existing fund managers to meet the pensions sub- committee. The Corporate Director of Resources to continue monitoring managers between quarterly meetings (<i>Pensions sub cttee, Investment advisers, Officers</i>).	Alternative residential investment provider presented to Members in June 2017	Reviewed Schroder (DGF) manager performance against its peer groups. Regular monitoring of Hearthstone property manager due to AUM.	Commissioned a deep dive in our residential property manager for governance assurances.
(c) To consider new investment opportunities which can help improve the fund's financial performance	Ongoing	Pensions sub-committee have a long term objectives and clear investment policies to achieve them. (<i>Pensions sub cttee, Investment advisers, Officers</i>).	Members expressed interest in 3rd party fund of fund managers on infrastructure implementation and received a manager presentation as training	Members have requested training briefs on private debt and multi asset credit.	1>1 meetings with managers have been held with officers and advisors to report to members
To keep abreast of developments on pension and investment issues	Ongoing	Pensions sub-committee will agree a training plan and evaluate annually training undertaken and future needs (<i>Pensions sub cttee, Investment advisers, Officers</i>).	Training sessions before and during and committee meetings continue.	New members have been enrolled to attend LGA trustee pension course. Training sessions before and during committee meetings continue. Members attend seminars and LCIV AGMs as shareholder	Recap of multi – asset credit briefing before agreeing to procure.
Page 21					Joint briefing on Actuarial valuations were held for Members to understand assumption and take funding decisions
					New members have been enrolled to attend LGA trustee pension course. Training sessions before and during committee meetings continue. Members attend seminars and LCIV AGMs as shareholder
5. Develop collaboration opportunities with other funds for sharing of services and pooling					
a) Seek to collaborate with other partners to achieve efficiencies and value for money	Ongoing	To agree to share services where it is beneficial to the fund objectives of sustainability and performance	Officers are collaborating with 3 other interested local authorities in a joint tender for infrastructure	Officers collaborated for joint legal advice with 2 other LA authorities in the review of legal documents for new infrastructure mgrs	Officers are collaborating with another LA to procure a MAC mandate after LCIV's review of current manager on LCIV platform.
			The LCIV gave a presentation to Members on progress and outlined priorities for 2018.	Members reviewed global equity sub funds on the LCIV platform to appoint RBC to replace Allianz.	Members and officers worked with the LCIV on

APPENDIX A
Actions to be taken

Timescale

Details (primary responsibility)

Progress to May 2018

Progress to June 2019

Progress to June 2020

			Members gave their comments on the consultation of the LCIV governance review and the new structure was agreed at their July AGM.	Members attend seminars and LCIV AGMs as shareholder	the initial workshops on ESG Members collaboration of a north London LA group meet regularly to share ideas
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Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	15 th September 2020		

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

SUBJECT: The London CIV Update

1. Synopsis

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

2. Recommendations

- 2.1 To note the progress and activities in the news briefing Collective Voice-August attached as Appendix 1 (private and confidential).
- 2.2 To note the Fee income funding model review and future consultations.

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 then global equity manager and Ealing and Wandsworth are the 2 other boroughs who held a similar mandate. The benefits of transfer included 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. This manager was terminated in July 2019.

3.5 **Update to August 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, people , funding review, responsible investment, and events .

3.5.2 **Fee Income Funding Model Review**

In early July the LCIV began a review of how it is funded. This subsequently resulted in setting up of a Cost Transparency Working Group ("CTWG") formed of colleagues from Client Funds and London CIV to assist in this review. The CTWG is chaired by John Turnbull from Waltham Forest. As part of the process EY was engaged to assist and facilitate the discussions. Following dialogue with the CTWG, a questionnaire was sent to all Client Funds seeking feedback on the current funding model and suggestions on future funding model options.

In August two workshops moderated by EY were held with representatives from Client Funds to receive and discuss the feedback from the questionnaires. A number of funding model options were presented and debated. The status quo, fixed fees, variable fees and part fixed and part variable fees.

The next steps will be to present the feedback and funding model options to the Board and other key stakeholders such as the Shareholder Committee and SLT representatives. LCIV will then incorporate the preferred funding model option into the normal annual budget setting process which includes key stakeholder engagement in the latter part of this year, with formal approval of the annual budget being taken to shareholders at the General Meeting in January 2021.

3.5.3 **Responsible investment**

Following the responsible director Jacqueline Jackson commencement in June, The LCIV have become signatories of The Task Force on Climate Related Financial Disclosures ("TCFD"), ClimateAction100+ and Pensions for Purpose and are engaging with these initiatives to drive change and mitigate risk. Through a latest commitment to ClimateAction100+ the LCIV will work with Ceres and PRI to engage Pepsico, Rolls Royce and Martin Marietta Materials on issues including, water and health, conflict zones, transparency and climate change respectively .

The LCIV is also working and looks forward to sharing updated investment beliefs over the coming months. London CIV's Interim Statements on both our climate and stewardship policies t are aimed to be published this Autumn.

3.5.4 **Fund Launches and Pipeline**

The LCIV announced on 23 July that it had been agreed to appoint **a second MAC fund manager**. Discussions with all current MAC investors is planned for 3 September before a search commences. **LCIV Private debt** seeding investors group have agreed a fund structure and operational viability. The next process is to appoint an advisor to help with the procurement pprocess, the plan is to appoint a manger by Q1 2021. The renewable infrastructure fund is also progressing well and a manager appointment is expected around Q4 2020. Finally the **London Fund in collaboration with LPP** pool , is aiming to help in the establishment of a fund focused on investing primarily in the Greater London region, into three specific areas focusing on positive impact; Real Estate, for example Private Residential Sector ("PRS"); Infrastructure, for example electrical vehicle charging points; and Growth Capital i.e. investing in small/medium size companies whom display impact characteristics. Interest is being gathered from London authorities and further progress will be communicated.

3.5.6 **People**

Kevin Corrigan , the interim CIO has now left the LCIV . Kevin Cullen – client directos has also left and retired.

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.

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/20192020/20190910londonboroughngtonpensionfundinvestmentstrategystatement.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

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