



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

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## **AGENDA FOR THE PENSIONS SUB COMMITTEE**

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Members of the Pensions Sub Committee are summoned to a meeting which will be held remotely via Zoom on **23 March 2021 at 7.00 pm.**

Link to the meeting: <https://weareislington.zoom.us/j/98064689630>.

Enquiries to : Mary Green  
Tel : (0207 527 3005  
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Despatched : 15 March 2021

### Membership

Councillor Paul Convery (Chair)  
Councillor Satnam Gill OBE (Vice-Chair)  
Councillor Michael O'Sullivan  
Councillor Dave Poyser

### Substitute Members

Councillor Sara Hyde  
Councillor Anjna Khurana  
Councillor John Woolf

**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

**B. Non-exempt items**

1. Pension Fund performance - October to December 2020 (to follow)
2. Decarbonisation Policy - update and action plan after net zero carbon transition training 7 - 12
3. Investment strategy review update - Private Debt procurement options 13 - 16
4. Pension Fund Forward Plan 17 - 20
5. London CIV update 21 - 26

**C. Urgent non-exempt items**

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

**D. Exclusion of press and public**

To consider whether, in view of the nature of the remaining items on the agenda, any of them are likely to involve the disclosure of exempt or confidential information within the terms of Schedule 12A of the Local Government Act 1972 and, if so, whether to exclude the press and public during discussion thereof.

**E. Confidential/exempt items**

1. London CIV update - exempt appendices 27 - 52

**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.

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London Borough of Islington

## **Pensions Sub Committee - 8 December 2020**

Non-confidential minutes of the meeting of the Pensions Sub Committee held virtually, via Zoom, on 8 December 2020 at 7.00 pm.

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

Maggie Elliott (Pensions Board)

Tony English, Michelle Doman, Tomi Nummela, and William James and Aniket Bhaduri – Mercer  
Karen Shackleton – MJ Hudson Allenbridge

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

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

Received from Alan Begg (Pensions Board member).

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

None.

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

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

Councillor Poyser declared an interest in items on the agenda relating to Franklin Templeton.

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

**RESOLVED:**

That the minutes of the meetings held on 15 September 2020 and 11 November 2020 be confirmed as an accurate record of proceedings and the Chair be authorised to sign them.

**154**     **PENSION FUND PERFORMANCE FROM JULY-SEPTEMBER 2020 (Item B1)**

Marc Weidner, Managing Director at Franklin Templeton, gave a confidential presentation on progress on the Fund I and Fund II real estate performance and activities and the proposal to re-invest in Fund III.

Members asked questions about expectations on progress on real estate business plans across the globe, particularly in view of Covid19 and the implications for office

space. The Chair reiterated the Sub-Committee's very high expectations around ESG and their intention to reduce fossil fuel and carbon in the Pension Fund.

**RESOLVED:**

- (a) That the performance of the Fund from 1 April to 30 June 2020 as per BNY Mellon interactive performance report and detailed in the report of the Corporate Director of Resources, be noted.
- (b) That the presentation by MJ Hudson Allenbridge, on fund managers' quarterly performance, attached as Appendix 1 to the report, be noted.
- (c) That the presentation from Franklin Templeton (global property fund manager) on current Fund I and Fund II performance and activities and the proposal to re-invest in Fund III be noted.
- (d) That the re-investment proposal to the Franklin Templeton Fund III be approved, with a commitment of \$50m.
- (e) That officers be authorised to complete subscription and legal documentation, in connection with resolution (d) above.
- (f) That Mercer's September 2020 LGPS "Current Issues" brochure, attached as Appendix 2 to the report, be noted.

**155 INVESTMENT STRATEGY STATEMENT UPDATE (Item B2)**

An amendment was made to page 66 of the agenda pack, comprising the asset class table in paragraph 3, by the substitution of "5%" instead of 10% next to "Multi Asset Credit" and "10% instead of "5%" next to "Private Debt".

**RESOLVED:** That, subject to the amendment above being made to paragraph 3 of the Investment Strategy Statement, the draft Investment Strategy Statement attached as Appendix 1 to the report of the Corporate Director of Finance be approved and officers be authorised to publish it on the Council's website.

**156 FUNDING REVIEW UPDATE (Item B3)**

Michelle Doman, Mercer, gave a confidential presentation to the Sub-Committee on their outlook on the funding position and risk principles.

**RESOLVED:**

- (a) That the presentation prepared by the Fund Actuary, attached as Exempt Appendix 1 to the report of the Corporate Director of Finance, be noted.
- (b) That the summary findings in paragraph 3.5 and reproduced below of the report of the Corporate Director of Finance be noted:

- 1) The funding level had increased by 5% since the 2019 valuation to 90%. However, the outlook of investment returns had reduced.
- 2) Though there had been gains, the period to being fully funded had increased
- 3) Ongoing monitoring of employers represented the greatest risk (low affordability and high funding deficit)

4) Lowering the discount rate (in the absence of increasing investment risk/return) would increase the chance of achieving the recovery plan but this would increase employer contributions when affordability had reduced.

5) The Fund might have to accept an increase in funding risk and might want to consider options to reduce this risk.

(c) That the Sub-Committee review the position in six months' time.

**157 REVIEW OF EQUITY PROTECTION STRATEGY (Item B4)**

Tony English and Aniket Bhaduri, from Mercers, gave a confidential presentation to the Sub-Committee, recapping on the Fund's past experience with equity protection and setting out options for future equity protection.

Given future uncertainty of markets, members of the Sub-Committee suggested that it might be helpful to investigate other ways of reducing volatility in the Fund. It was noted that a short-term protection strategy, as was being proposed, would have significant cost implications. In light of this, members decided not to take action at the present time and that the Sub-Committee should receive a report on emerging risk in six months time, with a view to investigating ways of reducing risk via other ways eg equities exposure.

**RESOLVED:**

(a) That the presentation from Mercers on the background, market update and reasons why pension schemes consider equity protection strategies, attached as exempt Appendix 1 to the report of the Corporate Director of Finance, be noted.

(b) That officers report to the Sub-Committee in six months time on emerging risk, in order that members may explore whether a risk mitigation strategy is necessary and, if so, what form it should take.

**158 LONDON CIV UPDATE (Item B5)**

**RESOLVED:**

That the progress and activities presented at the November London CIV business update session (exempt Appendix1) and news briefing Collective Voice-October 2020, exempt Appendix 1A, both as attached to the report of the Corporate Director of Resources, be noted.

**159 INVESTMENT STRATEGY REVIEW UPDATE- PRIVATE DEBT ALLOCATION (Item B6)**

Tony English gave a confidential presentation to the Sub-Committee on Private Debt and how the proposed strategic asset allocation to Private Debt might be implemented to achieve the agreed target returns within risk parameters.

Officers suggested that they carry out due diligence exercises between now and March 2021 on options for Private Debt allocation, including the London CIV Private Debt Fund, in order to provide options for the Sub-Committee's consideration in March 2021.

**RESOLVED:**

(a) That the presentation from Mercer on Private Debt, attached as Exempt Appendix 1 to the report of the Corporate Director of Resources, be noted.

(b) That officers report to the Sub-Committee in March 2021 on options for Private Debt allocation, including the London CIV Private Debt Fund.

**160** **FORWARD PLAN OF BUSINESS (Item B7)**

**RESOLVED:**

That the appendix to the report of the Corporate Director of Resources, detailing agenda items for forthcoming meetings, together with the additional reports detailed below be approved:

(i) Funding position - That the Sub-Committee review the position in six months' time (May/June 2021).

(ii) Review of equity protection strategy - That officers report to the Sub-Committee in six months time on emerging risk, in order that members may explore whether a risk mitigation strategy is necessary and, if so, what form it should take (May/June 2021).

(iii) Investment Strategy update - Private Debt - That officers report to the Sub-Committee in March 2021 on options for Private Debt allocation, including the London CIV Private Debt Fund.

**161** **DECARBONISATION POLICY - ACTION PLAN FOR PASSIVE EQUITIES AND NET ZERO CARBON TRANSITION TRAINING (Item B8)**

**RESOLVED:**

(a) That the action plan (exempt Appendix 1 to the report of the Corporate Director of Resources) to further reduce carbon emissions and reserve on the Fund's passive emerging and UK equities be noted

(b) That a report be submitted to the Sub-Committee in March 2021 on more evolved and progressive responsible indices now available in the market in for options on the Fund's passive equities.

(c) That it be noted that, since 2016, the Fund had achieved in its equities:

i) 72% of its target to reduce exposure to carbon intensive companies

ii) 73% of its target to reduce absolute emissions.

(d) That the training briefing on Net Zero Carbon Transition (attached exempt Appendix to the report) be noted

(e) That an alternative training session date for a more detailed and informed discussion on net zero carbon be arranged and that members of the Pensions Board and the Executive Member for Environment and Transport be invited to the session.

**162** **REVIEW OF OBJECTIVES SET FOR PROVIDERS OF INVESTMENT CONSULTANCY (Item B9)**

Representatives from MJ Hudson and Mercer left the meeting before the Sub-Committee's discussion.



**RESOLVED:**

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

(b) That the objectives set out in exempt Appendix 1 to the report be noted and the performance rating of the investment consultancy providers be approved.

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

(d) That the Corporate Director of Resources, in consultation with the Acting Director of Law and Governance, be authorised to submit an annual compliance statement confirming compliance with Part 7 of the Order, noting that the first statement must be submitted to the CMA by 7 January 2021, covering the period 10 December 2019 to 9 December 2020.

**163 EXCLUSION OF PRESS AND PUBLIC (Item )**

**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</u>	<u>Title</u>	<u>Reasons for exemption</u>
<u>Agenda item E1</u>	Pension Fund performance from July-September 2020- exempt appendices	<u>Category 3 –</u> Information relating to the financial or business affairs of any particular person (including the authority holding that information)
<u>Agenda item E2</u>		
<u>Agenda item E3</u>		
<u>Agenda item E4</u>	Funding review update – exempt appendix	ditto
<u>Agenda item E5</u>	Review of equity protection strategy - exempt appendix	ditto
	London CIV update – exempt appendix	ditto
<u>Agenda item E6</u>	Investment Strategy review update- Private debt allocation - exempt appendix	ditto

<u>Agenda item E7</u>	Decarbonisation policy - action plan for passive equities and net zero carbon transition training - exempt appendices	ditto
	Review of objectives set for providers of investment consultancy – exempt appendix	ditto

- 164 **PENSION FUND PERFORMANCE FROM JULY-SEPTEMBER 2020 - EXEMPT APPENDIX (Item C1)**  
Noted.
- 165 **FUNDING REVIEW UPDATE - EXEMPT APPENDIX (Item C2)**  
Noted.
- 166 **REVIEW OF EQUITY PROTECTION STRATEGY - EXEMPT APPENDIX (Item C3)**  
Noted.
- 167 **LONDON CIV UPDATE - EXEMPT APPENDIX (Item C4)**  
Noted.
- 168 **INVESTMENT STRATEGY REVIEW UPDATE- PRIVATE DEBT ALLOCATION - EXEMPT APPENDIX (Item C5)**  
None.
- 169 **DECARBONISATION POLICY - ACTION PLAN FOR PASSIVE EQUITIES AND NET ZERO CARBON TRANSITION TRAINING - EXEMPT APPENDICES (Item C6)**  
None.
- 170 **REVIEW OF OBJECTIVES SET FOR PROVIDERS OF INVESTMENT CONSULTANCY - EXEMPT APPENDIX (Item C7)**  
None.

The meeting ended at 10.00 pm

**CHAIR**



**Report of: Corporate Director of Resources**

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	23 <sup>RD</sup> March 2021		n/a

<b>Delete as appropriate</b>		Non-exempt
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## **SUBJECT: DECARBONISATION POLICY –UPDATE ACTION PLAN AFTER NET ZERO CARBON TRANSITION TRAINING**

### **1. Synopsis**

- 1.1 This report updates the action plan to keep the Fund on course to achieve decarbonisation targets by 2022 or earlier as per agreed monitoring plan of our decarbonisation policy and update of action agreed after training session in February on the principles and considerations for pension investments to transition to Net Zero Carbon.

### **2. Recommendations**

- 2.1 To agree to note the action agreed at the training session in February to receive a report in June to review the current decarbonisation policy and reset targets the Fund can achieve in the medium to long term.
- 2.2 To agree to receive a report on more evolved and progressive responsible indices now available in the market for options on our passive equities.
- 2.3 To note the draft recommendations at the training session listed in paragraph 3.3.2 and to receive a briefing on considerations for the pension investments to transition to Net Zero Carbon transition to <2<sup>0</sup>C.

### **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 the Committee's beliefs and takes account of sustainable opportunities, and agrees a monitoring regime and progress measurement.

The agreed targets are as follows:

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

- 1) Reducing future emissions by focussing on absolute potential emissions (tons of CO<sub>2</sub>e), 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 conducted a review of ESG ratings for the Fund's 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. The average rating for the whole Fund has improved from 2.3 to 2.1.

#### **Measuring carbon footprint of equities portfolio annually**

- 3.2.3 The Fund's latest carbon foot printing exercise on the equity holdings as at 31<sup>st</sup> March 2020 showed that since 2016 the fund has achieved in its equities:
- i) 72% of its target to reduce exposure to carbon intensive companies
  - ii) 73% of its target to reduce absolute emissions

### 3.3 **Transition to net zero carbon for pension investments**

The decarbonisation policy is a living document and Members have targeted decarbonisation across all asset classes of its pension investment where the funds' risk and return objectives are optimised. Any transition should still achieve the primary objective of paying benefits to pensioners and still affordable for employers.

3.3.1 At the December meeting, Members agreed to attend a detailed training arranged with Mercer to discuss the transition principles, objectives, framework and implication. The training session on 18<sup>th</sup> February 2021, was attended by members of the Pension board and Pension sub- committee as well as the Corporate Director of Environment and Regeneration.

3.3.2 The draft recommendations at the training session were that Islington adopt

- Science based: basing Islington decision on Intergovernmental Panel on Climate Change input
- Below 2<sup>o</sup>C: in alignment with the Paris Agreement
- Unambiguous: (Net) Zero Emission 2050 -(2045)
- Base year: 2016 base year for monitoring (where applicable).
- Intermediate targets : Continue monitoring towards achieving 2022 targets
- Set a target review commitment and period for post 2022. "Next target period will run 2022-2026 and targets for the period will be set by the end of 2022"
  
- Optional: set a 2030 target (50-60% emissions reduction with a scope 3 caveat)
  
- Methodology: adopt TCFD (as per the current policy) to steer Islington climate action

Continue doing what we do well –be alert to climate change as an investment topic be willing to learn about new methodologies and developments

3.3.3 Members agreed to receive a report at the next June meeting to review the current decarbonisation policy and set new short and medium term targets to transition to a net zero carbon emission <2<sup>o</sup>C.

## **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/20192020/20190910londonboroughofislingtonpensionfundinvestmentstrategystatement.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

- 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 recommendations**

- 5.1 Members are asked to note the draft recommendations and agree to receive a report in June to review the existing targets and set new short to medium targets to enable the transition to net zero carbon emissions.

Final report clearance:

**Signed by:**

A handwritten signature in black ink, appearing to read 'Joana Marfoh', written in a cursive style.

Corporate Director of Resources

Date 15 March 2021

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

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**Report of: Corporate Director of Resources**

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	23 <sup>rd</sup> March 2021		n/a

<b>Delete as appropriate</b>		Non-exempt
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**SUBJECT: INVESTMENT STRATEGY REVIEW UPDATE – PRIVATE DEBT PROCUREMENT OPTIONS**

**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 Members agreed mandate specification at the December meeting and this report explores some of the options currently available to procure a suitable manager(s).

**2. Recommendations**

- 2.1 To consider and note current options in table 1
- 2.2 To agree to delegate to officers to continue to explore these options and conclude by June which option(s) best delivers value for money to proceed to procure suitable managers
- 2.3 To agree to receive an update report at the next meeting in June 2021.

**3. Background**

Introduction

- 3.1 The 2019 actuarial valuation was completed in March 2020 and as part of the process, preparatory work was undertaken to determine the funding position and an investment strategy review that could support sustainable contributions from employers. The agreed target investment return of CPI+3.2% was re-evaluated in the light of Covid-19 impact on markets. The risk and return target options were discussed and a new target investment return of CPI +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.

3.2 Private Debt asset class is privately negotiated debt typically used when public loans are not available to the borrower, usually used to finance privately owned companies. Some of the characteristics include direct loan contracts with strong covenants secured by the firm assets if your loan is a senior debt. The main risks include defaults and illiquidity.

3.3 Members agreed an Islington Private Debt mandate specification at the December meeting and asked for a progress report on implementation in March. Three options have been explored and the table below gives further details on information available to date.

**Table 1**

	<b>Fiduciary Manager(FD)</b>	<b>LCIV</b>	<b>Collaboration with LA- existing project</b>
Investment model	Fund of funds	Fund of funds	Direct to managers
Managers	Buy into off the shelve portfolio/set up portfolio	Subject to ODD- Churchill, and Pemberton	Churchill and Permira
Fund Allocation	FD decides	Equal split 50:50	Islington decides
Cost	FD fees + underlying manager fees	LCIV fee+ underlying manager fee	Underlying Manager fees
Pooling agenda	no pooling	pooling	pooling
Monitoring	FD responsible	LCIV and LBI investment advisor	LBI- investment advisor
Program	FD will decide	Need to explore further	Follow on funds available and can supplement with other managers
<b>Potential benefits</b>	<b>Governance is delegated to FD and less concentrated manager relationship</b>	<b>Spirit of pooling</b>	<b>Single layer of fees already negotiated and Islington tailored</b>
<b>Potential drawbacks</b>	<b>Conflict of interest and 2<sup>nd</sup> layer of fees</b>	<b>2<sup>nd</sup> layer of fees, being able to reach scale for better fee structure and less manager engagement</b>	<b>More resource required for governance and concentrated manager relationship</b>

3.4 Members are asked to consider these options and express a view but to allow officers to explore further details and due diligence of the managers available from these options and agree the best procurement to proceed with that will deliver value for money and achieve our risk and return targets.

3.5 Members also need to take into consideration the following issues;

- that Private debt can take 3 to 5 years to reach full allocation
- a plan needs to be in place on how soon we want to reach full strategic allocation of 10%
- cash flow matching of these commitments
- manager vintages for diversification

- availability of managers because investments are generally in closed funds.

## 4. Implications

### 4.1 Financial implications

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

### 4.2 Legal Implications

No legal implications

### 4.3 Environmental Implications

Environmental implications will be included in each report to the Pensions-sub committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of the fund in green opportunities. The link to the full document is

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

### 4.4 Resident impact assessment

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

## 5. Conclusion and reasons for recommendations

- 5.1 Members are asked consider the options of procurement and allow officers to explore further , conduct due diligence on the managers available and report back to the next meeting the procurement option(s) that will most meet our risk and return target and deliver value for money.

Final report clearance:

**Signed by:**



Corporate Director of Resources

Date 15 March 2021

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





**Report of: Corporate Director of Resources**

<b>Meeting of:</b>	<b>Date</b>	<b>Agenda item</b>	<b>Ward(s)</b>
Pensions Sub-Committee	23 <sup>rd</sup> March 2021		n/a
<b>Delete as appropriate</b>		Non-exempt	

## **SUBJECT: PENSIONS SUB-COMMITTEE 2021/22– 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 None in the context of this report. The cost of providing independent investment advice is part of fund management and administration fees charged to the pension fund.

4.2 **Legal Implications**  
None applicable to this report

4.3 **Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:**  
None applicable to this report. Environmental implications will be included in each report to the Pension Board Committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of the fund in green opportunities. The link to the full document is <https://www.islington.gov.uk/~media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonboroughofislingtonpensionfundinvestmentstrategystatement.pdf>

4.4 **Resident Impact Assessment**  
None applicable to this report. The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding  
An equalities impact assessment has not been conducted because this report is seeking opinions on updating an existing document and therefore no specific equality implications arising from this report

## 5. Conclusion and reasons for recommendation

5.1 To advise Members of forthcoming items of business to the Sub-Committee and training topics

Final report clearance:

**Signed by:**



**Corporate Director of Resources**

Date 15 March 2021

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

**Pensions Sub-Committee Forward Plan for March 2021 to March 2022**

Date of meeting	Reports
	<p><u>Please note:</u> there will be a standing item to each meeting on:</p> <ul style="list-style-type: none"> <li>• Performance report- quarterly performance and managers’ update</li> <li>• CIV update report</li> </ul>
23 <sup>rd</sup> March 2021	<ul style="list-style-type: none"> <li>• Implementation of strategic asset allocation-private debt options</li> <li>• Decarbonisation and Net Zero Carbon transition update</li> </ul>
June 2021	<ul style="list-style-type: none"> <li>• Whole fund performance presentation</li> <li>• Private debt procurement update</li> <li>• Decarbonisation Policy Review with Net Zero Carbon transition</li> <li>• Passive Indices review</li> </ul>
September 2021	<ul style="list-style-type: none"> <li>• 4 year Business Plan Review</li> <li>• Strategic asset allocation implementation update</li> <li>• Funding Review</li> </ul>
October 2021	<ul style="list-style-type: none"> <li>• Annual Pensions Meeting</li> </ul>
November 2021	<ul style="list-style-type: none"> <li>• Objectives set for providers of investment consultancy –Annual review</li> </ul>
March 2022	<ul style="list-style-type: none"> <li>• Actuarial valuation - timetable</li> </ul>

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

<b>Date</b>	<b>Training</b>
November 2018	Actuarial update
June 2019-4pm	Actuarial review
February 2021	Net zero carbon transition training

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**Report of: Corporate Director of Resources**

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	23 <sup>rd</sup> March 2021		

<b>Delete as appropriate</b>	Exempt	Non-exempt
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**Appendices 1 and 1A attached** are 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, reviewing governance and investment structure, over the period December 2020 to February 2021.

### **2. Recommendation**

- 2.1 To note the progress and activities presented at the February business update session (exempt Appendix1) and news briefing Collective Voice-February attached as exempt Appendix 1A .

### **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 were held with managers, focussing specifically on what would be achievable for launch, taking into account timing and transition complexities. Four managers were identified as offering potential opportunities for the launch of the London CIV. These managers would provide the London CIV with 9 sub-funds, covering just over £6bn of Borough assets and providing early opportunity to 20 boroughs. The sub-funds consisted 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 did not have an exact match across for launch were able to invest in these sub-funds from the outset at the reduced AMC rate that the London 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 February 2021**

#### 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 1A (confidential). Highlights include; appointment of non-executives, the new fund launch and timeline, people, funding review, responsible investment and events .

#### 3.5.2 **The Business Update**

As part of improved communication strategy, the LCIV have been holding regular monthly business update meetings for shareholders and investment advisors and consultants. The presentation pack is attached as exempt Appendix 1. It covers in more detail investment updates, people and governance. The sessions include opportunities to ask questions. Some of the topics discussed are summarised below.

### 3.5.3 **Responsible Investment**

Recent collaboration undertaken by the LCIV include, joining the City of Westminster Pension Fund Committee in the ShareAction initiative: Healthy Markets Coalition. In light of the inequalities exposed by Covid-19, human rights and health have become key themes of our engagement activities and they are committed to supporting this agenda. London CIV also joined CCLA and many others from the investment community in engaging with Compass Group on improving nutritional standards in schools. To further improve our engagement approach and outcomes, they are conducting a procurement process for Voting & Engagement services which will conclude in the first quarter of 2021.

### 3.5.4 **Fund Launches and Pipeline**

London CIV has continued to make progress in several key areas. This progress has been supported by a multitude of meetings and engagement opportunities, and three Seed Investor Groups (SIG) focusing on mandates for Private Debt, Renewable Infrastructure and The London Fund. All these sessions are well attended and gather important feedback from a range of key stakeholders.

**The London Fund** a partnership with the Local Pensions Partnership, London Pensions Fund Authority and LCIV was launched in December 2020 with an initial commitment of £100m.

The four managers proposed by the LCIV for **The Renewable Energy Infrastructure Fund** are now subject to oversight due diligence and commercials, with a fund launch by March 2021. The **Private debt** mandate is also now subject to oversight due diligence and commercials for the two managers proposed, and LCIV are targeting a March 2021 launch.

### 3.5.5 **People**

The LCIV are recruiting two further positions to the team and additionally a Chair, to replace Lord Bob Kerslake, whose term comes to an end in September 2021. The two positions are an Investment Manager to lead and manage the development of Equity products and drive the related procurement and selection process of managers in this space; and an Assistant Accountant to support the Operations Team in producing financial and management reporting and accounts.

### 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 charge 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 0.050% of AUM to the London CIV in addition to a manager's 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 April 2018 an annual service charge of £25k (+VAT) and £65k (split £43.3k and £21.6k) development fund was invoiced to all members.

In April 2019 an annual service charge of £25k (+VAT) and £65k (split £43.3k and £21.6k) was invoiced.

In April 2020 an annual service charge of £25k (+ VAT) and £8.6k for LGIM recharge was invoiced and a final installment development charge of £84k (+VAT) was received in January 2021.

## **4. Implications**

### **4.1 Financial implications:**

4.1.1 Fund management and administration fees are charged directly to the pension fund. This paper discusses specific financial implications which are relevant.

### **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/20192020/20190910londonboroughofislingtonpensionfundinvestmentstrategystatement.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 recommendation**

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. Exempt Appendices 1 and 1A are attached for information.

Final report clearance:

**Signed by:**



Corporate Director of Resources

Date 15 March 2021

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