Public Document Pack

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

AGENDA FOR THE PENSIONS SUB COMMITTEE

Members of the Pensions Sub Committee are summoned to a meeting which will be held remotely via Zoom on **8 December 2020 at 7.00 pm.**

Link to the meeting: https://weareislington.zoom.us/j/98097115233

Enquiries to	:	Mary Green
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E-mail	:	democracy@islington.gov.uk
Despatched	:	30 November 2020

Membership	Substitute Members
Councillor Paul Convery (Chair)	Councillor Sara Hyde
Councillor Satnam Gill OBE (Vice-Chair)	Councillor Anjna Khurana
Councillor Michael O'Sullivan	Councillor John Woolf
Councillor Dave Poyser	

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 meetings 1 - 8

B. Non-exempt items

1. Pension Fund performance from July-September 2020 9 - 60

2. Investment Strategy Statement update 61 - 76

3. Funding review update 77 - 80

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

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 23 March 2021

London Borough of Islington

Pensions Sub Committee - 15 September 2020

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

Present:	**Councillors:**	Paul Convery (Chair), Satnam Gill, Sue Lukes and Michael O'Sullivan
Also present:		Alan Begg (Independent member, Pensions Board) Valerie Easmon-George (Pensions Board) Maggie Elliott (Pensions Board) George Sharkey (Pensions Board) Tony English and Alex Goddard – Mercer Karen Shackleton – MJHudson Allenbridge

Councillor Paul Convery in the Chair

129 **APOLOGIES FOR ABSENCE (Item A1)**
None.

130 **DECLARATION OF SUBSTITUTES (Item A2)**
None.

131 **DECLARATION OF INTERESTS (Item A3)**
Councillor Convery declared a personal interest in items on the agenda as a member of the Pension Fund.

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

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

133 **PENSION FUND PERFORMANCE FROM APRIL TO JUNE 2020 (Item B1)**
Members discussed the uncertainty of retail property markets going forward, given the insecurity of some rental income and pressure on town centre retail outlets.

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

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

RESOLVED:
(a) That the performance of the Fund from 1 April to 30 June 2020 as per BNY Mellon interactive performance report and detailed in the report of the Corporate Director of Resources, be noted.
(b)_That the presentation by MJ Hudsons Allenbridge, on fund managers' quarterly performance, attached as Appendix 1 to the report, be noted.
(c) That the In-House Tracker Fund Manager be thanked for his many years of valuable service to the Council and his very successful management of the Fund over many years.

134 CARBON MONITORING AND ESG RATING (Item B2)

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

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

RESOLVED:
(a) That the ESG ratings of individual portfolios and average rating of 2.1 (previous rating 2.3) for the whole Fund, be noted.
(b) That the carbon footprint of the Fund's public equities, as detailed in the report of the Corporate Director of Resources, be noted.
(c) That it be noted that the Fund had reduced by more than 25% since 2016 exposure to carbon intensive companies and absolute emissions by more than 34%.
(d) That engagement with portfolio managers continue in order to improve ESG ratings and achieve the targets set in 2022 for the whole Fund.
(e) That officers report to the next meeting on how the Fund might be reconfigured to achieve net zero carbon by 2030.
(f) That officers report to the next meeting on options for exiting the RAFI fund, whilst remaining in very low carbon investments in emerging markets.
(g) That officers report to the next meeting on options for alternative investments for the In-House Tracker.

135 **FORWARD PLAN OF BUSINESS (Item B3)**

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

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

136 **INVESTMENT STRATEGY UPDATE COVID STRESS TESTING (Item B4)**
The Head of the Pension Fund and Treasury Management noted that the shortlisting of managers for the multi-asset credit mandate would be taking place in the forthcoming week and invited attendance of members of the Sub-Committee. It was anticipated that the appointment of the successful manager would take place in December 2020 and that an additional meeting of the Sub-Committee would be arranged for this purpose.

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

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

137 **5 YEAR BUSINESS PLAN REVIEW (Item B5)**
Having reviewed the key objectives of their five year plan, as detailed on page 56 of the agenda pack, members decided the following amendments to the objectives be made:

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

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

RESOLVED:
(a) That progress made to date on some of the action plans in the agreed five year business plan, detailed in Appendix A of the report of the Corporate Director of Resources, be noted.
(b) That, subject to the following amendments to the objectives, the business plan be agreed for the next four years:

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

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

138 LONDON CIV UPDATE (Item B6)

RESOLVED:
(a) That the progress and activities in the news briefing Collective Voice-August attached as Appendix 1 (private and confidential) to the report of the Corporate Director of Resources, be noted.
(b) That the fee income funding model review and future consultations, detailed in the exempt appendix, be noted.

139 COUNCILLOR SUE LUKES

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

140 EXCLUSION OF PRESS AND PUBLIC

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

Agenda item E1	Title	Reasons for exemption
	Carbon monitoring and ESG rating - exempt appendices	Category 3 – Information relating to the financial or business affairs of any particular person (including

		the authority holding that information)
Item E2 -	Investment strategy update COVID stress testing - exempt appendix	- ditto -
Item E3	London CIV update – exempt appendix	- ditto -

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

Noted.

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

Noted.

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

Noted.

The meeting ended at 9.10 pm

CHAIR

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London Borough of Islington

Pensions Sub Committee - 11 November 2020

Non-confidential minutes of the meeting of the Pensions Sub Committee held at on 11 November 2020 at 4.00 pm.

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

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

Councillor Paul Convery in the Chair

144 APOLOGIES FOR ABSENCE (Item A1)

None.

145 DECLARATION OF SUBSTITUTES (Item A2)

None.

146 DECLARATION OF INTERESTS (Item A3)

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

147 CONTRACT AWARD FOR MULTI-ASSET CREDIT MANAGER (Item B1)

RESOLVED:

(a) That the procurement process to award a mandate to a Multi Asset Credit manager, as detailed in the report of the Corporate Director of Resources, be noted.

(b) That the outcomes summarised in exempt Appendix 2 of the report and terms of reference prepared by Mercer, also as attached as exempt Appendix 1 to the report, be noted.

(c) That Manager A be appointed as the Islington Pension Fund preferred Multi Asset Credit manager, as detailed in Appendix 1 (private and confidential) of the report.

(d) That Fund Manager B be appointed as the Islington Pension Fund Multi Asset Credit reserve manager, as detailed in Appendix 1 (private and confidential) of the report.

(e) That the Corporate Director of Resources, in consultation with the Acting Director of Law and Governance, be authorised to negotiate and agree terms and conditions of the fund management agreement with Manager A.
(f) That 5% of the pension fund be allocated to Manager A, mostly funded from proceeds of the equity protection strategy currently invested with Legal and General.

148 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:

Agenda item E1	Title	Reasons for exemption
	Contract award for multi-asset credit manager - exempt appendices	Category 3 – Information relating to the financial or business affairs of any particular person (including the authority holding that information)

149 CONTRACT AWARD FOR MULTI-ASSET CREDIT MANAGER - EXEMPT APPENDICES (Item E1)
The Sub-Committee received a presentation from Mercer's representative on the selection exercise, with recommendations on a preferred bidder and a reserve.

RESOLVED:
That the contents of the exempt appendices be noted.

The meeting ended at 4.30 pm

CHAIR

ISLINGTON

Finance Department
7 Newington Barrow Way
London N7
7EP

Report of: Corporate Director of Resources

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	8 December 2020		

Delete as appropriate	~~Exempt~~	Non-exempt

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Subject: PENSION FUND PERFORMANCE 1 JULY TO 30 SEPTEMBER 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 July to 30 September 2020 as per BNY Mellon interactive performance report

2.2 To receive the presentation by MJ Hudsons Allenbridge, our independent investment advisers, on our fund managers' quarterly performance attached as Appendix 1.

2.3 To receive a 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.

2.3.1 To consider re-investment proposal and agree to a commitment of $40 to $60m.

2.3.2 Subject to 2.3.1, to delegate responsibility to Officers to complete subscription and legal documentation.

2.4 To note September 2020 LGPS Current Issues attached as Appendix 2

3. Fund Managers Performance for 1 July to September 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 (July-Sept'20) Gross of fees		12 Months to Sept' 2020-Performance Gross of fees		
				Portfolio	Benchmark	Portfolio	Bench Mark	Benchmark
LBI-In House	10.9%	UK equities	N	-2.29%	2.92%	-15.7%	-16.6%	1.25%
LCIV Sustainable EQ- RBC	9.5%	Global equities	1	6.1%	3.2%	14.7%	5.2%	1.80%
LCIV -Newton	16.8%	Global equities	2	3.7%	3.5%	8.6%	5.8%	2.88%
Legal & General	11.7%	Global equities	1	2.38%	2.6%	2.4%	3.0%	3.26%
Standard Life	10.9%	Corporate bonds	2	0.9%	1.16%	3.7%	3.8%	1.22%
Aviva (1)	8.2%	UK property	3	1.5%	-1.35% 0.67%	5.3%	4.0% -2.7%	0.69% 11.26%
Columbia Threadneedle Investments (TPEN)	5.3%	UK commercial property	2	0.26%	0.18%	-2.7%	-2.8%	10.02%
Hearthstone	1.9%	UK residential property	N	0.41%	0.67%	0.76%	-2.7%	11.26%
Schroders	7.8%	Diversified Growth Fund	2	3.2%	1.7%	3.3%	6.3%	8.34%
BMO Investments-LGM	4.8%	Emerging/ Frontier equities	2	5.96%	4.8%	-4.98%	5.72%	n/a

-1.35% & 4.0% = original Gilts benchmark; 0.67% and -2.7% 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 September 2020 is shown in the table below.

	Latest Quarter Performance **Gross** of fees		12 Months to Sept' 2020 Performance Gross of fees	
Combined Fund Performance	Portfolio %	Benchmark %	Portfolio %	Benchmark %
	2.0	1.2	4.9	1.97

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

3.5 **Total Fund Position**

The Islington combined fund absolute performance with the hedge over the 1, 3 and 5 years' period to September 2020 is shown in the table below.

Period	1 year per annum	3 years per annum	5 years per annum
Combined LBI fund performance hedged	4.9%	5.7%	8.3%
Customised benchmark	2.0%	5.2%	7.8%

3.6 **LCIV RBC Sustainability Fund**

3.6.1 RBC is the fund's global sustainable equity manager on the LCIV platform and was originally appointed in November 2018 to replace our Allianz mandate also on the LCIV platform.

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

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

3.6.3 The fund outperformed its quarterly benchmark to September by 3.0% and a twelve-month out performance of 6.9%. The outperformance was mainly due to stock selections in the Industrials, Information Technology and Utilities sectors. However, Financial sector detracted from performance.

3.7 **LCIV Newton Investment Management**

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

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

3.7.3 The fund returned 3.72% against a benchmark of 1.46% for the September quarter. Since inception the fund has delivered an absolute return of 12.0% but relative under performance of 0.09% net of fees per annum. The performance this quarter was attributed to defensive stocks and sector positions in information technology and communication and underweight position in energy.

3.8 **LBI- In House**

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 -2.29% against FTSE All Share Index benchmark of -2.92% for the September quarter and a relative over performance of 0.34% since inception in 1992.

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 September quarter, the fund returned 1.0% against a benchmark of 1.2% and an absolute return of 6.9% per annum since inception.

3.9.2 The drivers behind the performance were due to overweight exposure to the banking sector and utilities that made positive contributions. The biggest contributor, however, was the Fund's underweight to supranationals (government related entities such as KFW, UKRAIL and European Investment Bank).

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 1.5% against a gilt benchmark of -1.35%. The All Property IPD benchmark returned -1.6% for this quarter. Since inception, the fund has delivered an absolute return of 6.7% net of fees.

3.10.3

This September quarter the fund's unexpired average lease term is now 20.7 years. The Fund holds 87 assets with 53 tenants. During the quarter, two development funding of office developments were completed for £103million. Both of these sites have been pre-let one to Cadent Gas in Coventry and the other to Babcock Integrated Technology Limited in Bristol. There is £296m of investible capital waiting to be drawn over the next 12-18months.

3.10.4

The Fund's diverse portfolio of high-quality properties let to secure tenants on long-term leases with 95% subject to inflation or fixed uplifts is well placed to weather the current uncertainties.
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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 September was £81.2 million.

3.11.2 The agreed mandate guidelines are as listed below:

- Benchmark: AREF/IPD All Balanced Property Fund Index (Weighted Average) since I April 2014.
- Target Performance: 1.0% p.a. above the benchmark (net of fees) over three year rolling periods.
- Portfolio focus is on income generation with c. 75% of portfolio returns expected to come from income over the long term.
- Income yield on the portfolio at investment of c.8.5% p.a.
- Focus of portfolio is biased towards secondary property markets with high footfall rather than on prime markets such as Central London. The portfolio may therefore lag in speculative/bubble markets or when the property market is driven by capital growth in prime markets.

3.11.3 Following the resumption of investment market activity, the Material Uncertainty Clause (MUC) imposed by independent valuers in March 2020 was lifted on a sector-by-sector basis according to the availability of comparable evidence. As expected, the MUC for the 'in favour' industrial market was lifted first, in June 2020, followed by offices in August 2020 and finally retail in September 2020. As a result, a degree of unit pricing certainty for property assets was restored, resulting in the resumption of trading in some, but not all, open-ended UK property funds as at the end of September. TPEN commenced trading on 17 September.

3.11.4 The fund returned a performance of 0.3% against its benchmark 0.2% for the September quarter mainly due to higher income return, overweight positions to industrials and underweight exposure to retail.

3.11.5 The cash balance now stands at 9.6% compared to 11% last quarter. During the quarter, there were 2 acquisitions and 3 disposals. There is a strong asset diversification at portfolio level with a total of 273 properties and 1343 tenancies. Rent collection 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 to be best positioned to deliver relative out-performance. Here are some of TPEN features that cushions its prospects:

- Maximum diversification at both portfolio (273 properties, 1,343tenancies) and
- at client levels (65 Pension Fund clients)
- Highly liquid average lot size of c.£6.5million
- Strategic portfolio positioning, with a focus on the strongest underlying subsectors (c.43%* 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.

3.12 **Passive Hedge**

3.12.1 The fund currently targets to hedge 50% of its overseas equities to the major currencies dollar, euro and yen. The passive hedge is run by BNY Mellon our custodian. At the end of the September quarter, the hedged overseas equities had a cash value of £6.9m.

3.12.2 Members agreed to reinstate the full 50% to the current global portfolios in their last meeting and the legal and fund documentation has now been completed. The scheduled implementation date is 25 November for quarterly hedge rolls.

3.13 **Franklin Templeton**

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

- Benchmark: Absolute return
- Target Performance: Net of fees internal rate of return of 15%. Preferred rate of return of 10% p.a. with performance fee only applicable to returns above this point.
- Bulk of capital expected to be invested between 2 – 4 years following fund close.
- Distributions expected from years 6 – 8, with 100% of capital expected to be returned approximately by year 7.

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

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

The total distribution received to the end of the September quarter is $60.1m.

3.13.3 The Fund is in the harvesting phase of its life cycle and continues to benefit from the realization of investments. The COVID-19 pandemic has interrupted progress on real estate business plans across the globe. Our expectation is that the primary effect upon the Fund will be a delay in execution of asset sales.

3.13.4 Fund II is fully invested and the completed portfolio of 10 holdings consist of a diverse mix of property sectors including office, retail and industrial uses and the invested geographic exposure is 6% Asia, US 26% and 68% Europe. The admission period to accept new commitments from investors was extended with our consent through to June 2017 when it finally closed. The total capital call to the quarter end was $36m and a distribution of $33.9m. There was no call or distribution during this quarter and the NAV is $20m.

3.13.5 Members should note that with both Fund I & II fully drawn down and distributions planned in 2021, for Islington to achieve its asset allocation there is an opportunity to commit to Fund III of $40 to $60m.

3.13.6 Fund III is now scheduled to have its final close at the end of December. The Fund manager has been invited to present to Members on past performance, pipeline of this new Fund and cashflow position for Islington for Fund I and II to illustrate re-investment of cash to Fund III.

3.13.7 Members are asked to consider the presentation and decide if the case to re-invest will be beneficial to the Fund objectives and if so delegate responsibility to Officers to complete the fund subscription. The current fees will remain the same if the minimum investment is $40m.

3.14. **Legal and General**

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.
Member agreed restructuring in 2016, and the funding of BMO (our emerging market manager and restructuring of the fund to the MSCI World Low Carbon was completed on 3rd July 2017.

3.14.2 The components of the new mandate as at the end of June inception, was £138m and benchmarked against MSCI World Low Carbon Index and £34m benchmarked against RAFI emerging markets. For the quarter, the fund totalled £182m with a performance of 2.3%.

3.14.3 The equity protection strategy was settled on 12 June with a total cash value of £74.6m now invested in a money market fund but earmarked to fund the new Multi Asset Credit mandate.

3.15 **Hearthstone**

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:

- Target performance: UK HPI + 3.75% net income.
- Target modern housing with low maintenance characteristics, less than 10 years old.
- Assets subject to development risk less than 5% of portfolio.
- Regional allocation seeks to replicate distribution of UK housing stock based on data from Academics. Approximately 45% London and South East.
- 5-6 locations per region are targeted based on qualitative and quantitative assessments and data from Touchstone and Connells.
- Preference is for stock which can be let on Assured Shorthold Tenancies (ASTs) or to companies.
- Total returns expected to be between 6.75% and 8.75% p.a., with returns split equally between income and capital growth. Net yields after fund costs of 3.75% p.a.
- The fund benchmark is the LSL Academetrics House Price Index

3.15.2 For the September quarter the value of the fund investment was £29.1m and total funds under management is £60m. Performance net of fees was 0.41% compared to the IPD UK All Property benchmark of 0.6%.

Officers continue to monitor the fund on a quarterly basis with discussions with management. On 1 July as agreed, we switched from our current accumulation share class to an income share class that will enable annual cash dividend distribution at around 650k.

3.15.3 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 September. They are working closely with their tenants to help them through this period and they in turn have been amazing in engaging with them.

3.16 **Schroders-**

3.16.1 This is the Fund's diversified growth fund manager. The fund inception date was 1 July 2015, with an initial investment of £100million funded by withdrawals from our equities portfolios**.** The agreed mandate guidelines are as follows:

- Target performance: UK RPI+ 5.0% p.a.,
- Target volatility: two thirds of the volatility of global equities, over a full market cycle (typically 5 years).
- Aims to invest in a broad range of assets and varies the asset allocation over a market cycle.
- The portfolio holds internally managed funds, a selection of externally managed products and some derivatives.
- **Permissible asset class ranges (%):**
  - 25-75: Equity

- 0- 30: Absolute Return
- 0- 25: Sovereign Fixed Income, Corporate Bonds, Emerging Market Debt, High Yield Debt, Index-Linked Government Bonds, Cash
- 0-20: Commodities, Convertible Bonds
- 0- 10: Property, Infrastructure
- 0-5: Insurance-Linked Securities, Leveraged Loans, Private Equity.

3.16.2 The value of the portfolio is now £121m**.** The aim is to participate in equity market rallies, while outperforming in falling equity markets. The September quarter performance before fees was 3.2% against the benchmark of 1.76% (inflation+5%). The one -year performance is 3.2% against benchmark of 6.1% before fees.

3.16.3 Positive returns were achieved across return-seeking assets, led by global and US equities. Gains in credit and convertible bonds supplemented returns, while government bonds were flat. Alternative assets contributed to returns, driven by insurance-linked strategies and gold.

3.17 **BMO Global Assets Mgt**

This is the new emerging and frontier equity manager seeded in July 2017 with a total £74.4m withdrawn from LGIM. The mandate details as follows:

- A blended portfolio with 85% invested in emerging market and 15% in frontier markets
- Target performance MSCI Emerging Markets Index +3.0% (for the global emerging markets strategy)
- Expected target tracking error 4-8% p.a
- The strategy is likely to have a persistent bias towards profitability, and invests in high quality companies that pay dividends.

3.17.1 The September quarter saw a combined performance of 5.9% against a benchmark of 4.8% before fees. Positions in Taiwan, India and Russia added most value to performance. Positions in Mexico and a lack of exposure to the strong Korean market as well as having less than benchmark exposure to China detracted performance.

3.17.2 The strategy remains to continue to research new companies that appear worthy of capital and continue to have a close communication with our existing investments to push them to higher business and governance standards which are believed to ultimately enhance long term return.

3.18 **Quinbrook Infrastructure**

This one of the infrastructure managers appointed in November 2018. The total fund allocation infrastructure was 10% circa £130m. 40% of the allocation equivalent to $67m was allocated to low carbon strategy. Merits of Quinbrook include:

- Low carbon strategy, in line with LB Islington's stated agenda
- Very strong wider ESG credentials
- 100% drawn in 12-18 months
- Minimal blind pool risk
- Estimated returns 7%cash yield and 5% capital growth

Risks: Key Man risk

Drawdown to September 2020 is $63.4m

Pantheon Access- is the other infrastructure manager also appointed in November 2018. Total allocation was $100m and merits of allocation included:

- 25% invested with drawdown on day 1
- Expect fully drawn within 2-3 years
- Good vintage diversification between secondary's and co-investments
- Exposure to 150 investments
- Estimated return 5% cash yield and 6% capital growth

Risks: No primary fund exposure.

Drawdown to September 2020 is $33.85 and distribution of $3.75m

4. Implications

4.1 **Financial implications:**
The fund actuary takes investment performance into account when assessing the employer contributions payable, at the triennial valuation.

Fund management and administration fees and related cost are charged to the pension fund.

4.2 **Legal Implications:**
As the administering authority for the Fund, the Council must review the performance of the Fund investments at regular intervals and review the investments made by Fund Managers quarterly.

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

An equalities impact assessment has not been conducted because this report is an update on performance of existing fund managers and there are no equalities issues arising**.**

4.4 **Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:**
Environmental implications will be included in each report to the Pensions-sub committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of fund in green opportunities. The link to the full document is https://www.islington.gov.uk/~/media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonborough ngtonpensionfundinvestmentstrategystatement.pdf

5. Conclusion and reasons for recommendations

5.1 Members are asked to note the performance of the fund for the quarter ending September 2020 as part of the regular monitoring of fund performance and Appendix 1- MJ Hudson commentary on managers. To note September 2020 LGPS Current Issues attached as Appendix 2.
Members are also asked to receive a presentation from Franklin Templeton and decide to commit to a re-investment in Fund III.

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

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MJ HUDSON
Allenbridge

London Borough of Islington

Report to 30th September 2020

MJ Hudson Allenbridge

NOVEMBER 2020

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This document is directed only at the person(s) identified on the front cover of this document on the basis of our investment advisory agreement. No liability is admitted to any other user of this report and if you are not the named recipient you should not seek to rely upon it. We note that you have requested that our focus in these reports is on recent short term performance notwithstanding that the FCA Rules would generally require us to place less emphasis on past performance and provide performance numbers over the longer term.

Fund Manager Overview

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

TABLE 1:

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT	CHANGE IN STRATEGY/ RISK
LCIV Global Equity Fund (Newton) (active global equities)	The manager has hired replacements for most of the recent departures. However Rob Marshall-Lee, head of EM team, will leave the firm in November and the current COO, Andrew Downs, will act as interim CEO following Hanneke Smits promotion to CEO of BNY Mellon Investment Management.	Outperformed the benchmark by 0.26% in the quarter. Over three years the fund is ahead of the benchmark return by +1.70%, and above the performance target of +1.50% p.a.	As at end September the sub- fund's value was £665.4 million. London Borough of Islington owns 39.13% of the sub-fund.	
LCIV Sustainable Equity Fund (global equities)	None reported by the London CIV.	In Q3 2020 the fund delivered a return of +6.14%, ahead of the benchmark return of +3.15%. Over one year, the fund is +9.46% ahead of the benchmark.	As at end September the sub- fund's value was £499.4 million. London Borough of Islington owns 29.51% of the sub-fund.	
BMO/LGM (emerging and frontier equities)	Fredrik Axsater was appointed as Chief Executive Officer (CEO) of LGM, reporting to Kristi Mitchem. Two analysts joined the team during the quarter.	Outperformed the benchmark by 1.11% in the quarter to September 2020. The fund is behind over three years by -3.52%.	Not reported.	

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT	CHANGE IN STRATEGY/ RISK
Standard Life (corporate bonds)	There were 5 joiners, but 28 people left the firm during the quarter. One of the joiners, and five of the leavers related to the fixed income group.	The fund was marginally behind the benchmark by -0.19% in the quarter to September 2020. Over three years the fund is +0.45% p.a. ahead of the benchmark return net of fees, but behind the performance target of +0.8% ahead p.a.	The value of Standard Life's total pooled fund at end September 2020 stood at £2,642.8m, £14.7m higher than at the end of September 2020. London Borough of Islington's holding of £167.8m stood at 6.3% of the total fund value.	
Aviva (UK property)	None reported.	Outperformed against the gilt benchmark by +2.86% for the quarter to September 2020 but underperformed the benchmark over three years by -2.02%, delivering a return of +4.84% p.a., net of fees.	Fund was valued at £2.84 billion as at end Q3 2020. London Borough of Islington owns 4.5% of the fund.	
Columbia Threadneedle (UK property)	Three joiners and five leavers in Q3 2020 Nathan Hargreaves, the Fund Manager for the TPEN fund, will be leaving the firm.	The fund slightly outperformed the benchmark return in Q3 2020 by +0.08%. It underperformed the benchmark by -2.18% 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 4.09% of the fund.	

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MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT	CHANGE IN STRATEGY/RISK
Legal and General (passive equities)	Not reported by LGIM.	Funds are tracking as expected.	Assets under management of £1.2 trillion at end June 2020. Net flows of +£45 billion in H1 2020.	
Franklin Templeton (global property)	During Q3 2020 there were no new joiners or leavers.	The portfolio return over three years was +19.18% p.a., well ahead of the target of 10% p.a. although the fund fell in value in Q3.	$622.8 billion of assets under management as at end June 2020.	
Hearthstone (UK residential property)	Alan Collett, Fund Manager, retired from the day-to-day running of the fund. However, he still remains a Non-Executive Member of Hearthstone Asset Management Ltd and is still a voting member of the fund.	The fund underperformed the IPD UK All Property Index by -0.22% in Q3. Trailing the IPD benchmark over three years by -0.85% p.a. to end September 2020.	Fund was valued at £60.0m at end Q3 2020. London Borough of Islington owns 48.5% of the fund.	

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT	CHANGE IN STRATEGY /RISK
Schroders (multi-asset diversified growth)	During Q3, no changes to investment team.	Fund returned +3.20% during the quarter and +2.97% p.a. over 3 years, -4.31% behind the target return.	Total AUM stood at £536.3 billion as at end September 2020, an increase of £10.5 billion since last quarter.	Fund volatility at low end of expectations at present. At end September it was 50% of equity market volatility compared with an expected maximum of 66%.
Quinbrook (renewable energy infrastructure)	Two joiners in the US team, a Director and a Senior Director. No leavers.	For the year to Q3 2020 the fund returned -4.78%, 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 +12.83% p.a. over three years.		

Source: MJ Hudson Allenbridge

Minor Concern

Major Concern

Individual Manager Reviews

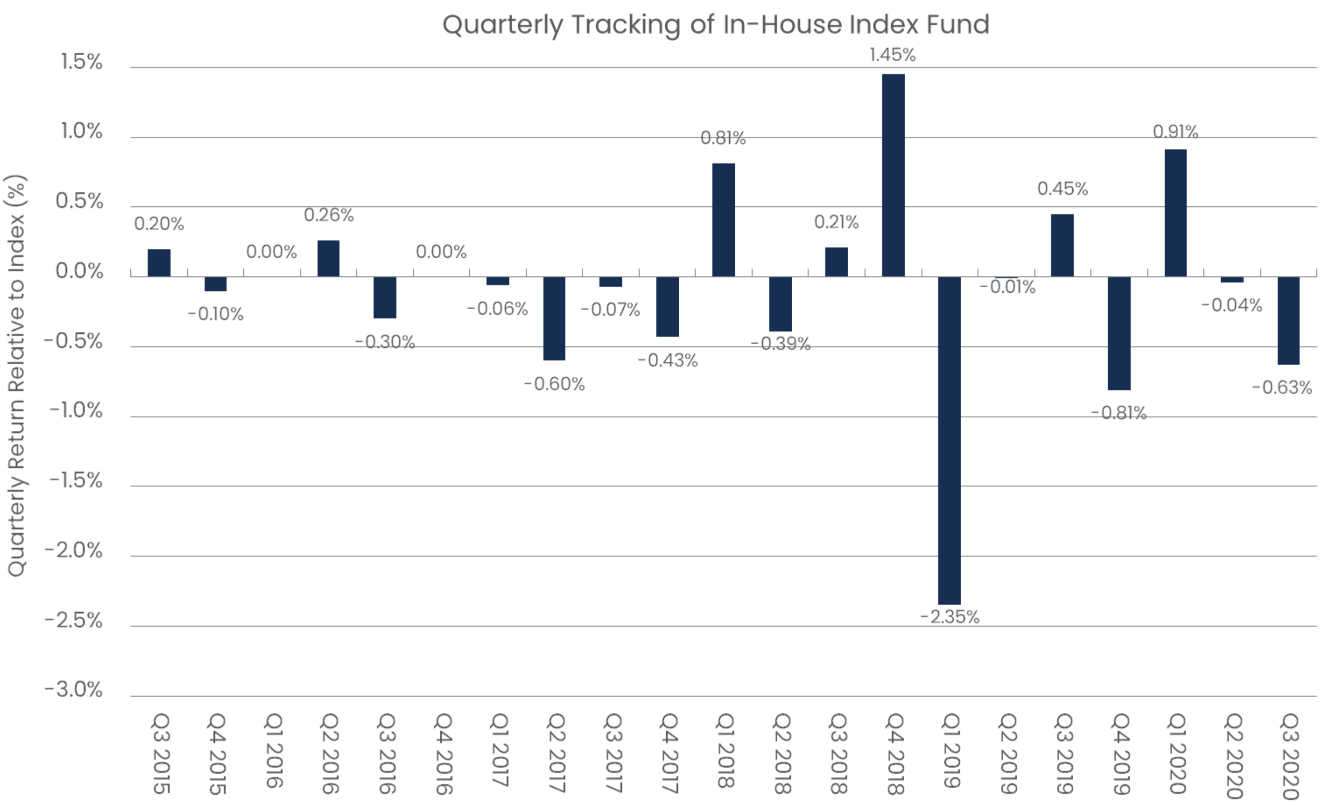
In-house – Passive UK Equities – FTSE UK Low Carbon Optimisation Index

Headline Comments: At the end of Q3 2020 the fund returned -2.29% for the quarter, compared to the FTSE All-Share index return of -2.92%. Over three years the fund has returned -2.43% p.a., ahead of the FTSE All-Share Index by +0.78%.

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 +0.78% p.a.

CHART 2:



Source: MJH Allenbridge; BNY Mellon

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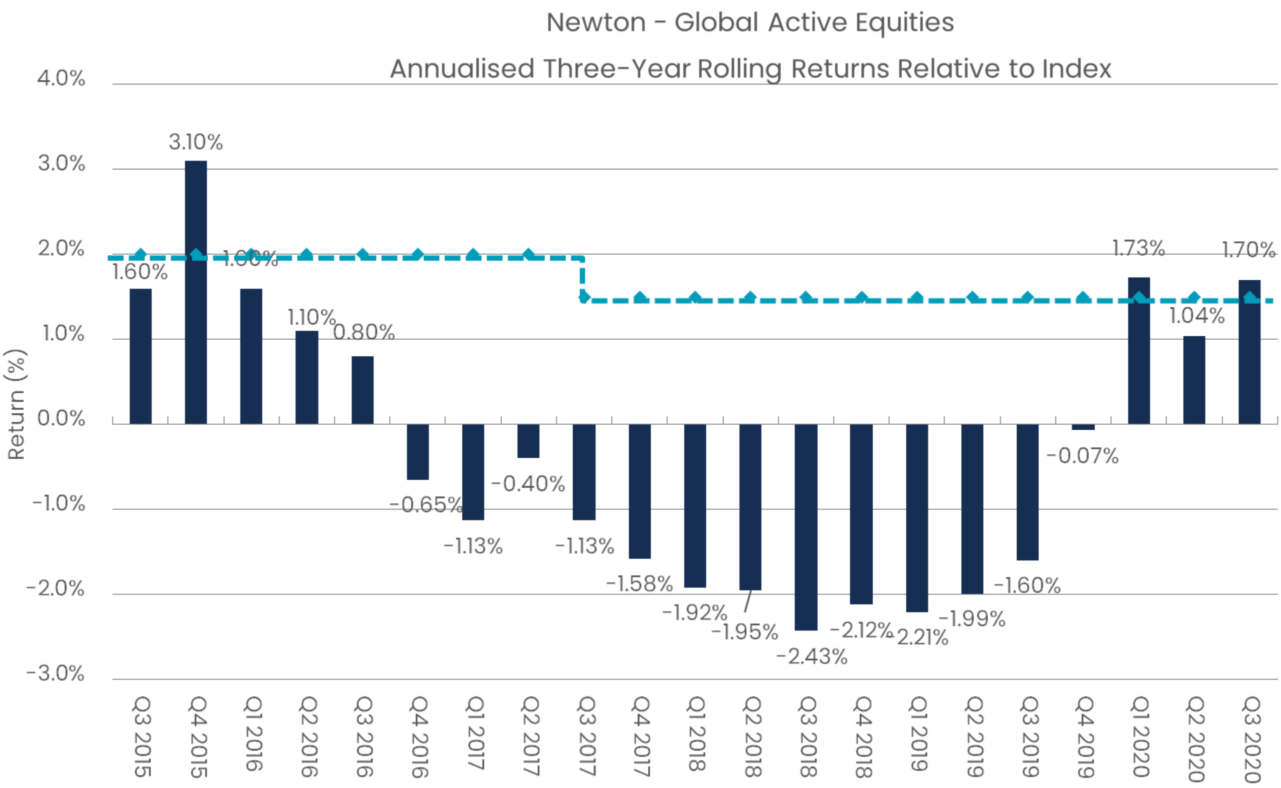
LCIV Global Equity Fund (Newton) – Global Active Equities

Headline Comments: The LCIV Global Equity Fund outperformed its benchmark during Q3 2020 by +0.26%. Over three years the portfolio outperformed the performance target of benchmark +1.5% p.a, and outperformed the benchmark by +1.70%.

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 Q3 2020, the fund was ahead of the benchmark by +1.70% p.a. This means it outperformed the performance objective by +0.20% (the performance objective is shown by the dotted line and dropped in May 2017 when the assets transferred into the London CIV sub-fund).

Overall, the portfolio's sector allocation has aided performance while individual stock selection has detracted from performance. Their decision to overweight information technology versus a relative underweight in energy helped performance in Q3.

Positive contributions to the total return came from holdings such as Apple (+0.95% contribution to the total return), Alibaba Group Holdings (+0.65%) and Taiwan Semiconductor Manufacturer (+0.39%).

Although previously the London CIV has expressed concern over lacklustre performance, the fund return is now outperforming the benchmark by +2.81% over one year.

Portfolio Risk: The active risk on the portfolio stood at 3.26% as at quarter end, greater than as at end June when it stood at 3.09%. The portfolio remains defensive, with the beta on the portfolio at end September 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 Q3 2020, the London CIV sub-fund's assets under management were £665.4m, compared with £692m last quarter. London Borough of Islington now owns 39.13% of the sub-fund.

Portfolio Characteristics: The number of stocks in the portfolio stood at 59 as at quarter-end (equal to last quarter). The fund added three positions, Texas Instruments, Meituan Dianping, and Albemarle. It completed sales on Japan Tabacco, Seven & I Holdings, Rolls-Royce Holdings.

Staff Turnover: The manager has hired replacements for most of the recent departures. However Rob Marshall-Lee, head of Emerging Markets team, will leave the firm in November. The current Chief Operating Officer, Andrew Downs, will act as interim CEO until a replacement for Hanneke Smith is found.

LCIV Sustainable Equity Fund

Headline Comments: Over Q3 2020 the fund delivered a return of +6.14%, this was ahead of the benchmark return of +3.15%. The one year return was +14.70%, ahead of the benchmark by +9.46%. Islington's investment makes up 29.51% 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, consumer discretionary, industrials and utilities. Performance was primarily driven by exposure to industrials, information technology and utilities with the financial sector detracting from performance.

Portfolio Characteristics: As at end of September 2020 the fund had 36 holdings across 13 countries. The tracking error of the fund was 3.52% meanwhile volatility stood at 16.11%. Over the quarter the largest contributors to return include Taiwan Semiconductor Manufacturer (+0.92%), Nidec (+0.90%), and Deutsche Post (+0.87%). There largest detractors include EOG Resources (-0.64%), Blackstone Group (-0.29%) and Roche Holdings (-0.26%).

BMO/LGM – Emerging Market Equities

Headline Comments: The total portfolio delivered a return of +5.96 % in Q3 2020, compared with the benchmark return of +4.85%, an overperformance of +1.11%. The emerging market component of this portfolio returned +11.56% (source: BMO, and in US dollars) compared with the index return of +9.56%. The frontier markets portfolio was behind the index return of +8.1%, delivering a return of +5.31% (source: BMO, and in US dollars). Over one year, the total fund is behind of the benchmark return by -10.71% (source BNY Mellon, in sterling). Over three years, the fund has returned +0.55%, compared to the index return of +4.07%. The fund has underperformed the index by -3.52%.

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: This was a better quarter for the manager, particularly in the emerging markets portfolio. Positions in Taiwan, India and Russia were noteworthy for the positive contributions they made. A significant detractor from relative performance this quarter was a position not owned, Alibaba.

During the quarter, the largest positive contributors to performance for the emerging markets portfolio came from Taiwan Semiconductor Manufacturing (+2.1%), Inner Mongolia Yili Industrial Cny (+1.2%), and Infosys (1.1%). Companies which detracted most from performance included Femsa Units (-0.2%), Jeronimo Martins (-0.2%), and Bank Mandiri Persero (-0.1%).

In the frontier market portfolio, the top positive contributors to performance were Guaranty Trust Bank (+1.4%), Aramex PJSC (+1.3%), and Evertec Inc (+1.2%). Companies which detracted the most from performance were Bank of Georgia Group (-0.6%), Newgold Issuer Ltd (-0.6%), and Georgia Capital Plc (-0.4%).

Over one year, the frontier market portfolio continues to trail behind the benchmark. The return over 12 months was -18.09% versus the benchmark return of -4.20% (source BMO, in US dollars). The level of underperformance is something to monitor closely over coming months.

Portfolio Risk: Within the emerging markets portfolio, 13.8% was allocated to developed or frontier markets, and cash was at 2.7% as at quarter-end. Turnover for the previous 12 months was 43.5%. The largest overweight country allocation in the emerging markets portfolio remained India (+18.3% overweight). The most underweight country allocation was China/HK (-15.7%).

Within the frontier markets portfolio, it is worth noting that 58.9% 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 September 2020). The most overweight country allocation remained Egypt (+14.3%) and the most underweight was Kuwait (-13.2%).

Portfolio Characteristics: The frontier markets portfolio held 35 stocks as at end September compared with the benchmark which had 89. The emerging markets portfolio held 33 stocks as at end September 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.

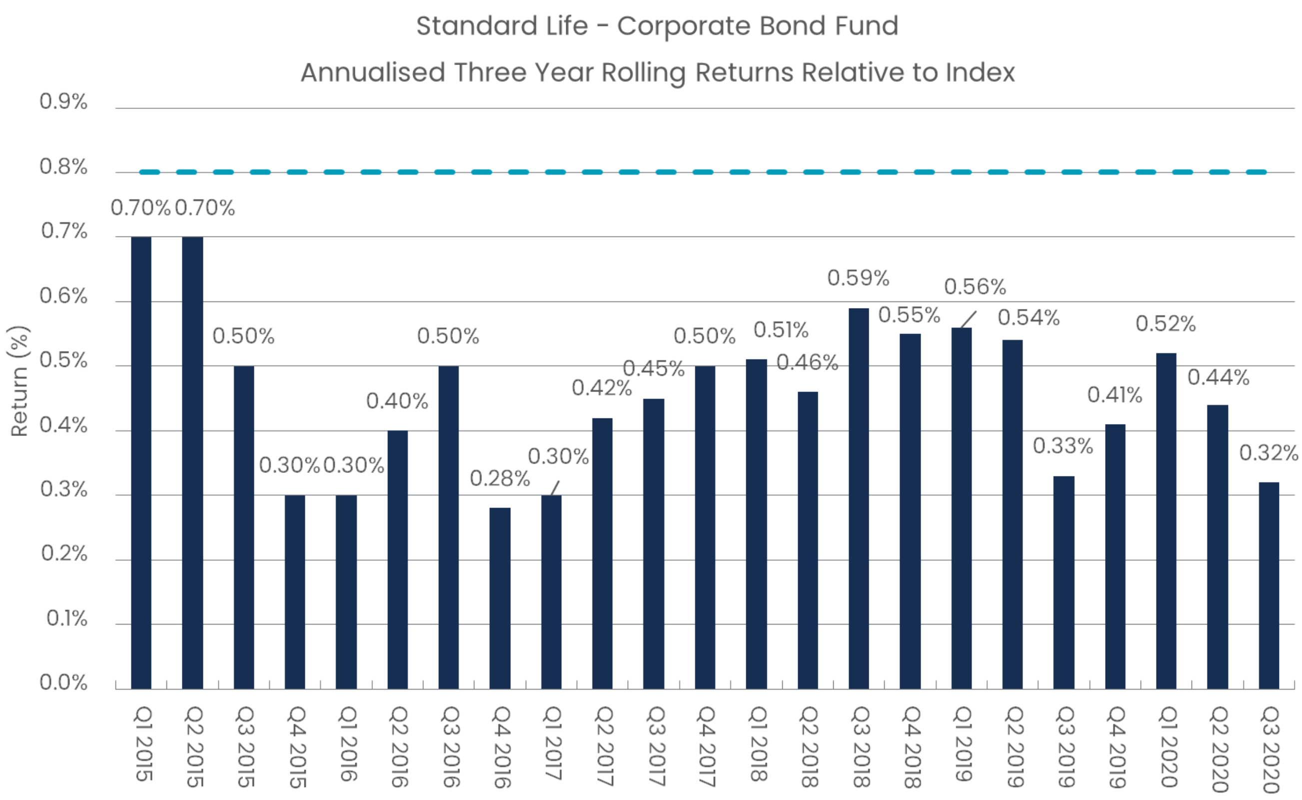
Standard Life – Corporate Bond Fund

Headline Comments: The portfolio was marginally behind the benchmark return during the quarter by -0.19%. Over three years, the fund was ahead of the benchmark return (by +0.45%) 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 +5.08% p.a. net of fees, compared to the benchmark return of +4.63% p.a. Over the past three years, asset allocation has added +0.16% value, meanwhile stock selection has detracted -0.17% followed by curve plays -0.01%.

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 (+8.3%) and the largest underweight position remained sovereigns and sub-sovereigns (-15.1%). The fund holds 3.2% of the portfolio in non-investment grade (off-benchmark/BB and below) bonds.

Portfolio Characteristics: The value of Standard Life's total pooled fund at end September 2020 stood at £2,642.8m, £14.7m higher than at the end of June 2020. London Borough of Islington's holding of £167.82m stood at 6.4% of the total fund value (compared to 6.3% last quarter).

Staff Turnover: there were 5 joiners, but 28 people left the firm during the quarter. One of the joiners, and five of the leavers related to the fixed income group.

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Aviva Investors – Property – Lime Property Fund

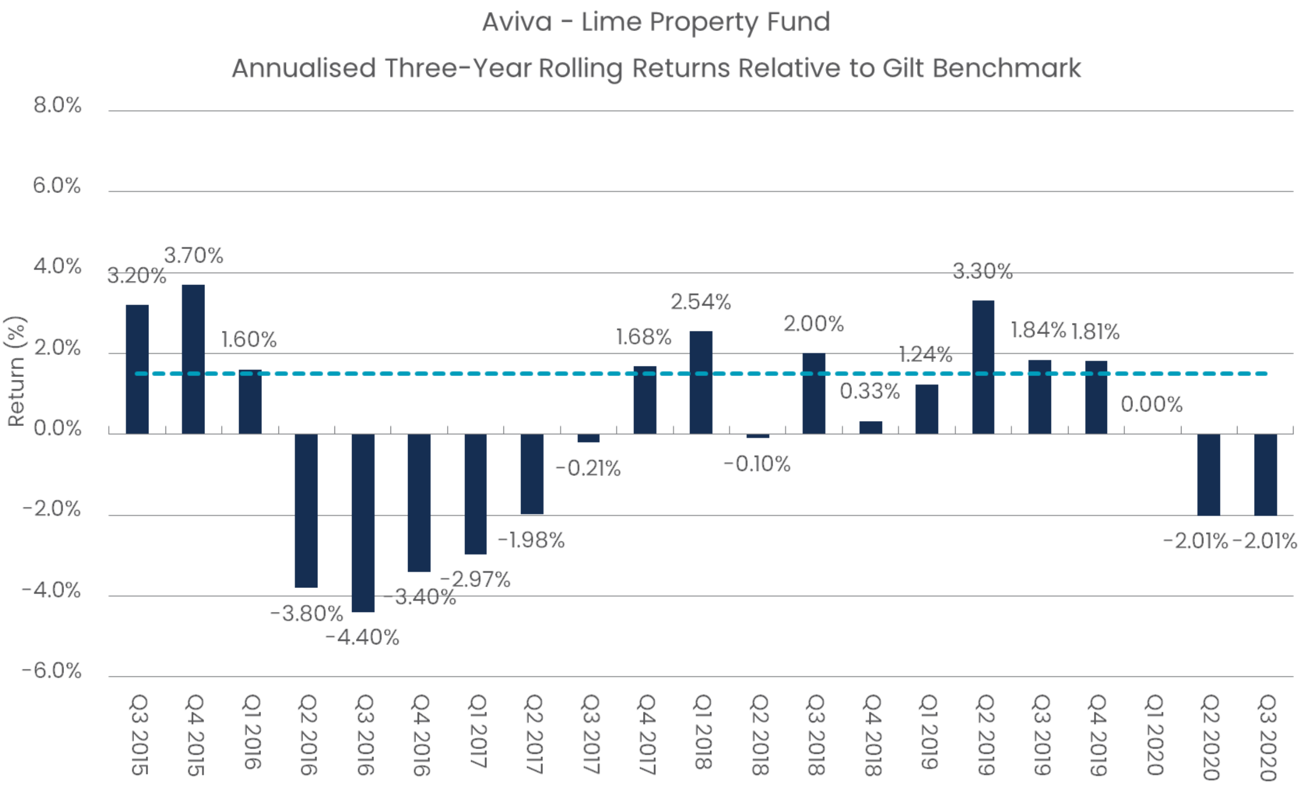
Headline Comments: The Lime Fund delivered another quarter of steady and positive absolute returns, it surpassed the fund benchmark return, with a relative overperformance of +2.86% in Q3. Over three years, the fund is behind the benchmark return by -2.02%. As of early July, the fund resumed trading following its earlier suspension.

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 Q3 2020 return was attributed by Aviva to +0.7% capital return and +0.9% income return.

Over three years, the fund has returned +4.84% p.a., below the gilt benchmark of +6.85% 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, 61% of the return came from income and 39% from capital gain.

Portfolio Risk: This quarter the fund added two new investments, the first being approximately £55m in an acquisition of development funding in Bristol. This is being pre-let for 15 years with 5 annual rent reviews of CPI+1%, and a net initial yield of 4.8%. The second asset purchase was a £48m acquisition of a new office building in Coventry pre-let to Cadent Gas. This is for 25 years with 5 annual RPI-linked rent reviews and a net initial yield of 4.3%.

The fund has £296 million of investible capital and the manager believes the current drawdown period for new capital is 12-18 months.

The average unexpired lease term was 20.7 years as at end September 2020. 12.0% 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 increased from 85 to 87 in Q3. The weighted average unsecured credit rating of the Lime Fund remained A-.

Portfolio Characteristics: As at September 2020, the Lime Fund was valued at £2.84 billion, an increase of £128 million from the previous quarter end. London Borough of Islington's investment represents 4.5% 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.

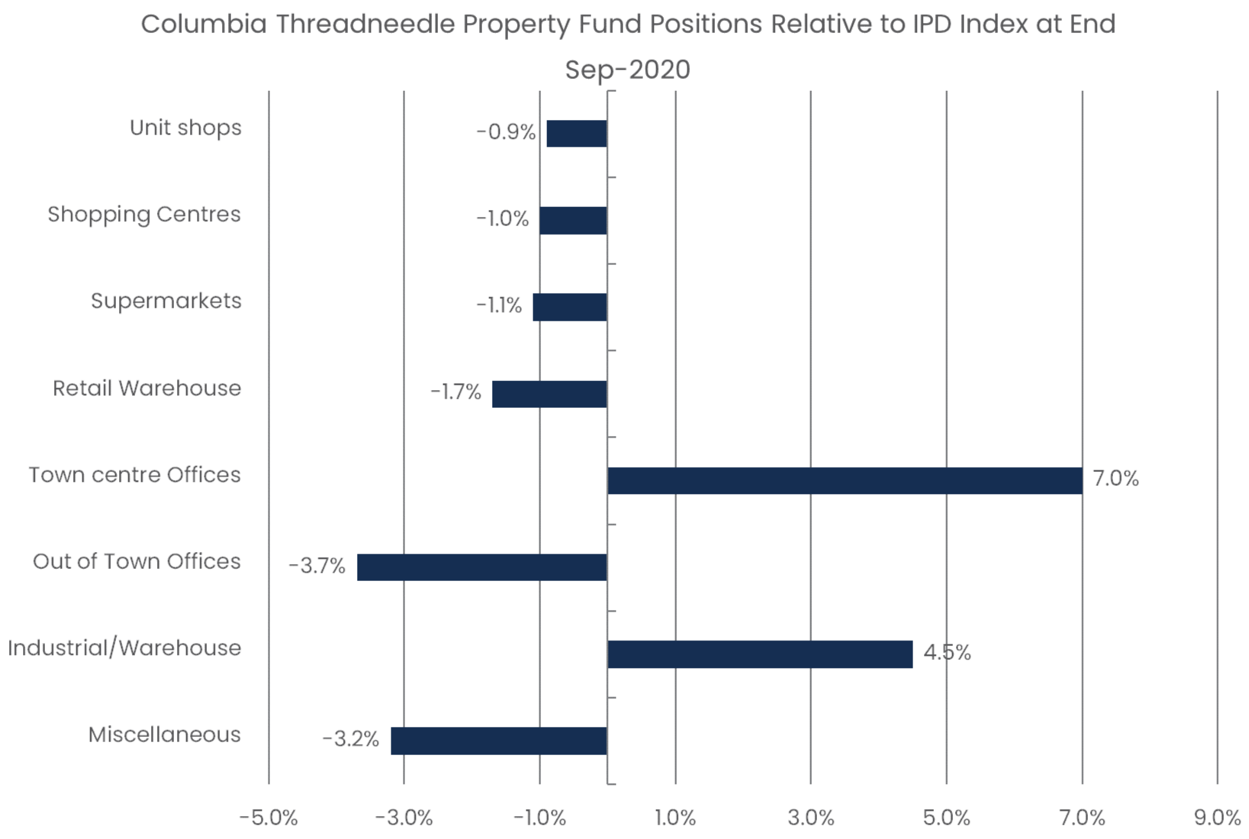
Columbia Threadneedle – Pooled Property Fund

Headline Comments: The fund outperformed the benchmark return in Q3 2020 (source: Columbia Threadneedle) by +0.1%. Over three years, the fund performed in line with the benchmark (source: Columbia Threadneedle) and as such is behind the performance target of +1.0% p.a. above benchmark. On the 17th of September dealing resumed following the fund's previous suspension.

Mandate Summary: An actively managed UK commercial property portfolio, the Columbia Threadneedle Pooled Property Fund invests in a diversified, multi-sector portfolio of UK property assets. Its performance objective is to outperform the AREF/IPD All Balanced – Weighted Average (PPFI) Index by at least 1.0% p.a., net of fees, on a rolling three-year basis.

Portfolio Risk: Chart 6 shows the relative positioning of the fund compared with the benchmark.

CHART 6:



Source: MJH Allenbridge; Columbia Threadneedle

During the quarter, the fund made two strategic acquisitions and three sales.

The fund's void rate has increased from 9.3% as at end June to 9.7% at end September, versus the benchmark's 9.2%. 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 September was 9.6%.

The manager reported that they have been strategically repositioning the portfolio sub-sector weightings to ensure that the fund is well positioned to capitalise on market conditions over the next three to five years.

Performance Attribution: The portfolio slightly outperformed the benchmark in Q3 2020, by 0.1% (source: Columbia Threadneedle). Over three years, the fund is in line with its benchmark, with a return of +2.6% 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 September 2020, the fund was valued at £1.99bn, in line with the fund's value in June 2020. London Borough of Islington's investment represented 4.09% of the fund.

Staff Turnover: Columbia Threadneedle announced that Nathan Hargreaves, the Fund Manager for the TPEN portfolio, will be leaving the firm to pursue other career opportunities. Robin Jones will be replacing Nathan Hargreaves as the new fund manager, working with Jenny Hewitt who has become the deputy fund manager. Robin Jones has 15 years' experience. He began his career as a property agent for CBRE in Manchester, sourcing assets. He was recruited in 2013 as an investment surveyor by Nathan Hargreaves and became the deputy fund manager on TPEN in May 2018.

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 in Q3.

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:

	Q3 2020 FUND	Q3 2020 INDEX	TRACKING
FTSE-RAFI Emerging Markets	-2.96%	-2.95%	0.00%
MSCI World Low Carbon Target	+3.44%	+3.48%	-0.04%

Source: LGIM

Portfolio Risk: The tracking errors are all within expected ranges. The allocation of the portfolio, as at quarter end, was 84.34% to the MSCI World Low Carbon Target index fund, and 15.66% 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 +9.18%.

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 September 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. Nine of the underlying Funds in the portfolio have now been fully realised, and total distributions to date have been US$494.2 million, or 154.8% of total Fund equity. The Fund's use of leverage was at 44% for the quarter.

The largest remaining allocation in Fund I is to the US (50% of funds invested), followed by Spain (30%), Italy (9%), and Japan (6%). 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

MJ HUDSON Allenbridge

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 in a diverse mix of property sectors including office, retail and industrial uses and is continuing to make distributions. As at end September 2020, 74.0% of committed capital had been distributed. Leverage stood at 53%.

The largest geographic allocation in Fund II is to Italy (54% of funds invested), followed by the US (37%) and China (7%).

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

Staff Turnover/Organisation: During Q3 2020 there were no new joiners or leavers.

Hearthstone – UK Residential Property Fund

Headline Comments: The portfolio underperformed the benchmark for the quarter ending September 2020 as well as over three years. Although in March the fund was suspended for dealing, due to uncertainty in valuations, the suspension was lifted on 21st July 2020.

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

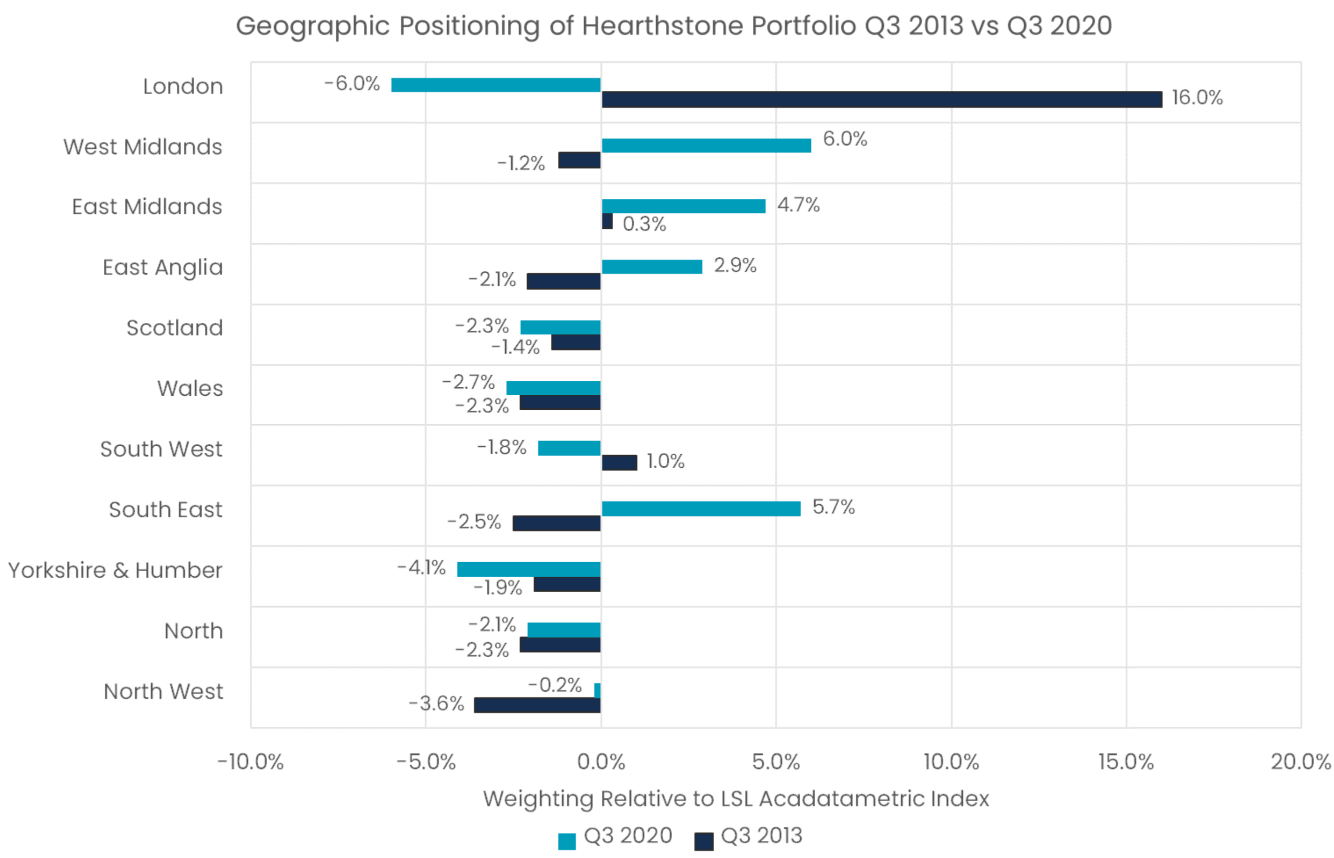
Mandate Summary: The fund invests in private rented sector housing across the UK and aims to outperform the LSL Acadametrics House Price Index (note that this excludes income), as well as providing an additional income return. The benchmark used by BNY Mellon is the IPD UK All Property Monthly Index.

Performance Attribution: The fund underperformed the IPD index over the three years to September 2020 by -0.85% p.a., returning +2.38% p.a. versus the index return of +3.23% p.a. The gross yield on the portfolio as at September 2020 was 4.95%. Adjusting for voids, however, the yield on the portfolio falls to 4.37%.

Portfolio Risk: The cash and liquid instruments on the fund stood at 15.20%.

Chart 8 compares the regional bets in the portfolio in Q3 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 September there were 204 properties in the portfolio and the fund stood at £60.0 million. London Borough of Islington's investment represents 48.5% of the fund. This compares with 72% at the start of this mandate in 2013.

Organisation and Staff Turnover: In Q3 there were no new joiners. During the quarter Alan Collett retired from the day-to-day running of the fund. However, although he has left in his executive capacity he still remains a Non-Executive Member of Hearthstone Asset Management Ltd and is still a voting member of the fund.

Schroders – Diversified Growth Fund (DGF)

Headline Comments: The DGF delivered a positive return in Q3 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 -4.31%.

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 +3.20% in Q3 2020. This is +1.43% ahead of the RPI plus 5% p.a. target return of +1.76% for Q3. Over three years, the DGF delivered a return of +2.97% p.a. compared with the target return of +7.27% p.a., behind the target by –4.31% 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 Q3 2020, equity positions contributed +3.3% to the total return, alternatives +0.4%, credit and government debt +0.8%, and cash and currency detracted -1.2% (figures are gross of fees).

The return on global equities was +5.90% p.a. for the three years to September 2020 compared with the portfolio return of +2.97%. 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 8.0% compared to the three-year volatility of 15.9% in global equities (i.e. 50% 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 38% in internally managed funds (up from last quarter's 34% allocation), 35% in active bespoke solutions (down from 37% last quarter), 3% in externally managed funds (same as last quarter), and 21% in passive funds (down from 26% last quarter) with a residual balance in cash, 4% (up from 1% last quarter), as at end September 2020. In terms of asset class exposure, 43.0% was in equities, 16.4% was in alternatives and 36.6% in credit and government debt, with the balance in cash, 4.0%

Alternative assets include absolute return funds, property, insurance-linked securities, private equity.

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

Quinbrook – Low Carbon Power Fund

Headline Comments: Performance for the year to 30th September 2020 was negative at -4.78%, 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 Q3 2020, on an unaudited basis, the fund had invested $566.8 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 1,370MW (including those with minority stakeholders) as at 30 September 2020.

Organisation: During the quarter there were two additions to the US Investment Team, Val Angelkov joining Quinbrook as a Senior Director and Shalini Ramanathan joining as Director. There were no leavers during the quarter.

Pantheon – Infrastructure and Private Equity Funds

Headline Comments: Over three years the return on the combined private equity and infrastructure funds was +12.83% per annum.

Karen Shackleton
Senior Adviser, MJ Hudson Allenbridge
13th November 2020

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MERCER

LGPS CURRENT ISSUES

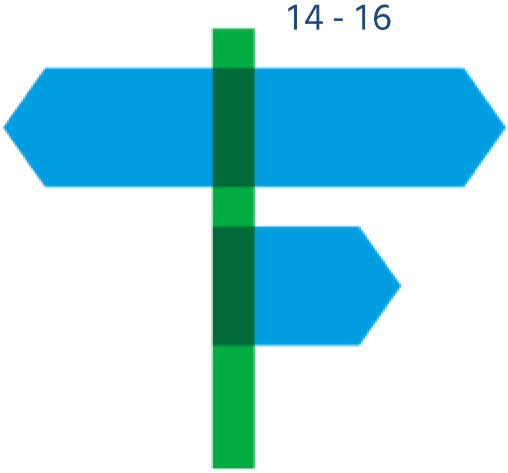
SEPTEMBER 2020

welcome to
brighter

In this edition

There is never a quiet time in the LGPS but in recent months we have seen a flurry of activity including further developments on McCloud, exit payments and contribution flexibility against the backdrop of the continuing challenges associated with the COVID-19 outbreak. This extended edition of LGPS Current Issues focuses on key developments in these areas over the last few months.

We continue to support our clients through these changes and our message to Funds is to continue to plan carefully – if you are not ahead then you're behind. Your usual Mercer team is available to support you as needed throughout this period of rapid change.



COVID-19

Ongoing considerations

Over recent months we have seen strong returns in growth assets with some funding levels returning near to their pre Covid levels on like-for-like assumptions and, more generally, the UK economy recording strong growth, albeit from a significantly lower base (and still remains far below pre-pandemic levels). This is welcome news after a challenging summer! From an operational perspective, Funds have generally responded well to the challenges of lockdown and the continued home working following the lockdown easements. However looking ahead, as we head towards winter this good news continues to be overshadowed by the great uncertainty as to what lies ahead and how the virus could impact on health and the economy globally.

In the UK, the Furlough scheme is unwinding and once this sticking plaster has been fully removed, we will see the full economic impact of the summer lockdown and softer restrictions that have followed. In the private sector, the services industries are likely to be hardest hit whilst in the public sector, the anticipated budget cuts will create challenges across the board, albeit this is likely to fall behind the private sector in terms of the timing of when the impact will be felt.

From a funding perspective, whilst some funding levels have nearly returned to their pre Covid levels on like for like assumptions (and benefits), the outlook for future investment returns has reduced. This means that the likelihood of achieving the existing targets is expected to be lower – or put another way, the risk of additional contributions being needed in the future has increased. This is at a time when the ability for many employers to pay additional contributions is expected to be lower. Adding into the melting pot the benefit improvements arising from applying the McCloud underpin more broadly, and potential cost cap mechanism uplifts, it is clear that the overall risk to be managed has increased. This does not necessarily mean an immediate step up in employer contributions for 2022, but a flexible and balanced approach will be critical and we will work with you to achieve this. Where Mercer is your Fund Actuary, employers will at least have been forewarned and had the opportunity to budget for the McCloud impact, even if a decision was taken not to reflect this in contributions as part of the 2019 valuation.

Ongoing monitoring of funding and covenant will become an ever important feature of Fund governance going forwards and our PFaroe tool is available to provide you with easy access to daily funding information at your fingertips. We recommend a proportionate approach to monitoring however, as we recognise that budgets will be challenging and therefore it will be important to target spend where the quantum of risk exposure is greatest. Your usual Mercer consultant will be well placed to guide you on what this means for your Fund.

The articles that follow comment further on the contribution flexibilities being introduced that will help Funds and their employers through the potentially challenging road ahead, whilst balancing overall risk in the Fund.

THE EASING OF COVID-19 RESTRICTIONS

Extension of the furlough scheme

As thinking turns towards easing lockdown and the long-term response to the COVID-19 pandemic, the Chancellor announced that the Coronavirus Job Retention Scheme ("CJRS") would be extended until the end of October this year. Provided certain conditions are met, the CJRS allows employers to put employees on temporary absence from work ("furlough") from 1 March 2020, while claiming for a portion of their pay, pension contributions and associated National Insurance contributions under the government scheme.

Adapting to the new COVID-19 workplace: impact on pensions and benefits

As the COVID-19 restrictions are eased, employees may return to work for the first time since lockdown, and some of them may return on a newly part-time basis. Employers may be considering re-deployment of staff, changing roles, hours and pay, and possibly asking (or requiring) some employees to take an unpaid or partly paid sabbatical. This may result in additional queries from employers and members around their benefit entitlements.

CORPORATE INSOLVENCY AND GOVERNANCE ACT

The Government has brought a new Corporate Insolvency and Governance Act into law from 25 June, although some of its provisions will not apply until underlying regulations have been brought into force. The Act introduces permanent and temporary changes to existing legislation, intended to help business continue as a going concern despite the distress created by the COVID-19 pandemic. Find more information in the following link.

31 AUGUST YEAR END ACCOUNTING FIGURES

This year we have extended our assumptions paper for those employers who require IAS19 & FRS101/102 calculations in order to address the market turmoil because of the COVID-19 pandemic. This paper also addresses some fundamental changes in market-implied Retail Price Inflation (RPI), due at least in part to the UK Statistics Authority and HM Treasury launching a consultation on changing the RPI formula (further information on this is available in our May edition of Current Issues – you can obtain a copy of this from your usual Mercer consultant).

Our proposed assumptions for Consumer Price Inflation (CPI) are significantly influenced by market–implied RPI, and as a result, we are proposing some changes to the setting of the CPI assumption for accounting purposes. You should have received a copy of this note already however please get in touch with your usual Mercer contact if you have any questions or queries on this or you require an additional copy.

Regulatory round up

THE MCCLOUD REMEDY

On 16 July MHCLG released the much anticipated consultation on the McCloud remedy for the LGPS in England and Wales (here) which is a 12 week consultation covering extensive detail on how the remedy will be applied.

> To recap, the Court of Appeal's ruling in December 2018 confirmed that the transitional protections provided for members of the Judges' and Firefighters' pension schemes when the public sector pension reforms were implemented in 2014 and 2015, were age discriminatory. This was because eligibility for these protections was based on an age criterion. Similarly, age-restricted transitional protections were also provided across the other public service pension schemes and last year the government announced that it would seek to remedy the position, including for the LGPS. In the LGPS the protections took the form of a final salary underpin to the new CARE benefit structure implemented in 2014.

The key feature of the proposed remedy was broadly as expected in that the final salary scheme underpin is to be extended to a wider group of members, in respect of service up to 31 March 2022. However, there are a number of areas of detail, which were unexpected. The fact that the underpin itself is changing in a number of ways means that Funds will need to revisit all eligible members since 1 April 2014 including members who no longer have a benefit entitlement.

From a funding perspective, as stated earlier in this paper, where Mercer is your Fund Actuary, an allowance for the McCloud remedy was calculated at the 2019 valuation for Funds in England and Wales. Our calculations were generally carried out in line with the proposed underpin in the consultation and where employers have made a provision in their contribution rates, we would not expect to revisit this until the next valuation. For other employers, the Funding Strategy Statement allows us to revisit this where appropriate. Funds will, however, need to further consider and decide on an approach for reflecting the impact of the McCloud remedy in terminations calculations, for any cases that may arise in the interim until the remedy has been implemented.

Key Features of the Proposed Remedy for the LGPS

The consultation itself is extremely detailed and the level of detail suggests to us that very careful consideration has been given to ensuring as far as possible there are no remaining elements of potential age discrimination. Given that, we would expect the majority, if not all, the changes proposed to be taken forward and the critical aspects to consider are the practical application of the proposals – in particular where the required data is unavailable.

The key features of the remedy are set out below:

- The eligibility conditions for the final salary underpin will now exclude the age criterion but are still applied to members of the scheme at 31 March 2012 only.
- The underpin will, however, cease to apply for all members in respect of pensionable service from 1 April 2022.

- The underpin will now also apply to members leaving but not immediately drawing benefits, whereas it previously applied only on the sooner of retirement or reaching Normal Pension Age.
- Members' benefits are not changed for the impact of the underpin until retirement ("the underpin crystallisation date"), but members need to be informed of the position should they leave pensionable service before retirement. In this situation, the underpin will then need to be re-tested at the point of retirement to allow for the impact of any early/late retirement factors that may be applied.
- There are differences in how the new underpin will operate (including as above) and the new approach will apply to all eligible members and retrospectively even for those members previously covered by the underpin.
- The underpin will apply only where benefits are aggregated. As this could mean a loss of underpin for some existing members, there will be a 12-month election window where members can opt to retrospectively aggregate benefits thereby retaining the underpin across all service.
- Any increase in benefit due to the underpin will count for Annual Allowance purposes only in the year of the underpin crystallisation date (i.e. retirement).
- The underpin will have to be revisited for members who have died or transferred out since 2014 which will add complexity to the implementation.
- MHCLG estimate the cost to LGPS employers of their proposals will be £2.5bn over the coming decades, as protected members retire and begin to receive their benefits. This equates to c0.8% of the total liabilities of the LGPS.

Mercer Support

It is acknowledged in the consultation document that these proposals will place a huge administration and governance burden on Funds and in our view it is critical that the LGPS community comes together as much as possible to address the challenges, which we see to be as follows:

- **Strong project management will be essential.** Ideally the project manager role should be fulfilled by an individual who is not distracted by the main (and significant) task of data collection and verification to ensure it receives the appropriate focus. We are working with Funds to help with preparation/review of project plans to take this forwards and can also provide support for the project management role as needed.
- **Data collection and verification is a significant task**. Mercer is well positioned to provide additional resources here to supplement resource from in-house or external administrators where a resourcing gap is identified.
- **Funds will need to communicate with employers** regarding the required data, the approach taken where there are gaps in the data and how this will impact their pension liabilities. Funds will also need to communicate with members regarding the impact of the underpin including those who have taken their benefits already. We are happy to support Funds in the drafting or review of communications as applicable.
- **There will be an upfront training and education requirement** to ensure all stakeholders have the required knowledge to understand the implications. We are exploring further the production of bite-sized online videos to support Funds through their journey and more generally we are happy to support further training needs as required.

Impact for accounting disclsoures

Our approach for 2020 accounting disclosures is to include an allowance for the impact of the McCloud remedy on liabilities and future benefit accrual consistent with the approach adopted for the Fund valuations. This is expected to reflect the substantive impact of McCloud for the majority of employers.

We are aware that auditors are increasingly asking for additional detail on the approach taken in respect of the impact of the McCloud remedy on employers' liabilities and we have included details within our supplementary papers provided as part of the accounting exercises. We recommended that auditors are directed to these papers in the first instance. In the situation that further information is then required, we have found attendance by a Mercer consultant on a short call with auditors helps to circumvent a potentially substantial trail of correspondence on the issue.

Unfunded Public Service Schemes

In addition to the above, HMT has released the much-anticipated consultation on the McCloud remedy for the *unfunded* public service pension schemes. An overview of the proposals for the unfunded schemes is set out below.

- The protected period (sometimes referred to as the "McCloud window") will end on 31 March 2022 and from that date onwards all active members will accrue career average benefits.
- Protections will be extended to cover all unfunded scheme members who were in active scheme membership on or before 31st March 2012 and have membership in the reformed schemes (without a 5-year break).
- Protections will be provided regardless of whether a member has made a claim to a tribunal on this matter.
- Protection will take the form of the right to membership of the relevant unfunded final salary scheme during the protected period, which runs from 1st April 2015 to 31st March 2022.

Protected members will be given a one-off choice in relation to the protected period: retention of their legacy scheme (usually final salary) benefits or the reformed career average benefits. There are two alternatives offered under the consultation in relation to this choice – immediate (soon after the proposals are in force) or deferred (when the member takes their benefits). Full details can be found here.

2016 Cost Cap Mechanism Un-Paused

Separately the Government has announced that the 2016 Cost Cap HMT assessment for all public sector schemes (here) will be un-paused and critically that the McCloud remedy is to be **included** in the assessment of the impact on member benefits. The Scheme Advisory Board will need to consider the implications of this in relation to their separate assessment of the LGPS cost cap and its interaction with the HMT assessment but fundamentally this could mean that the overall cost of McCloud will be offset in part or entirely when the outcome of the Cost Cap assessment is known.

REVIEW OF EMPLOYER CONTRIBUTIONS AND FLEXIBILITY ON EXIT PAYMENTS

The Ministry for Housing, Communities and Local Government has published its response to proposals on review of employer contributions and flexibility on exit payments. Amending regulations have also been published and are due to come into force with effect from 23 September.

This partially addresses proposals set out in a wider consultation on changes to the LGPS in England & Wales dating from 2019. The Government published its response to the proposals for changes to the rules on exit credits in February 2020. A response on the rest of the proposals has yet to be published.

Review of Employer Contributions

The amending regulations will grant Funds and employers the following new flexibilities:

- Administering authorities may review the contributions of an employer where there has been a significant change to the liabilities of an employer.
- Administering authorities may review the contributions of an employer where there has been a significant change in the employer's covenant.
- An employer may request a review of contributions from the administering authority where it meets the costs of doing so.

Crucially, we understand from our discussions with MHCLG that the change in liabilities referred to above means a structural change (for example due to redundancies or outsourcings) and *not* as a result of market conditions alone nor as a result of a change in deficit following asset value changes.

The amending regulations require that the Administering Authority must have set out its policy on interim contribution reviews within the Funding Strategy Statement (FSS), have regard the views of the Fund actuary and have consulted with the employer.

Spreading Exit Payments

The amending regulations now allow for three options for an exiting employer (subject to agreement from the Administering Authority).

1. As currently, calculate and recover an exit payment for employers ready and able to leave and make a clean break.
2. Agree a repayment schedule for an exit payment with employers who wish to leave the scheme but need to be able to spread the payment.
3. Agree a Deferred Debt Agreement (DDA) with an employer to enable them to continue paying deficit contributions without any active members where the administering authority is confident that the employer would fully meet its obligations.

Whilst it was recognised that some administering authorities may already effectively offer Option 3 through side agreements, the introduction of the DDA could have a profound shift in the way exiting employers are treated. Under a DDA, the exiting employer's responsibilities will be the same as for employers of active members but excluding the requirement to pay primary contributions.

Again the amending regulations require that the Administering Authority must have set out its policy on spreading exits payments and DDAs within the Funding Strategy Statement (FSS), have regard the views of the Fund actuary and have consulted with the employer.

Agreeing a policy for the FSS

The Scheme Advisory Board is preparing guidance for Funds on the content of their policy on exit payment flexibility and interim contribution reviews. In our view, setting a Fund policy in these areas will require careful consideration to make sure the application is fit for purpose and the right metrics are being monitored.

- In relation to flexibility over exit payments (including deferred debt arrangements), consideration of the extent to which such arrangements will be monitored will be crucial. The approach will need to be proportionate depending on the quantum of risk of the arrangement but also apply a consistent decision making process to ensure employers are fairly treated.

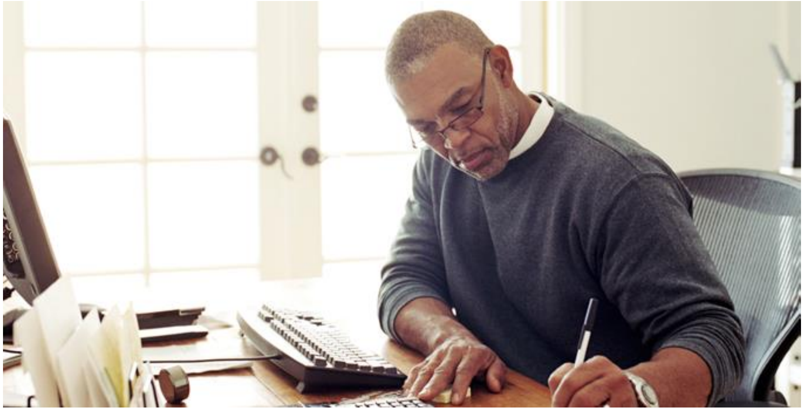
- Equally the review of employer contributions will need to be considered carefully and the triggers for such reviews will need to ensure it is applied in the right circumstances and is also equitable i.e. rates are not simply reviewed only when they are expected to reduce.

Central to the policy in both instances will be the assessment and monitoring of employer covenant, which will be key to the decision making process. Monitoring of the funding position will also be very important including consideration of an employer's termination liabilities and how this exposure changes relative to the underlying employer covenant.

Where Mercer is your Fund Actuary we will be in touch shortly to provide support on the formulation of the Funds' policy.

MHCLG CONSULTATION - REFORMING LOCAL GOVERNMENT EXIT PAY

One could have been forgiven for thinking that we had already been told about all the major changes involving the LGPS for the time being. But on 7 September the MHCLG released its latest consultation, one which will have far-reaching implications for funds, employers and members.



The new arrangements are currently planned to come into effect on 1 January 2021 so careful thought is needed in terms of any quotes or illustrations for cases on or after this date.

Summary of Proposals

The consultation sets out the following as the proposed approach for public sector employers within the LGPS:

- A general reform of redundancy payments, to involve a maximum of three weeks' pay per year of service, an overall ceiling of 15 months' pay and a maximum salary of £80,000 p.a., which can be used in the calculation.
- As widely publicised, an overall cap on the exit pay amount of £95,000, including any pension strain cost.
- A waiver process to allow for relaxation of the £95,000 cap in exceptional circumstances. For English councils it seems that this will need ratification of the full council and approval of the MHCLG (the arrangements for Welsh Councils are, we understand, being discussed separately but expected to sit with the Welsh Minister).
- Strain costs (and the related pension enhancements) will be reduced by the value of any statutory redundancy payment which the employee will receive in cash
- The making of redundancy payments over and above the statutory redundancy payment will not be allowed in cases where a strain cost is paid (there is an exception to this if the redundancy payment would be more than the strain cost, in which case the excess is paid to the member as cash).
- A worker can make good from his own resources any reduction in the strain cost arising from the new restrictions.

Who will be affected?

The above will apply to different employers in different ways. In particular:

- The reform of redundancy payments will apply to local authority employers in England and Wales.
- The £95,000 cap will apply to those employers who are set out in the HMT Regulations as

employers where the Exit Cap can be applied i.e. those employers which are the responsibility of the UK government and designated as "public sector" (the Scottish government, Welsh government and Northern Ireland Executive have some flexibility to determine policy for devolved employers).

- The reforms involving strain costs and their interaction with redundancy pay outs, will apply across the LGPS in England and Wales but will not affect employees of employers outside of the public sector. Not all employers, therefore, would be affected e.g. HE/FE bodies and Funds will need to ensure that they are able to segregate their employers accordingly so that the new requirements can be administered.

The consultation refers to the Welsh government being able to determine if and how they want to take forward similar arrangements, but we understand from discussions with MHCLG that this flexibility extends purely to the operation of the waiver provisions for the £95,000 cap and does not extend to the reforms involving strain costs.

Issues for Funds and Employers

The issues for Funds and employers will be wide-ranging. They will affect governance arrangements, retirement processes, calculations, and communications with both employees and employers. We have included below a selection of the main areas, which will need to be considered.

- Employers will need to be categorised into those affected by the £95,000 cap and those unaffected, and severance policies updated.
- Processes and flows of information for carrying out retirement estimates and final quotations will need to be updated. Employers will need to provide details of statutory and discretionary redundancy payments to the Funds in order to enable the retirement calculations to be performed so information can be provided to the member on the resultant costs and benefits.
- Until administration systems can be updated to accommodate the new arrangements, increased reliance may have to be placed on manual processes. This will need careful planning, as it is quite possible that employers need to reduce workforces further as the impact of COVID-19 on the economy is felt.
- The options available to employees will all need to be carefully communicated. Employees are also much more likely to want to seek more detailed guidance/advice around their various retirement options. In many cases there will be an inevitable tension between the attraction of the up-front redundancy cash and the longer-term pension enhancement.
- Some employers will inevitably struggle in implementing and administering the new arrangements from a payroll/HR point of view and may look to funds for assistance.
- Funds may want to consider whether the standardised approach to calculating strain costs, as is proposed, is appropriate in every case (e.g. it may be possible to apply different costing factors for employers not affected by the £95,000 cap or with a weaker covenant).

Whilst bodies such as the LGA will respond to this consultation, we believe that employers should review these proposals carefully as it will affect their severance policies, as well as scheme benefits, and the interaction between the two will potentially need to be considered. From a Fund's perspective, the practicalities of implementation are likely to be very onerous.

UPDATE ON DEATH BENEFITS

Widowers' Pensions

On 21 July HMT issued a note confirming that, following a successful case of Goodwin against the Teachers' Pension Scheme (TPS), it accepted that the provisions for historical widowers' pensions in the public sector pension schemes were discriminatory. For the LGPS this will most likely affect surviving widowers where their deceased spouse left the LGPS prior to April 1998. In some cases this will lead to an increase in the widower's pension in payment. In other cases (where the member left prior to April 1988) this will lead to a new widower's record needing to be set up, as previously no widower's pension was due. Whilst the funding impact of providing the additional pensions is unlikely to be significant, rectification of historic pensions where applicable will add to the already challenging administration burden.

Brewster and Langford Judgments

The Brewster judgment arose in February 2017 when the Supreme Court ruled that a particular regulation requiring a signed nomination form from a member of the Northern Ireland LGPS, in order to entitle an unmarried partner to survivor benefits in the scheme, was unlawful. For the LGPS in England and Wales, from 1 April 2014 there is no requirement for a nomination form to be in place, although there is still theoretically a potential for obligations to arise in relation to deaths before that date.

The Langford judgment arose in July 2019 when the Court of Appeal held that a rule in the armed services pension scheme which prevented the surviving partner of a deceased member receiving a pension because she remained married to another person was unlawful discrimination (this case is currently being appealed to the Supreme Court). Whilst we expect very few members to be affected by these judgments, as for the Goodwin case there could clearly be some challenging issues for funds in tracing historic cases, checking eligibility and calculating the benefits.

TPR ROUNDUP

TPR's 2020-21 Corporate Plan has been revised in order to respond to the challenges presented by the COVID-19 pandemic and reflect how the pension's landscape has changed. However, TPR also notes that the plan demonstrates its ongoing commitment to 'tighten its regulatory grip' through its clear, quick and tough approach.

As well as supporting the delivery of benefits through changes driven by the pandemic, the plan outlines TPR's continued commitment to protecting savers across all types of schemes through regulatory interventions and scheme supervision. Further details can be found here.

2019/20 Annual Report and Accounts now published setting out what it achieved over the year and some indications of its upcoming plans. A portion of the Report is devoted to COVID-19 and the actions that TPR has taken during the pandemic, including publishing additional guidance for employers, administrators and members.

The Report says that TPR intends to restart, at the appropriate time in 2020/21, the regulatory initiatives, which were paused to allow it to respond to the pandemic. These will include a new initiative on prompt financial transactions and a renewed focus on record-keeping.

Updates to the Pensions Regulator's COVID-19 guidance confirms that most reporting requirements that were temporarily paused until 30 June will resume as normal with effect from 1 July 2020. Further details are available here.

Dates to remember

DATE	ISSUE	THE LATEST
31 March 2020	2020 Actuarial Valuation	The effective date of the Scottish LGPS actuarial valuations.
6 April 2020	Change in the lifetime Allowance (LTA)	The LTA for 2020/21 is increased from £1,055,000 to £1,073,000 in line with CPI increases.
6 April 2020	Change in tapered Annual Allowance (TAA)	The TAA is to increase so it only applies to individuals with "adjusted income" of over £240,000. The minimum TAA changes from £10,000 to £4,000.
21 July 2020	Call for evidence on pension tax administration for low earners (Closing date: 13 October 2020)	The Treasury has launched a call for evidence concerning the different outcomes for lower earners depending on whether their pension schemes use the relief at source or net pay method of tax relief.
From 10 December 2020	Competition and Markets Authority (CMA) legally binding Order	Investment management firms, investment consultancies and fiduciary management providers) subject to the CMA Order must submit a compliance statement to the CMA within 12 months and 4 weeks of the date when the Order first applied, confirming they have complied with their obligations under the Order.
From 1 January 2021	£95K cap and associated regulations take effect	MHCLG consultation closes on 9 November. GAD guidance on the calculation of strain costs is anticipated imminently

WHAT IS COMING UP?

Given COVID and the restrictions of face to face training we are currently exploring the development of a suite of bite sized general training videos for Funds to use with their stakeholders. Watch this space for further news.

Despite the flurry of regulatory activity seen recently, more is yet to come with a consultation on GMP Equalisation expected shortly.

We await to hear further news on the New Fair Deal proposals following the Government's consultation last year. However, given current priorities we are expecting this to be pushed into 2021.

Meet the team

Name: Megan Fellowes
Role: Actuarial Graduate
Joined Mercer: 2016
Place of Birth: Liverpool
Favourite series: New Girl, the Office (US) or Friends!
What is your next holiday destination after lockdown? maybe to Barcelona which was cancelled in May.
Favourite take away: Anything spicy! Mexican, Chinese Salt and Pepper or an Indian. Oh and pizza. This did not really answer the question did it?
What has been the highlight of your summer: I went to Lake Windermere in August, was the first time I had ever been and I loved it. 28-degree weather helped too!

Name: Mark Wilson
Role: Actuary
Joined Mercer: 2006
Place of Birth: Billinge
Favourite series: World Series of Darts
What is your next holiday destination after lockdown? York
Favourite take away: Crispy lamb pancakes
What has been the highlight of your summer? Is this a joke?

Name: Nigel Thomas
Role: Head of LGPS Benefits and UK Lead for LGPS
Joined Mercer: September 1998
Place of Birth: St Helens, Merseyside
Favourite series: Line of Duty, or my new favourite (for after the watershed!) is White Lines on Netflix
What is your next holiday destination after lockdown? Who knows?! We were supposed to be going to Turkey but never made it...
Favourite take away: Spanish Tapas from La Casa Vieja in St Helens – amazing!
What has been the highlight of your summer? Spending lots of time with my family and Liverpool winning the Premier League of course!

And finally...

It's with great regret on our part that we say goodbye to John Livesey, who is retiring at the end of October after 36 years' service with Mercer. John tells us that he's not regretting his decision, but we're sure he'll miss us.

Name: John Livesey
Role: Actuary and Consultant
Joined Mercer: 1984 – it wasn't even Mercer at that point. In the dark days before mobile phones, pre-internet and when there were only four channels on the TV
Place of Birth: Chorley
Favourite series: After Life
Next holiday destination after lockdown: Northumberland – a gorgeous and unspoilt area
Favourite take away: Balti chicken tikka – a speciality of my local take away, the Barinda (other take aways are available)
Greatest bugbear: Incorrect use of the apostrophe – you culprits know who you are!
Weirdest lockdown moment: When a baby squirrel wandered into my garage & hid in the wheel hub of my car – took ages to get it out (in my right hand in the photo opposite).
Most rash moment: Against all my actuarial instincts I have just spent my retirement lump sum on a holiday lodge (even though I've not got the lump sum yet). Hope my mortgage provider isn't reading this.
What you will miss most: The people, colleagues and clients alike, who have all been such fun to work with and committed to improving member experiences.
What you will miss least: Timesheets.

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ISLINGTON

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: Corporate Director of Resources

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pension Board/Pensions Sub-Committee	8 December 2020		n/a

Delete as appropriate	~~Exempt~~	Non-exempt

SUBJECT: INVESTMENT STRATEGY STATEMENT UPDATE

1. Synopsis

1.1 The LGPS (Management and Investment of Funds) Regulation 2016, were laid before parliament on 23 September 2016 and came into force from 1st November 2016 and required all funds to publish an Investment Strategy Statement (ISS) by 1 April 2017.

1.2 The ISS is designed to be a living document and is an important governance tool for the Fund. This document sets out the investment strategy of the Fund, provides transparency in relation to how the Fund investments are managed, acts as a risk register, and has been designed to be informative but reader focused. The ISS must also 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.

1.3 As part of the Actuarial valuation process the existing strategic asset allocation was reviewed. Members have since had the strategy COVID 19 stress-tested and agreed the new allocation at the September meeting. The draft ISS (attached as Appendix 1) is now being updated to reflect the new strategic asset allocation and agreed before it can be published.

2. Recommendations

2.1 To note the draft ISS document tracked (attached as Appendix 1)

2.2 To agree the changes and instruct officers to publish the new ISS.

3. Background

Introduction

3.1 The LGPS (Management and Investment of Funds) Regulation 2016, were laid before parliament on 23 September 2016 and came into force from 1st November 2016 and required all funds to publish an Investment Strategy Statement (ISS) by 1 April 2017.

3.2 The ISS is designed to be a living document and is an important governance tool for the Fund. This document sets out the investment strategy of the Fund, provides transparency in relation to how the Fund investments are managed, acts as a risk register, and has been designed to be informative but reader focused. The ISS must also 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.

3.3 As part of the 2019 actuarial valuation process the investment strategy was reviewed to ascertain the risk and return parameters that could deliver the long-term investment target return to maintain affordability and pay our pensioners. The existing strategic asset allocation was amended. Post March 2020, the Covid 19 pandemic had an adverse impact on economic outlook and as such, the asset allocation was stress tested to ensure it was still suitable. Members agreed the strategy in their last meeting in September and the ISS needs to be amended to reflect the changes.

3.4 The main changes are the addition of private debt and multi asset credit asset classes and the removal of diversified growth and corporate bonds in the table of "paragraph 3- *Investment strategy and the process for ensuring suitability of investments*."
Members are asked to agree the tracked changes to the ISS so it is up to date, and published.

3.5 In order to comply with the guidance administering authorities must take proper advice, however the source is not prescribed. The Fund will therefore take advice from its investment advisors and actuary as well as consult the Pension Board.

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**

4.3 The LGPS (Management and Investment of Funds) Regulation 2016, were laid before parliament on 23 September 2016 and came into force from 1st November 2016 and requires all funds to publish an Investment Strategy Statement (ISS) by 1st April 2017. 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 ISS has been designed to be a living document and is an important governance tool for the Fund and must be consulted and receive advice on its preparation.

4.4 **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.

4.4.1 An equalities impact assessment has not been conducted because this report is an update on existing exercise and the consultation of employers will mitigate any inequality issues.

5. Conclusion and reasons for recommendation

5.1 Members asked to review and agree the updates to the draft ISS (attached as Appendix 1) and instruct officers to publish the updated document.

Background papers:
None

Final report clearance:

Signed by: Corporate Director of Resources Date

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INVESTMENT STRATEGY STATEMENT
LONDON BOROUGH OF ISLINGTON PENSION FUND – December 2020

1. Introduction

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State.

This investment strategy statement (ISS) has been designed to be a living document and is an important governance tool for the Fund. This document sets out the investment strategy of the Fund, provides transparency in relation to how the Fund investments are managed, acts as a risk register, and has been designed to be informative but reader focused. This document replaces the Fund's Statement of Investment Principles.

This statement will be reviewed by the Pensions Sub-Committee ('the Committee') at least triennially or more frequently should any significant change occur.

Myners Principles

Although not specifically referenced in the Regulations, the Committee feels that assessment of compliance with the Myners Principles is a valuable governance tool. A copy of the Fund's Myners Compliance Statement can be found in the Annual Report and Accounts and is attached as Appendix A

2. Investment Beliefs and Objectives

The Committee has adopted policies with the primary objective being to pay members benefits as they fall due and the secondary objective to achieve maximum growth of pension fund investments to reduce the burden of employer contributions. The target for real investment returns above CPI is set out in the Fund's Funding Strategy Statement.

The Fund has the following investment beliefs which help to inform the investment strategy derived from the decision making process.

- Funding, investment strategy and contribution rates are linked
- The strategic asset allocation is the key factor in determining the risk and return profile of the Fund's investments
- Investing over the long term provides opportunities to improve returns.

- Diversification across asset classes can help to mitigate against adverse market conditions and assist the Fund to produce a smoother return profile due to returns coming from a range of different sources.
- Managing risk is a multi-dimensional and complex task.
- Risk mitigation will be prioritised according to size of potential impact and risks will only be taken where they are expected to be rewarded.
- "Environmental, Social and Governance (ESG) issues can have a material impact on long-term risk and return outcomes and considering these issues is consistent with the fiduciary duty of the Committee. In particular, the Fund recognises that climate change poses a systemic risk with potential long-term investment risks and opportunities".

3. Investment strategy and the process for ensuring suitability of investments.

As noted above, the Fund's objective is to pay benefits as they fall due and this requires the build-up of sufficient reserves in advance. The Fund is currently assessed to have a deficit in terms of the reserves needed and so the asset strategy is focused on achieving returns in excess of CPI inflation, without taking undue risk.

The asset strategy, along with an overview of the role each asset plays in achieving the Fund's objectives is set out in the table below:

Asset class	Allocation %	Allowable ranges %	Role (s) within the strategy
Equity (developed, emerging and frontier markets)	46.0	+/-6.0	-Long term growth in excess of inflation expected
Private Equity	4.0	+/-2.0	-Additional returns in excess of public equity
Multi Asset Credit	10.0		-Diversification across credit spectrum -higher risk adjusted returns -Liquid instruments
Property including Social Housing	25.0	+/-2.0	-Diversification -Generates investment income -Returns expected to be inflation-sensitive -Exposure to Illiquidity premium
Private Debt	5.0	+/- 2.5	-Access to credit risk premium. -Illiquidity premium
Infrastructure	10.0		-Diversification -Generates investment income -Returns expected to be inflation-sensitive -Exposure to Illiquidity premium

The Committee is responsible for the Fund's asset allocation which is determined via a triennial strategy review as part of the valuation process, but is kept under constant review; noting that strategic changes are an evolutionary process.

The triennial review looks at both qualitative and quantitative analysis, covering:

- The required level of return that will mean the Fund can meet its future benefit obligations as they fall due
- The level of risk that the Fund can tolerate in absolute terms, and in relation to its funding level and deficit
- An analysis of the order of magnitude of the various risks facing the is established in order that a priority order for mitigation can be determined
- The desire for diversification across asset class, region, sector, and type of security.

4. Risk measurement and management

The Committee assesses risks both qualitatively and quantitatively, with the starting point being the triennial strategy review. Risks are considered, understood and then prioritised accordingly – the Committee evaluates the Fund's risk attribution analysis as part of the investment strategy review following the actuarial valuation.

A- Investment Risks

Equities – The largest risk that the Fund is running is in relation to its equity holdings. Should equity market conditions deteriorate significantly this will have a negative impact on the funding level. The Fund holds equities in order to provide the necessary returns to ensure that the Fund remains affordable. The Committee believes that the extra returns that are expected to be generated by equities compensates the level of risk equities bring to the Fund, but does believe in diversification, and looks to mitigate equity risk by investing significantly in other diversifying assets. The Committee will also consider the use of equity options where appropriate.

Inflation –The Fund's liabilities are impacted by inflation both explicitly and implicitly and the required return on assets is expressed in terms of inflation plus a premium. The Fund will seek to invest in a range of assets that provide returns in excess of inflation and in some cases provide an inflation-linked income, subject to a tolerable level of volatility.

Diversifying assets – The Fund has a significant amount of assets allocated to a range of non-equity, diversifying assets, with allocations to property, bonds, diversified growth and a plan to build allocations to real assets such as infrastructure and social housing. The risks that these investments bring at an individual level are not insignificant but the Committee believes that over the long term these assets will provide returns that compensate for the risks being run. Additionally the level of diversification the assets provide helps to reduce the Fund's reliance on returns from equities. Illiquid assets such as property are also a valuable source of income.

Active Manager Risk – Investment Managers are appointed to manage the Fund's investments on its behalf, a number of which are active managers. Active manager risk is small relative to other risks; the Fund still addresses this risk. Extensive due diligence is undertaken before managers are selected, with a number of different managers employed to prevent manager concentration risk The investment managers are also monitored regularly by the Committee and by the Fund's Advisors.

The Fund's portfolio is well diversified across asset classes, geography and asset managers. As different asset classes have varying correlations with other asset classes, the Fund by investing in a range of different investments can reduce the overall level of risk run to a degree.

B- Demographic Risks

The Fund is subject to a range of demographic risks, but with particular reference to investment strategy, the Committee is aware of the potential for the Fund to mature over time as the pensioner liability increases. A mature pension fund is likely to take less investment risk over time and this is considered at each strategy review. The more mature a pension fund, the more likely it is that disinvestments would need to be made to pay benefits. The Fund is not in that situation at present as income from contributions and investments are greater than benefit payments. However, this situation is monitored regularly and formally as part of the actuarial valuation and strategy review.

C- Cashflow Management Risks

The Fund is cash flow positive. However, this position will be reviewed regularly and is a factor that is incorporated into the Fund's investment strategy reviews with the long-term aim that a portfolio of income generating assets is built up over time.

D- Governance Risks

The Committee believes that there is a benefit to the Fund to be gained from good governance in the form of either or both of an increased return and/or decreased risk. Poor governance can lead to opportunities and risks to be missed, and have a detrimental effect on the funding level and deficit.

Details of the Fund's governance structure can be found in the Governance Compliance Statement in the Annual Report found via https://www.islington.gov.uk/about-the-council/apply-for-a-job/council-pension-scheme useful documents. The Committee members receive training on a regular basis as a group and attend individual training courses and seminars. Each member must attend the 3 Day Trustee Training organised by the Local Government Association.

E- ESG Risks

The Committee believes that ESG (including climate change) risks should be taken into account on an ongoing basis. ESG considerations are an integral part of the Fund's strategy and objective of being a long term investor. The Committee expects its investment managers to include information on how carbon risk is being managed within their respective portfolios as part of regular reporting for the Fund.

The Fund encourages its underlying investment managers to comply with the UK Stewardship Code and will monitor progress, as well as monitor the ESG ratings of its Fund managers by way of an annual report from its Investment Consultant on the ESG credentials of its investment managers.

The Fund has committed to reduce climate change risk by decarbonising the Fund's portfolio. The Committee expects to continuously review further opportunities, across all asset classes, to reduce the Fund's reliance on carbon sensitive assets by considering the potential financial impacts of both the transition to a low-carbon economy and the physical impacts of different climate outcomes.

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

The Committee accepts that engagement is key in relation to strong corporate governance, which in turn will reduce ESG risks.

5. Approach to asset pooling

The Fund has formally joined the London Collective Investment Vehicle (CIV) as part of the Government's pooling agenda. The London CIV has been operational for some time and has opened a range of sub-funds covering liquid asset classes and is in the process of opening less liquid asset classes.

The Fund already invests assets with the London CIV (c. £322m as at 30 June 2018) and will look to transition further liquid assets as and when there are suitable investment strategies available on the platform that meet the needs of the Fund.

The Fund holds a proportion of its assets in life funds and intends to retain these outside of the London CIV in accordance with government guidance on the retention of life funds outside pools for the time being. The Fund agrees for the London CIV to monitor the passive funds as part of the broader pool.

A proportion of the Fund is held in illiquid assets and these may remain outside of the London CIV pool where there is a strong business case. The cost of exiting these strategies early would have a negative financial impact on the Fund. These will be held as legacy assets until such time as they mature and proceeds re-invest through the pool assuming it has appropriate strategies available or until the Fund changes asset allocation and makes a decision not to reinvest.

The Fund will actively engage and seeks to work collaboratively with likeminded Funds, London CIV on climate change and ESG topics, including the provision of fund alternatives that will help London CIV members to decarbonise, reduce ESG risks and invest in sustainably themed opportunities in their investment portfolios.

6. Social, environmental and corporate governance policy and policy of the exercise of rights (including voting rights) attaching to investments

The Committee has a fiduciary duty to invest Fund assets in members' best interests and so must ensure that assets are invested in an appropriate manner; as a result all material ESG considerations, including climate change, must be taken in light of expected risk and return implications.

The Fund seeks to fully incorporate ESG (including climate change) risks and opportunities into its investment strategy and investment implementation, with a view to further a reduce or remove exposures to carbon dioxide from fossil fuel energy sources and other greenhouse gases and reduce ESG risks of the portfolio in line with stated objectives. In particular the Fund will seek to allocate investment to sustainability-themed investments, as well as uphold high standards of ESG incorporation the Fund.

.

With regard to responsible investment the Committee is mindful of the following legal principles, which are based on recent decisions in the courts and which apply to all pension schemes:

a. Administering authorities are free to adopt a policy of responsible investment, provided that they treat the financial interests of all classes of scheme members as paramount and their investment policies are consistent with the standards of care and prudence required by law.

b. Administering authorities are free to avoid certain kinds of investment, which they consider scheme members would regard as objectionable as long as they make equally financial advantageous and prudent investments elsewhere. They may also make "ethical" investments provided these are otherwise justifiable on investment grounds.

c. Administering authorities are not entitled to subordinate the interests of members to ethical or social concerns. The financial performance of the Fund consistent with proper diversification and prudence is paramount.

It is proposed to monitor action by fund managers on a quarterly basis and further develop this policy on an annual basis on the basis of experience.

The Fund has joined the Local Authority Pension Fund Forum ("LAPFF") to promote best practice on corporate governance and SRI issues amongst the companies in which it invests, through cooperative action with other local authority funds. The Forum exists to promote the investment interests of local authority pension funds and to maximise their influence as shareholders in promoting corporate social responsibility and high standards of corporate governance amongst companies in which they invest.

With more than half of all local authority funds as members, the Forum can negotiate with companies with a single authoritative voice, impossible for smaller funds acting alone. The Forum is developing policy and carrying out research and engagement with companies on many issues, including environmental issues such as the climate change impact of the transport sector, and the impact of oil extraction from tar sands. Other initiatives include engagement with fund managers to try to improve transparency of proxy voting policies by the managers, and on corporate governance issues.

The Committee is a member of the Institutional Investors Group on Climate Change (IIGCC). The IIGCC seeks to promote better understanding of the implications of climate change amongst its members and other institutional investors. It also aims to promote a lower carbon economy by encouraging the companies and markets in which IIGCC members invest to address their approach to climate change issues.

As noted earlier, the Fund has made a commitment to reduce its exposure to carbon intensive companies and assets.

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

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 footprinting exercise.

2) Reducing "exposure to carbon intensive companies" as measured by Weighted Average Carbon Intensity [1], 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 footprinting exercise.

3) Will invest 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.

In order to monitor and guide decarbonisation and allocation to sustainability, the Fund will adopt TCFD supplemental guidance for asset owners where applicable.

The Fund will review targets annually. The Fund will form a view on decarbonisation of all assets classes beyond public equities by 2022 and will develop mechanisms to evaluate the progress.

7. Policy of the exercise of rights (including voting rights) attaching to investments and stewardship

Voting:

The Committee takes its responsibilities as a company shareholder seriously and exercises its votes at company AGMs/EGMs wherever practically possible. The Committee uses the Corporate Governance Service provided by Pension Investments Research Consultants (PIRC), and casts votes at all UK, European and North American company AGMs in line with PIRC recommendations unless the Council decides otherwise.

The Fund's investments through the London CIV are covered by the voting policy of the CIV which has been agreed by the Pensions Sectoral Joint Committee. Voting is delegated to the external managers and monitored on a quarterly basis. The CIV will arrange for managers to vote in accordance with voting alerts issued by the LAPFF as far as practically possible to do so and

[1] Weighted Average Carbon Intensity (tons CO2e / $M sales). Calculated based on Scope 1 and 2 emissions. Does not relate to the Fund's ownership share and hence serves as an indicator of potential climate-related risks. Importantly facilitates comparison with non-equity assets. FSB Taskforce for Climate-related Disclosures (TCFD) recommended metric for asset owners indicating portfolios exposure to carbon-intensive companies.

will hold managers to account where they have not voted in accordance with the LAPFF directions.

In addition, voting records are published in the year end annual reports and quarterly reports of voting actions are posted on the Fund's website https://www.islington.gov.uk/about-the-council/apply-for-a-job/council-pension-scheme useful documents. The Fund has not issued a separate Statement of Compliance with the Stewardship Code, but fully endorses the principles embedded in the 7 Principles of the Stewardship Code.

The Committee will provide an annual report on how the Fund satisfies its UK Stewardship Code obligations requirements.

Stewardship:

The London Borough of Islington Pension Fund wishes to promote a policy of dialogue on responsible investment issues, through the Fund Managers, with company management. In the first instance, the Committee would like environmental issues, human rights, employment standards and modern day slavery to be raised with company management. Environmental issues could include issues such as reducing carbon emissions, conserving energy, promoting alternative energy sources, recycling, avoiding pollution and using environmentally friendly and sustainable resources. Human rights could involve child labour issues in foreign subsidiaries of UK companies or operations in countries with oppressive regimes. Employment standards could relate to equal opportunities, health and safety, trade union recognition and employee participation.

The Fund invests via pooled funds and is therefore prepared to subscribe to the policies of the individual fund managers. When monitoring investment managers, the Pensions Sub- Committee considers whether managers' actions and engagement activities have been appropriate and in keeping with London Borough of Islington Pension Fund policy.

Advice Taken

In creating this statement, the Committee has taken advice from its Investment Consultant and independent Investment Advisor. Also, in relation to each of the constituent parts, such as the asset allocation and risk mitigation, the Fund has taken advice from its Investment Consultant, Mercer, and the Scheme Actuary, also Mercer. In providing investment advice, Mercer is regulated by the Financial Conduct Authority.

APPENDIX A
Myners Investment Principles - Compliance Statement

In accordance with regulation 9A(3A) of the LGPS (Management and Investment of Funds) Regulations 1998, as amended the Council is required to state the extent to which the administering authority comply with the ten principles of investment practice set out in the document published in April 2002 by CIPFA, the Chartered Institute of Public Finance and Accountancy, and called "CIPFA Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom (Guidance note issue No. 5)"; and give the reasons for not complying where they do not do so. This CIPFA publication is based on ten principles proposed by the Myners review of Institutional Investment in the United Kingdom, and adopted by the Government as a model for best practice in 2001.

The Myners Principles were reviewed by the NAPF during 2008 and a revised set of six principles were issued in October 2008. CIPFA expect to issue a new publication based on the revised six principles in the near future.

Principle 1 - Effective decision-making

- Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.
- Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

Comment

The Fund is generally compliant with the requirements of this Principle. The Pensions Sub-Committee requires new members serving on the Sub-Committee to source appropriate training within six months of joining the Sub-Committee. The three-day course run by the Local Government Pensions Committee of the Local Government Association is recognised as particularly relevant training for new Members, but other routes and courses, and requisite experience are also recognised as appropriate. Where several new Members are appointed together, tailor-made training will be considered.

Principle 2 - Clear Objectives

- Trustees should set out an overall investment objective(s) for the Fund that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.

Comment

The Council seeks to undertake regular reviews of investment strategy, most recently in 2014, which took into account the scheme's liabilities, the strength of the employer covenant and the attitude to risk of both the trustees and the sponsor.

Principle 3 - Risk and Liabilities

- In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities.
- These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.

Comment

In setting the investment strategy, the Trustees have considered the form and structure of liabilities, along with the strength of the sponsor covenant, risk of sponsor default and longevity risk, taking advice from independent professional advisors where appropriate.

Principle 4 - Performance Assessment

- Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisers.
- Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Comment

Overall Fund performance and detailed portfolio performance is measured quarterly, annually and over longer periods by external independent measurement specialists BNY Mellon. Performance is also monitored against the local authority peer group of pension funds, also based on old State Street Company data but from 1April 2016 run by PIRC (for the local authority universe), although in line with the Myners Principles the peer group is no longer considered the benchmark for overall fund performance. The overall benchmark is specific and customised to the Fund's objectives based on the outcome of the successive asset/liability studies.

Performance of the Fund is also subject to annual review by external auditors and by internal audit through regular audits programmed into the Audit Plan.

Pension benefits administration performance is reported regularly to Pensions Board

Principle 5 - Responsible Ownership

- Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.
- A statement of the scheme's policy on responsible ownership should be included in the Investment Strategy Statement Trustees should report periodically to members on the discharge of such responsibilities.

Comment

The Sub-Committee uses the Corporate Governance Service provided by Pension Investments Research Consultants (PIRC), and casts votes at all UK, European and North American company AGMs in line with PIRC recommendations unless the Council decides otherwise.

The Fund encourages each active investment manager to take account of social, environmental and ethical considerations insofar as the manager believes such considerations will benefit performance and/or reduce risk.

For those assets of the Scheme managed in pooled funds, the Trustees accept that the assets are subject to the investment manager's own policy on socially responsible investment. The Trustees are satisfied that this corresponds with its responsibilities to the beneficiaries.

The Fund's attitude to and policies regarding responsible ownership are set out within the body of its Investment Strategy Statement.

The Trustees issue member newsletters in which this discharge of responsibilities is noted.

Mercer has adopted the Institutional Shareholders' Committee Statement of Practice relating to investment consultants.

Principle 6 - Transparency and Reporting

- Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.
- Trustees should provide regular communication to members in the form they consider most appropriate.

Comment

The Council's SIP (and its replacement the Investment Strategy Statement from 1 April 2017) is currently published and available to scheme members on the Council website. Summaries of performance and monitoring of managers are reported in the Pension Fund Annual Report and available to all pensioners and employees each year. Further performance reporting is provided to contributors and pensioners at the AGM. The full Pension Fund Report and Accounts are published as part of the Council's overall Annual Report and Accounts and available to all members of the public.

ISLINGTON

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: Corporate Director of Resources

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	8 December 2020		n/a

Delete as appropriate		Non-exempt

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

SUBJECT: FUNDING REVIEW UPDATE

1. Synopsis

1.1 This is an update report on the funding level of the Fund since the 2019 Actuarial review at 31st March 2019 to September 2020. The Fund Actuary, Mercer will present to Members their outlook on funding position and risk principles.

2. Recommendations

2.1 To receive the presentation prepared by our Fund Actuary attached as Exempt Appendix 1

2.2 To note the summary findings in paragraph 3.5

3. Background

3.1 The 2019 actuarial valuation was completed in March 2020 and is undertaken to determine the funding position and investment strategy that can support sustainable contributions from employers.

3.2 The actuarial review covers three main elements; processing and validation of data, funding strategy review and covenant assessment.

3.3 The 18 months since the valuation has seen market volatility and the COVID-19 pandemic affect employers covenants, future contributions and investment returns outlook. These factors will have an effect on the medium term funding level and it is prudent for Members to review any risk mitigation factors they may consider.

3.4 Mercers our fund actuary have prepared a presentation (attached as Exempt Appendix 1) to review the whole Funding level.

3.5 The summary findings to note include the following:

1) The funding level has increased by 5% since the 2019 valuation to 90% however the outlook of investment returns has reduced.
2) Though there has been gains, the period to being fully funded has increased
3) On going monitoring of employers represents the greatest risk (low affordability and high funding deficit)
4) Lowering the discount rate (in the absence of increasing investment risk/return) will increase the chance of achieving the recovery plan but this will increase employer contributions when affordability has reduced.
5) The Fund may have to accept an increase in funding risk and may want to consider options to reduce this risk.

3.6 Members are asked to receive the presentation and note the summary findings.

4. Implications

4.1 Financial implications

4.1.1 The cost of providing actuarial 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 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 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 an update on existing exercise and the consultation of employers will mitigate any inequality issues.

5. Conclusion and reasons for recommendation

5.1 Members asked to receive the presentation from our Fund Actuary and note the summary findings from the 18 month funding review.

Background papers:
None

Final report clearance:

Signed by: Corporate Director of Resources Date

Report Author: Joana Marfoh
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ISLINGTON

Finance Department
7 Newington Barrow Way
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Report of: Corporate Director of Resources

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	8 December 2020		n/a

Delete as appropriate	Exempt	Non-exempt

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SUBJECT- RECONSIDERING EQUITY PROTECTION STRATEGY

1. Synopsis

1.1 This report provides a briefing on the background, market update and why pension schemes consider equity protection strategies. It also recaps the Fund's objectives for implementing the previous equity protection strategy that was fixed in February 2018 and settled in June 2020.

2. Recommendations

2.1 To receive a presentation from Mercers our investor advisors, on the background, market update and reasons why pension schemes consider equity protection strategies - attached as exempt Appendix 1.

2.2 To consider the presentation and agree an objective for the Fund on our current equities holdings that would require a risk mitigation strategy.

2.3 To consider and agree one of the 3 options below:
Option 1: Do nothing because we are comfortable to take equity risk as a long term investor
Option 2: Use equity protection to protect funding position for defined period e.g to the next valuation date

Option 3: Manage equity risk with a dynamic equity protection over a longer term that will require a governance budget and resource

2.4 Subject to recommendation 2.3 agree the next steps.

3. Background

3.1 **Recap of previous equity protection**

The 2016 triennial valuation was completed in March 2017 with a calculated funding level of 78% and a deficit of £299m with assets values at 31 March 2016. During mid 2017 assets values had grown and funding level was projected to be around 90%.

3.2 Members agreed at the October 2017 special meeting to implement an equity protection strategy aiming to protect 50% of the portfolio (total equities exposure is 65%). The protection strategy was implemented on 2nd February and was based on an equity notional value of £734m (equity value at 31 December 2017 less premium of £25m). The premium was sourced from our LGIM MSCI Global Low Carbon Fund. The target maturity was March 2020 except for Japan that expired in June 2020. The actual premium for the structure was £24.7m. The weighted average upper and lower strike were 94.9% and 78.3% respectively.

3.3 The equity options settled between March 2020 and June 2020 at a value of £74.6m and Members agreed not to extend the strategy.

Reconsider Equity protection

3.5 The 2019 Valuation was completed in March 2020, and as part of the process an investment strategy has been agreed. The Fund has set a target investment return within a risk budget that will enable affordable employer contributions.

3.5.1 Market volatility and economic outlook due to COVID 19 since March is projected to result in lower investment returns over the longer term. Members asked for a presentation to reconsider the case for an equity protection strategy. A Funding review completed as at 30th September 2020 now shows a 5% improvement in the funding level.

3.5.2 Mercer have prepared a presentation attached as exempt Appendix 1 to set out the background and reasons to consider a protection strategy. Members are asked to consider the presentation, agree an objective for the Fund and select which option of risk protection is appropriate for fund beneficiaries and council taxpayers.

4. Implications

4.1 **Financial implications**

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

4.2 **Legal Implications**

The Council, as the administering authority for the pension fund may appoint investment managers to manage and invest a portfolio on its behalf (Regulation 8(1) of the Local

Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

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 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 a policy document and therefore no specific equality implications arising from this report.

5. Conclusion and reasons for recommendation

5.1 Members are asked to receive the presentation to re-consider equity protection strategy. Consider the presentation and agree which option to adopt and the next steps.

Background papers:
None

Final report clearance:

Signed by:

Corporate Director of Resources Date

Report Author: Joana Marfoh
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Settlement Date	Index	Currency	Option Type	Position	Quantity	Multiplier	Strike	Settlement Price	Value Local	Value GBP
20 March 2020	EURO STOXX 50	EUR	PUT	LONG	2554	10	3,160.0	2584.54	14.70m	£13.52m
20 March 2020	EURO STOXX 50	EUR	PUT	SHORT	-2554	10	2,775.0	2584.54	-4.86m	-£4.48m
20 March 2020	FTSE 100	GBP	PUT	LONG	2921	10	6,500.0	5315.00	34.61m	£34.61m
20 March 2020	FTSE 100	GBP	PUT	SHORT	-2921	10	5,400.0	5315.00	-2.48m	-£2.48m
20 March 2020	MSCI EM	USD	PUT	LONG	2167	50	1,140.0	803.23	36.49m	£30.96m
20 March 2020	MSCI EM	USD	PUT	SHORT	-2167	50	980.0	803.23	-19.15m	-£16.25m
20 March 2020	S&P 500	USD	PUT	LONG	1481	100	2,565.0	2437.98	18.81m	£15.96m
20 March 2020	S&P 500	USD	PUT	SHORT	-1481	100	2,020.0	2437.98	-	-
Total										**£71.84m**

ISLINGTON

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Report of: Corporate Director of Resources

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	8th December 2020		

Delete as appropriate	Exempt	Non-exempt

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 August to November 2020.

2. Recommendation

2.1 To note the progress and activities presented at the November business update session (exempt Appendix1) and news briefing Collective Voice-October 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 November 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 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 an investment update, people and governance. The sessions include opportunities to ask questions. Some of the topics discussed are summarised below.

3.5.3 **Responsible Investment**

Following the responsible director Jacqueline Jackson's 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 the latest commitment to Climate Action100+ 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 . Further progress has been the approval of an updated Statement of Investment Beliefs, and that the Responsible Investment Policy is to be supplemented with a Climate Policy.

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 including workshops to review the London CIV Funding Model, organised in conjunction with EY, and three Seed Investor Groups (SIG) focusing on mandates for **Private Debt, Renewable Infrastructure and The London Fund.** All these sessions were well attended and gathered important feedback from a range of key stakeholders.

The LCIV is aiming to select with advisors Reddington, the first manager for Renewable Infrastructure by early January that will lead to the fund launch in March 2021. Private Debt is anticipated to be also launched around March 2021 with advisors ISIO (formerly KPMG). The London Fund is expected to launch by 15th December this year and the fund application is now with the FCA . Looking forward London CIV have arranged their next SIG, for a Low Carbon mandate, on 24 November . The consensus is a passive + solution or factor based fund where the assets are managed with passive like fees but factor decisions are made at the outset. The common favoured factors will be explored more at the next SIG to ensure there is a mutual agreement of those factors going forward into the index, structure and manager selection stages of the fund launch.

3.5.6 **People**

There have been 3 new appointments of non executive directors in September , Alison Talbor, Kitty Ussher and Michael Green- non-executive director of investment and oversight committee.

New employee starters include Head of Private Markets: Vanessa Shia started 9th November, Responsible Investment Manager due to start on 1st December, Client relationship manager- Stephanie Aymers, Tim Harris –Head of Operations, and Assistant Manager for Compliance and Risk -Tom Smith.

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 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 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.

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.

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

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

4.4 **Resident Impact Assessment:**

4.4.1 The Council must, in carrying out its functions, have due regard to the need to eliminate unlawful discrimination and harassment and to promote equality of opportunity in relation to disability, race and gender and the need to take steps to take account of disabilities, even where that involves treating the disabled more favourably than others (section 49A Disability Discrimination Act 1995; section 71 Race Relations Act 1976; section 76A Sex Discrimination Act 1975."

An equalities impact assessment has not been conducted because this report is updating members on the implementation of a fund structure by external managers. There are therefore no specific equality implications arising from this report.

5. Conclusion and reasons for recommendations

5.1 The Council is a shareholder of the London CIV and has agreed in principle to pool assets when it is in line with its Fund strategy and will be beneficial to fund members and council tax payers. This is a report to allow Members to review progress at the London CIV and note the progress to date. Exempt Appendices 1 and 1A are attached for information.

Background papers:

Final report clearance:

Signed by:

Corporate Director of Resources Date

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Report of: Corporate Director of Resources

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	8 December 2020		n/a

Delete as appropriate	Exempt	Non-exempt

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SUBJECT: INVESTMENT STRATEGY REVIEW UPDATE – PRIVATE DEBT ALLOCATION

1. Synopsis

1.1 This is a further update report on 2019 Actuarial review position and the targeted investment returns required to keep contributions to the fund sustainable, and the investment strategy implications on asset allocation.

1.2 Mercer, our investment advisor has prepared a report attached as Exempt Appendix 1 discussing next steps to implement the proposed strategic asset allocation to Private Debt to achieve the agreed target returns within risk parameters.

2. Recommendations

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

2.2 To agree mandate specification and next steps to implement the asset allocation to Private Debt

2.3 To agree to receive an update report at the next meeting in March 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 Mercer have prepared a further update on next steps to implement some of the proposed changes to the strategic asset allocation as part of the agreed investment strategy. The report discusses the mandate specification and implementation of Private Debt allocation.

3.3 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.

3.4 Members are asked to receive the presentation from Mercer on Private Debt mandate specification and agree the next steps for implementation. A further update report on progress will be presented at the next meeting in March 2021.

4. Implications

4.1 **Financial implications**

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

4.2 **Legal Implications**

No legal implications

4.3 **Environmental Implications**

Environmental implications will be included in each report to the Pensions-sub committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of the fund in green opportunities. The link to the full document is https://www.islington.gov.uk/~/media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonboroughofislingtonpensionfundinvestmentstrategystatement.pdf

4.4 **Resident Impact Assessment**

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

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5. Conclusion and reasons for recommendation

5.1 Members asked consider the Mercer presentation –Exempt Appendix 1 and agree the next steps and a further update report on progress at the next meeting in March 2021.

Background papers:
None

Final report clearance:

Signed by:

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

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ISLINGTON

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Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	8 December 2020		n/a

Delete as appropriate		Non-exempt

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

1. Synopsis

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

2. Recommendation

2.1 To consider and note Appendix A attached.

3. Background

3.1 The Forward Plan will be updated as necessary at each meeting, to reflect any changes in investment policy, new regulation and pension fund priorities after discussions with Members.

3.2 Details of agenda items for forthcoming meetings will be reported to each meeting of the Sub-Committee for members' consideration in the form of a Forward Plan. There will be a standing item to each meeting on performance and the LCIV.

4. Implications

4.1 **Financial implications**
4.1.1 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

Background papers:
None

Final report clearance:

Signed by:

Corporate Director of Resources Date

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APPENDIX A

Pensions Sub-Committee Forward Plan for December 2020 to June 2021

Date of meeting	Reports
	Please note: there will be a standing item to each meeting on: • Performance report- quarterly performance and managers' update • CIV update report
8th December 2020	• ISS update • Funding review update • Equity protection principles and objectives • Implementation of strategic asset allocation-private debt • Objectives set for providers of investment consultancy –Annual review • Decarbonisation –Action plan • Net Zero Carbon transition training
10th December 2020	Pension Annual Meeting via zoom
24th March 2021	Strategic asset allocation implementation update
June 2021	Whole fund performance presentation

Past training for Members before committee meetings-

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

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ISLINGTON

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: **Corporate Director of Resources**

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	8 December 2020		n/a

Delete as appropriate	Exempt	Non-exempt

Appendices 1and 2 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: DECARBONISATION POLICY –ACTION PLAN FOR PASSIVE EQUITIES AND NET ZERO CARBON TRANSITION TRAINING

1. Synopsis

1.1 This report discusses 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.

1.2 Mercer have prepared a presentation attached as exempt Appendix 1 discussing the implementation plan to further reduce carbon reserves and emissions on our passive emerging market and UK equities.

1.3 Mercer have also prepared an initial training brief for Members (attached as Exempt Appendix 2) on the principles and considerations for pension investments to transition to Net Zero Carbon.

2. Recommendations

2.1 To the note the action plan (exempt Appendix 1) to further reduce carbon emissions and reserve on our passive emerging and UK equities.

2.2 To agree to receive a report on more evolved and progressive responsible indices now available in the market in March 2021 for options on our passive equities.

2.3 To note 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.

2.4 To note the training briefing on Net Zero Carbon Transition (attached Exempt Appendix 2) and agree an alternative training session date for a more detailed and informed discussion.

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_2e), a reserves based measure that focusses on emissions that could be generated if the proven and probable fossil fuel reserves owned by the companies in the portfolio were burned, in the public equity allocation by more than three quarters compared to the exposure at June 2016, the date of the Fund's latest carbon foot-printing exercise.

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

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

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

2) The Fund reviewing targets annually.

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

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

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

3.2.4 The Fund's latest carbon foot printing exercise on the equity holdings as at 31st 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 **Action Plan for existing passive equities UK and emerging markets**

The carbon footprinting exercise showed that carbon reduction in our current UK passive equities portfolio and emerging markets was not achieving the targets as fast as was anticipated to enable us to meet our targets in May 2022. Members agreed to look at alternative progressive, responsible indices that would enable further reductions. Mercer have prepared an action plan over the next 12 months to agree indices and implement the transition of any change over. The attached Exempt Appendix 1 details the actions and timeline. Members are asked to receive the presentation from Mercer and agree an update report to the March meeting on detailed options on indices for the two passive portfolios.

3.4 **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.

3.4.1 Mercer have prepared a training briefing (exempt Appendix 2) to discuss the transition principles, objectives, framework and implication. As this requires detailed training, Members are asked to agree an alternative training date to have enough time for an informed debate before taking policy decisions.

4. Implications

4.1 **Financial implications**

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

4.2 **Legal Implications**

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

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

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

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

Environmental implications will be included in each report to the Pensions-sub committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of th fund in green opportunities. The link to the full document is https://www.islington.gov.uk/~/media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonboroughoi gtonpensionfundinvestmentstrategystatement.pdf

4.4 **Resident Impact Assessment**

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

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

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5. Conclusion and reasons for recommendations

5.1 Members are asked to note the progress made on decarbonisation on our equities since 2016 and the action plan to achieve further progress. Mercer will present Exempt Appendices 1 and 2 and ask that Members agree an alternative date to have a longer training session on transition to Net Zero Carbon for pension investment.

Background papers:
None

Final report clearance:

Signed by:

Corporate Director of Resources Date

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Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	8 December 2020		n/a

Delete as appropriate		Non-exempt

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

SUBJECT: REVIEW OF OBJECTIVES SET FOR PROVIDERS OF INVESTMENT CONSULTANCY SERVICES

1. Synopsis

1.1 This report updates Members on the performance of the Fund's Investment Consultant, Mercer against the strategic objectives set and agreed at their meeting of 3rd December 2019 for our Investment Consultancy providers in accordance with the requirements of the Investment Consultancy and Fiduciary Management Market Investigation Order 2019 (the 'Order').

2. Recommendations

2.1 To note that the legal requirement for trustees of occupational pensions (including LGPS) to set strategic objectives for investment consultancy providers, came into effect from 10 December 2019

2.2 To note the objectives and agree the performance rating of our investment consultancy provider as set out in Exempt Appendix 1

2.3 To agree to review these objectives at least annually and / or where there is a change in the fund's requirements.

2.4 To delegate to the Corporate Director of Resources, in consultation with the Acting Director of Law and Governance, authority to submit an annual compliance statement confirming compliance with Part 7 of the Order. The first statement must be submitted to the CMA by 7 January 2021 covering the period 10 December 2019 to 9 December 2020.

3. Background

3.1 The Pensions Regulator (TPR) is the UK regulator of occupational pension schemes. They are a non-departmental public body established under the Pensions Act 2004. Their sponsoring body is the Department for Work and Pensions (DWP) and Parliament sets the legislative and regulatory framework within which they work.

3.2 Following an investigation into the investment consultancy and fiduciary management market, the Competition and Markets Authority (CMA) introduced new duties for trustees and managers of occupational pension schemes, that took effect from 10 December 2019.

3.3 It appears that the only Remedy applicable to the LGPS is the requirement for Administering Authorities to set strategic objectives for their IC provider. Whilst we await the MHCLG guidance and legislation, the TPR 's consultation on guidance contained roles of an investment consultant and a case study of a pension fund setting objectives and agreeing a performance monitoring scorecard. The link to the full consultation is https://www.thepensionsregulator.gov.uk/en/document-library/consultations/draft-guidance-consultation-in-response-to-cma-recommendation

3.4 Members considered and agreed a set of strategic objectives for their IC Provider at their 3 December 2019 meeting. Members also agreed to review the objectives at least annually and or where there is a change in the Funds requirements.

3.5 **Performance**

Exempt Appendix 1 attached, details the Fund requirements and objectives set for the investment consultant provider Mercer, against which the consultant's performance has been assessed and reviewed. A commentary has been assigned to each strategic objective and then rated from excellent to poor. Mercers' ratings are from excellent to good reflecting the high standard of service received over the year.

3.6 Members are asked to consider whether the objectives still meet the fund requirements or should be amended and to review and agree the performance ratings.

3.7 The CMA Order includes a requirement for LGPS funds to submit an annual compliance statement confirming compliance with Part 7. The first statement must be submitted to the CMA by 7 January 2021 covering the period 10 December 2019 to 9 December 2020. Members are asked to delegate authority to the Corporate Director of Resources, in consultation with the Acting Director of Law and Governance to submit the compliance statement.

4. Implications

4.1 **Financial implications**

None applicable to this report. Financial implications will be included in each report to the Pensions Sub-Committee as necessary.

4.2 **Legal Implications**
On 10th June 2019, the Competition and Market's Authority (CMA) made the Investment Consultancy and Fiduciary Management Market Investigation Order 2019 placing new obligations on service providers and pension scheme trustees with regard to Fiduciary Management (FM) and Investment Consultancy (IC) Services. The Order implements the CMA's recommended remedy 1 (tendering for FM services) in Part 3 and remedy 7 (Setting objectives for IC) in Part 7 which came into force on 10 December 2019.

4.3 IC Services are defined as the provision of advice:

- on investments that may be made or retained;
- in relation to the preparation or revision of the statement of investment principles;
- on strategic asset allocation; and
- on manager selection.

However, IC Services do not extend to the high-level commentary provided by the scheme actuary in or in respect of triennial valuation reports and with regard to the link between the investment approach and the pension scheme's funding objectives.

4.4 Under Part 7, the council may not enter into a contract with an investment consultancy provider or the provision of IC Services or continue to receive such services from an existing provider unless it has set Strategic Objectives for the provider. Strategic Objectives are objectives for the provider's advice by reference to the four areas in paragraph 4.3 above in accordance with the council's pension investment strategy.

4.5 Article 12 of the Order requires the council to set Strategic Objectives for Mercers, its Investment Consultancy provider applicable to its advice regarding the matters set out in paragraphs 4.3 above. The council is required to submit a Compliance Statement to the CMA by 7 January 2021 confirming that this requirement has been complied with during the year commencing 10 December 2019 (Article 15).

4.6 **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

4.7 **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".

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

5. Conclusion and reasons for recommendation

5.1 Members are asked to review fund requirements and objectives and agree performance ratings attached as Exempt Appendix 1, and agree to delegate authority to the Corporate Director of Resources, in consultation with the Acting Director of Law and Governance to submit the compliance statement by 9 January 2021.

Background papers:
None

Final report clearance:

Signed by:

Corporate Director of Resources Date

Received by:

Head of Democratic Services Date

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Agenda Item C6

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