



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

AGENDA FOR THE PENSIONS SUB COMMITTEE

Members of the Pensions Sub Committee are summoned to an additional meeting which will be held remotely via Zoom on **11 November 2020 at 4.00 pm.**

Link to the meeting: <https://weareislington.zoom.us/j/91207115768>

Enquiries to : Mary Green
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Despatched : 3 November 2020

Membership 2020/21

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

Substitute Members

Councillor Sara Hyde
Councillor Anjna Khurana
Councillor John Woolf

Quorum is 2 members of the Sub-Committee



A. Formal Matters

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

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

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

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

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

- *(a)** Employment, etc - Any employment, office, trade, profession or vocation carried on for profit or gain.
- (b)** Sponsorship - Any payment or other financial benefit in respect of your expenses in carrying out duties as a member, or of your election; including from a trade union.
- (c)** Contracts - Any current contract for goods, services or works, between you or your partner (or a body in which one of you has a beneficial interest) and the council.
- (d)** Land - Any beneficial interest in land which is within the council's area.
- (e)** Licences- Any licence to occupy land in the council's area for a month or longer.
- (f)** Corporate tenancies - Any tenancy between the council and a body in which you or your partner have a beneficial interest.
- (g)** Securities - Any beneficial interest in securities of a body which has a place of business or land in the council's area, if the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body or of any one class of its issued share capital.

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

B. Non-exempt items

1. Contract award for multi-asset credit manager

C. Urgent non-exempt items

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

D. Exclusion of press and public

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

E. Confidential/exempt items

1. Contract award for multi-asset credit manager - exempt appendices 7 - 16

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 Chair and recorded in the minutes.

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

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Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	11 November 2020		n/a

Delete as appropriate	Exempt	Non-exempt
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Appendix 1 and 2 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: CONTRACT AWARD FOR MULTI ASSET CREDIT MANAGER

1. Synopsis

- 1.1 This report and exempt appendices set out the final stages of the tendering and procurement process to award a mandate to a Multi Asset Credit manager. Members are asked to note the outcome of the procurement process and agree to award a contract to the recommended manager.
- 1.2 Bfinance, lead on tendering process, have prepared a summary of the last four managers' outcomes from the interview attached as exempt Appendix 2
- 1.3 Mercer, our investment advisors have prepared a terms of reference for the recommended managers (attached as exempt Appendix 1)

2. Recommendations

- 2.1 To note the procurement process
- 2.2 To note the outcomes summarised in exempt Appendix 2 and terms of reference prepared by Mercer attached as exempt Appendix 1
- 2.3 To agree to appoint the recommended Manager A as the Islington Pension Fund preferred Multi Asset Credit manager as recommended in Appendix 1 (private and confidential)

- 2.3.1 Subject to approval of recommendation 2.3, to agree to the appointment of Fund Manager B as the Islington Pension Fund Multi Asset Credit reserve manager as recommended in Appendix 1 (private and confidential)
- 2.3.2 To agree to delegate to the Corporate Director of Resources, in consultation with the Acting Director of Law and Governance, authority to negotiate and agree terms and conditions of the fund management agreement with Manager A.
- 2.4 To agree to allocate 5% of the pension fund to Manager A mostly funded from proceeds of the equity protection strategy currently invested with Legal and General.

3. Background

Asset Allocation to Multi Asset Credit

- 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.
- 3.1.1 Multi asset credit (MAC) mandate invests in a wide range of generally sub-investment grade debt in an opportunistic and unconstrained manner with little reference to traditional benchmark. Typical strategies include high yield bonds, bank loans, corporate bonds, gilts and cash to increase defensiveness of the portfolio as is deemed fit. Value is added by moving between these credit asset classes as well as by security selection within the asset
- 3.2 At the June 2020 meeting, members agreed the Multi-Asset Credit mandate specification for the tendering process to commence as shown in Table 1 below.

Table I

Asset Type	Multi-Asset Credit
Active Vs. Passive	Active
Markets	Global sub-investment grade credit (high yield, bank loans, asset-backed securities)
Target Returns	Cash +4 – 6% p.a. depending on the manager
Volatility	Expect 5 – 10% p.a. depending on the manager
Liquidity	Quarterly at a minimum
Fund Value	c. £70m (5% of Fund Assets)
Structure	Open Ended
Fees	Expect an Annual Management Charge of between 0.5% - 0.75% p.a.
Interest rate duration/hedge	Low interest rate sensitivity
Risk vs. Return	Manager dependent; clearly seek attractive risk-adjusted returns
VAR	Not specified at this point
Standard Deviation	Expect 5 – 10% p.a.
Sharpe Ratio	Not specified at this point
Rating	Sub-investment grade on average
Leverage	Expected only for efficient portfolio management
Currency Hedging	Yes – pooled fund should facilitate investment in a GBP hedged share class
ESG considerations are an integral part of the Fund's strategy and objective of being a long-term investor. As such in selecting a MAC manager, the Committee	

will pay due attention to the following principles set out in the Investment Strategy Statement:

- 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.

Procurement Process

3.3 Officers discussed with one other London local authority the possibility of a joint tender to procure Multi Asset Credit within our time line if the mandate specification was comparable. A lot of commonality was established and hence, the joint tender commenced with bfinance, and Mercer (our advisors).

- 3.4 bfinance was engaged to deliver the following
- Confirm Islington's requirements, investment objectives and constraints, defined in discussion between Islington, Mercer and bfinance as appropriate.
 - Agree, in conjunction with Islington, the universe of relevant asset management firms. Prepare appropriate RFP documentation to send to this universe.
 - Analyse proposals from interested managers and present a report in order to select a short list of suitable specialists capable of managing the mandates successfully.
 - Prepare and conduct due diligence meetings with all the short-listed managers at a time and place convenient to Islington.
 - Prepare all the necessary additional reports in support of the selection, on site due diligence etc. as required by Islington.
 - Undertake and help in fee/terms negotiations with the selected investment managers.
 - Include Islington's advisers at all relevant points in the process, as agreed with Islington.
 - bfinance are remunerated if we appoint a manager and allocate funds

3.5 The selection process

The timeline for shortlisting to final interviews were

Activity	Date
Invitation to universe of managers for proposals	9/7/2020

Longlist stage 1- Review of manager proposals summarised by bfinance and agree best fit for stage 2	10/08/2020
Review detailed analysis for shortlist	14/9/2020
Shortlist Interview with final 4 managers	18/9/2020

- 3.5.1 The process was undertaken in collaboration with another London Local authority – Lambeth Council. At the outset of the process, 150 managers were invited by bfinance to participate; as a result of which 35 offers from 33 managers were received. A meeting was held between bfinance, Officers, Mercer and our Independent Advisor, and a longlist of 11 managers was identified for analysis that is more detailed. From the detailed list of proposals, four managers were shortlisted for a further due diligence and interview.
- 3.5.2 Four managers were invited to make a presentation via zoom, covering people, investment process, idea generation, implementation, ESG, deployment of funds and fees and diversity.

The final interview group comprised of:

Tony English	Mercer
Noel Collins	Mercer
Joana Marfoh	Islington
Cllr Paul Convery	Islington
Karen Shackleton	MJ Hudson
Samuel Gervaise-Jones, Kunal Charda and Mathias Nerdert	bfinance
2 Officers	Lambeth Council

- 3.5.3 Bfinance have prepared a summary of the strengths and weakness of the last four managers interviewed and is attached as exempt Appendix 2. The recommendation and terms of reference report prepared by Mercer is attached as Exempt Appendix 1. Members are asked to consider the report and agree to appoint Manager A and keep manager B as a reserve manager.
- 3.5.4 Members are also asked to agree to delegate to the Corporate Director of Resources, in consultation with the Acting Director of Law and Governance, authority to negotiate and agree terms and conditions of the fund management agreement with Manager A.

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

- 4.2.1 The Council, as the administering authority for the pension fund may appoint investment managers to manage and invest a Multi Asset Credit portfolio on its behalf (Regulation 9(1) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended)).
- 4.2.2 A competitive tendering exercise has been undertaken for the appointment of a multi asset credit manager in accordance with the requirements of the Public Contracts Regulations 2015 and the council's Procurement Rules. The sub-committee may appoint the highest evaluated manager (Fund

Manager A) and the next highest evaluated manager (Fund Manager B) as reserve provided that it is satisfied that their offers represents value for money and is satisfied as to the matters set out in paragraph 4.2.3.

The sub- committee must

- (i) reasonably believe that the recommended investment manager's ability in and practical experience of financial matters makes them suitably qualified to make investment decisions for the Council

- (ii) have proper regard to the advice of the Corporate Director of Resources and its external advisers, in relation to the proposed appointment

4.2.3 In considering the recommendations in this report, members must take into account the information contained in the Exempt Appendices 1 and 2 to this report.

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

The environmental impacts were considered as part of the presentations where managers were asked to demonstrate how they took environmental and social governance issues in their portfolio construction. It was identified that the proposals in this report would have no adverse impacts.

4.4 **Resident Impact Assessment**

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

5. **Conclusion and reasons for recommendations**

5.1 Members are asked consider the Mercer report attached as Exempt Appendix 1 and agree to appoint the recommended Manager A and reserve Manager B, and also delegate authority to the Director of Corporate Resources in consultation with the Acting Director of Law and Governance, authority to negotiate and agree with the successful manager the implementation process and fund management agreements.

Background papers:

Exempt Appendix 1 and 2

Final report clearance:

Signed by:



Corporate Director of Resources

Date

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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