



AGENDA FOR THE PENSIONS SUB-COMMITTEE

Members of the Pensions Sub-Committee are summoned to a meeting which will be held in the Council Chamber, Islington Town Hall, Upper Street, N1 2UD on **21 June 2021 at 7.00 pm.**

Enquiries to : Mary Green
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Despatched : 11 June 2021

Membership 2021/22

Councillor Paul Convery (Chair)
Councillor Satnam Gill OBE (Vice-Chair)
Councillor Michael O'Sullivan
(1 vacancy)

Substitute Members

Councillor Jenny Kay

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.

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|----|--|--------|
| 4. | Minutes of the previous meeting | 1 - 4 |
| 5. | Membership, terms of reference and dates of meetings of the Pensions Board and Pensions Sub-Committee in 2021/22 | 5 - 10 |

B. Non-exempt items

- | | | |
|----|--|---------|
| 1. | Pension Fund performance - January to March 2021 | 11 - 62 |
| 2. | Pension Fund Forward Plan of business | 63 - 66 |

3.	London CIV update	67 - 72
4.	Private debt procurement options (<u>to follow</u>)	-
5.	Decarbonisation and net zero carbon transition update (<u>to follow</u>)	-

C. Urgent non-exempt items

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

D. Exclusion of press and public

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

E. Confidential/exempt items

1.	London CIV update - exempt appendix	73 - 108
2.	Private debt procurement options - exempt appendix (<u>to follow</u>)	-
3.	Decarbonisation and net zero carbon transition update - exempt appendix (<u>to follow</u>)	-

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 14 September 2021

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London Borough of Islington

Pensions Sub Committee - 23 March 2021

Non-confidential minutes of the meeting of the Pensions Sub Committee held virtually, via Zoom, on 23 March 2021 at 7.00 pm.

Present: Councillors: Paul Convery (Chair), Satnam Gill (Vice-Chair) and Dave Poyser

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

Councillor Paul Convery in the Chair

171 APOLOGIES FOR ABSENCE (Item A1)

Received from Councillor O’Sullivan.

172 DECLARATION OF SUBSTITUTES (Item A2)

None.

173 DECLARATION OF INTERESTS (Item A3)

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

174 MINUTES OF THE PREVIOUS MEETING (Item A4)

RESOLVED:

That the minutes of the meeting held on 8 December 2020 be confirmed as an accurate record of proceedings and the Chair be authorised to sign them.

175 PENSION FUND PERFORMANCE - OCTOBER TO DECEMBER 202 (Item B1)

RESOLVED:

(a) That the performance of the Fund from 1 October to 31 December 2020, as per the 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 update on BMO (emerging and frontier manager), attached as exempt appendix 2 to the report, be noted.

(d) That the January 2021 “LGPS Current Issues”, attached as Appendix B to the report, be noted.

176 DECARBONISATION POLICY - UPDATE AND ACTION PLAN AFTER NET ZERO CARBON TRANSITION TRAINING (Item B2)

The Chair was pleased to report that, together with a number of other Pension and Investment Funds, Islington was part of a resolution to HSBC urging the Bank to cut its exposure to fossil fuels, starting with coal. HSBC had agreed to table a shareholder vote at their forthcoming AGM seeking the phasing out of the financing of coal by 2040.

Members expressed their continued interest in achieving as many targets as possible to reach net zero carbon by 2030. Although there were limited products available on the market at the current time to assist in achieving this, it was noted that Fund Managers were looking at options to be available to Pension Funds in the near future.

RESOLVED:

- (a) That the action agreed at the training session in February 2021 for the Sub-Committee to receive a report in June 2021 to review the current decarbonisation policy and to reset targets the Fund can achieve in the medium to long term be noted.
- (b) That a report be submitted to the Sub-Committee on more evolved and progressive responsible indices now available in the market for options on the Fund's passive equities.
- (c) That the draft recommendations at the training session listed in paragraph 3.3.2 of the report of the Corporate Director of Resources be noted and a briefing be prepared on considerations for the pension investments to transition to Net Zero Carbon transition to <2°C.

177 INVESTMENT STRATEGY REVIEW UPDATE - PRIVATE DEBT PROCUREMENT OPTIONS (Item B3)

In considering the options for Private Debt procurement, members agreed that the criteria they would apply would be which other funds were investing with the individual managers, how much to commit and fee differentials.

RESOLVED:

- (a) That the current options for Private Debt procurement, as detailed in table 1 of the report of the Corporate Director of Resources, be noted.
- (b) That officers be authorised to continue to explore the options and conclude by June 2021 which option(s) best delivers value for money to proceed to procure suitable managers.
- (c) That a progress report be submitted to the next meeting in June 2021.

178 PENSION FUND FORWARD PLAN (Item B4)

RESOLVED:

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

179 LONDON CIV UPDATE (Item B5)

RESOLVED:

(a) That the report and accompanying appendices of the Corporate Director of Resources, informing the Sub-Committee of the progress made at the London CIV in launching funds, running of portfolios, reviewing governance and investment structure, over the period December 2020 to February 2021, be noted.

(b) That the progress and activities presented at the February business update session (exempt Appendix1) and news briefing "Collective Voice-February" attached as exempt Appendix 1A, be noted.

180 EXCLUSION OF PRESS AND PUBLIC (Item)

RESOLVED:

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

<u>Agenda item E1</u>	<u>Title</u>	<u>Reasons for exemption</u>
	London CIV update - exempt appendices	<u>Category 3 –</u> Information relating to the financial or business affairs of any particular person (including the authority holding that information)
<u>Agenda item E2</u>	Pension Fund performance - October to December 2020 – exempt appendix	ditto

- 181 **LONDON CIV UPDATE - EXEMPT APPENDICES (Item E1)**
- 182 **PENSIONS FUND PERFORMANCE - EXEMPT APPENDIX (Item E2)**
Noted.

The meeting ended at 8.15 pm

CHAIR

Governance and Human Resources
Town Hall, Upper Street
London N1 2UD

Report of: Acting Director of Law and Governance and Monitoring Officer

Meeting of	Date	Agenda Item	Ward(s)
Pensions Board/ Pensions Sub-Committee	21 June 2021		n/a

Delete as appropriate		Non-exempt
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Subject: MEMBERSHIP, TERMS OF REFERENCE AND DATES OF MEETINGS OF PENSIONS SUB-COMMITTEE AND THE PENSIONS BOARD in 2021/22

1. Synopsis

To inform members of the remit and administrative arrangements for the Pensions Sub-Committee and the Pensions Board for the municipal year 2021 - 2022.

2. Recommendations

- 2.1 To note the membership of the Pensions Sub-Committee, appointed by the Audit Committee on 25 May 2021, its terms of reference and dates of meetings for the municipal year 2021/22, as set out at Appendix A.
- 2.2 To note the membership of the Pensions Board, appointed by the Audit Committee on 25 May 2021, its terms of reference and dates of meetings for the municipal year 2021/22, as set out at Appendix A.

3. Background

- 3.1 The terms of reference of the Pensions Sub-Committee (as contained in Part 5 of the Council's Constitution) are set out at Appendix A. The quorum of the Sub-Committee is two Councillors.
- 3.2 The terms of reference of the Pensions Board are also detailed in Appendix A. The quorum for meetings of the Board is three, including at least one employer representative and one member representative.
- 3.2 The membership and dates of meetings in 2021/22 are also set out at Appendix A for information.

4. Implications

4.1 Financial Implications

None.

4.2 Legal Implications

None.

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.

A resident impact assessment has not been carried out since this report relates solely to the administrative arrangements for the Committee and will not impact upon residents.

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

There are no environmental implications arising directly from this report.

5. Conclusion and reasons for recommendation

The report is submitted to inform members of the remit of the Committee.

Background papers:

None.

Final Report Clearance

Signed by

Acting Director of Law and Governance and
Monitoring Officer

Date

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PENSIONS SUB-COMMITTEECommittee Membership 2021/22

Councillors	Substitute Members
Paul Convery (Chair)	Jenny Kay
Satnam Gill OBE (Vice-Chair)	
Michael O'Sullivan	
(vacancy)	

1.1 Terms of Reference

1. To consider policy matters in relation to the pension scheme, including the policy in relation to early retirements.
2. To administer all matters concerning the Council's pension investments in accordance with the law and Council policy.
3. To establish a strategy for disposition of the pension investment portfolio.
4. To determine the delegation of powers of management of the fund and to set boundaries for the managers' discretion.
5. To review the investments made by the investment managers and from time to time consider the desirability of continuing or terminating the appointment of the investment managers. (Note: The allocation of resources to the Pension Fund is a function of the Executive).
6. To consider the overall solvency of the Pension Fund, including assets and liabilities and to make appropriate recommendations to the Executive regarding the allocation of resources to the Pension Fund.
7. The Chair of the Pensions Sub-Committee will represent Islington Council at shareholder meetings of the London Collective Investment Vehicle (London LGPS CIV Limited). In the absence of the Chair, a deputy may attend.
8. Members of the Pensions Board shall be invited to attend meetings of the Sub-Committee as observers.

1.2 Quorum

The quorum for the Pensions Sub-Committee is 2 elected members.

1.3 Future Meeting Dates

Listed below are the dates of the meetings for 2021/22, all at 7.00pm:

21 June 2021
14 September 2021
23 November 2021
8 March 2022

The date for the Pensions AGM 2021 is to be confirmed.

PENSIONS BOARD MEMBERSHIP 2021-2022

Employer representatives:

Maggie Elliott (Vice-Chair) (for a three year term from 3 June 2019)
Councillor Dave Poyser (Chair)
(vacancy)

Scheme member representatives:

Mike Calvert (for a three year term from 3 June 2019)
Valerie Easmon-George (for a four year term, from 3 June 2019) (+ vacancy for substitute)
George Sharkey (for a three year term, with effect from 25 May 2021)

Independent member

Alan Begg (for a four year term, from 3 June 2019)

3.1 **Terms of Reference**

1. To assist the London Borough of Islington as scheme manager in securing compliance with:
 - a. the Local Government Pension Scheme Regulations 2013;
 - b. any other legislation relating to the governance and administration of the Local Government Pension Fund Scheme (LGPS);
 - c. requirements imposed by the Pensions Regulator in respect of the LGPS;
 - d. such other matters as the LGPS regulations may specify
2. To assist the London Borough of Islington in securing the effective and efficient governance and administration of the scheme;
3. To consider cases that have been referred to the Pension Regulator and/or the Pension Ombudsman; recommending changes to processes, training and/or guidance where necessary;
4. To produce an annual report outlining the work of the Board throughout the financial year.
5. To make recommendations to the Pension Sub-Committee.

Composition

The membership of the Board shall consist of:

- 3 Islington Council Pension Fund employer representatives
- 3 Islington Council Pension Fund member representatives
- 1 independent member (non-voting)

No substitutes are permitted, with the exception of the member of the Board who is appointed to represent pensioner members of the LGPS

All members of the Board shall be appointed by full Council or its Audit Committee which shall also appoint a chair from among the members of the Board.

Any person who is applying for or appointed as a member of the Pension Board must provide the Scheme Manager with such information as and when the Scheme Manager requires to ensure that any member of the Board or person to be appointed to the Board does not have a conflict of interest.

No officer or elected member of the Council who is responsible for the discharge of any function in relation to the LGPS.

Members of the Pensions Board shall be invited to attend meetings of the Sub-Committee as observers.

Meeting Dates 2021/22, all at 6.00pm:

21 June 2021
14 September 2021
23 November 2021
8 March 2022

The date for the Pensions AGM 2021 is to be confirmed.

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Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	21 st June 2021		

Delete as appropriate	Exempt	Non-exempt

Subject: PENSION FUND PERFORMANCE 1 JANUARY TO MARCH 2021

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 January to 31 March 2021 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 note May 2021 LGPS Current Issues attached as Appendix B
3.	Fund Managers Performance for 1 January to 31 March 2021
3.1	The fund managers' latest quarter net performance figures compared to the benchmark and Mercer ESG ratings is shown in the table below.

	<p><i>NB: 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.</i></p>
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3.1 Fund Managers	Asset Allocation	Mandate	*Mercer ESG Rating	Latest Quarter Performance (Jan-Mar'21) Gross of fees		12 Months to March 2021-Performance Gross of fees	
				Portfolio	Benchmark	Portfolio	Benchmark
LBI-In House	10.4%	UK equities	N	5.7%	5.1%	25.7%	26.7%
LCIV Sustainable EQ- RBC	9.9%	Global equities	1	0.2%	3.9%	46.3%	38.4%
LCIV -Newton	17.5%	Global equities	2	4.1%	3.7%	37.4%	39.6%
Legal & General	12.5%	Global equities	1	4.1%	4.1%	38.2%	38.6%
Standard Life	10.0%	Corporate bonds	2	-4.0%	-4.1%	7.3%	7.0%
Aviva (1)	7.9%	UK property	3	2.0%	-8.7% 2.2%	6.1%	-6.7% 2.6%
ColumbiaThreadneedle Investments (TPEN)	5.1%	UK commercial property	2	2.3%	2.2%	1.7%	2.5%
Hearthstone	1.7%	UK residential property	N	0.36%	2.2%	1.2%	2.6%
Schroders	8.0%	Diversified Growth Fund	2	1.7%	1.7%	24.2%	6.5%
BMO Investments-LGM	4.5%	Emerging/ Frontier equities	2	-0.9%	1.4%	36.8%	42.8%

-8.7% & -6.7% = original Gilts benchmark; 2.2% and 2.5% 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	<p>The combined fund performance and benchmark for the last quarter ending March 2021 is shown in the table below.</p> <table><tr><td></td><td colspan="2">Latest Quarter Performance Gross of fees</td><td colspan="2">12 Months to Mar'2021 Performance Gross of fees</td></tr><tr><td rowspan="2">Combined Fund Performance</td><td>Portfolio %</td><td>Benchmark %</td><td>Portfolio %</td><td>Benchmark %</td></tr><tr><td>2.3</td><td>2.2</td><td>22.1</td><td>19.3</td></tr></table>		Latest Quarter Performance Gross of fees		12 Months to Mar'2021 Performance Gross of fees		Combined Fund Performance	Portfolio %	Benchmark %	Portfolio %	Benchmark %	2.3	2.2	22.1	19.3
	Latest Quarter Performance Gross of fees		12 Months to Mar'2021 Performance Gross of fees												
Combined Fund Performance	Portfolio %	Benchmark %	Portfolio %	Benchmark %											
	2.3	2.2	22.1	19.3											
3.4	Copies of the latest quarter fund manager's reports are available to members for information if required.														
3.5	<p>Total Fund Position</p> <p>The Islington combined fund absolute performance with the hedge over the 1, 3 and 5 years' period to March 2021 is shown in the table below.</p> <table><tr><td>Period</td><td>1 year per annum</td><td>3 years per annum</td><td>5 years per annum</td></tr><tr><td>Combined LBI fund performance hedged</td><td>22.1%</td><td>8.6%</td><td>9.3%</td></tr><tr><td>Customised benchmark</td><td>19.3%</td><td>7.7%</td><td>8.3%</td></tr></table>	Period	1 year per annum	3 years per annum	5 years per annum	Combined LBI fund performance hedged	22.1%	8.6%	9.3%	Customised benchmark	19.3%	7.7%	8.3%		
Period	1 year per annum	3 years per annum	5 years per annum												
Combined LBI fund performance hedged	22.1%	8.6%	9.3%												
Customised benchmark	19.3%	7.7%	8.3%												
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	<p>LCIV RBC Sustainability was fully funded on 5 August 2019. Mandate guidelines include the following;</p> <ul style="list-style-type: none">• The sub fund manager will invest only where they find all four forces of competitive dynamics (business model, market share opportunity, end market growth & management and ESG• Target performance is MSCI World Index +2% p.a. net of fees over a three-year period.• Target tracking error range over three years 2% p.a – 8.0%.• Number of stocks 30 to 70• Active share is 85% to 95%														
3.6.3	The fund underperformed its quarterly benchmark to March by -3.8% but still had a twelve-month out performance of 7.8%. The underperformance was mainly due to stock														

	selections in energy, healthcare and consumer staples. The market favoured cyclical sentiment for growth stocks rather than value and quality in the portfolio.
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 4.1% against a benchmark of 3.7% for the March quarter. Since inception the fund has delivered an absolute return of 12.5% and relative performance of 0.02% net of fees per annum. The performance this quarter was attributed to defensive stocks and sector positions in financials.
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 5.7% against FTSE All Share Index benchmark of 5.2% for the March quarter and a relative over performance of 0.25% since inception in 1992. The In-House fund will be part of the indices review after our low carbon targets are agreed by the next committee meeting in September.
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 March quarter, the fund returned -4.0% against a benchmark of -4.1% and an absolute return of 5.0% per annum since inception.
3.9.2	The drivers behind the performance were due to overweight positioning in subordinated financials and corporate hybrids, as well as an overweight to the collateralised (secured) sector. An underweight to higher quality supranationals was beneficial. This was partially offset by a small allocation to gilts and an overweight to utilities, both of which underperformed.
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 2.0% against a gilt benchmark of -8.7%. The All Property IPD benchmark returned 2.2% for this quarter. Since inception, the fund has delivered an absolute return of 5.9%
3.10.3	This March quarter the fund's unexpired average lease term is 20.5years. The Fund holds 89 assets with 53 tenants. During the quarter, there was no sale or purchase but a value add extension to an existing asset that allowed an increase in lease term and a rent review.
3.10.4	One of Aviva's objectives in its transition strategy to net zero by 2040 is to reduce real estate carbon intensity by 30% and energy intensity by 10%. 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.
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 December was £84.1million.
3.11.2	<p>The agreed mandate guidelines are as listed below:</p> <ul style="list-style-type: none"> • Benchmark: AREF/IPD All Balanced Property Fund Index (Weighted Average) since 1 April 2014. • Target Performance: 1.0% p.a. above the benchmark (net of fees) over three year rolling periods. • Portfolio focus is on income generation with c. 75% of portfolio returns expected to come from income over the long term. • Income yield on the portfolio at investment of c.8.5% p.a. • Focus of portfolio is biased towards secondary property markets with high footfall rather than on prime markets such as Central London. The portfolio may therefore lag in speculative/bubble markets or when the property market is driven by capital growth in prime markets.
3.11.3	The fund returned a performance of 2.3% against its benchmark 2.2% for the March quarter mainly due to higher income return, overweight positions to industrials and underweight exposure to retail.
3.11.4	The cash balance now stands at 8.3% compared to 8.9% last quarter. During the quarter, there was one strategic acquisitions and no disposals. There is a strong asset diversification at portfolio level with a total of 268 properties and 1306 tenancies. Rent collection is improving and tenants are being dealt with on a case by case to enable their viability on the short to medium term.

3.11.5	<p>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:</p> <ul style="list-style-type: none">• Maximum diversification at both portfolio (268 properties, 1,306 tenancies) and at client levels (65 Pension Fund clients)• Highly liquid average lot size of c.£6.7million• Strategic portfolio positioning, with a focus on the strongest underlying subsectors (c.47%* 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 March quarter, the hedged overseas equities had a cash value of £8.3m.						
3.12.2	The hedge has now been in place since 25 November 2020 for quarterly hedge rolls.						
3.13	Franklin Templeton						
3.13.1	<p>This is the fund’s global property manager appointed in 2010 with an initial investment commitment of £25million. Members agreed in September 2014 to re-commit another \$40million to Fund II to keep our investments at the same level following return of capital through distributions from Fund I. The agreed mandate guidelines are listed below:</p> <ul style="list-style-type: none">• Benchmark: Absolute return• Target Performance: Net of fees internal rate of return of 15%. Preferred rate of return of 10% p.a. with performance fee only applicable to returns above this point.• Bulk of capital expected to be invested between 2 – 4 years following fund close.• Distributions expected from years 6 – 8, with 100% of capital expected to be returned approximately by year 7.						
3.13.2	<p>Fund I is now fully committed and drawdown, though \$7.1m can be recalled in the future as per business plans. The final portfolio is comprised of nine funds and five co-investments. The funds is well diversified as shown in table below:</p> <table><tr><td>Commitments</td><td>Region</td><td>% of Total Fund</td></tr><tr><td>5</td><td>Americas</td><td>36</td></tr></table>	Commitments	Region	% of Total Fund	5	Americas	36
Commitments	Region	% of Total Fund					
5	Americas	36					

	4	Europe	26
	5	Asia	38
	The total distribution received to the end of the March 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 \$40m and a distribution of \$33.8m. There was \$4m call and a \$4.3 distribution during this quarter and the NAV is \$19m.		
3.13.5	Members agreed to commit \$50m to Fund III at the December meeting and the documentation was finalised in December to meet the final close date. Drawdowns were yet to be made in the first quarter.		
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 £208m with a performance of 4.1%.		
3.14.3	The equity protection strategy that was settled on 12 June 2020 with a total cash value of £74.6m was invested in a money market fund. On 1 st March, this was liquidated to fund the new Multi Asset Credit mandate with M&G.		
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: <ul style="list-style-type: none"> • Target performance: UK HPI + 3.75% net income. • Target modern housing with low maintenance characteristics, less than 10 years old. • Assets subject to development risk less than 5% of portfolio. 		

3.15.2	<ul style="list-style-type: none"> 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 <p>For the March, quarter the value of the fund investment was £28.3million and total funds under management is £60m. Performance net of fees was 0.36% compared to the IPD UK All Property benchmark of 2.2%.</p> <p>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. A total of £1million has been drawn down over the financial year.</p>
3.15.3	<p>As with most property funds, Covid-19 uncertainty led to the suspension of the fund for part of year in 2020. Income from residential rents has been more sustainable than many other sources of income, and rent collection is comparably high up to 101% at the end of March. They are working closely with their tenants to help them through this period. Six properties were vacant at the end of the period.</p>
3.16	<p>Schroders</p> <p>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:</p> <ul style="list-style-type: none"> Target performance: UK RPI+ 5.0% p.a., Target volatility: two thirds of the volatility of global equities, over a full market cycle (typically 5 years). Aims to invest in a broad range of assets and varies the asset allocation over a market cycle. The portfolio holds internally managed funds, a selection of externally managed products and some derivatives. Permissible asset class ranges (%): <ul style="list-style-type: none"> 25-75: Equity 0- 30: Absolute Return 0- 25: Sovereign Fixed Income, Corporate Bonds, Emerging Market Debt, High Yield Debt, Index-Linked Government Bonds, Cash 0-20: Commodities, Convertible Bonds 0- 10: Property, Infrastructure 0-5: Insurance-Linked Securities, Leveraged Loans, Private Equity.

3.16.2	The value of the portfolio is now £132.2m. The aim is to participate in equity market rallies, while outperforming in falling equity markets. The December quarter performance before fees was 1.7% against the benchmark of 1.7% (inflation+5%). The one -year performance is 24% against benchmark of 6.5% before fees.
3.16.3	Contributions to return over the quarter were achieved across return-seeking assets, driven by global and US equities.
3.17	<p>BMO Global Assets Mgt</p> <p>This is the new emerging and frontier equity manager seeded in July 2017 with a total £74.4m withdrawn from LGIM. The mandate details as follows:</p> <ul style="list-style-type: none"> • A blended portfolio with 85% invested in emerging market and 15% in frontier markets • 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. <p>The mandate was amended in March when the frontier element was liquidated and funds were returned. A total of \$11m has been received with a residual ~300k due in June.</p>
3.17.1	The March quarter saw a performance of -0.9% against a benchmark of 1.4% before fees. Emerging market equities was highly polarized, for the last two months of the quarter. South Africa, Russia and Taiwan were best performers whilst Turkey, Brazil and Indonesia were detractors.
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.
3.17.3	It was announced that BMO Financial Group has reached an agreement to sell its EMEA asset management business to Ameriprise Financial, Inc., subject to regulatory approval and customary closing conditions. On closing, the BMO asset management business in EMEA will become part of Columbia Threadneedle Investments, the global asset management business of Ameriprise.
3.18	<p>Quinbrook Infrastructure</p> <p>This one of the infrastructure managers appointed in November 2018. The total fund allocation infrastructure was 10% circa £130m. 40% of the allocation equivalent to \$67m was allocated to low carbon strategy. Merits of Quinbrook include:</p> <ul style="list-style-type: none"> • Low carbon strategy, in line with LB Islington's stated agenda • Very strong wider ESG credentials • 100% drawn in 12-18 months • Minimal blind pool risk • Estimated returns 7%cash yield and 5% capital growth <p>Risks: Key Man risk</p> <p>Drawdown to March 2021 is \$65.2m</p>

	<p>Pantheon Access- is the other infrastructure manager also appointed in November 2018. Total allocation was \$100m and merits of allocation included:</p> <ul style="list-style-type: none"> • 25% invested with drawdown on day 1 • Expect fully drawn within 2-3 years • Good vintage diversification between secondary's and co-investments • Exposure to 150 investments • Estimated return 5% cash yield and 6% capital growth <p>Risks: No primary fund exposure.</p> <p>Drawdown to March 2021 is \$45.5 and distribution of \$5.05m</p>
4.	Implications
4.1	<p>Financial implications:</p> <p>The fund actuary takes investment performance into account when assessing the employer contributions payable, at the triennial valuation.</p> <p>Fund management and administration fees and related cost are charged to the pension fund.</p>
4.2	<p>Legal Implications:</p> <p>As the administering authority for the Fund, the Council must review the performance of the Fund investments at regular intervals and review the investments made by Fund Managers quarterly.</p>
4.3	<p>Resident Impact Assessment:</p> <p>The Council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The Council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The Council must have due regard to the need to tackle prejudice and promote understanding".</p> <p>An equalities impact assessment has not been conducted because this report is an update on performance of existing fund managers and there are no equalities issues arising.</p>
4.4	<p>Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:</p> <p>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:</p> <p>https://www.islington.gov.uk/~media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonboroughofislingtonpensionfundinvestmentstrategystatement.pdf</p>

5.	Conclusion and reasons for recommendations
5.1	Members are asked to note the performance of the fund for the quarter ending March 2021 as part of the regular monitoring of fund performance and Appendix 1- MJ Hudson commentary on managers. To note May 2021 LGPS Current Issues attached as Appendix B.

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:



11 June 2021

Corporate Director of Resources

Date

Received by:

Head of Democratic Services

Date

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London Borough of Islington

Report to 31st March 2021

MJ Hudson

JUNE 2021

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Fund Manager Overview

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

TABLE 1:

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
LCIV Global Equity Fund (Newton) (active global equities)	None reported by the London CIV although they do comment that the portfolio management team is functioning well notwithstanding recent staff turnover.	Outperformed the benchmark by +0.37% in the quarter. Over three years the fund is ahead of the benchmark return by +1.78% p.a., and above the performance target of +1.50% p.a.	As at end March the sub-fund's value was £725.2 million. London Borough of Islington owns 40.16% of the sub-fund.
LCIV Sustainable Equity Fund (RBC) (active global equities)	None reported by the London CIV.	In Q1 2021 the fund delivered a return of +0.19%, behind the benchmark return of +3.95%. Over one year, however, the fund is +7.87% ahead of the benchmark.	As at end March the sub-fund's value was £693.3 million. London Borough of Islington owns 23.84% of the sub-fund.
BMO/LGM (active emerging and frontier equities)	None reported by the manager during Q1. However, BMO announced that the asset management business will become part of Columbia Threadneedle Investments, the global asset management business of Ameriprise, at year end.	Underperformed the benchmark by -2.38% in the quarter to March 2021. The fund is behind over three years by -4.38%.	Not reported.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Standard Life (corporate bonds)	There were 11 joiners, but 21 people left the firm during the quarter. One analyst joined the Fixed Income Group in Kuala Lumpur, and an analyst and investment manager left the Fixed Income Group in London and Boston, respectively.	The fund was marginally ahead of the benchmark by +0.12% in the quarter to March 2021. Over three years the fund is +0.49% p.a. ahead of the benchmark return net of fees, but behind the performance target of +0.8% ahead p.a.	As at end March the fund's value was £2,683.1 million. London Borough of Islington owns 6.2% of the fund.
Aviva (UK property)	Not reported by the time of writing.	Outperformed against the gilt benchmark by +10.68% for the quarter to March 2021 and outperformed the benchmark over three years by +1.98%, delivering a return of +4.94% p.a., net of fees.	Fund was valued at £3.16 billion as at end Q1 2021. London Borough of Islington owns 4.2% of the fund.
Columbia Threadneedle (UK property)	There were two leavers during the quarter, one of whom was in the property team. There were three joiners, with two of these being appointed to the property team.	The fund performed in line with the benchmark return in Q1 2021, with both at +2.2%. It underperformed the benchmark by -0.5% p.a. over three years, below the target of 1% p.a. outperformance (source Columbia Threadneedle).	Pooled fund has assets of £1.98 billion. London Borough of Islington owns 4.24% of the fund.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Legal and General (passive equities)	Not reported by LGIM.	Funds are tracking as expected.	Assets under management of £1.3 trillion at end December 2020. Net flows of +£20.4 billion in 2020.
Franklin Templeton (global property)	During Q1 Joanne Perez-Tomlinson started as CFO.	The portfolio return over three years was +16.46% p.a., well ahead of the target of 10% p.a.	\$1,498.9 billion of assets under management as at end March 2021.
Hearthstone (UK residential property)	No leavers or joiners in Q1.	The fund underperformed the IPD UK All Property Index by -1.78% in Q1. Additionally, it is trailing the IPD benchmark over three years by -0.61% p.a. to end March 2021.	Fund was valued at £60.0m at end Q1 2021. London Borough of Islington owns 47.2% of the fund.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Schroders (multi-asset diversified growth)	During Q1 there were no changes to investment team.	Fund returned +1.69% during the quarter and +5.21% p.a. over 3 years, -1.97% p.a. behind the target return.	Total AUM stood at £574.4 billion as at end December 2020, up from £536.3 billion as at end September 2020.
Quinbrook (renewable energy infrastructure)	No leavers from the team in Q1 2020. However, in James Allan joined as a Director and Daniel Chavez joined as General Counsel.	For the year to Q1 2021 the fund returned +8.45%, slightly behind the annual target 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 +19.28% p.a. over three years.	

Source: MJ Hudson

Minor Concern

Major Concern

Individual Manager Reviews

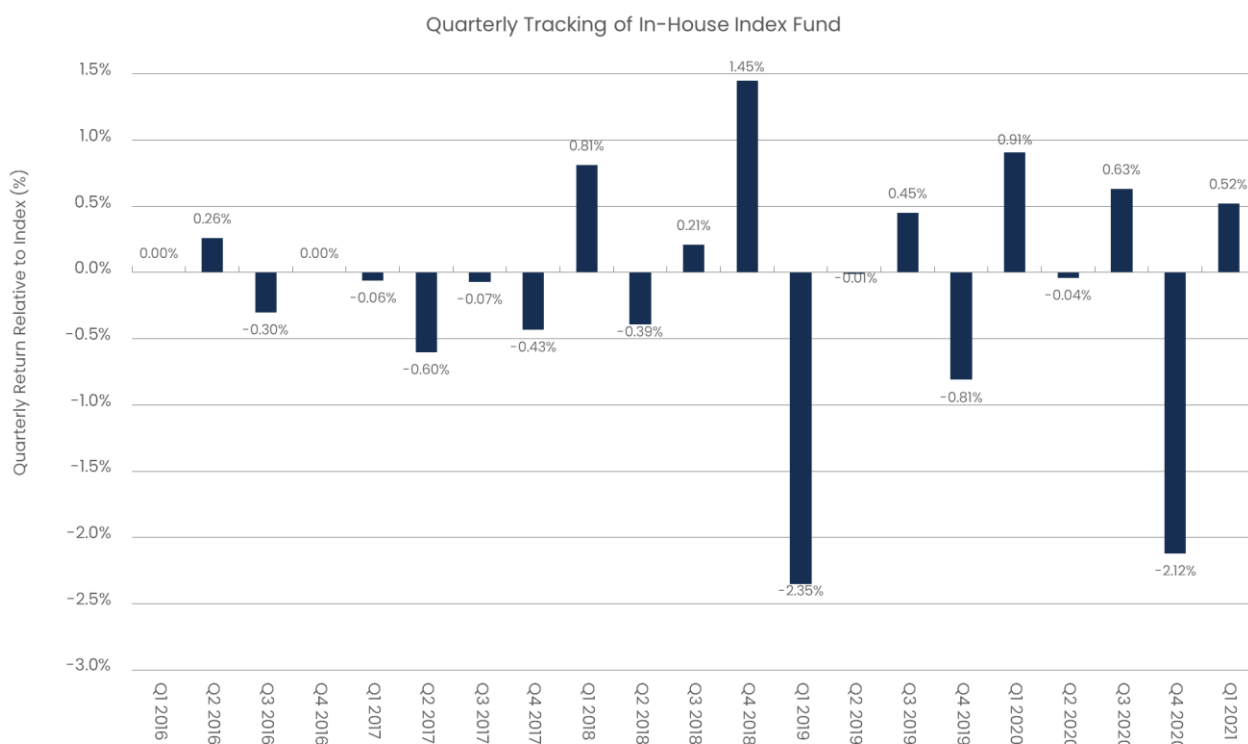
In-house – Passive UK Equities – FTSE UK Low Carbon Optimisation Index

Headline Comments: At the end of Q1 2021 the fund returned +5.71% for the quarter, compared to the FTSE All-Share index return of +5.19%. Over three years the fund has returned +3.38% p.a., ahead of the FTSE All-Share Index by +0.18%.

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. The FTSE low carbon index outperformed the FTSE All Share index in Q1 by +1.8%, and by +7.7% over one year. Over three years, the portfolio outperformed its three-year benchmark by +0.18% p.a.

CHART 2:



Source: MJH; BNY Mellon

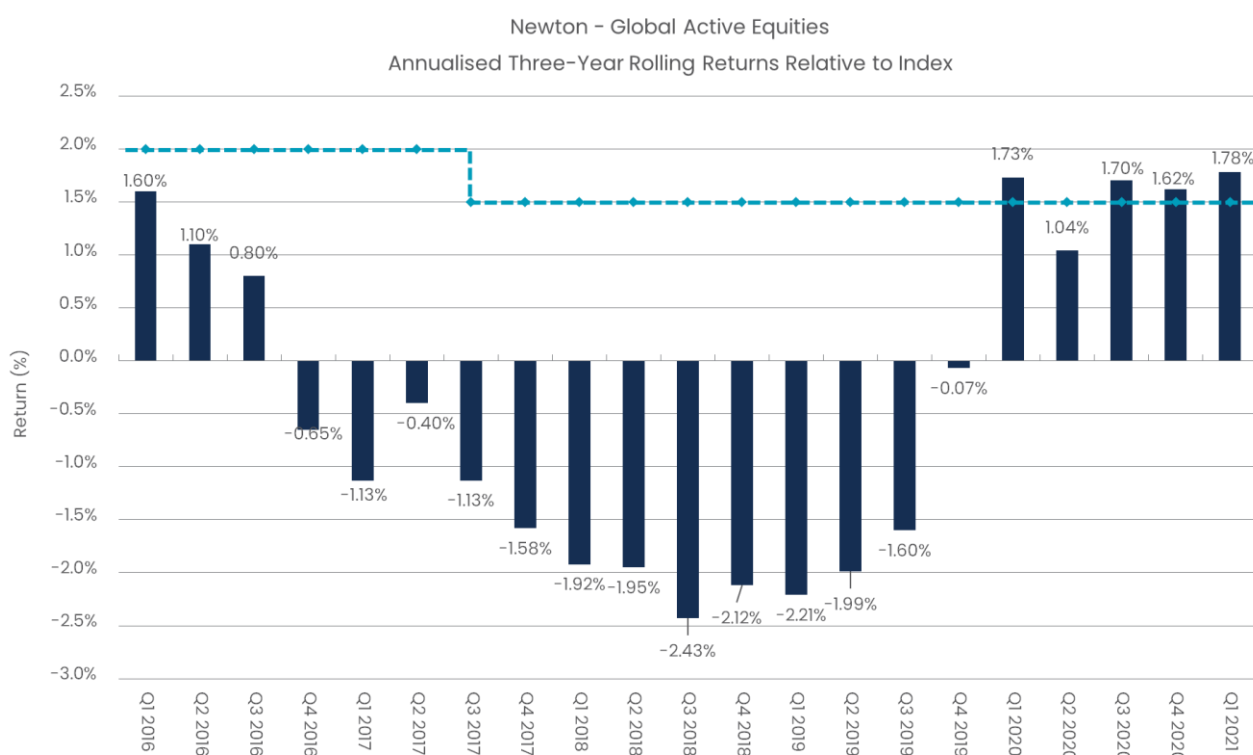
LCIV Global Equity Fund (Newton) – Global Active Equities

Headline Comments: The LCIV Global Equity Fund outperformed its benchmark during Q1 2021 by +0.37%. Over three years the portfolio outperformed the benchmark by +1.78% and is ahead of the performance target of benchmark +1.5% p.a.

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; BNY Mellon

For the three-year period to the end of Q1 2021, the fund was ahead of the benchmark by +1.78% p.a. This means it outperformed the performance objective by +0.28% (the performance objective is shown by the dotted line and dropped in May 2017 when the assets transferred into the London CIV sub-fund).

Positive contributions to the total return came from holdings such as Applied Materials (+1.12% contribution to the total return), Alphabet (+0.66%), and Goldman Sachs Group (+0.61%).

Negative contributions came from holdings including Apple (-0.43%), Amazon.com (-0.25%), and Continental AG (-0.20%).

The London CIV is now providing peer group analysis in its reporting, and this quarter they confirmed that Newton has consistently delivered returns in the top two quartiles whereas risk has been in the bottom quartile (i.e. delivering better returns and lower risk than its peers).

Portfolio Risk: The active risk on the portfolio stood at 3.27% as at quarter end, slightly higher than as at end December when it stood at 3.08%. The portfolio remains defensive, with the beta on the portfolio at end March standing at 0.92, in line with the previous quarter (if the market increases by +10% the portfolio can be expected to rise +9.2%).

At the end of Q1 2021, the London CIV sub-fund's assets under management were £725.2m, compared with £696.3m last quarter. London Borough of Islington now owns 40.16% of the sub-fund.

Portfolio Characteristics: The number of stocks in the portfolio stood at 58 as at quarter-end (3 more than last quarter). The fund added three positions: CME Group, Novozymes, and Te Connectivity. This was to bring more cyclical into the portfolio in expectation of an economic recovery. Newton completed sales on Intact Financial.

The manager's key themes focus on Debt, Demographics, Disruption and Distortion (the four D's). These have been in place for some time; however, Debt and Distortion are becoming more prominently reflected in the portfolio.

LCIV has also introduced carbon footprinting of sub funds, monitored by Trucost, and in Q1 2021 reported that the Newton sub fund had a weighted average carbon intensity of less than half that of the benchmark index (the MSCI World Index). The highest contributors were CMS Energy Corporation (9.93% contribution to the weighted average carbon intensity), Royal Dutch Shell (5.35%) and Taiwan Semiconductor (5.33%).

Staff Turnover: None reported by LCIV for Q1 2021. However, LCIV consider the new management team to be functioning effectively, notwithstanding the senior staff turnover over the past year, previously reported on.

LCIV Sustainable Equity Fund

Headline Comments: Over Q1 2021 the fund delivered a return of +0.19%, this was behind the benchmark return of +3.95%. The one-year return was +46.3%, strong in absolute terms and well ahead of the benchmark by +7.87%. The fund does not yet have a three-year track record. Islington's investment makes up 23.84% 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 consumer discretionary sectors, healthcare, industrials, and materials. The portfolio performance was mainly driven by exposure to financials, while the utilities and healthcare sector allocations detracted slightly over the quarter. The manager continues to add value through active stock selection.

The London CIV is now comparing managers against their peer group and reported that RBC is in the top quartile throughout. This is an exceptional achievement, and has been achieved whilst taken only average risk, when compared with peers.

Portfolio Characteristics: As at end of March 2021 the fund had 36 holdings across 14 countries. The tracking error of the fund was 3.86% meanwhile volatility stood at 17.44%. Over the quarter the largest contributors to return included SVB Financial Group (+0.87%), Alphabet (+0.65%), and First Republic Bank/CA (+0.48%). Their largest detractors include Neste Oyj (-0.80%), Orsted A/S (-0.76%) and Anheuser-Busch Inbev SA/Nv (-0.30%).

London CIV report that the fund has developed an “anti-value” stance yet also does not favour growth stocks. Rather, the manager seeks to identify quality companies with a low debt to equity ratio.

LCIV has also introduced carbon footprinting of sub funds, monitored by Trucost, and in Q1 2021 reported that the RBC sub fund had a weighted average carbon intensity of two-thirds that of the benchmark index (the MSCI World Index). The highest contributors were Orsted (13.75% contribution to the weighted average carbon intensity), Intercontinental Hotels (11.56%) and Neste Oyj (6.26%). The Trucost analysis is comprehensive, and the committee may wish to consider asking LCIV to present their full carbon analysis at some point.

Staff Turnover: None reported by LCIV for Q1 2021.

BMO/LGM – Emerging Market Equities

Headline Comments: The portfolio delivered a return of -0.98% in Q1 2021, compared with the benchmark return of +1.40%, an underperformance of -2.38%. Meanwhile, over one year the fund is trailing the benchmark by -6.08%, and over three years it is trailing by -4.38%. The frontier markets portfolio previously held has now been closed, as such reporting on BMO concerns solely the emerging markets component.

Mandate Summary: Following the closure of their frontier markets fund, the manager now only invests in a selection of emerging market equities, with a quality and value, absolute return approach. The aim is to outperform the MSCI Emerging Markets Index by at least 3% p.a. over a three-to-five-year cycle.

Performance Attribution: performance across emerging markets was mixed and while some countries saw gains, others struggled in Q1. The main detractors from performance were holdings in South African equities, including Discovery and Clicks, both of which struggled as the rest of the market made a cyclical recovery. The biggest contributor to performance came from holdings in China/Hong Kong, South Korea, Brazil, and Mexico. Chinese firm By Health provided the fund with a particularly strong relative return with the company's value increasing by +20% over Q1.

During the quarter, the largest positive contributors to the quarterly absolute return for the emerging markets portfolio came from Taiwan Semiconductor Manufacturing (+0.7%), Walmart De Mexico (+0.5%), and Tata Consultancy Services (0.5%). Companies which detracted most from performance included Inner Mongolia Yili Industrial (-0.4%), Discovery Ltd (-0.3%), and Drogasil (-0.2%).

Over one year, the fund continues to trail behind the benchmark. 12-month performance to March 2021 shows the fund underperform against its benchmark by -6.08%. However, whilst concerning, it should be noted that the absolute performance for the emerging markets portfolio over 12 months was +56.5% (source: BMO), an extremely strong return.

Portfolio Risk: Within the emerging markets portfolio there is a 9.7% allocation to non-benchmark countries (excluding holding in Cash & Equivalents), as well as exposure to countries not typically considered emerging markets, such as a 1.5% exposure to the UK. The largest overweight country allocation in the emerging markets portfolio remained India (+13.4% overweight). The most underweight country allocation was South Korea (-10.9%). Whilst the overweight allocation to India is a concern, given that the country is facing such widespread difficulties with the pandemic, the manager has noted that the equity market is up 5% in US dollar terms. The portfolio holdings are also in companies such as HSBC, and Tata Consultancy Services, the latter being one of the biggest portfolio contributors in Q1 (an IT services company). Tata is benefitting from the pandemic, because firms whose staff are now working from home have outsourced more work to them.

Portfolio Characteristics: The portfolio held 39 stocks as at end March compared with the benchmark which had 1,380. The largest absolute stock position was TSMC (a Taiwanese semiconductor company) at 8.1% of the portfolio, while the largest absolute country position was China and accounted for 32.1% of the portfolio.

Organisation: During Q1 2021 Ameriprise Financial Inc, (a multi-national financial services firm whose asset management division is Columbia Threadneedle), announced that it will be buying BMO's EMEA asset management business. The BMO team will be incorporated into Columbia Threadneedle's team. The sale is expected to go through by the end of 2021, however, even then it may take longer before the teams are fully integrated. It should be noted that events such as this can lead to staff turnover, something BMO has acknowledged in discussions with them.

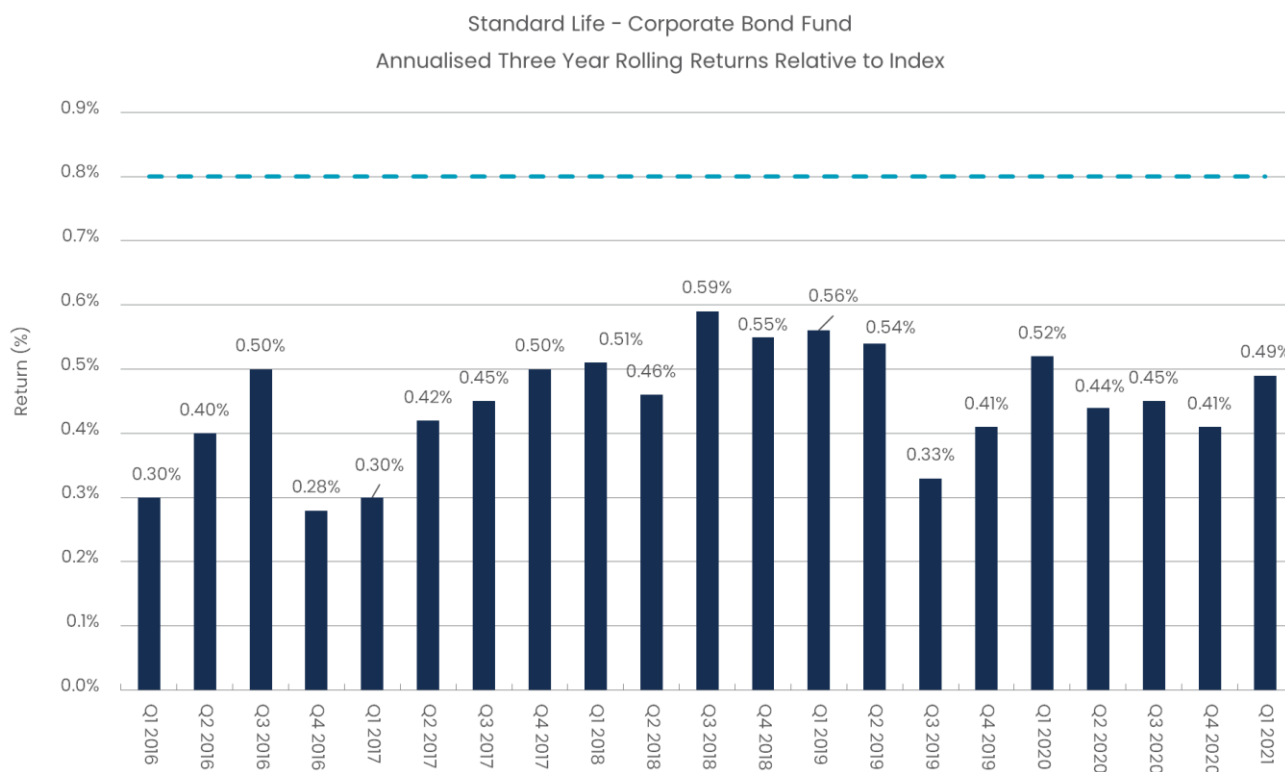
Standard Life – Corporate Bond Fund

Headline Comments: The portfolio was marginally ahead of the benchmark return during the quarter by +0.12%, however quarterly absolute performance was negative at -3.99%. Over three years, the fund was ahead of the benchmark return (by +0.49%) but behind the performance target of benchmark +0.80% 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 but has been trailing the performance objective for some time (shown by the dotted line in Chart 4).

CHART 4:



Source: MJH; BNY Mellon

Over three years, the portfolio has returned +4.50% p.a. net of fees, compared to the benchmark return of +4.01% p.a. Over the past three years, asset allocation has added +0.17% value, meanwhile stock selection has added +0.24%.

Portfolio Risk: The largest holding in the portfolio at quarter-end was EIB 5.625% 2032 at 1.5% of the portfolio. The largest overweight sector position remained Financials (+9.3%) and the largest underweight position remained sovereigns and sub-sovereigns (-16.4%). The fund holds 5.5% 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 March 2021 stood at £2,683.1 million. London Borough of Islington's holding of £166.46m stood at 6.2% of the total fund value.

Staff Turnover: there were 11 joiners, but 21 people left the firm during the quarter. One of the joiners was to the Fixed Income Group, an Analyst in Kuala Lumpur, and two of the leavers were part of the Fixed Income Group, a Portfolio analyst in London and an Investment Manager in Boston.

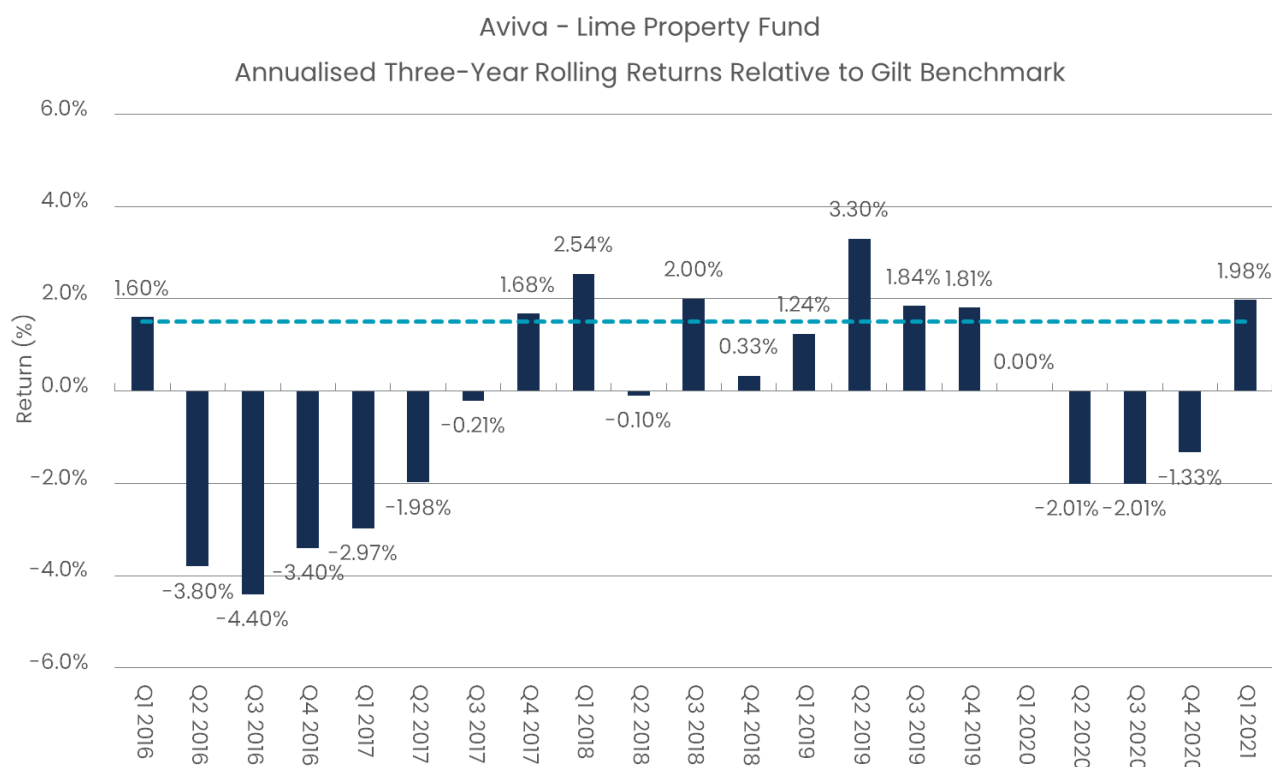
Aviva Investors – Property – Lime Property Fund

Headline Comments: The Lime Fund delivered another quarter of steady and positive absolute returns, it surpassed the fund benchmark return, with a particularly strong relative overperformance of +10.68% in Q1. Over three years, the fund is ahead of the benchmark return by +1.98%.

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 Q1 2021 return was attributed by Aviva to +1.12% capital return and +0.88% income return.

Over three years, the fund has returned +4.94% p.a., ahead of the gilt benchmark of +2.96% p.a., and ahead of its outperformance target of +1.5% p.a., as can be seen in Chart 5.

CHART 5:

Source: MJH; BNY Mellon

Over three years, 58% of the return came from income and 42% from capital gain.

Portfolio Risk: During the quarter there were no sales or acquisitions, although a significant extension was completed on the portfolio's Premier Inn in Portsmouth that included a 48-bed extension and car park. As such, the lease has been increased by seven years to 25 years, and rent has been increased by 37%.

The fund has £302 million of investible capital and the manager believes the current drawdown period for new capital is 12-15 months.

The average unexpired lease term was 20.5 years as at end March 2021. 10.4% of the portfolio's lease exposure in properties is in 30+ year leases, the largest sector exposure remains offices at 25.9%, and the number of assets in the portfolio increased from 89 to 91 in Q1. The weighted average tenant credit quality rating of the Lime Fund remained at BBB+ this quarter.

Portfolio Characteristics: As at March 2021, the Lime Fund was valued at £3.16 billion, an increase of £119 million from the previous quarter end. London Borough of Islington's investment represents 4.2% of the total fund.

Aviva are now monitoring the carbon intensity of their fund and reported a 10% drop in carbon emissions over the past year. They assess the physical risk exposure in the portfolio to be 'low' (exposure to physical climate risk such as severe weather), and the transition risk exposure to

be 'medium' (the portfolio's energy intensity, which determines the emission reduction required to align the fund with certain global warming scenarios).

Staff Turnover/Organisation: Not reported by the manager at the time of going to print.

Columbia Threadneedle – Pooled Property Fund

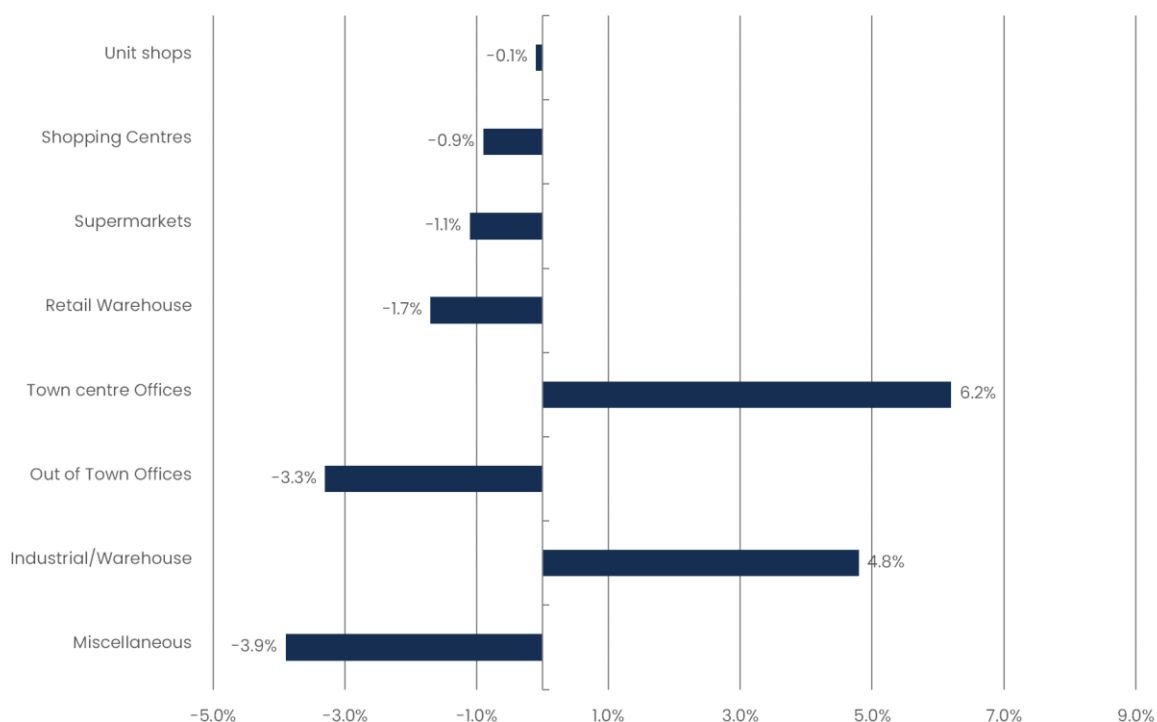
Headline Comments: The fund performed in-line with the benchmark in Q1 2021, both returning +2.2% (source: Columbia Threadneedle). Over three years, the fund underperformed the benchmark by -0.5% (source: Columbia Threadneedle) and as such is behind the performance target of +1.0% p.a. above benchmark.

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

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

CHART 6:

Columbia Threadneedle Property Fund Positions Relative to IPD Index at End Mar-2021



Source: MJH; Columbia Threadneedle

During the quarter, the fund made one acquisition and no sales.

The fund's void rate has increased from 10.1% at end of December to 10.2% at end of March, versus the benchmark's 9.8%. This has been monitored because a higher-than-benchmark void rate could pull the performance down on a relative basis. The rent default rate increased during the pandemic: at December 2019, 99% of rents were collected by Columbia Threadneedle. This fell to a low of 82% by June 2020, but has begun to improve, with rent collections running at 87% by end December (most recent data point available).

The cash balance at end March was 8.3%.

Performance Attribution: The portfolio performed in-line with the benchmark in Q1 2021, with both returning +2.2% (source: Columbia Threadneedle). Over three years, the fund is behind its benchmark, a relative underperformance of -0.5% 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 March 2021, the fund was valued at £1.98bn, slightly up from the fund's value in December 2020. London Borough of Islington's investment represented 4.24% of the fund.

Staff Turnover: During Q1 2021 there were two leavers, one from the property team, Chris Morrogh. There were also four joiners, two to the property team, Amelia Boffey and Liam Taylor.

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 Q1.

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:

	Q1 2021 FUND	Q1 2021 INDEX	TRACKING
FTSE-RAFI Emerging Markets	+5.47%	+5.45%	+0.02%
MSCI World Low Carbon Target	+3.85%	+3.88%	-0.02%

Source: LGIM

Portfolio Risk: The tracking errors are all within expected ranges. The allocation of the portfolio, as at quarter end, was 83.15% to the MSCI World Low Carbon Target index fund, and 16.85% allocated to the FTSE RAFI Emerging Markets index fund.

Staff Turnover/Organisation: Not reported by LGIM.

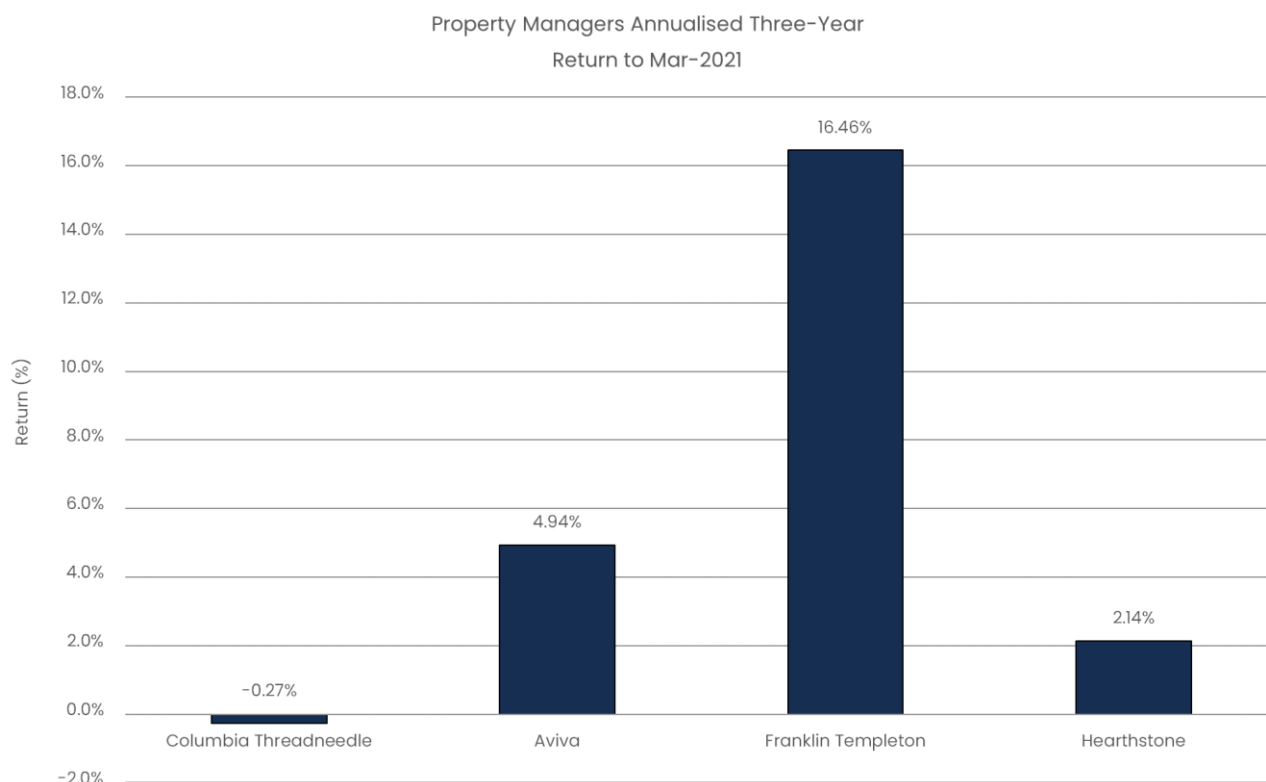
Franklin Templeton – Global Property Fund

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 +6.46%.

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 March 2021, 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; Columbia Threadneedle

Portfolio Risk: Fund I is currently in its harvesting phase. Ten of the underlying Funds in the portfolio have now been fully realised, with four remaining, 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 41% for the quarter.

The largest remaining allocation in Fund I is to the US (52% of funds invested), followed by Spain (30%), Italy (12%), and UK (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 expectations, Sveafastigheter III and Lotus Co-Investment (Lotus 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 March 2021, 84.9% of committed capital had been distributed. Leverage fell from 54% to 53%. The manager notes that the pandemic has led to some delays in implementing business plans in some of the underlying investments, in this Fund.

The largest geographic allocation in Fund II is to Italy (57% of funds invested), followed by the US (34%), China (5%), and Hong Kong (4%).

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

Staff Turnover/Organisation: During Q1 2021 the firm announced that Joanne Perez-Tomlinson has started CFO.

Hearthstone – UK Residential Property Fund

Headline Comments: The portfolio underperformed the benchmark for the quarter ending March 2021 as well as over three years.

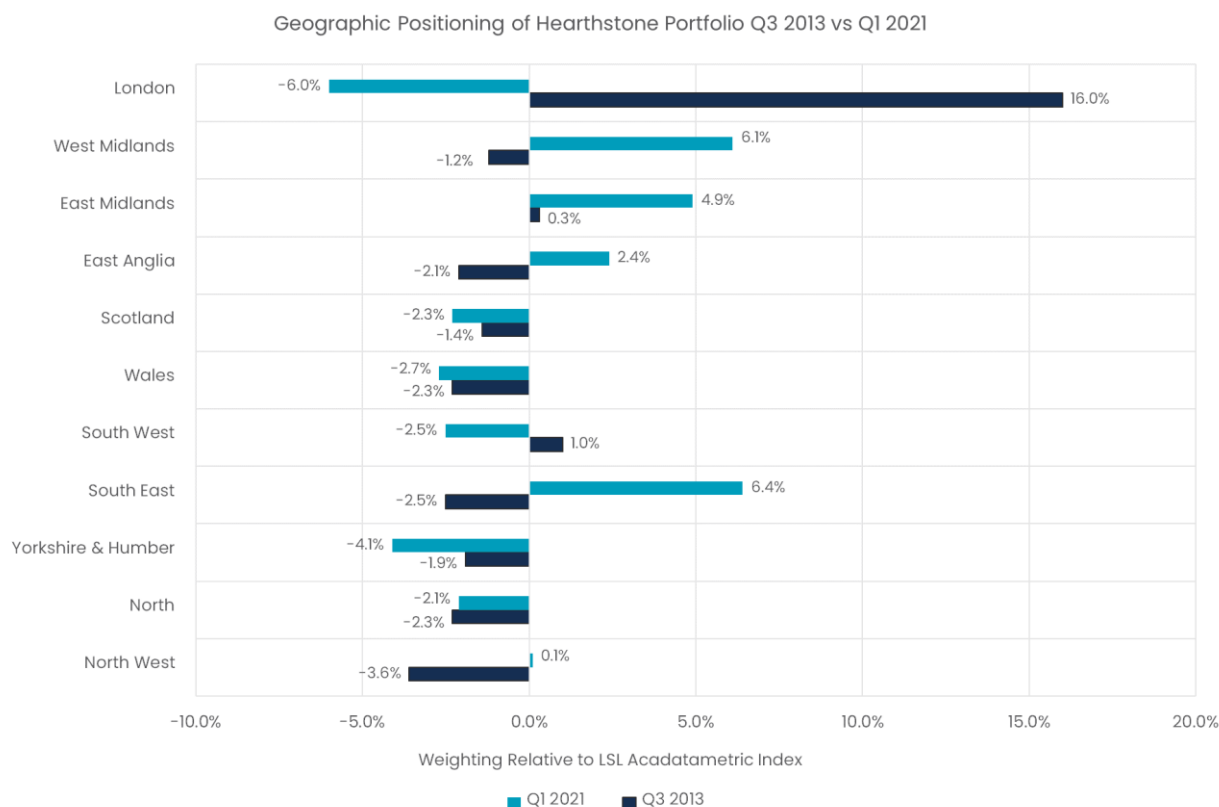
Mandate Summary: The fund invests in private rented sector housing across the UK and aims to outperform the LSL Acadametrics House Price Index (note that this excludes income), as well as providing an additional income return. The benchmark used by BNY Mellon is the IPD UK All Property Monthly Index.

Performance Attribution: The fund underperformed the IPD index over the three years to March 2021 by -0.61% p.a., returning +2.14% p.a. versus the index return of +2.75% p.a. The gross yield on the portfolio as at March 2021 was 4.67%. Adjusting for voids and property management/maintenance costs, however, the yield on the portfolio falls to 2.03%.

Portfolio Risk: The cash and liquid instruments on the fund stood at 15.33%.

Chart 8 compares the regional bets in the portfolio in Q1 2021 (turquoise bars) with the regional bets at the start of the mandate, in Q3 2013 (navy bars).

CHART 8:



Source: MJH; Hearsthstone

Portfolio Characteristics: By value, the fund has an 8% allocation to detached houses, 41% allocated to flats, 26% in terraced accommodation and 24% in semi-detached.

As at end March there were 201 properties in the portfolio and the fund stood at £60.0 million. London Borough of Islington's investment represents 47.2% of the fund. This compares with 72% at the start of this mandate in 2013.

Organisation and Staff Turnover: In Q1 there were no leavers or joiners from the team.

Schroders – Diversified Growth Fund (DGF)

Headline Comments: The DGF delivered a positive return in Q1 2020, and in relative terms it performed in-line with its target. However, over three years, the fund is behind the target return of RPI plus 5% p.a. by -1.97%.

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 +1.69% in Q1 2021. This is in-line with the RPI plus 5% p.a. target return for Q1. Over three years, the DGF delivered a return of +5.21% p.a. compared with the target return of +7.18% p.a., behind the target by -1.97% p.a. This

underperformance remains a concern, particularly as the underperformance over three years has only slightly improved since Q2 2018, when it was trailing its target by -3.81%.

In Q1 2021, equity positions added +3.0% from the total return, alternatives -0.1%, credit and government debt -1.2%, and cash and currency detracted -0.1% (figures are gross of fees).

The return on global equities was +11.2% p.a. for the three years to March 2021 compared with the portfolio return of +5.2%. 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 8.3% compared to the three-year volatility of 16.9% in global equities (i.e. 49% of the volatility) so is less risky than expected.

Portfolio Characteristics: The fund had 46% in internally managed funds (up from last quarter), 39% in active bespoke solutions (up from last quarter), 3% in externally managed funds (same as last quarter), and 8% in passive funds (down from last quarter) with a residual balance in cash, 4% (down from last quarter), as at end March 2021. In terms of asset class exposure, 45.0% was in equities, 22.1% was in alternatives and 28.6% in credit and government debt, with the balance in cash, 14.4%.

Alternative assets include absolute return funds, property, insurance-linked securities, commodities and private equity, infrastructure debt and investment trusts.

Schroder reported that the carbon intensity of the fund was 23% lower than a comparator (a mix of equities, bonds and alternative indices).

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

Quinbrook – Low Carbon Power Fund

Headline Comments: Performance for the year to 31st March 2021 was positive at +8.45%, but behind 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 Q1 2021, on an unaudited basis, the fund had invested \$652.0 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 1,431 MW (including those with minority stakeholders) as at 31 March 2021.

The manager has reported that 50% of the target commitments have been reached within five months of the first close.

Organisation: During the quarter there were no leavers from the team reported, however James Allan joined as a Director and Daniel Chavez joined as General Counsel.

The manager announced that they have won an “ESG investor of the year” award in Q1, and they also committed to the Net Zero Asset Management Initiative.

Pantheon – Infrastructure and Private Equity Funds

Headline Comments: Over three years the return on the combined private equity and infrastructure funds was +19.28% per annum.

Mandate Summary: London Borough of Islington have made total commitments of £103.5m across five Pantheon strategies including two US primary funds, two global secondary funds and one global infrastructure fund. This infrastructure fund, Patheon Global Infrastructure Fund III “PGIF III”, was the most recent commitment from Islington in 2018 totalling £74.6m. Net IRR at 31st December 2020 across all strategies was 9.7%, up from 9.6% at Q3 2020, with a net multiple of 1.39x.

Portfolio Characteristics: Over the period Q4 2020 to Q1 2021, a total of £4.0m was drawn down, wholly to PGIF III. Distributions were received across all strategies bar one (Pantheon Global Secondaries Fund III ‘A’), totalling £1.3m over the period. Overall, the programme’s rolled for cash valuation at Q1 2021 was £33.8m, up from £31.1m at Q4 2020.

Karen Shackleton

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LGPS CURRENT ISSUES

27 May 2021

welcome to brighter

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We hope you have been keeping well and staying safe over the past few months. With the unlocking of the UK now in full swing, we trust you have been able to enjoy more time with family and venture out for a meal or drink, or have this to look forward to in the near future.

As we progress further into 2021, this edition of Mercer Current issues updates you on the recent developments on ongoing national issues and legislation that impact the LGPS and also what is to be expected over the next few months.

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Regulatory round up

THE MCCLOUD REMEDY

On 13 May 2021, a [Written Ministerial Statement](#) was published which outlines the Government's intentions in applying the remedy that is required to the Local Government Pension Scheme in England and Wales following the McCloud judgment. This confirmed that it is the Government's intention that Regulations providing for the "McCloud remedy" are expected to come into force from 1 April 2023.

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. On 16 July 2020, MHCLG released the much anticipated consultation on the McCloud remedy for the LGPS in England and Wales ([here](#)). The consultation closed on 8 October 2020 and a response to the consultation is expected later this year.



The key points from the Statement, which were in line with expectations, were:

Scheme regulations giving effect to the above changes will be retrospective to 1st April 2014.

Underpin protection will apply to LGPS members who were active in the scheme on 31st March 2012 and had membership of the career average scheme without a continuous break in service of more than five years.

The period of protection will apply from 1st April 2014 to 31st March 2022 but will cease the earlier of where a member leaves active membership or reaches their final salary scheme normal retirement age (normally 65) before 31st March 2022.

Where a member stays in active membership beyond 31st March 2022, the comparison of their benefits will be based on their final salary when they leave the LGPS, or when they reach their final salary scheme normal retirement age, if earlier.

EMPLOYER CONTRIBUTION FLEXIBILITIES

Following the new regulations introduced in September 2020, at the beginning of March, the MHCLG published its [statutory guidance](#) on the content of the Funding Strategy Statement where administering authorities decide to adopt the “employer contribution flexibilities”. To re-cap, these are the new powers available to administering authorities to review employer contributions between valuations and provide more flexible termination strategies. Alongside the statutory guidance, the Scheme Advisory Board published its [Guide to Employers and Administering Authorities](#) on how to operate the employer contribution flexibilities in practice.

The new Regulations allow Funds to review contributions between valuations under prescribed circumstances. In addition, for employers who wish to curtail the build-up of future benefit accrual but cannot afford the termination payment, a new option of “deferred employer status” can be made available. Although a discretion, Funds are actively encouraged by SAB to adopt the employer contribution flexibilities. SAB also encourages employers to ask Funds to clearly state their reasons for not adopting the flexibilities, if this is the case.

The contribution flexibilities are more than “just” a lifeline to struggling employers, albeit that could be an important consequence in some cases. In our view, the flexibilities provide additional armoury to Funds in their risk management toolkit. Allowing contributions to flex to meet changing covenant or liabilities provides an opportunity to collect more upfront cash (where covenant has improved or liabilities have increased) or alternatively improve security/the likelihood of future recovery, where covenant has deteriorated. Alongside implementation of the new flexibilities, it will be key to ensure that your covenant monitoring framework remains fit for purpose in this new world. Please speak to your usual Mercer consultant if you would like further support in this area.



THE RETURN OF THE EXIT CAP

We understand that Councils have recently been asked to provide information on historic redundancy costs over the past 5 years. This information will then be considered as part of the Government's review of the cap on exit payments and it is our understanding that it remains a key policy objective to reintroduce a limit on exit payments as soon as possible. Although it may prove to be too ambitious to implement a new cap this year, we expect to see more details in the months ahead on the form this will take and the timeline.

Where we provide actuarial advice to Funds, Early Retirement Strain cost factors were considered last autumn as part of the introduction of the (now revoked) £95k Exit Cap. At that time, an interim measure was put in place pending the expected introduction of standardised GAD factors across all Funds. Given the uncertainty on the timing for the introduction of the new exit cap (and whether or not this will incorporate standardised GAD Early Retirement Strain cost factors), we have reviewed the Strain Cost Factors and will be writing out to Funds shortly to confirm next steps.

COST MANAGEMENT

The 2016 cost management process is now in full swing, following the pause in 2019 due to the uncertainties associated with the McCloud judgment and impact for LGPS. The key question now under consideration relates to whether (and if so, how) the cost of the McCloud remedy will be taken into account. HMT has already confirmed that the McCloud remedy will be taken into account in its process (further details [here](#)), although "how" is yet to be confirmed. The first question of "whether to allow for McCloud" remains under discussion with the SAB and further news is expected during the summer.

If the McCloud remedy is included in the SAB cost management mechanism, it then depends crucially on how the costs will be spread within the process as to whether or not benefit improvements are triggered. The practicalities of retrospective benefit improvements (at a time when there are already significant administration resourcing challenges due to the implementation of the McCloud remedy) will be an important consideration if any changes are put forwards.

In relation to the unfunded schemes, HMT has confirmed that where the inclusion of McCloud remedy costs leads to a breach of a cost cap, thereby potentially triggering a benefit reduction, a reduction to benefits will not be applied. Once HMT has completed its 2016 cost control process, the mechanism will be reviewed ahead of the 2020 exercise being commenced.

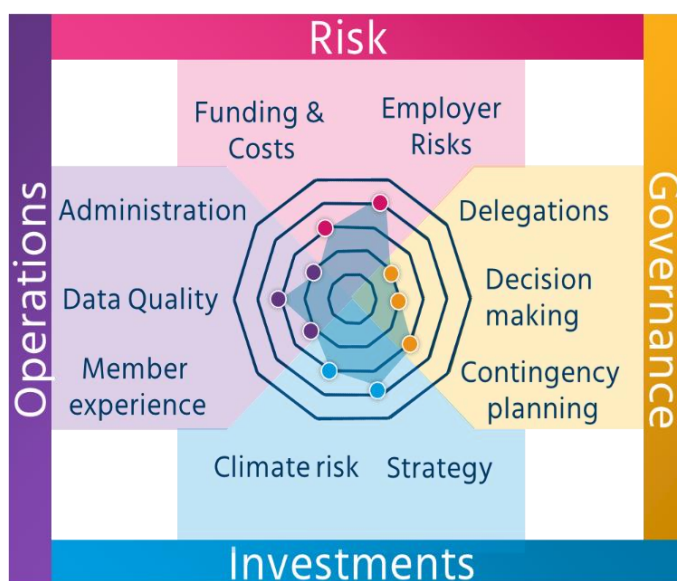


Governance under the Spotlight

The governance requirements for pension schemes, both in the Public and Private Sectors are changing with the Pensions Regulator (tPR) currently consulting on its plans to move to a Single Modular Code and with recommendations from the Good Governance Project in the LGPS having been released in the first quarter of 2021. Since 2019, there is a regulatory requirement for ‘trustees to have an effective system of governance proportionate to the size, nature and complexity of the scheme and to carry out and document an own risk assessment’. One of the recommendations from **the Good Governance Project** for the LGPS was to require a biennial independent governance review, and this approach is completely consistent with the private sector.

In anticipation of the increasingly onerous requirements on the horizon and recognising the added value a strong system of governance can bring, Mercer has launched a solution to support Funds in adapting to the changing landscape.

Forsensic integrated risk management (“firm”)



FIRM is an independent, peer-reviewed assessment of the top 10 high-level aspects influencing a LGPS Fund’s operation and compliance, including; Risk, Governance, Investments and Operations,

Studying up to 200 data points, FIRM drills down into the underlying factors that contribute to each of the aspects administering authorities need to manage.

FIRM draws on 200 years’ experience of Mercer’s Subject Matter Experts who have developed the solution. These include its investment and covenant consultants, LGPS Actuaries, administrators, and technical experts in each of the key areas administering authorities rely on.

We believe this offering will be a valuable benefit for all defined benefit (DB) schemes, including the LGPS. We have built on the work undertaken to date to adapt the FIRM assessment for a low cost high value assessment for the LGPS. If you would like to hear more about this, please contact your Mercer consultant.

Climate Change



ESG in the spotlight

In November, the Chancellor [announced](#) that the UK would issue its first Sovereign Green Bond in 2021. Over time, a “green gilt curve” will be built out, with the money raised from new issues helping to fund projects that provide positive environmental benefits. So far, sixteen governments have issued sovereign green bonds, with total issuance of \$80 billion and, with over \$52 trillion of outstanding debt globally, over the coming years there is considerable scope for growth in this market.

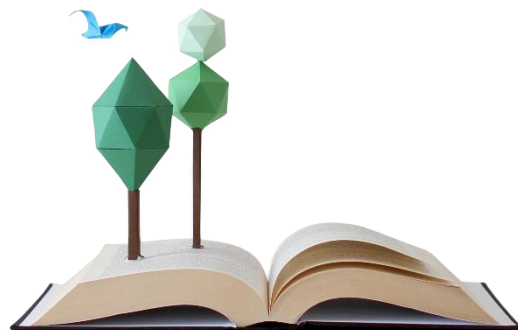
What is a Green Gilt?

A green corporate bond is defined in the EU as one where the proceeds raised are directed to sustainable development projects. However, green gilts may not follow the exact same premise. Evidence from other countries and a statement from Debt Management Office’s Chief Executive Sir Robert Stheeman, suggests that strict ring fencing of monies raised from green gilts is unlikely. Instead, it is likely that issuance will be linked to budget expenditure that contributes towards achieving environmental and climate objectives. The Swedish Government raised \$3.2 billion using this approach in its inaugural 10-year bond in September 2020.

Green gilts may thus be viewed as a first step in raising finance towards UK sustainable initiatives, helping the UK to meet its goal of achieving net zero carbon emissions by 2050. They should also be a catalyst for directing a greater proportion of expenditure towards such initiatives and to the adoption of broader measures of the benefits from these initiatives.

Why would pension funds be interested?

Issuance of green gilts follows a long campaign by investors and UK fund managers, to meet investors' appetite for investments that will help them reduce their carbon footprint and meet the requirements of the Taskforce on Climate related Financial Disclosures (TCFD).



In general, green (corporate) bonds have traded at yields below those of their standard counterparts at issuance, perhaps partly due to demand, but also because their nature – deriving their yields from sustainable investment – might make them less likely to default. It is too early to say whether green gilts may come at a premium (lower yield) or a discount (higher yield) and the already strong demand for longer dated gilts is likely to cloud the picture, but it is possible that green gilts may be issued at a premium. However, that does not necessarily mean that green gilts are not worthy of consideration for those investors with wider commitment to building an ESG focused fixed income portfolio. Further, the Chancellor's announcement is an important first step in developing a green gilt market for the UK; a market that will certainly evolve once it has found its feet.



Pensions Scheme Act

The Government responded to the August 2020 consultation on its climate change policy proposals on 27 January 2021. With the response, it opened a further consultation on draft statutory guidance and draft regulations under the Pension Schemes Act 2021, as well as issuing final non-statutory guidance from the Pensions Climate Risk Industry Group (PCRIG). TPR has also launched its own climate strategy.

The draft regulations being consulted on propose that the first schemes to be impacted by the climate change sections of the Act will be schemes with more than £5bn of assets on the first scheme year-end on or after 1 March. These schemes will need to comply with new climate governance requirements from 1 October 2021 and issue a Taskforce on Climate related Financial Disclosures (TCFD) compliant report on how they have addressed climate risks within 7 months of the end of the scheme year in progress at 1 October 2021.



TCFD and the LGPS: are you ready?

“The UK is set to be the first major economy to require climate risk to be specifically considered and then reported on by pension schemes”, says Guy Opperman, Minister for Pensions and Financial Inclusion 2021.

The measures announced by the Minister will require schemes to assess and report on the financial risks of climate change within their portfolios, in line with the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations.

It is widely believed that in the near future similar regulatory requirements will be implemented within the Local Government Pension Scheme (LGPS). Mercer is fully supportive of early adoption of the framework and believe that now is the time for LGPS Funds to start planning for TCFD reporting. We have therefore prepared a [checklist](#) against each of the TCFD requirements to provide a high level understanding of what Funds will need to do to meet TCFD requirements.

And in other news...

GMP Indexation

Following HM Treasury's 2020 consultation on future GMP indexation, it has been confirmed that HMT will not be adopting a "GMP conversion" approach for the LGPS. Instead the current indexation provisions will be extended to cover those members of public service pension schemes reaching State Pension age from 6 April 2021. Further details are available [here](#).

Pension Scheme's Bill

On 11th February 2021, the Pension Scheme's Bill received [royal assent](#) and became the [Pension Schemes Act 2021](#).

In addition to tough new powers for TPR, it also paves the way for pension dashboards, Collective Defined Contribution schemes and climate risk reporting (as covered above).

Face-to-face meetings

As you may already be aware, the [appeal](#) against Councils to meet face-to-face after 7 May 2021 was denied. The published judgment confirms that Councils are required to hold meetings in person.



On 25 March, Luke Hall MP (Minister for Regional Growth and Local Government) [set out](#) rules and guidance and stated examples of actions and next steps to alleviate the potential risks of meeting in person. He has also launched a call for evidence on the use of the virtual meeting arrangements and to gather views on the question of whether there should be permanent arrangements and if so, for which meetings.

Section 13

Every three years, the Government Actuary is required to undertake report under section 13 of the Public Service Pensions Act 2013 in connection with the actuarial valuations of the 91 funds in the LGPS. The purpose of the report is to consider whether the following aims are achieved:

- Compliance;
- Consistency;
- Solvency; and
- Long term cost efficiency.

Over the last few months, GAD has been reviewing the data provided following the 2019 valuations and carried out analysis to determine the extent to which the above aims are considered to have been met. GAD has also had calls with any Funds that have triggered under their assessment criterion to further understand the position. Where we are your actuary we have carried out a preliminary review of the information as set out in GAD's draft summaries and used in their analysis. These have been shared with you for further comment.

Based on our discussions with GAD it appears as though very few Funds have triggered under GAD's criterion and funding levels have generally improved. Key areas that have generated a request for further discussion have been in relation to alternative financing methods to support the deficit recovery plan, the use of minimum spread periods where

these would otherwise be very short (and in our view lead to increased cost volatility) and phasing of contributions beyond the period of the rates and adjustments certificate.

The final report is expected to be published within the next couple of months.

2020 Scheme Annual Report

The eighth [Annual Report](#) for the Local Government Pension Scheme (LGPS) in England and Wales was published and outlines the key highlights in the LGPS over 2020.

BT, M&S and Ford challenge the RPI formula

As you will already be aware, in November 2020 the government announced that it would not prevent the UKSA from implementing its proposal to calculate the Retail Prices Index (RPI) using the data and methodology underlying the Consumer Prices Index with Housing (CPIH). Parties affected by the decision were given three months to object, by way of a judicial review, to its decision. Three schemes (the BT, Ford and M&S pension schemes) filed their objection with the Courts on 9 April, having been given an extension to the original 24 February 2021 deadline. The Government and UKSA have 21 days from receipt of the submission to reply to the challenge and then the Court will decide if there is a case to consider.

The reasons for the review are the potential effects on pension benefits and on the value of index-linked assets.

New GAD guidance published

On 11 May MHCLG issued new actuarial guidance covering:

- Annual allowance charges
- Conversion of AVCs to transfer credits

- Purchase of additional pension
- Application of a pension credit
- Purchase of additional survivor benefits
- Conversion of lump sum into pension
- Early payment of pension; and
- Late retirement

The guidance has been updated to reflect changes in LGPS and wider pensions legislation, but it does not include new factors. The guidance, covering letter and the spreadsheet of current factors are available [here](#).



And last but not least...remember the New Fair Deal and 4 year valuation cycle proposals?

“New fair deal” - the provision of guaranteed LGPS access for employees whose employment is outsourced from a “Fair Deal” employer. The option of the new employer establishing a “broadly comparable” scheme as an alternative will in effect become redundant.

“4 year valuation cycle” – the new employer contribution flexibilities implements the proposals partially (see article on page 4 for further details). The other aspects of the

proposals relate to the extension of the valuation cycle from 3 years to 4 years and removing the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer membership of the LGPS to their non-teaching staff for new entrants.

Through our national discussions we understand that these proposals remain on the agenda but the need to prioritise the swathe of urgent issues arising due to COVID-19, they have necessarily been pushed back. We may expect to hear further on these next year.



Dates to remember

Date	Issue	The latest
11 February 2021	Consultation on normal minimum pension age (NMPA)	The government has reconfirmed the normal minimum pension age is to rise from 55 to 57 from 6 April 2028. It is consulting on the details of implementing the increase, including rules around protecting those individuals with an existing (unconditional) right to retire before age 57. The consultation closed on 22 April 2021.
3 March 2021	Budget Day announcement on freezing of lifetime allowance	The Lifetime Allowance will be frozen at its current rate of £1,073,100 until the 2025/26 tax year, rather than rising in line with CPI increases as scheduled.
17 March 2021	Consultation on single code of practice	This first phase initially consolidates 10 of the existing codes of practice into one web-based code consisting of 51 topic-focused modules. The new code also addresses the new governance requirements arising from IORP II.
Expected Q2/Q3	Consultation on scams	Consultation is expected on draft regulations (under the Pension Schemes Act 2021) covering scams. Commencement of the scams measures (relating to transfer restrictions) is expected in early Autumn.
Expected Q3/Q4	Consultation on pensions dashboard	The government aims to consult on proposed regulations for the dashboard later this year and lay draft regulations before Parliament for debate in 2022. Delivery of the dashboard is still projected to be in 2023.
30 September 2021	Extended Coronavirus Job Retention Scheme due to end	The Coronavirus Job Retention Scheme (CJRS), which was due to end on 30 April, has been extended across the UK until the end of September 2021. From July, employers will have to pay 10% toward hours not worked, increasing to 20% for August and September.
Expected first half of 2022 (initially expected 6 April 2020 but now delayed)	Governance and Registration draft regulations	Regulations that will replace some of the measures in the Competition and Markets Authority (CMA) Order have been delayed. Until they are implemented, the CMA Order will continue to be legally binding.
1 April 2023	McCloud remedy regulations	It is the Government's intention that regulations providing for the "McCloud remedy" come into force from 1 April 2023.
2030	RPI to increase in line with CPIH	The Government's consultation response in November 2020 confirmed that RPI will increase in line with CPIH from 2030.

Meet the team



Name: Ciaran Shanahan

Role: Wealth Analyst

Joined Mercer: September 2015 (time flies when you are having fun...)

Place of Birth: Northampton

Favourite film: Home Alone

What will be the first restaurant you visit now restrictions have eased?:

Gusto on the Albert Docks in Liverpool

Do you have any holidays booked for the summer?: Conwy, Wales

Name: Laura Evans

Role: LGPS Actuary

Joined Mercer: Depends on whether you count from the first time I joined (September 2001) or the second (January 2006) ☺

Place of Birth: Oxford Street Maternity Hospital, Liverpool (now student flats – I actually lived there for my second year of Uni)

Favourite film: Star Wars: The Empire Strikes Back (Episode IV)

What will be the first restaurant you visit now restrictions have eased?: Booked in for dinner, bed and breakfast at The Punch Bowl Inn, Crosthwaite (I am very excited!)

Do you have any holidays booked for the summer?: So far only booked a few nights away in the UK in August. Keeping fingers crossed for a nice warm summer.



Name: Paul Clare

Role: Actuary

Joined Mercer: 2010

Place of Birth: Ormskirk, Lancashire (apparently this means I am not a true Scouser...)

Favourite film: Forrest Gump

What will be the first restaurant you visit now restrictions have eased?: You can't beat a good Greek...

Do you have any holidays booked for the summer?: Not yet!

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Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	21 st June 2021		n/a

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SUBJECT: PENSIONS SUB-COMMITTEE 2021/22– FORWARD PLAN

1. Synopsis

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

2. Recommendation

- 2.1 To consider and note Appendix A attached.

3. Background

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

4. Implications

4.1 Financial implications

- 4.1.1 None in the context of this report. The cost of providing independent investment advice is part of fund management and administration fees charged to the pension fund.

4.2 Legal Implications

None applicable to this report

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

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

4.4 **Resident Impact Assessment**

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

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

5. Conclusion and reasons for recommendation

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

Background papers:

None

Final report clearance:

Signed by:



11 June 2021

Corporate Director of Resources

Date

Received by:

Head of Democratic Services

Date

Report Author: Joana Marfoh
Tel: (020) 7527 2382

APPENDIX A

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

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

Past training for Members before committee meetings -

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

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Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	21 st June 2021		

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

SUBJECT: The London CIV Update

1. Synopsis

- 1.1 This is a report informing the committee of the progress made at the London CIV in launching funds, running of portfolios, reviewing governance and investment structure, over the period March to May 2021.

2. Recommendations

- 2.1 To note the progress and activities presented at the May business update session (exempt Appendix1) and news briefing Collective Voice-April 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 May 2021**

3.5.1 **The LCIV Collective Voice**

The LCIV now publish a monthly news bulletin called the Collective Voice- a copy is attached for information as Appendix 1A (confidential). Highlights include; the new fund launches and timeline, people, responsible investment and events .

The Business Update

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

3.5.3 **Fund Launches and Pipeline**

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

The London Fund a partnership with the Local Pensions Partnership, London Pensions Fund Authority LCIV was launched in December 2020 with a £100m commitment and has made its first investment and the second close will be in July 2021.

The Renewable Energy Infrastructure was launched as planned in March 2021 with an initial commitment of £435m from 5 local authorities. Four sub fund managers have been appointed. The **Private debt** mandate was launch as planned with two fund managers and £299m commitment from three local authorities. Other funds in the pipeline include a second MAC fund, and a Paris Aligned Global Equity Fund as well as Sterling Credit Fund.

3.5.4 **People**

The current deputy Chief Investment Officer is leaving and the new Chair recruitment, to replace Lord Bob Kerslake in September 2021 is almost complete. London CIV have appointed a Senior Portfolio Manager (Equities) who will start on 12 July 2021 and have launched a search for a Head of Public Markets.

3.5.5 **Governance**

- Hermes EOSas has been appointed as the stewardship partner and began developing voting and engagement reports.
- Risk management systems review is ongoing.
- Quarterly Investment Reports have been shared on the new website.
- Completed the UNPRI analysis and published the stewardship report.
- Governance documentation is being reviewed and year end assurance reports, cost transparency and fee saving reports are being finalised for distribution.

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 and a final installment development charge of £84k (+VAT) was received in January 2021.

The April 2021 invoices received totalled annual service charge of £25k (+ VAT) and DFC charge of £57k(+VAT).

4. Implications

4.1 Financial implications:

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

4.2 Legal Implications:

- 4.2.1 The Council, as the administering authority for the pension fund may appoint investment managers to manage and invest an equity portfolio on its behalf (Regulation 8(1) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended)).
- 4.2.2 The Council is able to invest fund money in a London CIV fund asset without undertaking a competitive procurement exercise because of the exemption for public contracts between entities in the public sector (regulation 12 of the Public Contracts Regulations 2015). The conditions for the application of this exemption are satisfied as the London authorities exercise control over the CIV similar to that exercised over their own departments and CIV carries out the essential part of its activities (over 80%) with the controlling London boroughs.
- 4.3 **Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:**
 - 4.3.1 None applicable to this report. Environmental implications will be included in each report to the Pension Board Committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of the fund in green opportunities. The link to the full document is:
<https://www.islington.gov.uk/~media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonboroughofislingtonpensionfundinvestmentstrategystatement.pdf>
- 4.4 **Resident Impact Assessment:**
 - 4.4.1 The Council must, in carrying out its functions, have due regard to the need to eliminate unlawful discrimination and harassment and to promote equality of opportunity in relation to disability, race and gender and the need to take steps to take account of disabilities, even where that involves treating the disabled more favourably than others (section 49A Disability

Discrimination Act 1995; section 71 Race Relations Act 1976; section 76A Sex Discrimination Act 1975."

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

5. Conclusion and reasons for 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:



11 June 2021

Corporate Director of Resources

Date

Received by:

Head of Democratic Services

Date

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