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ISLINGTON

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

AGENDA FOR THE PENSIONS SUB-COMMITTEE

Members of the Pensions Sub-Committee are summoned to a meeting which will be held in Committee room , Council Chamber, Town Hall, Upper Street, N1 2UD on **28 June 2022 at 7.00 pm.**

Enquiries to	:	Mary Green
Tel	:	(0207 527 3005
E-mail	:	democracy@islington.gov.uk
Despatched	:	20 June 2022

Membership 2018/19	Substitute Members
Councillor Paul Convery (Chair)	Councillor Jenny Kay
Councillor Diarmaid Ward (Vice-Chair)	Councillor Mick Gilgunn
Councillor Satnam Gill OBE	
Councillor Michael O'Sullivan	

Quorum is 2 members of the Sub-Committee

A. Formal Matters

1. Apologies for absence

2. Declaration of substitutes

3. Declaration of interests

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

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

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

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

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

B. Non-exempt items

2. Presentation by Quinbrook (Infrastructure Renewable Manager) - To follow

C. Urgent non-exempt items

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

D. Exclusion of press and public

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

E. Confidential/exempt items

F. Urgent exempt items

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

The next meeting of the Pensions Sub-Committee is scheduled for 19 September 2022

Resources
Town Hall, Upper Street
London N1 2UD

Report of: Director of Law and Governance and Monitoring Officer

Meeting of: Pensions Board and Pensions Sub-Committee

Date: 28 June 2022

Ward(s): None

Subject: Membership, Terms of Reference and dates of meetings of the Pensions Board and Pensions Sub-Committee in 2022/23

1. Synopsis

1.1 To inform members of the membership and remit of the Pensions Board and the Pensions Sub-Committee in the municipal year 2022/23.

2. Recommendations

2.1 To note the membership of the Pensions Sub-Committee, appointed by the Audit Committee on 13 June 2022, its terms of reference and dates of meetings for the municipal year 2022/23, as set out at Appendix A.

2.2 To note the membership of the Pensions Board, appointed by the Audit Committee on 13 June 2022, its terms of reference and dates of meetings for the municipal year 2022/23, 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.

3.3 The membership and dates of meetings in 2022/23 are also set out at Appendix A for information.

4. Implications

4.1. **Financial Implications**

None.

4.2. **Legal Implications**

None.

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

There are no environmental implications arising directly from this report.

4.4. **Equalities Impact Assessment**

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

4.4.1. An Equalities Impact Assessment is not required in relation to this report, since the contents of this report relate to a purely administrative function and will not impact on residents.

5. Conclusion and reasons for recommendation

The report is submitted to ensure members are fully informed of the remit of the Pensions Board and Pensions Sub-Committee and their administrative arrangements.

Background papers: None

Final report clearance:

Signed by:

Director of Law and Governance and Monitoring Officer

Date: 14 June 2022

Report author: Mary Green, Democratic Services Officer
Tel: 0207 527 3005
Email: mary.green@islington.gov.uk

Appendix A

PENSIONS SUB-COMMITTEE

Committee Membership 2022/23

Councillors	*Substitute Members*
Paul Convery (Chair)	Jenny Kay
Diarmaid Ward (Vice-Chair)	Mick Gilgunn
Satnam Gill OBE	
Michael O'Sullivan	

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 2022/23, all at 7.00pm:

28 June 2022

19 September 2022

21 November 2022

6 March 2023

26 June 2023

The date for the Pensions AGM 2022 is to be confirmed.

PENSIONS BOARD MEMBERSHIP 2022-2023

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)

*Renominations/new nominations are being sought

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

Meeting Dates 2022/23, all at 6.00pm, apart from 28 June 2022 which shall commence at 5.00pm:

28 June 2022 at 5.00pm

19 September 2022

21 November 2022

6 March 2023

26 June 2023

The date for the Pensions AGM 2022 is to be confirmed.

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London Borough of Islington

Pensions Sub-Committee - 14 March 2022

Non-confidential minutes of the meeting of the Pensions Sub-Committee held in the Council Chamber, Islington Town Hall, Upper Street, N1 2UD on 14 March 2022 at 7.00 pm.

Present:	**Councillors:**	Paul Convery (Chair) and Satnam Gill OBE (Vice-Chair)
Also Present:		Alan Begg, Valerie Easmon-George and Councillor Dave Poyser (Pensions Board) Tony English and Alex Goddard - Mercer Karen Shackleton – MJ Hudson

Councillor Paul Convery in the Chair

223 **APOLOGIES FOR ABSENCE (Item A1)**
Received from Councillors Mick Gilgunn and Mick O'Sullivan.

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

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

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

RESOLVED:
That the minutes of the meeting held on 23 November 2021 be confirmed as an accurate record of proceedings and the Chair be authorised to sign them.

227 **PENSION FUND PERFORMANCE (Item B1)**
A suggestion was made that it would be helpful if the chart on fund managers' performance included the financial allocation for each asset allocation and the figure on the current value of the Fund for the future.

RESOLVED:
(a) That the performance of the Fund from 1 October to 31 December 2021, 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 Hudson on fund managers' quarterly performance, attached as Appendix 1 to the report, be noted.
(c) That the "LGPS Current Issues – February 2022", attached as Appendix 2 to the report, be noted.

228 LONDON CIV UPDATE (Item B2)

RESOLVED:
That the progress and activities presented at the February 2022 business update session of the London CIV (exempt Appendix 1) and minutes of the 27 January 2022 shareholders' AGM, attached as exempt Appendix 1A to the report of the Corporate Director of Resources, be noted.

229 FORWARD PLAN (Item B3)
The Pension Fund Manager reported that a training session on the triennial review would take place in September 2022, both for members of the Board and the Sub-Committee.

RESOLVED:
(a) That Appendix A to the report of the Corporate Director of Resources, detailing agenda items for forthcoming meetings, be approved.
(b) That Appendix B to the report, setting out the proposed timetable for the 2022 Triennial Valuation, be noted.

230 THIRD GENERATION INDICES -PASSIVE EQUITIES (Item B4)

RESOLVED:
(a) That the Fund's current belief and future objectives to transition to Net Zero Carbon by 2050 and the achievement of the short to medium term targets, as detailed in the report of the Corporate Director of Resources, be noted and confirmed.
(b) That the preferred provider be informed that the preference is for an emerging markets equivalent to PAB-aligned and that they be asked to reconsider fees.
(c) That the comparative data on PAB indices and the LCIV PEPPA fund, detailed in in exempt Appendix1 to the report, be noted.
(d) That the summary report prepared by Mercer on the preferred third generation climate transition index provider and index, attached as exempt Appendix 2 to the report, be agreed.
(e) That the pathway to achieving the short to medium term targets of transition to Net Zero Carbon by 2050 be confirmed.
(f) That the Paris Aligned Benchmark Index be approved.
(g) That a progress report on implementation be submitted to the June 2022 Sub-Committee.

231 **RUSSIAN/UKRAINE IMPLICATIONS (Item B5)**

RESOLVED:
(a) That exempt appendix 1 to the report of the Corporate Director of Resources, comprising investment managers' responses to date on known direct holdings in Russia and Ukraine, the impact and actions taken and considerations to mitigate investment risk and uncertainty to funding levels, be noted.
(b) That the action checklist set out in paragraph 3.7 of the report be agreed.
(c) That further due diligence be carried out to ensure that there were no links with named sanctioned individuals.

232 **LONDON CIV UPDATE - EXEMPT APPENDICES (Item E1)**
Noted.

233 **THIRD GENERATION INDICES -PASSIVE EQUITIES - EXEMPT APPENDIX (Item E2)**
Noted.

234 **RUSSIAN/UKRAINE IMPLICATIONS - EXEMPT APPENDIX (Item E3)**
Noted.

The meeting ended at 8.10 pm

CHAIR

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ISLINGTON
For a more equal future

Finance Department
7 Newington Barrow Way
London N7
7EP

Report of: Corporate Director of Resources

Meeting of: Pensions Sub-Committee

Date: 28th June 2022

Ward(s): n/a

Subject: Pension Fund Performance 1 January to 31 March 2022

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 2022 as per BNY Mellon interactive performance report
2.2	To receive the presentation by MJ Hudsons, our independent investment advisers, on our fund managers' quarterly performance attached as Appendix 1.
2.3	To note the LGPS Current Issue - May'22 for information, attached as Appendix 2.
2.4	To receive a presentation from Quinbrook (our renewable infrastructure manager) on current performance and activities and projected cashflow
2.4.1	To consider a re-commitment to their next global fund, Net Zero Power Fund, as per asset allocation i.e. 4% of the whole Fund
2.4.2	Subject to 2.4.1, to delegate responsibility to Officers to complete any due diligence, subscription and legal documentation.
3.	**Fund Managers Performance for 1 January to 31 March 2022**

3.1	The fund managers' latest quarter net performance figures compared to the benchmark and Mercer ESG ratings is shown in the table below. *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.*

3.1 Fund Managers	Asset Allocation	Mandate	*Mercer ESG Rating	Latest Quarter Performance (Jan-Mar'22) Gross of fees		12 Months to March 2022-Performance Gross of fees	
				Portfolio	Benchmark	Portfolio	Benchmark
LBI-In House	10.5%	UK equities	N	1.3%	0.5%	12.6%	13.0%
LCIV Sustainable EQ- RBC	10.1%	Global equities	1	-8.5%	-2.4%	9.0%	15.4%
LCIV -Newton	18.0%	Global equities	2	-4.4%	-2.5%	10.5%	12.9%
Legal & General	13.2%	Global equities	1	-2.2%	-2.1%	13.9%	13.9%
BMO Investments-LGM	3.9%	Emerging equities	2	-1.9%	-1.6%	8.6%	8.3%
Aviva (1)	8.4%	UK property	3	3.2%	-8.6% 5.6%	13.9%	-5.8% 23.9%
ColumbiaThreadneedle Investments (TPEN)	5.8%	UK commercial property	2	4.1%	5.6%	23.9%	23.1%
Hearthstone	1.6%	UK residential property	N	0.8%	5.6%	3.8%	23.9%
Standard Life	7.5%	Corporate bonds	2	-6.3%	-6.2%	-5.7%	-5.2%
M&G Alpha Opportunities	4.3%	Multi Asset Credit	N	-0.6%	0.9%	0.8%	3.6%
Schroders	6.4%	Diversified Growth Fund	2	-2.6%	2.9%	3.4%	13.9%
Market value of total fund	£1,784m						

-8.6% & -5.8% = original Gilts benchmark; 5.6% and 23.9% are the IPD All property index; for information

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

3.3 The combined fund performance and benchmark for the last quarter ending March 2022 is shown in the table below.

	Latest Quarter Performance **Gross** of fees		12 Months to March'2022 Performance Gross of fees	
Combined Fund Performance	Portfolio %	Benchmark %	Portfolio %	Benchmark %
	-1.9	-1.6	8.6	8.3

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

3.5 **Total Fund Position**

The Islington combined fund absolute performance with the hedge over the 1,3- and 5-year periods to March 2022 is shown in the table below.

Period	1 year per annum	3 years per annum	5 years per annum
Combined LBI fund performance hedged	8.6%	9.4%	7.8%
Customised benchmark	8.3%	8.3%	6.8%

3.6 **LCIV RBC Sustainability Fund**

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

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

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

3.6.3 The fund underperformed its quarterly benchmark to March by -6.0% and a twelve-month under performance of -6.4%. This was driven by security selection where investors favoured high dividend yield and low valuations stocks. The manager has

	maintained its style away from value factors, investing in quality companies with low debt. However, the manager is refreshing their investment analysis to incorporate the new inflationary and geopolitical dynamics and are repositioning the portfolio accordingly.
3.7 3.7.1 3.7.2 3.7.3 3.7.4	**LCIV Newton Investment Management** 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. 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. The fund returned -4.4% against a benchmark of -2.5% for the March quarter. Since inception, the fund has delivered an absolute return of 12.4%. The underperformance this quarter was attributed to a blend of companies which are expected to grow their profits at a relatively steady pace, more cyclical non-financial companies and banks and insurers which are linked to the interest rate cycle. Newton have reduced exposure to highly valued growth stocks in favour of companies which can capitalise on strong market positions to benefit from reflation and higher interest rates.
3.8 3.8.1 3.8.2	**LBI- In House** 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. The fund returned 1.3% against FTSE All Share Index benchmark of 0.5% for the March quarter and an absolute performance of 8.4% since inception in 1992. The In-House fund is being prepared to transition to the Paris Aligned index over the summer.
3.9 3.9.1 3.9.2	**Legal and General** 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. 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 this quarter, the fund totalled £236(241.4m) with a performance of -2.1%.

3.10	**BMO Global Assets Mgt** This is the new emerging and frontier equity manager seeded in July 2017 with a total £74.4m withdrawn from LGIM. The mandate details as follows: • A blended portfolio with 85% invested in emerging market and 15% in frontier markets • Target performance MSCI Emerging Markets Index +3.0% (for the global emerging markets strategy) • Expected target tracking error 4-8% p.a • The strategy is likely to have a persistent bias towards profitability, and invests in high quality companies that pay dividends. The mandate was amended in March'21 when the frontier element was liquidated and $11.3m was returned.
3.10.1	The March quarter saw an out performance of -3.25%. The main drag to performance was lack of exposure to a strong Brazil and middle eastern market and stock selection in China. India and Indonesia exposure was positive.
3.10.2	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.
3.10	**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 3.2% against a gilt benchmark of -8.6%. The All Property IPD benchmark returned 5.6% for this quarter. Since inception, the fund has delivered an absolute return of 6.4%
3.10.3	As at the end of this March quarter the fund's unexpired average lease term is 21.3 years. The Fund holds 88 assets with 53 tenants.
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%. In 2021, the energy intensity across the portfolio reached 226kWh/m2. To further this progress and achieve the 2025 target of 213kWh/m2, asset managers allocated £29 million towards Environmental, Social, and Governance (ESG) improvements across the portfolio. The most significant savings will be made through: - LED lighting (expected reduction of 7kWh/m2) - Smart buildings – Electricity and Gas (expected reduction of 8kWh/m2) - Solar panels (expected reduction of 10kWh/m2)
	Columbia Threadneedle Property Pension Limited (TPEN)

	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 March was £104million. The agreed mandate guidelines are as listed below: • 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 4.1% against its benchmark 5.6% for the March quarter. Since inception it has delivered an absolute return of 7.5 per annum.
3.11.4	The cash balance now stands at 7.1% compared to 10.3% last quarter. During the quarter, five selective acquisitions and two strategic disposals, were made. There is a strong asset diversification at portfolio level with a total of 273 properties and 1271 tenancies. Rent collection is improving and tenants are being dealt with on a case-by-case basis to enable their viability on the short to medium term.
3.11.5	The Fund has set net zero target to neutralise carbon emissions within portfolios by 2050. An income distribution share class is now available for investors who want to draw down income.
3.12	**Franklin Templeton**
3.13.1	This is the fund's global property manager appointed in 2010 with an initial investment commitment of £25million. Members agreed in September 2014 to re-commit another $40million to Fund II to keep our investments at the same level following return of capital through distributions from Fund I. The agreed mandate guidelines are listed below: • Benchmark: Absolute return • Target Performance: Net of fees internal rate of return of 15%. Preferred rate of return of 10% p.a. with performance fee only applicable to returns above this point. • Bulk of capital expected to be invested between 2 – 4 years following fund close. • Distributions expected from years 6 – 8, with 100% of capital expected to be returned approximately by year 7.
3.13.2	Fund I is now fully committed and drawndown. $3.5m remains undrawn. The final portfolio is comprised of nine funds and five co-investments. The funds are well diversified as shown in table below:

	<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><tr><td>4</td><td>Europe</td><td>26</td></tr><tr><td>5</td><td>Asia</td><td>38</td></tr></table> The total distribution received to the end of the March quarter is $61.8m. The NAV is $0.8m
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 is $40m and total distribution of $33.8m. The NAV is $19.4m
3.13.5	Members agreed to commit $50m to Fund III at the December 2020 meeting and the documentation was finalised in December to meet the final close date. Fund III made its final close on 30th December with total equity commitment of $218m. Current portfolio consist of 5 holdings over a geographic exposure of 77% in Europe and 23% in USA with a 95% vintage in 2019 and 5% in 2021.
3.13.6	As at the quarter end $7.8m has been drawdown and a distribution of $4.0m had been received.
3.14. 3.14.1	**Hearthstone** 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 equity's portfolios. The agreed mandate guidelines are as follows: • Target performance: UK HPI + 3.75% net income. • Target modern housing with low maintenance characteristics, less than 10 years old. • Assets subject to development risk less than 5% of portfolio. • Regional allocation seeks to replicate distribution of UK housing stock based on data from Academics. Approximately 45% London and Southeast. • 5-6 locations per region are targeted based on qualitative and quantitative assessments and data from Touchstone and Connells. • Preference is for stock, which can be let on Assured Shorthold Tenancies (ASTs) or to companies. • Total returns expected to be between 6.75% and 8.75% p.a., with returns split equally between income and capital growth. Net yields after fund costs of 3.75% p.a. • The fund benchmark is the LSL Academetrics House Price Index

3.14.2	For the March quarter, the value of the fund investment was £28.7million and total funds under management is £72m. Performance net of fees was 0.83% compared to the IPD UK All Property benchmark of 5.6%.
3.14.3	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 last financial year and discussions are ongoing to draw down some more cash in 2022.
3.15	**Quinbrook Infrastructure**
3.15.1	This one of the infrastructure managers appointed in November 2018. The total fund allocation infrastructure was 10% circa £130m. 40% of the allocation equivalent to $67m was allocated to low carbon strategy. Merits of Quinbrook include: • Low carbon strategy, in line with LB Islington's stated agenda • Very strong wider ESG credentials • 100% drawn in 12-18 months • Minimal blind pool risk • Estimated returns 7%cash yield and 5% capital growth **Risks:** Key Man risk Drawdown to December 2021 is $67.0m – this is 100% of our commitment
3.15.2	Members should note that with the fund fully drawn down and distributions planned from 2022 to 2024, for Islington to maintain its asset allocation there is an opportunity to commit to the next fund of similar characteristic, The Net Zero Power Fund.
3.15.3	The Fund manager has been invited to present to Members on past performance, activities and projected cashflow position for Islington for current fund, as well as pipeline projects for their next fund The Net Zero Power Fund.
3.15.4	Members are asked to consider the presentation and decide if the case to re-invest will be beneficial to the Fund objectives and if so delegate responsibility to Officers to complete the fund subscription and any further due diligence. The current fees will remain the same.
3.16.1	**Pantheon Access-** is the other infrastructure manager also appointed in November 2018. Total allocation was $100m and merits of allocation included: • 25% invested with drawdown on day 1 • Expect fully drawn within 2-3 years • Good vintage diversification between secondaries and co-investments • Exposure to 150 investments • Estimated return 5% cash yield and 6% capital growth **Risks:** No primary fund exposure. Drawdown to March 2022 is $71.65m and distribution of $14.5m
3.17	**Schroders**

3.17.1	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 equity's portfolios. The agreed mandate guidelines are as follows:
	• Target performance: UK RPI+ 5.0% p.a.,
	• Target volatility: two thirds of the volatility of global equities, over a full market cycle (typically 5 years).
	• Aims to invest in a broad range of assets and varies the asset allocation over a market cycle.
	• The portfolio holds internally managed funds, a selection of externally managed products and some derivatives.
	• **Permissible asset class ranges (%):**
	  • 25-75: Equity
	  • 0- 30: Absolute Return
	  • 0- 25: Sovereign Fixed Income, Corporate Bonds, Emerging Market Debt, High Yield Debt, Index-Linked Government Bonds, Cash
	  • 0-20: Commodities, Convertible Bonds
	  • 0- 10: Property, Infrastructure
	  • 0-5: Insurance-Linked Securities, Leveraged Loans, Private Equity.

3.17.2 3.17.3 3.17.4	The value of the portfolio is now £114.4m. The aim is to participate in equity market rallies, while outperforming in falling equity markets. The March quarter performance before fees was -2.6% against the benchmark of 2.9% (inflation+5%). The performance since inception is 4.6% against benchmark of 8.4% before fees. Equity positions detracted -2.7% from the total return, alternatives contributed +1.1%, credit and government debt detracted -1.7%, and cash and currency contributed +0.6%. The new benchmark is effective from 1 April 2022. The current target of RP1+5% will change to ICE BofA Sterling 3-Month Government Bill Index plus 4.5% per annum.
3.18 3.18.1 3.18.2 3.18.3	**Standard Life** 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 -6.3% against a benchmark of -6.2% and an absolute return of 5.4% per annum since inception. Duration positioning was positive, as was stock selection, but this was largely offset by asset allocation. The agreed infrastructure mandates are being funded from this portfolio and to date £80m has been drawn down.
3.19	**Passive Hedge** 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 negative cash value of £679k

3.19.1	The hedge has now been in place since 25 November 2020 for quarterly hedge rolls
3.20	**M&G Alpha Opportunities** This is the multi asset credit manager appointed and funded on 1st March 2021**.** The total allocation is approximately 5% funded mostly from profit made from equity protection in March 2020. The mandate guidelines of M&G include • Fund can invest across the full spectrum of developed market corporate credit (IG, HY, Loans) as well as securitised credit (ABS, MBS), some illiquid opportunities and defensive holdings (e.g. cash). • Investment process is predominantly bottom up, with a defensive value style that seeks to buy cheap mispriced securities. • Targets a return of 1 month LIBOR +3% - 5% (gross of fees) over an investment cycle (3-5 years) • No local currency EM debt is permitted • Low level of interest rate duration • Maximum exposure to sub-investment grade credit of 50% of assets, • Focus is primarily on Europe, although there is some exposure to the US (c. 15%). Risk and triggers for review: • Key man - risk • Issues at the firm level • Change in investment process/ structure or risk/return profile of the mandate. • Failure to deliver target return over 3 Year period of Cash +3% - 5% (gross of fees), unless there is a compelling market-based reason for underperformance • Downgrade of Mercer rating lower than B+ • Downgrade of Mercer ESG rating lower than ESG3. • Long term trend of staff turnover and changes within the investment team.
3.20.1	The March quarter performance was -0.64% against a benchmark of 0.9% and since inception an underperformance of -2.6%. Exposure to industrial corporate bonds was the top detractor, with financial corporate bonds and yield curve & currency hedging also performing poorly.
4.	**Implications**
4.1	**Financial implications:** The fund actuary takes investment performance into account when assessing the employer contributions payable, at the triennial valuation. Fund management and administration fees and related cost are charged to the pension fund.
4.2	**Legal Implications:** As the administering authority for the Fund, the Council must review the performance of the Fund investments at regular intervals and review the investments made by Fund Managers quarterly.
4.3	**Equality Impact Assessment:** The Council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of

	opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The Council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The Council must have due regard to the need to tackle prejudice and promote understanding". An equalities impact assessment has not been conducted because this report is an update on performance of existing fund managers and there are no equalities issues arising**.**
4.4	**Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:** Environmental implications will be included in each report to the Pensions-sub committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of 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
5.	**Conclusion and reasons for recommendations**
5.1	Members are asked to note the performance of the fund for the quarter ending March 2022 as part of the regular monitoring of fund performance and Appendix 1- MJ Hudson commentary on managers. The May'22 edition of LGPS Current Issue is attached as Appendix 2 for information. Members are asked to receive presentation from Quinbrook (renewable infrastructure manager) and consider a re-invest commitment to The Net Zero Power Fund.

Appendices: Appendix 1 – MJ Hudson Fund Mgr monitoring report
Appendix 2- LGPS Current Issues- May 2022.

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: David Hodgkinson

Corporate Director of Resources Date:

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legal implications author : n/a

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London Borough of Islington

Report to 31st March 2022

MJ Hudson

JUNE 2022

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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
M&G Alpha Opportunities Fund	Not reported by the manager.	The Fund made a loss of -0.64% over Q1 2022, under the benchmark return by –1.60%.	The fund size was £10.88 billion as at end March. London Borough of Islington's investment amounts to 0.70% of the fund.
LCIV Global Equity Fund (Newton) (active global equities)	Charles French, one of the Managers of the sub-fund, has left Newton. Paul Markham has taken over from Charles, and is supported by Simon Nichols, both of whom have been at Newton for over 20 years. The fund should be monitored closely over the coming quarters while these team changes bed in.	The LCIV Global Equity Fund underperformed its benchmark during Q1 2022 by -1.83%. Over three years the portfolio underperformed the benchmark by -0.09% and is under the performance target of benchmark +1.5% p.a. Over five years it remains ahead of the benchmark by +0.28% p.a., however.	At the end of Q1 2022, the London CIV sub-fund's assets under management were £747.4m. London Borough of Islington owns 43.09% of the sub-fund.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
LCIV Sustainable Equity Fund (RBC) (active global equities)	None reported by LCIV.	Over Q1 2022 the fund made a loss of -8.5%, this underperformed the benchmark return of -6.07%. The one-year return was +9.04%, strong in absolute terms but behind the benchmark by -6.35%. The fund does not yet have a three-year track record.	As at end March the sub- fund's value was £1,344 million. London Borough of Islington owns 13.41% of the sub-fund.
BMO/LGM (active emerging equities)	No staff changes reported by BMO. BMO Global Asset Management became part of Columbia Threadneedle Investments in November 2021 and will be changing its name in July 2022.	Underperformed the benchmark by -3.25% in the quarter to March 2022. The fund is behind over three years by -3.9% p.a.	Not reported.
Standard Life (corporate bonds)	There were 19 joiners and 10 leavers during the quarter. Two joiners and one leaver were in the Fixed Income Group.	The portfolio underperformed the benchmark return during the quarter by -0.09%, delivering an absolute loss of -6.28%. Over three years, the fund was ahead of the benchmark return (by +0.37% p.a.) but behind the performance target of +0.80% p.a.	As at end March the fund's value was £2,208 million. London Borough of Islington's holding of £133.7m stood at 6.1% of the total fund value.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Aviva (UK property)	There were no team changes during Q1 2022.	Outperformed against the gilt benchmark by +11.81% for the quarter to March 2022 and outperformed the benchmark over three years by +9.22% p.a., delivering a return of +8.61% p.a., net of fees.	The fund was valued at £3.65 billion as at end Q1 2022. London Borough of Islington owns 4.1% of the fund.
Columbia Threadneedle (UK property)	Four joiners and one leaver in Q1. One of the new appointments, George Greenaway, has joined the TPEN Property team as an asset manager.	The fund underperformed the benchmark in Q1 2022, with a quarterly return of +4.06% compared with +5.62%. Over three years, the fund is underperforming the benchmark by -2.5% p.a.	Pooled fund has assets of £2.33 billion. London Borough of Islington owns 4.47% of the fund.
Legal and General (passive equities)	Not reported by LGIM.	Funds are tracking as expected.	The funds have a combined assets under management of £2.08 billion at end December 2021 (most recent data available).

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Franklin Templeton (global property)	Information not received at the time of going to print.	The portfolio return over three years was +4.39% p.a., and so behind the target of 10% p.a. although over 5 years the fund is still +0.29% p.a. ahead of the target return.	£542.6 million of assets under management for the real estate group as at end September 2021 (latest figures reported).
Hearthstone (UK residential property)	There were no team changes during Q1 2022.	The fund underperformed the IPD UK All Property Index by -4.75% in Q1. Additionally, it is trailing the IPD benchmark over three years by -5.90% p.a. to end March 2022.	Fund was valued at £72.8m at end Q1 2022. London Borough of Islington owns 39.4% of the fund.
Schroders (multi-asset diversified growth)	There were no team changes during Q1 2022.	Fund made a loss of -2.61% during the quarter and delivered a return of +6.43% p.a. over 3 years, -2.87% p.a. behind the target return.	Total AUM stood at £716.9 billion as at end September 2021, up from £700.4 billion as at end June 2021.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Quinbrook (renewable energy infrastructure)	Two joiners in the US office and one leaver from the UK finance team.	For the three years to Q1 2022 the fund returned +11.45%, just short of the annual target return of +12.00%.	
Pantheon (Private Equity and Infrastructure Funds)	Not reported.	The private equity fund returned +5.94% p.a. over three years, and +16.77 p.a. over five years. The infrastructure fund returned +8.38% p.a. over three years to end March.	

Source: MJ Hudson

Minor Concern

Major Concern

Individual Manager Reviews

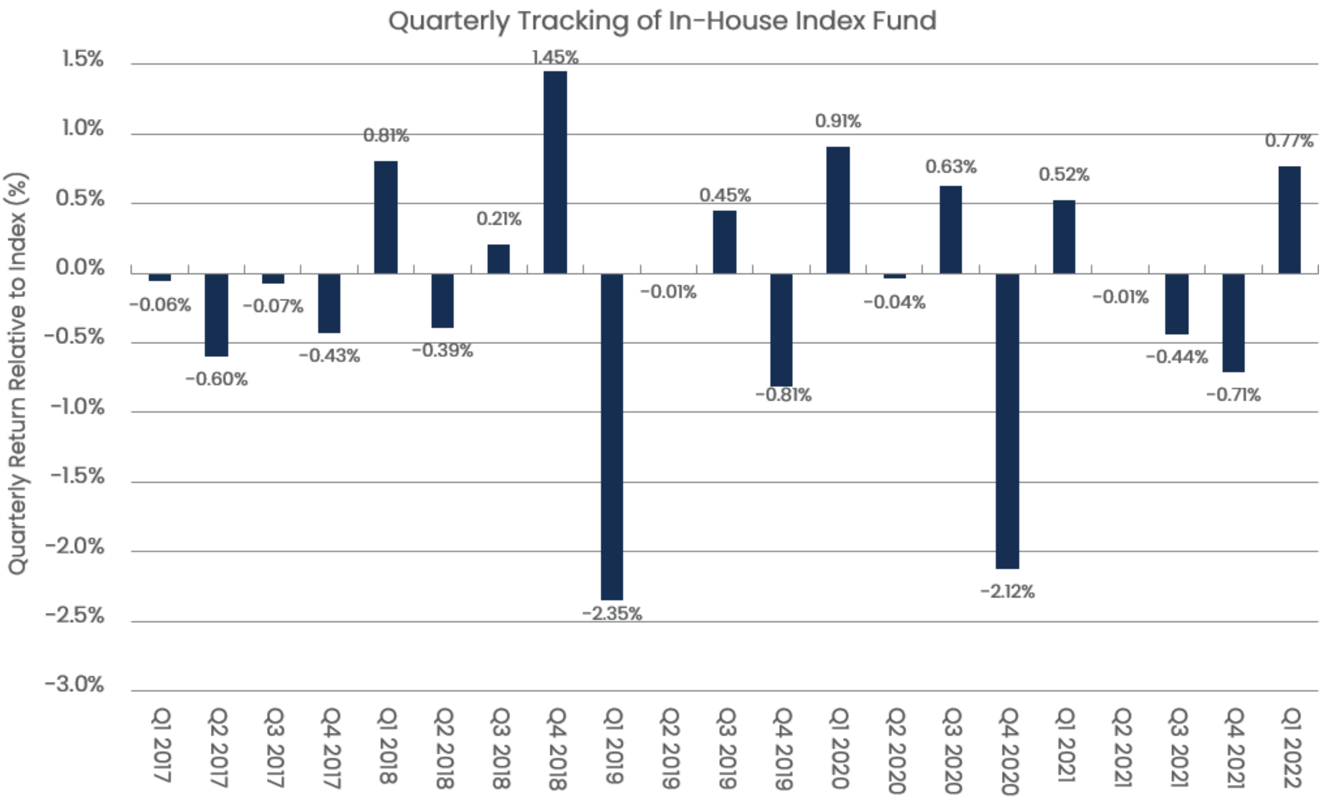
In-house – Passive UK Equities – FTSE UK Low Carbon Optimisation Index

Headline Comments: At the end of Q1 2022 the fund returned +1.26% for the quarter, compared to the FTSE All-Share index return of +0.49%. Over three years the fund has returned +5.21% p.a., behind the FTSE All-Share Index by -0.1%.

Mandate Summary: A UK equity index fund designed to match the total return on the UK FTSE All-Share Index. In Q3 2017, the fund switched to tracking the FTSE UK Low Carbon Optimisation Index. This Index aims to deliver returns close to the FTSE All-Share Index, over time. The in-house manager uses Barra software to create a sampled portfolio whose risk/return characteristics match those of the low carbon index.

Performance Attribution: Chart 2 shows the quarterly tracking error of the in-house index fund against the FTSE All-Share Index over the last five years. There are no performance issues although the new mandate is resulting in wider deviations quarter-on-quarter since the transition to the low carbon fund. Over three years, the portfolio underperformed its three-year benchmark by -0.1% p.a.

CHART 2:



Source: MJH; BNY Mellon

M&G – Alpha Opportunities Fund

Headline Comments: This is a relatively new allocation for the pension fund, with proceeds from the equity protection strategy being invested in a Multi Asset Credit fund managed by M&G. During Q1 2022 the M&G Alpha Opportunities Fund made a loss of -0.64%, underperforming the benchmark return of +0.96%.

Mandate Summary: A Multi Asset Credit fund, in which M&G aims to take advantage of opportunities in public and private credit markets by identifying fundamental value across securities and credit asset classes. In periods when the fund is not being sufficiently compensated for taking risk, the manager seeks to protect capital through allocating to low-risk asset classes. The objective of the fund is to deliver a total return of one month Libor / Euribor +3-5% per annum, gross of fees, over a full market cycle.

Performance Attribution: During the quarter, the fund made a loss of -0.64% compared to the benchmark return (one month Libor plus 3.5% being used in Northern Trust's performance analysis) of +0.96%. Exposure to industrial corporate bonds was the top detractor, with financial corporate bonds and yield curve & currency hedging also performing poorly.

Portfolio Characteristics: The largest allocations in the portfolio were to industrials (32%), Securitised Assets (16%) and Financials (14%). Net cash and derivatives account for 17%. 41% of the portfolio was rated BB* or below. The manager continues to focus on reducing the level of risk in the fund, believing that credit markets are overvalued. As a result, Schroders intend to remain defensively positioned.

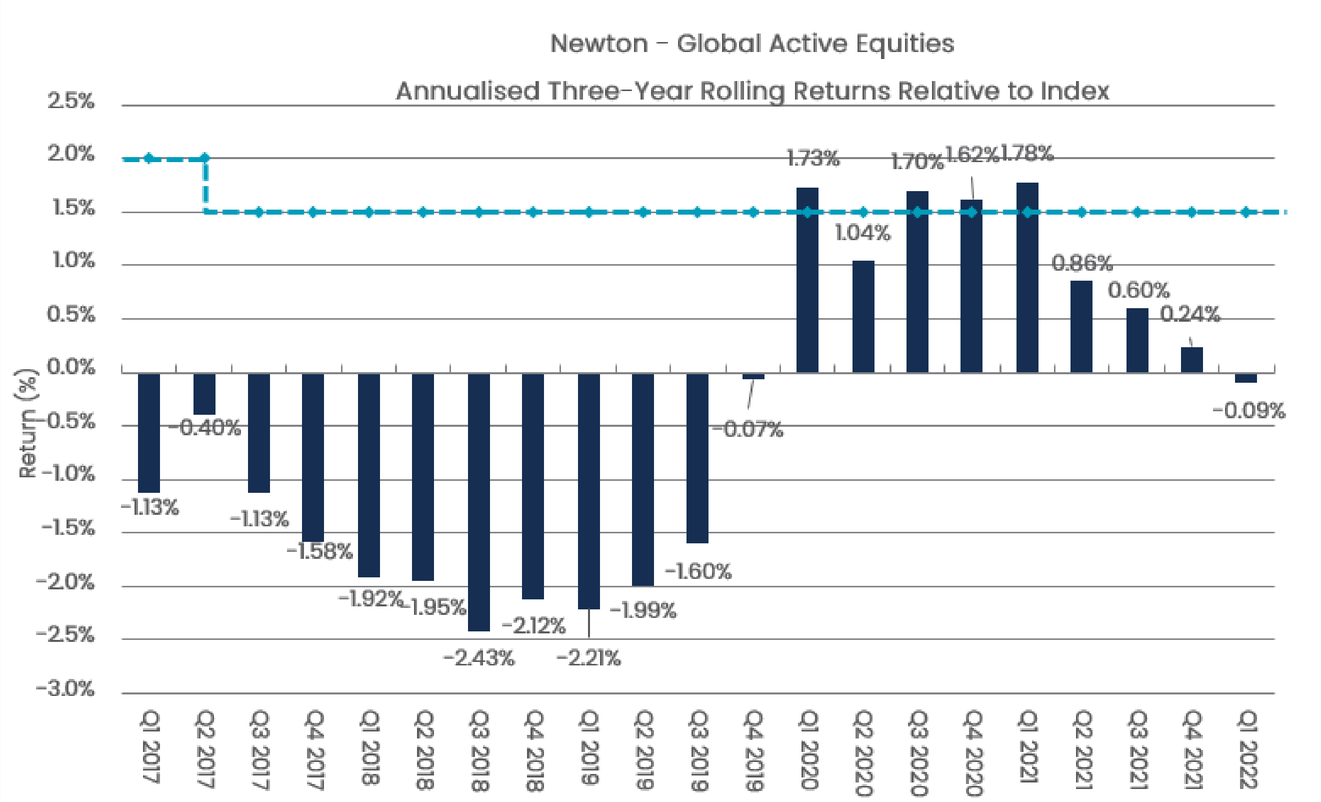
LCIV Global Equity Fund (Newton) – Global Active Equities

Headline Comments: The LCIV Global Equity Fund underperformed its benchmark during Q1 2022 by -1.83%. Over three years the portfolio underperformed the benchmark by -0.09% 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

Chart 3 shows that the level of outperformance over three years has been falling since Q1 2021, when the fund was ahead of the benchmark by +1.78% p.a. By Q1 2022 the fund has underperformed the benchmark over three years by -0.09%. This means it underperformed the performance objective by -1.59% p.a. (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 Royal Dutch Shell plc (+0.37%), Bayer (+0.26%), and Exelon Corp Com (+0.23%). Negative contributions came from holdings including Accenture (-0.46%), Sony (-0.41%), and Ferguson (-0.41%).

In its peer group analysis, the London CIV reported that Newton has consistently delivered returns in the middle range over the shorter and longer term. Over the past three years period the risk has been in the bottom quartile. (i.e. lower risk than its peers).

Portfolio Risk: The active risk on the portfolio stood at 3.60% as at quarter end, slightly higher than as at end December when it stood at 3.13%. The portfolio remains defensive, with the beta on the portfolio at end March standing at 0.91, broadly in line with the previous quarter (0.92). (if the market increases by +10% the portfolio can be expected to rise +9.2%).

At the end of Q1 2022, the London CIV sub-fund's assets under management were £747.4m, compared with £781.9m last quarter. London Borough of Islington now owns 43.09% of the sub-fund.

Portfolio Characteristics: The number of stocks in the portfolio stood at 55 as at quarter-end (three down from last quarter). The fund added five positions including: Exelon, Astrazeneca, and Lvmh (Louis Vuitton Moet Hennessy). Newton completed eight sales, including Unilever Plc and Suzuki Motor.

The manager invests on the basis of selected themes which evolve over time. As at March 2022, Newton favoured “Net Effects” (a concept built around the impact of modern technology) and Healthy Demand (affordable healthcare for aging populations). As a result, the portfolio is heavily weighted to Technology (an allocation of 26%) and Healthcare (13%).

In Q1 2022, LCIV reported that the Newton sub fund had a weighted average carbon intensity of just less than half that of the benchmark index (the MSCI World Index). The highest contributor was Heineken N.V. (0.24% contribution to the weighted average carbon intensity).

The Manager has a generally cautious view about companies in the oil and gas sector, and the outlook for energy companies, and has therefore been underweight in the sector for at least the last 10 years. This hurt performance in Q1 as energy company stock prices rose amid the Ukraine crisis. Shell was the only energy holding in the LCIV portfolio, representing c.1.2% of the portfolio as at end December 2021, so this position did contribute positively to performance in Q1, at least.

Staff Turnover: Charles French, one of the Managers of the sub-fund, has left Newton, after a 21-year career at Newton. Paul Markham has taken over from Charles French, and is supported by Simon Nichols, both of whom have been at Newton for over 20 years. Markham and Nichols will ensure continuity in the application of the investing processes, including the Responsible Investing elements, used to manage the LCIV Global Equity Fund. Yuko Takano has also left Newton’s Opportunities team. He was focused on sustainable and thematic strategies at Newton and was not directly involved in the management of the LCIV Global Equity Fund. These changes are worth noting, and the fund’s performance should be monitored closely, going forward, until the staff changes have bedded in.

LCIV Sustainable Equity Fund (RBC) – global equities

Headline Comments: Over Q1 2022 the fund made a loss of -8.5%. This underperformed the benchmark return by -6.07%. The one-year return was +9.04%, strong in absolute terms but still behind the benchmark by -6.35%. The fund does not yet have a three-year track record. Islington’s investment makes up 13.41% of the total fund (source: LCIV).

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 fund experienced one of its worst quarter's performance since the inception of the LCIV sub-fund, as the market responded to the Ukraine crisis with a flight to safety. The portfolio has overweight allocations to the financial, healthcare, and consumer staples sectors. Over the quarter the largest contributors to return included Equinor Asa (+0.74%), T-Mobile US (+0.33%), and Unitedhealth Group (+0.31%). The largest detractors include Ecolab (-0.90%), Industria De Diseno Textil (-0.89%), and Estee Lauder Cos (-0.85%).

The London CIV is now comparing managers against their peer group and reported that RBC is performing very well over the long term. This has been achieved whilst taken only average risk, when compared with peers. However, 2021 has been challenging, ranking at the third quartile for its peer group for the year to end December 2021 (most recent data available).

Portfolio Characteristics: As at end of March 2022 the fund had 37 holdings across 15 countries. The active risk of the fund was 3.79%.

London CIV report that the fund has sustained its "anti-value" stance and continues to favour quality companies with low gearing.

In Q1 2022, LCIV reported that the RBC sub fund had a weighted average carbon intensity of 80% that of the benchmark index (the MSCI World Index) which is an increase from last quarter (57%). The highest contributors were InterContinental Hotels Group plc (excluding this holding from the portfolio would reduce the weighted average carbon intensity by 0.17%), Orsted (0.15%) and PepsiCo Inc (0.10%).

BMO/LGM – Emerging Market Equities

Headline Comments: The portfolio made a loss of -7.5% in Q1 2022, compared with the benchmark loss of -4.25%, an underperformance of -3.25%. Meanwhile, over one year the fund is ahead of the benchmark by +2.79%, and over three years it is trailing by -3.90% per annum. The frontier markets portfolio previously held has now been closed, as such reporting on BMO now only discusses 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: The Portfolio underperformed the index in the quarter, and the performance continued to be volatile, with the Russian invasion of Ukraine and the increasing number of COVID lockdowns in China. While some countries saw gains, others struggled in Q1.

Brazil and Middle Eastern markets were stand out performers, but unfortunately BMO had limited exposure to these markets. It also had a high exposure to China/Hong Kong, which detracted from performance. It does however have a large exposure to India and Indonesia, which performed well.

During the quarter, the largest positive contributors to the quarterly relative return came from Wal Mart De Mexico SAB De CV (+0.9%), Gazprom PJSC (+0.7%), and BK central Asia (+0.6%). Companies which detracted most from performance included Moscow Exchange Micex-RTS OAO (MOEX) (-3.0%), Win Semiconductors Corp (-0.7%), and Hong Kong Exchanges And Clearing (-0.6%). Given that the Russian market is still not trading openly, the manager has reported that they cannot take any action on MOEX. They continue to assess the situation. As at end February, when the stock market initially closed, the holding constituted around 2% of their portfolio.

Over one year, the fund has outperformed the benchmark by +2.79%.

Portfolio Risk: Within the emerging markets portfolio there is a 11.2% allocation to non-benchmark countries (excluding holding in Cash & Equivalents). The largest overweight country allocation in the emerging markets portfolio remained India (+13.2% overweight). The most underweight country allocation was South Korea (-8.1%).

Portfolio Characteristics: The portfolio held 40 stocks as at end March compared with the benchmark which had 1,399. The largest absolute stock position was TSMC at 8.0% of the portfolio, while the largest absolute country position was China/HK and accounted for 32.0% of the portfolio.

Staff Turnover/Organisation: BMO Global Asset Management EMEA (including LGM Investments) became part of Columbia Threadneedle Investments, the global asset management business of Ameriprise in November 2021. From July, following a period of integration, the branding will switch to sit under the Columbia Threadneedle banner. There were no staff changes reported for Q1 2022.

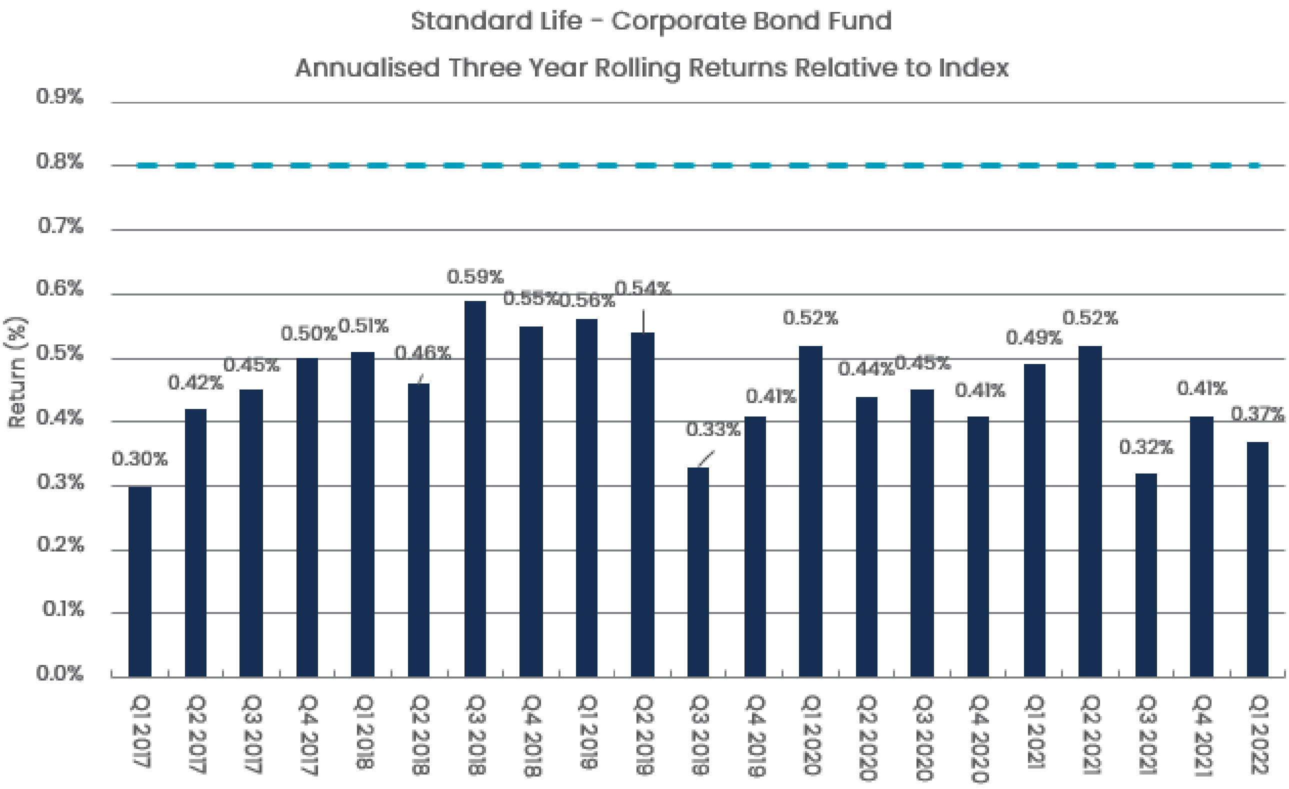
Standard Life – Corporate Bond Fund

Headline Comments: The portfolio underperformed the benchmark return during the quarter by -0.09%, with an absolute loss of -6.28%. Over three years, the fund was ahead of the benchmark return (by +0.37% p.a.) 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 +1.32% p.a. net of fees, compared to the benchmark return of +0.95% p.a. Over the past three years, asset allocation has added +0.12% value, meanwhile stock selection has added +0.35%.

Portfolio Risk: The largest holding in the portfolio at quarter-end was European Investment Bank 5.625% 2032 at 2.9% of the portfolio. The largest overweight sector position was financials (+3.7% relative) and the largest underweight position is Supranational (-6.5%). The fund holds 2.2% of the portfolio in non-investment grade (off-benchmark/BB and below) bonds.

Portfolio Characteristics: The value of Standard Life's total pooled fund at end March 2022 stood at £2,208 million. London Borough of Islington's holding of £133.7m stood at 6.1% of the total fund value.

Staff Turnover: There were 19 joiners and 10 leavers during the quarter. Two joiners were into the fixed income group; one Commercial Real Estate Lending Analyst, and one Manager in

Commercial Real Estate Lending. There was one leaver from the fixed income group: Matthew Guzzo, an Investment Director.

Aviva Investors – Property – Lime Property Fund

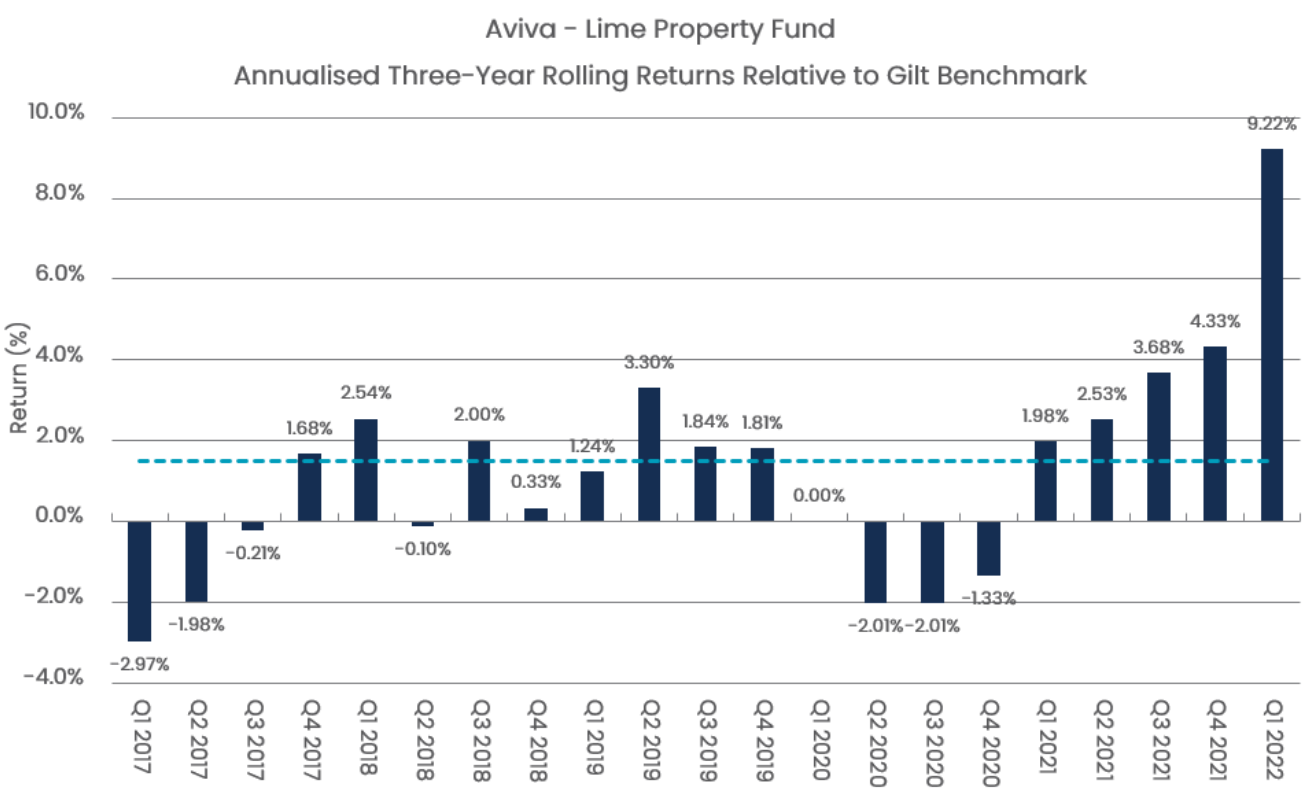
Headline Comments: The Lime Fund delivered another quarter of steady and positive absolute returns, it outperformed the fund benchmark return, with an overperformance of +11.81% in Q1. Over three years, the fund is ahead of the benchmark return by +9.22% p.a., with a particularly strong one-year outperformance of +19.73%.

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 2022 return was attributed by Aviva to +2.35% capital return and +0.81% income return.

Over three years, the fund has returned +8.61% p.a., considerably ahead of the gilt benchmark of -0.61% 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, 45% of the return came from income and 55% from capital gain.

Portfolio Risk: within the MSCI quarterly index of UK real estate funds, the Lime Fund is the least volatile fund over the short, medium and long term. There were no transactions reported this quarter. The Manager continues to make progress towards investing new committed capital in three off-market transactions under an exclusive arrangement, which look likely to close in the next 6 months.

The average unexpired lease term was 21.3 years as at end March 2022. 10.9% of the portfolio's lease exposure in properties is in 30+ year leases, the largest sector exposure remains offices at 26.21% (proportion of current rent), and the number of assets in the portfolio is 88. The weighted average tenant credit quality rating of the Lime Fund remained at BBB+ this quarter.

Portfolio Characteristics: As at March 2022, the Lime Fund had £3.66 billion of assets under management, an increase of £162 million from the previous quarter end. London Borough of Islington's investment represents 4.1% of the total fund.

Staff Turnover/Organisation: There were no significant departures in Q1 2022.

It is worth noting that the Fund has joined the Association of Real Estate Funds (AREF) UK Long Income Open Ended Property Fund Index. This is a Long Income Index with nine funds run on a similar basis, totalling over £14 billion. This will be another useful reference point for assessing whether the manager is delivering best value to London Borough of Islington.

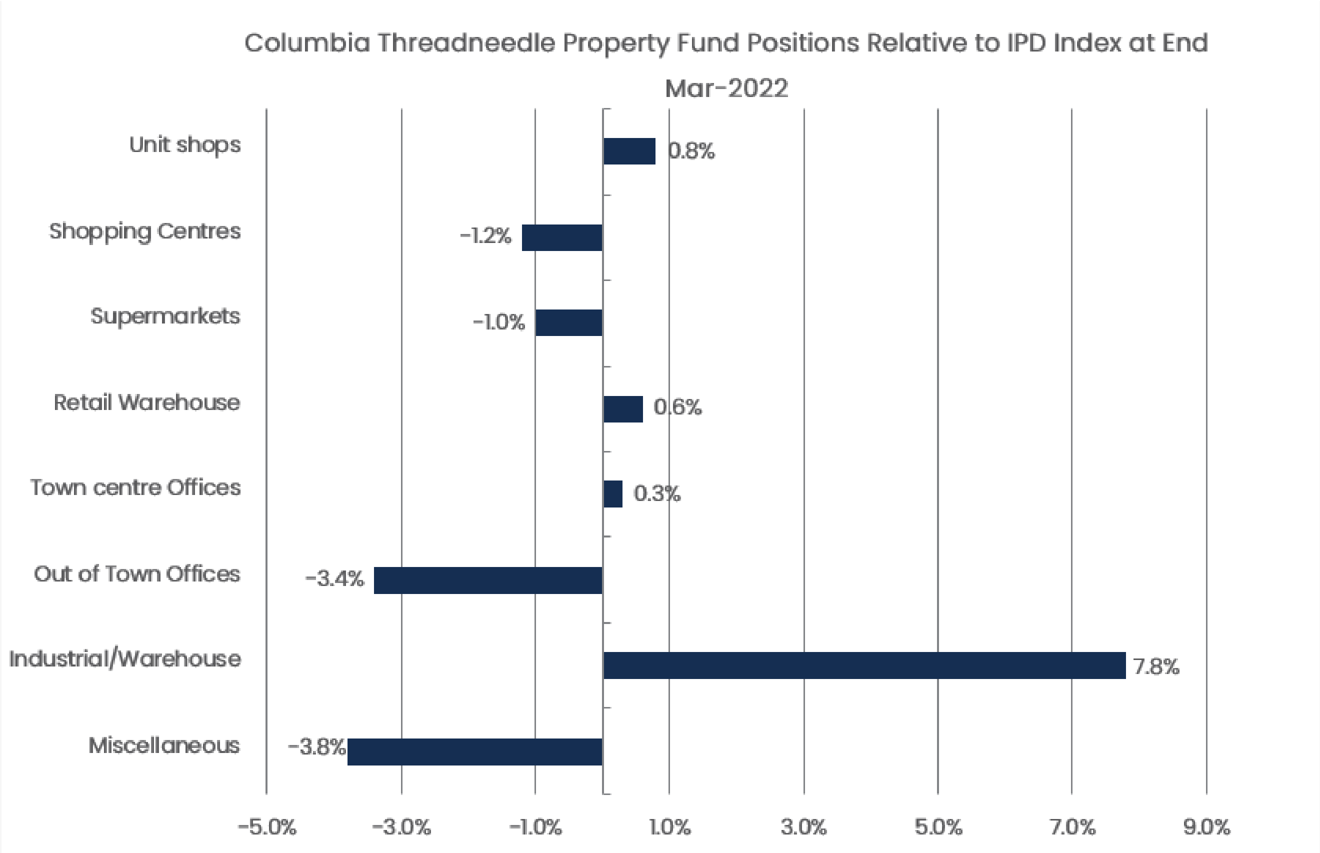
Columbia Threadneedle – Pooled Property Fund

Headline Comments: The fund underperformed the benchmark in Q1 2022, with a quarterly return of +4.06% compared to +5.62% (source: Columbia Threadneedle). Over three years, the fund underperformed the benchmark by -2.50% (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:



Source: MJH; Columbia Threadneedle

During the quarter, the fund made five acquisitions and two sales. The acquisitions include a multi-asset portfolio, the majority of which comprises retail and industrial warehouses, and a purpose built three-unit retail park within a retail warehouse cluster. These acquisitions increase the fund's exposure to retail and industrial warehouses.

The cash balance at end March was 7.1%. This is in line with the target liquidity parameters, following cash levels marginally higher than target levels in the last quarter.

Performance Attribution: The fund underperformed the benchmark in Q1 2022, with a quarterly return of +4.06% compared to +5.62% (source: Columbia Threadneedle). Over three years, the fund underperformed the benchmark by -2.50% (source: Columbia Threadneedle) and as such is behind the performance target of +1.0% p.a. above benchmark.

Portfolio Characteristics: As at end March 2022, the fund was valued at £2.33bn, an increase of £67m from the fund's value in December 2021. London Borough of Islington's investment represented 4.47% of the fund.

Staff Turnover: In Q1 2022, there were four joiners into the Property team, one of whom is an Asset Manager into the TPEN Property team. There has been one departure from the wider Property team.

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 MSCI World Low Carbon index fund tracked its benchmark as expected, as shown in Table 2. The Low Carbon index returned -2.54% which was behind the full World Index return of -2.32% as energy companies outperformed.

TABLE 2:

	Q1 2022 FUND	Q1 2022 INDEX	TRACKING
FTSE-RAFI Emerging Markets	0.09%	0.12%	+0.03%
MSCI World Low Carbon Target	-2.54%	-2.53%	-0.01%

Source: LGIM

Portfolio Risk: The tracking errors over three years are all within expected ranges. The allocation of the portfolio, as at quarter end, was 84.31% to the MSCI World Low Carbon Target index fund, and 15.69% allocated to the FTSE RAFI Emerging Markets index fund.

Staff Turnover/Organisation: Not reported by LGIM.

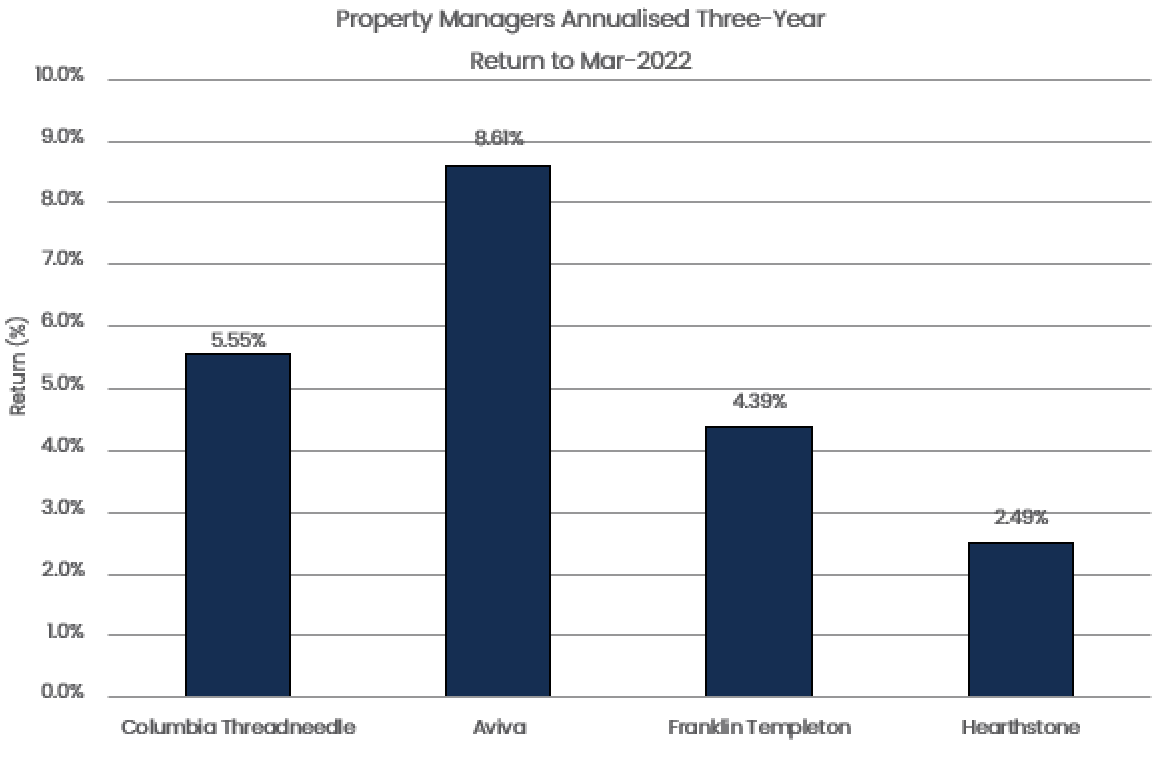
Franklin Templeton – Global Property Fund

Headline Comments: This is a long-term investment and as such a longer-term assessment of performance is recommended. There are now three funds in which London Borough of Islington invests. The portfolio in aggregate underperformed the absolute return benchmark of 10% p.a. over three years by -5.61% p.a.

Mandate Summary: Three 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 2022, Aviva is the best performing fund across all four property managers, overtaking Franklin Templeton who have held the top position for a considerable amount of time. Chart 7 compares their annualised three-year performance, net of fees.

CHART 7:



Source: MJH; Columbia Threadneedle

Portfolio Risk: Fund I continues to be 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$494.8 million, or 155% of total Fund equity. The Fund's use of leverage was at 44% for the quarter.

The largest remaining allocation in Fund I is to the US (53% of funds invested), followed by Italy (21%), Spain (15%) and UK (11%). 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 (Both have now been fully liquidated).

Fund II is now fully invested in a diverse mix of property sectors including office, retail and industrial uses. There have been no changes in the level of distributions from end June 2021, and so as at end March 2022, 85.0% of committed capital had been distributed. Leverage rose from 55% to 57% between end June 2021 and end March 2022. The manager notes that the pandemic has led to some delays in implementing business plans.

The largest geographic allocation in Fund II is to Italy (57% of funds invested), followed by the US (33%), China (5%), Hong Kong (4%), and Spain (1%).

Of all the underlying funds (realised and unrealised), three of the underlying funds are performing well ahead of expectations, two are above expectations, three are on target, and two are below target. The funds that are below target are Mistral Napoleon, which has seen delays incurred in the leasing space, and Alphabet, whose performance has been impacted by one of the tenants declaring bankruptcy.

Fund III continues to invest in a diverse mix of property sectors including residential, retail, industrial and office uses. There have been no changes in the level of distributions over the period. In Q1 2022, the fund made one realization, Alpine, and added one new investment, a multifamily apartment project in Dallas, Texas. The largest geographic allocation in Fund III is currently the US (61% of funds invested), followed by Europe (39%).

The realized investment performed well ahead of expectations. Of the unrealised funds, three are performing in line with expectations, and three are too early to assess.

Staff Turnover/Organisation: not received at the time of going to print.

Hearthstone – UK Residential Property Fund

Headline Comments: The portfolio underperformed the benchmark for the quarter ending March 2022 by -4.75% as well as over three years by -5.90% p.a.

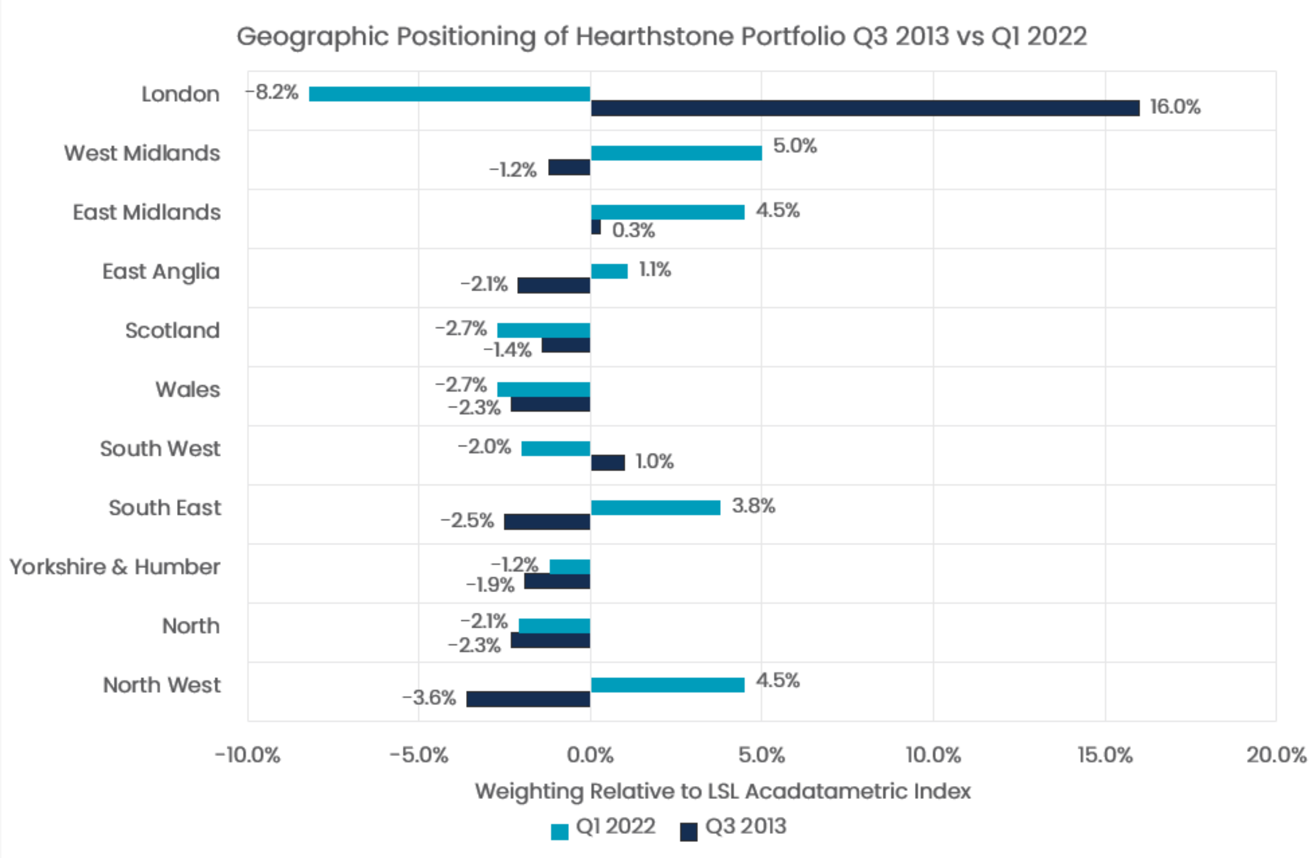
Mandate Summary: The fund invests in private rented sector housing across the UK and aims to outperform the LSL Acadametrics House Price Index (note that this excludes income), as well as providing an additional income return. The benchmark used by BNY Mellon is the IPD UK All Property Monthly Index.

Performance Attribution: The fund underperformed the IPD index over the three years to March 2022 by -5.90% p.a., returning +2.49% p.a. versus the index return of +8.39% p.a. The gross yield on the portfolio as at end March 2022 was 4.81%. Adjusting for voids and property management/maintenance costs, however, the yield on the portfolio falls to 3.00%.

Portfolio Risk: The cash and liquid instruments on the fund stood at 20.49% (£14.9 million), which is 1.32% lower than at the end of December 2021.

Chart 8 compares the regional bets in the portfolio in Q1 2022 (turquoise bars) with the regional bets at the start of the mandate, in Q3 2013 (navy bars).

CHART 8:



Source: MJH; Hearthstone

Portfolio Characteristics: By value, the fund has a 7% allocation to detached houses, 36% allocated to flats, 29% in terraced accommodation and 27% in semi-detached.

As at end March there were 223 properties in the portfolio and the fund stood at £72.8 million. London Borough of Islington's investment represents 39.4% of the fund. This compares with 72% at the start of this mandate in 2013.

Organisation and Staff Turnover: There were no team changes during Q1 2022.

Schroders – Diversified Growth Fund (DGF)

Headline Comments: The DGF made a loss of -2.61% in Q1 2022, and in relative terms it underperformed its target by -5.57% (source: Schroders). Over three years, the fund is behind the target return of RPI plus 5% p.a. by -2.87% p.a. (source: Schroders).

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 made a loss of -2.61% in Q1 2022. This is below the RPI plus 5% p.a. target return for Q1 which returned +2.96% (source: Schroders). Over three years, the

DGF delivered a return of +6.43% p.a. compared with the target return of +9.30% p.a., behind the target by –2.87% p.a.

In Q1 2022, equity positions detracted -2.7% from the total return, alternatives contributed +1.1%, credit and government debt detracted -1.7%, and cash and currency contributed +0.6% (figures are gross of fees).

The return on global equities was +12.7% p.a. for the three years to March 2022 compared with the portfolio return of +6.4%. Over a full three-to-five-year market cycle the portfolio is expected to deliver equity-like returns, so at current levels it is some way behind that strategic goal.

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 8.2% compared to the three-year volatility of 16.2% in global equities (i.e., 50.9% of the volatility) so is less risky than expected.

Portfolio Characteristics: The fund had 57% in internally managed funds (the same as last quarter), 29% in active bespoke solutions (up from last quarter), 7% in externally managed funds (up from last quarter), and 7% in passive funds (up from last quarter) with a residual balance in cash, 1% (down from last quarter), as at end March 2022. In terms of asset class exposure, 37.3% was in equities, 31.1% was in alternatives and 30.9% in credit and government debt.

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

Schroder reported that the carbon intensity of the fund was 34% lower than a comparator (a mix of equities, bonds, and alternative indices).

Organisation: There were no team changes during Q1 2022.

Quinbrook – Low Carbon Power Fund

Headline Comments: Performance for the year to 31st March 2022 was positive at +17.06%, thus outperforming the target return of +12.0%. The fund now also has a three year track record, and returned +11.45% p.a. slightly behind the target.

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 2022, on an unaudited basis, the fund had invested USD 664.0 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 1,568 MW (including those with minority stakeholders) as at 31 March 2022.

Organisation: John Lucas joined as a Senior Director, and Sam Dorsch joined as a Senior Associate, both in the US office. Alicia Bowry has left as Finance and Operations Manager in the UK office.

Pantheon – Infrastructure and Private Equity Funds

Headline Comments: Over three years the return on the private equity fund was +5.94% per annum. This compares with a three-year return on listed global equities of 13.9% per annum. The three-year return on the infrastructure fund was +8.38% versus the absolute return target of 10%.

Mandate Summary: London Borough of Islington have made total commitments of £103.6m 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 £74.7m.

Portfolio Characteristics: Over the period Q4 2021 – Q1 2022, a total of £1.5m was drawn down, wholly to PGIF III. Distributions were received across all five strategies totalling £1.5m over the period. Overall, the programme’s rolled for cash valuation at Q1 2022 was £56.6m, up from £54.7 at Q4 2021.

Permira – Credit Solutions Senior Fund

Headline Comments: The Permira Credit Solutions V (“PCS5”) is a new allocation for the London Borough of Islington. To end March 2022 the fund has closed commitments of £2.1bn, and has made a total of five investments equalling 19.4% invested.

Karen Shackleton
Senior Adviser, MJ Hudson
6th June 2022

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Mercer

LGPS CURRENT ISSUES

May 2022

welcome to brighter

In this edition

For the first time in a long time, it has been a relatively quiet period for the LGPS recently in terms of Regulatory developments. However, it has by no means been quiet overall with year-end tasks, valuation discussions underway in England and Wales, and of course, consideration of the impact on funding and investment of the ongoing crisis in Ukraine all set against a backdrop of rising inflation and a cost of living crisis.

In this edition, we provide brief updates on recent developments and commentary on what to expect over the next months. Click on the headings below to go straight to that section.

JUBILEE FACTS – To celebrate the Queen's Platinum Jubilee, in this edition we have also added a few facts along the way…
… For example, back in 1952, the Basic State Pension, in its infancy, equated to c£1.63 a week in new money - equivalent to c£55 a week in current prices. This compares with the current Basic State Pension of £141.85 a week. However, as a % of average earnings, the State Pension has actually ***fallen*** *during the Queen's reign from 31% to 23%.*

Investment Update

THE CONFLICT IN UKRAINE

We are deeply saddened by the continuing conflict and our hearts go out to the people of Ukraine as the humanitarian crisis continues to unfold.

The consequences are far reaching and the situation remains fluid. Recent developments impacting LGPS Funds include a request by both the Scheme Advisory Board for England and Wales (**28 February**) and by the Secretary of State for Levelling Up, Housing and Communities (**9 March**) to review and consider Russian asset holdings.

The LGPS Scheme Advisory Board for England and Wales made the following statement on **28 February 2022**, in respect of LGPS Investments in Russia:

"In the light of events in Ukraine and resultant extant and potential sanctions by the UK government any LGPS funds who are not already doing so are advised to consider the implications for their investment portfolios and discuss with their pools and asset managers what action should prudently be taken".

A follow-up note from the Scheme Advisory board was issued on **4 March**. The letter from DLUHC was also sent to all Committee Chairs on **9 March 2022** and recommended all Funds to consider the actions that should be taken in light of the situation taking into account their fiduciary duties and ethical considerations.

There have also been a number of significant investment industry developments including the removal of Russia from global and emerging market indices. LGPS Asset Pools have already begun to take collective decisions to divest from all Russian holdings as soon as practically possible. The situation has also led to The Pensions Regulator highlighting the potential heightened risk of cyber-attacks. Funds should therefore be mindful of this and looking to review/implement their cyber-security policies where appropriate.

Mercer will continue to work with Funds to monitor the situation closely given the market volatility and other investment, funding and governance implications. Alongside our sister company Marsh; we are also able to assist Funds with their cyber-security. **Please contact your usual Mercer Consultant if you would like more information on any of these matters.**

INVESTMENT DECISIONS IN LINE WITH FOREIGN POLICY

On **10 March 2022**, the Public Service Pensions and Judicial Offices Bill received Royal Assent (see further comment below in relation to McCloud). The Act allows the Secretary of State in England and Wales to issue guidance to LGPS administering authorities to instruct them not to make investment decisions that conflict with the UK's foreign and defence policy.

There is no immediate action for administering authorities, as guidance/direction from DLUHC will need to be issued first (which will be subject to a 12-week consultation process).

Further details can be found on the BDS page on the SAB website.

Jubilee Fact – in 1952 most of Britain's top companies underlying the F30 (predecessor of the FTSE100) were in textiles, manufacturing and shipbuilding, compared to global mining, oil companies and financial stocks today.

IMPACT OF RISING INFLATION

Previously in Current Issues we discussed LGPS investment in an era of high inflation. As you will be well aware, the rate of inflation has recently reached its highest level in over 40 years, **with the annual increase in CPI to April 2022 hitting 9%**. This has been driven by various factors initially, but also exacerbated by the impact of the crisis in Ukraine on energy and food prices with other factors such as low unemployment adding to concerns of sustained high inflation.

The Bank of England has already taken some steps to control UK inflation, increasing base rates a number of times in recent months, aiming to encourage saving instead of spending, and hence more price competition. It predicts that this will bring CPI inflation to below its 2% target within a few years. However, there are global influences on UK inflation, which are not within the Bank of England's gift to control. As a result, there is considerable uncertainty in how prolonged the situation may last.

Jubilee Fact – back in 1952 inflation was also around 9%

Funding Matters

2022 Valuation

Whilst it does not seem that long ago the 2019 actuarial valuations in England and Wales were being signed off in the first weeks of lockdown, the effective date for the **31 March 2022** valuations has now passed.

Work is now well underway as Funds, and their advisors and other stakeholders, begin to consider:

- Membership data – based on 31 March 2022 renewal and pension increase exercises. It is imperative that data provided to the actuary is as clean and complete as possible.
- Expected return outlook – a key feature for the 2022 valuations is how Funds will deal with uncertainty, which will be crucial where we are entering into a period where the risk of a low growth/high inflation ("stagflation") scenario has increased.
- Rising Inflation – which will impact on both pension costs (LGPS benefits are inflation-linked in nature) and contribution affordability for employers who may already be facing increased budgetary pressures.
- Demographic analyses – the most prominent of these is mortality. Whilst many Funds may potentially see funding gains emerging where life expectancy improvements have been slower than built into the assumptions, a key challenge remains in terms of how experience will unfold after the valuation date. In particular, to what extent, if any, will Covid-19, and now the cost of living crisis, have on future life expectancy of Fund members.
- Climate change – it is expected that Funds will be required to carry out climate change scenario analysis as part of their 2022 valuations with further guidance to be provided by the Government Actuary's Department on minimum expectations in this area. This analysis will form a helpful addition to the risk management toolkit, in testing of the resiliency of the funding strategy under more challenging circumstances.
- Snapshot funding positions – where we are your Fund Actuary, we are preparing snapshot funding positions at 31 March 2022, along with scenario analysis to support the strategy discussions, ahead of the detailed calculations later this year.
- Communication strategy – this will be particularly important to get right for the 2022 valuations given the more challenging outlook and diverse funding outcomes across different types of employers.

You can find out more about our thoughts on the key issues for the 2022 valuation from our recent article with Room 151 here, following on from the webinar we held back in March.

For Scottish LGPS Funds who are not in a valuation year, it will still be important to consider the above factors in order that the impact on funding and investment strategies can be considered further as part of any preparatory work being undertaken in readiness for the 2023 valuations next year.

Regulatory round up

MCCLOUD REMEDY

On **10 March 2022**, the Public Sector Pensions and Judicial Offices Bill received Assent. The next stage in the process will therefore be for Regulations for each of the Public Sector Schemes to be released together with a consultation on draft guidance to assist Funds in implementing the remedy. Both are expected prior to parliamentary recess in the summer.

Further details of Bill itself can be found here.

From a funding perspective, on **22 March 2022**, a letter from Teresa Clay, Head of Local Government Pensions at DLUHC was forwarded to administering authorities setting out DLUHC's recommendations on how the impact of the McCloud Judgment should be taken into account as part of the 31 March 2022 actuarial valuation.

For a number of Mercer LGPS Funds, the recommendations were in line with the treatment already incorporated into the 2019 valuation outcomes and hence no significant changes in approach/outcome are expected as part of the 2022 valuation exercise.

REGULATORY CHANGES IN SCOTLAND

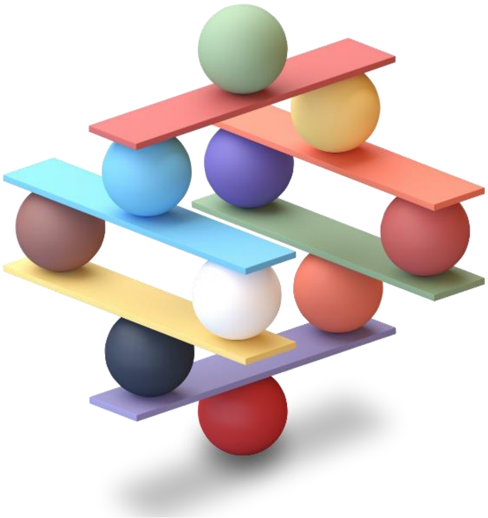
The long awaited update to the Scottish regulations primarily around employer flexibilities was laid on **3 May 2022** and comes in to force from **1 June 2022**.

The regulations amend The LGPS (Scotland) Regulations 2018, to provide further flexibilities for fund authorities in dealing with employers and allow for amendments to an employer's contribution rate in between valuations. The changes mirror those provided by DLUHC for England and Wales in 2020.

The cost cap figure is also amended from **15.5% to 15.2%** in the Scottish LGPS regulations; an error was identified in their original calculation.

Importantly, Scottish Ministers have decided to address retrospective changes to the underpin in respect of the 'McCloud Judgement' separately in the forthcoming The Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2022.

STRONGER NUDGE REQUIREMENTS



With effect from 1 June 2022, the Occupational and Personal Pension Schemes (Disclosure of Information) (Requirements to Refer Members to Guidance etc.) (Amendment) Regulations 2022 (SI 2022/30) will be introduced – known as the “Nudge Regulations”.

The Nudge Regulations are being introduced by the Government to ensure that individuals are made aware of Pension Wise guidance as part of making decisions about their Defined Contribution (DC) pension savings e.g. retirement / transfer etc. The Regulations therefore apply to LGPS Funds in respect of members with AVC funds.

Administering Authorities will therefore need to offer to book an appointment with Pension Wise for members as part of the application process for taking in-house AVCs (and when a member over age 50 enquires about transferring their AVCs to another defined contribution arrangement).

The LGA guide to the stronger nudge requirements can be found here.

SPECIAL SEVERANCE PAYMENTS – GUIDE FOR LOCAL AUTHORITIES

Although further announcements are still awaited in relation to the exit payments cap, which will impact LGPS Funds (following revocation of the original cap in early 2021), DLUHC commenced a consultation on statutory guidance in respect of “special severance” payments that apply to local authorities in England (i.e. over and above statutory entitlements) back in July 2021, and on **12 May 2022** the Statutory Guidance was published. It can be found here.

LGPS AND THE NEW SINGLE CODE OF PRACTICE – WHAT TO EXPECT

As part of its ongoing drive to improve governance in all types of scheme, including the LGPS, TPR consulted on a single code of practice between March and June 2021 in order to consolidate 10 of the existing codes of practice into one web-based code, but also introducing some significant new requirements.

The draft new code is expected to be in place “in the summer”, but the exact timing is not known.

Key areas

The introduction of the new code is expected to coincide with when the outcomes from the LGPS Good Governance review are likely to take effect and there will of course be synergies between the two e.g. the requirement for “own risk assessments” / “biennial independent governance reviews” to be undertaken. Some of the key areas within the new code that apply to all Schemes (including the LGPS) that will need to be considered include:-

- Cyber-security – properly documented controls / systems / requirements of service providers
- Pension scams – what are the warning signs and how can risks be mitigated
- Role of and appointment to the governing body - take into accounting different responsibilities of each party and appoint based on proportionality / fairness and transparency
- Knowledge and understanding – continues to be a key area of focus

While some of the guidance set out in the new code does not directly apply to LGPS, TPR advises that it can still be considered good practice to follow the new code in these areas:

- Business continuity – ensuring robust plans are in place
- ESG/Climate Change – ensure such matters are taken into account in decision making
- Appointing managing advisors and service providers – well documented polices to include delegations / scope of responsibilities etc.
- Remuneration policy – a new module requiring a policy covering key personnel to be developed

What could be done now?

This is an opportunity for governing bodies to refresh their scheme governance frameworks to ensure they observe the terms of the new code where appropriate, or considering best practice where relevant. Many of the provisions will already be in place under existing guidance, but there is a significant amount of work to do to assess how a scheme’s governance structure compares with the new Code, and to fill any gaps that exist. Governing bodies could be considering the following steps:-

1. Review the new code and identify areas where practice is not consistent with the guidance, or where best practice is not currently followed

2. Put in place a framework to fill in any gaps that exist

3. Put in place arrangements to monitor the governance framework on a regular basis in future.

4. Arrange training for the governing bodies.

If you would like further details of how Mercer can help Funds prepare for the new code (and the outcomes of the LGPS Good Governance review) then please contact your usual Mercer Consultant.

And in other news…

"…in this world nothing can be said to be certain, except death and taxes" – Benjamin Franklin

The same can be said of the world of pensions.

CMI_2021 Mortality Projections Model published

March 2022 saw the Continuous Mortality Investigation (CMI) publish the CMI_2021 version of its Mortality Projections Model.

The new Model incorporates mortality data produced by the Office for National Statistics (ONS) up to 31 December 2021 and again allows the user to alter the weight placed on data for individual years (i.e. due to the impact of the pandemic).

As with other recent updates to the Model, we continue to see reductions in projected life expectancy from successive CMI models. **The impact on liabilities will ultimately depend on a Fund's liability profile and other assumptions**.

As part of the 2022 actuarial valuation exercise, we are also assessing the potential longer-term impact of the pandemic on future mortality rates in addition to the impact of other likely drivers of improvements, such as lifestyle changes or developments in medical research.

Jubilee Fact – back in 1952, the average pensioner never made it to State Pension Age and the average life expectancy for a new-born was more than 10 years lower than it is today.

Pension Tax Update

The Annual Allowance and inflation!

Although inflation is close to double digits currently, it was not so long ago, back in September 2020, that the Consumer Prices Index (CPI) measure of inflation was just 0.5% and this will be the inflation figure applied by administrating authorities when calculating members' pension input amounts for 2021/22.

Therefore, anyone who has had a promotion or significant pay rise above 0.5% from April 2021, especially for those with significant years' service before 2014 (2015 for Scottish members) is now more likely than ever to breach or get close to the **£40,000** standard Annual Allowance.

Given the Unions fought hard last year to achieve, a 1.50% backdated pay rise for LGPS members in councils **this could mean we see a record year for members who receive pension saving statement by October 2022**.

Whilst rising inflation may mean fewer members are subject to annual allowance tax charges in the future (relative to previous years), recent figures set out in a report from the House of Commons published on 25 April 2022 showed that those members impacted by the Lifetime

Allowance, is expected to grow from 8,510 people in 2019/20 to nearly 30,000 by 2025. Pension tax clearly will not be going away therefore.

Pension Input Amount Recalculations

The Government has also changed the Annual Allowance rules for certain situations where Annual Allowance calculations for previous years are retrospectively amended. The new rules require:

- administering authorities to issue revised pension saving statements (within 3 months of receiving updated information)
- members to make Scheme Pays elections to meet any new charges to emerge within 3 months of receiving the updated information.

With the expected increase in members affected and also the possibility of sending revised pension savings statements, administering authority's need to ensure their processes are updated and need to be prepared for an increased number of questions from members.

It is important for members to be supported in this area and to understand what their (and the administering authority's) responsibilities are, given it is a "personal" tax ultimately.

Our three stage process of **Education / Guidance / Advice** can help administering authorities provide members with additional information and guidance and also the opportunity to access bespoke financial advice should they require it at a later stage. **Please contact your usual Mercer consultant if you require further details of how we can help administering authorities in this area.**

Consultation on the draft Pensions Dashboards Regulations 2022

On **8 March 2022**, the LGA published its response to the DWP consultation and a copy can be found here. This response has raised concerns about the implications for Funds having to implement the McCloud Judgment alongside ensuring they meet any requirements of the Pension Dashboard Programme (PDP) given the staging date proposed for the LGPS of **30 April 2024**.

TPR spotlight on diversity and inclusion

Recent comments from the Pensions Regulator (TPR) have confirmed that diversity across the pension's landscape continues to be an area of focus. Last year, TPR published its **Equality, Diversity and Inclusion (ED&I) strategy** and pledged to work with others in the industry to embed diversity and inclusion across pensions, so that all savers are protected and outcomes improved.

If you would like further details on how Mercer can help Funds/Employers consider their ED&I strategies then please contact your usual Mercer consultant.

Dates to remember

Date	Issue	The latest
31 March 2022	Actuarial Valuation	Effective date of next actuarial valuation in England and Wales.
1 June 2022	Stronger Nudge	Stronger Nudge requirements come into effect
Summer 2022	Draft Regulations (Governance and Administration)	Draft regulations and a response to the consultation on how Funds should implement the McCloud remedy are expected along with further updates in relation to the Single Code of Practice, Good Governance, Pensions Dashboard and Survivor Benefits
Autumn 2022	Draft Regulation (Investment)	An all-encompassing consultation covering TCFD, Asset Pooling, Levelling Up and the Competition and Markets Authority ("CMA") Order is expected
31 March 2023	Actuarial Valuation	Effective date of next actuarial valuation in Scotland. Deadline for actuaries to sign off contribution outcomes for 2022 valuation in England and Wales.
1 October 2023	McCloud remedy regulations in force	It is now the Government's intention that regulations providing for the "McCloud remedy" come into force from 1 October 2023.
6 April 2028	Normal minimum pension age to rise to 57	The Government has confirmed the normal minimum pension age (the earliest age from which in most circumstances, members can take a pension without incurring tax penalties) will rise from 55 to 57 from this date (with pension age protection in place for eligible members).
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: Sandy Dickson
Role: Investment Consultant
Joined Mercer: June 2013
Place of Birth: Wandsworth
Favourite film: Tough one, Sing is an excellent film but having watched it on repeat for a month I'd be happy to not see it again for a while. I've watched the Marvel films in order with my daughter recently (she slept through a lot of them) and we're just starting on Tolkien now, so I'll go with the one I'm looking forward to watching the most, Lord of the Rings: The Fellowship of the Rings.
If you could choose one thing to not go up in price in line with inflation, what would it be?: Coffee! The elixir of life at the minute. Having a toddler and a 3 month old, coffee is crucial to my daily functioning.
What is your preference this summer, staycation or vacation? Staycation all the way. The UK has so much to offer, I'm looking forward to travelling the country seeing friends and family, hopefully sampling a few locally brewed beers wherever we go.

Name: Michelle Doman
Role: Senior Actuarial Consultant
Joined Mercer: 2001
Place of Birth: Liverpool
Favourite film: I watched Parasite and the Painted Veil during lockdown which I thought were excellent
If you could choose one thing to not go up in price in line with inflation, what would it be?: Only one? Probably fuel given that it impacts so broadly
What is your preference this summer, staycation or vacation? Now that all depends on the great British weather! I love the sunshine

Name: Paul Bottone
Role: LGPS Accounting Consultant
Joined Mercer: 2005
Place of Birth: London I think
Favourite film: L.A. Confidential
If you could choose one thing to not go up in price in line with inflation, what would it be?: Coffee. Or train fares.
What is your preference this summer, staycation or vacation? Probably vacation

Contacts

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Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: Corporate Director of Resources

Meeting of: Pensions Sub-Committee

Date: 28th June 2022

Ward(s): n/a

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

Subject: The London CIV Update

1. Synopsis

1.1 This is a report informing the committee of the progress made at the London CIV in launching funds, running of portfolios, reviewing governance and investment structure, over the period March to May 2022.

2. Recommendations

2.1 To note the progress and activities presented at the May business update session (exempt Appendix1)

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 London CIV programme. The London 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 registered address is 4th

Floor, 22 Lavington Street, London, SE1 0NZ. 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 2022**

3.5.1 The Current CEO formally announced in April of stepping down from his role as CEO in April of next year.

3.5.2 **The Business Update**

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

3.5.2 **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 Seed Investor Groups (SIG) focusing on mandates. Funds in the pipeline include Sterling Credit Fund and a UK residential property mandate.

3.5.4 **Operational and People**

The new hires joing the LCIV are as followsNaomi Brown - Fund Accounting Team
Christiana Omoroga - Risk and Compliance Team.
Marie-Chantel Ahagbuje - Governance Team.
Victoria Morris - Client Services

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).
The April 2022 invoices received totalled annual service charge of 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 **Equality 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 Appendix 1 is attached for information.

Appendix: Exempt Appendix 1- Business Update

Background papers:

Final report clearance:

Signed by:

Corporate Director of Resources Date

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Financial implications Author: Joana Marfoh

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Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: Corporate Director of Resources

Meeting of: Pensions sub-Committee

Date: 28th June 2022

Ward(s): n/a

SUBJECT: PENSIONS SUB-COMMITTEE 2022/23 FORWARD WORK PROGRAMME

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 agree 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 **Equalities 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

Appendix A- Proposed work program for annual committee cycle

Background papers:

None

Final report clearance:

Signed by:

Corporate Director of Resources Date

Report Author: joana marfoh
Tel:0207 527 2382
Email:joana.marfoh@islington.gov.uk

Financial implications Author: joana marfoh
Legal implications – n/a

APPENDIX A

Pensions Sub-Committee Forward Plan June 2022 to March 2023

Date of meeting	Reports Please note: there will be a standing item to each meeting on: • Performance report- quarterly performance and managers' update • CIV update report
28 June 2022	• ESG Monitoring of Managers and Carbon foot printing results • Progress on 3rd generation implementation passive index • Impact/Social Housing briefing • Private Debt Procurement- tranche 2
19 September 2022	• Whole Fund initial valuation results • Investment strategy overview • Annual fund performance presentation • 4 year business plan review
21 November 2022	• Draft FSS review for consultation • Objectives set for providers of investment consultancy –Annual review
December	Annual Pension Meeting
6 March 2023	• FSS consultation results • ISS update

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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Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: Corporate Director of Resources

Meeting of: Pensions Sub-Committee

Date: 28th June 2022

Ward(s): n/a

Appendix 1and 2 attached is exempt and not for publication as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: Information relating to the financial or business affairs of any particular person (including the authority holding that information).

Subject: Decarbonisation Policy Monitoring- ESG Ratings and Carbon Foootprint Results

1. Synopsis

1.1 This report discusses progress to date on the agreed monitoring plan on our decarbonisation policy and to note ESG ratings of our portfolios and carbon footprint of our equity and credit holdings.

1.2 Mercer have prepared a presentation discussing their ESG ratings results of our portfolios and this is attached as Exempt Appendix 1.

1.3 Mercer have undertaken a carbon foot printing measure of our equities and credit holdings and presented the results in a briefing attached as Exempt Appendix 2 (to follow).

2. Recommendation

2.1 To note the ESG ratings of individual portfolios and average rating of 1.8 (previous rating 2.1) for the whole Fund.

2.2 To note the carbon footprint of our public equities and credit

2.3 To note the fund has reduced its exposure to carbon intensive companies since 2016 and absolute emissions as set out in Exempt Appendix 2 (to follow).

2.4 To continue to engage with our portfolio managers to improve ESG ratings and achieve the targets set in 2022 and 2025 for the whole fund.

3. Background

3.1 The Committee believes that Environmental, Social and Governance ("ESG") risks should be taken into account on an ongoing basis and are an integral part of the Fund's strategy and objective of being a long-term investor. Members agreed a decarbonisation policy as part of its Investment Strategy Statement and set targets to achieve further decarbonisation across its entire investment assets. The policy defines the Committee's beliefs and takes account of sustainable opportunities and agrees a monitoring regime and progress measurement.

3.2 The Fund's last carbon foot printing exercise on the equity and corporate credit holdings as at 31st March 2021 showed that since 2016 the fund has achieved, in its equities, a reduction of 32.6% in absolute emissions. For 69% of scheme assets, our emissions is 66,096 tCO2e. It was also identified that the in-house UK equity and RAFI Emerging Market equity allocations (c12% of total assets) were the largest contributors to the overall carbon footprint of the Fund and changing some of our current low carbon indices to third generation climate indices will enable the achievement of our short to medium targets. These indices are explicitly designed to measure initial and ongoing decarbonisation, consistent with the Intergovernmental Panel on Climate Change's 1.5 degrees Celsius warming scenario. This is a key component to enable the Fund to achieve its net zero carbon emission target set to 2050.

Progress to date

3.2.1 **Transition to net zero carbon for pension investments**

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

Members agreed at the June 2021 meeting to adopt new decarbonisation targets for the short to medium term and a net zero carbon emission for the whole Fund by 2050.
The new targets are:

i) Net zero emission target in 2050 including aligning with the 1.5-degree Celsius scenario
ii) Investing at least 20% of the fund in sustainability themed investments (such as low carbon technology or green infrastructure) by the end of April 2026
iii) Reduce carbon emissions of all listed portfolios i.e., equities and credit by 49% by 2026, and 60% by 2030 against a baseline in 2016.

3.2.2 **Measures agreed to monitor and guide decarbonisation and allocation to sustainability include:**

1) The Fund adopting TCFD supplemental guidance for asset owners where applicable.

2) The Fund reviewing targets annually.

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

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

ESG ratings

3.2.2 Mercer has conducted a review of ESG ratings for the Fund's underlying investment Managers. Mercer's ESG ratings provide an assessment of the integration of ESG issues into the investment process and provides an overall rating – ESG 1 is the highest possible rating and ESG 4 is the lowest possible rating. As such, Mercer has provided the ESG ratings the of the Fund's 13 strategies across equities, fixed income, DGFs, property, private debt, infrastructure and private equity.

3.2.3 Members are asked to consider the presentation, -Exempt Appendix 1 on the ESG ratings of our 11 managers and focus on integration: having regular follow up discussions with managers as an important element of communicating expectations on ESG and climate integration and a strategic approach to climate risk. The average rating has improved from 2.1 to 1.8.

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

The carbon footprint measure comprises of two elements; future emissions that is reserve based, and exposure to carbon intensive companies. The valuation of assets as 31March 2022 was used for the exercise across our public equities and credit mandates.

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

4. Implications

4.1 Financial implications

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

4.2 Legal Implications

The LGPS (Management and Investment of Funds) Regulation 2016, Regulation7 (1) requires an administering authority to formulate an investment strategy which must be in accordance with the guidance issued by the Secretary of State. The ISS must include:

The authority's policy on how social environmental or corporate governance considerations are taken into account in the selection, non- selection, retention and realisation of investments

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

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

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

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

4.4 **Equality Impact Assessment**

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

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

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5. Conclusion and reasons for recommendation

5.1 Members are asked to note the ESG ratings and carbon footprint results to March 2022 and continue to engage with our fund managers on climate risk.

Appendices: Exempt Appendix1- Mercer presentation ESG ratings results
Exempt Appendix 2- Mercer presentation Carbon footprint results

Background papers:
None

Final report clearance:

Signed by:

Corporate Director of Resources Date

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Financial implication author- Joana Marfoh

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Report of: Corporate Director of Resources

Meeting of: Pensions sub-Committee

Date: 28th June 2022

Ward(s): n/a

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Subject: Briefing Paper on Impact Investing -UK Social and Affordable Housing

1. Synopsis

1.1 A briefing paper has been prepared by Mercer (our investment consultants) and is attached as Exempt Appendix 1 to discuss Impact Investing-UK Social and Affordable Housing and the recent white paper on levelling up issued by the Department of Levelling Up Housing and Communities (DLUHC). The paper is a training document for consideration to start the process of formulating a mandate specification and risk and return parameters.

2. Recommendation

2.1 To receive the briefing prepared by Mercer attached as Exempt Appendix 1.

2.2 To consider the range, themes, risk and return and objectives as well as governments recent Levelling Up white paper.

2.3 Consider the next steps of how to progress this commitment.

3. Background

3.1 As part of the March 2020 Investment strategy review, Members agreed an asset allocation that included a 5% to social and affordable housing. The strategy was to be implemented over the short to medium term but no commitment has been made to date.

3.2 The briefing paper attached provides a high-level summary of introduction to the asset class to enable Members to begin to formulate a mandate specification and agree how to progress with the allocation.

3.3 Members are asked to receive the briefing and consider the next steps of progressing this commitment.

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**

The LGPS (Management and Investment of Funds) Regulation 2016, Regulation 7 (1) requires an administering authority to formulate an investment strategy which must be in accordance with the guidance issued by the Secretary of State. The ISS must include:
The authority's policy on how social environmental or corporate governance considerations are taken into account in the selection, non- selection, retention and realisation of investments

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

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

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

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 **Equalities 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 Members are asked to receive the briefing paper prepared by Mercer attached as Exempt Appdx1 and consider how to progress with this commitment and asset allocation in the short to medium term.

Appendix 1- Exempt Appendix 1 – Briefing on UK social and affordable housing prepared by Mercer

Background papers:
None

Final report clearance:

Signed by:

Corporate Director of Resources Date

Report Author: joana marfoh
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Financial implications Author: joana marfoh
Legal implications – n/a

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ISLINGTON

For a more equal future

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: Corporate Director of Resources

Meeting of: Pensions Sub-Committee

Date: 28th June 2022

Ward(s): n/a

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

Private Debt Update Tranche 2

1. Synopsis

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

1.2 Members agreed mandate specification at the December 2020 meeting and appointed 2 private debt managers to cover 50% of the total 10% asset allocation.

2. Recommendations

2.1 To consider the allocation of a further % of assets to Private debt from the outstanding 50%.

2.2 To note and consider the attached Exempt Appendix1.

2.3 To agree to delegate authority to officers and our investment advisers to conduct further due diligence and recommend who best delivers value for money and complements our existing managers and proceed to procure.

2.4 To consult and seek approval from the Chair of Pensions sub-committee on the final recommended manager

2.5 To agree to delegate to the Corporate Director of Resources, in consultation with the Director of Law and Governance, authority to negotiate and agree terms and conditions of the fund management agreement(s) with the recommended and agreed manager(s).

3. Background

Introduction

3.1 The 2019 actuarial valuation was completed in March 2020 and as part of the process, preparatory work was undertaken to determine the funding position and an investment strategy review that could support sustainable contributions from employers. The agreed target investment return of CPI+3.2% was re-evaluated in the light of Covid-19 impact on markets. The risk and return target options were discussed and a new target investment return of CPI +2.8% was proposed with asset allocation changes that would support the short to medium term net negative cashflow position of the Fund and also achieve our decarbonisation and governance goals.

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

3.3 Members appointed one US and one European manager at the June 2021 meeting where 50% of the asset allocation was committed to ensure diversification.

3.4 In order to meet the agreed asset allocation of 10% and have diversification, a second tranche of procurement after a year was deemed feasible and a long list of recommended managers was sought from Mercer research team. A short list of 2 was agreed for another US private debt manager and Mercer, MJ Hudson and officers met with them.
They presented on performance, ESG credentials, investment process, and fund specifications and current portfolios and final close.

Exempt Appendix 1 attached covers the Islington agreed mandate, cashflow of existing commitments and how much more commitment is required to reach our target asset allocation as well as a high- level summary of the key metrics of the two managers interviewed have been tabled in Exempt Appendix 1.

3.5 Members are asked to consider the contents of the exempt appendix 1 and agree to proceed to procure another US Manager. If that is agreed Officer ask that Members agree to delegate authority to Director of Corporate Resources in consultation with the Director of Law and Governance, authority to negotiate and agree terms and conditions of the fund management agreement(s) with the recommended and agreed manager(s).

3.6 Members are asked to consider and express a view but to allow officers to explore further details and due diligence of the 2 managers available and recommend the manager that will deliver value for money and achieve our risk and return targets.

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

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

4. Implications

4.1 Financial implications

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

4.2 Legal Implications

The Council, as the administering authority for the pension fund may appoint investment managers to manage and invest in a private debt portfolio on its behalf (Regulation 8(1) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

A competitive tendering exercise has been undertaken for the appointment of a private debt manager in accordance with the requirements of the Public Contracts Regulations 2015 and the council's Procurement Rules. The council will conduct an independent due diligence to ascertain its own assurance of the appointed managers. The sub-committee may appoint the highest evaluated manager as recommended in Exempt Appendix 1, provided that it is satisfied that their offers represents value for money and is satisfied as to the matters set out in paragraph 4.2.2.

The sub- committee must

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

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

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

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

4.4 Equalities impact assessment

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

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5. Conclusion and reasons for recommendation

5.1 Members are asked to consider key metrics of the managers in Exempt Appendix 1 and allow officers to explore further and conduct due diligence on the 2 managers available. In the interest of meeting the final close in October, agree to delegate authority to Director of Corporate Resources in consultation with the Director of Law and Governance, authority to negotiate and agree terms and conditions of the fund management agreement(s) with the recommended and agreed manager(s).

Appendix: Exempt Appendix 1- Update on Private Debt

Background papers:
None

Final report clearance:

Signed by:

	Corporate Director of Resources	Date

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Agenda Item E5

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