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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 1, Islington Town Hall, Upper Street, N1 2UD on **28 September 2022 at 7.00 pm.**

Enquiries to	:	Mary Green
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Despatched	:	20 September 2022

Membership	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.

4. Minutes of the previous meeting 1 – 8

B. Non-exempt items

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 21 November 2022

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London Borough of Islington

Pensions Sub-Committee - 28 June 2022

Non-confidential minutes of the meeting of the Pensions Sub-Committee held at Council Chamber, Town Hall, Upper Street, N1 2UD on 28 June 2022 at 7.00 pm.

Present:	**Councillors:**	Convery (Chair), Ward (Vice-Chair) and O'Sullivan
Also Present:		Alan Begg, Councillor Poyser, Maggie Elliott, George Sarkey Alex Goddard- Mercer Karen Shackleton – MJ Hudson

Councillor Paul Convery in the Chair

235 APOLOGIES FOR ABSENCE (Item A1)

Apologies were received from Councillor Gill.

236 DECLARATION OF SUBSTITUTES (Item A2)

There were no declarations of substitute members.

237 DECLARATION OF INTERESTS (Item A3)

There were no declarations of interest.

238 MEMBERSHIP, TERMS OF REFERENCE AND DATES OF MEETINGS IN 2022-23 (Item A4)

RESOLVED:

(a) That 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 to the report of the Corporate Director of Resources, be noted.

(b) That 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 to the report, be noted.

239 MINUTES OF THE PREVIOUS MEETING (Item A5)

RESOLVED:

That the minutes of the meeting held on 14 March 2022 be confirmed as an accurate record of proceedings and the Chair be authorised to sign them.

240 PENSION FUND PERFORMANCE FROM JANUARY TO MARCH 2022 (Item B1)

Meeting was informed that in light of the Ukraine Russia War, the combined fund performance has been negative during the last quarter, however looking over the

12 month period it is positive and ahead of the bench mark .

Members were reminded that in general the fund is doing better in comparison to previous years.

Members were informed that officers had received notification that following the takeover of BMO by Columbia Threadneedle ,there is likely to be possible merger of the BMO emerging market portfolio with a third party called Poland Capital, details which will be reported back to Committee in September.

On the question of whether despite 3 years of extraordinarily levels of economic instability if the Council's mix of investment is vulnerable in comparison to other local authorities government, the meeting was advised that committee will have the opportunity to compare Islington against other local authorities when a standard report is considered at the September meeting.

In response to concerns about the BMO fund and the possibility of termination going forward, meeting was advised that there were no issues with the emerging market and frontier market but the issues were more specific to the circumstances of BMO itself and not the emerging market universe.

Karen Shackleton of MJ Hudson in summary highlighted the various performance of the fund managers as highlighted below-

In-house Passive portfolio
No performance issues, however members to note fund will be transitioning into a Paris Aligned fund over the summer as it is nearly at the end of this particular mandate

M& G- Alpha Opportunities Fund
Relatively new allocation and proceeds of equity protection strategy has gone into this fund, it is a low risk fund designed to protect capital and although it made a small loss during the quarter of -1.6 % this was due to its exposure to financial corporate bonds . Members to note that there was a mistake in the report, that the last paragraph under portfolio characteristics should be amended to read ' Schroders intend to remain energy positioned' rather than defensively positioned

LCIV Global Equity Fund Newton

Chart 3 shows how managers do well in certain environments and less on others and it shows Newtons have had a long period of underperformance, followed by a much better performance in quarter 1 of 2020, however unfortunately it is beginning to tail off and presently experiencing underperformance relatively to the benchmark and certainly below their performance. Committee were advised that this is a fund manager that Islington is paying to outperform but are actually underperforming for over 3 years, that it is a defensive portfolio which is good in a time of volatility but this is something to monitor. Members were reminded that the fund manager has a thematic approach, which changes slowly over time, that their focus at the moment is Net effect impact of technology and healthy demand, affordable health care of the elderly, noting that these themes have not played out well in the last quarter.

LCIV Sustainable Equity fund
The fund has experienced one of its worst quarters in performance as the market responds to the Ukraine crisis and there was a flight to safety and move away from the sort of companies that RBC favours, the market environment did not suit their style.
In comparison to others in the Peer group, London CIV has done some analysis and conclude that over the long term they are still doing well, however this year has been particularly challenging.
In terms of its carbon intensity, it is up to 80% which is a lot higher than Newton and this is because it invests in companies that are still committed to the climate transition, however members should note that it does not align with Islington's climate goals

BMO/ LGM
The emerging market portfolio is underperforming by 3.9% per annum over 3 years. Although BMO has systemic performance issues and in light of the news with regards to CT's agreement with Poland Capital, a US fund manager, members will be briefed at a future meeting when there is more details available.

Standard life - Corporate Bond Fund
Performance has been good for quite sometime, however in relation to its benchmark it has not been delivering according to the funds objective. Members were reminded that this is being used to fund infrastructure portfolio.

Aviva Investors
The lime property fund has delivered and is focussed on inflation linking andover 3 years the fund has returned 8.61% per annum which is considerably above the gilt edge benchmark, so no concerns raised as it is delivering the fund objective. A point to note is they are joining the Association of Real Estate Funds (AREF) UK Long income open ended property fund index

Columbia Threadneedle
Over 3 years they have underperformed by 2.5% per annum, however it appears performance has tailed off since the fund manager left the organisation so there is a little bit of concern of how the new manager is bedding in . Members are advised that this may be a case to leaving a bit longer before decision is taken. Officers will be watching for signs of improvement over the long term.

Legal and General Investment Manager
They continue to track their respective indices closely, that no issues with their performance, however just to note that the Ukraine / Russian crisis has led to energy prices increasing so the low carbon index has actually underperformed in the capital index market.

Franklin Templeton
In comparison to other property managers historically Franklin Templeton's performance has increased over the previous 3 years but it is noticeable that Aviva is delivering the highest return. Not particularly concerned as Fund 1 is in its harvesting stage and returning monies back to council and most of their funds are ahead of target however there are two that are below expectations and are fully liquidated. Fund 2 is fully invested and 5% of funds is being distributed back to council with 3 funds performing well ahead of expectations and 2 are below expectation.
Meeting was reminded that the council has recently committed to Fund 3 and although its early days it is distributing, 3 of which are in line with expectations and 3 are too early to assess at this stage.

Hearthstone
Fund has underperformed the IPF index which is a commercial property index and a little bit disappointing.

Schroders
Diversified growth fund, still continues to have performance issues and to note that the bench mark has changed and is now the ICE Sterling 3 month index plus 4 so there are no RPI targets
The carbon density of that fund is 34% less than its comparators.

Quinbrook
Representatives at meeting to present their case to committee.

Pantheon
Performance is looking reasonable, noting that the private equity fund could do a little better but no major concerns at this stage

Permira
No new information on this fund manager but just for noting

In response to a question, Karen stated that any portfolio that is investing sustainably is likely to be more vulnerable in an environment where energy prices are increasing.

Member enquired whether there is a lag between inflation and returns expected from the Council's investment and was also particularly concerned with the London CIV investment as it consistently underperforms stating that this should be kept under review and if possible consider alternative options.

In response, Karen advised that there is some protection against inflation for example the Aviva portfolio, noting that the other way is by investing in index gilts which are very expensive.

Alex Goddard of Mercer reassured the committee that compared to other schemes Islington has high strategic allocatiomandates, where there is some degree of linkage to inflation. Islington has a 25% strategic allocation to property which is very resilient to inflationry environment, noting that one should expect some exposure to infrastructure such as Renewable energy as well, stating that Islington is well placed to be resilient to inflation in comparison to their peers

In response to a question on whether there was any area of particular concern, Karen Shackleton reiterated that there is nothing major except the LGM/ BMO transition to Poland capital, suggesting that before a decision is taken they may want to wait for another cycle as more information is required.

RESOLVED:
(a) That the performance of the Fund from 1 January to 31 March 2022, as per the BNY Mellon interactive performance report and detailed in the report of the Corporate Director of Resources, be noted.
(b) That the presentation by MJ Hudsons, on fund managers' quarterly performance, attached as Appendix 1 to the report, be noted.
(c) To note the LGPS Current Issue - May'22 for information, attached as Appendix 2.
(d) To receive a presentation from Quinbrook (our renewable infrastructure manager) on current performance and activities and projected cashflow
(e) 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
(f) Subject to 2.4.1, to delegate responsibility to Officers to complete any due diligence, subscription and legal documentation.

241 **PRESENTATION BY QUINBROOK (INFRASTRUCTURE RENEWABLE MANAGER) - TO FOLLOW (Item B2)**

Committee received a presentation from David Scaybrook of Quinbrook Infrastructure. Their past performance, activities and projected cash flow position for Islington for current fund as well as pipeline projects for their next fund, the Net Zero Power Fund and some of the merits of Quinbrook as stated in the report were highlighted.

RESOLVED:
To note the presentation (exempt Appendix).
To delegate responsibility to Officers to complete the fund subscription and carry out further due diligence.

242 **LONDON CIV UPDATE (Item B3)**

Members were advised of current activities and the CEO's departure in March 2023. The various funds performance was discussed and agreed they need to be monitored closely and an update to be provided at the September meeting.

RESOLVED
To note the progress and activities presented at the May business update session (exempt Appendix 1)

An update to be provided at the next meeting in September

243 **PENSIONS SUB-COMMITTEE FORWARD PLAN (Item B4)**
RESOLVED:
To agree Appendix A

244 **PROGRESS ON THIRD GENERATION INDICES IMPLEMENTATION (ORAL UPDATE) (Item B5)**
Members were reminded that at the last meeting it was agreed to bring a progress report on this issue however nothing to report at this moment .

Meeting was informed that the agreement was to transition the in-house fund to the L&G Paris Aligned fund, that discussions has commenced and a key issues is to finalise how much income we could receive from their current fund as the in-house fund is like a federal fund.

With regard to the transition, meeting was informed that the issue is whether the council could do any in species transition which could lower the costs and that there is a timetable with L&G to carry out the transition in the middle of August.

In response to a question on the timetable when it will be operational, and in particular when assets will be moved across, meeting was advised that it is anticipated within 2 weeks by the end of the transition, the new index will be up and running.
Meeting was advised that one of the areas sought is the impact on the weighted average carbon intensity(WACI)but at the total equity portfolio level making this transition will reduce the WACI by 17.4% bearing in mind that is a 10% allocation which is very significant.

Chair stated the need to keep an eye on this especially over the month of August and that it will be essential to be ready with some public narrative that we have taken this significant step change in funds over carbon footprint

Members were reminded that Islington has a legacy in Raffi emerging market portfolio and a decisionwas t taken that to transfer that we should move to Paris Aligned and &G do not have that at the moment. Initial discussions with an Index Provider who have confirmed that they intend to launch a Paris aligned emerging market with L&G in July so it is something to look explore.

RESOLVED:
To note the update

245 **ESG MONITORING OF MANAGERS AND CARBON FOOT PRINTING RESULT (Item B6)**
Committee received an update on the progress to date on the agreed monitoring plan on the portfolio's decarbonisation policy and to note their ESG ratings and carbon footprint of Islington's equity and credit holdings

RESOLVED

- To note the ESG ratings of individual portfolios and average rating of 1.8 (previous rating 2.1) for the whole Fund.
- To note the carbon footprint of our public equities and credit
- To note the carbon footprint of our public equities and credit
- 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).
- 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.

246 **BRIEFING PAPER ON UK SOCIAL AND AFFORDABLE HOUSING (Item B7)**

Alex Goddard of Mercer briefed the meeting on 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). Members were advised that the paper is a training document for consideration to start the process of formulating a mandate specification and risk and return parameters.

Members were reminded that as part of the March 2020 Investment strategy review, it was agreed an asset allocation which included a 5% to social and affordable housing and for the strategy to be implemented over the short to medium term, however no commitment has been made to date.

RESOLVED

- To note the briefing paper prepared by Mercer (Exempt Appendix 1).
- To note the range, themes, risk and return and objectives as well as governments recent Levelling Up white paper.
- To consider the next steps of how to progress this commitment.

247 **PRIVATE DEBT PROCUREMENT - TRANCHE 2 (Item B8)**

Members were advised of 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.

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

RESOLVED:

- To consider the allocation of a further % of assets to Private debt from the outstanding 50%.
- To note and consider the attached Exempt Appendix1.
- 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.

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

248 **PRESENTATION BY QUINBROOK (INFRASTRUCTURE RENEWABLE MANAGER) (Item E1)**

Noted

249 **LONDON CIV UPDATE - EXEMPT APPENDIX (Item E2)**

Noted

250 **ESG MONITORING OF MANAGERS AND CARBON FOOT PRINTING RESULT - EXEMPT APPENDICES (Item E3)**

Noted

251 **BRIEFING PAPER ON UK SOCIAL AND AFFORDABLE HOUSING - EXEMPT APPENDIX (Item E4)**

Noted

252 **PRIVATE DEBT PROCUREMENT - TRANCHE 2 - EXEMPT APPENDIX (Item E5)**

Noted

The meeting ended at 9.45 pm

CHAIR

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: 19th September 2022

Ward(s): n/a

SUBJECT: WHOLE FUND VALUATION INITIAL RESULTS

1. Synopsis

1.1 This is an initial report on the funding level of the Fund since the last interim actuarial review in September 2021. It sets out some commentary on related funding matters, which the Actuary is considering in finalising the 31 March 2022 actuarial valuation and a snapshot of the whole fund position before the live data is processed and validated for its impact on valuation results.

2. Recommendations

2.1 To note the initial funding level of the whole fund as at 31st March 2022 at 96%.

2.2 To note that these results are yet to account for the updated employee data as at 31st March 2022.

2.3 To note the Fund Actuary will be presenting updates at this meeting as part of the training section for members.

3. Background

3.1 The last triennial valuation was completed in March 2020 and is undertaken every 3 years to determine the funding position and investment strategy that can support sustainable contributions from employers.

3.2 The 2022 actuarial review to be completed in March 2023 is now underway after providing the membership data in mid-August and the calculation will cover three main elements; processing and validation of data, funding strategy review and covenant assessment.

3.3 The last three years has seen market volatility, Brexit, the COVID-19 pandemic, recovery after vaccine roll out, Russian invasion of Ukraine, and inflation rises. These factors will have an effect on the medium-term funding level and it is prudent for Members to review any risk mitigation factors they may consider.

3.4 Preliminary discussions took place between officers and the Actuary in June 2022 in relation to the potential outcomes to emerge from the valuation and what the key areas for consideration would be in relation to the Funding Strategy. In the absence of full membership data, these discussions were based on an approximate roll-forward of the funding review that took place in 2021. The main areas considered are summarised below. A training session will be given to members on valuation and funding process at this meeting, that will incorporate updates on the validation of fund data.

3.5 The initial summary findings to note include the following:

- Inflation – unlike previous valuation assessments, given the current high inflation environment, the Actuary will make allowance in their 31 March 2022 calculations for the impact of known inflation to 31 March 2022 (which will impact the 2023 pension increase that will be awarded). This advance allowance will help the Fund "smooth out" the impact of the 2023 increase when this emerges given the % increase will be significantly higher than in previous years. The Actuary has also assessed the level of long-term inflation for the 2022 valuation, taking into account current market expectations and supply/demand distortions. The approach taken represents a 0.2% p.a. reduction in the long-term inflation assumption relative to the approach under the previous methodology, and takes account of increased distortions in investment markets in relation to future inflation expectations. Notwithstanding this, the long-term inflation assumption is still 0.7% p.a. higher than that adopted for the 2019 valuation.

- Life Expectancy – the Actuary has been undertaking an assessment of the demographic assumptions that will apply for the 2022 valuation, in particular life expectancy. Such analysis will reference the characteristics of the Islington Fund's own membership directly. Early indications emerging from the exercise would indicate a potential reduction in liability / future service cost relative to the 2019 valuation.

- Discount Rates – alongside the above, the other key assumption being considered is the discount rate i.e. the expected rate of future investment return, above CPI. Based on the Fund's current strategic asset allocation, the Actuary has confirmed that the discount rates underlying the 2019 valuation could still be achieved based on the outlook at 31 March 2022. However, since 31 March, financial conditions have deteriorated, and the UK has entered a stagflationary environment (high inflation/low growth) with the future outlook considerably uncertain. Therefore, it has been agreed to reduce the discount rates relative to the 2019 position in order to better manager contribution outcomes from the 2022 valuation and provide better stability for employers at subsequent valuations.

- Ill-Health – aside from the above, it has also been agreed to modify the approach for managing ill-health retirement costs for employers at the 2022 valuation, thus minimising the risks to contribution outcomes that can emerge.

3.6 The Actuary is undertaking a more detailed analysis on the current funding position and subsequent contribution outcomes based on the membership data over the coming weeks, to finalise discussions with officers and members

3.7 Members are asked to note initial the summary findings for the whole fund and receive the training and updates from the Fund Actuary.

4. Implications

4.1 Financial implications

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

4.1.2 The funding level of the pension fund directly affects employer contributions. A reduced Pension Fund deficit would provide employers with a lower required deficit recovery contribution. Full financial implications to employers will be available once the final valuation is completed.

4.2 Legal Implications

No legal implications

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

None applicable to this report. Environmental implications will be included in each report to the Pension 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

4.4.1 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 recommendations

5.1 Members are asked to note the initial whole Fund results and assumptions and receive the training session and updates from the Fund Actuary at this meeting.

Appendices: none

Background papers:
None

Final report clearance:

Signed by: Corporate Director of Resources

Date: report received final clearance

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Financial implications Author: Joana Marfoh
Legal implications – n/a

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: 19 September 2022

Ward(s): n/a

Appendix 3, 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: Pension Fund Performance 1 April to 30 June 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 April to 30 June 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 Annual Fund Performance attached as Appendix 2
2.4	To note the briefing from BMO giving further details on the purchase by a US investment manager subject to regulatory approval attached as Exempt Appendix 3

3.	**Fund Managers Performance for 1 April to 30 June 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 (Apr-June'22) Gross of fees		12 Months to June 2022-Performance Gross of fees	
				Portfolio	Benchmark	Portfolio	Benchmark
LBI-In House	9.7%	UK equities	N	-5.4%	-5.0%	0.9%	1.6%
LCIV Sustainable EQ- RBC	9.7%	Global equities	1	-8.7%	-9.1%	-8.7%	-2.6%
LCIV -Newton	17.4%	Global equities	2	-8.6%	-8.4%	-4.8%	-3.7%
Legal & General	12.7%	Global equities	1	-8.5%	-8.6%	-3.0%	-3.1%
BMO Investments-LGM	3.9%	Emerging equities	2	-4.8%	-3.9%	-11.9%	-14.7%
Aviva (1)	8.9%	UK property	2	1.1%	-9.3% 3.8%	11.7%	-16.4% 23.7%
ColumbiaThreadneedle Investments (TPEN)	6.4%	UK commercial property	3	4.8%	3.9%	24.5%	23.3%
Hearthstone	1.7%	UK residential property	N	1.6%	3.8%	4.3%	23.7%
Standard Life	7.3%	Corporate bonds	2	-7.9%	-6.8%	-14.7%	-13.1%
M&G Alpha Opportunities	4.3%	Multi Asset Credit	3	-4.2%	1.1%	-4.3%	3.9%
Schroders	6.4%	Diversified Growth Fund	2	-5.3%	6.2%	3.4%	16.8%
Market value of total fund	£1,696m						

-9.3% & -16.4% = original Gilts benchmark; 3.8% and 23.7% 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 June 2022 is shown in the table below.

	Latest Quarter Performance **Gross** of fees		12 Months to June'2022 Performance Gross of fees	
Combined Fund Performance	Portfolio %	Benchmark %	Portfolio %	Benchmark %
	-4.8	-5.2	-1.5	-1.7

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 June 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	-1.5%	6.3%	6.4%
Customised benchmark	-1.7%	5.1%	5.5%

3.6 **LCIV RBC Sustainability Fund**

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

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

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

3.6.3 The fund outperformed its quarterly benchmark to June by 0.38% and a twelve-month under performance of -6.1%. This was mainly due to favourable sector positioning with over weights to the 'defensive' consumer staples and health care sectors and the

	underweight to the battered information technology sector adding the most. The manager continues to position the portfolio more cautiously while also aiming to maintain its growth and upside dynamic.
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 -8.6% against a benchmark of -8.4% for the June quarter. Since inception, the fund has delivered an absolute return of 11.4%. The underperformance this quarter was attributed to poor selection of stocks in healthcare and consumer staples. Underweights in technology and communication sector was positive. Newton have continued to tilt the portfolio away from relatively expensive stocks and companies which are most exposed to higher input costs and weaker demand, particularly from consumers.
3.8 3.8.1 3.8.2 3.8.3	**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 -5.3% against FTSE All Share Index benchmark of -5.0% for the June quarter and an absolute performance of 8.1% since inception in 1992. The In-House fund transition to the Paris Aligned index with Legal and General began on 13th August with completion for over 99% of the portfolio by 1 September. The full transition report and cost will be reported to members at the next meeting in November.
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 £216(236m) with a performance of -8.5%.

3.10	**BMO Global Assets Mgt** This is the 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 June quarter saw an under performance of -0.9%. The main drag to performance was not owning as much tech related names as well stock selection in China/Hong Kong.
3.10.2	Exempt Appendix 3 is attached to give more details on the purchase of LGM Asia to a US investment manager subject to regulatory approval by the end of the calendar year. The transfer will include personnel and assets including our mandate. Members are asked to consider and note the briefing.
3.11	**Aviva**
3.11.1	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.
3.11.2	The fund for this quarter delivered a return of 1.1% against a gilt benchmark of -9.4%. The All Property IPD benchmark returned 3.7% for this quarter. Since inception, the fund has delivered an absolute return of 6.3%
3.11.3	As at the end of this June quarter the fund's unexpired average lease term is 21.3 years. The Fund holds 89 assets with 53 tenants and a purchase of a supported living residential property in partnership with Big Help asset management.
3.11.4	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)

3.12	**Columbia Threadneedle Property Pension Limited (TPEN)**
3.12.1	This is the fund's UK commercial pooled property portfolio that was fully funded on 14 January 2010 with an initial investment of £45 million. The net asset value at the end of March was £109million. 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.
3.12.2	The fund returned a performance of 4.8% against its benchmark 3.9% for the June quarter. Since inception it has delivered an absolute return of 7.8% per annum.
3.12.3	The cash balance now stands at 5.7% compared to 7.1% last quarter. During the quarter, no acquisitions and eleven strategic disposals, were made. There is a strong asset diversification at portfolio level with a total of 261 properties and 1215 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.
3.12.4	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.
3.13	**Franklin Templeton**
3.13.1	This is the fund's global property manager appointed in 2010 with an initial investment commitment of £25million. Members agreed in September 2014 to re-commit another $40million to Fund II to keep our investments at the same level following return of capital through distributions from Fund I. The agreed mandate guidelines are listed below: • Benchmark: Absolute return • Target Performance: Net of fees internal rate of return of 15%. Preferred rate of return of 10% p.a. with performance fee only applicable to returns above this point. • Bulk of capital expected to be invested between 2 – 4 years following fund close. • Distributions expected from years 6 – 8, with 100% of capital expected to be returned approximately by year 7.

3.13.2 Fund I is now fully committed and 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:

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

The total distribution received to the end of the June 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 $4.6m had been received.

3.14. **Hearthstone**

3.14.1 This is the fund’s residential UK property manager. The fund inception date was 23 April 2013, with an initial investment of £20million funded by withdrawals from our 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 June quarter, the value of the fund investment was £29million and total funds under management is £73m. Performance net of fees was 1.6% compared to the IPD UK All Property benchmark of 3.7%.
3.14.3	Officers continue to monitor the fund on a quarterly basis with discussions with management. On 1 July'20 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	Islington completed documentation and onboarding to The Net Zero Power Fund on 25 August. The terms and conditions were negotiated and agreed with a side letter.
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 June 2022 is $74.65m 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 £108.3m. The aim is to participate in equity market rallies, while outperforming in falling equity markets. The June quarter performance before fees was -5.3% against the benchmark of 6.8% (inflation+5%). The performance since inception is 3.5% against benchmark of 8.9% before fees. Equity positions detracted -4.2% from the total return, alternatives detracted -0.7%, credit and government debt detracted -2.3%, and cash and currency contributed +1.6%. The new benchmark effective from 1 April 2022 is ICE BofA Sterling 3-Month Government Bill Index plus 4.5% per annum was 1.3%.
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 June quarter, the fund returned -7.9% against a benchmark of -6.8% and an absolute return of 4.5% per annum since inception. Both asset allocation and stock selection were negative. In asset allocation, the underweight in sovereigns, supranationals and agencies was the main driver. High yield materially underperformed investment grade over the quarter. 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 June quarter, the hedged overseas equities had a negative cash value of £5.6m

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. <u>The mandate guidelines of M&G include</u> • 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%). <u>Risk and triggers for review:</u> • 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 June quarter performance was -4.6% against a benchmark of 1.9% and a one year out performance of -8.1%. The main drivers were exposure to industrial corporate bonds financial corporate bonds and leveraged loans.
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 June 2022 as part of the regular monitoring of fund performance and Appendix 1- MJ Hudson commentary on managers. The annual report of whole fund performance prepared by Pension and Investment Research Consultants (PIRC) is attached as appendix 2 and a briefing note from BMO (emerging market manager) is attached as exempt appendix 3.

Appendices: Appendix 1 – MJ Hudson Fund Mgr monitoring report
Appendix 2- Annual whole fund performance
Exempt Appendix 3- Briefing note by BMO

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 30th June 2022

MJ Hudson

AUGUST 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 -4.16% over Q2 2022, behind the target return by –5.25%. Over one year, the fund returned -4.31% which was behind the target return by -8.17%.	The fund size was £10.42 billion as at end June. London Borough of Islington's investment amounts to 0.70% of the fund.
LCIV Global Equity Fund (Newton) (active global equities)	None reported by LCIV.	The LCIV Global Equity Fund underperformed its benchmark during Q2 2022 by -0.14%. Over three years the portfolio underperformed the benchmark by -0.15% and is under the performance target of benchmark +1.5% p.a. Over five years it remains ahead of the benchmark by +0.02% p.a., however.	At the end of Q2 2022, the London CIV sub-fund's assets under management were £683.5 million. London Borough of Islington owns 43.05% 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 Q2 2022 the fund made an absolute loss of -8.75%, although this outperformed the benchmark return of +0.38%. The one-year return was -8.66%, weak in absolute terms and behind the benchmark by -6.10%. The fund does not yet have a three-year track record.	As at end June the sub-fund's value was £1,225 million. London Borough of Islington owns 13.42% 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. Towards the end of the year the emerging markets team is being sold to Polen Capital.	Underperformed the benchmark by -0.94% in the quarter to June 2022. The fund is behind over three years by -4.4% p.a.	Not reported.
Standard Life (corporate bonds)	There were 8 joiners and 18 leavers during the quarter. Two leavers were from the Fixed Income Group.	The portfolio underperformed the benchmark return during the quarter by -1.14%, delivering an absolute loss of -7.92%. Over three years, the fund was behind the benchmark return (by -0.13% p.a.) and behind the performance target of +0.80% p.a.	As at end June the fund's value was £2,327 million. London Borough of Islington's holding of £123.1m stood at 5.3% 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 Q2 2022.	Outperformed against the gilt benchmark by +10.44% for the quarter to June 2022 and outperformed the benchmark over three years by +12.80% p.a., delivering a return of +8.46% p.a., net of fees.	The fund was valued at £3.68 billion as at end Q2 2022. London Borough of Islington owns 4.1% of the fund.
Columbia Threadneedle (UK property)	There were no leavers or new joiners to the property team this quarter.	The fund overperformed the benchmark in Q2 2022, with a quarterly return of +4.6% compared with +3.9% (source: Columbia Threadneedle). Over three years, the fund is outperforming the benchmark by +1.0% p.a. (source: Columbia Threadneedle).	Pooled fund has assets of £2.31 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 £3.57 billion at end June 2022.

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 +6.26% p.a., and so behind the target of 10% p.a. although over 5 years the fund is still +3.55% 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 two new joiners and no leavers during Q2 2022.	The fund underperformed the IPD UK All Property Index by -2.12% in Q2. Additionally, it is trailing the IPD benchmark over three years by -6.66% p.a. to end June 2022.	Fund was valued at £73.0m at end Q2 2022. London Borough of Islington owns 39.8% of the fund.
Schroders (multi-asset diversified growth)	There were no team changes during Q2 2022.	Fund made a loss of -5.35% during the quarter and delivered a return of +3.89% p.a. over 3 years, +0.08% p.a. ahead of the target return.	Total AUM stood at £773.4 billion as at end June 2022, up from £716.9 billion as at end September 2021.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Quinbrook (renewable energy infrastructure)	Two joiners, one from the US office and one from the UK office, and one leaver from the UK office.	For the three years to Q2 2022 the fund returned +15.41%, and therefore ahead of the annual target return of +12.00% p.a.	
Pantheon (Private Equity and Infrastructure Funds)	Not reported.	The private equity fund returned +8.91% p.a. over three years, and +16.79 p.a. over five years. The infrastructure fund returned +10.45% p.a. over three years to end June.	

Source: MJ Hudson

Minor Concern

Major Concern

Individual Manager Reviews

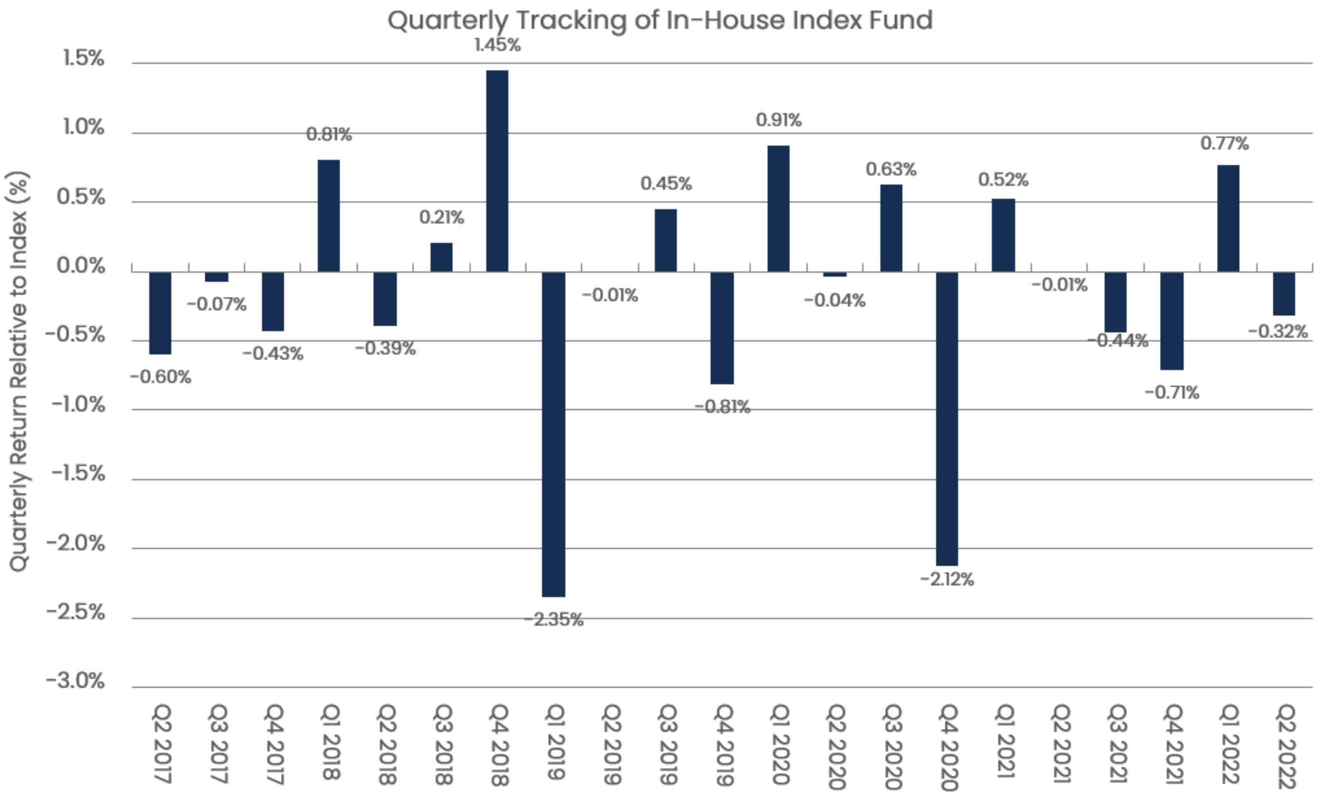
In-house – Passive UK Equities – FTSE UK Low Carbon Optimisation Index

Headline Comments: At the end of Q2 2022 the fund returned -5.36% for the quarter, compared to the FTSE All-Share index return of -5.04%. Over three years the fund has returned +2.20% p.a., behind the FTSE All-Share Index by -0.21%.

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 -0.21% p.a.

CHART 2:



Source: MJH; BNY Mellon

M&G – Alpha Opportunities Fund

Headline Comments: During Q2 2022 the M&G Alpha Opportunities Fund made a loss of -4.16%, underperforming the benchmark return of +1.09%.

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, funded with proceeds from the equity protection strategy which matured in 2021. 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 -4.16% compared to the benchmark return (one month Libor plus 3.5% being used in Northern Trust's performance analysis) of +1.09%. Exposure to industrial corporate bonds was the top detractor, with financial corporate bonds and leveraged loans also performing poorly. Over one year, the fund is trailing the target return by -8.17% p.a.

Portfolio Characteristics: The largest allocations in the portfolio were to industrials (33%), Financials (17%) and Securitised Assets (16%). Net cash and derivatives account for 13%. 39% 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 and as a result intend to remain defensively positioned.

As at end June, the weighted average carbon intensity (WACI) of the portfolio was 37% of the WACI of a benchmark index, with 60% of the portfolio being measured where data was available (compared with 88% for the index).

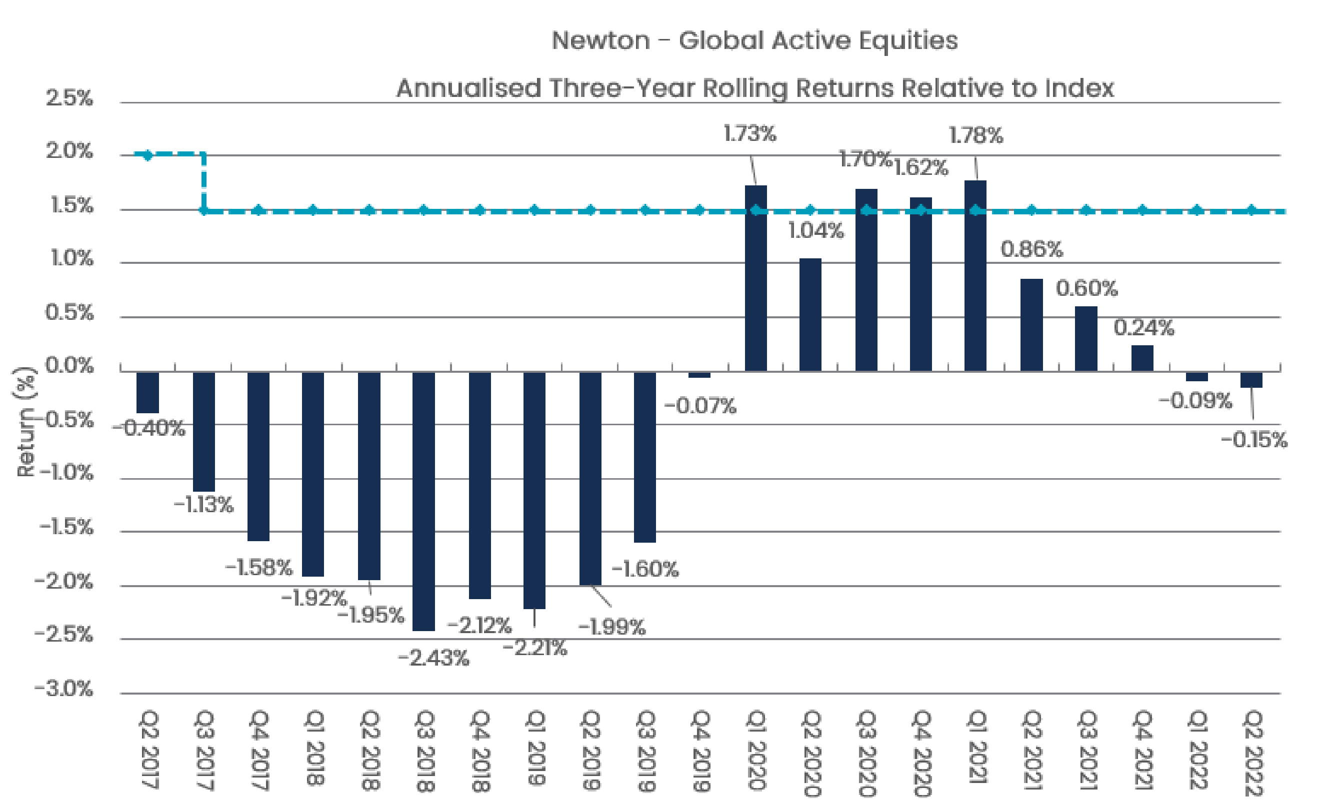
LCIV Global Equity Fund (Newton) – Global Active Equities

Headline Comments: The LCIV Global Equity Fund underperformed its benchmark during Q2 2022 by -0.14%. Over three years the portfolio underperformed the benchmark by -0.15% p.a. Over five years the manager is very slightly ahead of the benchmark return.

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. The London CIV monitors this manager.

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 Q2 2022 the fund has underperformed the benchmark over three years by -0.15%. This means it underperformed the performance objective by -1.65% 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 Dollar General (+0.34%), AIA Group (+0.27%), and Astrazeneca (+0.13%). Negative contributions came from holdings including Amazon.com (-1.12%), Apple (-0.89%), and Alphabet Inc (-0.73%).

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 3.65% as at quarter end, slightly higher than as at end March when it stood at 3.60%. The portfolio remains defensive, with the beta on the portfolio at end June standing at 0.91, in line with the previous quarter (if the market falls by -10% the portfolio can be expected to fall -9.1%).

At the end of Q2 2022, the London CIV sub-fund's assets under management were £683.5m, compared with £747.4m 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 (the same as last quarter). The fund added three positions; Sanofi, Chubb Limited, and Hubbell Inc. Newton completed three sales; Citigroup Inc, Ferguson, and BNY Mellon Investments.

The portfolio continues to be heavily weighted to Technology (an allocation of 23%) and Healthcare (15%), though while it has reduced its overweighting in Technology, the Manager continues to look for opportunities in the healthcare space. Exposure to consumer-facing companies has been reduced as the manager looks for companies that are expected to be relatively resilient to margin pressure and slower demand from emerging economies.

In Q2 2022, LCIV reported that the Newton sub fund had a weighted average carbon intensity of less than half that of the benchmark index (the MSCI World Index). The highest contributor was Shell (10.72% 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. Shell was the only energy holding in the LCIV portfolio until Q1 2022 when Exelon was added. Shell represented c.1.2% of the portfolio as at end December 2021 (latest data available).

During the Quarter, the Manager announced its targets towards the goal of achieving net zero emissions across Newtons Investment Portfolios as part of the Net Zero Asset Managers (NZAM) initiative. More specifically, it is committing to an interim target of 50% of its financed emissions being covered by credible transition plans by 2030, and 100% of those emissions being covered by 2040. This only covers 65% of Newton's wider assets under management but will include the global equity portfolio.

Staff Turnover: None reported by LCIV for Q2 2022. The London CIV have reported that they are comfortable with the management of the portfolio since the departure of Charles French, one of the fund managers, in early 2022. They have not seen evidence of a change in investment process nor any excessive or unusual trading.

LCIV Sustainable Equity Fund (RBC) – global equities

Headline Comments: Over Q2 2022 the fund made a loss of -8.75%. This outperformed the benchmark return by +0.38%. The one-year return was -8.66%, weak in absolute terms and behind the benchmark by -6.10%. 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: Following a period of weakness and a particularly challenging Q1 2022, the fund has outperformed the benchmark in Q2, though has made a loss for the quarter in absolute terms. This overperformance was mainly due to favourable sector positionings. The portfolio has overweight allocations to the Financial, Healthcare, Consumer Staples, Industrials, Communication Services and Energy sectors. The fund was underweight in the Information Technology sector which was favourable to performance. Over the quarter the largest contributors to return included Unitedhealth Group (+0.60%), T-Mobile US (+0.47%), and AutoZone (+0.37%). The largest detractors include Amazon.com (-1.25%), Nvidia (-1.14%), and Alphabet Inc (-0.96%).

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, the short-term has been challenging, ranking at the fourth quartile for its peer group for the year to date.

Portfolio Characteristics: As at end of June 2022 the fund had 36 holdings across 14 countries. The active risk of the fund was 3.83%, slightly higher than Newton.

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

In Q2 2022, LCIV reported that the RBC sub fund had a weighted average carbon intensity of 70% that of the benchmark index (the MSCI World Index) which is an improvement from last quarter (when it was 80%). The highest contributors were Equinor ASA (excluding this holding from the portfolio would reduce the weighted average carbon intensity by 12.82%), InterContinental Hotels Group plc (10.24%) and First Quantum Minerals Ltd (6.20%).

BMO/LGM – Emerging Market Equities

Headline Comments: The portfolio made a loss of -4.81% in Q2 2022, compared with the benchmark loss of -3.87%, an underperformance of -0.94%. Meanwhile, over one year the fund is ahead of the benchmark by +2.74%, over three years it is trailing by -4.40% per annum and over five years by -3.59% p.a. The frontier markets portfolio previously held has now been closed, as such reporting on BMO now only discusses the emerging markets component. The manager has also announced that the emerging markets business is being sold to Polen Capital in Q4 2022 or Q1 2023.

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 along with markets during the quarter, with record levels of inflation in many countries and Central Banks attempting to curtail this with various rate hikes. Most countries saw losses; however, China was the biggest winner in the period with a gain of 3.5%, having been a significant underperformer recently. BMO has a high exposure to China/Hong Kong, so this therefore contributed to performance. On the other hand, Brazil, Taiwan, South Africa and India posted double digit losses, and these account for a combined 35.3% of BMO's portfolio.

During the quarter, the largest positive contributors to the quarterly relative return came from AIA Group Ltd (+0.8%), Hong Kong Exchanges and Clearing (+0.8%), and Haier Smart Home Co Ltd (+0.7%). Companies which detracted most from performance included Naver Corp (-1.1%), Infosys (-0.7%), and Wizz Air Holdings plc (-0.7%).

Over one year, the fund has outperformed the benchmark by +2.74%.

Portfolio Risk: Within the emerging markets portfolio there is a 14.2% allocation to non-benchmark countries (excluding holding in Cash & Equivalents). The largest overweight country allocation in the emerging markets portfolio remained India (+11.8% overweight). The most underweight country allocation was South Korea (-7.8%).

Portfolio Characteristics: The portfolio held 39 stocks as at end June compared with the benchmark which had 1,382. The largest absolute stock position was TSMC at 7.0% of the portfolio, while the largest absolute country position was China/HK and accounted for 36.0% 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 Q2 2022. However, the manager has announced that the emerging markets team is being sold to a US firm, Polen Capital, later in the year or early next year.

The Chief Executive of LGM Capital will remain at Columbia Threadneedle, along with the Global Emerging Markets responsible investment strategy team. There are 11 people moving to Polen including 10 on the investment side.

The reason for the planned sale of this team was that, as Columbia Threadneedle worked through the detail of the two businesses, most areas were complementary. However, in emerging markets there were some similarities but there were also some key differences, which would make it difficult to blend the two teams

There were three key objectives that Columbia Threadneedle were seeking in a future buyer of the business, and these were: (a) client continuity (b) continuity in the investment process and (c) team continuity. Polen Capital met all these three.

Polen Capital are a Miami-based asset manager with $70bn of assets under management across three main strategies: large cap equities (US and global plus a small $70m emerging markets mandate); high yield and small cap equity (US). There was already a connection with the firm because Damian Bird (who used to be the lead portfolio manager on LGM's emerging markets strategy) and Daffydd Edwards (who used to be the frontier markets portfolio manager) had both moved to Polen. Daffydd Edwards is currently running an emerging markets strategy for Polen.

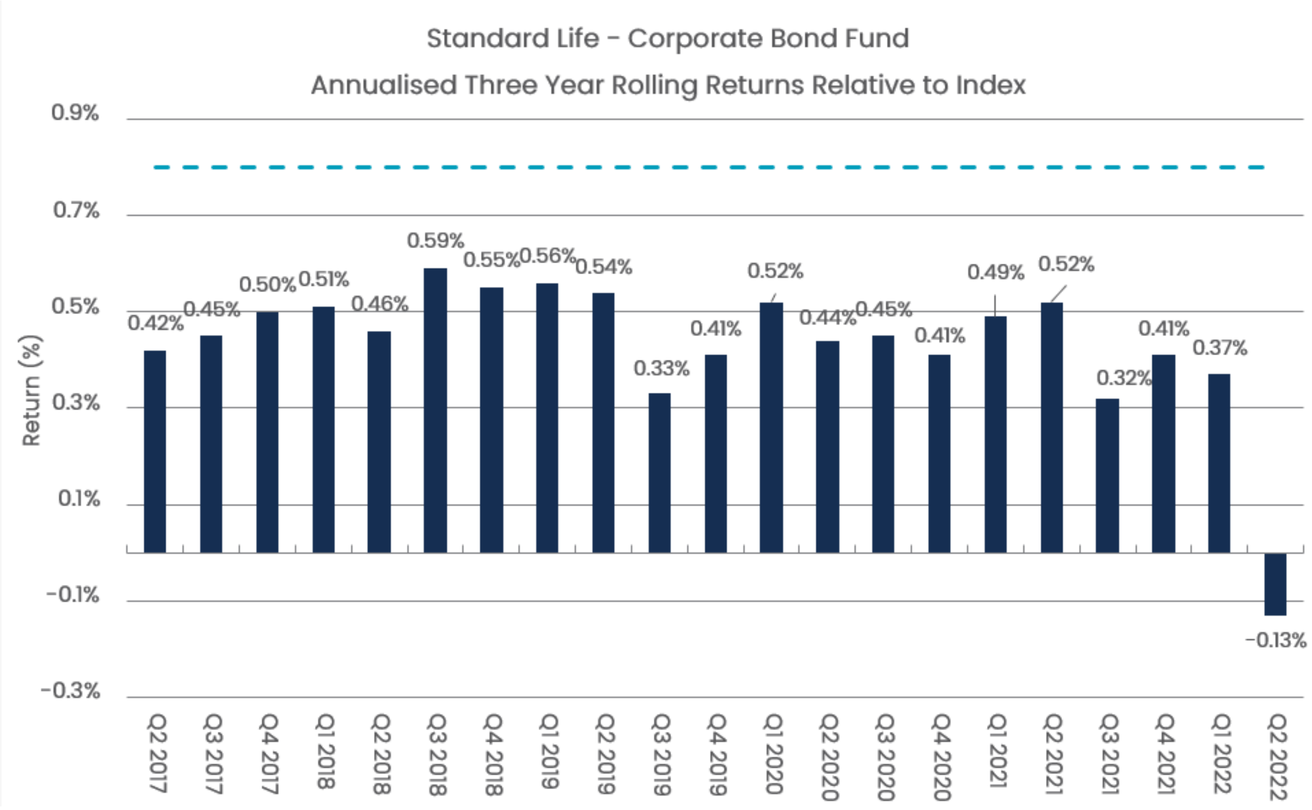
Standard Life – Corporate Bond Fund

Headline Comments: The portfolio underperformed the benchmark return during the quarter by -1.14%, with an absolute loss of -7.92%. Over three years, the fund was behind the benchmark return (by -0.13% p.a.) for the first time since inception, and 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 that the fund is now behind the benchmark over three years, as well as behind the performance objective (shown by the dotted line in Chart 4).

CHART 4:



Source: MJH; BNY Mellon

Over three years, the portfolio has returned -2.16% p.a. net of fees, compared to the benchmark return of -2.03% p.a. Over the past three years, asset allocation has detracted -0.40% value, meanwhile stock selection has detracted -0.40%.

Portfolio Risk: The largest holding in the portfolio at quarter-end was European Investment Bank at 3.1% of the portfolio. The largest overweight sector position was Quasi Sovereign (+2.6% relative) and the largest underweight position is Supranational (-6.0%). The fund holds 1.8% 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 June 2022 stood at £2,327 million. London Borough of Islington's holding of £123.1m stood at 5.3% of the total fund value.

Staff Turnover: There were 8 joiners and 18 leavers during the quarter. There were no new joiners into the Fixed Income Group. Two of the leavers were from the fixed income group; Investment Manager Emilia Matei and Investment Analyst Yulong Wang.

Aviva Investors – Property – Lime Property Fund

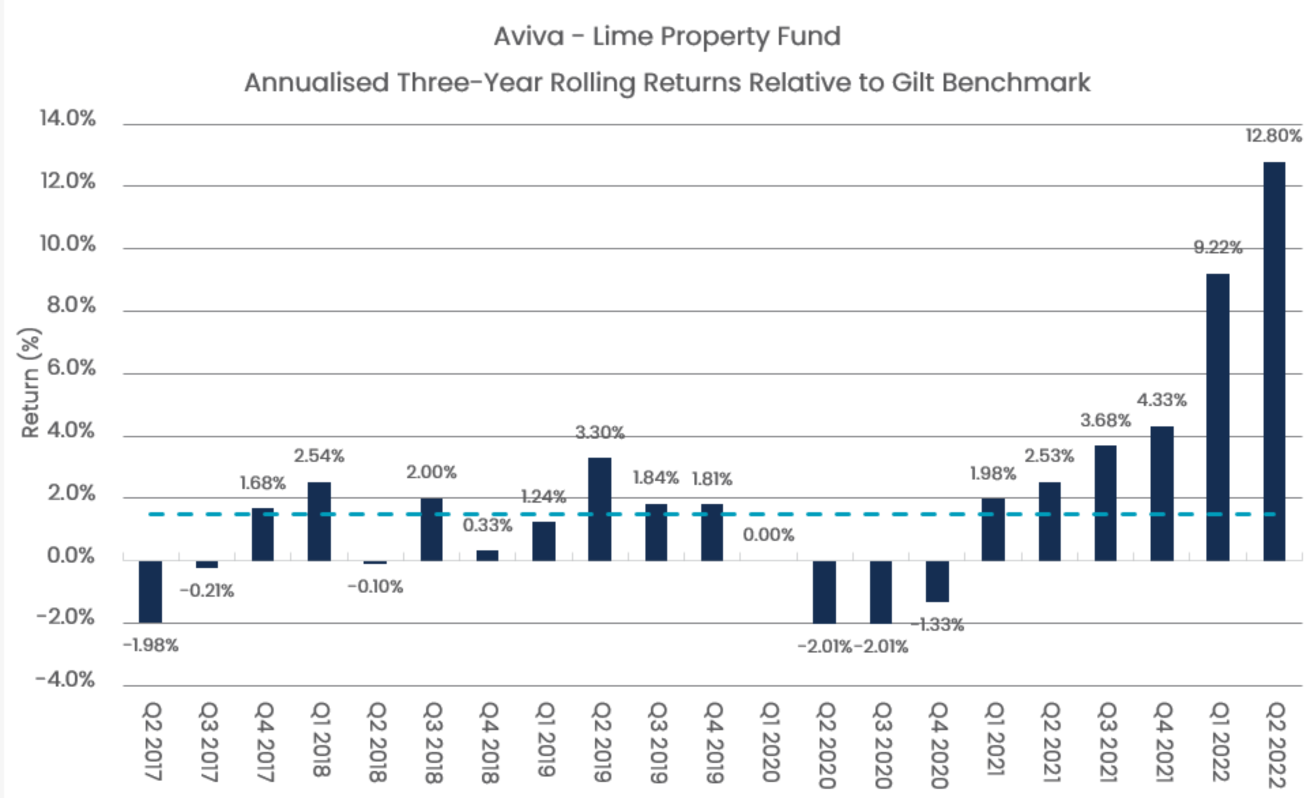
Headline Comments: The Lime Fund delivered another quarter of steady and positive absolute returns, it outperformed the fund benchmark return, with an overperformance of +10.44% in Q2. Over three years, the fund is ahead of the benchmark return by +12.80% p.a., with a particularly strong one-year outperformance of +28.08%.

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 Q2 2022 return was attributed by Aviva to +0.35% capital return and +0.81% income return.

Over three years, the fund has returned +8.46% p.a., considerably ahead of the gilt benchmark of -4.34% 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, 42% of the return came from income and 58% 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 was one transaction reported this quarter of a supported living residential portfolio of £55 million, spread across the UK.

The average unexpired lease term was 21.1 years as at end June 2022. 10.6% of the portfolio's lease exposure in properties is in 30+ year leases, the largest sector exposure remains offices at 25.91% (proportion of current rent), and the number of assets in the portfolio is 89. The weighted average tenant credit quality rating of the Lime Fund remained at BBB+ this quarter.

Portfolio Characteristics: As at June 2022, the Lime Fund had £3.68 billion of assets under management, an increase of £24 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 Q2 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.

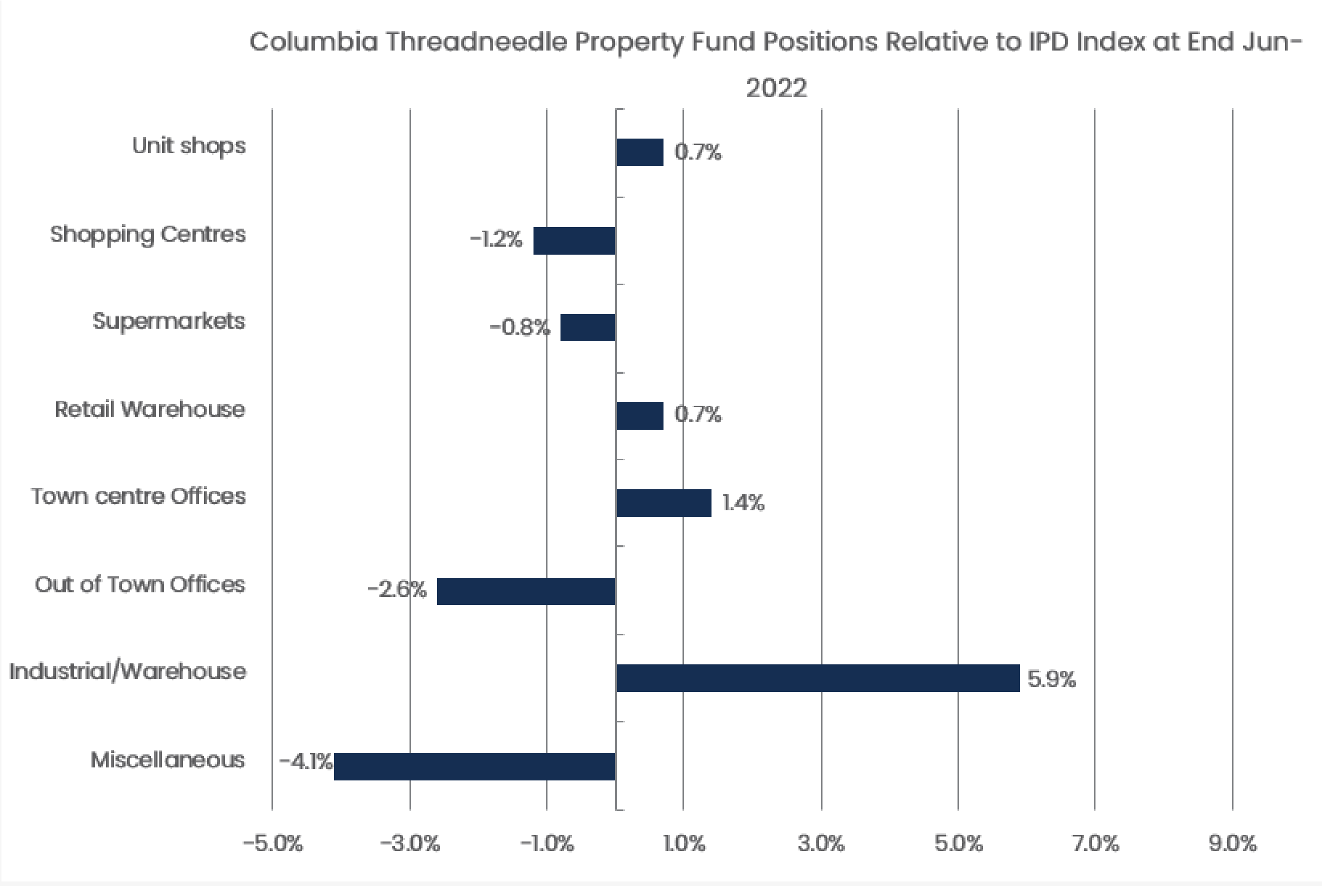
Columbia Threadneedle – Pooled Property Fund

Headline Comments: The fund outperformed the benchmark in Q2 2022, with a quarterly return of +4.6% compared to +3.9% (source: Columbia Threadneedle). Over three years, the fund outperformed the benchmark by +1.0% and as such is in line with the performance target of +1.0% p.a. above benchmark (source: Columbia Threadneedle).

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 no acquisitions and eleven sales. The sales include four warehouses where the business plan of regearing the existing occupier or a new leasing transaction had been completed, and the remaining sales were non-core assets which had limited prospects of rental or capital growth.

The cash balance at end June was 5.7%, which is in line with the target liquidity parameters.

Performance Attribution: The fund outperformed the benchmark in Q2 2022, with a quarterly return of +4.6% compared to +3.9% (source: Columbia Threadneedle). The manager attributes this to outperformance of its industrial assets (+2.4%). Over three years, the fund outperformed the benchmark by +1.0% and as such is in line with the performance target of +1.0% p.a. above benchmark (source: Columbia Threadneedle).

Portfolio Characteristics: As at end June 2022, the fund was valued at £2.31bn, a decrease of £28m from the fund's value in March 2022. London Borough of Islington's investment represented 4.47% of the fund.

Staff Turnover: There were no changes to the TPEN property team or the wider property team in Q2 2022.

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 Q2.

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 -9.45% which was behind the full World Index return of -9.40%.

TABLE 2:

	Q2 2022 FUND	Q2 2022 INDEX	TRACKING
FTSE-RAFI Emerging Markets	-3.65%	-3.47%	-0.17%
MSCI World Low Carbon Target	-9.45%	-9.40%	-0.05%

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 83.48% to the MSCI World Low Carbon Target index fund, and 16.52% allocated to the FTSE RAFI Emerging Markets index fund.

Staff Turnover/Organisation: Not reported by LGIM.

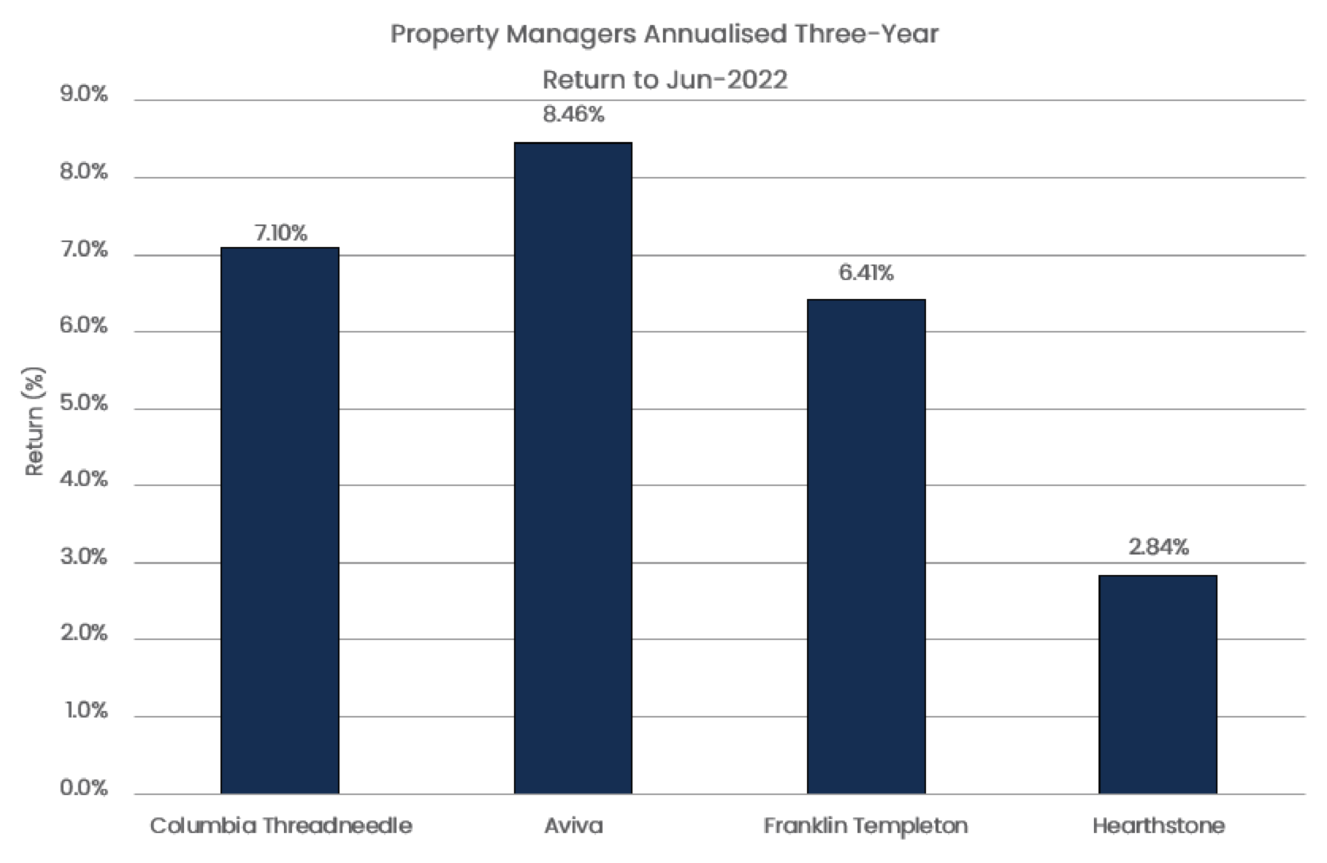
Franklin Templeton – Global Property Fund

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 -3.74% 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 June 2022, Aviva is the best performing fund across all four property managers. Chart 7 compares their annualised three-year performance, net of fees.

CHART 7:



Source: MJH;

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 48% for the quarter.

The largest remaining allocation in Fund I is to the US (57% of funds invested), followed by Spain (29%) and UK (14%). 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 June 2022, 85.0% of committed capital had been distributed. Leverage remained at 57% for the quarter to June 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, two are on target, and three are below target. The funds that are below target are Mistral Napoleon, which has seen delays incurred in the leasing space, Alphabet, who's performance has been impacted by one of the tenants declaring bankruptcy, and Mistral Corn, who's master lease expired in Dec-21, and is currently not at full occupancy.

Fund III continues to invest in a diverse mix of property sectors including residential, retail, industrial and office uses. There was a total of £17.8million in distributions made over the period. In Q2 2022, the fund made two realizations, Alpine, and Luna, and made no new investments. A sale of Luna-Levante has been concluded but it is still listed as unrealised at the end of Q2, and will likely be recorded as realised in Q3 2022. The largest geographic allocation in Fund III is currently the US (51% of funds invested), followed by Europe (49%).

Of the realized investments, one performed in-line with expectations, and one performed well ahead of expectations. Of the unrealised funds, one is in line with expectations, three are too early to tell and one, Josephine-Levante, is below target. This is due to a lease expiring in June 2022, and a new temporary lease being taken by a different tenant.

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 June 2022 by -2.12% as well as over three years by -6.66% p.a.

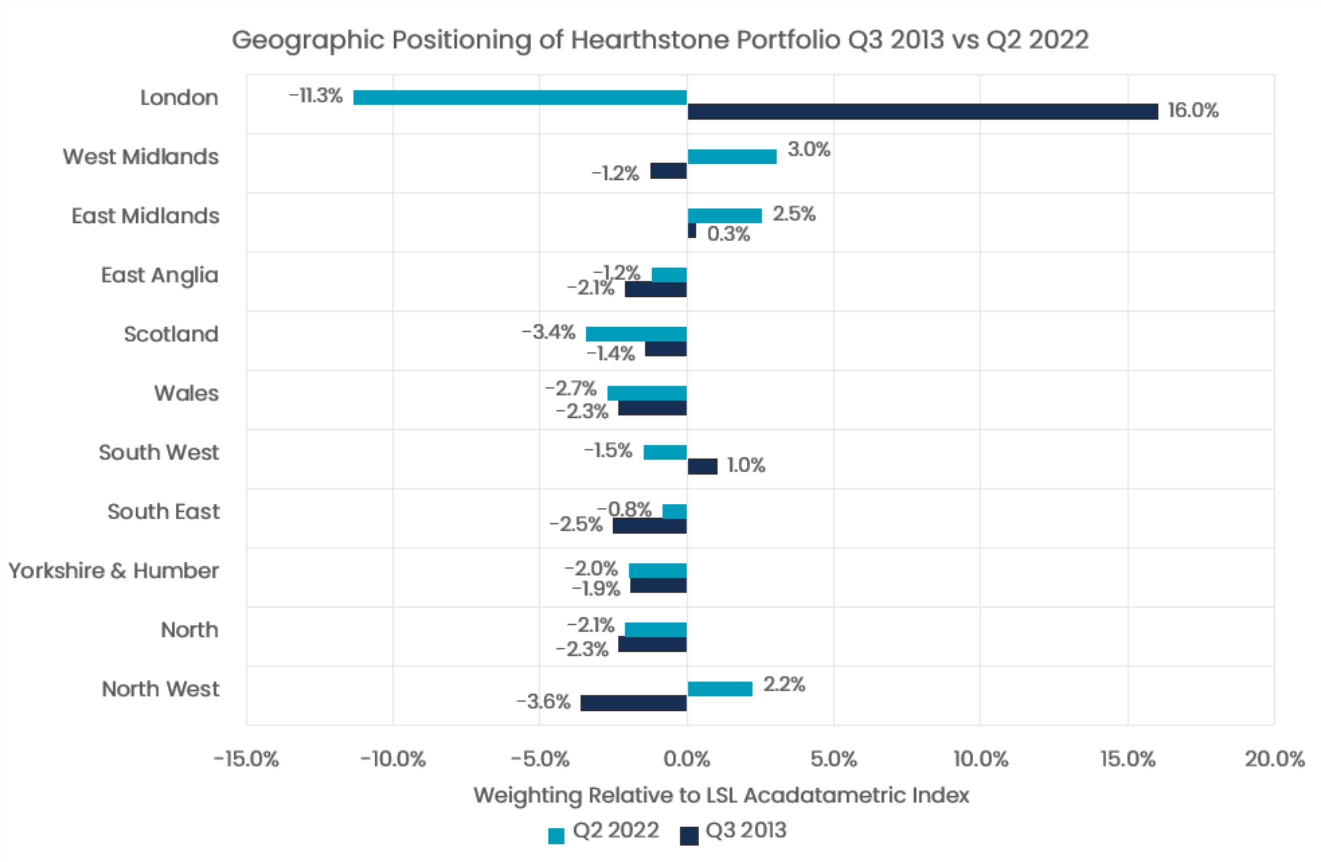
Mandate Summary: The fund invests in private rented sector housing across the UK and aims to outperform the LSL Acadametrics House Price Index (note that this excludes income), as well as providing an additional income return. The benchmark used by BNY Mellon is the IPD UK All Property Monthly Index.

Performance Attribution: The fund underperformed the IPD index over the three years to June 2022 by -6.66% p.a., returning +2.84% p.a. versus the index return of +9.50% p.a. The manager has also underperformed over 5 years by -5.74% p.a. The gross yield on the portfolio as at end June 2022 was 4.84%. Adjusting for voids and property management/maintenance costs, however, the yield on the portfolio falls to 3.02%.

Portfolio Risk: The cash and liquid instruments on the fund stood at 17.38% (£12.7 million), which is 3.11% lower than at the end of March 2022.

Chart 8 compares the regional bets in the portfolio in Q2 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 an 8% allocation to detached houses, 35% allocated to flats, 31% in terraced accommodation and 26% in semi-detached.

As at end June there were 228 properties in the portfolio and the fund stood at £73.0 million. London Borough of Islington's investment represents 39.8% of the fund. This compares with 72% at the start of this mandate in 2013.

Organisation and Staff Turnover: There were two new joiners in Q2 2022; Jamie Jago as Non-Executive Director on the Hearthstone Investments Limited Board, and Lydia Minto as an Asset Manager. There were no leavers during the quarter.

Schroders – Diversified Growth Fund (DGF)

Headline Comments: The DGF made a loss of -5.35% in Q2 2022, and in relative terms it underperformed its target by -9.66%(source: Schroder). Over three years, the fund is ahead of the target return by +0.09% p.a. (source: Schroder).

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. The target for this fund changed on 1st April 2022 and is now the ICE BofA Sterling 3-Month Government Bill Index plus 4.5% per annum (before fees have been deducted) over a 5-7-year period. The manager aims to deliver capital growth and income, with a volatility of less than two-thirds the volatility of equities.

Performance Attribution: The DGF made a loss of -5.35% in Q2 2022. This is below the target return for Q2 which returned +4.31% (source: Schroder). Over three years, the DGF delivered a return of +3.89% p.a. compared with the target return of +3.81% p.a. (source: Schroder), ahead of the target by +0.08% p.a.

In Q2 2022, equity positions detracted -4.2% from the total return, alternatives detracted -0.7%, credit and government debt detracted -2.3%, and cash and currency contributed +1.6% (figures are gross of fees).

Portfolio Risk: The portfolio is expected to exhibit less than 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 8.4% compared to the three-year volatility of 16.7% in global equities (i.e., 50.3% of the volatility) which is in line with target.

Portfolio Characteristics: The fund had 56% in internally managed funds (down from last quarter), 25% in active bespoke solutions (down from last quarter), 8% in externally managed funds (up from last quarter), and 7% in passive funds (the same as last quarter) with a residual balance in cash, 1% (down from last quarter), as at end June 2022. In terms of asset class exposure, 32.5% was in equities, 35.1% was in alternatives and 28.2% 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 58% lower than a comparator (a mix of equities, bonds, and alternative indices).

Organisation: There were no team changes during Q2 2022.

Quinbrook – Low Carbon Power Fund

Headline Comments: Performance for the year to 30th June 2022 was positive at +31.64%, thus outperforming the target return of +12.0%. Over three years, the fund returned +15.41% p.a. and therefore ahead of the target by +3.41%.

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 Q2 2022, on an unaudited basis, the fund had invested USD 723.8 million into projects ranging from onshore wind farms, solar power plants, battery storage and natural gas peaking facilities (power plants that generally run only when there is a high demand for electricity, in order to balance the grid). The total operational generating capacity of operational projects which the Fund is invested in is 1,568 MW (including those with minority stakeholders) as at 30 June 2022.

Organisation: Ariana Brighenti joined as an Associate in the UK office, and Gavin O'Brien joined as an Analyst in the US office. Associate, Charles Millter-Stirling, has left the UK office.

Pantheon – Infrastructure and Private Equity Funds

Headline Comments: Over three years the return on the private equity fund was +8.91% per annum. This compares with a three-year return on listed global equities of 11.5% per annum. The three-year return on the infrastructure fund was +10.45% 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 Q1 2022 – Q2 2022, a total of £2.4m was drawn down, wholly to PGIF III. Distributions were received across four strategies totalling £1.1m

Permira – Credit Solutions Senior Fund

Headline Comments: The Permira Credit Solutions V ("PCS5") is a new allocation for the London Borough of Islington. To 6th June 2022 the fund has closed commitments of £2.1bn, and has made a total of seven investments equalling 40% invested (most recent data available).

Karen Shackleton
Senior Adviser, MJ Hudson
22 August 2022

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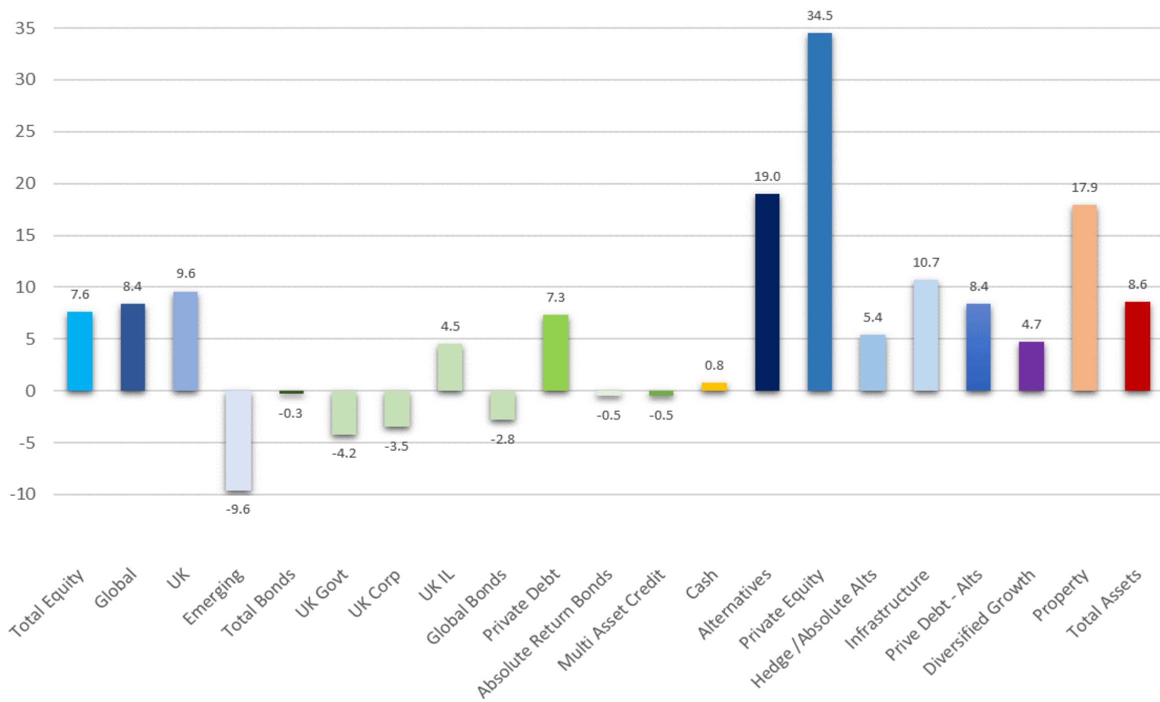
Islington Pension Fund
Performance to March 2022

Universe Returns 2021/22



- Last year the average Fund returned 8.6%, with 50% of Funds delivering a return between 6% and 10%.
- Developed equities performed well until the first Quarter of 2022 when the Ukraine war and fear of resulting inflation weighed heavily and markets fell.
- Over the twelve months however, developed markets were positive. Emerging markets, battered by a strong US Dollar and the continuing impact of COVID were the worst performing of all asset classes.
- Bond markets delivered negative results for the year, only inflation linked and private debt making it onto positive territory.
- Strong results were delivered from alternative assets. Private equity once again delivering outstanding returns. Property too continued to do well, returning almost 18%

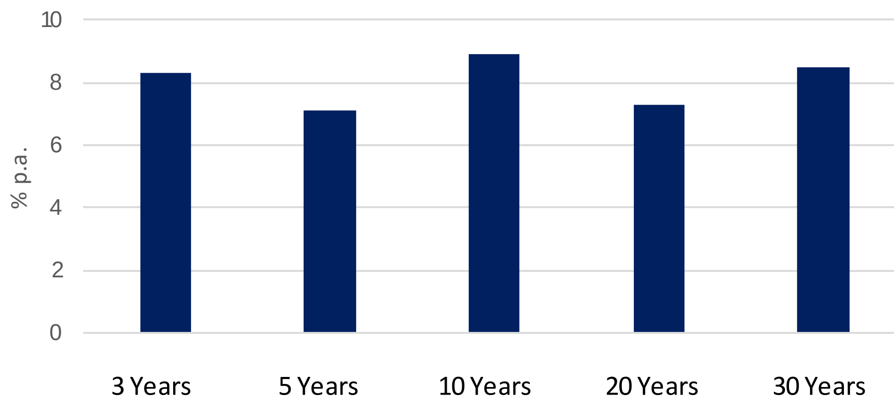
Universe Asset Allocation

	End March		
% Allocation	2021	2022	Change
Equities	**56**	**52**	**-4**
UK	*10*	10	0
Overseas	*46*	42	-4
Bonds	**17**	**18**	**1**
UK	*7*	8	1
Global	*2*	1	-1
Absolute Return	*5*	4	-1
Multi Asset Credit	*3*	4	1
Private Debt	*1*	1	0
Cash	**2**	**2**	**0**
Alternatives	**14**	**17**	***3***
Private Equity	*7*	*8*	*1*
Infrastructure	*5*	*6*	*1*
Absolute Return	*2*	*2*	0
Private Debt	*1*	*1*	*0*
Diversified Growth	**2**	**2**	**0**
Property	**8**	**9**	**1**

- Over the year there was further disinvestment from Equities into 'diversifying' assets.
- Within Equities there was a continuation of the move started the previous year into 'climate aware' investments.
- Most portfolio changes through the year reflected the ongoing move into Pool sub-funds.

Universe Longer Term Results

Long Term Asset Returns (% p.a.)



	3 Years	5 Years	10 Years	20 Years	30 Years
Equity	10.2	8.4	10.6	8.0	9.2
UK	*5.6*	*4.7*	*7.4*	*6.2*	
Global	*11.5*	*9.6*	*11.7*	*6.4*	
Emerging	*4.1*	*4.5*	*6.3*	*8.4*	
Bonds	2.6	2.5	4.5	5.7	6.9
Cash	0.5	0.4	0.9	2.3	2.8
Alternatives	11.0	9.8	10.0	7.6	
Private Equity	*19.5*	*16.5*	*14.7*	*8.8*	
Infrastructure	*5.7*	*6.9*			
Hedge Funds	*4.9*	*3.2*			
Diversified Growth	4.7	5.1			
Property	6.3	6.8	8.0	7.0	8.2
Total Assets	**8.3**	**7.1**	**8.9**	**7.3**	**8.5**

Performance

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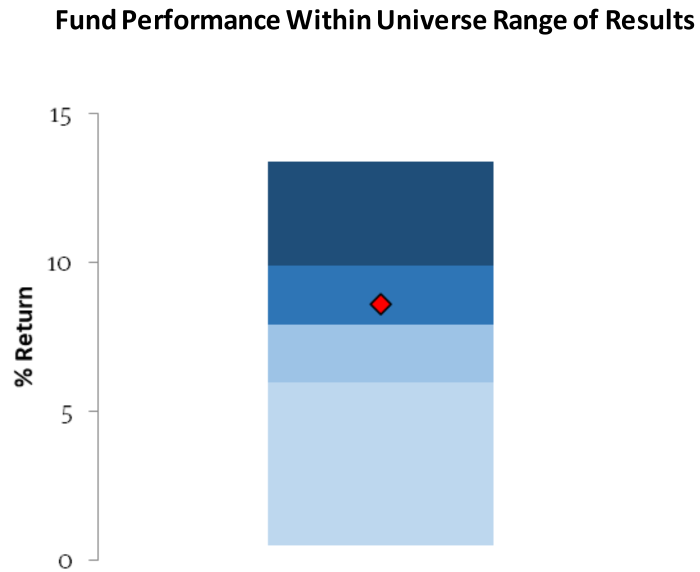
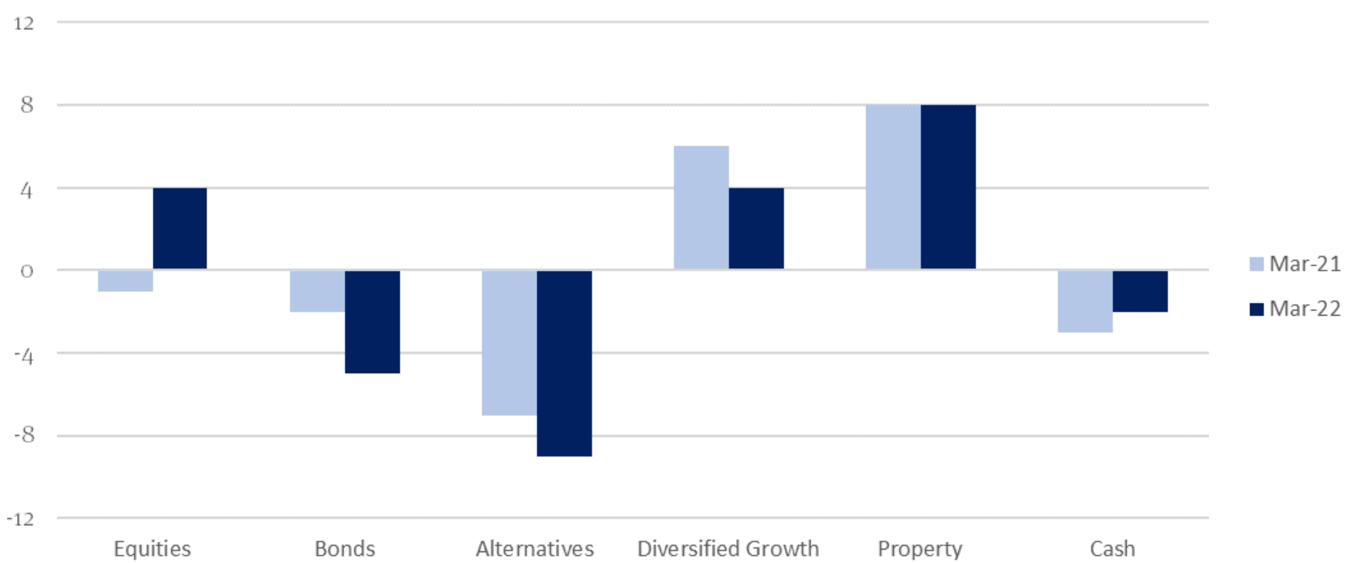


The figure shows the Fund return within the range of results achieved by the LGPS Universe in the latest year. The returns are divided into quarters (quartiles) and the fund is shown as a red diamond.

- The average Fund returned 8.6% with most funds returning between 6% and 10%.
- In the latest year the Fund return of 8.6% was in line with the average.
- The return was ahead of the Median of 8.0% and ranked in the 43rd percentile.

Fund Asset Allocation

Asset Allocation Relative to Universe Average



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- The Fund is structured quite differently from the average.
- The key difference is the higher commitment to Property and low exposure to Alternative assets.
- Last year this structure had a small positive impact on relative performance.

Fund Longer Term Performance

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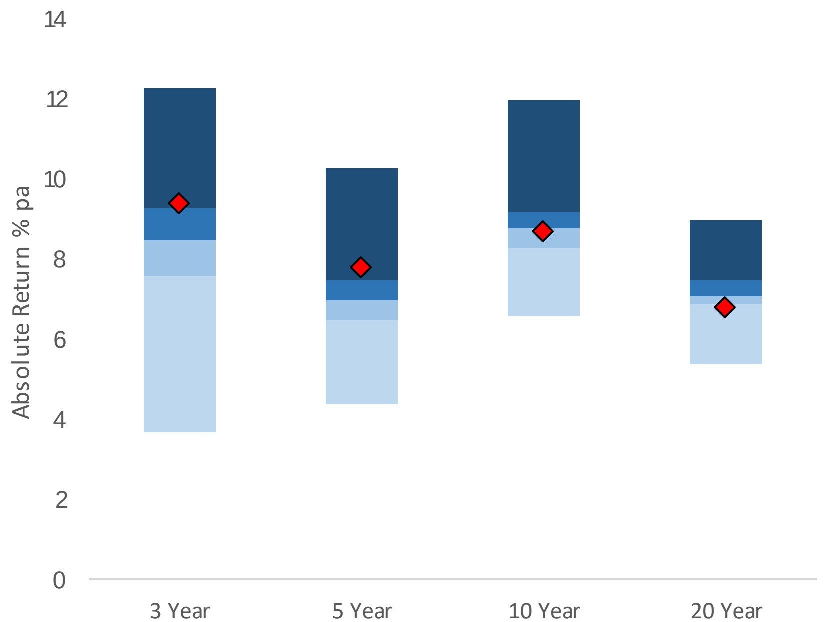
Longer Term Returns and Rankings



Fund	**9.4**	**7.8**	**8.7**	**6.8**
Universe Average	8.3	7.1	8.9	7.3
Ranking	(21)	(20)	(58)	(85)
CPI Inflation	*3.0*	*2.7*	*2.1*	*2.1*

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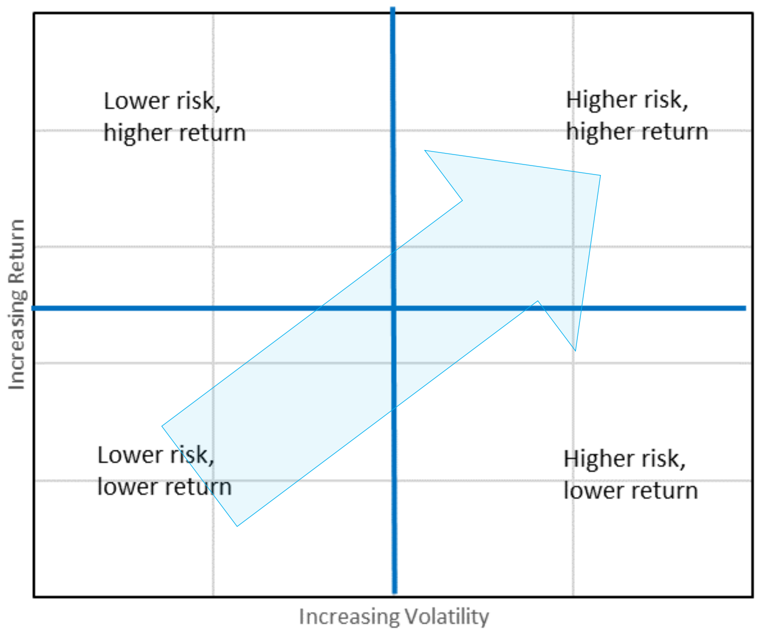
Risk and Reward



- Within investments there is always a trade-off between risk and return. Normally the higher a return that is being looked for the more volatility the Fund must expect.
- On the following pages there is little benefit for additional volatility over the last five years as shown by orange trend line but over the last ten years accepting more volatility has delivered a greater reward.
- The blue dots show the Funds in the Universe in risk / return space.

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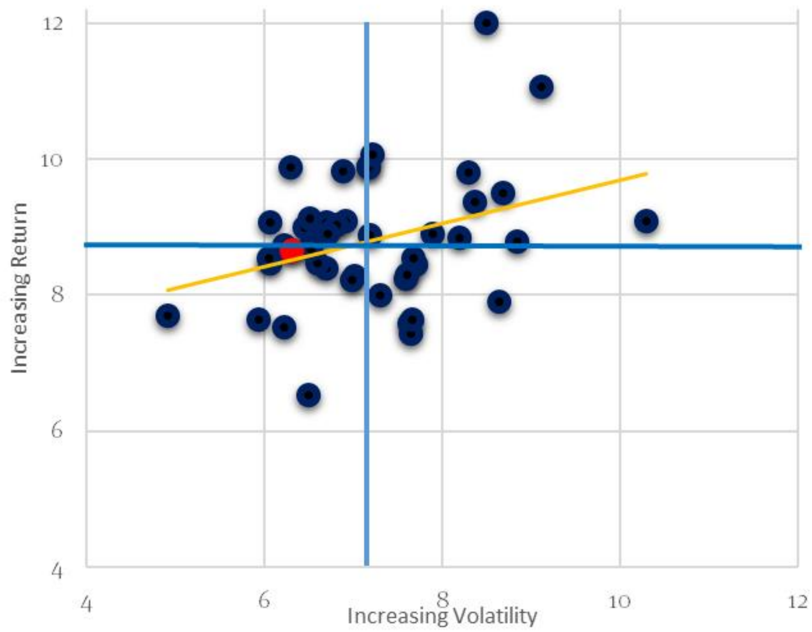
Fund Risk and Return – Ten Years

Last Ten Years (% p.a.)



- Over the last ten years the Fund (red dot) had delivered a return just below average but at a much lower level of volatility.

Fund Risk And Return – Five Years

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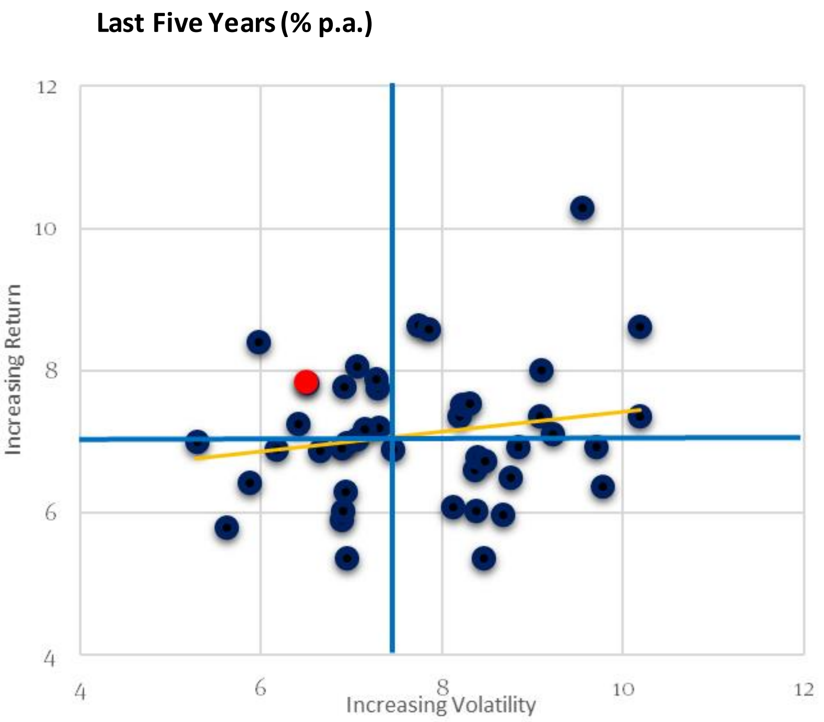

- In the last five years the Fund (red dot) has delivered a well above average return at a much lower than average level of volatility – a very efficient result.

This report is intended solely for the use of the participating funds. Whilst individual fund returns and rankings may be used, the report in its entirety should not be copied or distributed beyond these funds.

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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: 19th September 2022

Ward(s): n/a

SUBJECT: ANNUAL REVIEW AND PROGRESS ON THE 2020-2024 PENSION BUSINESS PLAN

1. Synopsis

1.1 To report to the Pensions Sub-Committee progress made to date on some of the action plans in the agreed five year business plan and undertake an annual review of the plan

2. Recommendation

2.1 To consider and note Appendix A attached.

2.2 To review the business plan objectives and agree the required changes if any for the next 4 years

3. Background

3.1 CIPFA Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom (Guidance note issue No. 5) publication, is based on ten principles proposed by the Myners review of Institutional Investment in the United Kingdom, and was adopted by the Government as a model for best practice in 2001.

3.2 The 10 Myners principles were reviewed by the NAPF in 2007 and after consultation a response document was published in October 2008 and adopted by CLG – now DLUHC (government department responsible for the oversight of the LGPS). The LGPS administering authorities are required to prepare, publish and maintain a statement of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation.

3.3. The Myners principles and compliance forms part of Islington Pension Fund's published Statement of Investment Principles. Myners Principle 1- Effective decision-making through a forward looking business plan is a key requirement. Members agreed a five-year business plan to June 2022 and to review the plan annually.

3.4 The key objectives of the five-year business plan agreed at the September 2021 Pensions sub-committee:

- To achieve best practice in managing our investments in order to ensure good long-term performance, sustainability of the Fund, value for money and a reduction in managers' fees wherever possible and pursue new investment opportunities "plus an expectation of strong business ethics from fund managers also"
- To continually improve our administration and governance in order to deliver an excellent and cost effective service to all fund members.
- To engage with companies as an active and responsible investor with a focus on good corporate governance and environmental sustainability, whilst achieving a financial return for the fund and addressing societal impact and a focus on strong business ethics and reputation to ensure the safeguarding of the Fund and its members.
- To actively monitor and challenge poor performance in managers and to pursue new investment opportunities
- To develop collaboration opportunities with other funds for sharing of services and pooling

3.5 The five-year business plan with progress to June 2022 is attached as Appendix A. Members are asked to consider and note progress made and undertake a review of the plan's objectives for any amendments for the next 4 years.

4. Implications

4.1 **Financial implications**
It is envisaged that a good business plan with effective actions as a whole will lead to efficiencies in running the fund and cost savings.

4.2 **Legal Implications**
Elected members have fiduciary duty to the Fund, scheme members and local council tax payers in relation to the LGPS.

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

records/finance/financialmanagement/adviceandinformation/20192020/20190910londonboroughof
ngtonpensionfundinvestmentstrategystatement.pdf

4.4 **Equality Impact Assessment:**
The Council must, in carrying out its functions, have due regard to the need to eliminate unlawful discrimination and harassment and to promote equality of opportunity in relation to disability, race and gender and the need to take steps to take account of disabilities, even where that involves treating the disabled more favourably than others (section 49A Disability Discrimination Act 1995; section 71 Race Relations Act 1976; section 76A Sex Discrimination Act 1975."
An equalities impact assessment has not been conducted because this report is updating members on the implementation of a fund structure by external managers. There are therefore no specific equality implications arising from this report.

5. Conclusion and reasons for recommendation

5.1 To note progress made and review the agreed objectives to the business plan and make amendments if necessary.

Appendix – Appendix 1 -4 year business plan

Background papers:
None

A

Final report clearance:

Signed by:

Corporate Director of Resources

Date of final approval

Report Author: Joana Marfoh
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Email: Joana.marfoh@islington.gov.uk

Financial implications : Joana Marfoh

Legal implications : n/a

ACTION TO BE TAKEN

Action to be taken	Timescale	Details (primary responsibility)	Progress to June 2020	Progress to June 2021	Progress to June 2022
1. "To achieve best practice in managing our investments in order to ensure good long- term performance, sustainability of the Fund, value for money and a reduction in managers' fees wherever possible and pursue new investment opportunities" plus an expectation of strong business ethics from fund managers also"					
(a) Consider an interim valuation and LGPS scheme changes	Ongoing	Use results to review funding level and any potential effect of the scheme changes	Actuary valuation was signed off on March 2020	Following Covid pandemic and lockdown funding and asset allocation was reviewed in June	The Whole fund funding valuation was assessed as at September to determine future contribution levels
(b) Review investment strategy to reflect asset/liability position To commence as part of the 31 March 2019 actuarial valuation process	2019-2023	To use results and other analyses to set benchmark asset allocations and Fund outperformance targets and risk levels *(Pensions sub-cttee, Investment advisers).*	As part of actuarial valuation members agreed a new investment target return from amended strategic asset allocation within a risk budget.	Strategic allocation was still fit for purpose after impact of lockdown and probable recovery scenario testing was undertaken	Assumptions on discount rates, inflation and investment outlook were discussed for the 2022 valuation because of the conflict in Ukraine.
(c) Implement any resulting changes to asset allocation, portfolio and fund management structures.	Ongoing	Plan procurement and tendering process with transition of assets requirement to minimize cost and optimize value of assets	Members agreed to tender for a new Multi asset credit mandate	Preferred manager was appointed to run the MAC mandate of £75m and funded in March 2021	An initial procurement was undertaken for 2nd tranche of private debt managers
(d) Review all contracts on a rolling basis including, actuary, voting services, investment advisers and custodial services.	2018-2022	Committee to agree conclusions of all reviews. Corporate Director of Resources to have delegated authority to review contracts and performance and fee levels when required. *(Pensions Sub-Committee, Officers).*	Work in progress	Members complied with TPR directives of reviewing agreed objectives and performance of investment consultancy service providers by December 2020	Investment advisors service was reviewed on performance and agreed objectives
(e) Closely monitor new legislation affecting the LGPS or pension provision.	Ongoing	Consider reports on the implications for the Fund and agree actions necessary to ensure full compliance when final legislation is enacted including meeting deadlines. *(Pensions sub-committee, Officers, Actuary).*	Members complied with TPR directives of agreeing objectives with investment consultancy service providers by December 2019	Work in progress	Updated FSS was consulted on with employers to incorporate new legislation on terminations and valuations
2. To continually improve our administration and governance in order to deliver an excellent and cost effective service to all fund members					
(a) Agree key performance indicators for the administration of the Fund and continue to benchmark against similar funds.	Ongoing.	Pension Board now monitors the administration and governance of the Fund. Continue ongoing CIPFA benchmarking. *(Officers).* Analyse survey results (pension board, officers)	As part of the workplan the board requested more scrutiny of COVID 19 checklist and impact on service. Board have also implemented regular reviews of new members through auto enrolment and opt-out numbers	Risk register is reviewed 6monthly to include pandemic impact and improvements have been requested in the layout. To encourage take up of membership, new employees who join the	Risk register has been reviewed and realigned to Corporate layout and objectives Board monitors performance and resources to achieve benchmark

APPENDIX A

Actions to be taken	Timescale	Details (primary responsibility)	Progress to June 2020	Progress to June 2021	Progress to June 2022
(b) Carry out a survey to gain feedback from pensioners and active employees on customer satisfaction and implement changes	Ongoing	Changes required from survey to be implemented. *(Pensions sub cttee, Officers including LBI communications team)*	and commented on new website layout and contents.	lgps and stay on are entered into a draw to win a token cash prize	targets and monitor complaints and feedback
c) Ensure governance of the admin	Ongoing			McCloud implementation process has been discussed with pension software provider and resource engagement is now required to carry this forward.	Automatic email response has been installed for the pension mailbox to let customers know when contact will be made.
d) To devise a communication plan and consultation to stakeholders	Ongoing	Newsletters, annual benefit statements, annual reports, AGM and employers' meetings to continue as previously *(Officers).*		ABS has been issued within the deadline. A new improved website is almost completed, with documents accessible on -line for some self- service options.	31 August deadline was missed and reported to the Pension Regulator. Some documents are now on the website for self-service online
3. To engage with companies as an active and responsible investor with a focus on good corporate governance and environmental sustainability, whilst achieving a financial return for the fund and addressing societal impact and a focus on strong business ethics and reputation to ensure the safeguarding of the Fund and its members					
(a) Continue to engage with companies through active membership of LAPFF, IIGCC and other suitable bodies.	Ongoing.	Key themes will be corporate governance especially relating to human rights, employment practices and protection of the environment. *(Pensions sub cttee, Investment advisers, PIRC, Officers.)*	Work with LAPFF, LCIV and the IIGCC continues Carbon policy is published, and Members have shared their story with other LAs.	Engagement with LAPFF, IIGCC, LCIV and North London Pensions chairs forum continues Carbon footprinting for equity and credit portfolios and ESG measurement of our fund managers was undertaken as of March 2021.	Engagement with LAPFF, IIGCC, LCIV and North London Pensions Chairs forum continues. Filed a joint shareholder resolution to Sainsbury's AGM Carbon footprinting for equity and credit portfolios and ESG measurement of our fund managers was undertaken as of March 2022.
(b) Develop improved monitoring of fund manager engagement activity.	Ongoing.	To include engagement with managers on their own corporate governance as part of terms of reference on appointment. *(Pensions sub cttee, investment advisers, Officers).* To include potential for publication of LBI voting record. *(Officers and PIRC).*	Members continue to encourage and support the LCIV on engagement on ESG factors. Voting records are published	Voting records are published in Annual report Recent appointment of MAC had a specific criteria on ESG integration in the investment process.	Voting records are published in Annual report
(c) Improve communication of engagement activities to stakeholders and public.	Ongoing				
(d) Integrate our responsible investment policy into the Fund's investment review	Ongoing	To include consideration of appropriate responsible investment funds. Manager policies on equalities, environment and corporate governance to form review criteria alongside	Current investment review in 2019 reaffirmed responsible investment in strategic asset allocations	Net Zero carbon target to 2050 was agreed by Members in June along with new carbon reductions targets to 2026 and 2030 to include green opportunities	A new commitment was made to our renewable infrastructure manager to maintain exposure green opportunities

Actions to be taken	**Timescale**	**Details (primary responsibility)**	**Progress to June 2020**	**Progress to June 2021**	**Progress to June 2022**
		performance and fee considerations. *(Pensions sub cttee, Investment advisers, Officers).*	Climate scenario analysis was undertaken for the whole fund in December 2019		
4. To actively monitor and challenge poor performance in managers and to pursue new investment opportunities					
(a) Review current fund manager performance against agreed targets over three- to five year rolling periods	Ongoing	Use existing terms of reference for appointment and firing of managers as a guideline to monitor performance of fund managers *(Pensions sub cttee, Investment advisers, Officers).*	Ongoing	Ongoing	Ongoing
(b) Review current fund manager quarterly monitoring arrangements	Ongoing	Agree a forward plan for existing fund managers to meet the pensions sub- committee. The Corporate Director of Resources to continue monitoring managers between quarterly meetings (*Pensions sub cttee, Investment advisers, Officers).*	Commissioned a deep dive in our residential property manager for governance assurances. 1>1 meetings with managers have been held with officers and advisors to report to members	Due to Covid pandemic impact on real estate, 1>1 meetings were held with property managers to understand the effects and recovery strategy. Regular monitoring meeting were also arranged with emerging/frontier market manager for reassurances on strategy after changes in management.	In March following Ukarine invasion and subsequent sanctions, all managers were engaged to identify Russian stocks and divestment options Continuous monitoring with property and equity managers and the LCIV.
(b) To consider new investment opportunities which can help improve the fund's financial performance	Ongoing	Pensions sub-committee have a long term objectives and clear investment policies to achieve them. (*Pensions sub cttee, Investment advisers, Officers).*	Recap of multi – asset credit briefing before agreeing to procure. Joint briefing on Actuarial valuations were held for Members to understand assumption and take funding decisions	Members agreed to recommit to global property FTRETP III in December.	Members agreed to appoint a new private debt manager Briefing was undertaken on social housing and impact investments
(c) To keep abreast of developments on pension and investment issues	Ongoing	Pensions sub-committee will agree a training plan and evaluate annually training undertaken and future needs *(Pensions sub cttee, Investment advisers, Officers).*	New members have been enrolled to attend LGA trustee pension course. Training sessions before and during committee meetings continue. Members attend seminars and LCIV AGMs as shareholder	Net–zero carbon target transition training run be Mercer was provided to all pension sub cttee and board members. Members attend seminars and LCIV AGMs as shareholders and business meeting days.	Training reviews for self-assessment of skill and knowledge for members of pension board. Members and officers attend seminars and LCIV AGMs as shareholders and business meeting days.

Actions to be taken	Timescale	Details (primary responsibility)	Progress to June 2020	Progress to June 2021	Progress to June 2022
5. Develop collaboration opportunities with other funds for sharing of services and pooling					
a) Seek to collaborate with other partners to achieve efficiencies and value for money	Ongoing	To agree to share services where it is beneficial to the fund objectives of sustainability and performance	Officers are collaborating with another LA to procure a MAC mandate after LCIV's review of current manager on LCIV platform. Members and officers worked with the LCIV on the initial workshops on ESG Members' collaboration of a north London LA group meet regularly to share ideas	Officers sourced collaboration with previous LA procurement to procure Private debt due to commonality of best in class. Members' participate in a North London LA Pension Chairs group It is a forum to share ideas, identify common goals and work together alongside the LCIV.	Members' participate in a North London LA Pension Chairs group . It a forum to share ideas, identify common goals and work together alongside the LCIV.

ISLINGTON
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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 19th September 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. Recommendations

2.1 To consider and agree Appendix A attached

2.2 To note the consultation for LGPS to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). Local Government Pension Scheme (England and Wales): Governance and reporting of climate change risks - GOV.UK (www.gov.uk)

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.

3.3 Department for Levelling Up Housing and Communities (DLUHC) is consulting on proposals for new requirements on LGPS administering authorities on climate related risk. The consultation is for 12 weeks to 24 November 2022.

3.3.1 Summary of proposals

i) Each LGPS Administering Authorities (AA) must complete the actions listed below and summarise their work in an annual Climate Risk Report.

ii) The proposed regulations will apply to all LGPS Administering Authorities. The first reporting year will be the financial year 2023/24, and the regulations are expected to be in force by April 2023. The first reports will be required by December 2024. AAs will be expected to identify climate-related risks and opportunities on an ongoing basis and assess their impact on their funding and investment strategies.

iii) AAs will be required to carry out two sets of scenario analysis. This must involve an assessment of their investment and funding strategies. One scenario must be Paris-aligned (meaning it assumes a 1.5 to 2 degree temperature rise above pre-industrial levels) and one scenario will be at the choice of the AA. Scenario analysis must be conducted at least once in each valuation period.

iv) AAs will be expected to establish and maintain a process to identify and manage climate-related risks and opportunities related to their assets. They will have to integrate this process into their overall risk management process.

v) AAs will be expected to report on metrics as defined in supporting guidance. The proposed metrics are set out below.

a) Metric 1 will be an absolute emissions metric. Under this metric, AAs must, as far as able, report Scope 1, 2 and 3 greenhouse gas (GHG) emissions.
b) Metric 2 will be an emissions intensity metric. We propose that all AAs should report the Carbon Footprint of their assets as far as they are able to. Selecting an alternative emissions intensity metric such as Weighted Average Carbon Intensity (WACI) will be permitted, but AAs will be asked to explain their reasoning for doing so in their Climate Risk Report.
c) Metric 3 will be the Data Quality metric. Under the Data Quality metric, AAs will report the proportion the value of its assets for which its total reported emissions were Verified*, Reported**, Estimated or Unavailable.
d) Metric 4 will be the Paris Alignment Metric. Under the Paris Alignment metric, AAs will report the percentage of the value of their assets for which there is a public net zero commitment by 2050 or sooner.
e) Metrics must be measured and disclosed annually.

vi) AAs will be expected to set a target in relation to one metric, chosen by the AA. The target will not be binding. Progress against the target must be assessed once a year, and the target revised if appropriate. The chosen metric may be one of the four mandatory metrics listed above, or any other climate related metric recommended by the TCFD

vii) AAs will be expected to publish an annual Climate Risk Report. This may be a standalone report, or a section in the AA's annual report The deadline for publishing the Climate Risk Report will be 1 December, as for the AA's Annual Report, with the first Climate Risk Report due in December 2024. We propose that scheme members must be informed that the Climate Risk Report is available in an appropriate way

viii) We propose that the Scheme Advisory Board (SAB) should prepare an annual Scheme Climate Report including a link to each individual AA's Climate Risk Report (or a note that none has been published) and aggregate figures for the four mandatory metrics. We also propose that a list of the targets which have been adopted by AAs. We are open to views as to whether any other information should be included in the Scheme Climate Report.

ix) We propose to require that each AA take proper advice when making decisions relating to climate-related risks and opportunities and when receiving metrics and scenario analysis.

3.3.2 Members are asked to note the proposals and share their views to include into the consultation response before 24 November.

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 recommendations

5.1 To advise Members of forthcoming items of business to the Sub-Committee and training topics. Members are also asked to consider the consultation by DULHC on climate-related risk.

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 September 2022 to June 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
19 September 2022	• Whole Fund initial valuation results and training • 4 year business plan review
21 November 2022	• Draft FSS review for consultation • Objectives set for providers of investment consultancy –Annual review • Investment strategy overview
December	Annual Pension Meeting
6 March 2023	• FSS consultation results • ISS update • Actuarial Valuation report
June 2023	

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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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: 19th September 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 May to August 2022.

2. Recommendations

2.1 To note the progress and activities presented at the August 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 August 2022**

3.5.1 A new CEO, Dean Bowden, has been appointed to start in November along side the outgoing CEO until he departs 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.

3.5.3 **Fund Launches and Pipeline**
London CIV has continued to make progress in several key areas. This progress has been supported by a multitude of meetings and engagement opportunities, and Seed Investor Groups (SIG) focusing on mandates. The UK housing investment case is being prepared,the LCIV Global Bond Fund and LCIV Multi Asset Credit Fund have been realigned and transition of the Equity funds is now complete.

3.5.4 **Operational activities**

The following activities are underway; a service to prepare climate analytics for individual funds for a fee and Stewardship and TCFD annual reports are being prepared for the pool. LCIV has also gained Cyber Essentials Accredation, a UK government sponsored scheme operated by the National Cyber Security Centre.

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 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: none

Final report clearance:

Signed by:

Corporate Director of Resources Date

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