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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, Town Hall, Upper Street, N1 2UD on **3 July 2023 at 7.00 pm.**

Enquiries to	:	Mary Green
Tel	:	(0207 527 3005
E-mail	:	democracy@islington.gov.uk
Despatched	:	22 June 2023

Membership

Councillor Paul Convery (Chair)
Councillor Diarmaid Ward (Vice-Chair)
Councillor Satnam Gill OBE
Councillor Michael O'Sullivan

Substitute Members

Councillor Jenny Kay
Councillor Dave Poyser

Quorum is 2 members of the Sub-Committee

A. Formal matters

1. Apologies for absence

2. Declaration of substitutes

3. Declaration of interests

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

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

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

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

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

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

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 26 September 2023

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London Borough of Islington

Pensions Sub-Committee - 6 March 2023

Non-confidential minutes of the meeting of the Pensions Sub-Committee held in Committee Room 1, Town Hall, Upper Street, N1 2UD on 6 March 2023 at 7.00 pm.

Present:	**Councillors:**	Paul Convery (Chair), Diarmaid Ward (Vice-Chair), Satnam Gill and Michael O'Sullivan
	Pension Board observers:	Alan Begg, Councillor David Poyser, Maggie Elliott, Karen Shackleton – MJ Hudson Tony English and Alex Goddard – Mercer

Councillor Paul Convery in the Chair

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

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

281 **DECLARATION OF INTERESTS (Item A3)**
Councillor Convery declared an interest in items on the agenda as a member of the Scheme.

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

RESOLVED:
That the minutes of the meeting held on 5 December 2022 be confirmed as an accurate record of proceedings and the Chair be authorised to sign them.

283 **PENSION FUND PERFORMANCE - OCTOBER TO DECEMBER 2022 (Item B1)**
In response to a query about the performance of technology stocks on the CIV platform, Karen Shackleton undertook to check with fund managers on their holding of this type of stock.

The Chair queried the performance from Pantheon, the Fund's Infrastructure manager, at almost -7% for the last quarter, whereas yearly performance was indicated at 27%? Karen Shackleton undertook to look into this and to report back. She also undertook to speak to LCIV about the position on the LCIV Global Equity

Fund (Newton), where Islington owned 54.78% of the sub-fund, should other investors leave the fund and costs associated with exit. Members considered the possibility of considering funds within the CIV in the future.

RESOLVED:
(a) That the performance of the Fund from 1 July to 30 September 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 Hudson on fund managers' quarterly performance, attached as Appendix 1 to the report, be noted.
(c)To note the LCIV prepared climate exposure report for their 2 active equity portfolios attached as Appendix 2 to the report.
(d) To note for information the Mercer "Current LGPS Issues February 2023" at Appendix 3 to the report.

284 INVESTMENT STRATEGY REVIEW (Item B2)

RESOLVED:
(a) To note the presentation from Mercer attached as Exempt Appendix 1 to the report of the Corporate Director of Resources.
(b) To note the strategy review and risk and return analysis.
(c) To agree that further consideration be given to the strategic allocation, congruent with risk and return, that was affordable and sustainable.
(d) That officers work with Mercers on the formulation of a portfolio strawman 3 with a goal to increase illiquidity at a lower risk profile compared to strawman 2, to be considered at a future meeting.

285 DRAFT FUNDING STRATEGY STATEMENT AND CONSULTATION RESULTS (Item B3)

The Sub-Committee noted that the Pensions Board, which had met immediately prior to this meeting, had postponed making a decision on this item pending further information, particularly on responses from employers.

RESOLVED:
(a) That the draft Funding Strategy Statement attached as Appendix 1 to the report of the Corporate Director of Resources and the employer comments received from the consultation exercise, attached as Appendix 2 to the report, be noted.
(b) That the Section 151 Officer and Fund Actuary be authorised to finalise any agreed amendments and regulatory changes.
(c) That the Section 151 Officer and Fund Actuary be authorised to publish the final Funding Strategy Statement as part of the Actuarial Valuation Report.

286 LONDON CIV UPDATE (Item B4)

RESOLVED:
(a) That the progress made at the London CIV in launching funds, running of portfolios, reviewing governance and investment structure, over the period from November 2022 to January 2023, as detailed in the report of the Corporate Director of Resources, be noted.
(b) That the January 2023 business update session of the London CIV, detailed in exempt Appendix 1 to the report, be noted

287 PENSION FUND FORWARD WORK PROGRAMME (Item B5)

RESOLVED:
That, subject to the report on "Draft Pension Annual report" being brought forward from the meeting of the Sub-Committee scheduled for 21 November to 26 September 2023, with the Annual General Meeting scheduled for October 2023, Appendix A attached to the report of the Corporate Director of Resources, comprising the forward plan of business for the Sub-Committee, be noted

288 INVESTMENT STRATEGY REVIEW - EXEMPT APPENDIX (Item E1)

Noted.

289 LONDON CIV UPDATE - EXEMPT APPENDIX (Item E2)

Noted.

The meeting ended at 8.45 pm

CHAIR

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ISLINGTON
For a more equal future

Resources
Town Hall, Upper Street
London N1 2UD

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

Meeting of: Pensions Sub-Committee

Date: 3 July 2023

Ward(s): None

Subject: Membership, Terms of Reference and dates of meetings of the Pensions Sub-Committee in 2023/24

1. Synopsis

1.1 To inform members of the membership and remit of the Pensions Sub-Committee in the municipal year 2023/24.

1.2 To note that, as part of an overall review of governance by the Interim Director of Law and Governance, the Council's Constitution is being reviewed and a revised version will be submitted to the Council meeting on 13 July 2023. As part of that, changes are likely to be made to the Pensions Sub-Committee and its terms of reference. The agreed changes will be reported to the next meeting of the Sub-Committee.

2. Recommendations

2.1 To note the membership of the Pensions Sub-Committee, appointed by the Audit Committee on 23 May 2023, its terms of reference and dates of meetings for the municipal year 2023/24, as set out at Appendix A.

2.2 To note that the terms of reference of the Sub-Committee are to be reviewed at the Council meeting on 13 July 2023.

3. Background

3.1 The current terms of reference of the Pensions Sub-Committee (as contained in Part 5 of the Council's Constitution) are set out at Appendix A. The quorum of the Sub-Committee is two Councillors.

3.2 The membership and dates of meetings in 2023/24 are also set out at Appendix A for information.

4. Implications

4.1. **Financial Implications**

None.

4.2. **Legal Implications**

None.

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

There are no environmental implications arising directly from this report.

4.4. **Equalities Impact Assessment**

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

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

5. Conclusion and reasons for recommendation

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

Background papers: None

Final report clearance:

Signed by:

Director of Law and Governance and Monitoring Officer

Date: June 2023

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

Appendix A

PENSIONS SUB-COMMITTEE

Committee Membership 2023/24

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

Terms of Reference

1. To consider policy matters in relation to the pension scheme, including the policy in relation to early retirements.

2. To administer all matters concerning the Council's pension investments in accordance with the law and Council policy.

3. To establish a strategy for disposition of the pension investment portfolio.

4. To determine the delegation of powers of management of the fund and to set boundaries for the managers' discretion.

5. To review the investments made by the investment managers and from time to time consider the desirability of continuing or terminating the appointment of the investment managers. (Note: The allocation of resources to the Pension Fund is a function of the Executive).
6. To consider the overall solvency of the Pension Fund, including assets and liabilities and to make appropriate recommendations to the Executive regarding the allocation of resources to the Pension Fund.
7. The Chair of the Pensions Sub-Committee will represent Islington Council at shareholder meetings of the London Collective Investment Vehicle (London LGPS CIV Limited). In the absence of the Chair, a deputy may attend.

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

1.2 Quorum

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

1.3 Future meeting dates

Listed below are the dates of the meetings for 2023/24, all at 7.00pm:

26 September 2023

21 November 2023

11 March 2024

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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: 3rd July 2023

Ward(s): n/a

Subject: Pension Fund Performance 1 January to 31 March 2023

1.	**Synopsis**
1.1	This is a quarterly report to the Pensions Sub-Committee to allow the Council as administering authority for the Fund to review the performance of the Fund investments at regular intervals and review the investments made by Fund Managers quarterly.
2.	**Recommendations**
2.1	To note the performance of the Fund from 1 January to 31 March 2023 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 for information the Mercer NewsAlert LGPS Issues May'23 – Appendix 2
3.	**Fund Managers Performance for 1 January to 31 March 2023**
3.1	The fund managers' latest quarter net performance figures compared to the benchmark and Mercer ESG ratings is shown in the table below. *NB: Mercer's ESG ratings provide an assessment of the integration of ESG issues into the investment process and provides an overall rating – ESG 1 is the highest possible*

	rating and ESG 4 is the lowest possible rating. As such, Mercer has provided the latest ESG ratings for the Fund's 9 strategies across equities, fixed income, DGFs, property and private equity.

3.1 Fund Managers	Asset Allocation	Mandate	*Mercer ESG Rating	Latest Quarter Performance (Jan-Mar'23) Gross of fees		12 Months to March 2023 Performance Gross of feesre	
				Portfolio	Benchmark	Portfolio	Benchmark
LCIV Sustainable EQ- RBC	9.6%	Global equities	1	0.2%	4.8%	-7.6%	-0.9%
LCIV -Newton	18.6%	Global equities	2	5.8%	4.5%	0.2%	-0.9%
Legal & General	13.5%	Global equities	1	4.1%	4.1%	-1.1%	-0.9%
Legal & General-Paris Aligned	9.6%	Global equities	N	6.3%	6.3%	n/a	n/a
Polen Capital(previously BMO)	3.9%	Emerging equities	2	2.8%	1.2%	-4.0%	-4.5%
Quinbrook	5.8%	Renewable Infrastructure		-3.9%	2.9%	15.6%	12.0%
Pantheon	4.0%	Infrastructure		1.7%	2.4%	22.1%	10.0%
Aviva (1)	7.5%	UK property	2	-2.2%	2.8% 0.21%	-13.2%	-20.8% -14.7%
ColumbiaThreadneedle Investments (TPEN)	5.2%	UK commercial property	3	0.5%	-0.2%	-13.4%	-14.4%
Hearthstone	1.6%	UK residential property	N	0.3%	0.2%	3.2%	-14.7%
Standard Life	4.0%	Corporate bonds	2	2.3%	2.4%	-10.9%	-10.2%
M&G Alpha Opportunities	4.5%	Multi Asset Credit	3	1.7%	1.8%	2.3%	5.7%
Schroders	2.6%	Diversified Growth Fund	2	1.3%	3.0%	-6.5%	18.5%
Churchill Senior loan Fund IV	3.2%	Private Debt	N	-1.2%	1.2%	9.9%	5%
Market value of total fund	£1,737m						

2.8% & -20.8% = original Gilts benchmark; 0.2% and -14.7% 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 March 2023 is shown in the table below.

	Latest Quarter Performance **Gross** of fees		12 Months to March'23 Performance Gross of fees	
Combined Fund Performance	Portfolio %	Benchmark %	Portfolio %	Benchmark %
	2.7	3.9	-3.3	-2.6

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

3.5 **Total Fund Position**

The Islington combined fund absolute performance with the hedge over the 1,3- and 5-year periods to March'23 is shown in the table below.

Period	1 year per annum	3 years per annum	5 years per annum
Combined LBI fund performance hedged	-3.3%	8.6%	6.1%
Customised benchmark	-2.6%	8.0%	5.7%

3.6 **LCIV RBC Sustainability Fund**

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

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

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

3.6.3 The fund underperformed its quarterly benchmark to March by -4.7% and a twelve-month under performance of -6.7%. This was primarily due to stock selection within the financial sector (SVB, First Republic) and specific consumer and health care stock picks

	(Amazon, Alphabet and Roche) which remain vulnerable to downward revisions in earnings estimates and a weaker economic environment. The manager continues to position the portfolio more cautiously while also aiming to maintain its growth and upside dynamic. LCIV are monitoring performance closely.
3.7	**LCIV Newton Investment Management**
3.7.1	Newton is the Fund's other global equity manager with an inception date of 1 March 2008. There have been amendments to the mandate the latest being a transfer to the London CIV platform.
3.7.2	The inception date for the LCIV NW Global Equity Fund was 22 May 2017. The new benchmark is the MSCI All Country World Index Total return. The outperformance target is MSCI All Country Index +1.5% per annum net of fees over rolling three- year periods.
3.7.3	The fund returned 5.8% against a benchmark of 4.9% for the March quarter. Since inception, the fund has delivered an absolute return of 11.5% against benchmark of 11.5%. Stock selection was the main contributor to performance mainly from the industrial and healthcare sectors. The focus is on stocks which are perceived to have superior growth potential, even if they are relatively highly valued.
3.7.4	Islington owns 54.8 % of the fund with 2 other local authorities on the LCIV platform.
3.8	**The Legal and General Paris Aligned ESG Passive Index**
3.8.1	The Paris Aligned Index was set up by transitioning the Internal UK index fund in August 2022. The original mandate was valued at £154m and now stands at £164m.
3.8.2	The quarter performance to March was 6.3% against a benchmark of 6.3%. It should be noted that there are ongoing discussions with London CIV about an oversight recharge invoice received by the Fund in April in addition to the normal investment management fees.
3.9	**Legal and General**
3.9.1	This is the fund's passive overseas equity index manager. The fund inception date was 8 June 2011, with an initial investment of £67million funded from transfer of assets from AllianzGI (RCM). The funds were managed passively against regional indices to formulate a total FTSE All World Index series. Member agreed restructuring in 2016, and the funding of BMO (our emerging market manager and restructuring of the fund to the MSCI World Low Carbon was completed on 3rd July 2017.
3.9.2	The components of the new mandate as at the end of June inception, was £138m and benchmarked against MSCI World Low Carbon Index and £34m benchmarked against RAFI emerging markets. For this quarter, the fund totalled £233m(224m) with a performance of 4.1% against a benchmark of 4.1%.

3.10	**Polen Capital (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 March quarter saw an over performance of 1.6%. The positives were stock selection Switzerland and Uruguay, while Hong Kong was a detractor.
3.10.2	The transition to Polen Capital was completed on 1st March as planned. The manager investment thesis is bottom-up stock selection and believing that it can reduce risk by only holding the highest conviction positions for up to 5years.
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 -2.3% against a gilt benchmark of 2.8%. The All Property IPD benchmark returned 0.2% for this quarter. Since inception, the fund has delivered an absolute return of 5.2%
3.11.3	As at the end of this March quarter the fund's unexpired average lease term is 21 years. The Fund holds 87 assets with 53 tenants. The manager continues to de-risk the portfolio and secure opportunities that will improve the portfolio in terms of distributions, returns and key metrics such as duration, inflation linkage and diversification. There is £115m of investible capital and 5% of cash held.
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%. 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 £90.3million (89.8m Dec)

	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 0.5% against its benchmark -0.2% for the March quarter. Since inception it has delivered an absolute return of 5.7% per annum.
3.12.3	The cash balance now stands at 1.9%. During the quarter, seven strategic disposals, were made and there were no acquisitions. Rent collection is improving at 96.3% 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. A Redemption Deferral Policy (the Policy) for TPEN PF was enacted effective for investor dealings from 3 October 2022 to protect all Investors' interests as a result of the volatility in the investment market since 23 September 2022.
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 March quarter is $62.1m. 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 $30.7m. The NAV is $19.2m

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 $12.4m has been drawdown and a distribution of $8.6m had been received. No activity this quarter.

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 3.14.3	For the March quarter, the value of the fund investment was £28million and total funds under management is £70m. Performance net of fees was 0.4% compared to the IPD UK All Property benchmark of 0.2%. Members agreed to option 2 to speed the reduction of holdings in the Fund. A £2m redemption as agreed in March is due for payment in July and the proposal is to firm up a plan to cross with new investors to reduce redemption charge. A progress meeting was held in June and will be commented on in MJ Hudsons report.
3.15 3.15.1 3.15.2	**Quinbrook Infrastructure** This one of the infrastructure managers appointed in November 2018. The total fund allocation infrastructure was 10% circa £130m. 40% of the allocation equivalent to $67m was allocated to low carbon strategy. Merits of Quinbrook include: • Low carbon strategy, in line with LB Islington's stated agenda • Very strong wider ESG credentials • 100% drawn in 12-18 months • Minimal blind pool risk • Estimated returns 7%cash yield and 5% capital growth **Risks:** Key Man risk Drawdown to December 2021 is $67.0m – this is 100% of our commitment and there was a distribution of $30m during the quarter. Islington completed documentation and onboarding to The Net Zero Power Fund on 25 August with a commitment of $100m. The terms and conditions were negotiated and agreed with a side letter. Total capital call to the end of this quarter was $52m.
3.16.1	**Pantheon Access-** is the other infrastructure manager also appointed in November 2018. Total allocation was $100m and merits of allocation included: • 25% invested with drawdown on day 1 • Expect fully drawn within 2-3 years • Good vintage diversification between secondaries and co-investments • Exposure to 150 investments • Estimated return 5% cash yield and 6% capital growth **Risks:** No primary fund exposure. Drawdown to March 23 is $89.65m and distribution of $29.5m
3.17 3.17.1	**Schroders** 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 £45.7m. The aim is to participate in equity market rallies, while outperforming in falling equity markets. The March quarter performance before fees was 1.3% against the benchmark of 3.0% (inflation+5%). The performance since inception is 3.1% against benchmark of 9.6% before fees. Equity positions contributed+1.0% from the total return, alternatives neutral, credit and government debt contributed +1.3%, and cash and currency detracted 0.4%. The new benchmark effective from 1 April 2022 is ICE BofA Sterling 3-Month Government Bill Index plus 4.5% per annum.
3.18 3.18.1 3.18.2 3.18.3	**Standard Life** Standard Life has been the fund's corporate bond manager since November 2009. Their objective is to outperform the Merrill Lynch UK Non Gilt All Stock Index by 0.8% per annum over a 3 -year rolling period. During the March quarter, the fund returned 2.3% against a benchmark of 2.4% and an absolute return of 4.1% per annum since inception. Stock selection was a small positive. The agreed infrastructure mandates are being funded from this portfolio and to date £80m has been drawn down.
3.19 3.19.1	**Passive Hedge** The fund currently targets to hedge 50% of its overseas equities to the major currencies dollar, euro and yen. The passive hedge is run by BNY Mellon our custodian. At the end of the March quarter, the hedged overseas equities had a positive cash value of £6.7m 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 March quarter performance was 1.7% against a benchmark of 1.8% and a one year under performance of -3.4%. The primary contributors to performance were exposures to 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 March 2023 as part of the regular monitoring of fund performance and Appendix 1- MJ Hudson commentary on managers. Appendix 2 and Mercer NewsAlert LGPS current issues as at May'23 is attached for information.

Appendices: Appendix 1 – MJ Hudson Fund Mgr monitoring report
Appendix 2 - News Alert LGPS Current Issues as at Mar'23

Background papers:
1. Quarterly management reports from the Fund Managers to the Pension Fund.
2. Quarterly performance monitoring statistics for the Pension Fund – BNY Mellon

Final report clearance:

Signed by: David Hodgkinson

Corporate Director of Resources Date:

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legal implications author : n/a

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London Borough of Islington

Report to 31st March 2023

MJ Hudson

JUNE 2023

Table of Contents

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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
Legal and General (passive equities)	Not reported by LGIM.	Funds are tracking as expected.	The pooled funds in which Islington pension fund invests have a combined assets under management of £4.56 billion at end March 2023.
Schroders (multi-asset diversified growth)	There were no immediate team changes during Q1 2023. Angus Sippe, a member of the Asset Allocation Committee has left.	Fund made a return of +1.35% during the quarter and delivered a return of +6.34% p.a. over 3 years, -6.53% p.a. behind the target return.	Total AUM stood at £776.3 billion as at end December 2022, up from £773.4 billion as at end June 2022.
Polen Capital (active emerging equities)	No staff changes reported. During Q1 the Columbia Threadneedle emerging markets team was sold to Polen Capital.	Outperformed the benchmark by +1.64% in the quarter to March 2023. The fund is behind over three years by -0.34% p.a.	Total AUM stood at approximately $55bn as at end December.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
LCIV Global Equity Fund (Newton) (active global equities)	None reported by LCIV.	The LCIV Global Equity Fund outperformed its benchmark during Q1 2023 by +1.27%. Over three years the portfolio underperformed the benchmark by -1.00% and is under the performance target of benchmark +1.5% p.a. Over five years it remains ahead of the benchmark by +0.82% p.a.	At the end of Q1 2023, the London CIV sub-fund's assets under management were £588.5 million. London Borough of Islington owns 54.8% of the sub-fund.
LCIV Sustainable Equity Fund (RBC) (active global equities)	Anne Ya Xue joined the Global Equity team covering Energy and Materials.	Over Q1 2023 the fund made a return of +0.21%, and this underperformed the benchmark return of +4.81%. The one-year return was -7.61%, weak in absolute terms and behind the benchmark by -6.62%. The three-year return underperformed the benchmark by -2.71% p.a.	As at end March 2023 the sub- fund's value was £1,240 million. London Borough of Islington owns 13.42% of the sub-fund.

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 return of +1.75% over Q1 2023, behind the target return by -0.02%. Over one year, the fund returned +2.35% which was behind the target return by -3.40%.	The fund size was £8.5 billion as at end March. London Borough of Islington's investment amounts to 0.91% of the fund.
Standard Life (corporate bonds)	There were nine joiners and 23 leavers during the quarter. There were four new joiners into the Fixed Income Group and two of the leavers were from the fixed income group; one being the head of Fixed Income, Malaysia.	The portfolio underperformed the benchmark return during the quarter by -0.03%, delivering an absolute return of +2.35%. Over three years, the fund was behind the benchmark return (by -0.26% p.a.) and behind the performance target of +0.80% p.a.	As at end December the fund's value was £2,233 million, down from £2,400 million as at end December. London Borough of Islington's holding of £68.2m stood at 3.1% of the total fund value.
Aviva (UK property)	Information not received at the time of going to print.	Underperformed against the gilt benchmark by -5.02% for the quarter to March 2023 but outperformed the benchmark over three years by +12.99% p.a., delivering a return of +1.62% p.a., net of fees.	The fund was valued at £3.13 billion as at end Q1 2023. London Borough of Islington owns 4.1% of the fund.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Columbia Threadneedle (UK property)	There were no leavers from the property team this quarter, and one new joiner, an Analyst.	The fund outperformed the benchmark in Q1 2023, with a quarterly return of +0.53% compared with -0.22%. Over three years, the fund is outperforming the benchmark by +0.42% p.a.	Pooled fund has assets of £1.55 billion. London Borough of Islington owns 5.81% of the fund.
Franklin Templeton (global property)	Information not received at the time of going to print.	The portfolio return over three years was +4.99% p.a., and so behind the target of 10% p.a. Over 5 years the fund is ahead of the benchmark by +4.86% p.a.	£542.6 million of assets under management for the real estate group as at end September 2021 (latest figures reported).
Hearthstone (UK residential property)	There were no joiners in Q1 2023. Business Development Manager David Hall retired at the end of March.	The fund outperformed the IPD UK All Property Index by +0.19% in Q1 2023. It is now ahead of the IPD benchmark over three years by +0.27% p.a. to end March 2023.	Fund was valued at £69.4m at end Q1 2023. London Borough of Islington owns 40.3% of the fund and is in a phased redemption process.

MANAGER	LEAVERS, JOINERS AND DEPARTURE OF KEY INDIVIDUALS	PERFORMANCE	ASSETS UNDER MANAGEMENT
Quinbrook (renewable energy infrastructure)	COO and head of finance is on a year's sabbatical and has been replaced by Simon Jones who has held similar positions at other firms.	For the three years to Q1 2023 the fund returned +13.64%, 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 +3.14% p.a. over three years, and +15.63% p.a. over five years. The infrastructure fund returned +13.78% p.a. over three years to end March.	$59.7bn of assets under management as at December 2022.
Churchill (Middle Market Senior Loan Fund)	Not reported.	The fund has achieved a return of -1.12% for the quarter to 31 March 2023, underperforming the benchmark return of +1.23. Over 1-year, the fund is outperforming the benchmark by +4.97%	
Crescent (Credit Solutions Fund)	Not reported.	The fund returned +7.56% over Q1 2023, outperforming the benchmark by +5.15%.	$41 billion of assets under management as at March 2023.

Source: MJ Hudson

Minor Concern

Major Concern

Individual Manager Reviews

Legal and General Investment Management (LGIM) – Overseas Equity Index Funds

Headline Comments: The three passive index funds were within the expected tracking range when compared with their respective benchmarks. FTSE-RAFI Emerging Markets fund, MSCI World Low Carbon Target index fund, and the ESG Paris Aligned World Equity Fund performed in line with their benchmarks in Q1 2023.

Mandate Summary: The London Borough of Islington invests in three of LGIM's index funds. The first 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. In August 2022, the fund's passive UK equity mandate was transitioned into the third passive fund: the ESG Paris Aligned World Equity Fund. This fund is designed to match the total return on the Solactive Paris Aligned Index. It differs to the Low Carbon passive fund because it has a more ambitious goal of targeting net zero by 2050 in line with the Paris Agreement.

Performance Attribution: The three index funds tracked their respective benchmarks as expected, as shown in Table 2.

TABLE 2:

	Q1 2023 FUND	Q1 2023 INDEX	TRACKING
FTSE-RAFI Emerging Markets	+1.01%	+0.93%	+0.08%
MSCI World Low Carbon Target	+4.69%	+4.73%	-0.04%
ESG Paris Aligned World Equity Fund	+6.31%	+6.19%	+0.13%

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 49.54% to the MSCI World Low Carbon Target index fund, 40.76% to the ESG Paris Aligned World Equity Fund, and 9.70% allocated to the FTSE RAFI Emerging Markets index fund.

Staff Turnover/Organisation: Not reported by LGIM.

Schroders – Diversified Growth Fund (DGF)

Headline Comments: The DGF made a return of +1.35% in Q1 2023, and in relative terms it underperformed the CPI + 5% target by -1.67% and the cash + 4.5% target by -0.6% (this being the manager's preferred target since March 2022). Over three years, the fund is behind the CPI + 5% target return by -6.53% p.a.

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 return of +1.35% in Q1 2023 while global equities made a return of +6.8%. Over three years, the DGF delivered a return of +6.34% p.a.

In Q1 2023, equity positions contributed +1.0% to the total return, alternatives remained neutral, credit and government debt contributed +1.3%, while cash and currency detracted -0.4% (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 7.6% compared to the three-year volatility of 16.4% in global equities (i.e., 46.3% of the volatility) which is in line with target.

Portfolio Characteristics: The fund had 48% in internally managed funds (down from last quarter), 17% in active bespoke solutions (down from last quarter), 7% in externally managed funds (up from last quarter), and 26% in passive funds (up from last quarter) with a residual balance in cash, 3% (down from last quarter), as at end March 2023. In terms of asset class exposure, 30.1% was in equities, 23.4% was in alternatives and 43.8% in credit and government debt.

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

The manager has increased government bonds, in preparation for a slowdown in economic activity. It has now changed its positioning to "neutral" on most asset classes, which it states it has not been for quite some time (usually the manager holds positive or negative views on most asset classes).

Schroders reported that the carbon intensity of the fund was 59% that of the comparator (a mix of equities, bonds, and alternative indices), although the manager notes that coverage is only at 59% of the portfolio (compared with 80% for the comparator).

Organisation: There were no immediate team changes during Q1 2023. Angus Sippe, one of 6 voting members of the Asset Allocation Committee has left, and Schroders made the decision not to replace him.

Polen Capital (formerly Columbia Threadneedle/BMO)– Global Emerging Market Growth and Income Fund

Headline Comments: The portfolio made a return of +2.83% in Q1 2023, compared with the benchmark return of +1.19%, an outperformance of +1.64%. Over one year the fund is ahead of the benchmark by +0.43%, over three years it is trailing by -0.34% per annum. The acquisition of the Columbia Threadneedle emerging markets business by Polen Capital completed as planned during the quarter.

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 outperformed the index in the quarter. Overexposure in comparison to the benchmark to Uruguay and Switzerland (both off benchmark holdings) contributed positively to performance, though overexposure to Hong Kong detracted from performance, mainly due to specific stock selection.

During the quarter, the largest positive contributors to the quarterly relative return came from MercadoLibre (+0.98%), Wizz Air (+0.96%), and by Walmart de Mexico (+0.52%). Companies which detracted most from performance included Infosys (-0.61%), Epam Systems (-0.49%), and AIA Group (-0.27%).

Over one year, the fund has outperformed the benchmark by +0.43% which shows a much-improved picture although over three years it is still trailing by -0.34% p.a. (the three year numbers include the legacy frontier markets portfolio returns, but this is still a big improvement on a year ago when the portfolio was trailing the three year benchmark by some -3.9% p.a.)

Portfolio Risk: Within the emerging markets portfolio there is a 15.0% allocation to non-benchmark countries (excluding the holding in Cash & Equivalents). The largest overweight country allocation in the emerging markets portfolio remained India (+5.3% overweight). The most underweight country allocation was Taiwan (-6.7%). The manager also held 14.7% of the portfolio in four developed countries, compared with the benchmark's 2.5% in Hong Kong.

Portfolio Characteristics: The largest absolute stock position was Tencent Holdings at 6.7% of the portfolio, while the largest absolute country position was China/HK and accounted for 32.5% of the portfolio.

As at end March, the portfolio had a 15% allocation to technology, below the benchmark allocation of 21%. The Manager states that its bottom-up stock selection process means it puts less emphasis on sector diversification, believing that it can reduce risk by only holding the highest conviction positions. It also states that the technology sector has a very broad range of underlying sub-industries and verticals.

The Manager looks to hold investments for 5 years, and states that it has a turnover of below 20%.

It is worth noting that Taiwan Semiconductor Manufacturing (TSMC) is held by Polen Capital, LCIV Newton, LCIV RBC, and LGIM which creates a significant overlap. Between these four Managers, the London Borough of Islington has a 0.89% exposure to TSMC at the total fund level.

Polen Capital stated that its investment thesis for TSMC is based on strong fundamentals, including returns on internally invested capital well in excess of cost of capital for more than 20 years, and compounded revenues and earnings at 12% over 10 years. It also highlights the growing importance of semiconductors in the evolution of the digital economy, and TSMC has a strong and growing market share in its part of the value chain.

Staff Turnover/Organisation: As previously reported, Columbia Threadneedle had announced that the emerging markets team were to be sold to a US firm, Polen Capital. As of end Q1 2023 the transfer is now complete.

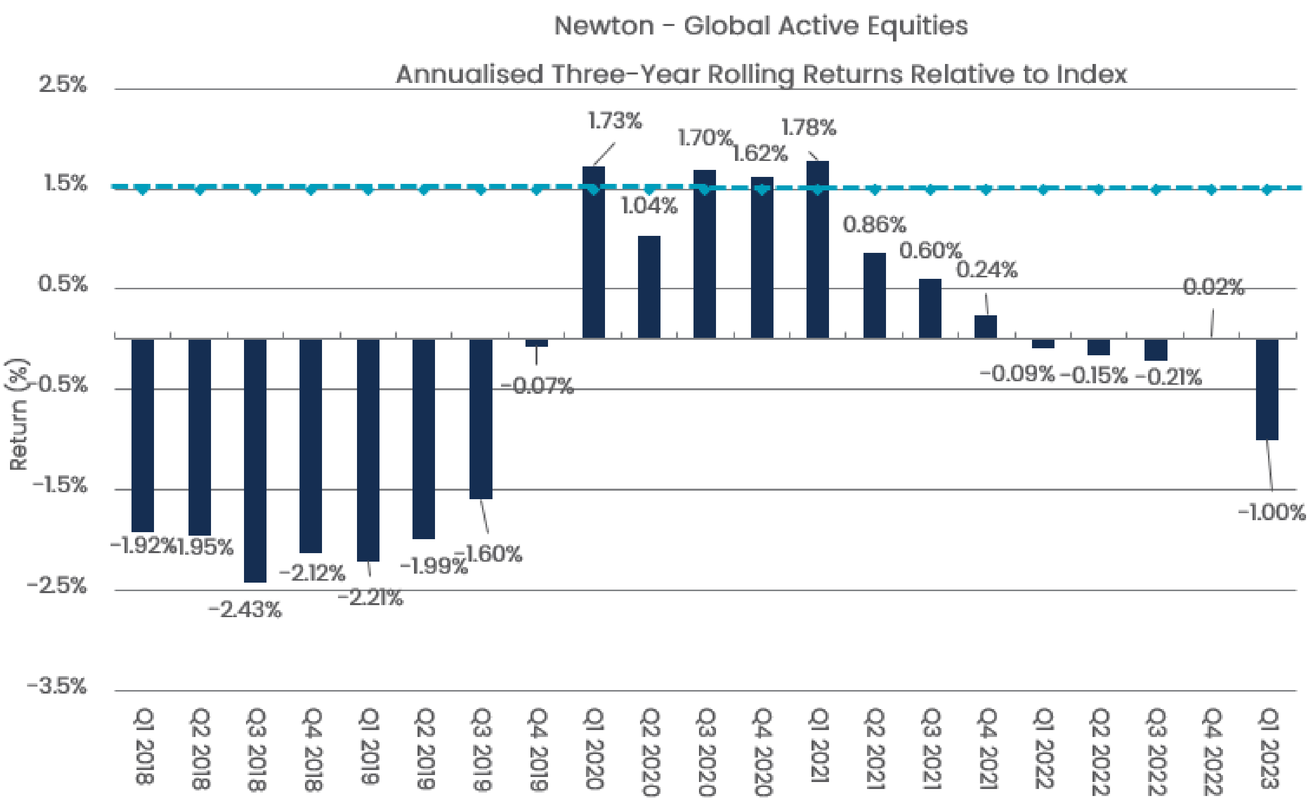
LCIV Global Equity Fund (Newton) – Global Active Equities

Headline Comments: The LCIV Global Equity Fund outperformed its benchmark during Q1 2023 by +1.27%. Over three years the portfolio underperformed the benchmark by -1.00% p.a. Over five years the manager is ahead of the benchmark return by +0.82% p.a.

Mandate Summary: An active global equity portfolio. Newton operates a thematic approach based on 12 key themes that they believe will impact the economy and industry. Some are broad themes that apply over the longer term; others are cyclical. Stock selection is based on the industry analysts' thematic recommendations. The objective of the fund since 22nd May 2017 is to outperform the FTSE All-World Index by +1.5% p.a. over rolling three-year periods, net of fees. The London CIV monitors this manager.

Performance Attribution: Chart 1 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 1:



Source: MJH; BNY Mellon

Chart 1 shows that the level of outperformance over three years had been falling since Q1 2021, when the fund was ahead of the benchmark by +1.78% p.a. By Q1 2023 the fund has now underperformed the benchmark over three years by -1.00% p.a. and is underperforming the performance objective by -2.05% p.a. (the performance objective is shown by the dotted line).

Positive contributions to the total return came from holdings such as Apple (+0.94%), Microsoft (+0.87%), and General Electric Co (+0.59%). Negative contributions came from positioning in Dollar General (-0.28%), Xp Inc Com Usd (-0.26%), and AIA Group (-0.21%).

In its peer group analysis, the London CIV reported that Newton is now delivering returns below the median over the shorter and longer term. Over the past three years period the risk has been low relative to peers. The London CIV also noted that turnover on the strategy in 2022 was 34% compared with 14% in 2021, which they consider to be at the high end of expected turnover levels. The manager has incurred higher turnover to respond to volatile and changing markets.

London CIV completed an in-depth review of this Manager in November, and published its findings in February. The LCIV Global Equity Fund was given an overall rating of 2 stars, meaning that the Fund “delivers value but some criteria are to be monitored”.

Portfolio Risk: The active risk on the portfolio stood at 3.05% as at quarter end, slightly lower than as at end September when it stood at 3.32%. The portfolio remains defensive, with the beta on the portfolio at end December standing at 0.97, up by 0.06 from previous quarter (if the market falls by -10% the portfolio can be expected to fall -9.7%).

At the end of Q1 2023, the London CIV sub-fund's assets under management were £588.5m, compared with £556.6m last quarter. London Borough of Islington now owns 54.82% of the sub-fund.

Portfolio Characteristics: The number of stocks in the portfolio stood at 59 as at quarter-end (up 2 from last quarter). The fund added seven positions, including Nvidia, Danaher, and Roper Technologies. Newton completed five sales, including Nestle and Norfolk Southern Corp.

The portfolio continues to be heavily weighted to Technology (an allocation of 22.7%), which has increased and is now once again overweight against the Benchmark. At a stock level, the largest overweight technology stock is Samsung SDI (+2.4%) followed by Microsoft (+2.1%). The Manager has provided investment theses underpinning each of its technology stocks. For example, Samsung SDI plays an important role in the supply of batteries to electric vehicles, a trend that Newton has conviction, and Microsoft plays a key role in the multi-year adoption of cloud infrastructure and software.

Financials is the second largest allocation (21.9%) and is the largest overweight against the benchmark. This is due to the Manager continuing to build on existing holdings in a number of insurance companies.

The Manager typically envisages a holding period of between 3 to 5 years, though where long term thematic trends remain very supportive of investment case, a security may be held for a longer period.

In Q1 2023, LCIV reported that the Newton sub fund had a weighted average carbon intensity of 48% that of the benchmark index (the MSCI World Index). The highest contributor was Shell (10.84% 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 (Exelon contributes a further 5.3% to the weighted average carbon intensity).

Staff Turnover: None reported by LCIV for Q1 2023.

LCIV Sustainable Equity Fund (RBC) – global equities

Headline Comments: Over Q1 2023 the fund made a return of +0.21%. This underperformed the benchmark return by -4.60%. The one-year return was -7.61%, weak in absolute terms and behind the benchmark by -6.62%. The three-year underperformance was -2.71% p.a.

against the benchmark. Islington's investment makes up 13.42% of the total London CIV sub-fund.

Mandate Summary: A global equities fund that considers environmental, social and governance factors. The fund aims to deliver, over the long term, a carbon footprint which is lower than that of the MSCI World Index Net (Total Return). The fund also aims to achieve capital growth by outperforming the MSCI World Index Net (Total Return) by 2% per annum net of fees annualised over rolling three-year periods.

Performance Attribution: With continued market uncertainty and the collapse of the U.S. regional banks, the fund has underperformed the benchmark in Q1 2023, and has made a loss for the quarter in absolute terms. The portfolio has overweight allocations to the Financial, Consumer Staples, Industrials, and Consumer Discretionary sectors. The Manager has stated that stock selection within the Financials sector, particularly due to the knock-on effects of the collapse of the U.S regional banks, detracted from performance. Over the quarter the largest contributors to return included Nvidia (+1.68%), Microsoft (+1.05%), and Taiwan Semiconductor Manufactor (+0.83%). The largest detractors include positioning in Charles Schwab (-1.14%), First Republic Bank (-0.77%), and Unitedhealth Group (-0.75%).

The London CIV is now comparing managers against their peer group and reported that RBC is performing well over the medium and long term. This has been achieved whilst taken only average risk, when compared with peers. However, the short-term has been challenging, ranking in the fourth quartile for its peer group for the one-year period.

London CIV completed an in-depth review of this Manager in November, and published its findings in February. The LCIV Sustainable Equity Fund was given an overall rating of 2 stars, meaning that the Fund "delivers value but some criteria are to be monitored".

Portfolio Characteristics: As at end of March 2023 the fund had 38 holdings (1 up from last quarter) across 13 countries. The active risk of the fund was 3.79%, slightly higher than Newton.

London CIV report that the fund continues to favour quality companies with low gearing.

In Q1 2023, LCIV reported that the RBC sub fund had a weighted average carbon intensity of 65% that of the benchmark index (the MSCI World Index) which is an improvement from last quarter (when it was 71%). The highest contributors were InterContinental Hotels Group (excluding this holding from the portfolio would reduce the weighted average carbon intensity by 13.21%), First Quantum Minerals Ltd (6.58%) and Equinor ASA (6.07%).

The portfolio has a total allocation of 13.8% to technology stocks, versus the benchmark allocation of 22.7%. The Manager follows a bottom-up stock selection process, and therefore has provided robust individual investment theses for each of its technology stocks.

RBC states that it aims to hold companies for the long term and that the average holding period of individual stocks since the Strategy's inception is 4.6 years.

M&G – Alpha Opportunities Fund

Headline Comments: During Q1 2023 the M&G Alpha Opportunities Fund made a return of +1.75%, marginally underperforming the benchmark return of +1.77%. Over one year it is trailing the benchmark (cash plus 3.5%) by -3.4%.

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 SONIA/one-month Euribor plus 3-5% gross of fees p.a. over a market cycle.

Performance Attribution: During the quarter, the fund made a return of +1.75% compared to the benchmark return (one month Libor plus 3.5% being used in Northern Trust's performance analysis) of +1.77%. Exposure to industrial corporate bonds was the top contributor, with leveraged loans also performing well. Yield curve hedging/currency hedging was the top detractor (-0.23%). Over one year, the fund is trailing the target return by -3.40% p.a.

Portfolio Characteristics: The largest allocations in the portfolio were to industrials (38%), Financials (26%), and Securitised debt (12%). 47% of the portfolio was rated BB* or below. The Manager reduced overall exposure areas of the credit market that had rallied strongly in 2022, and later increased exposure to financials through opportunities identified during the banking sector volatility.

As at end March, the weighted average carbon intensity (WACI) of the portfolio was 43% of the WACI of a benchmark index, with 76% of the portfolio being measured where data was available (compared with 89% coverage for the benchmark).

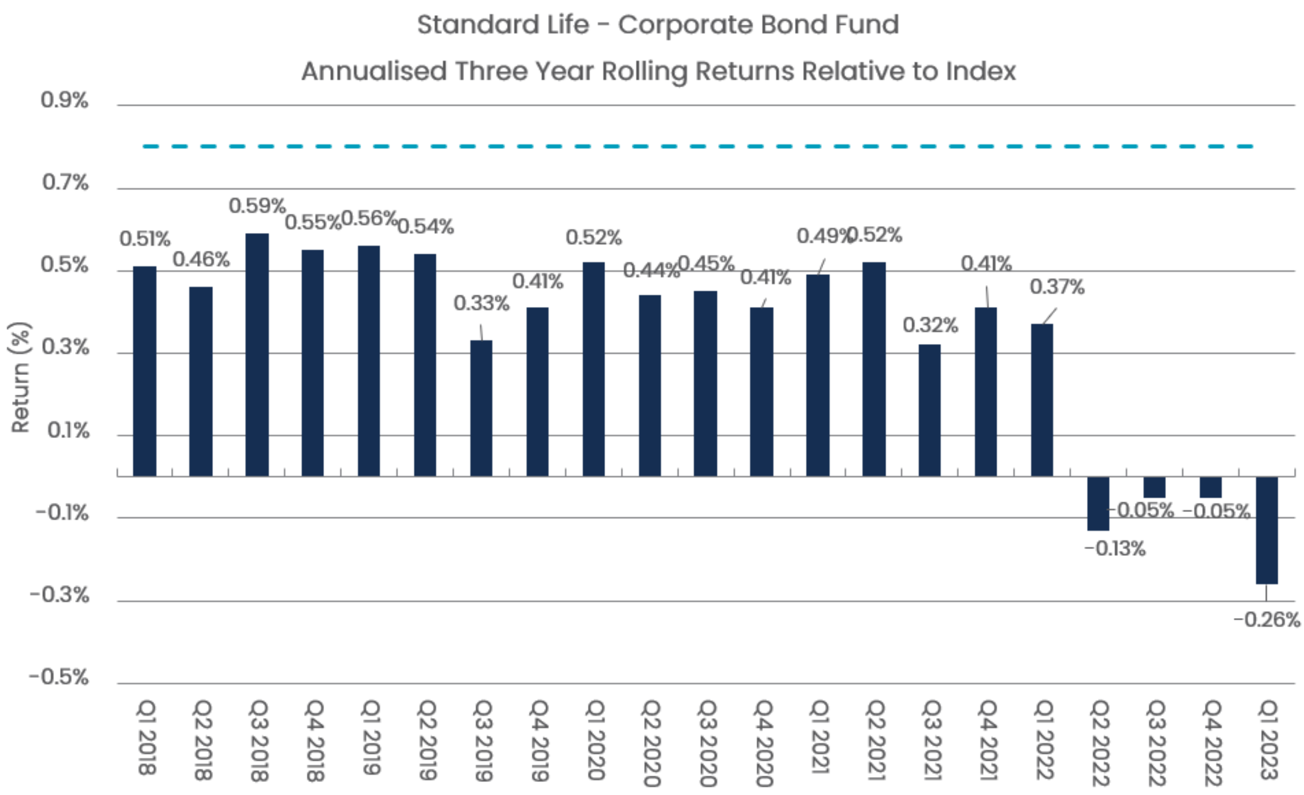
Standard Life – Corporate Bond Fund

Headline Comments: The portfolio marginally underperformed the benchmark return during the quarter by -0.03% and made an absolute return of +2.35%. Over three years, the fund was behind the benchmark return (by -0.26% p.a.) for the fourth consecutive quarter 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 2 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 2).

CHART 2:



Source: MJH; BNY Mellon

Over three years, the portfolio has returned -3.33% p.a. net of fees, compared to the benchmark return of -3.07% p.a.

Portfolio Risk: The largest holding in the portfolio at quarter-end was the Government of Sweden at 0.8% of the portfolio.

Portfolio Characteristics: The value of Standard Life's total pooled fund at end December 2022 stood at £2,233 million. London Borough of Islington's holding of £68.2m stood at 3.1% of the total fund value.

Staff Turnover: There were nine joiners and 23 leavers during the quarter. There were four new joiners into the Fixed Income Group, three Investment Analysts and one Portfolio analyst. Two of the leavers were from the fixed income group; an Investment Director and head of Fixed Income, Malaysia.

Aviva Investors – Property – Lime Property Fund

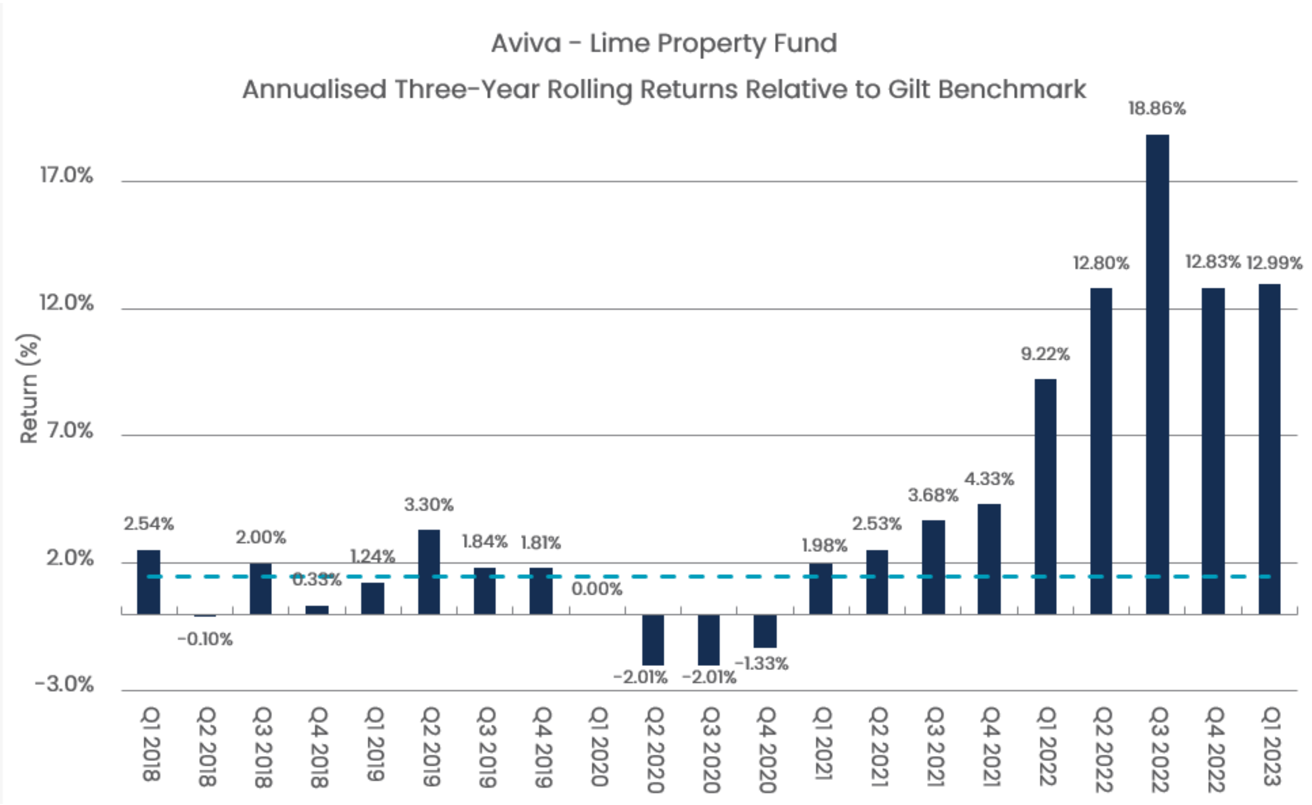
Headline Comments: The Lime Fund made a loss of -2.23%. It underperformed the benchmark return by -5.03% in Q1. Over three years, the fund is ahead of the benchmark return by +12.99% p.a., and over one-year outperformed by +7.64%.

Mandate Summary: An actively managed UK pooled property portfolio, the Lime Fund invests in a range of property assets including healthcare, education, libraries, offices and retail. The objective of the fund is to outperform a UK gilt benchmark, constructed of an equally weighted combination of the FTSE 5-15 Years Gilt Index and the FTSE 15 Years+ Gilt Index, by +1.5% p.a., over three-year rolling periods.

Performance Attribution: The fund's Q1 2023 return was attributed by Aviva to -3.15% capital return and +0.87% income return.

Over three years, the fund has returned +1.62% p.a., considerably ahead of the gilt benchmark of -11.37% p.a., and ahead of its outperformance target of +1.5% p.a., as can be seen in Chart 3.

CHART 3:



Source: MJH; BNY Mellon

Over three years, 183% of the return came from income and -83% from capital gain.

Portfolio Risk: within the MSCI quarterly index of UK real estate funds, the Lime Fund is the least volatile fund over the short, medium and long term. There were no acquisitions over the quarter and one sale of a hospital in Bedford. The manager received two redemption requests during the quarter totalling £70 million. A further £50 million of sales were achieved in the secondary market.

The average unexpired lease term was 21.0 years as at end March 2023. 12.6% of the portfolio's lease exposure in properties is in 30+ year leases, the largest sector exposure remains offices at 25.96% (proportion of current rent), and the number of assets in the portfolio is 86. The weighted average tenant credit quality rating of the Lime Fund remained at BBB+ this quarter.

Portfolio Characteristics: As at March 2023, the Lime Fund had £3.13 billion of assets under management, a decrease of -£99 million from the previous quarter end reflecting the fall in capital value. London Borough of Islington's investment represents 4.1% of the total fund.

Staff Turnover/Organisation: Not available at the time of going to print.

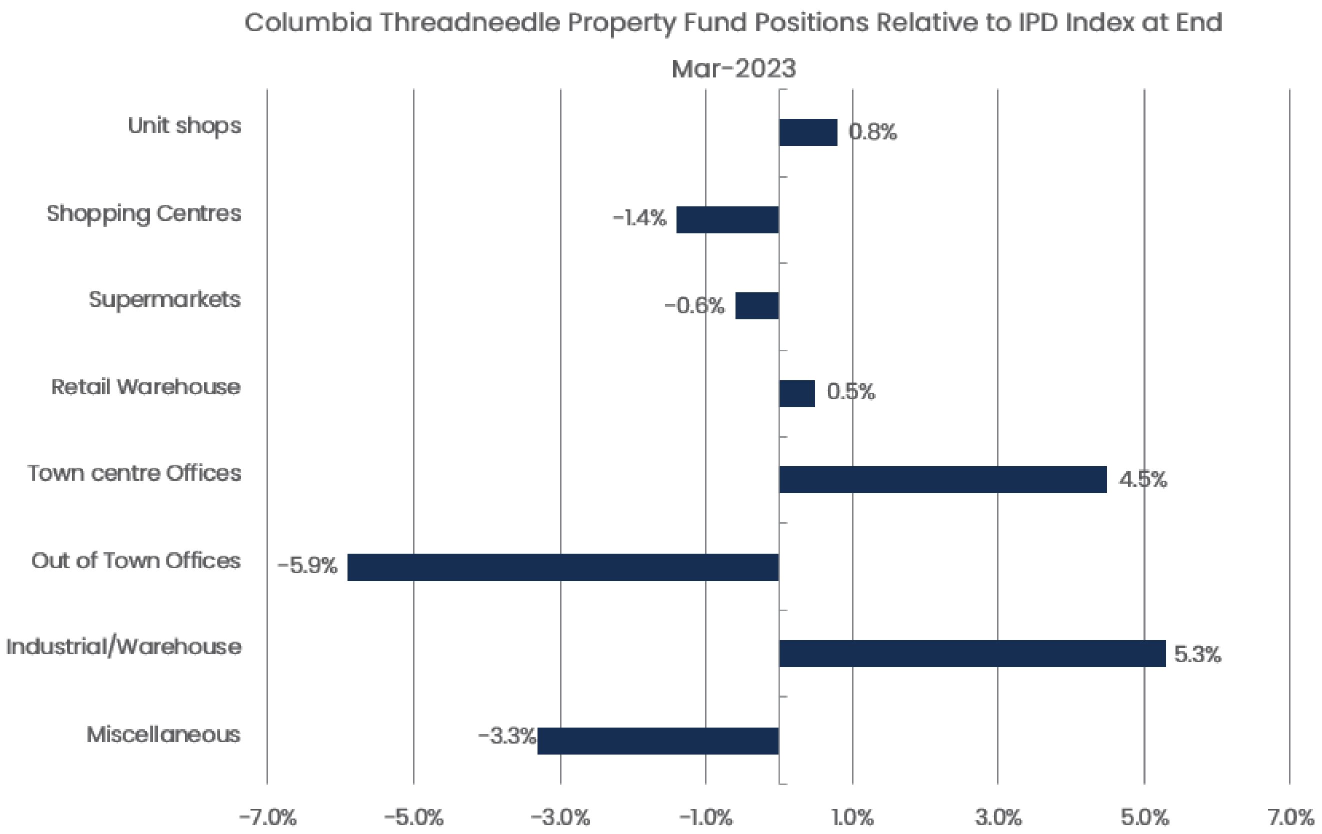
Columbia Threadneedle – Pooled Property Fund

Headline Comments: The fund delivered a positive absolute return and outperformed the benchmark in Q1 2023, with a quarterly return of +0.53% compared to the benchmark return of -0.22%. Over three years, the fund outperformed the benchmark by +0.42% p.a. and as such is behind the performance target of +1.0% p.a. above benchmark.

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

Portfolio Risk: Chart 4 shows the relative positioning of the fund compared with the benchmark.

CHART 4:



Source: MJH; Columbia Threadneedle

During the quarter, the fund made no acquisitions and seven sales. The cash balance at end March was 1.9%, compared with an average cash allocation of 5.3% for the peer group benchmark. The Manager states that it continues to monitor liquidity closely as a means of protecting the fund against the prevailing market volatility.

Performance Attribution: The fund outperformed the benchmark in Q1 2023, with a quarterly return of +0.53% compared to -0.22%. Over 1-year the fund outperformed the benchmark by +1.09%. The fund is now outperforming the benchmark over three years by +0.42% but is behind the performance target of +1.0% p.a. above benchmark.

Portfolio Characteristics: As at end March 2023, the fund was valued at £1.55bn, a decrease of £59m from the fund's value in December 2022. London Borough of Islington's investment represented 5.81% of the fund.

Staff Turnover: There were no departures from the TPEN property team or the wider property team in Q1 2023, and there was one joiner, an Analyst, in the wider Property team.

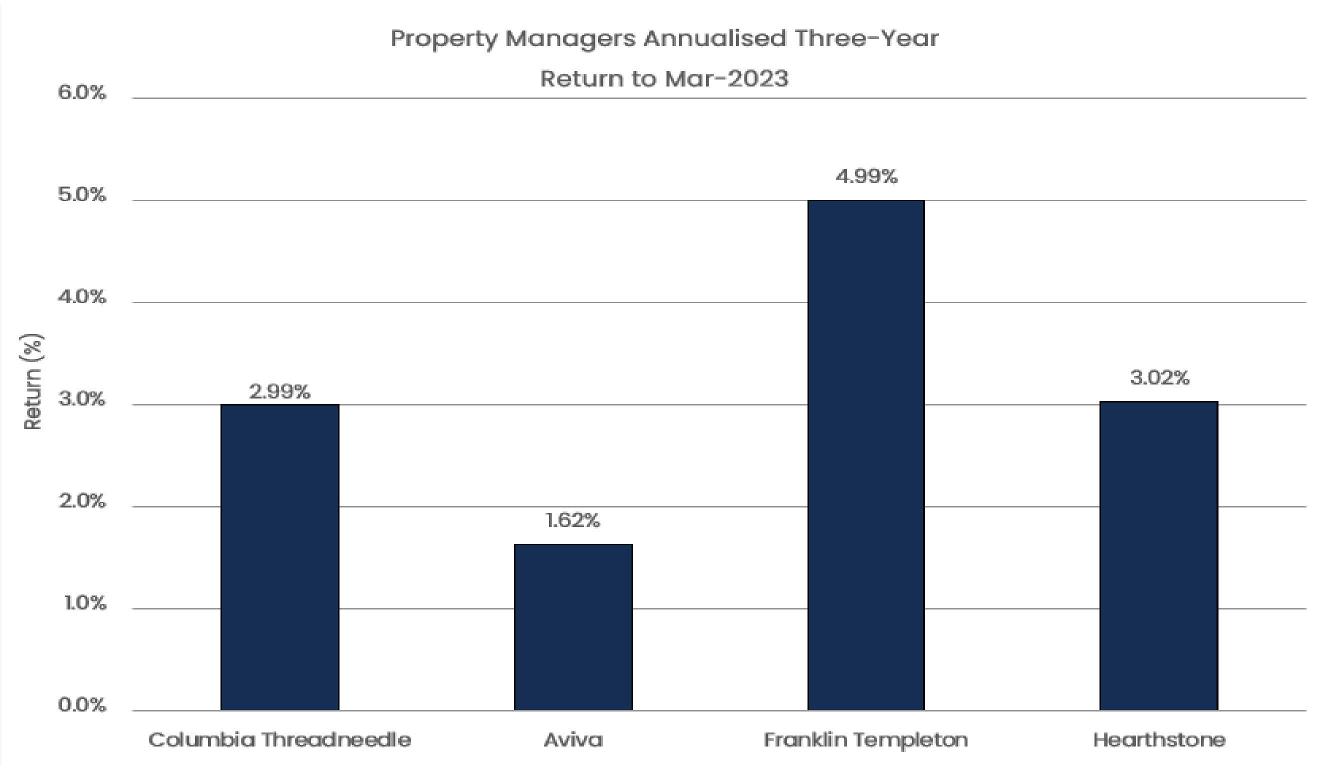
Franklin Templeton – Global Property Fund

Headline Comments: This is a long-term investment and as such a longer-term assessment of performance is recommended. There are now three funds in which London Borough of Islington invests. The portfolio in aggregate underperformed the absolute return benchmark of 10% p.a. over three years by -5.01% p.a.

Mandate Summary: Three global private real estate fund of funds investing in sub-funds. The performance objective is an absolute return benchmark over the long term of 10% p.a.

Performance Attribution: Over the three years to March 2023, Franklin Templeton is the best performing fund across all four property managers. Chart 5 compares their annualised three-year performance, net of fees.

CHART 5:



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 138% of total Fund equity.

The largest remaining allocation in Fund I is to the US (79% of funds invested), followed by Europe (21%). As the fund distributes, the geographic exposure is likely to become increasingly concentrated.

Fund II is fully invested in a diverse mix of property sectors including office and retail uses. There has been an increase in the level of distributions for the first time since end June 2021, and so as at end March 2023, 87.0% of committed capital had been distributed, a 2% increase. Leverage decreased from 57% for the quarter to June 2022 to 53% for the quarter to March 2023. The manager notes that the pandemic has led to some delays in implementing business plans.

The largest geographic allocation in Fund II is to Europe (62% of funds invested), followed by the US (29%), and Asia (9%).

Fund III continues to invest in a diverse mix of property sectors including residential, retail, industrial and office uses. There was no change to the total distributions made over the period, and no new investments or realisations.

Staff Turnover/Organisation: There were no joiners and one leaver during Q1 2023, an Investment Associate.

Hearthstone – UK Residential Property Fund

Headline Comments: The portfolio outperformed the benchmark for the quarter ending March 2023 by +0.19%, and is outperforming over three years by +0.27% p.a.

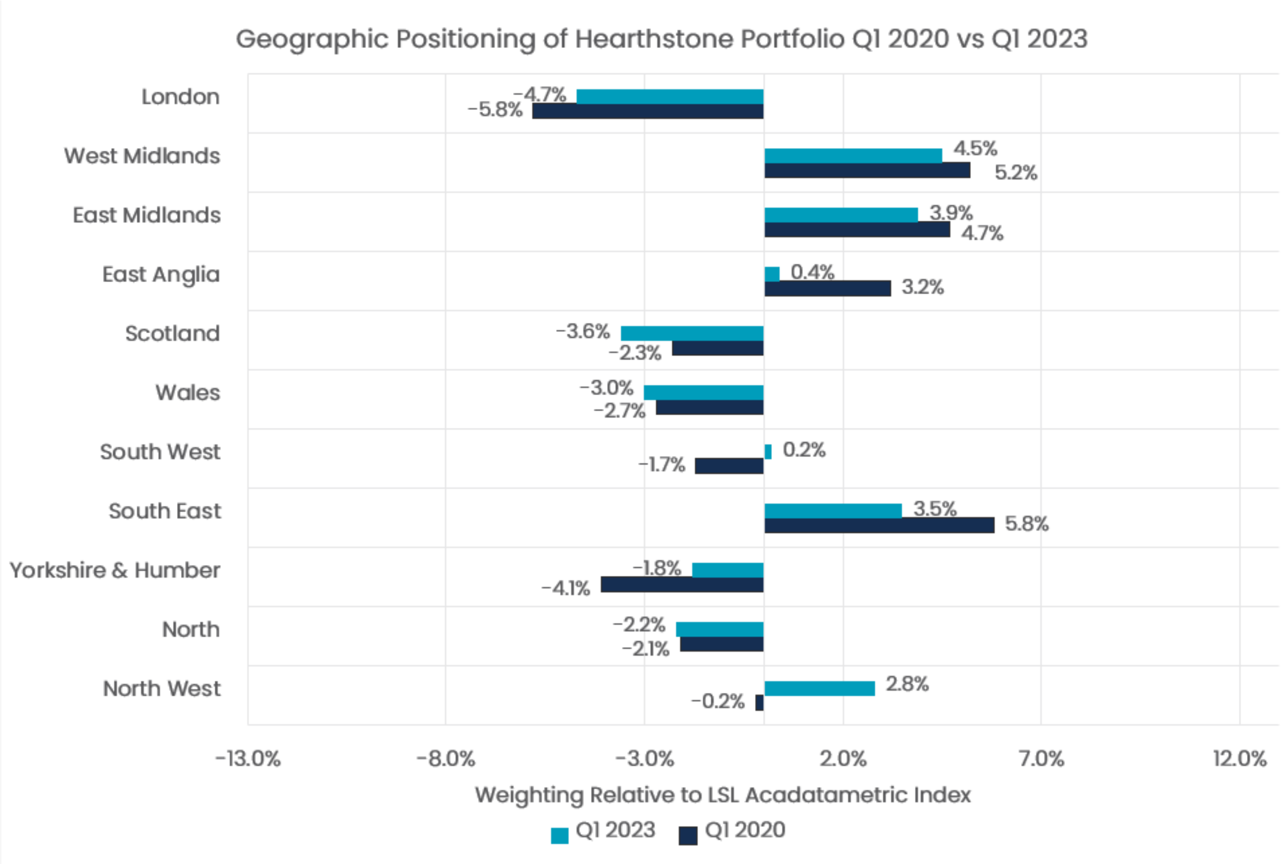
Mandate Summary: The fund invests in private rented sector housing across the UK and aims to outperform the LSL Acadametrics House Price Index (note that this excludes income), as well as providing an additional income return. The benchmark used by BNY Mellon is the IPD UK All Property Monthly Index.

Performance Attribution: The fund outperformed the IPD index over the three years to March 2023 by +0.27% p.a., returning +3.02% p.a. versus the index return of +2.75% p.a. The manager has outperformed over 5 years by +0.02% p.a. The gross yield on the portfolio as at end March 2023 was 4.99%. Adjusting for voids and property management/maintenance costs, however, the yield on the portfolio falls to 2.28%.

Portfolio Risk: The cash and liquid instruments on the fund stood at 13.95% (£9.7 million), which is 0.42% lower than at the end of December 2022. To date the manager has successfully met two redemptions of £500,000 each and is able to use the cash balance to meet the next £2 million redemption repayment. A further verbal update will be provided at the meeting.

Chart 6 compares the regional bets in the portfolio in Q1 2023 (turquoise bars) with the regional bets three years ago, in Q1 2020 (navy bars).

CHART 6:



Source: MJH; Hearthstone

Portfolio Characteristics: By value, the fund has an 8% allocation to detached houses, 34% allocated to flats, 31% in terraced accommodation and 26% in semi-detached.

As at end March there were 225 properties in the portfolio and the fund stood at £69.4 million. London Borough of Islington's investment represents 40.3% of the fund. This compares with 72% at the start of this mandate in 2013.

Organisation and Staff Turnover: There were no joiners during the quarter, and one leaver, Business Development Manager David Hall who retired at the end of March.

Quinbrook – Low Carbon Power Fund

Headline Comments: Performance for the year to 31st March 2023 was positive at +15.59%, thus outperforming the target return of +12.00%. Over three years, the fund returned +13.64% p.a. and therefore ahead of the target by +1.64%.

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 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 and has now reached the end of its investment phase.

Portfolio Characteristics: As at Q1 2023, on an unaudited, provisional basis, the fund had invested USD 477.9 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 726MW (including those with minority stakeholders), as at 31 March 2023.

The manager made a distribution payment of $31.4 million in February.

Organisation: There were three new joiners in Q1, including a Senior Advisor and Deputy General Counsel. The COO and Head of Finance, Pia Tapley has taken a sabbatical this year, and has been replaced by Simon Joiner, who previously held the COO position at AMP Capital.

Pantheon – Infrastructure and Private Equity Funds

Headline Comments: Over three years the return on the private equity fund was +3.14% per annum. This compares with a three-year return on listed global equities of +17.9% per annum. The three-year return on the infrastructure fund was +13.78% versus the absolute return target of 10%.

Mandate Summary: London Borough of Islington have made total commitments of £106.6m across five Pantheon strategies including two US primary funds, two global secondary funds and one global infrastructure fund. This infrastructure fund, Pantheon Global Infrastructure Fund III "PGIF III", was the most recent commitment from Islington in 2018 totalling £77.4m. (Both the total fund commitment and Islington commitment have been converted to sterling as at Q1 2023, according to the Manager.)

Portfolio Characteristics: Over the period Q4 2022 – Q1 2023, a total of £15.2m was drawn down, wholly to PGIF III. Distributions were received across all strategies except PGSF IV, totalling £11.8m.

Permira – Credit Solutions Senior Fund

Headline Comments: The Permira Credit Solutions V ("PCS5") is a new allocation for the London Borough of Islington and part of the private debt allocation. To 31 December 2022 the fund had closed commitments of £2.6 billion (€3.2 bn) and had made a total of 12 investments equalling 39.0% invested (most recent data available). No defaults have been reported.

Churchill – Middle Market Senior Loan Fund

Headline Comments: The Churchill Middle Market Senior Loan Fund IV is part of the new private debt allocation. It had closed commitments of £65.7 million to March 2023, equalling 68% of committed capital. The fund has achieved a return of +9.97% for the year to 31 March 2023, outperforming the absolute target return of +5% by +4.97%, although like other private markets investments, performance should normally be assessed over a longer (3-year) time-period. No defaults have been reported.

Crescent – Credit Solutions Fund

Headline Comments: The Crescent Credit Solutions Fund VIII is part of the new private debt allocation. The fund closed two new investments during the quarter: Infinite Electronics and OneDigital, bringing invested capital to 60% of commitments. The fund has achieved a return of +7.56% for the quarter to 31 March 2023, outperforming the benchmark return of +2.41% by +5.15%, although like other private markets investments, performance should normally be assessed over a longer (3-year) time-period.

Karen Shackleton
Senior Adviser, MJ Hudson
15th June 2023

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Mercer

LGPS CURRENT ISSUES

May 2023

welcome to brighter

In this edition

The last few months have seen significant changes to the way pensions are taxed, the conclusion of the 2022 actuarial valuations in England and Wales, and the commencement of the valuation process in Scotland, not to mention the coronation of a new King! Given a number of regulatory announcements are still expected, it remains a busy period for LGPS Funds.

In this edition, with the first ever men's FA Cup Final to be played in June on the horizon (following on from a record crowd at the women's event on 14 May) we have provided a few Cup Final facts for you alongside updates on recent developments in the LGPS and commentary on what to expect over the coming months.

Click on the headings below to go straight to that section.

Investment Update

Back to contents

LGPS Pooling - Spring Budget

Within the Spring Budget announced on 15 March, there was direct reference to LGPS pooling. It stated:

"The government is challenging the Local Government Pension Scheme in England and Wales to move further and faster on consolidating assets. This may include moving towards a smaller number of pools in excess of £50bn to optimize benefits of scale. The Government will also consult on requiring LGPS funds to consider investment opportunities in illiquid assets such as venture and growth capital, thereby seeking to unlock some of the £364 billion of LGPS assets into long-term productive assets."

The reference to LGPS pooling in the budget signals the clear intention of the Government in relation to unlocking capital from LGPS assets. This is likely to be a precursor to more detailed debate when we have the new pooling guidance once the consultation has taken place, which is anticipated to be in the coming months. There are many different implications here which will need to be carefully thought through to ensure there are no unintended consequences.

The references in the budget are perhaps unsurprising given the previous statements about levelling up and unlocking capital for the UK but the devil will be in the detail. Key barriers will be: **Finding the right opportunities**, **How to invest? Who with?** and so on.

We will comment further once we have more information and we expect it will also form part of the consultation on the pooling guidance expected this year. It is now expected this consultation will be issued alongside that for Levelling Up.

The FA Cup is the World's oldest football tournament, first established in 1871 with Wanderers winning the first final in 1872. The first women's competition was held in 1970/1971.

TCFD Reporting

On 23 March 2023, TPR published a review of climate-related disclosures by occupational pension schemes. Whilst not directly relevant to the LGPS, the observations set out from reporting in the private sector may be useful for LGPS Funds ahead of TCFD reporting becoming mandatory. A response to DLUHC's 2022 consultation is still awaited, however the latest rumours are that mandatory climate reporting might be delayed by up to a year, **meaning a potential deadline of 1 December 2025 for Funds to produce their first "climate risk report"**.

In the meantime, notwithstanding the resource challenges that we know Funds are facing, we would encourage Funds to consider undertaking the analysis required for climate risk reports ahead of any regulatory deadlines. Climate change is a key systematic risk impacting pension funds right across the funding, investment and covenant spectrum. We have seen a number of LGPS Funds already report on a TCFD basis and set a Net Zero target. This process has proven very helpful for Funds to understanding climate risk and therefore understand the actions that are needed to strengthen risk management and harness potential opportunities, providing a more robust risk management framework.

Experience has shown that preparation of the first TCFD report is a large undertaking. To help manage this, one option is to undertake the Climate Scenario and Carbon Footprinting analysis first, but without making it publicly available, giving Officers and Committees additional time to understand the data and analysis and identify any gaps. This will significantly ease the process when the first public report is required.

Updated LDI Guidance

On 24 April 2023, following on from the guidance issued in November 2022, the TPR issued new guidance to ensure pension schemes minimise the risks associated with liability driven investments (LDI).

The guidance sets minimum thresholds for collateral headroom, ensuring that LDI portfolios can withstand sufficient rises in yields.

Whilst the guidance is primarily aimed at LDI portfolios for occupational pension schemes, it is important for LGPS Funds with LDI portfolios and also Risk Management Frameworks where derivatives are employed (e.g. equity protection or synthetic exposures).

For LGPS Funds with leveraged LDI portfolios or Risk Management Funds, please contact your usual Mercer consultant if you want to discuss changes you want to consider in relation to the above.

The player to score the most goals in FA Cup Finals is Ian Rush with 5 (2 in 1986, 1989 and 1 in 1992). Didier Drogba holds the record for most finals scored in, 4.

Sharia Law

On 6 April 2023, the Scheme Advisory Board issued a tender for an expert in Islamic finance to examine the legal structure of the LGPS from a Sharia perspective. This is in line with the legal advice received by the Board in February 2022.

Freedom of Information requests

On 30 March 2023, in response to an increasing number of Freedom of Information (FOI) requests being received by LGPS Funds in relation to responsible investment policies, the

Scheme Advisory Board issued a statement (found on its website) advising Funds of their duty to be open and honest about their policies but recognising there may be occasions where cost, commercial sensitivity, or other considerations may outweigh the public interest in releasing the requested information. Funds should refer to guidance from the Information Commissioners Officer, and their own legal / FOI advisors where appropriate.

Mercer has supported a large number of Funds in responding to these FOI requests.

For LGPS Funds who have been contacted about these FOI requests, please contact your usual Mercer consultant who will be able to assist with responding to such requests.

Mercer's LGPS Sustainable Investment Conference (8 March)

We held our inaugural LGPS Sustainable Investment Conference in March 2023 to help those responsible for LGPS Funds and Pools with the challenges they face. Key topics discussed were TCFD, Levelling Up and Biodiversity and our Responsible Investment Total Evaluation (RITE) Tool.

If you were unable to join us at the conference, our speakers give their insights and perspectives on the topics discussed here.

Arsenal are the most successful team in the history of the FA Cup, winning the trophy 14 times (Arsenal hold the same record in the women's competition, again with 14 wins). Arsene Wenger holds the managerial record with 7 wins.

Funding Matters

Back to contents

2022 Actuarial Valuations

Across England and Wales, the 2022 actuarial valuations were signed off by 31 March 2023. Whilst this wasn't at the onset of a national lockdown, as was the case for the 2019 valuations, nonetheless it was (and remains) a time of considerable economic uncertainty, particularly in relation to the prevailing cost of living crisis.

The completion of the valuations is a clear milestone – and an opportunity to draw breath… however, this doesn't mean Funds can put their feet up for the next three years on funding matters. We will be working closely with Funds going forwards in the key areas outlined below:

- **Monitoring** – in addition to the ongoing monitoring of the whole Fund position over time, Funds will need to consider which employers will also need to be monitored and the frequency of doing so. This will typically relate to those employers planning for exit (who may have already requested monitoring information), employers with a weak covenant, perhaps where special funding arrangements are in place, or where a deferred debt agreement has been put in place, for example.

- **Exits** – given the current economic (high gilt yield) environment, we are still seeing a number of requests from employers to exit Funds. Funds need to consider these requests on their merits and balance the interests of all employers in the Fund, noting that there may be a range of potential avenues for taking forwards an exit – covenant input will be key to these considerations. Funds may wish to also consider proactive discussion with closed employers about planning for exit, where active membership is rapidly maturing.

Louis Saha holds the record of the fastest ever goal in a final, scoring after 25 seconds in the 2009 final for Everton against Chelsea.

- **Climate Change** - having undertaken scenario analysis as part of the 2022 valuation, Funds can utilise the output of this in their investment strategy considerations. In particular, a simple extension of the analysis can be used to demonstrate how varying the investment strategy might change the outcomes under the scenarios, which will be useful for supporting objective decision making. Scenario analysis in this space is continuously evolving – to both reflect changing prevailing circumstances and also increasing sophistication of techniques. Our webinar (being held on 16 May) will cover our unique approach to modelling the potential impact on life expectancy of climate change.

- **Data Quality** – with McCloud Regulations expected in a few months (see comment in next section), Funds should be continuing to collate and analyse data from employers in readiness for implementing the remedy.

- **SAB Valuation Report and Section 13** - Funds and Actuaries are currently collating information to provide to the Scheme Advisory Board (SAB) for preparing the Board's 2022 Scheme Valuation Report and also to GAD for the purpose of the Section 13 assessment that they will undertake.

2023 Actuarial Valuations

In Scotland, preparatory work will have already begun in relation to the 31 March 2023 actuarial valuations. The Funds will be in the process of finalising year ends with a view to providing data to their actuary over the coming months. Given the McCloud regulations won't be implemented prior to calculations being completed the SPPA have provided guidance to Funds and actuaries on how to allow for this in the valuations. The Section 13 Report of the 2020 valuations was published in March and this had important recommendations around the content of future dashboards and the desirability for consistent approaches to the assessment of emerging risks i.e. Climate Change. **We will provide further comment on the key themes/outcomes emerging in due course.**

The last English manager to win the FA Cup was Harry Redknapp, with Portsmouth in 2008.

SCAPE Discount Rate

On 30 March 2023, the Chief Secretary to the Treasury issued a written ministerial statement that announced that the Superannuation Contributions Adjusted for Past Experience (SCAPE) discount rate had been reduced to a real rate of 1.7% per annum above CPI, from the previous real rate of 2.4% per annum.

Although this change does not impact contribution rates for the LGPS set as part of a triennial actuarial valuation exercise (in the same way it impacts employer contribution rates in the other, unfunded, public sector schemes) there will be an impact on the LGPS given the SCAPE rate is used by GAD to set actuarial factors, which will impact early retirements / transfer values etc. Member calculations are currently suspended whilst factors are reviewed by GAD, which will of course have administrative implications for LGPS Funds.

We will be undertaking a review of early retirement strain cost factors, for those Funds where we are the actuary, once details of the new early retirement factors to be applied going forwards are known.

At the same time a response to the June 2021 consultation on the methodology for deriving the SCAPE discount rate was also published. This confirmed that the rate will continue to be based on long term gross domestic product (GDP) growth figures with an aim to review the rate every four not five years going forwards in line with the scheme valuation cycle.

In the 1956 final, Manchester City goalkeeper Bert Trautmann (a former German prisoner of war) broke his neck but still played the full match (and won).

Regulatory round up

Back to contents

CARE Revaluation Date

On 9 March 2023, DLUHC published its response to the consultation issued in February 2023 setting out proposals to change the annual revaluation date for the LGPS from 1 April to 6 April. The response confirmed that the change would take place and on the same day the LGPS (Amendment) Regulations 2023 were laid (coming into effect on 31 March 2023).

Whilst the changes made will have reduced the number of members impacted by the 2022/23 annual allowance charge (and thereby reduced the burden on Funds to prepare statements/respond to queries etc.), in the short-term the timing of the change has had an impact on Funds and software suppliers with central guidance provided to Funds to assist with managing the change until such time systems would be updated.

SAB Cost Management Process Consultation

On 18 March 2023, we issued our response to the DLUHC consultation relating to proposed updates to the SAB cost management process for the LGPS. In general, we agreed with the changes and the additional flexibility proposed subject to a few minor clarifications/updates to the proposed changes.

A response to the consultation is now awaited.

In 1946 and 1947 the ball burst in both finals, something which hasn't happened since.

McCloud Remedy (Various)

Consultation: On 6 April 2023. DLUHC published their response to the 2020 consultation on amendments to the underpin. Given developments since 2020, whereby issues have arisen that haven't been consulted upon, a further consultation will be issued by DLUHC in the near future, seeking views on these issues (e.g. compensation interest, excess teacher service etc.), alongside issues from the original consultation where a final decision has yet to be taken (e.g. aggregation, flexible retirement) and also on the draft regulations themselves, which will come into force on 1 October 2023 (backdated to 1 April 2014).

Alongside the response in collaboration with the Scheme Advisory Board, DLUHC published a member factsheet summarising the remedy.

Tax: With effect from 6 April 2023 the Public Service Pension Schemes (Rectification of Unlawful Discrimination) (Tax) Regulations 2023 became effective, although only have practical effect once the LGPS Regulations setting out the remedy come into force. To assist administering authorities in determining what action they need to take in relation to these Regulations the LGA issued a guide in March 2023 setting out the commentary and further guidance.

Data: On 3 March 2023 the Scheme Advisory Board issued guidance to administering authorities setting out what options administering authorities should consider if they are unable to collect the data required to implement the McCloud remedy, or where the data available is deemed to not be accurate.

If you would like to discuss how Mercer can help you validate/test the data you have collated in relation to the remedy, then please contact your usual Mercer consultant.

Judicial Review: On 10 March 2023 the applications for the Judicial Review (referred to below) in relation to the cost cap Mechanism were dismissed by the High Court in both claims after the judge ruled that the Government's decision to include the McCloud remedy in the cost to be compared against the target cost, was not unlawful. Whilst the judge refused permission to appeal, it's expected that both unions will apply for permission to appeal directly to the Court of Appeal. The full judgment can be found here.

The Scheme Advisory Board has requested its legal advisor, Eversheds, to provide summary comment on the judgment.

Tradition holds in English football that triangular corner flags can be used by clubs who have won the FA Cup, rather than regular square ones.

Cyber Security

At the end of April, the Pensions Regulator wrote a letter to hundreds of pension funds potentially impacted by a recently publicised cyber-attack involving a provider of administration (and other) services to the pensions industry. The recent attack, and regulatory intervention, highlights the importance for Funds to ensure they have sufficient knowledge, and the relevant policies and procedures in place relating to cyber security.

As referenced in our previous edition, alongside our sister company Marsh, we can support LGPS Funds in this area, ranging from stakeholder training and communication, policy preparation/review, and testing incident response plans. Please contact your Mercer consultant for further details on how we can help.

Other regulatory news in brief

TPR's New General Code – The new Code (formerly referred to as the Single Code of Practice) is still expected to be published in its final form in the next few months. It will consolidate and re-write a number of existing codes, formalise the requirement for an Effective System of Governance, and (for pension schemes with 100 or more members) introduce the new Own Risk Assessment. New actuarial, internal audit and risk functions will also be required, and cyber risk, stewardship and climate change will be included in a code of practice for the first time.

There have been 6 players to have been sent off in FA Cup Finals, the first being Kevin Moran for Manchester United in 1985 against Everton.

And in other news…

Back to contents

Spring Budget – Annual and Lifetime Allowance Changes

The Spring Budget on 15 March 2013 announced a number of major changes to the taxation of pension benefits. These changes came into effect from 6 April 2023. A summary of the key changes is set out below:

- Increasing the annual allowance (£40,000 to £60,000) and money purchase annual allowance (£4,000 to £10,000).
- Increasing the adjusted income level for the tapered annual allowance (from £240,000 to £260,000) and the minimum tapered annual allowance (from £4,000 to £10,000).
- Abolishing lifetime allowance charges for benefit crystallisation events occurring on or after 6 April 2023.
- Changing the taxation of any lifetime allowance excess lump sum to be at marginal rate not 55%, with similar changes to serious ill-health / death benefit lump sum payments.
- Allowing members to accrue new benefits/join new schemes/transfer without losing enhanced/fixed protection (where applied for prior to the budget).

Alongside the above changes it was confirmed that the maximum tax-free lump sum available to member would remain the same. Given that the Lifetime Allowance itself won't be abolished until 2024/25 (through a further Finance Bill), administering authorities will still need to undertake checks in the 2023/24 year albeit charges will be different/not applicable and don't need to be reported.

Whilst positive changes for members (albeit a relatively small proportion of the overall LGPS membership given the benefit profile), the changes have meant a number of amendments to administering authority process and communications, and may result in additional queries from members in the short-term.

For any employers/members wishing to discuss further how the changes may impact them (in relation to workforce/retirement planning) then our team of LGPS pension taxation specialists would be happy to help.

The player with the most FA Cup final winners medals is Ashley Cole, with 7 (3 Arsenal and 4 Chelsea).

State Pension Age Review

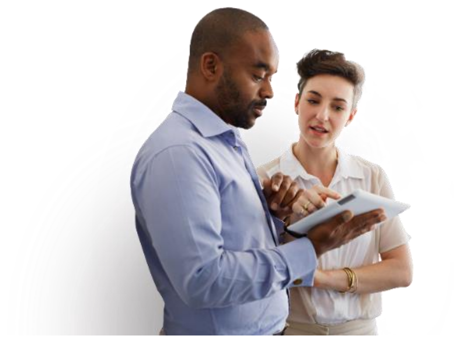
On 30 March 2023, DWP published its 2023 review of the State Pension Age. The review confirms that the rise to age 67 between 2026 and 2028 is still appropriate, however, the Government does not intend to change existing legislation that increases the State Pension Age to age 68 (over the period 2037 to 2039).

Instead the Government plans to have a further review within two years of the next Parliament where the timing of a rise to age 68 will be considered further. This report must be published no later than 29 March 2029.

Gender Pay Gap Report

On 29 March 2023, the Scheme Advisory Board published the outcomes of a report undertaken by GAD in relation to the gender pensions gap in the LGPS alongside supporting comment.

The report has shown that pensions for men are c35% higher than those for women in relation to CARE benefits, and c46% higher in relation to Final Salary Benefits. Whilst there were limitations in some aspects of the analysis undertaken (e.g. availability of data), the Board will be considering the analysis further to investigate causes and agree next steps.



Pensions Dashboards Update

There have been a number of updates recently in the Pension Dashboards programme. Further information can be found on the PDP website.

The main development saw the Pensions Minister, Laura Trott make a statement on 2 March 2023 announcing the Government’s intention to legislate “at the earliest opportunity” to amend schemes’ connection deadlines, to allow more time to deliver the complex dashboards infrastructure. It’s not clear yet which schemes (including the LGPS) will be given an extension and how long this may be. Further details are expected prior to the summer recess, for the time being, Funds should continue to prepare as though there will be no extension.

TPR has confirmed it will write to those schemes affected by the announcement to confirm new deadlines. It has also published updated guidance and a checklist to help schemes focus on what work they should be undertaking now. They will also produce a “content toolkit” with key messages for administering authorities to use in communications.

In addition to the above:

- GAD published a blog to help administrators set the right questions when considering what matching data to use.
- PASA updated its Data Matching Guidance and issued new guidance on communicating with savers.
- TPR held a webinar focussing on data preparation duties.

As referred to previously, the LGA is looking to pull together a guide to assist LGPS administering authorities with the actions they need to take to ensure compliance.

In 1914 George V became the first monarch to watch the FA Cup Final. The Queen attended her first football match in 1953.

Meet the team

Back to contents

Name: Mark Aldred

Role: LGPS Actuarial Analyst

Joined Mercer: September 2021

Place of Birth: Blackpool

Favourite football/sports film: Coach Carter

What is your first/best FA Cup Final memory (if you have one): Liverpool Vs West Ham 2006 final and Steven Gerrard's last minute equaliser to take it into extra time.

Name: Nikki Gemmell

Role: LGPS Actuary

Joined Mercer: June 2007

Place of Birth: Bellshill, Scotland (you can tell by my accent ☺)

Favourite football/sports film: Cool Runnings!

What is your first/best FA Cup Final memory (if you have one): I barely know what the FA cup is but I'm enjoying Welcome to Wrexham at the moment which had an episode about the FA Trophy in ☺

Name: Tony English

Role: Head of LGPS Investment

Joined Mercer: 1999

Place of Birth: Somerset

Favourite football/sports film: About a Boy (The Deer Hunter is my favourite film)

What is your first/best FA Cup Final memory (if you have one): Watching Arsenal win against Aston Villa in 2015, televised at the Emirates and followed by an authorised pitch invasion to celebrate!

Contacts

Back to contents

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For further information on how Mercer can help LGPS Funds and their stakeholders, please visit our website at www.uk.mercer.com/lgps

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: 3rd July 2023

Ward(s): n/a

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

Subject: Decarbonisation Policy Monitoring- Carbon Footprint Results and Next Steps

1. Synopsis

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

1.2 Mercer have undertaken a carbon foot printing measure of our equities and credit holdings and presented the results in a briefing as well as discussing next steps to achieving our net zero target, attached as Exempt Appendix 1

2. Recommendations

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

2.2 To note the fund's progress in reducing its exposure to carbon intensive companies since 2016 and absolute emissions as set out in Exempt Appendix 1.

2.3 To note that officers will continue to engage with our portfolio managers to improve ESG ratings and achieve the targets set in 2025 and long-term net zero target for the whole fund.

2.4 To consider next steps and training to adopt new metrics and reset medium to long term targets.

3. Background

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

3.2 The Fund's last carbon foot printing exercise on the equity and corporate credit holdings was 31st March 2022 and showed that since 2016 the fund had achieved, in its equities, a reduction of 34.6% in absolute emissions and a weighted average potential emissions of 67%.

3.3 Members agreed a transition of the In-House UK equity portfolio, as it was identified as one of the largest contributors to the overall carbon footprint of the Fund. Changing the index from the low carbon index to the third generation climate indices will enable achievement of our short to medium targets.

3.4 These indices are explicitly designed to measure initial and ongoing decarbonisation, consistent with the Intergovernmental Panel on Climate Change's 1.5 degrees Celsius warming scenario. This is a key component to enable the Fund to achieve its net zero carbon emission target set to 2050.

Progress to date

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

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

i) Net zero emission target in 2050 including aligning with the 1.5-degree Celsius scenario
ii) Investing at least 20% of the fund in sustainability themed investments (such as low carbon technology or green infrastructure) by the end of April 2026. *(March'23 results- 16%)*
iii) Reduce carbon Intensity of all listed portfolios i.e., equities and credit by 49% by 2026 and 60% by 2030 against a baseline in 2016*. (March'23 results- 40%)*

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

2) The Fund reviewing targets annually.

3.) The Fund forming a view on decarbonisation of all asset classes beyond public equities by 2023 and will develop mechanisms to evaluate the progress.

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

ESG ratings

3.4.3 Mercer conducted a review of ESG ratings for the Fund's underlying investment Managers in 2022. Mercer's ESG ratings provide an assessment of the integration of ESG issues into the investment process and provides an overall rating – ESG 1 is the highest possible rating and ESG 4 is the lowest possible rating. As such, Mercer has provided the ESG ratings the of the Fund's 13 strategies across equities, fixed income, DGFs, property, private debt, infrastructure and private equity and this will be updated over the summer.

3.4.4 **Measuring carbon footprint of equities and credit portfolio annually**
The carbon footprint measure comprises of two elements; future emissions that is reserve based, and exposure to carbon intensive companies. The valuation of assets as 31st March 2023 was used for the exercise across our public equities and credit mandates.

3.4.5 Mercer have conducted the exercise to capture the equity and credit holdings of the fund and results are presented in Exempt Appendix 1. Members are asked to consider the individual portfolios and the total level of emissions and reserves for the fund and the next steps to achieve net zero carbon target for the whole fund.

4. Implications

4.1 **Financial implications**

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

4.2 **Legal Implications**

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

The administering authority owes fiduciary duties both to the scheme employers and to the scheme members where the primary focus must be on generating an optimum risk adjusted return. It is vital that any investment decisions or strategies developed, such as a carbon strategy, must not negatively influence this primary responsibility.

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

The Pension Fund must take investment advice on investment decisions.

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

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

4.4 **Equality Impact Assessment**

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

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

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5. Conclusion and reasons for recommendation

5.1 Members are asked to note progress on carbon footprint results to March 2023 and continue to monitor climate risk and engage with our fund managers on governance and climate risk.

Appendix: Exempt Appendix1- Mercer presentation Carbon footprint results

Background papers:
None

Final report clearance:

Signed by:

Corporate Director of Resources Date

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Financial implication author- Joana Marfoh

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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: 3rd July 2023

Ward(s): n/a

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SUBJECT: INVESTMENT STRATEGY REVIEW AND IMPLEMENTATION PLAN

1. Synopsis

1.1 This report is an update report after Members agreeing potential themes to incorporate into a full investment strategy review in the context of the 2022 Actuarial review. The themes included are liquidity, risk and net zero carbonisation targets.

1.2 This report re-considers an investment strategy review including the risk and return analysis of possible portfolios.

1.3 An action plan has been prepared for consideration based on agreeing the third option of asset allocation

2. Recommendations

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

2.2 To re-consider the strategy review and the risk and return analysis.

2.3 To agree the strategic allocation, congruent with risk and return that is affordable and sustainable.

2.4 Subject to 2.3 agree to choose one of the below:
i)portfolio strawman 1- additional allocation to investment grade credit
ii) portfolio strawman 2- additional allocation to alternatives
iii) portfolio strawman 3- additional allocation to alternates and credit

2.5 Agree to follow this report with an implementation strategy for the final agreed asset allocation.

2.6 To receive a presentation from Mercer attached as Exempt Appendix 2 for consideration and agree the executive summary.

3. Background

3.1 The 2022 actuarial valuation is now finalised. As part of the process, work has been undertaken to produce an investment strategy to support sustainable contributions from employers.

3.1.1 The Pensions Sub-Committee agreed a revised investment strategy for the Fund at its June 2020 meeting. The revised strategy maintained the Fund's 75% growth, 25% defensive split and included an allocation to Multi Asset Credit and Private Debt, the majority of which has now been implemented.

3.1.2 At the September 2022 meeting, the Actuary shared the updated data analysis, and current assumptions on inflation, life expectancy, ill health, discount rate on liabilities and funding level over the recovery period of 16years. The next step is to assess if our current assets and investment strategy can support sustainable contributions from employers and meet our net zero carbon targets.

3.1.3 At the December meeting initial considerations of themes to inform the investment strategy review were discussed and agreed to include net zero carbon target, cashflow liquidity. The presentation prepared by Mercer (attached as exempt Appendix 1) is to re-evaluate the above position in the current market outlook and agree the parameters to perform some further analysis to determine if the desired contribution can be supported through the existing strategy and investment returns.

3.1.4 At the 6th March meeting, members discussed the initial, Mercer presentation considering the current strategy and funding level following the 2022 valuation and post valuation market outlook. The options of Strawman 1 and 2 were discussed extensively on the themes of liquidity, return and risk.

3.1.5 However, it was agreed that officers and Mercer would provide an alternative Strawman 3 portfolio option, modelled with the goal of achieving an increase in the allocation to alternatives compared to the current strategy, but with a lower risk profile (ideally no higher than the current strategy). Table 1 below show the 3 options.

3.1.6 The table 1- below shows the current strategy and proposed strawman options 1, 2 and 3.

	Current Strategy	Strawman 1	Strawman 2	**New Strawman 3**
Equity	46	50	46	**45**
Alternatives	29	25	29	**27.5**
Property	25	20	20	**20**
Liquid Fixed income	-	5	5	**7.5**
Expected return	CPI+5.1%	CPI+5.0%	CPI+5.2%	**CPI+5.2%**
Downside risk	680m	660m	700m	**688m**

3.1.7 Members are asked to consider further option, Strawman 3, which has a lower risk profile and slight increase in liquidity compared to Option 2. Members are asked to agree this option to enable an implementation plan to be agreed in principle.

3.1.8 Subject to paragraph 3.1.7 an action to implement Strawman 3 has been prepared by Mercer and is attached as exempt appendix 2 to consider proposals to achieve the agreed strategy. Members are asked to receive the presentation and after discussion agree the executive summary so officers and Mercer can work on the actions for a further report on progress to the September meeting.

4. Implications

4.1 Financial implications

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

4.2 Legal Implications

The committee is required to maintain an investment strategy statement under the 2016 management and investment regulations and take legal advice on investment matters.

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

Nonapplicable 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

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

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

5. Conclusion and reasons for recommendation

5.1 Members are asked to consider the Mercer presentation (exempt appendix 1and 2) and agree a strategic allocation that meets an affordable and sustainable objective within their risk and return budget, so that an implementation plan can be agreed in principle on the agenda.

Appendices: Exempt Appendix 1- Mercer presentation-investment strategy
Exempt Appendix 2- Mercer presentation- action plan

Background papers:
None

Final report clearance:

Signed by: Corporate Director of Resources

Date: report received final clearance

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

Meeting of: Pensions Sub-Committee

Date: 3rd July 2023

Ward(s): n/a

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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 February to May 2023.

2. Recommendation

2.1 To note the progress and activities presented at the May business update session (exempt appendix1) and minutes of shareholders committee meting on 30th March 2023(exempt appendix 2)

3. Background

3.1 **Setting up of the London CIV Fund**
Islington is one of 33 London local authorities who have become active participants in the London CIV programme. The London CIV has been constructed as a FCA regulated UK

Authorised Contractual Scheme (ACS). The ACS is composed of two parts: the Operator and the Fund.

3.2 A limited liability company (London LGPS CIV Ltd) has been established, with each participating borough holding a nominal £1 share. The company registered address is 4th Floor, 22 Lavington Street, London, SE1 0NZ. A branding exercise has taken place and the decision was taken to brand the company as 'London CIV.' The London CIV received its ACS authorisation in November 2015.

3.3 **Launching of the CIV**
It was noted that a pragmatic starting point was to analyse which Investment Managers (IM) boroughs were currently invested through, to look for commonality (i.e. more than one borough invested with the same IM in a largely similar mandate), and to discuss with boroughs and IMs which of these 'common' mandates would be most appropriate to transition to the ACS fund for launch. Each mandate would become a separate, ring-fenced, sub-fund within the overall ACS fund. Boroughs would be able to move from one sub-fund to another relatively easily, but ring-fencing would prevent cross contamination between sub-funds.

3.3.1 Further discussions were held with managers, focussing specifically on what would be achievable for launch, taking into account timing and transition complexities. Four managers were identified as offering potential opportunities for the launch of the London CIV. These managers would provide the London CIV with 9 sub-funds, covering just over £6bn of Borough assets and providing early opportunity to 20 boroughs. The sub-funds consisted of 6 'passive' equity sub-funds covering £4.2bn of assets, 2 Active Global Equity mandates covering £1.6bn and 1 Diversified Growth (or multi-asset) Fund covering just over £300m. Those boroughs that did not have an exact match across for launch were able to invest in these sub-funds from the outset at the reduced AMC rate that the London CIV has negotiated with managers.

3.4 The Phase 1 launch was with Allianz our then global equity manager and Ealing and Wandsworth are the 2 other boroughs who held a similar mandate. The benefits of transfer included a reduction in basic fees and possible tax benefits because of the vehicle used. Members agreed to transfer our Allianz portfolio in Phase 1 launch that went ahead on 2 December. This manager was terminated in July 2019.

3.5 **Update to May 2023**

3.5.1 The Shareholder committee meeting was held on 30th March and a copy of the minutes is attached as exempt appendix 2. Mainpoints of discussion was CEO update and corporate performance highlighting his commitment to continue engagement with shareholders to ensure London CIV responded to their requirements and expectations, including in respect of performance and savings which continue to be a key focus. Financial forecast to March 2023 and funding model review. Governance and shareholder review and future changes to cover constitutional review of board and committees frameworks. Responsible investment voting and engagement arrangements

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 Sterling Credit fund and Global Equities Value fund is at its initial stage and projected launch is in Q3 2023.

3.5.4 **Operational activities**
The following activities are underway in the medium term; strategic business review is to focus on governance, funding model and cost of ownership, commercial property planning and annual conference on 4-5th September.

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).
In January the balance of DFC charge of 28k(+VAT) invoice was received.
In April 2023 invoices received covered DFC(57k+VAT) , annual service charges (25k+VAT) and LGIM recharge 11.4k+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 and 2 is attached for information.

Appendices: Exempt Appendix 1- Business Update
Exempt Appendix2- 30March Shareholders ctee mtg minutes

Background papers: none

Final report clearance:

Signed by:

Corporate Director of Resources Date

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

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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 3rd July 2023

Ward(s): n/a

SUBJECT: PENSIONS SUB-COMMITTEE 2023/24 FORWARD WORK PROGRAMME

1. Synopsis

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

2. Recommendation

2.1 To consider and agree Appendix A attached

3. Background

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

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

4. Implications

4.1 **Financial implications**

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

4.2 **Legal Implications**

None applicable to this report

4.3 **Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:**
None applicable to this report. Environmental implications will be included in each report to the Pension Board Committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of the fund in green opportunities. The link to the full document is https://www.islington.gov.uk/~/media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonboroughofislingtonpensionfundinvestmentstrategystatement.pdf

4.4 **Equalities Impact Assessment**
None applicable to this report. The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding
An equalities impact assessment has not been conducted because this report is seeking opinions on updating an existing document and therefore no specific equality implications arising from this report

5. Conclusion and reasons for recommendation

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

Appendix A - Proposed work program for annual committee cycle

Background papers:
None

Final report clearance:

Signed by:

Corporate Director of Resources Date

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

APPENDIX A

Pensions Sub-Committee Forward Plan July 2023 to June 2024

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
3rd July	• Investment Strategy review-Strawman 3 and implementation plan • Carbon monitoring progress
26th September	• Update of strategy review implementation • Draft Pension Annual report • 4 yr Business plan review • Annual peer group performance presentation • ISS update and RI policy
October	• Annual Pension Meeting
21st November	• Investment advisors objective setting review
11th March 2024	
25th June 2024	Carbon monitoring progress report

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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Agenda Item E3

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