ISLINGTON

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

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	5 September 2017		n/a

Delete as appropriate	Exempt	~~Non-exempt~~

SUBJECT: INVESTMENT STRATEGY UPDATE

1. Synopsis

1.1 This is a progress report on investment strategy review to consider changes to the asset allocation of the Fund's 25% defensive assets. This report updates the parameters agreed by Members in the June meeting of investing in infrastructure and agree to commence the infrastructure procurement.

2. Recommendations

2.1 To receive a training presentation from AMP Capital –a third party fund manager

2.2 To agree to commence procurement of an infrastructure manager(s)

2.3 Subject to 2.2 receive an update report in November of progress made.

3. Background

3.1 **Asset Allocation to Infrastructure**

3.1.1 The Pensions Sub-Committee agreed a revised investment strategy for the Fund at its November 2014 meeting. The revised strategy maintained the Fund's 75% growth, 25% defensive split and included a 15% flexible allocation to infrastructure and social housing, with the allocation between the assets dependent on market conditions. This allocation is to be funded from the Fund's corporate bond allocation.

Members then agreed in November 2015, to ask and seek confirmation from the London CIV to develop an Infrastructure sub fund or investment vehicle ideally including social housing covering our mandate specification over the next 12 to 18 months, and if confirmation is not forthcoming alternative plans be sought. Nothing has been forthcoming from the LCIV to date on infrastructure and as such

Members asked Mercer to review and update the previously agreed parameters.

3.1.2 In June 2017, Members reaffirmed the parameters of the Fund's allocation to infrastructure and a specification of what the Fund 's infrastructure mandate. The table below sets out the areas typically specified when seeking a mandate and suggested potential or indicative targets.

3.1.3

Considerations	**Islington Indication**
Target return (net IRR)	c.10% Gross IRR
Target cash yield (net % p.a.)	c. LIBOR + 2.0% - 3.0%
Target risk profile	Defensive, income focused
Target geographies	Global with UK bias
Target sectors	Regulated, core and core plus (if strong inflation component
Target development stage	Predominately brownfield
Target capital structure	Predominately equity, some debt
Target number of underlying managers	7- 10
Target number of underlying funds	7-10 initial allocation
Target number of underlying assets	70-100
Target vintage diversification	Rolling programme, consider secondary opportunities
Target allocation to direct/co-investments	0%
Average maturity / term of programme c. 15 years - ability to invest in longer term PPP	c. 15 years –ability to invest in longer term PPP projects, balanced with shorter term secondary and debt opportunities
Investment period for programme	Initial 5 years and then rolling for vintage year diversification
Approach to ESG integration	Preference for managers who integrate ESG
Fee schedule	TBC(base fee preferred)
Performance reporting arrangements	Report on portfolio as a whole quarterly (with monthly information)

3.2 Members also received a presentation from Mercer on implementation options and after consideration agreed to use the third party fund manager route and asked for a training section from a third party fund manager.

3.3 AMP Capital an infrastructure manager will be providing training presentation covering the type of infrastructure projects, their investment process, ESG framework and risk mitigation factors. Members are asked to receive the presentation.

3.4 Members are also asked to agree the next step to commence the procurement process and receive a progress report at their November meeting.

3.5 <u>Increasing the allocation to HLV property-update</u>
Following the 2016 actuarial review and agreement by Members to now move to a CPI plus discount rate for valuing pension liabilities, it was agreed to review the current strategy to evaluate risk and assets to ascertain that they can meet our new objective. Members completed the last investment review in 2014. Members agreed the investment strategy framework at the March meeting and agreed to considering increasing the fund's current strategic asset allocation to HLV property.
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3.5.1 Members considered Mercer's presentation in June 2017 and increased the current allocation to 10% Officers completed the subscription paper work in June and are now placed in the queue waiting drawdown within the next 12-18 months.

4. Implications

4.1 **Financial implications**

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

4.2 **Legal Implications**

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

4.2.1 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**

Environmental considerations can lawfully be taken into account in investment decisions

4.4 **Resident Impact Assessment**

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

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5. Conclusion and reasons for recommendation

5.1 Members asked to note the progress made on implementing the 25% liability matching asset allocation strategy review . Receive the presentation training and agree to commence the procurement process via a third party fund manager.

Background papers:
None

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