ISLINGTON

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: **Corporate Director of Resources**

Meeting of:	**Date**	**Agenda item**	**Ward(s)**
Pensions Sub-Committee	12 September 2018		n/a

Delete as appropriate	~~Exempt~~	Non-exempt

SUBJECT: INFRASTRUCTURE PROCUREMENT 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 members on progress made on the infrastructure procurement process.

2. Recommendations

2.1 To note progress made

2.2 To agree to continue to collaborate with 2 other local authorities to pursue the joint tender

2.3 To agree to meet with the London CIV to consider their infrastructure implementation update due in September

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 sought. Nothing has been forthcoming from the LCIV up to 2017 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 agreed at November meeting to commence the procurement process and receive a progress reports. After joining the LCIV infrastructure working group to collaborate and expedite the process, we were informed in February 2018 that the process was now on hold subject to governance review. Members agreed to collaborate with other interested local authorities in a joint tender for infrastructure.

3.3 Officers discussed with 2 other London local authorities the possibility of a joint tender to procure infrastructure within our time line. We engaged BFinance to lead on the tendering process as we could piggyback unto the last tender exercise they undertook for Havering and Newham.

3.4 The BFinance solution was preferred because they would

- Utilise LGPS search activity that is already ongoing, thus avoiding the need to commission something new.
- Provide all the research and analysis we need to support a manager selection.
- Deliver the benefits of collaboration and pooling, while allowing you to keep control of the decision making process.

The agreed approach with BFinance was to:

3.5

- Confirm our investment objectives and constraints and the appropriateness of the recent searches for those requirements.
- Prepare a report detailing the landscape of investment proposals together with their relative strengths and weaknesses.
- Present report and assist us in selecting a shortlist of proposals for interview / due diligence.
- Organise interviews and support us in conducting targeted meetings
- Assist in negotiations of fees and terms, taking into account the LGPS collaboration / pooling agenda.
- BFinance are remunerated if we appoint a manager and allocate funds

3.6 A meeting is being schedule for the week beginning 4 September to discuss and select a shortlist of proposals for due diligence initial interviews before a beauty parade. Our investment advisors will be asked for their views on the shortlist as part of the due diligence. Members will be updated on progress and dates for the beauty parade.

3.7 The London CIV in a meeting in August confirmed that they had progressed with a tendering and shortlisting of infrastructure service providers. The final appointment by the executive board is due imminently. Officers have arranged a meeting to receive further details on their specifications to determine if they meet our requirements.

3.8 Members are asked to note progress to date and receive further updates on the shortlisting process with BFinance and the LCIV infrastructure 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 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 are asked to note the progress made on the procurement of infrastructure via collaboration with two other local authorities and receive further updates on progress on this process as well as discussions with the LCIV.

Background papers:
None

Final report clearance:

Signed by:

Corporate Director of Resources Date

Received by:

Head of Democratic Services Date

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