



Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	26 November 2018		n/a

Delete as appropriate	Exempt	Non-exempt
-----------------------	--------	------------

Appendix 1 is exempt and not for publication as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: Information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: LISTED EQUITY PORTFOLIO REVIEW- LCIV ALLIANZ TRANSFER

1. Synopsis

- 1.1 This report and exempt appendix provide updated information on the due diligence review of global equities sub funds available on the LCIV platform.
- 1.2 Mercer, our investment advisors have also prepared a terms of reference and the recommended replacement sub fund available on the LCIV platform (attached as exempt Appendix 1)

2. Recommendations

- 2.1 To note the process of reviewing the global equities' managers currently available on the LCIV platform
- 2.2 To consider to results of the due diligence process
- 2.3 To agree to appoint the recommended Manager A to replace Allianz sub fund
- 2.4 To delegate to the Corporate Director of Resources, in consultation with the Assistant Chief Executive, Governance and HR, authority to negotiate and agree with the LCIV
 - The fund management agreement with Manager A
 - Appoint a transition manager to manage transfer of assets
 - Costs associated with the termination of the Allianz sub fund

3. Background

Allianz

- 3.1 The Committee agreed to transfer our global equity assets with Allianz to the LCIV Allianz sub fund as part of the Phase 1 funding in December 2015. We were part of 3 boroughs who completed this transition at the time. As of the 2nd quarter of this year, the other 2 boroughs terminated their mandate with Allianz due to changes in asset allocation and requirements.
- 3.2 The LCIV will not terminate the Allianz sub fund because asset under management c £120m still makes it viable. Members are being asked to reconsider the portfolio because we are the only investors now and the fund has underperformed over the long term not achieving its target outperformance since inception in January 2009 and their Mercer rating is now a 'B'. Members asked for further analysis on both our global equities on the LCIV platform (that is Allianz and Newton)

Newton

- 3.3 Newton was a segregated global equity manager appointed in January 2009 and transferred to the London CIV platform in May 2017. Three boroughs were still invested as at August with an AUM of £571m. The long term performance since inception is below the target outperformance. The Mercer rating is B+. Members will also recall they agreed a separate proposal regarding credit accrued from performance fee.
- 3.4 Members agreed in September that Mercer and officers conduct due diligence and identify possible alternatives available in principle to replace Allianz in the first instant.

3.5 The selection process

The LCIV currently has 7 global equity managers and this long list was narrowed to 3 excluding Newton and Allianz based on their Mercer ratings from A+ to B-, capacity and alignment to investment style and best fit. The 3 proposed managers were visited on site and presented on investment team, idea generation, process, ESG integration, risk, and performance on 24th October 2018.

The presentation was attended by

Nikeeta Kumar	Mercer
Tony English	Mercer
Joana Marfoh	Islington
William Mcbean(observers)	LCIV
Rob Hall (observers)	LCIV

- 3.5.1 The recommendation and terms of reference report has been prepared by Mercer and attached as Exempt Appendix 1. Members are asked to consider the report and agree to appoint Manager A to replace Allianz.
- 3.5.2 The transition and cost of termination will be negotiated and agreed with LCIV before any transfer of assets. The objective will be to achieve a best value for money to the Islington 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 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.

4.2.2 The sub- committee must

- (i) reasonably believe that the recommended investment manager's ability in and practical experience of financial matters makes them suitably qualified to make investment decisions for the Council
- (ii) be satisfied that the fund (or relevant part of it) is managed by an adequate number of investment managers and that where there is more than one investment manager, the value of fund money to be managed by any one of them will not be disproportionate (in their view) in comparison with the value of fund money managed by other investment managers
- (iii) have proper regard to the advice of the Interim Corporate Director of Resources and its external advisers, in relation to the proposed appointment

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

4.3 **Environmental Implications**

The environmental impacts were considered as part of the presentations where managers were asked to demonstrate how they took environmental and social governance issues in their portfolio construction. It was identified that the proposals in this report would have no adverse impacts.

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

5. **Conclusion and reasons for recommendation**

- 5.1 Members are asked consider the Mercer report attached as Exempt Appendix 1 and agree to appoint the recommended Manager A to replace Allianz on the LCIV platform and also delegate authority to the Interim Director of Corporate Resources in consultation with the Assistant Chief Executive, Governance and HR, authority to negotiate and agree with the LCIV the implementation process and fund management agreements.

Background papers:

Exempt Appendix 1 .

Final report clearance:

Signed by:

Received by: Corporate Director of Resources Date

Head of Democratic Services Date

Report Author: Joana Marfoh
Tel: (020) 7527 2382
Email: Joana.marfoh@islington.gov.uk