

London Borough of Islington

Pensions Sub Committee - 17 June 2019

Non-confidential minutes of the meeting of the Pensions Sub Committee held at Islington Town Hall, Upper Street, N 2UD, on 17 June 2019 at 7.30 pm.

Present: Councillors: David Poyser (Chair), Andy Hull (Vice-Chair) and Paul Convery

Also Present: Observers: Alan Begg and Valerie Easmon-George – Pension Board observers

Tony English and Vladimir Djuric, Mercer Limited
Karen Shackleton and Norbert Fullerton – MJ
Hudson Allenbridge

Councillor Dave Poyser in the Chair

61 APOLOGIES FOR ABSENCE (Item A1)

Received from Councillor Sue Lukes.

62 DECLARATION OF SUBSTITUTES (Item A2)

None.

63 DECLARATION OF INTERESTS (Item A3)

None from Councillors.

Karen Shackleton declared that, with regard to agenda item B6 "Islington Pension Fund affiliations", she was one of the founder members of "Pensions for Purpose".

64 MINUTES OF THE PREVIOUS MEETING (Item A4)

RESOLVED:

That the minutes of the meeting held on 25 March 2019 be confirmed as an accurate record of proceedings and the Chair be authorised to sign them.

65 MEMBERSHIP, TERMS OF REFERENCE AND DATES OF MEETINGS OF ISLINGTON PENSIONS SUB-COMMITTEE AND PENSIONS BOARD 2019/20 (Item A5)

RESOLVED:

(a) That the membership of the Pensions Sub-Committee, appointed by the Audit Committee on 3 June 2019, its terms of reference and dates of meetings for the

municipal year 2019/20, as set out at Appendix A of the report of the Director of Financial Management and S151 Officer, be noted.

(b) That the membership of the Pensions Board, also as appointed by the Audit Committee on 3 June 2019, its terms of reference and dates of meetings for the municipal year 2019/20, as set out at Appendix A of the report of the Director of Financial Management and S151 Officer, be noted.

66 **MEMBERS' REPORTS ON ATTENDANCE AT MEETINGS/EVENTS/ CONFERENCES ETC ON THE SUB-COMMITTEE'S BEHALF (VERBAL REPORT(S)) (Item A6)**

Councillor Convery reported that he had attended Tesco's well organised annual shareholder meeting, with the assistance of Shareaction. He had asked questions about the real Living Wage, to which the Chief Executive of Tesco had given a positive reply. Tesco did not operate zero hours contracts and understood that some of their employees wanted to work part-time.

67 **PENSION FUND PERFORMANCE - 1 JANUARY TO 31 MARCH 2019 (Item B1)**

RESOLVED:

(a) That the performance of the Fund from 1 January to 31 March 2019, as set out in the BNY Mellon interactive performance report, and detailed in the report of the Interim Corporate Director of Resources, be noted.

(b) That the report of MJ Hudson Allenbridge Advisers on fund managers' quarterly performance, detailed in Appendix 1 to the report and their presentation, be noted.

(c) That exempt Appendix 2 to the report from MJ Hudson Allenbridge Advisers be noted.

68 **PRESENTATION FROM PIRC - ANNUAL FUND PERFORMANCE (Item B2)**

A representative from PIRC gave a presentation on the annual performance of the Fund. The following points were noted:

- The latest year's results were satisfactory across most asset classes
- Private equity, infrastructure, US equities and ethical/green/environmental investment had all performed well
- Emerging market equities, absolute return funds, equity protection and cash had not performed as well
- High level asset allocation changes slowed as funds were absorbed by pooling and waiting for the results of the actuarial valuation
- In the longer term, thirty year return averaged 8.4%pa, which was almost 6% above inflation. Only five of the last thirty years ad produced negative returns
- Equities had driven the excellent long term performance of the LGPS. Funds with diversified growth assets and absolute return investments had seen results well below other asset classes over the medium term

- On the Fund structure, asset allocation was close to the Universe average, except for the relatively high allocation to property and diversified growth and the lower exposure to alternatives and bonds
- Fund managers had mixed results through the year, with Newton still trailing the benchmark over the medium term. Newton had, however, performed well over the year. Diversified growth performance through the year had been poor
- Relative to its peers, the Fund had been behind the sector over the medium term, but in line over the last decade. Poor relative returns in 2016 and 2017 had influenced this. It was thought that the poor performance in 2016/17 could be attributed to poor performance by active managers and poor stock selection
- Risk and return across funds had been mixed, but the riskiest funds had considerably outperformed the least risky. Islington had delivered a lower than average return over the past five years, but at a lower than average risk.
- Over ten years, the Fund had delivered a lower level of return than average, at a lower level of risk
- In summary, the sector had delivered excellent returns over all periods, but the Fund's near-term performance had been disappointing, due in part to below average equity performance. Longer terms were trailing the LGPS average, but the Fund had experienced less volatility. Performance over all timeframes had outpaced inflation and actuarial assumptions for asset growth.

RESOLVED:

That the above points be noted.

69

LISTED EQUITY PORTFOLIO - UPDATE ON TRANSFER OF ASSETS FROM LCIV ALLIANZ TO LCIV RBC SUSTAINABLE FUND (Item B3)

RESOLVED:

(a) That the progress on the issue of withholding tax accrued to the Islington fund only, as detailed in the report of the Interim Corporate Director of Resources, be noted.

(b) That the units owned from LCIV Allianz be transitioned to LCIV RBC

(c) That the Corporate Director of Resources, in consultation with the Acting Director of Law and Governance, be authorised to negotiate and agree with the LCIV:

- Any costs associated with the termination of the Allianz sub fund mandate
- Fair recourse to dealing with the withholding of tax accrued

70

LONDON CIV UPDATE (Item B4)

RESOLVED:

That the progress and news to May 2019 in the new LCIV briefing "Collective Voice" (exempt appendix 1 to the report of the Interim Corporate Director of Resources) be noted.

71 **EQUITY PROTECTION STRATEGY - SEMI-ANNUAL MONITORING (Item B5)**

Mercer's representative highlighted the fact that the Fund's protection strategy was due to expire in March 2020. Officers were asked to programme a report on options for the Pensions Sub-Committee to consider at its meeting on 3 December 2019.

He noted that the Fund's equity exposure had increased by c£3.2m since inception, though the value of equity options had decreased by c£2.4m.

At implementation, the Fund paid £24.7m to purchase the protection. By 31 December 2018, the value of the protection had increased to £46.0m due to negative returns over Q4 2018. However, the value had fallen to £22.4m at 31 March 2019, due to positive returns over Q1 2019.

RESOLVED:

- (a) That the options value as at March 2019, as detailed in the report of the Interim Corporate Director of Resources, be noted.
- (b) That Mercer's presentation highlighting the main features and activities of the strategy to March 2019 (exempt Appendix 1) be noted.
- (c) That officers submit a report to the meeting on 3 December 2019 on options for renewal.

72 **PENSION FUND AFFILIATIONS (Item B6)**

RESOLVED:

That the report of the Interim Corporate Director of Resources, detailing the Fund's association with certain organisations for collaboration on pensions issues, be noted.

73 **INVESTMENT STRATEGY REVIEW - MERCER PRESENTATION (Item B7)**

Members considered the exempt presentation prepared by Mercer, reviewing and evaluating the investment strategy. Analysis in the presentation sought to determine whether the desired contribution could be supported through the existing strategy and investment returns. Risk and return target options were also presented, culminating in a proposed new target investment return of CPI + 3.2%.

Members expressed concerns about risks associated with any increase in property in the proposed revised portfolios and requested that a limit be applied to any investment in Private Debt and that potential assets in that class be restricted to outside the UK. Members also expressed a wish to support small businesses.

RESOLVED:

- (a) That the presentation from Mercer attached as exempt Appendix 1 to the report of the Interim Corporate Director of Resources, be noted.
- (b) That the 2019 Actuarial valuation update position, as set out in the exempt Appendix, be noted

- (c) That the target best estimate return of CPI + 3.2% be approved to support the desired contribution level.
- (d) That, in order to deliver the agreed investment return, portfolio 2 in Mercer's exempt Appendix be approved.

74 DECARBONISATION POLICY MONITORING PLAN (Item B8)

Members discussed a proposed monitoring plan from Mercer to achieve the targets set in the Fund's decarbonisation policy.

With regard to the 12-month Project Plan proposed by Mercer on page 80 of the agenda, it was agreed that:

- "Integrate any conclusions in the broader investment strategy review" - to be moved to 3 December 2019
- Climate change scenario analysis on the Fund's current investment strategy – be moved to 3 December 2019
- Rather than a bi-annual analysis of the carbon footprint of the Fund's portfolio, the analysis be produced annually (at 31 March) and presented to the Annual Meeting in October each year, including the figure of total carbon output, compared to 2016 figures.

RESOLVED:

- (a) That the monitoring plan produced by Mercer and detailed in Appendix 1 of the report of the Interim Corporate Director of Resources be agreed, with the amendments set out above.
- (b) That the briefing paper "Investing in Time of Change", attached as Appendix 2 to the report, be noted.
- (c) That the updated ESG ratings of the current portfolio managers, detailed in exempt Appendix 3 to the report, be noted.

75 FORWARD PLAN (Item B9)

RESOLVED:

- (a) That Quinbrook be invited to present to the Sub-Committee, as part of the infrastructure managers' presentation, on 10 September 2019.
- (b) That training from the Actuary in preparation for the Fund valuation take place on 10 September 2019.
- (c) That an item on "Equity protection" be added to the agenda for 3 December 2019

EXCLUSION OF PRESS AND PUBLIC

RESOLVED:

That the press and public be excluded during consideration of the following items as the presence of members of the public and press would result in the disclosure of

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exempt information within the terms of Schedule 12A of the Local Government Act 1972, for the reasons indicated:

<u>Agenda item E1</u>	<u>Title</u>	<u>Reasons for exemption</u>
	Pension Fund performance – exempt appendix	<u>Category 3 –</u> Information relating to the financial or business affairs of any particular person (including the authority holding that information)
<u>Item E2</u>	Listed equity portfolio – update on transfer of assets from LCIV Allianz to LCIV RBC Sustainable Fund – exempt appendix	Ditto
<u>Item E3</u>	London CIV update – exempt appendix	Ditto
<u>Item E4</u>	Investment strategy review – exempt appendix	Ditto
<u>Item E5</u>	Decarbonisation policy monitoring plan – exempt appendix	Ditto

76 PENSION FUND PERFORMANCE - JANUARY TO MARCH 2019 - EXEMPT APPENDIX (Item E1)

Noted.

77 LISTED EQUITY PORTFOLIO - UPDATE ON TRANSFER OF ASSETS FROM LCIV ALLIANZ TO LCIV RBC SUSTAINABLE FUND - EXEMPT APPENDIX (Item E2)

Noted.

78 LONDON CIV UPDATE - EXEMPT APPENDIX (Item E3)

Noted.

79 **INVESTMENT STRATEGY REVIEW - MERCER PRESENTATION - EXEMPT APPENDIX (Item E4)**

Noted.

80 **DECARBONISATION POLICY MONITORING PLAN - EXEMPT APPENDIX (Item E5)**

Noted.

81 **ALAN LAYTON - DIRECTOR OF FINANCIAL MANAGEMENT AND S151 OFFICER**

The Chair noted that this would be the last attendance of Alan Layton at the Pensions Sub-Committee, prior to his retirement in July 2019.

On behalf of the Sub-Committee, he thanked Alan for his valuable service and contribution to the Sub-Committee meetings and wished him well for the future.

RESOLVED:

Accordingly.

The meeting ended at 10.00 pm

CHAIR