

London Borough of Islington

Pensions Sub Committee - 8 December 2020

Non-confidential minutes of the meeting of the Pensions Sub Committee held virtually, via Zoom, on 8 December 2020 at 7.00 pm.

Present: Councillors: Paul Convery (Chair), Satnam Gill (Vice-Chair), Sue Lukes and Michael O'Sullivan

Maggie Elliott (Pensions Board)

Tony English, Michelle Doman, Tomi Nummela, and William James and Aniket Bhaduri – Mercer
Karen Shackleton – MJ Hudson Allenbridge

Councillor Paul Convery in the Chair

150 APOLOGIES FOR ABSENCE (Item A1)

Received from Alan Begg (Pensions Board member).

151 DECLARATION OF SUBSTITUTES (Item A2)

None.

152 DECLARATION OF INTERESTS (Item A3)

Councillor Convery declared an interest in all items on the agenda as a member of the Pension Fund.

Councillor Poyser declared an interest in items on the agenda relating to Franklin Templeton.

153 MINUTES OF THE PREVIOUS MEETING (Item A4)

RESOLVED:

That the minutes of the meetings held on 15 September 2020 and 11 November 2020 be confirmed as an accurate record of proceedings and the Chair be authorised to sign them.

154 PENSION FUND PERFORMANCE FROM JULY-SEPTEMBER 2020 (Item B1)

Marc Weidner, Managing Director at Franklin Templeton, gave a confidential presentation on progress on the Fund I and Fund II real estate performance and activities and the proposal to re-invest in Fund III.

Members asked questions about expectations on progress on real estate business plans across the globe, particularly in view of Covid19 and the implications for office

space. The Chair reiterated the Sub-Committee's very high expectations around ESG and their intention to reduce fossil fuel and carbon in the Pension Fund.

RESOLVED:

- (a) That the performance of the Fund from 1 April to 30 June 2020 as per 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 Allenbridge, on fund managers' quarterly performance, attached as Appendix 1 to the report, be noted.
- (c) That the presentation from Franklin Templeton (global property fund manager) on current Fund I and Fund II performance and activities and the proposal to re-invest in Fund III be noted.
- (d) That the re-investment proposal to the Franklin Templeton Fund III be approved, with a commitment of \$50m.
- (e) That officers be authorised to complete subscription and legal documentation, in connection with resolution (d) above.
- (f) That Mercer's September 2020 LGPS "Current Issues" brochure, attached as Appendix 2 to the report, be noted.

155 INVESTMENT STRATEGY STATEMENT UPDATE (Item B2)

An amendment was made to page 66 of the agenda pack, comprising the asset class table in paragraph 3, by the substitution of "5%" instead of 10% next to "Multi Asset Credit" and "10% instead of "5%" next to "Private Debt".

RESOLVED: That, subject to the amendment above being made to paragraph 3 of the Investment Strategy Statement, the draft Investment Strategy Statement attached as Appendix 1 to the report of the Corporate Director of Finance be approved and officers be authorised to publish it on the Council's website.

156 FUNDING REVIEW UPDATE (Item B3)

Michelle Doman, Mercer, gave a confidential presentation to the Sub-Committee on their outlook on the funding position and risk principles.

RESOLVED:

- (a) That the presentation prepared by the Fund Actuary, attached as Exempt Appendix 1 to the report of the Corporate Director of Finance, be noted.
- (b) That the summary findings in paragraph 3.5 and reproduced below of the report of the Corporate Director of Finance be noted:

- 1) The funding level had increased by 5% since the 2019 valuation to 90%. However, the outlook of investment returns had reduced.
- 2) Though there had been gains, the period to being fully funded had increased
- 3) Ongoing monitoring of employers represented the greatest risk (low affordability and high funding deficit)

4) Lowering the discount rate (in the absence of increasing investment risk/return) would increase the chance of achieving the recovery plan but this would increase employer contributions when affordability had reduced.

5) The Fund might have to accept an increase in funding risk and might want to consider options to reduce this risk.

(c) That the Sub-Committee review the position in six months' time.

157 REVIEW OF EQUITY PROTECTION STRATEGY (Item B4)

Tony English and Aniket Bhaduri, from Mercers, gave a confidential presentation to the Sub-Committee, recapping on the Fund's past experience with equity protection and setting out options for future equity protection.

Given future uncertainty of markets, members of the Sub-Committee suggested that it might be helpful to investigate other ways of reducing volatility in the Fund. It was noted that a short-term protection strategy, as was being proposed, would have significant cost implications. In light of this, members decided not to take action at the present time and that the Sub-Committee should receive a report on emerging risk in six months time, with a view to investigating ways of reducing risk via other ways eg equities exposure.

RESOLVED:

(a) That the presentation from Mercers on the background, market update and reasons why pension schemes consider equity protection strategies, attached as exempt Appendix 1 to the report of the Corporate Director of Finance, be noted.

(b) That officers report to the Sub-Committee in six months time on emerging risk, in order that members may explore whether a risk mitigation strategy is necessary and, if so, what form it should take.

158 LONDON CIV UPDATE (Item B5)

RESOLVED:

That the progress and activities presented at the November London CIV business update session (exempt Appendix1) and news briefing Collective Voice-October 2020, exempt Appendix 1A, both as attached to the report of the Corporate Director of Resources, be noted.

159 INVESTMENT STRATEGY REVIEW UPDATE- PRIVATE DEBT ALLOCATION (Item B6)

Tony English gave a confidential presentation to the Sub-Committee on Private Debt and how the proposed strategic asset allocation to Private Debt might be implemented to achieve the agreed target returns within risk parameters.

Officers suggested that they carry out due diligence exercises between now and March 2021 on options for Private Debt allocation, including the London CIV Private Debt Fund, in order to provide options for the Sub-Committee's consideration in March 2021.

RESOLVED:

(a) That the presentation from Mercer on Private Debt, attached as Exempt Appendix 1 to the report of the Corporate Director of Resources, be noted.

(b) That officers report to the Sub-Committee in March 2021 on options for Private Debt allocation, including the London CIV Private Debt Fund.

160 FORWARD PLAN OF BUSINESS (Item B7)

RESOLVED:

That the appendix to the report of the Corporate Director of Resources, detailing agenda items for forthcoming meetings, together with the additional reports detailed below be approved:

(i) Funding position - That the Sub-Committee review the position in six months' time (May/June 2021).

(ii) Review of equity protection strategy - That officers report to the Sub-Committee in six months time on emerging risk, in order that members may explore whether a risk mitigation strategy is necessary and, if so, what form it should take (May/June 2021).

(iii) Investment Strategy update - Private Debt - That officers report to the Sub-Committee in March 2021 on options for Private Debt allocation, including the London CIV Private Debt Fund.

161 DECARBONISATION POLICY - ACTION PLAN FOR PASSIVE EQUITIES AND NET ZERO CARBON TRANSITION TRAINING (Item B8)

RESOLVED:

(a) That the action plan (exempt Appendix 1 to the report of the Corporate Director of Resources) to further reduce carbon emissions and reserve on the Fund's passive emerging and UK equities be noted

(b) That a report be submitted to the Sub-Committee in March 2021 on more evolved and progressive responsible indices now available in the market in for options on the Fund's passive equities.

(c) That it be noted that, since 2016, the Fund had achieved in its equities:

i) 72% of its target to reduce exposure to carbon intensive companies

ii) 73% of its target to reduce absolute emissions.

(d) That the training briefing on Net Zero Carbon Transition (attached exempt Appendix to the report) be noted

(e) That an alternative training session date for a more detailed and informed discussion on net zero carbon be arranged and that members of the Pensions Board and the Executive Member for Environment and Transport be invited to the session.

162 REVIEW OF OBJECTIVES SET FOR PROVIDERS OF INVESTMENT CONSULTANCY (Item B9)

Representatives from MJ Hudson and Mercer left the meeting before the Sub-Committee's discussion.

RESOLVED:

(a) That the legal requirement for trustees of occupational pensions (including LGPS) to set strategic objectives for investment consultancy providers, as detailed in the report of the Corporate Director of Resources, came into effect from 10 December 2019.

(b) That the objectives set out in exempt Appendix 1 to the report be noted and the performance rating of the investment consultancy providers be approved.

(c) That the objectives be reviewed at least annually and/or where there is a change in the Fund's requirements.

(d) That the Corporate Director of Resources, in consultation with the Acting Director of Law and Governance, be authorised to submit an annual compliance statement confirming compliance with Part 7 of the Order, noting that the first statement must be submitted to the CMA by 7 January 2021, covering the period 10 December 2019 to 9 December 2020.

163 EXCLUSION OF PRESS AND PUBLIC (Item)

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

<u>Agenda item</u>	<u>Title</u>	<u>Reasons for exemption</u>
<u>Agenda item E1</u>	Pension Fund performance from July-September 2020- exempt appendices	<u>Category 3 –</u> Information relating to the financial or business affairs of any particular person (including the authority holding that information)
<u>Agenda item E2</u>		
<u>Agenda item E3</u>		
<u>Agenda item E4</u>	Funding review update – exempt appendix	ditto
<u>Agenda item E5</u>	Review of equity protection strategy - exempt appendix	ditto
	London CIV update – exempt appendix	ditto
<u>Agenda item E6</u>	Investment Strategy review update- Private debt allocation - exempt appendix	ditto

<u>Agenda item E7</u>	Decarbonisation policy - action plan for passive equities and net zero carbon transition training - exempt appendices	ditto
	Review of objectives set for providers of investment consultancy – exempt appendix	ditto

- 164 **PENSION FUND PERFORMANCE FROM JULY-SEPTEMBER 2020 - EXEMPT APPENDIX (Item C1)**
Noted.
- 165 **FUNDING REVIEW UPDATE - EXEMPT APPENDIX (Item C2)**
Noted.
- 166 **REVIEW OF EQUITY PROTECTION STRATEGY - EXEMPT APPENDIX (Item C3)**
Noted.
- 167 **LONDON CIV UPDATE - EXEMPT APPENDIX (Item C4)**
Noted.
- 168 **INVESTMENT STRATEGY REVIEW UPDATE- PRIVATE DEBT ALLOCATION - EXEMPT APPENDIX (Item C5)**
None.
- 169 **DECARBONISATION POLICY - ACTION PLAN FOR PASSIVE EQUITIES AND NET ZERO CARBON TRANSITION TRAINING - EXEMPT APPENDICES (Item C6)**
None.
- 170 **REVIEW OF OBJECTIVES SET FOR PROVIDERS OF INVESTMENT CONSULTANCY - EXEMPT APPENDIX (Item C7)**
None.

The meeting ended at 10.00 pm

CHAIR