London Borough of Islington

Pensions Sub-Committee - 28 June 2022

Non-confidential minutes of the meeting of the Pensions Sub-Committee held at Council Chamber, Town Hall, Upper Street, N1 2UD on 28 June 2022 at 7.00 pm.

Present:	**Councillors:**	Convery (Chair), Ward (Vice-Chair) and O'Sullivan
Also Present:		Alan Begg, Councillor Poyser, Maggie Elliott, George Sarkey Alex Goddard- Mercer Karen Shackleton – MJ Hudson

Councillor Paul Convery in the Chair

235 <u>APOLOGIES FOR ABSENCE (Item A1)</u>
Apologies were received from Councillor Gill.

236 <u>DECLARATION OF SUBSTITUTES (Item A2)</u>
There were no declarations of substitute members.

237 <u>DECLARATION OF INTERESTS (Item A3)</u>
There were no declarations of interest.

238 <u>MEMBERSHIP, TERMS OF REFERENCE AND DATES OF MEETINGS IN 2022-23 (Item A4)</u>
<u>RESOLVED:</u>
(a) That the membership of the Pensions Sub-Committee, appointed by the Audit Committee on 13 June 2022, its terms of reference and dates of meetings for the municipal year 2022/23, as set out at Appendix A to the report of the Corporate Director of Resources, be noted.
(b) That the membership of the Pensions Board, appointed by the Audit Committee on 13 June 2022, its terms of reference and dates of meetings for the municipal year 2022/23, as set out at Appendix A to the report, be noted.

239 <u>MINUTES OF THE PREVIOUS MEETING (Item A5)</u>

<u>RESOLVED:</u>
That the minutes of the meeting held on 14 March 2022 be confirmed as an accurate record of proceedings and the Chair be authorised to sign them.

240 <u>PENSION FUND PERFORMANCE FROM JANUARY TO MARCH 2022 (Item B1)</u>
Meeting was informed that in light of the Ukraine Russia War, the combined fund performance has been negative during the last quarter, however looking over the

12 month period it is positive and ahead of the bench mark .

Members were reminded that in general the fund is doing better in comparison to previous years.

Members were informed that officers had received notification that following the takeover of BMO by Columbia Threadneedle ,there is likely to be possible merger of the BMO emerging market portfolio with a third party called Poland Capital, details which will be reported back to Committee in September.

On the question of whether despite 3 years of extraordinarily levels of economic instability if the Council's mix of investment is vulnerable in comparison to other local authorities government, the meeting was advised that committee will have the opportunity to compare Islington against other local authorities when a standard report is considered at the September meeting.

In response to concerns about the BMO fund and the possibility of termination going forward, meeting was advised that there were no issues with the emerging market and frontier market but the issues were more specific to the circumstances of BMO itself and not the emerging market universe.

Karen Shackleton of MJ Hudson in summary highlighted the various performance of the fund managers as highlighted below-

In-house Passive portfolio
No performance issues, however members to note fund will be transitioning into a Paris Aligned fund over the summer as it is nearly at the end of this particular mandate

M& G- Alpha Opportunities Fund
Relatively new allocation and proceeds of equity protection strategy has gone into this fund, it is a low risk fund designed to protect capital and although it made a small loss during the quarter of -1.6 % this was due to its exposure to financial corporate bonds . Members to note that there was a mistake in the report, that the last paragraph under portfolio characteristics should be amended to read ' Schroders intend to remain energy positioned' rather than defensively positioned

LCIV Global Equity Fund Newton

Chart 3 shows how managers do well in certain environments and less on others and it shows Newtons have had a long period of underperformance, followed by a much better performance in quarter 1 of 2020, however unfortunately it is beginning to tail off and presently experiencing underperformance relatively to the benchmark and certainly below their performance. Committee were advised that this is a fund manager that Islington is paying to outperform but are actually underperforming for over 3 years, that it is a defensive portfolio which is good in a time of volatility but this is something to monitor. Members were reminded that the fund manager has a thematic approach, which changes slowly over time, that their focus at the moment is Net effect impact of technology and healthy demand, affordable health care of the elderly, noting that these themes have not played out well in the last quarter.

LCIV Sustainable Equity fund
The fund has experienced one of its worst quarters in performance as the market responds to the Ukraine crisis and there was a flight to safety and move away from the sort of companies that RBC favours, the market environment did not suit their style.
In comparison to others in the Peer group, London CIV has done some analysis and conclude that over the long term they are still doing well, however this year has been particularly challenging.
In terms of its carbon intensity, it is up to 80% which is a lot higher than Newton and this is because it invests in companies that are still committed to the climate transition, however members should note that it does not align with Islington's climate goals

BMO/ LGM
The emerging market portfolio is underperforming by 3.9% per annum over 3 years. Although BMO has systemic performance issues and in light of the news with regards to CT's agreement with Poland Capital, a US fund manager, members will be briefed at a future meeting when there is more details available.

Standard life - Corporate Bond Fund
Performance has been good for quite sometime, however in relation to its benchmark it has not been delivering according to the funds objective. Members were reminded that this is being used to fund infrastructure portfolio.

Aviva Investors
The lime property fund has delivered and is focussed on inflation linking andover 3 years the fund has returned 8.61% per annum which is considerably above the gilt edge benchmark, so no concerns raised as it is delivering the fund objective. A point to note is they are joining the Association of Real Estate Funds (AREF) UK Long income open ended property fund index

Columbia Threadneedle
Over 3 years they have underperformed by 2.5% per annum, however it appears performance has tailed off since the fund manager left the organisation so there is a little bit of concern of how the new manager is bedding in . Members are advised that this may be a case to leaving a bit longer before decision is taken. Officers will be watching for signs of improvement over the long term.

Legal and General Investment Manager
They continue to track their respective indices closely, that no issues with their performance, however just to note that the Ukraine / Russian crisis has led to energy prices increasing so the low carbon index has actually underperformed in the capital index market.

Franklin Templeton
In comparison to other property managers historically Franklin Templeton's performance has increased over the previous 3 years but it is noticeable that Aviva is delivering the highest return. Not particularly concerned as Fund 1 is in its harvesting stage and returning monies back to council and most of their funds are ahead of target however there are two that are below expectations and are fully liquidated. Fund 2 is fully invested and 5% of funds is being distributed back to council with 3 funds performing well ahead of expectations and 2 are below expectation.
Meeting was reminded that the council has recently committed to Fund 3 and although its early days it is distributing, 3 of which are in line with expectations and 3 are too early to assess at this stage.

Hearthstone
Fund has underperformed the IPF index which is a commercial property index and a little bit disappointing.

Schroders
Diversified growth fund, still continues to have performance issues and to note that the bench mark has changed and is now the ICE Sterling 3 month index plus 4 so there are no RPI targets
The carbon density of that fund is 34% less than its comparators.

Quinbrook
Representatives at meeting to present their case to committee.

Pantheon
Performance is looking reasonable, noting that the private equity fund could do a little better but no major concerns at this stage

Permira
No new information on this fund manager but just for noting

In response to a question, Karen stated that any portfolio that is investing sustainably is likely to be more vulnerable in an environment where energy prices are increasing.

Member enquired whether there is a lag between inflation and returns expected from the Council's investment and was also particularly concerned with the London CIV investment as it consistently underperforms stating that this should be kept under review and if possible consider alternative options.

In response, Karen advised that there is some protection against inflation for example the Aviva portfolio, noting that the other way is by investing in index gilts which are very expensive.

Alex Goddard of Mercer reassured the committee that compared to other schemes Islington has high strategic allocatiomandates, where there is some degree of linkage to inflation. Islington has a 25% strategic allocation to property which is very resilient to inflationry environment, noting that one should expect some exposure to infrastructure such as Renewable energy as well, stating that Islington is well placed to be resilient to inflation in comparison to their peers

In response to a question on whether there was any area of particular concern, Karen Shackleton reiterated that there is nothing major except the LGM/ BMO transition to Poland capital, suggesting that before a decision is taken they may want to wait for another cycle as more information is required.

RESOLVED:
(a) That the performance of the Fund from 1 January to 31 March 2022, as per the BNY Mellon interactive performance report and detailed in the report of the Corporate Director of Resources, be noted.
(b) That the presentation by MJ Hudsons, on fund managers' quarterly performance, attached as Appendix 1 to the report, be noted.
(c) To note the LGPS Current Issue - May'22 for information, attached as Appendix 2.
(d) To receive a presentation from Quinbrook (our renewable infrastructure manager) on current performance and activities and projected cashflow
(e) To consider a re-commitment to their next global fund, Net Zero Power Fund, as per asset allocation i.e. 4% of the whole Fund
(f) Subject to 2.4.1, to delegate responsibility to Officers to complete any due diligence, subscription and legal documentation.

241 PRESENTATION BY QUINBROOK (INFRASTRUCTURE RENEWABLE MANAGER) - TO FOLLOW (Item B2)

Committee received a presentation from David Scaybrook of Quinbrook Infrastructure. Their past performance, activities and projected cash flow position for Islington for current fund as well as pipeline projects for their next fund, the Net Zero Power Fund and some of the merits of Quinbrook as stated in the report were highlighted.

RESOLVED:
To note the presentation (exempt Appendix).
To delegate responsibility to Officers to complete the fund subscription and carry out further due diligence.

242 LONDON CIV UPDATE (Item B3)

Members were advised of current activities and the CEO's departure in March 2023. The various funds performance was discussed and agreed they need to be monitored closely and an update to be provided at the September meeting.

RESOLVED
To note the progress and activities presented at the May business update session (exempt Appendix 1)

An update to be provided at the next meeting in September

243 PENSIONS SUB-COMMITTEE FORWARD PLAN (Item B4)

RESOLVED:

To agree Appendix A

244 PROGRESS ON THIRD GENERATION INDICES IMPLEMENTATION (ORAL UPDATE) (Item B5)

Members were reminded that at the last meeting it was agreed to bring a progress report on this issue however nothing to report at this moment .

Meeting was informed that the agreement was to transition the in-house fund to the L&G Paris Aligned fund, that discussions has commenced and a key issues is to finalise how much income we could receive from their current fund as the in-house fund is like a federal fund.

With regard to the transition, meeting was informed that the issue is whether the council could do any in species transition which could lower the costs and that there is a timetable with L&G to carry out the transition in the middle of August.

In response to a question on the timetable when it will be operational, and in particular when assets will be moved across, meeting was advised that it is anticipated within 2 weeks by the end of the transition, the new index will be up and running.
Meeting was advised that one of the areas sought is the impact on the weighted average carbon intensity(WACI)but at the total equity portfolio level making this transition will reduce the WACI by 17.4% bearing in mind that is a 10% allocation which is very significant.

Chair stated the need to keep an eye on this especially over the month of August and that it will be essential to be ready with some public narrative that we have taken this significant step change in funds over carbon footprint

Members were reminded that Islington has a legacy in Raffi emerging market portfolio and a decisionwas t taken that to transfer that we should move to Paris Aligned and &G do not have that at the moment. Initial discussions with an Index Provider who have confirmed that they intend to launch a Paris aligned emerging market with L&G in July so it is something to look explore.

RESOLVED:

To note the update

245 ESG MONITORING OF MANAGERS AND CARBON FOOT PRINTING RESULT (Item B6)

Committee received an update on the progress to date on the agreed monitoring plan on the portfolio’s decarbonisation policy and to note their ESG ratings and carbon footprint of Islington’s equity and credit holdings

RESOLVED

- To note the ESG ratings of individual portfolios and average rating of 1.8 (previous rating 2.1) for the whole Fund.
- To note the carbon footprint of our public equities and credit
- To note the carbon footprint of our public equities and credit
- To note the fund has reduced its exposure to carbon intensive companies since 2016 and absolute emissions as set out in Exempt Appendix 2 (to follow).
- To continue to engage with our portfolio managers to improve ESG ratings and achieve the targets set in 2022 and 2025 for the whole fund.

246 <u>BRIEFING PAPER ON UK SOCIAL AND AFFORDABLE HOUSING (Item B7)</u>

Alex Goddard of Mercer briefed the meeting on Impact Investing, UK Social and Affordable Housing and the recent white paper on levelling up issued by the Department of Levelling Up Housing and Communities (DLUHC). Members were advised that the paper is a training document for consideration to start the process of formulating a mandate specification and risk and return parameters.

Members were reminded that as part of the March 2020 Investment strategy review, it was agreed an asset allocation which included a 5% to social and affordable housing and for the strategy to be implemented over the short to medium term, however no commitment has been made to date.

RESOLVED

- To note the briefing paper prepared by Mercer (Exempt Appendix 1).
- To note the range, themes, risk and return and objectives as well as governments recent Levelling Up white paper.
- To consider the next steps of how to progress this commitment.

247 <u>PRIVATE DEBT PROCUREMENT - TRANCHE 2 (Item B8)</u>

Members were advised of a further update report on 2019 Actuarial review position and the targeted investment returns required to keep contributions to the fund sustainable and the investment strategy implications on asset allocation.

Members were reminded that at the December 2020 meeting a mandate specification was agreed and appointed 2 private debt managers to cover 50% of the total 10% asset allocation.

RESOLVED:

- To consider the allocation of a further % of assets to Private debt from the outstanding 50%.
- To note and consider the attached Exempt Appendix1.
- To agree to delegate authority to officers and our investment advisers to conduct further due diligence and recommend who best delivers value for money and complements our existing managers and proceed to procure.

- To consult and seek approval from the Chair of Pensions sub-committee on the final recommended manager
- To agree to delegate to the Corporate Director of Resources, in consultation with the Director of Law and Governance, authority to negotiate and agree terms and conditions of the fund management agreement(s) with the recommended and agreed manager(s).

248 PRESENTATION BY QUINBROOK (INFRASTRUCTURE RENEWABLE MANAGER) (Item E1)

Noted

249 LONDON CIV UPDATE - EXEMPT APPENDIX (Item E2)

Noted

250 ESG MONITORING OF MANAGERS AND CARBON FOOT PRINTING RESULT - EXEMPT APPENDICES (Item E3)

Noted

251 BRIEFING PAPER ON UK SOCIAL AND AFFORDABLE HOUSING - EXEMPT APPENDIX (Item E4)

Noted

252 PRIVATE DEBT PROCUREMENT - TRANCHE 2 - EXEMPT APPENDIX (Item E5)

Noted

The meeting ended at 9.45 pm

CHAIR