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| <p>Non-Executive Report of the:</p> <p>Pensions Committee</p> <p>Monday, 13 March 2023</p> |  <p>TOWER HAMLETS</p> |
| <p>Report of: Caroline Holland Corporate Director, Resources</p> | <p>Classification: Appendix 1 of this report is exempt</p> |
| <p>Update on Investment Changes: LCIV UK Housing Fund Due Diligence</p> | |

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| Originating Officer(s) | Miriam Adams |
| Wards affected | (All Wards); |

Appendix 1 to this report is exempt and not for publication as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: Information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).

Executive Summary

In January, the Committee agreed in principle to invest a 5% asset allocation in Affordable Housing. This paper summarises the suitability due diligence conducted by Mercer on the London CIV UK Housing fund.

Recommendations:

The Pensions Board is recommended to:

1. Note the due diligence report prepared by Mercer (Appendix 1).
2. Note Mercer's recommendation that the Committee should invest in the London CIV Housing Fund.
3. Note concerns which the Committee needs to be aware of.
4. Note that both advisers and officers will continue to follow up on these concerns and provide the Committee with periodic updates.
5. Note that updated MIFIDII report will be prepared and submitted by officers.

1. REASONS FOR THE DECISIONS

- 1.1 It is necessary to perform due diligence on a manager and product before investing. A strategic asset allocation should be set with the long-term objective in mind and with reference to the liabilities. In June 2022, the Committee agreed in principle to making a strategic asset allocation to the

social and affordable housing asset class and agreed to consider a possible implementation route involving investing via the London CIV newly set up UK Housing Fund as a possible implementation route or to start a search for potential managers with a view to making a direct appointment.

- 1.2 The London CIV Housing Fund has since reached the ACS launch stage.

2. ALTERNATIVE OPTIONS

- 2.1 The Pensions Committee can decide to do nothing and keep the existing strategic asset allocation or decide to invest outside the pool if the London CIV offering does not meet its mandate.

3. DETAILS OF THE REPORT

- 3.1 Note the recommendation to proceed and concerns raised by Mercer in appendix 1.

| Strategic Asset Class | | % |
|------------------------------|-----------------------------------|-------------|
| Total Equity 50% | Paris Aligned Global Equity | 20% |
| | Sustainable Global Equity | 9% |
| | Passive Low Carbon Global Equity | 21% |
| Total Alternatives | Real Estate | 12% |
| | Renewable Energy Infrastructure** | 6% |
| | UK Housing | 5% |
| | Diversified Growth | 15% |
| Total Bonds | Multi-Asset Credit | 6% |
| | Index-Linked Gilts & Collateral | 6% |
| Total | | 100% |

** Renewable Energy Infrastructure is funded by the winding down of existing investments in Insights and Goldmans

Next Steps

- 3.2 In the absence of opting up as institutional investor under MIFIDII, the Fund will be classified as a retail investor and therefore unlikely to invest. Officers will prepare the MIFIDII submissions on behalf of the Fund.
- 3.3 Investors will be required to submit applications in March 2023.

4. EQUALITIES IMPLICATIONS

- 4.1 There is no direct equalities implication on this report.

5. OTHER STATUTORY IMPLICATIONS

5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications may be:

- Best Value Implications,
- Consultations,
- Environmental (including air quality),
- Risk Management,
- Crime Reduction,
- Safeguarding.
- Data Protection / Privacy Impact Assessment.

Risk Management

5.2 There is a trade-off between risk and return. Diversification helps in optimising this trade-off. There is no such thing as a “riskless return” “return less risks” does occur. Investors should consider the risks they are taking within a framework that first and foremost considers the liabilities.

5.3 The Fund’s Investment Adviser report appendix 1 to this report includes several risks which include UK Government policy risks, covenant, development, reputational exit, liquidity and other political risks and suggested mitigants.

5.4 Other main investment risks include capital value risk, cashflow risk, inflation risk and climate risk.

Environmental (including air quality)

5.5 Environmental implications will be included in each report to the Pensions Committee as necessary.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 The cost of providing investment advice is part of the fund management and administration fees charged to the pension fund.

7. COMMENTS OF LEGAL SERVICES

7.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 govern the way in which administering authorities should manage and make investments for the fund. There are no longer explicit limits on specified types of investment and instead administering authorities should determine the appropriate mix of investments for their funds. However, administering authorities must now adhere to official guidance; broad powers allow the Government to intervene if they do not. Under regulation 8, the Secretary of State can direct the administering authority to make changes to its investment strategy; invest its assets in a particular way; that the investment functions of the authority are exercised by the Secretary of State and that the

authority complies with any instructions issued by the Secretary of State or their nominee.

- 7.2 The Council as Administering Authority of the Fund must take proper advice at reasonable intervals about its investments and must consider such advice when taking any steps in relation to its investments.
- 7.3 The Council does not have to invest the fund money itself and may appoint one or more investment managers. Where the Council appoints an investment manager, it must keep the manager's performance under review. At least once every three months the Council must review the investments that the manager has made and, periodically, the Council must consider whether or not to retain that manager.
- 7.4 One of the functions of the Pensions Committee is to meet the Council's duties in respect of investment matters. It is appropriate, having regard to these matters, for the Committee to receive information about asset allocation and the performance of appointed investment managers. The Committee's consideration of the information in the report contributes towards the achievement of the Council's statutory duties.
- 7.5 When reviewing the Pension Fund Investment Performance, the Council as Administering Authority must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector duty). The Committee may take the view that good, sound investment of the Pension Fund monies will support compliance with the Council's statutory duties in respect of proper management of the Pension Fund.

Linked Reports, Appendices and Background Documents

Linked Report

- **Quarterly Performance Review and Manager Deep Dive** paper – June 2022
<https://democracy.towerhamlets.gov.uk/ie/ListDocuments.aspx?CId=392&MId=13261&Ver=4>

Appendices

- UK Housing Fund Due Diligence report (appendix 1)
Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report
List any background documents not already in the public domain including officer contact information.
- These must be sent to Democratic Services with the report

- State NONE if none.

Officer contact details for documents:

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