ISLINGTON

For a more equal future

Finance Department
222 Upper Street
London N1 1XR

Report of: Corporate Director of Resources

Meeting of: Pensions Committee

Date: 11th March 2024

Ward(s): n/a

Appendix 1and 2 are exempt and not for publication as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: Information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: INVESTMENT STRATEGY REVIEW UPDATE ON IMPLEMENATION

1. Synopsis

1.1 This report is an update report after Members agreed the full investment strategy review and allocation as part of the 2022 Actuarial review process. The themes taken into consideration included liquidity, risk and net zero decarbonisation targets.

1.2 An action plan was agreed to implement the agreed strategy, and this is a progress report to update members on actions completed and further work required.

2. Recommendations

2.1 To note the progress made to date on the implementing the agreed strategy.

2.2 To note progress on emerging market portfolio review

2.3 To agree that officers with Mercers review the Private debt commitment and identify any gap to fulfil its commitment to a European strategy.

2.4 To note the briefing scope prepared by Pension for Purpose of the currently available impact funds with an inclusive local economy approach and biotech/life sciences themes (attached as exempt Appendix 2)

2.5 To agree other impact themes for its 5% allocation (Mercer training presentation is attached at exempt appendix 1 for reference).

2.6 To agree to receive a further progress report at the next meeting in June 2024.

3. Background

3.1 The 2022 actuarial valuation was finalised in March 2023, and as part of the process, work was undertaken to produce an investment strategy to support sustainable contributions from employers.

3.1.1 The Pensions Committee agreed a revised investment strategy for the Fund at its June 2020 meeting. The revised strategy maintained the Fund's 75% growth, 25% defensive split and included an allocation to Multi Asset Credit ("MAC") and Private Debt, the majority of which has now been implemented.

3.1.2 At the 6th March 2023 meeting, members discussed the initial Mercer presentation considering the current strategy and funding level following the 2022 valuation and post valuation market outlook. The options of Strawman 1 and 2 were discussed extensively on the themes of liquidity, return and risk. However, it was agreed that officers and Mercer would provide an alternative Strawman 3 portfolio option, modelled with the goal of achieving an increase in the allocation to alternatives compared to the current strategy, but with a lower risk profile. Members agreed the new strawman 3 strategy at their July meeting and an action plan to implement the strategy.

3.1.3 Members received a further progress report in November and agreed the following:
(i) a longer list of one or more managers be considered for the emerging markets portfolio,
(ii) officers and advisors formulate an implementation plan on investing in an inclusive economy approach and biotech/life sciences businesses.

3.1.4 The table 1- below shows the agreed New Strawman 3 allocation, actual allocation of assets as at July and progress made to December.

3.1.5

	New Strawman 3	Actual Allocation As at July'23	Actual Allocation As at Dec'23
Equity	**45**	56	52.5
Alternatives	**27.5(5% to Impact)**	16.6	17.2
Property	**20**	15.6	19.2
Liquid Fixed income	**7.5**	4.5	4.6
DGF/Corporate bonds	**0**	7.3	5.2
Expected return	**CPI+5.2%**		
Downside risk	**688m**		

3.1.6 **Implementation plan- actions outstanding**

The implementation plan still has some actions outstanding and is listed in the table 2 below.

3.1.7 Table 2

Asset Allocation	Action	Responsible person
Emerging market equities	A longer list of one or more managers be considered for the emerging markets portfolio.	Bfinance/ officers/Members-Shortlisting and interviewing scheduled for March
Private Debt	Commitment analysis to identify gap and allocate to a European strategy in Q2/ 2024	Members to agree to proceed in March
Impact	Produce a paper on types and identify best suit for Islington and discuss investment available in inclusive economy	Mercer/Karen Shackelton will present on this agenda

3.2 **Update November'23 to March'24**

3.2.1 **Emerging markets- background**

Members tasked officers to do further work on cost of transition including the passive mandate and then take a view of any changes to the mandates**.** Officers met with Mercer research team on emerging markets and discussed other strategies in the market. They covered value, growth and core style strategies and their performances over the last 3 to 5years'.

Our current active manager has a growth style and the passive manager is a value manager. Whilst the value manager has produced a performance of 10.3% per annum over the last three years, the growth manager has delivered -1.15%. Style biases have been the key driver of performance since 2021.

<u>Transitions cost estimates.</u>

The cost of transition for the Rafi passive fund default bid is 18 basis points before fees, taxes and commissions and subject to market conditions and the Polen fund estimates around 15 basis points that could rise to 52basis points after fees, taxes, commission and market impact.

<u>The London CIV</u>

The London CIV has an emerging market manager who is rated highly by Mercer and has good ESG credentials. However, it has a growth style bias and as such performance over the last 3yearsto September was -0.25% per annum. The London CIV does not have any immediate plans to appoint an alternative manager. Mercer recommended that this one single manager would not be as beneficial to

3.2.2 **Members agreed in November that a longer list of one or more managers be considered** for the emerging markets portfolio.

3.2.2.1 Officers met with advisors in January and agreed to proceed with the procurement process of an emerging equity market manager with preferred characteristics as follows:

- (i) no style bias
- (ii) can demonstrate performance consistency in different market cycles
- (iii) demonstrate ESG integration in investment process and aiming for a net zero target
- (iv) competitive fees in a pooled vehicle

3.2.2.2 Officers engaged the services of BFinance (advisors manager selection) and have met to discuss a long list of 9 managers from their emerging market universe database who best meet our criteria. We are in the process of agreeing a short list of 3 or 4 to meet for further due diligence and interviews in March. The plan is for Members to agree to appoint the recommended manager(s) at the next committee meeting.

3.2.3 **Impact investment**

The fund has now agreed a 5% allocation to impact investment. Mercer (our advisors) presented a training session (attached as exempt appendix 1) on our required returns and risk from this allocation, what impacts means, how to measure and monitor and types of investments in the market.

Members then agreed in November that officers and advisors formulate an implementation plan on investing in an inclusive economy approach and biotech/life sciences businesses.

3.2.3.1 A briefing has been prepared by Karen Shackleton (attached as exempt appendix 2) scoping current investment managers that have some element of inclusive economy approach and biotech/life sciences. The current market is quite small and so whilst further work is undertaken on managers and governance structure, Members are asked to receive the initial briefing and discuss if this meets their requirements.

3.2.3.2 Members are also asked to revisit the mercer presentation (attached as exempt appendix 1) to agree other themes on impact so a wider investment approach can be considered alongside inclusive economy to implement the 5% impact allocation.

4. Implications

4.1 Financial implications

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

4.2 Legal Implications

Section 7(1) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 requires the council, after taking proper advice, to formulate an investment strategy which must be in accordance with government guidance issued from time to time. The council must publish a statement of its investment strategy and review it at least once every three years.

4.3 **Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:**

Environmental implications will be included in each report to the Pension Board Committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of the fund in green opportunities. The link to the full document is https://www.islington.gov.uk/~/media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonboroughofislingtonpensionfundinvestmentstrategystatement.pdf

4.4 **Equalities Impact Assessment**

Nonapplicable 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

An equalities impact assessment has not been conducted because this report is seeking opinions on updating an existing document and therefore no specific equality implications arising from this report.

5. Conclusion and reasons for recommendation

5.1 Members are asked to note progress to date, considers the progress made from November to date and receive the training presentation from Mercer attached as exempt appendix 1 to agree other impact themes and the briefing on scoping inclusive economy attached as exempt appendix 2.

Appendices: Exempt Appendix 1- Mercer presentation-Training Impact investment
Exempt Appendix 2- Karen Shackleton – Briefing inclusive economy

Background papers:
None

Final report clearance:

Authorised by: Corporate Director of Resources

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