ISLINGTON

For a more equal future

Resources Department
222 Upper Street
London N1 1XR

Report of: Corporate Director of Resources

Meeting of: Pensions Committee

Date: 3rd December 2024

Ward(s): n/a

The appendix to this report is exempt and not for publication

SUBJECT: INVESTMENT STRATEGY REVIEW UPDATE ON IMPLEMENTATION

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 and recent amendment on impact strategy. The themes taken into consideration included liquidity, risk, inclusive economy 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 and receive a presentation from Mercer on the LCIV natural capital proposition attached as exempt Appendix1.

2.3 Subject to 2.2, agree delegated authority to Corporate Director of Resources to agree terms and conditions for 2% commitment.

2.4 To note that considering the governments' consultation on pooling, Officers are reviewing the LCIV proposition before a recommitment to our existing US Private debt manager Churchill's next vintage Fund V via delegated authority to Corporate Director of Resources.

2.5 To note the termination of our legacy Emerging Markets mandates are now in transition to be able to fund our new manager.

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

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'23 meeting and an action plan to implement the strategy. Following a further review of impact investing a Strawman 3a strategy was agreed in July '24 with an allocation to natural capital and impact.

3.1.3 Members received a further progress report in September 2024 and agreed the following:
(i) to conduct due diligence on a short list of 3 prospective impact managers, and be able to invest 50% of our current asset allocation.
(ii) delegated authority to Corporate Director of Resources to recommit to existing US private debt manager, Churchill
(iii) commence a procurement process for a European private debt manager, including having regard to the LCIV Private Credit mandate
(iv) to review LCIV natural capital proposition to invest if it meets our investment objectives

3.1.4 The table 1- below shows the agreed New Strawman 3a allocation, actual allocation of assets as at July'23 and progress made to Sept'24
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3.1.5

	Current Strawman 3a	Actual Allocation As at July'23	Actual Allocation As at Sept'24
Equity	**45**	56	54.6
Alternatives	**27.5(3% to Impact)**	16.6	17.0
Property	**20**	15.6	17.4
Liquid Fixed income	**7.5**	4.5	4.5
DGF/Corporate bonds/cash	**0**	7.3	6.5
Expected return	**CPI+5.12%**		
Downside risk	**680m**		

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	Complete onboarding and transition legacy portfolios	Officers/ investment managers
Impact	Short list agreed and due diligence commissioned	Apex/Officers
Private Debt	On boarding process commenced on Churchill V and agree to procure a European manager	Members/Advisors /officers

3.2 **Update September'24 to November'24**

3.2.1 **Emerging market -new mandate**

On boarding process is in progress and being reviewed by the custodian and transition of legacy portfolios has been instructed. The new mandate should be in place by December.

3.2.2 **Impact investment**
The fund agreed a 5% allocation to impact investment. Mercer (our advisors) presented a training session on our required returns and risk from this allocation, what impacts means, how to measure and monitor and types of investments in the market. A briefing prepared by Karen Shackleton scoping current investment managers that have some element of inclusive economy approach and biotech/life sciences was presented at the March meeting.

3.2.3 At the September meeting, members received a more in-depth briefing covering a bit more research on some selected funds that meet the committee's themes:

- Inclusive economy/supporting UK SMEs
- Regional UK (London/South East)
- Biotech/life sciences focus

Members agreed a short list of managers for 50% of the 3% strategic allocation taking into consideration risk, return, diversity and investment viability; for officers and advisors to conduct due diligences(DD). The DD has now been commissioned but due to the nature of these investments more time is required to finalise and report back the results.

3.2.4 Members are asked to note the progress and receive the full results in next committee meeting.

3.2.5 **Private Debt Gap Analysis**
The analysis conducted by Mercer and discussed showed a projected gap of around £120m over the next 3 years. Members agreed to deploy this capital, either via the Fund's existing manager(s) or by new commitments. Mercer agreed the strategy remains the same. At the September meeting Members agreed delegated authority to officers with consultation with advisors to make the required commitment to cover the projected gap of around £120m.

3.2.6 Officers and advisors have reviewed the LCIV private debt II proposition of 4 managers and taking into account value for money, complexity and best fit with our current portfolio of private debt managers, have agreed to recommit to our existing US core manager Churchill and review the LCIV proposition for a European manager.

3.2.7 The Onboarding process for Churchill Fund V was due to commence but considering the governments' consultation will review options and report on progress to the March meeting.

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 2026 and 2030 to reduce the current and future absolute emissions by 49% and 60% respectively compared to when it was measured in 2016 and also invest 20% of the fund in green opportunities. The link to the full document is Islington Pension Fund Investment Strategy Statement

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, and agree the recommendations 2.1 to 2.6 to continue to implement the agreed strategy allocation

Appendices: Exempt Appendix 1- Mercer presentation on Natural Capital.

Background papers:
None

Final report clearance:

Signed by: Corporate Director of Resources

Date: 25 November 2024

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