



PENSIONS SUB COMMITTEE

30 June 2020

SECOND DESPATCH

Please find enclosed the following items:

Item 1 Equity protection strategy settlement position

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Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	30 June 2020	C1	n/a

Delete as appropriate		Non-exempt
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SUBJECT- EQUITY PROTECTION STRATEGY SETTLEMENT POSITION.

1. Synopsis

- 1.1 This report provides a recap of the Fund’s objectives for implementing the equity protection strategy managed by Legal and General Investment Management (“LGIM”) and the cash position realised after maturity on the settlement dates

2. Recommendation

- 2.1 To note the equity protection strategy has settled and the final cash position realised.

3. Background

3.1 March 2016 valuation

The triennial valuation was completed in March 2017 with a calculated funding level of 78% and a deficit of £299m. A 22-year recovery plan was agreed with projected contributions over this period to achieve a 100% funding level.

- 3.2 Members agreed at the October 2017 special meeting to implement an equity protection strategy aiming to protect 50% of the portfolio (total equities exposure is 65%). They agreed the protection will initially be to 31 March 2020, the next actuarial valuation, and then reviewed.

- 3.3 The protection strategy was implemented on 2nd February and was based on an equity notional value of £734m (equity value at 31 December 2017 less premium of £25m). The premium was sourced from our LGIM MSCI Global Low Carbon Fund. The target maturity is

March 2020 except for Japan that expires in June 2020. The actual premium for the structure was £24.7m. The weighted average upper and lower strike were 94.9% and 78.3% respectively.

- 3.4 Members had been receiving six monthly monitoring reports but as the strategy is for a fixed term any gains and losses would only be realised at the end of the contract unless it is called in prematurely at a cost.
- 3.5 All the equity options bar Japan Topix matured, and was settled on 20 March 2020 at a value of £71.4m details on Appendix 1. The cash is currently invested in Money market –Sterling Liquidity funds and the current value as at 17 June was £74.6m. The last option Japan Topix was settled on 12 June at value of £2.7m.
- 3.6 Members are asked to note the final cash position after settlement and the end of this strategy.

4. Implications

4.1 Financial implications

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

4.2 Legal Implications

The Council, as the administering authority for the pension fund may appoint investment managers to manage and invest a portfolio on its behalf (Regulation 8(1) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended)).

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

None applicable to this report. Environmental implications will be included in each report to the Pension sub-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 Resident Impact Assessment

None applicable 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

- 4.4.1 An equalities impact assessment has not been conducted because this report is seeking opinions on a policy document and therefore no specific equality implications arising from this report.

5. Conclusion and reasons for recommendation

- 5.1 Members are asked to note the final cash position and the value for money achieved through this process and strategy.

Background papers:

None

Final report clearance:

Signed by:

Corporate Director of Resources

Date

Received by:

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Appendix 1

Settlement Date	Index	Currency	Option Type	Position	Quantity	Multiplier	Strike	Settlement Price	Value Local	Value GBP
20 March 2020	EURO STOXX 50	EUR	PUT	LONG	2554	10	3,160.0	2584.54	14.70m	£13.52m
20 March 2020	EURO STOXX 50	EUR	PUT	SHORT	-2554	10	2,775.0	2584.54	-4.86m	-£4.48m
20 March 2020	FTSE 100	GBP	PUT	LONG	2921	10	6,500.0	5315.00	34.61m	£34.61m
20 March 2020	FTSE 100	GBP	PUT	SHORT	-2921	10	5,400.0	5315.00	-2.48m	-£2.48m
20 March 2020	MSCI EM	USD	PUT	LONG	2167	50	1,140.0	803.23	36.49m	£30.96m
20 March 2020	MSCI EM	USD	PUT	SHORT	-2167	50	980.0	803.23	-19.15m	-£16.25m
20 March 2020	S&P 500	USD	PUT	LONG	1481	100	2,565.0	2437.98	18.81m	£15.96m
20 March 2020	S&P 500	USD	PUT	SHORT	-1481	100	2,020.0	2437.98	-	-
Total										£71.84m