



Report of: **Corporate Director of Resources**

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	16 October 2017		n/a

Delete as appropriate	Exempt	Non-exempt
-----------------------	--------	------------

**Appendix 1 attached** is exempt and not for publication as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: Information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

## **SUBJECT: PROTECTING THE RECOVERY PLAN- EQUITY PROTECTION**

### **1. Synopsis**

- 1.1 As part of the ongoing investment strategy update this report and Exempt -Appendix 1 considers the recovery plan agreed at the 2016 Actuarial Valuation and the current funding position of the fund and recommends strategy options to capture some of the gains.
- 1.2 Mercer our investment advisor, has prepared a presentation that will be presented to Members attached as Exempt Appendix 1- Protecting the recovery plan

### **2. Recommendations**

- 2.1 To consider Mercer's presentation Appendix 1 – Protecting the recovery plan (Exempt)
- 2.2 To agree to consider using an equity protection strategy to maintain some of the improved asset valuation
- 2.3 Subject to 2.2, to consider the impact on contributions and investment outcomes for different levels of equity protection
- 2.4 Then consider and agree one of the following options:
  - i) Option 1 – protect the downside of an equity market fall, by paying a premium, and participate in equity market rise
  - ii) Option 2- Simple collar strategy that protects the downside of an equity market fall and give up some of the equity market rise potential, without paying a premium

- iii) Option 3-Put spread collar that protects the downside from equity market, apart from large market falls, and give up some of the equity market rise potential, without paying a premium.

2.5 Agree that, Mercer and officers explore the design and implementation mechanism, dynamic or static; including cost, providers, governance and report to members at the next committee meeting in November.

### **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 22year recovery plan was agreed with projected contributions over to this period to achieve a 100% funding level

3.2 As at June 2017, the value of the fund was £1.29bn compared to the March 2016 position of £1.07bn. This will translate to a funding level of around 90% compared to 78% at the 2016 actuarial valuation. The improvement in funding level is mainly due to growth of assets versus expected returns. This increase is attributed to the rally in equity markets over the period and one cannot predict the future.

3.3 Officers have had initial discussions with the fund actuary to consider using an equity protection strategy to reduce the likelihood that further deficit contributions will be required at 2019 valuation compared to current levels and seek to bank the recent upside in asset valuations.

Options to consider could include

- (i) De-risking the whole portfolio by moving funds from equities to other classes
- (ii) Purchase an option to protect against market falls
- (iii) Purchase an option to protect against downside losses to a point and participate in the upside to a certain level

3.4 Members at the last September meeting had initial discussions of an equity protection strategy and asked for a report to a special meeting to consider the strategy fully. Mercer, our investment advisors have prepared a presentation -Exempt Appendix 1 for consideration.

3.4 Members are asked to consider the presentation and agree the recommendations 2.1 to 2.3 and subject to 2.3 agree 2.4 and 2.5.

### **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**

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**

Environmental considerations can lawfully be taken into account in investment decisions

#### **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

## 5. Conclusion and reasons for recommendation

- 5.1 Members asked to consider the Mercer presentation Exempt Appendix I and agree the recommendations 2.1 to 2.5.

### Background papers:

None

Final report clearance:

### Signed by:

**Received by:** Corporate Director of Resources Date

Head of Democratic Services Date

Report Author: Joana Marfoh  
Tel: (020) 7527 2382  
Email: Joana.marfoh@islington.gov.uk