



Report of: Interim Section 151 Officer

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	24 March 2020		n/a

Delete as appropriate	Exempt	Non-exempt
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Appendix 1 attached is exempt and not for publication as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: Information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: INVESTMENT STRATEGY REVIEW UPDATE

1. Synopsis

- 1.1 This is a further update report on 2019 Actuarial review position and the targeted investment returns required to keep contributions to the fund sustainable and the investment strategy implications on asset allocation.

2. Recommendations

- 2.1 To receive the presentation from Mercer attached as Exempt Appendix 1
- 2.2 To consider and agree the target best estimate return of CPI + 2.7 or 2.8%. (target agreed in June was CPI +3.2%)
- 2.3 Subject to 2.2 consider the asset allocation and investment strategy that can deliver the agreed investment return
- 2.4 To agree next steps taking into consideration our short to medium term negative cashflow positions and our decarbonisation policy.

3. Background

Introduction

- 3.1 The 2019 actuarial valuation is now near completion and as part of the process preparatory work is being undertaken to determine the funding position and investment strategy review that can support sustainable contributions from employers.

- 3.1.1 The Pensions Sub-Committee agreed a revised investment strategy for the Fund at its November 2014 meeting. The revised strategy maintained the Fund's 75% growth, 25% defensive split and included a 15% flexible allocation to infrastructure and social housing. Most of this strategy is now implemented bar Social Housing with the allocation between the assets dependent on market conditions.
- 3.1.2 At the June 2019 meeting, Members agreed a best estimate investment return of CPI +3.2% and risk budget to support the desired level of contributions over the recovery period of 19 years. An asset allocation profile was also agreed and training was received on some of the newer assets.
- 3.1.3 The presentation prepared by Mercer (attached as exempt Appendix 1) is to re-evaluate the above position in the current market outlook and perform some analysis to determine if the desired contribution can be supported through the existing strategy and investment returns. The risk and return target options are also discussed and Members after consideration are asked to agree the new target investment return of CPI + 2.7 or 2.8%.
- 3.1.4 If the new target return is agreed, then members are asked to look at options of risk and return portfolios to deliver this return and asset allocation changes that will support the short to medium term net negative cashflow position of the Fund that also achieves our decarbonisation and governance goals.
- 3.1.5 Members are also asked to review the current DGF and the and the next steps for any change implementation.

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

No legal implications

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 consider the Mercer presentation and agree a new target investment return rate and implications on asset allocation and cashflow position. Members should review the DGF portfolio and the next steps of any change implementation

Background papers:

None

Final report clearance:

Signed by:

Received by: Interim Section 151 Officer Date

Head of Democratic Services Date

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