



Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	15 September 2020		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Appendix 1 attached is exempt and not for publication as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: Information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: 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.
- 1.2 COVID 19 Scenario analysis has been undertaken to stress test current asset allocation and proposed options to deliver the agreed targeted investment return of 2.8% with risk parameters
- 1.3 Mercer, our investment advisors have prepared a report attached as Exempt Appendix 1 discussing the scenario analysis of different Covid19 recovery options and likely outcomes on proposed option 1 and 2 strategic asset allocations

2. Recommendations

- 2.1 To receive the presentation from Mercer attached as Exempt Appendix 1
- 2.2 To consider the COVID 19 recovery options over the period to early 2022 and its likely impact on proposed strategic asset allocation of option1 and 2.
- 2.3 To agree to adopt option I or 2 and update Investment Strategy Statement(ISS) with the new investment benchmark

2.4 To agree the next step to implement the agreed strategic asset allocation as per para 2.3

3. Background

Introduction

3.1 The 2019 actuarial valuation is now completed and as part of the process preparatory work was undertaken to determine the funding position and investment strategy review that could 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 report prepared by Mercer at the March 2020 agenda re-evaluated the above position in the current market outlook and performed some analysis to determine if the desired contribution could be supported through the existing strategy and investment returns. The risk and return target options were also discussed and a new target investment return of CPI + 2.7 or 2.8% was proposed with asset allocation changes that would support the short to medium term net negative cashflow position of the Fund and also achieve our decarbonisation and governance goals.

3.1.4 The Chair was consulted on the target and agreed it as part of the process to finalise the 2019 Actuarial Valuation that had to be signed off by 31 March 2020.

Update on Multi-asset credit procurement

3.1.5 At the June 2020 meeting, members agreed the Multi-asset credit mandate specification for the tendering process to commence. Islington with another London borough have now completed the long listing of best-suited managers and will be progressing to reviewing the longlist to a short list in the middle of September. Our investment advisors and BFinance are advising officers through this tendering and due diligence exercise. A further update and possible appointment of manager(s) is planned by December.

COVID 19 stress testing scenario analysis

3.1.6 Members also asked Mercer to review the current agreed asset allocation post COVID 19 to determine how resilient it would be to the likely impact and recovery options. Mercer have prepared a presentation attached Exempt Appendix1 to discuss likely outcomes and impact on assets. Members are asked to receive the presentation, consider the likely scenario impacts and agree on asset allocation option 1 or 2.

3.1.7 Members are also asked to agree for the agreed asset allocation option to be used to update the investment benchmark in the ISS and receive a follow up report in December on the implementation of the agreed strategic asset allocation.

4. Implications

4.1 Financial implications

- 4.1.1 The cost of providing 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 implications will be included in each report to the Pensions-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

5. Conclusion and reasons for recommendation

- 5.1 Members asked consider the Mercer presentation –Exempt Appendix 1 and agree asset allocation option to update the ISS investment benchmark and next steps. Members are also to note progress made on the procurement of Multi asset credit allocation.

Background papers:

None

Final report clearance:

Signed by:

Corporate Director of Resources

Date

Received by:

Head of Democratic Services

Date

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

