

Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	8 December 2020		n/a

Delete as appropriate	Exempt	Non-exempt

Appendix 1 is exempt and not for publication as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: Information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- RECONSIDERING EQUITY PROTECTION STRATEGY

1. Synopsis

- 1.1 This report provides a briefing on the background, market update and why pension schemes consider equity protection strategies. It also recaps the Fund's objectives for implementing the previous equity protection strategy that was fixed in February 2018 and settled in June 2020.

2. Recommendations

- 2.1 To receive a presentation from Mercers our investor advisors, on the background, market update and reasons why pension schemes consider equity protection strategies - attached as exempt Appendix 1.
- 2.2 To consider the presentation and agree an objective for the Fund on our current equities holdings that would require a risk mitigation strategy.
- 2.3 To consider and agree one of the 3 options below:
 Option 1: Do nothing because we are comfortable to take equity risk as a long term investor
 Option 2: Use equity protection to protect funding position for defined period e.g to the next valuation date

Option 3: Manage equity risk with a dynamic equity protection over a longer term that will require a governance budget and resource

2.4 Subject to recommendation 2.3 agree the next steps.

3. Background

3.1 Recap of previous equity protection

The 2016 triennial valuation was completed in March 2017 with a calculated funding level of 78% and a deficit of £299m with assets values at 31 March 2016. During mid 2017 assets values had grown and funding level was projected to be around 90%.

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%). 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 was March 2020 except for Japan that expired 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.

3.3 The equity options settled between March 2020 and June 2020 at a value of £74.6m and Members agreed not to extend the strategy.

Reconsider Equity protection

3.5 The 2019 Valuation was completed in March 2020, and as part of the process an investment strategy has been agreed. The Fund has set a target investment return within a risk budget that will enable affordable employer contributions.

3.5.1 Market volatility and economic outlook due to COVID 19 since March is projected to result in lower investment returns over the longer term. Members asked for a presentation to reconsider the case for an equity protection strategy. A Funding review completed as at 30th September 2020 now shows a 5% improvement in the funding level.

3.5.2 Mercer have prepared a presentation attached as exempt Appendix 1 to set out the background and reasons to consider a protection strategy. Members are asked to consider the presentation, agree an objective for the Fund and select which option of risk protection is appropriate for fund beneficiaries and council taxpayers.

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

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 receive the presentation to re-consider equity protection strategy. Consider the presentation and agree which option to adopt and the next steps.

Background papers:

None

Final report clearance:

Signed by:

Corporate Director of Resources

Date

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