



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**Appendix 1 attached** is exempt and not for publication as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: Information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

### 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 Mercer, our investment advisor has prepared a report attached as Exempt Appendix 1 discussing next steps to implement the proposed strategic asset allocation to Private Debt to achieve the agreed target returns within risk parameters.

### 2. Recommendations

- 2.1 To receive the presentation from Mercer attached as Exempt Appendix 1
- 2.2 To agree mandate specification and next steps to implement the asset allocation to Private Debt
- 2.3 To agree to receive an update report at the next meeting in March 2021.

### 3. Background

## Introduction

- 3.1 The 2019 actuarial valuation was completed in March 2020 and as part of the process, preparatory work was undertaken to determine the funding position and an investment strategy review that could support sustainable contributions from employers. The agreed target investment return of CPI+3.2% was re-evaluated in the light of Covid-19 impact on markets. The risk and return target options were discussed and a new target investment return of CPI +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.
- 3.2 Mercer have prepared a further update on next steps to implement some of the proposed changes to the strategic asset allocation as part of the agreed investment strategy. The report discusses the mandate specification and implementation of Private Debt allocation.
- 3.3 Private Debt asset class is privately negotiated debt typically used when public loans are not available to the borrower, usually used to finance privately owned companies. Some of the characteristics include direct loan contracts with strong covenants secured by the firm assets if your loan is a senior debt. The main risks include defaults and illiquidity.
- 3.4 Members are asked to receive the presentation from Mercer on Private Debt mandate specification and agree the next steps for implementation. A further update report on progress will be presented at the next meeting in March 2021.

## **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 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 the next steps and a further update report on progress at the next meeting in March 2021.

### Background papers:

None

Final report clearance:

### Signed by:

	Corporate Director of Resources	Date
<b>Received by:</b>		

	Head of Democratic Services	Date
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