ISLINGTON

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	23rd March 2021		n/a

Delete as appropriate		Non-exempt

SUBJECT: INVESTMENT STRATEGY REVIEW UPDATE – PRIVATE DEBT PROCUREMENT OPTIONS

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 Members agreed mandate specification at the December meeting and this report explores some of the options currently available to procure a suitable manager(s).

2. Recommendations

2.1 To consider and note current options in table 1

2.2 To agree to delegate to officers to continue to explore these options and conclude by June which option(s) best delivers value for money to proceed to procure suitable managers

2.3 To agree to receive an update report at the next meeting in June 2021.

3. Background

<u>Introduction</u>

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 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.

3.3 Members agreed an Islington Private Debt mandate specification at the December meeting and asked for a progress report on implementation in March. Three options have been explored and the table below gives further details on information available to date.

Table 1

	Fiduciary Manager(FD)	**LCIV**	**Collaboration with LA- existing project**
Investment model	Fund of funds	Fund of funds	Direct to managers
Managers	Buy into off the shelve portfolio/set up portfolio	Subject to ODD- Churchill, and Pemberton	Churchill and Permira
Fund Allocation	FD decides	Equal split 50:50	Islington decides
Cost	FD fees + underlying manager fees	LCIV fee+ underlying manager fee	Underlying Manager fees
Pooling agenda	no pooling	pooling	pooling
Monitoring	FD responsible	LCIV and LBI investment advisor	LBI- investment advisor
Program	FD will decide	Need to explore further	Follow on funds available and can supplement with other managers
Potential benefits	**Governance is delegated to FD and less concentrated manager relationship**	**Spirit of pooling**	**Single layer of fees already negotiated and Islington tailored**
Potential drawbacks	**Conflict of interest and 2nd layer of fees**	**2nd layer of fees, being able to reach scale for better fee structure and less manager engagement**	**More resource required for governance and concentrated manager relationship**

3.4 Members are asked to consider these options and express a view but to allow officers to explore further details and due diligence of the managers available from these options and agree the best procurement to proceed with that will deliver value for money and achieve our risk and return targets.

3.5 Members also need to take into consideration the following issues;

- that Private debt can take 3 to 5 years to reach full allocation
- a plan needs to be in place on how soon we want to reach full strategic allocation of 10%
- cash flow matching of these commitments
- manager vintages for diversification

- availability of managers because investments are generally in closed funds.

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 recommendations

5.1 Members are asked consider the options of procurement and allow officers to explore further , conduct due diligence on the managers available and report back to the next meeting the procurement option(s) that will most meet our risk and return target and deliver value for money.

Final report clearance:

Signed by:

Corporate Director of Resources Date 15 March 2021

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