ISLINGTON

Town Hall, Upper Street
London, N1 2UD

Report of: Chair of the Pensions Sub-Committee

Meeting of	**Date**	**Ward(s)**
Audit Committee	31 January 2022	N/A

Delete as appropriate	~~Exempt~~	Non-exempt

Report to the Audit Committee from Cllr Paul Convery, chair Pension Fund subcommittee

The governance of the Council's Pension scheme is shared between two committees:

(1) The fund's investments are managed through the Pensions subcommittee as a subcommittee of the Audit Committee. Its membership consists of 4 Councillors whose decisions are assisted by officers of the Council and a group of technical advisers, Mercers, MJ Hudson Allenbridge and PIRC.

(2) The administration of the pension scheme – payments, contributions, member recruitment and communication – are the responsibility of the Pension Board chaired by Cllr David Poyser. This is a tripartite body established by statute in 2015 and includes representatives of the scheme members (pensioners and contributors) and representatives of employers (schools and "admitted bodies").

This report briefly summarises the work of the Pensions subcommittee, the Fund's recent performance and the activities undertaken to maximise the growth of the Fund's investments.

The subcommittee's primary objective is to ensure the Fund can pay current pensions and meet future liabilities. In recent years the Fund's projected future liabilities have outstripped the Fund's valuation and the Council has had to increase its employer contributions to ensure the Fund is balanced in the long term. These additional employer contributions are met from the Council's General Fund and these add extra cost pressures to the Council's revenue budget.

Every 3 years an actuarial valuation is undertaken to estimate the Pension fund's value and its future liabilities. The last triennial review was undertaken in 2019 and it identified a deficit. The Council committed to a plan that would bring the Fund into balance over a 19 year "recovery" period. The elements of this plan were: a review of the Fund's asset allocations; additional employer contributions; and an insurance policy to safeguard against any significant reduction in equity values.

During the past 3 years, the Fund's value has increased significantly despite the highly volatile nature of financial markets worldwide. The global Covid pandemic had a very negative effect on global markets in the early months of 2020 but most equity returns bounced back almost immediately despite the continuing economic problems caused by the pandemic. Many of the gains were in technology based sectors which have performed extremely well during the public health emergency. As confidence has returned to markets following the deployment of vaccines and new treatments, growth has returned to most economies in which the Fund holds investments.

During the financial year 2020-21, the Fund enjoyed returns of 22.1% which were significantly better than in many previous years and which also out-performed the Fund's benchmark of 19.3%. As a result, the Fund's total value increased from £1.36bn to £1.66bn as at March 2021. Consequently our actuary has provided a provisional estimate of the Fund's value and liabilities and, depending on the sensitivity of some liability variable, the Fund is now between 98% and 102% funded which means the deficit position has been turned-around.

All the asset classes, except property and UK equities, performed very well. The Fund also benefitted from a fortuitous decision to close-out our insurance against equity market loss. This policy was closed at almost exactly the moment when equity markets fell to their lowest in late March 2020. We therefore took a windfall payment of £72m ahead of markets recovering quickly. The proceeds were allocated to the new class of Multi Asset Credit.

Over the past year, the subcommittee considered the Fund's allocation policy and, in December 2020 adopted a revised investment strategy so the Fund's holdings are now arranged in the following asset classes:

	Proportion of the Fund allocated	Allowable variance
Equities *	46%	+/-6%
Private Equity	4%	+/-2%
Multi Asset Credit	5%	-
Property **	25%	+/-2%
Private Debt	10%	+-2.5%
Infrastructure	10%	-

* All markets: developed, emerging and frontier; the share of UK listed equities has been reduced
** includes social housing

The London CIV is our pooling organisation which continues to grow its assets under management. At March 2021, the London CIV held £23.8bn of the 32 London Local Authorities' fund assets. As at the end of March 2021, 22 funds had been launched and LCIV is now also a signatory to Climate Action 100+ and Task Force on Climate-Related Financial Disclosures.

Islington's Pension Fund has adopted a set of Environment, Social and Governance (ESG) criteria as a central part of the Fund's strategy and its approach as a long-term investor. In 2019 the subcommittee revised the Investment Strategy to include a comprehensive decarbonisation policy with targets to 2022 and a monitoring programme. These initial targets are to:

- Reduce future emissions of fossil fuel reserves owned by companies in the portfolio by at least 75% between 2016 and 2022 (at March 2021, achieved 55%);
- Reduce exposure to carbon intensive (publicly listed) companies by at least 50% (at March 2021, achieved 46%)

- Invest at least 15% per cent of the Fund in sustainability-themed investments (current position 14%)

In June 2021, the subcommittee revised the decarbonisation targets to set short to medium targets from 2022 onwards:

- Achieve a net zero emission target at 2050 aligned with the 1.5 degree Celsius limit
- Invest at least 20% of the fund in sustainability-themed investments by April 2026
- Reduce carbon emissions of all listed portfolios by 49% at 2026, and 60% by 2030
- Decarbonise all other asset classes, where possible.
- Engaging with investee companies to reduce their carbon footprint and their reliance on fossil fuels.

The Subcommittee continues to measure the Fund's carbon footprint and emissions annually.

The Subcommittee has declared that, whilst it is committed to engagement with carbon intensive companies because this will enhance returns in the long term, it will divest if there is a long- term risk to returns due to stranded assets. We are also actively involved in the Local Authorities Pension Fund Forum (LAPFF) which engages with individual companies and the Institutional Investors Group on Climate Change (IIGCC).

Finally, on behalf of the subcommittee, I would like to thank our in-house pension administration staff, advisors and service providers for their support during the year.

Cllr Paul Convery, Chair Pensions subcommittee, January 14th 2022.