

**Report of: Corporate Director of Resources**

<b>Meeting of:</b>	<b>Date</b>	<b>Agenda item</b>	<b>Ward(s)</b>
Pensions Sub-Committee	14 <sup>th</sup> March 2022		n/a

<b>Delete as appropriate</b>		Non-exempt
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**Appendix 1** is exempt and not for publication as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: information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: RUSSIA/UKRAINE CONFLICT ISSUES AND IMPACT****1. Synopsis**

- 1.1 This report provides information for Members of the Sub-Committee on the initial review of the Fund holdings and considerations to mitigate investment risk and uncertainty to funding levels.
- 1.2 Exempt Appendix 1 to this report is our investment managers and responses to date on known direct holdings, impact and actions taken.

**2. Recommendation**

- 2.1 To note Exempt Appendix 1.
- 2.2 To consider the action checklist proposed in paragraph 3.7
- 2.3 To agree an action plan.

### 3. Background

- 3.1 Russia has launched a full-scale invasion of Ukraine with the apparent intention of installing a Russia-friendly government in the country. While the situation is rapidly deteriorating and the tragic humanitarian situation is unfolding, the Fund has undertaken an early assessment of any direct investments in Russia and Ukraine and the potential implications for the global economic growth and inflation.
- 3.2 There are uncertainties, on how and when the conflict will last, the full scale of sanctions and its impact on businesses worldwide because both Russia and Ukraine are big producers of energy, minerals and commodities; the linkages to financial markets of asset seizures and central banks' policy response.
- 3.3 The current situation has brought about a massive refugee and humanitarian crisis to European borders, higher oil and gas and other non-energy commodity prices to lead to downwards revisions to global growth and upwards revisions to inflation forecasts in the coming weeks, supply chain disruptions worsening and heightened volatility and sporadic illiquidity
- 3.4 The immediate fund review shows the direct exposure to Russia and Ukraine is mainly from our emerging market portfolios and estimated around 0.1%. The value of these holdings have now been written down to zero, and where the holdings are in passive funds, the index providers have announced their decision to delete Russian companies from the index. Our renewable infrastructure manager has also cancelled their contract with Gazprom. However with so much uncertainties and volatility, the indirect and policy impact are difficult to quantify.
- 3.5 The triennial valuation commences at 31<sup>st</sup> March and whilst funding levels as at December 2021 were estimated at 97 to 105%, the current situation will most definitely see a downward effect. This could put materially upward pressure on contributions including the future service rates, all else remaining equal, if the funding level continues to reduce. In addition to the implications for Fund assets and liabilities, the war in Ukraine may result in further pressures for employer affordability for pension contributions, as inflationary pressures work through potentially resulting in pressure on the associated operating costs e.g. pay and material costs and to the extent, any employers are involved in the relief effort.
- 3.6 Officers are continuously engaging with our investment managers on what investments actions are being taken with new government sanctions and policies and its impact on the portfolios and the exempt Appendix 1 schedules information we have to date.
- 3.7 Mercer (our investment advisors) have also prepared an action checklist that members may use as a guide to ensure risk mitigation plans are in place to maintain the funds fiduciary duty and be able to pay pension benefits.
- Direct exposure to Russia likely to be small but should engage with investment managers directly (and via Pools where applicable) to assess potential range of indirect risk exposures to the conflict –this has also been highlighted by the Scheme Advisory Board for England and Wales
  - Where equity and credit spread risk high, consider “tactical” options for reducing identified risk exposures, subject to market levels and conditions (e.g. futures, options, Credit Default Swaps)

- Removal of Russia from global equity and fixed incomes indices likely, which could result in illiquid off-benchmark exposures. Discuss exit strategy with investment managers.
- Reconfirm desirability of any planned changes to current portfolio given transactions costs higher due to market volatility and sporadic illiquidity
- Consider whether member expectations, or broader reputational risk, warrant disinvestment from all holdings in Russian assets, irrespective of exit costs
- Investigate and devise a plan/course of action to meet any liability benefits that may require to be paid to members residing in Russia, given the sanctions on the banking sector

## **4. Implications**

### **4.1 Financial implications**

4.1.1 None in the context of this report. The cost of providing independent investment advice is part of fund management and administration fees charged to the pension fund.

### **4.2 Legal Implications**

None applicable to this report

### **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 Board 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

An equalities impact assessment has not been conducted because this report is seeking opinions on updating an existing document and therefore no specific equality implications arising from this report

## **5. Conclusion and reasons for recommendation**

5.1 To note Exempt Appendix 1 and consider the action list proposed in paragraph 3.7 to agree an action list.

### **Background papers:**

None

Final report clearance:

**Signed by:** David Hodgkinson

**Corporate Director of Resources**

Date: 9/03/22

**Received by:**

Head of Democratic Services

Date

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