ISLINGTON

Town Hall, Upper Street
London, N1 2UD

Report of: Chair of the Pensions Sub-Committee

Meeting of: Audit Committee

Date: 30 January 2023

Ward(s): None

Subject: Annual Report of the Pensions Sub-Committee 2022

Background

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

- 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.

- 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 statutory entity that includes representatives of the scheme member (pensioners and contributors) and representatives of employers (schools and "admitted bodies").

1.1 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 Fund's financial performance

2. In the financial year 2021-22, the Fund performed well – showing an investment return of 8.6% compared to our customised benchmark of 8.3% for the 12 months to March 2022. This exactly matched the average of all other Local Authority funds. Our Fund's market value therefore increased from £1,660 million to £1,780 million. In the previous financial year, the Fund had performed even better – having made an annual return of 22.1%.

2.1 However, in early 2022, market conditions deteriorated significantly and the most recent 12 monthly period has been affected by economic uncertainty caused by the war in Ukraine and the consequent energy price shocks. As a result, our overall portfolio fell in value by 3.7% although this was rather better than our customised benchmark which fell by 6.5%.

Triennial actuarial valuation

3. The Fund is valued every three years by an independent actuary to estimate the Pension fund's value against its future liabilities. The most recent valuation in 2019 identified a significant long-term deficit. It showed there was a £249 million gap between the Fund's value and its liabilities. To bring the Fund into balance over a 19 year "recovery" period, the Council agreed to several changes including a rebalance of the Fund's asset allocations.

3.1 The latest actuarial valuation is almost complete and it indicates the scheme's previous deficit is reduced from £249 million to £79 million so the scheme has moved from being just 84% funded to 96% and, as a result, we are well positioned to achieve balance (100% funded or better) well within the remaining 16 years of the "recovery period".

Exposure to carbon intensive (oil, gas and coal) investment

4. In 2019, the subcommittee 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. As a result we determined to reduce exposure to shareholdings in fossil fuel intensive companies' and set 3 targets to achieve by March 2022:

- Reduce future emissions of fossil fuel reserves owned by companies in the portfolio **Target: reduce by 75%; Achieved 79%);**
- Reduce exposure to carbon intensive, listed companies **Target: 50%; Achieved 43%**
- Invest a percentage of the Fund in sustainability-themed investments (such as low carbon technology or green infrastructure) **Target: 15%; Achieved 14%**

4.1 Recognising that these targets were relatively modest and at a risk of under-achievement, the subcommittee in June 2021 revisited the targets from 2022 onwards with a goal of reaching net zero emission by 2050 aligned with the "Paris" 1.5 degree Celsius scenario. The more comprehensive and exacting medium term targets from 2022 are now:

- Reduce carbon emissions of *all* listed portfolios (equities and credit) by 60% by 2030 (on a 2016 baseline)
- Invest a minimum of 20% of the fund in sustainability-themed investments by April 2026

4.2 In September 2022, the Fund rebalanced its equity holdings by reducing its shares in UK companies (thereby reducing our ownership of UK energy companies) and by adopting a "Global Paris Aligned Index" for all "passively managed" equities. During the first week of September, the Council's pensions team with advisors executed a large transaction in which we sold UK shares in a FTSE based Index and acquired £164m in a new Paris Aligned Index fund.

4.3 The Fund will continue to decarbonise all other asset classes and to engage with investee companies to reduce their carbon footprint and reliance on fossil fuels. We continue to do this as a member of the Local Government Pension Scheme Forum.

ESG policy challenges

5. During the year, the Fund's policies have been subject to a number of public calls to reduce holdings of firms which may be engaged in ethically difficult sectors or practices:

- Industrial agriculture: we assured a campaign "Divest from Big Livestock" that Islington does not have holdings in livestock and soya production companies.
- Armaments manufacturer: the Fund had small holdings in a number of UK firms which were partly involved in military equipment manufacture although these accounted for only 0.15% of the overall pension fund's value
- Businesses operating in occupied Palestine: 55 local authorities have been identified as holding investments in firms active in the occupied territories. Islington is not one of them

5.1 In February 2022 we speedily reviewed all investments held in the Russian Federation. Following the military invasion of Ukraine, the UK, EU member states, USA, Canada and other nations introduced strict economic sanctions against Russia. Our Fund managers identified holdings valued at around £2.6m which were written-off thereby effectively divesting the Islington Pension Fund from all Russian interests.

5.2 During 2022 the Fund participated in collective shareholder actions to support campaigns led by ShareAction including:

- Lobbying FTSE 350 companies promoting "Living Hours" principles in their employment practises;
- Successfully campaigning to pursuade Sainsburys to lift wages for all directly employed staff to achieve "real Living Wage" rate;
- Achieving a shareholder AGM resolution to make HSBC cease lending for coal extraction and burning; however the bank has very recently been exposed as providing a revolving loan to German energy company RWE which is very controversially digging an open cast brown coal mine.

Acknowledgement

6. 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.

Councillor Paul Convery
Chair of Pensions Sub-Committee