



ISLINGTON

For a more equal future

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: Corporate Director of Resources

Meeting of: Pensions Sub-Committee

Date: 3rd July 2023

Ward(s): n/a

Appendix 1 and Appendix 2 are exempt and not for publication as they contain the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: Information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 AND IMPLEMENTATION PLAN

1. Synopsis

- 1.1 This report is an update report after Members agreeing potential themes to incorporate into a full investment strategy review in the context of the 2022 Actuarial review. The themes included are liquidity, risk and net zero carbonisation targets.
- 1.2 This report re-considers an investment strategy review including the risk and return analysis of possible portfolios.
- 1.3 An action plan has been prepared for consideration based on agreeing the third option of asset allocation

2. Recommendations

- 2.1 To receive the presentation from Mercer attached as Exempt Appendix 1
- 2.2 To re-consider the strategy review and the risk and return analysis.
- 2.3 To agree the strategic allocation, congruent with risk and return that is affordable and sustainable.

- 2.4 Subject to 2.3 agree to choose one of the below:
 i) portfolio strawman 1- additional allocation to investment grade credit
 ii) portfolio strawman 2- additional allocation to alternatives
 iii) portfolio strawman 3- additional allocation to alternates and credit
- 2.5 Agree to follow this report with an implementation strategy for the final agreed asset allocation.
- 2.6 To receive a presentation from Mercer attached as Exempt Appendix 2 for consideration and agree the executive summary.

3. Background

- 3.1 The 2022 actuarial valuation is now finalised. As part of the process, work has been undertaken to produce an investment strategy to support sustainable contributions from employers.
- 3.1.1 The Pensions Sub-Committee agreed a revised investment strategy for the Fund at its June 2020 meeting. The revised strategy maintained the Fund's 75% growth, 25% defensive split and included an allocation to Multi Asset Credit and Private Debt, the majority of which has now been implemented.
- 3.1.2 At the September 2022 meeting, the Actuary shared the updated data analysis, and current assumptions on inflation, life expectancy, ill health, discount rate on liabilities and funding level over the recovery period of 16 years. The next step is to assess if our current assets and investment strategy can support sustainable contributions from employers and meet our net zero carbon targets.
- 3.1.3 At the December meeting initial considerations of themes to inform the investment strategy review were discussed and agreed to include net zero carbon target, cashflow liquidity. The presentation prepared by Mercer (attached as exempt Appendix 1) is to re-evaluate the above position in the current market outlook and agree the parameters to perform some further analysis to determine if the desired contribution can be supported through the existing strategy and investment returns.
- 3.1.4 At the 6th March meeting, members discussed the initial, Mercer presentation considering the current strategy and funding level following the 2022 valuation and post valuation market outlook. The options of Strawman 1 and 2 were discussed extensively on the themes of liquidity, return and risk.
- 3.1.5 However, it was agreed that officers and Mercer would provide an alternative Strawman 3 portfolio option, modelled with the goal of achieving an increase in the allocation to alternatives compared to the current strategy, but with a lower risk profile (ideally no higher than the current strategy). Table 1 below show the 3 options.
- 3.1.6 The table 1- below shows the current strategy and proposed strawman options 1, 2 and 3.

	Current Strategy	Strawman 1	Strawman 2	New Strawman 3
Equity	46	50	46	45
Alternatives	29	25	29	27.5
Property	25	20	20	20
Liquid Fixed income	-	5	5	7.5
Expected return	CPI+5.1%	CPI+5.0%	CPI+5.2%	CPI+5.2%
Downside risk	680m	660m	700m	688m

- 3.1.7 Members are asked to consider further option, Strawman 3, which has a lower risk profile and slight increase in liquidity compared to Option 2. Members are asked to agree this option to enable an implementation plan to be agreed in principle.
- 3.1.8 Subject to paragraph 3.1.7 an action to implement Strawman 3 has been prepared by Mercer and is attached as exempt appendix 2 to consider proposals to achieve the agreed strategy. Members are asked to receive the presentation and after discussion agree the executive summary so officers and Mercer can work on the actions for a further report on progress to the September meeting.

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

The committee is required to maintain an investment strategy statement under the 2016 management and investment regulations and take legal advice on investment matters.

4.3 Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:

Nonapplicable 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 Equalities Impact Assessment

Nonapplicable 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 Members are asked to consider the Mercer presentation (exempt appendix 1 and 2) and agree a strategic allocation that meets an affordable and sustainable objective within their risk and return budget, so that an implementation plan can be agreed in principle on the agenda.

Appendices: Exempt Appendix 1- Mercer presentation-investment strategy
Exempt Appendix 2- Mercer presentation- action plan

Background papers:

None

Final report clearance:

Signed by:

Corporate Director of Resources

Date: report received final clearance

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