Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: Corporate Director of Resources

Meeting of: Pensions Committee

Date: 26th September 2023

Ward(s): n/a

Appendix 1 and Appendix2 attached are exempt and not for publication as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: Information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: INVESTMENT STRATEGY REVIEW UPDATE ON IMPLEMENTATION

1. Synopsis

1.1 This report is an update report after Members agreed the full investment strategy review and allocation as part of the 2022 Actuarial review process. The themes taken into consideration included liquidity, risk and net zero carbonisation targets.

1.2 An action plan was agreed to implement the agreed strategy, and this is a progress report to update members on actions and timelines.

2. Recommendations

2.1 To note the report from Mercer on M&G Sustainable attached as Exempt Appendix 1

2.2 To consider the key characteristics of the sustainable strategy and make a decision
(i) to transition to the new proposed sustainable version
or
(ii) keep the existing portfolio

2.3 To consider exempt Appendix 2- note prepared by our independent advisor on Pantheon Infrastructure

2.4 Subject to 2.3 agree to re-commitment to the next vintage to maintain our allocation of 6%.

2.5 To note the progress made on rebalancing our property allocation to the agreed 20%.

2.6 To note initial action taken on our emerging markets portfolios

2.7 To agree to receive a further progress report at the next meeting in November

3. Background

3.1 The 2022 actuarial valuation was finalised in March 2023, and as part of the process, work was 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 6th March 2023 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. 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.

3.1.3 Members agreed the new strawman 3 strategy at their July meeting and an action plan to implement the strategy. The Table below shows current strategy and the new strategy

3.1.4 The table 1- below shows the 2020 strategy, actual allocation of assets as at June, and agreed new strategy Strawman 3.

3.1.5

	2020 Strategy	**Actual Allocation As at June'23**	**New Strawman 3**
Equity	46	**56**	**45**
Alternatives	29	**16.6**	**27.5(5% to Impact)**
Property	25	**15.6**	**20**
Liquid Fixed income	-	**4.5**	**7.5**
DGF/Corporate bonds		**7.3**	**0**
Expected return	CPI+5.1%		**CPI+5.2%**
Downside risk	680m		**688m**

3.1.6 Members also agreed the implementation plan to proceed to implement the new strategy and asked officers to report on progress.

Implementation plan

3.1.7 Officers met with Mercer in July to look at the executive summary action plan, the actual allocations of the fund, and timeline to achieve these objectives. The topics discussed, actions and timelines are shown in the table2 below:

Table 2

Asset Allocation	Action	Responsible person
Emerging market	A further due diligence and receive presentations from Polen Capital and LCIV	Mercer/ officers in July/August
Multi asset credit	A further due diligence and receive presentation from M&G	Mercer Officers-July/August
Property	To rebalance to 20% by toping up Aviva and Columbia Threadneedle	Officers- August
Infrastructure	Produce a commitment analysis to identify gap to achieve 12.5%	Mercer-August
Private Debt	Commitment analysis to identify gap and allocate to Europe in Q4	Yet to be assigned
Impact	Produce a paper on types and identify best suit for Islington	Yet to be assigned
Equity rebalance	Drawdown equities to fund property top up	Officers- July

3.1.8 Progress

(i) **Emerging market**- officers and Mercer arranged meetings with LCIV-JP Morgan and our incumbent manager Polen Capital. The presentation covered investment process, ESG, performance and market outlook and fees. **Members are asked to agree that further work be done on cost of transition including the passive mandate and then take a view of any changes to the mandates.**

(ii) **Property**- officers engaged parties on the secondary market and have now completed trades to increase our Aviva allocation to nearly 10% from 7.25%. We have also agreed to switch mandate to a tiered fee class in Columbia Threadneedle where there is a reduction in fees as the mandate increases. We have also increased our allocation by 2%.
Members are asked to note the rebalancing of our property allocation.

(iii) **Infrastructure**- Mercer have now completed the commitment analysis and estimated a gap of £180m to reach the new 12.5% allocation over the next few years. Members appointed Pantheon and Quinbrook in 2018 and recently made a further commitment to Quinbrook in 2022. Our current Pantheon III fund is now entering the harvesting stage where cash is being returned and another commitment will recycle the cash received and maintain our allocation.
Karen Shackelton(independent advisor), met with Pantheon and discussed the Pantheon Fund IV. The notes of her meeting is attached as Exempt Appendix 2.
The next Pantheon IV fund is closing at the end of September and members are asked to agree to make a commitment to Fund IV to maintain our allocation.

(iv) **Multi asset credit-** Our current mandate with M&G is the Alpha Opportunities fund of around 4.5% of the total fund. M&G have proposed to launch an alternative Sustainable Alpha Opportunities fund in November. Mercer and officers met with M&G where they presented the new fund characteristics. A summary of the fund characteristics and the full Mercer report is also attached as exempt Appendix 1. M&G have offered to provide an in-specie transition of around 50% of the current holdings to the new fund for early seeder investors and a 5 basis point reduction in fees.

Members are asked to consider the Mercer report and discuss the pros and cons of the product and make a decision to transition to the Sustainable Option or keep the existing product

(v) **Equities rebalancing-** the allocation to LCIV Newton was reduced by initial, £90m to reduce our equity allocation towards the 45% objective**.**
Members are asked to note the drawdown

3.1.9 A further update report will be provided to members in November as per the implementation action plan.

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 advice on investment matters.

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

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 recommendations

5.1 Members are asked to consider the action and progress items in paragraph 3.1.8 and agree the recommendations.

Appendices: Exempt Appendix 1- Mercer presentation-M&G Sustainable Alpha Opportunities Fund
Exempt Appendix 2- MJ Hudson notes on Pantheon Infrastructure Fund III and IV

Background papers:
None

Final report clearance:

Signed by: Corporate Director of Resources

Date: report received final clearance

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

Financial implications Author: Joana Marfoh

Legal Implications Author: Marina Lipscomb, Interim Assistant Director of Law
Tel:
Email: marina.lipscomb@islington.gov.uk