



Report of: Corporate Director of Resources

Meeting of: Pensions Committee

Date: 26<sup>th</sup> September 2024

Ward(s): n/a

## **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 and recent amendment on impact strategy. The themes taken into consideration included liquidity, risk, inclusive economy and net zero decarbonisation targets.
- 1.2 An action plan was agreed to implement the agreed strategy, and this is a progress report to update members on actions completed and further work required.

### **2. Recommendations**

- 2.1 To note the progress made to date on the implementing the agreed strategy.
- 2.2 To note and receive a briefing paper from Pension for Purpose on impact investing attached as appendix1
- 2.3 Subject to 2.2, agree to a short list of the proposed impact investments for further due diligence by Officers and advisors
- 2.4 To agree delegated authority to Corporate Director of Resources to make the required commitment to cover the projected gap on private debt of around £120m.
- 2.5 Subject to 2.4 officers and advisors
  - (i) review our existing US Private debt manager Churchill's next vintage Fund V and if appropriate make a commitment as per gap analysis agreed in July.

- (ii) commence a procurement process for a European private debt manager, including having regard to the LCIV Private Credit mandate.

2.6 To agree to invest with LCIV our natural capital allocation subject to meeting our investment objectives.

2.7 To agree to receive a further progress report at the next meeting in December 2024.

### **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 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 ("MAC") and Private Debt, the majority of which has now been implemented.

3.1.2 At the 6<sup>th</sup> 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. Members agreed the new strawman 3 strategy at their July'23 meeting and an action plan to implement the strategy. Following a further review of impact investing a Strawman 3a strategy was agreed in July '24 with an allocation to natural capital and impact.

3.1.3 Members received a further progress report in July 2024 and agreed the following:  
(i) to appoint an active emerging market portfolio manager,  
(ii) to agree Strawman 3a strategy allocation with a 3% to impact and a 2% additional infrastructure to include natural capital  
(iii) agree private debt gap commitments for European and US managers with either existing managers or procure new manager.  
(iv) consider further some specific investments on impact and natural capital

3.1.4 The table 1- below shows the agreed New Strawman 3a allocation, actual allocation of assets as at July'23 and progress made to June'24

3.1.5

	<b>Current Strawman 3a</b>	Actual Allocation As at July'23	Actual Allocation As at June'24
Equity	<b>45</b>	56	54.2
Alternatives	<b>27.5(3% to Impact)</b>	16.6	16.7
Property	<b>20</b>	15.6	17.6
Liquid Fixed income	<b>7.5</b>	4.5	4.5
DGF/Corporate bonds/cash	<b>0</b>	7.3	6.5
Expected return	<b>CPI+5.12%</b>		
Downside risk	<b>680m</b>		

3.1.6 **Implementation plan- actions outstanding**

The implementation plan still has some actions outstanding and is listed in the table 2 below.

3.1.7 Table 2

Asset Allocation	Action	Responsible person
Emerging market equities	Complete onboarding and transition legacy portfolios	Officers/ investment managers
Impact	Discuss impact briefing and agree a short list for diligence	Mercer/Officers
Private Debt	Review existing manager Churchill to top up US commitment and agree to procure a European manager	Members/Advisors /officers

3.2 **Update July'24 to September'24**

3.2.1 **Emerging market -new mandate**

On boarding process is in progress and transition of legacy portfolios has been discussed and agreed. The new mandate should be in place before December.

3.2.2 **Impact investment**

The fund had an agreed 5% allocation to impact investment. Mercer (our advisors) presented a training session on our required returns and risk from this allocation, what

impacts means, how to measure and monitor and types of investments in the market. A briefing prepared by Karen Shackleton scoping current investment managers that have some element of inclusive economy approach and biotech/life sciences was presented at the March meeting.

3.2.3 Following the July meeting a specific 3% allocation has been agreed to Impact investing. Karen has updated her previous briefing to cover a bit more research on some selected funds that meet the committee's themes:

- Inclusive economy/supporting UK SMEs
- Regional UK (London/South East)
- Biotech/life sciences focus

3.2.4 Members are asked to receive the briefing paper attached as Appendix1 and agree a short list taking into consideration risk, return, diversity and investment viability for officers and advisors to conduct due diligences and report back the results.

### 3.2.5 **Private Debt Gap Analysis**

The analysis conducted by Mercer and discussed showed a projected gap of around £120m over the next 3 years. Members agreed to deploy this capital, either via the Fund's existing manager(s) or by new commitments. Mercer have suggested the strategy remain as before. Our current US private debt core manager, Churchill is fund raising for Fund V and as such Officers would like to review the fund for investment.

3.2.6 Members are asked for delegated authority to officers that with consultation with advisors make the required commitment to cover the projected gap of around £120m.

## 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**

Section 7(1) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 requires the council, after taking proper advice, to formulate an investment strategy which must be in accordance with government guidance issued from time to time. The council must publish a statement of its investment strategy and review it at least once every three years.

### 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->

#### 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 note progress to date, and agree the recommendations 2.1 to 2.7 to continue to implement the agreed strategy allocation

**Appendices:** Appendix 1- Impact investing briefing paper updated.

**Background papers:**

None

Final report clearance:

**Signed by:**

Corporate Director of Resources

**Date: 17 September 2024**

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

Financial implications Author: Joana Marfoh

Legal Implications Author: Sonal Mistry  
Tel:  
Email:

