Public Document Pack

PENSION POLICY & INVESTMENT COMMITTEE
Monday, 29 October 2018 at 10.45 am
The Aon Centre, 122 Leadenhall Street,
London, EC3V 4AN

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PENSION POLICY & INVESTMENT COMMITTEE

Monday, 29th October, 2018 at 10.45 am - The Aon Centre, 122 Leadenhall Street, London, EC3V 4AN

Membership:

Councillors : Mahmut Aksanoglu, Ergun Eren, Derek Levy, Terence Neville OBE JP, Claire Stewart and Doug Taylor

AGENDA – PART 1

1. WELCOME & INTRODUCTION

2. APOLOGIES

3. DECLARATION OF INTERESTS

4. STANDING ITEMS (Pages 1 - 12)

a) Business Plan 2018/19 update
b) Enfield Pension Fund Risk Management Policy
c) Risk Register – Risk Policy

5. MINUTES OF PREVIOUS MEETINGS: 1ST AUGUST 2018 (Pages 13 - 18)

6. CQS PRESENTATION - MULTI ASSET CREDIT

Please see Part 2 Report

7. AON PRESENTATION ON RESPONSIBLE INVESTMENTS

Please see Part 2

8. LCIV - PRESENTATION ON ESG POLICY

12:20pm – 12:30pm

9. PRESENTATION RBC - SUSTAINABLE EQUITY PRODUCT/ LCIV

12:30 pm – 1:00pm

10. BREAK

11. RESPONSIBLE INVESTMENT FRAMEWORK - REPORT (Pages 19 - 26)

1:20pm – 1:40pm

12. ANTIN PROPOSAL FOR A NEW INFRASTRUCTURE FUND (Pages 27 - 28)

13. QUARTERLY PERFORMANCE REPORT - 30TH JUNE 2018

Please see Part 2 Report

14. ABSOLUTE RETURN BOND MANDATE

Please see Part 2 Report

Business Plan 2018–2021

	2018/19	2019/20	2020/21
Pension Administration			
Valuation- collection of data		Apr to Jul	
Valuation results to employers		Sept to Mar	
Auto-Enrolment	Apr to Mar	Apr to Mar	Apr to Mar
Guaranteed Minimum Pension Review	Apr to Oct		
Member data quality review	Sept-Dec		
Monthly submission of data from employers (i connect)	Apr to Mar	Apr to Mar	Apr to Mar
I –connect project – Self service	Apr-Mar		
Communications			
Member Self-service	Apr to Mar		
Annual Benefits Statements	Jul to Aug	Jul to Aug	Jul to Aug
Communication Policy review		Aug to Dec	
Member newsletters	Half yearly	Half yearly	Half yearly
Employer meeting		Dec	
Governance			
Pension Fund Accounts	Apr to May	Apr to May	Apr to May
Approve Final Pension Annual report	July	July	July
Review Risk Register	Sept	May	July
Investment strategy statement	January	January	January
Setting & reviewing members' training programme	July to Jan	July	May
ESG review	July- Mar		
LAPFF	Ongoing	Ongoing	ongoing
Investment consultant service re-tender	Dec		
Actuary service re-tender			June to Oct
Governance CIPFA Review (including risk, responsible investor and Pooling)	Oct	Oct	Oct
Pension Regulators KPI's	Nov	Nov	Nov
Investments			
Asset allocation review			Nov to Mar
Investment strategy statement	On-going	On-going	On-going
Qualitative review of asset allocation	Nov		
Investment performance review	Quarterly	Quarterly	Quarterly
Investment Pooling	Apr to Mar	Ongoing	Ongoing
Funding			
Triennial valuation		July-Dec	
Fund maturity and liabilities profiling and monitoring	March	March	

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ITEM 3

London Borough of Enfield

REPORT TO;	**Pension Policy & Investment Committee**
SUBJECT:	**Pension Fund Risk Policy**
LEAD OFFICER	**Paul Reddaway**

1. **RECOMMENDATIONS**

To Note the establishment of a formal Pension Fund Risk Policy.

2. EXECUTIVE SUMMARY

This report formally records that has Enfield adopted the principles contained in CIPFA's Managing Risk in the LGPS document and the Pension Regulator's code of practice in relation to the Fund. This Risk Policy highlights how the Enfield strives to achieve those principles through use of risk management processes and internal controls incorporating regular monitoring and reporting. Responsibility.

DETAIL

Introduction

This is the Risk Management Policy of the London Borough of Enfield Pension Fund ("the Fund"), part of the Local Government Pension Scheme ("LGPS") managed and administered by London Borough of Enfield ("the Administering Authority"). The Risk Management Policy details the risk management strategy for the Fund, including:

- the risk philosophy for the management of the Fund, and in particular attitudes to, and appetite for, risk
- how risk management is implemented
- risk management responsibilities
- the procedures that are adopted in the Fund's risk management process
- the key internal controls operated by the Administering Authority and other parties responsible for the management of the Fund.

The Administering Authority recognises that effective risk management is an essential element of good governance in the LGPS. By identifying and managing risks through an effective policy and risk management strategy, the Administering Authority can:

- demonstrate best practice in governance
- improve financial management

- minimise the risk and effect of adverse conditions
- identify and maximise opportunities that might arise
- minimise threats.

The Administering Authority adopts best practice risk management, which supports a structured and focused approach to managing risks, and ensures risk management is an integral part in the governance of the Fund at a strategic and operational level.

To whom this Policy Applies

This Risk Management Policy applies to all members of the Pension Committee and the local Pension Board, including both scheme member and employer representatives. It also applies to senior officers involved in the management of the Fund.

Less senior officers involved in the daily management of the Fund are also integral to managing risk for the Fund, and will be required to have appropriate understanding of risk management relating to their roles, which will be determined and managed by the Deputy Director Strategic Finance.

Advisers and suppliers to the Fund are also expected to be aware of this Policy, and assist officers, Committee members and Board members as required, in meeting the objectives of this Policy.

Aims and Objectives

In relation to understanding and monitoring risk, the Administering Authority aims to:

- integrate risk management into the culture and day-to-day activities of the Fund

- raise awareness of the need for risk management by all those connected with the management of the Fund (including advisers, employers and other partners)

- anticipate and respond positively to change

- minimise the probability of negative outcomes for the Fund and its stakeholders

- establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk, and the reporting and recording of events, based on best practice

- ensure consistent application of the risk management methodology across all Fund activities, including projects and partnerships. To assist in achieving these objectives in the management of the Fund, the Administering Authority will aim to comply with:

- the CIPFA Managing Risk publication and

- the Pensions Act 2004 and the Pensions Regulator's Code of Practice for Public Service Pension Schemes as they relate to managing risk.

Risk Management Philosophy

The Administering Authority recognises that it is not possible or even desirable to eliminate all risks. Accepting and actively managing risk is therefore a key part of the risk management strategy for the Fund. A key determinant in selecting the action to be taken in relation to any risk will be its potential impact on the Fund's objectives in light of the Administering Authority's risk appetite, particularly in relation to investment matters. Equally important is striking a balance between the cost of risk control actions against the possible effect of the risk occurring.

In managing risk, the Administering Authority will:

- ensure that there is a proper balance between risk taking and the opportunities to be gained
- adopt a system that will enable the Fund to anticipate and respond positively to change
- minimise loss and damage to the Fund and to other stakeholders who are dependent on the benefits and services provided
- make sure that any new areas of activity (new investment strategies, joint-working, framework agreements etc.), are only undertaken if the risks they present are fully understood and taken into account in making decisions.

The Administering Authority also recognises that risk management is not an end in itself; nor will it remove risk from the Fund or the Administering Authority. However it is a sound management technique that is an essential part of the Administering Authority's stewardship of the Fund. The benefits of a sound risk management approach include better decision-making, improved performance and delivery of services, more effective use of resources and the protection of reputation.

<u>CIPFA and The Pensions Regulator's Requirements</u>

CIPFA Managing Risk Publication

CIPFA has published technical guidance on managing risk in the LGPS. The publication explores how risk manifests itself across the broad spectrum of activity that constitutes LGPS financial management and administration, and how, by using established risk management techniques, those risks can be identified, analysed and managed effectively.

The publication also considers how to approach risk in the LGPS in the context of the role of the administering authority as part of a wider local authority and how the approach to risk might be communicated to other stakeholders.

The Pension Regulator's Code of Practice

The Public Service Pensions Act 2013 added the following provision to the Pensions Act 2004 relating to the requirement to have internal controls in public service pension schemes.

> ***"249B Requirement for internal controls: public service pension schemes***
>
> *(1) The scheme manager of a public service pension scheme must establish and operate internal controls which are adequate for the purpose of securing that the scheme is administered and managed—*
>
> > *(a) in accordance with the scheme rules, and*
> >
> > *(b) in accordance with the requirements of the law.*
>
> *(2) Nothing in this section affects any other obligations of the scheme manager to establish or operate internal controls, whether imposed by or by virtue of any enactment, the scheme rules or otherwise.*
>
> *(3) In this section, "enactment" and "internal controls" have the same meanings as in section 249A."*

Section 90A of the Pensions Act 2004 requires the Pensions Regulator to issue a code of practice relating to internal controls. The Pensions Regulator has issued such a code in which they encourage scheme managers (i.e. administering authorities in the LGPS) to employ a risk based approach to assessing the adequacy of their internal controls and to ensure that sufficient time and attention is spent on identifying, evaluating and managing risks and developing and monitoring appropriate controls.

The Pensions Regulator's code of practice guidance on internal controls requires scheme managers to carry out a risk assessment and produce a risk register which should be reviewed regularly. The risk assessment should begin by:

- setting the objectives of the scheme
- determining the various functions and activities carried out in the running of the scheme, and
- identifying the main risks associated with those objectives, functions and activities.

The code of practice goes on to say that schemes should consider the likelihood of risks arising and the effect if they do arise when determining the order of priority for managing risks, and focus on those areas where the impact and likelihood of a risk materialising is high. Schemes should then consider what internal controls are appropriate to mitigate the main risks they have identified and how best to monitor them. The code of practice includes the following examples as issues which schemes should consider when designing internal controls to manage risks:

- how the control is to be implemented and the skills of the person performing the control
- the level of reliance that can be placed on information technology solutions where processes are automated
- whether a control is capable of preventing future recurrence or merely detecting an event that has already happened
- the frequency and timeliness of a control process
- how the control will ensure that data is managed securely, and

- the process for flagging errors or control failures, and approval and authorisation controls.

The code states that risk assessment is a continual process and should take account of a changing environment and new and emerging risks. It further states that an effective risk assessment process will provide a mechanism to detect weaknesses at an early stage and that schemes should periodically review the adequacy of internal controls in:

- mitigating risks
- supporting longer-term strategic aims, for example relating to investments
- identifying success (or otherwise) in achieving agreed objectives, and
- providing a framework against which compliance with the scheme regulations and legislation can be monitored.

Under section 13 of the Pensions Act 2004, the Pensions Regulator can issue an improvement notice (i.e. a notice requiring steps to be taken to rectify a situation) where it is considered that the requirements relating to internal controls are not being adhered to.

Application to the London Borough of Enfield Pension Fund

The Administering Authority adopts the principles contained in CIPFA's Managing Risk in the LGPS document and the Pension Regulator's code of practice in relation to the Fund. This Risk Policy highlights how the Administering Authority strives to achieve those principles through use of risk management processes and internal controls incorporating regular monitoring and reporting. **Responsibility**

The Administering Authority must be satisfied that risks are appropriately managed. For this purpose, the Deputy Director Strategic Finance is the designated individual for ensuring the process outlined below is carried out, subject to the oversight of the Pension Committee.

However, it is the responsibility of each individual covered by this Policy to identify any potential risks for the Fund and ensure that they are fed into the risk management process.

The London Borough of Enfield Pension Fund Risk Management Process

The Administering Authority's risk management process is in line with that recommended by CIPFA and is a continuous approach which systematically looks at risks surrounding the Fund's past, present and future activities. The main processes involved in risk management are identified in the figure below and detailed in the following sections:

1. Risk Identification

The risk identification process is both a proactive and reactive one: looking forward i.e. horizon scanning for potential risks, and looking back, by learning lessons from reviewing how previous decisions and existing processes have manifested in risks to the organisation.

Risks are identified by a number of means including, but not limited to:

- formal risk assessment exercises managed by the Pension Committee
- performance measurement against agreed objectives
- findings of internal and external audit and other adviser reports
- feedback from the local Pension Board, employers and other stakeholders
- informal meetings of senior officers or other staff involved in the management of the Fund
- liaison with other organisations, regional and national associations, professional groups, etc.

Once identified, risks will be documented on the Fund's risk register, which is the primary control document for the subsequent analysis, control and monitoring of those risks.

2. Risk Analysis & Evaluation

		Risk rating	Risk rating	Risk rating	Risk rating
LIKELIHOOD	**Very High (A)** This week	**A4**	**A3**	**A2**	**A1**
	High (B) This month	**B4**	**B3**	**B2**	**B1**
	Significant (C) This year	**C4**	**C3**	**C2**	**C1**
	Medium (D) Next year	**D4**	**D3**	**D2**	**D1**
	Low (E) Next 5 years	**E4**	**E3**	**E2**	**E1**
	Very Low (F) Next 10 years	**F4**	**F3**	**F2**	**F1**
		Small (4)	**Medium (3)**	**Large (2)**	**Very Large (1)**
		IMPACT: Financial or Reputation			
		up to £500k	Between £500k and £10m	Between £10m and £50m	Over £50m
		Minor complaint, no media interest	One off local media interest	Adverse national media interest or sustained local interest	Ministerial intervention, public inquiry, remembered for years

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Description	Actions in Place	Progress- comment	Risk category/ rating/DOT	Lead officers/ Councillors
PEN 01 - Fund assets fail to deliver returns in line with the anticipated return underpinning valuation of liabilities over the long-term	1. Anticipate long-term return on a relatively prudent basis to reduce risk of failing to meet return expectations. 2. Analyse progress at three yearly valuations for all employers. 3. Undertake Inter-valuation monitoring.	With the assistance of the Aon the position is kept under regular review and Pension Committee informed of the impact of prevailing market conditions on the funding level.	Strategic risk Likelihood = Medium Impact = Large **Rating = D2 (Static)**	Paul Reddaway
PEN 02 - Inappropriate long-term investment strategy	1. Set Pension Fund specific strategic asset allocation benchmark after taking advice from investment advisers, balancing risk and reward, based on historical data. 2. Keep risk and expected reward from strategic asset allocation under review. 3. Review asset allocation formally on an annual basis. 4. Investment strategy group actively monitors this risk	The PP&IC supported by our Advisors monitor the investment strategy and to develop proposals for change / adjustment for Pension Committee consideration. Officers will also closely monitor manager performance between the quarterly reviews The impact of each decision is carefully tracked against the Investment Strategy Statement for the Fund to ensure that long-term returns are being achieved and are kept in line with liabilities.	Strategic risk Likelihood = Low Impact = Large **Rating = E2 (Static)**	Paul Reddaway
PEN 03 - Active investment manager under-performance relative to benchmark	1. The structure includes active and passive mandates and several managers are employed to diversify the risk of underperformance by any single manager. 2. Short term investment monitoring provides alerts on significant changes to key personnel or changes of process at the manager. 3. Regular monitoring measures performance in absolute terms and relative to the manager's index benchmark, supplemented with an analysis of absolute returns against those underpinning the valuation. 4. Investment managers would be changed	The Fund is widely diversified, limiting the impact of any single manager on the Fund. Active monitoring of each manager is undertaken with Advisors and Officers meeting managers where there are performance issues and communicating regularly. Comments on whether mandates should be maintained or reviewed are included and where needed specific performance issues will be discussed and reviewed	Strategic risk Likelihood = Low Impact = Small **Rating = E4 (Static)**	Paul Reddaway

	following persistent or severe underperformance			
PEN 04 - Pay and price inflation significantly more than anticipated	1. The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. The actuarial basis examines disparity between the inflation linking which applies to benefits, the escalation of pensionable payroll costs, which only applies to active members, and on which employer and employee contributions are based. 2. Inter-valuation monitoring gives early warning and investment in index-linked bonds also helps to mitigate this risk. 3. Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.	The impact of pay and price inflation is monitored as part of the Council's MTFF processes and any potential impact on pension fund contributions is kept under review and factored into the Council's overall position. However, there is an increasing likelihood of rising inflation impacting on the overall liabilities of the Fund however the risk rating takes this into account.	Strategic risk Likelihood = Low Impact = Medium **Rating = E3** **(Static)**	Paul Reddaway/Julie Barker
PEN 05 - Pensioners living longer.	1. Mortality assumptions are set with some allowance for future changes in life expectancy. Sensitivity analysis in triennial valuation helps employers understand the impact of changes in life expectancy.	Mortality monitoring is undertaken by the Fund's actuary	Strategic risk Likelihood = Low Impact = Small **Rating = E4** **(Static)**	Paul Reddaway/Julie Barker
PEN 06 -Pensions Administration poor quality information supplied to both members and the Fund Actuary			Strategic risk Likelihood = Low Impact = Large **Rating = E2** **(Static)**	Julie Barker
PEN 07- Failure to receive employers contributions	Receipt of contributions from employers are monitored monthly – for timelessness and accuracy. Escalation Procedure in place for late payments	All breaches are reported in the Fund's Annual report. There have been no major breaches for six years.	Strategic risk Likelihood = Low Impact = Small **Rating = E4** **(Static)**	Paul Reddaway

MINIUTES OF THE MEETING OF THE PENSION POLICY & INVESTMENT COMMITTEE HELD ON WEDNESDAY, 1ST AUGUST, 2018

MEMBERS: Councillors Mahmut Aksanoglu, Derek Levy, Terence Neville OBE JP and Doug Taylor (Chair)

Officers:
Fay Hammond (Director of Finance), Paul Reddaway (Head of Finance) and Tariq Soomauroo (Governance & Scrutiny)

Also Attending:
Daniel Carpenter (Aon), Katherine Finnimore (Aon) and Carolan Dobson (Independent Advisor)

Councillor Orhan (Observer)

67. WELCOME & INTRODUCTION

Councillor Taylor welcomed everyone to the meeting

Apologies for absence received for Councillor Stewart, Councillor Eren and Rohan Meswani (Aon).
Apologies for lateness received from Councillor Neville

68. DECLARATION OF INTERESTS

Councillor Taylor declared that he was a Governor at Capel Manor College (a scheduled body in LB of Enfield Pension Fund).

Carolan Dobson declared she is a non-executive director of the London CIV.

69. MINUTES OF THE PREVIOUS MEETING

Minutes from the meeting held on 5th July 2018 were agreed without amendment.

MATTERS ARISING

Fay Hammond (Director of Finance) also advised that Southwark Council are happy to meet with the Chair to explain their approach to fossil fuels within their Pension Fund.

70. BOND PORTFOLIO REVIEW: THE JOURNEY SO FAR

RECEIVED Bond Portfolio Review (AON)
NOTED
Aon representatives Daniel Carpenter and Katherine Finnimore presented the document.

The Fund conducted an investment strategy review in 2017. The Committee discussed the overall investment strategy, in particular the fact that the Fund's equity allocation is the largest source of risk in the Fund and strong recent returns present an opportunity to crystallise funding level gains and reduce risk in the investment strategy.

It was discussed and agreed that the Fund could reduce its equity weighting by c.5%, which would bring it closer to its strategic allocation.

The proceeds could be utilised within the fixed income portfolio which would in turn bring the fixed income portfolio towards its strategic allocation. Fixed income was deemed an appropriate area to invest given its lower risk profile and role as a defensive asset for the Fund.

As a reminder, over the period since the previous strategy was set in 2014, the Fund has had an overweight position to equities, expressed predominantly via an underweight to bonds, as a result of:

– A medium term view on the relative attractiveness of equities versus bonds;

– The general strong performance of equity markets.

The Committee agreed that the additional allocation (c.6% of total assets) to fixed income should be allocated to a multi asset credit mandate in order to reposition the bond portfolio to the strategic allocation.

A MAC fund is available on the London CIV and it was agreed that this fund would be considered. The Committee has previously received a presentation from the London CIV on its bond offerings.

The Committee also asked Aon to put forward a "Buy rated" MAC manager for comparison. Aon provided a paper containing a comparison between the London CIV fund and JP Morgan's Multi Sector Credit fund.

The Committee agreed to meet both the London CIV and JP Morgan on 1 August to consider their multi asset credit offerings.

71. RECAP ON MULTI ASSET CREDIT ("MAC")

RECEIVED the training on Multi Asset Credit ("MAC") by Katherine Finnimore AON - C*PD 30 minutes accredited*

NOTED

A Multi Asset Credit ("MAC") strategy is a fixed income strategy seeking to add value by capturing the credit premium across different credit sectors.

Either by finding better companies or by exposure to different credit sectors at different times, a manager hopes to enhance an investor's return over and above a traditional core credit approach confined to one sector.

A MAC strategy provides the following characteristics

- Increase returns by widening the opportunity set within credit
- Reduction of volatility by actively diversifying across credit sectors
- MAC products have less sensitivity to interest rate changes than core fixed income products and can produce returns in a rising interest environment.

The Chair thanked Katherine Finnimore for a very informative presentation.

72. BREAK

73. MANAGER BRIEFING

NOTED:
AON presented an overview of the two MAC managers being interviewed

74. LONDON CIV OVERVIEW

LCIV Overview
NOTED:
Presented: Kevin Cullen (Head of Client Services) & Larissa Benbow (Head of Fixed Income)

The LCIV provided an update of their recently revised governance structure, including their responsible investment strategy. They updated members on the current pooling landscape.

75. LONDON CIV MAC FUND

RECEIVED LCIV presentation pack
LCIV presented Kevin Cullen (Head of Client Services) Larissa Benbow (Head of Fixed Income) and a marketing representative from CQS.

Larissa Benbow apologised that the CQS portfolio manager was unable to attend.
The LCIV/CQS – presented an overview of their product. The Chair thanked them for attending.

76. JP MORGAN MULTI SECTOR CREDIT FUND

RECEIVED: JP Morgan presentation pack
A presentation was received from Paul Farrell (Managing Director) and Usman Naeem (Portfolio Manager).

The Committee thanked Paul and Usman for their presentation.

77. LUNCH

78. DISCUSSION AND DECISION

The Committee noted the following:

Both presentations had merit and represented credible MAC strategies.

AGREED
Members were not convinced by CQS and were disappointed that the presentation was led by a marketing person and not a senior fund manager.
Members were asked to provide to Paul by the end of the following week any thoughts on the best way to progress. The chair also asked for comparative performance data net of fees.

79. AOB

The Committee **AGREED** that the Committee start time should be 10:45am

80. DATE OF NEXT MEETING

Monday 29th October 2018

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ITEM

London Borough of Enfield

REPORT TO;	**Pension Policy & Investment Committee**
SUBJECT:	**Responsible Investment Framework**
LEAD OFFICER	**Paul Reddaway**

1. **RECOMMENDATIONS**

1.1 To note the contents of this report and to consult with the wider membership of the Fund

EXECUTIVE SUMMARY

This report sets out an approach to develop a framework for Responsible Investment by the London Borough of Enfield Pension Fund. It is recognised that further consultation will be required with other stakeholders.

DETAIL

The starting premise of this review is that the fund will maintain its engagement policy, however it is recognised that this view may change as the consultation process continues. This provides a platform for the Fund to build a robust commitment towards Responsible Investment (RI) strategy based on a framework of investment beliefs.

The strategy will detail the approach the Fund aims to follow in integrating environmental, social and governance (ESG) issues in its investments. It is considered supplementary to the Fund's Investment Strategy Statement and thus in alignment with its fiduciary duty. This framework needs to be developed in the context of relevant regulations and statutory guidance.

The Pensions Policy & Investment Committee (the Committee) is at all times responsible for the Fund's investments, including oversight of the RI strategy. Responsibility for oversight of the Fund's RI framework sits with the Local Pension Board. **Appendix 1** shows the relationship between responsible investments and ESG.

The Committee will review this policy at a minimum annually, or at such time as the Fund sees fit to revise its RI policies and procedures.

London CIV

From October 2018 it will have a significant proportion of the Fund's RI activities. It will be executed on the Fund's behalf London Collective Investment vehicle (LCIV). The LCIV is a company established by the Fund and 31 other London Boroughs to

operate collective investment vehicles through which the Fund may invest to save costs over the long term. The LCIV is expected to have a leading approach to RI. Where this document refers to “fund management arrangements”, this is defined to include arrangements with the LCIV.

Definitions of Responsible Investment and Stewardship
The term ‘responsible investment’ refers to the integration of financially material environmental, social and corporate governance (“ESG”) factors into investment processes. It has relevance both before and after the investment decision and is a core part of fiduciary duty. It is not simply a box-ticking exercise nor is it merely a matter of managing reputational risk. It is distinct from ‘ethical investment’, which is an approach in which the moral persuasions of an organisation take primacy over its investment considerations.

We define the concept of stewardship in the same way as the Financial Reporting Council (FRC), the organisation that oversees the UK Stewardship Code:

“Stewardship aims to promote the long-term success of companies in such a way that the ultimate providers of capital also prosper. For investors, stewardship is more than just voting. Activities may include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration. Engagement is purposeful dialogue with companies on these matters as well as on issues that are the immediate subject of votes at general meetings.”

2) Beliefs and Guiding Principles

RI Integration
The Fund believes that effective management of financially material RI risks should support the Fund’s requirement to protect returns over the long term. The Fund considers RI to be relevant to the performance of the entire Fund across asset classes.

There are some investment opportunities arising from environmental and social challenges which can be captured so long as they are aligned with the Fund’s investment objectives and strategies.

The Fund recognises the importance of taking ‘proper advice’ (as defined in the regulations) and coming to investment decisions after adequate scrutiny of a robust evidence base.

Engagement Versus Exclusion
Investee companies with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events. There is risk but also opportunity in holding companies that have weak governance of financially material RI issues. Thus, the Fund prefers to adopt a policy of risk monitoring and engagement in order to positively influence company behaviour and enhance shareholder value, influence that would be lost through a divestment approach. The Fund extends this principle of ‘engagement for positive change’ to the due diligence,

appointment and monitoring of fund managers who are at an early stage of developing its RI approach.

The Fund believes that it will improve its effectiveness by acting collectively with other like-minded investors because it increases the likelihood that it will be heard by the company, fund manager or other relevant stakeholder compared to acting alone. The Fund recognises the need to operate at a market-wide level to promote improvements that will help it to deliver sustainable long-term growth.

Remuneration, Fees and Incentives
Executive remuneration and investment management costs matter, particularly in low-return environments. Fee arrangements with fund managers and the remuneration policies of investee companies should be aligned with the Fund's long-term interests. The Fund recognises that it is part of its fiduciary duty to ensure that there is an appropriate alignment.

Climate Change[1]
Financial markets could be materially impacted by climate change and by the response of climate policy-makers. Responsible investors should proactively manage this risk factor through stewardship activities, using partnerships of like-minded investors where feasible. It should also promote the aims of the Paris Agreement.

3) In Practice

Through fund management arrangements, the Fund aims to put its responsible investment beliefs into practice through actions taken both before the investment decision (which we refer to as the selection of investments) and after the investment decision (the stewardship of investments). The Fund aims to be transparent to its stakeholders through regular and high-quality disclosure. These ambitions yield the Fund's three RI pillars: Selection, Stewardship and Transparency and Disclosure.

Selection
The Fund aims to be aware of and monitor financially material RI issues in the context of investment and manager selection. Depending on the asset class and nature of the proposed mandate or vehicle, the Fund will monitor:

- RI issues in relation to directly managed investments;
- The extent to which fund managers incorporate RI issues into their investment processes, with the expectation that managers' processes will improve over time. This is managed at the due diligence and appointment states as further explained below:

[1] By highlighting climate change, rather than other RI risk factors, we are not asserting that climate risk has, for all assets, greater economic significance than other factors. Our motivation for referring specifically to climate change risk derives from our recognition that it is a risk factor of particular importance to a number of stakeholders, and we have communicated our investment beliefs about climate change for reasons of transparency.

Fund Manager Due Diligence
The Fund collects the following information from each manager before they are appointed where applicable to the asset class:

- Copy of their RI or stewardship policies (or equivalent) which articulates how RI factors, whether stemming from research, stewardship activities or other sources, are integrated into their investment process. Fund Managers are also given case studies or examples of where RI issues have influenced an investment decision.

- Information on the process for integrating any third-party RI data into their company financial models, investment strategies and portfolio construction.

- Fee transparency and evidence of disclosure.

- RI reporting format.

- Whether they are a signatory of the UN-backed Principles for Responsible Investment (PRI) and UK (or other) Stewardship Code. Fund Managers are given a copy of their PRI public report and annual assessment scores if applicable.

Fund Manager Appointments
The Fund assesses the RI capability of a fund manager as a factor within each of the people, process and performance categories. In its decision to appoint a fund manager, the Fund takes a balanced consideration of all relevant factors including RI. However, the Fund will pay a particular attention to adherence to relevant soft regulatory codes depending on the market in which it invests.

In practice, this means the Fund is willing to hire a fund manager at an early stage of developing its RI approach as long as there is a demonstrable RI commitment and a willingness to improve in their approach over time. In alignment with our guiding principles on ‘engagement versus exclusion’, the Fund believes that there is added value in working with them to improve their approach.

London CIV
The LCIV is now managing the majority our equity holdings. The LCIV is in the process of developing its own RI policy. This will be based on an agreement with all the boroughs that make-up the LCIV.

Stewardship
The Fund aims to make full use of its stewardship rights, including voting and engagement activities. From April 2018 this will be executed on the Fund’s behalf by LGPS Central for certain investments.

Fund Manager Monitoring
Each fund manager is expected to report at agreed intervals to the Fund on how their RI activities are contributing to improved long-term risk-adjusted returns.

Examples of information that can be provided in aid of this objective include but are not limited to the following:

- The evolution of how the manager integrates the consideration of RI issues into its investment and stewardship activities.

- How investment and stewardship functions are combined to protect and/or enhance value.

- Any outcomes arising from the manager's engagement with companies and their effectiveness.

Industry Engagement
In collaboration with other like-minded investors, the Fund may engage with public policy makers, regulators, trade bodies, indexes and other players in the financial markets to further support the Fund's fiduciary responsibilities. The Fund considers these initiatives on a case-by-case basis.

Shareholder Litigation
The Fund is eligible to participate in certain individual and class action securities litigation. Securities litigation may be used as an escalation technique within an engagement process. There are a number of litigation options available when a company has violated securities laws that result in losses to the Fund.

Voting
The Fund uses its voting rights to support the long term economic interests of its stakeholders and to ensure boards of directors are accountable to shareholders. The Fund expects UK companies to adhere to the UK Corporate Governance Code on a comply or explain basis.

Climate Change Stewardship
The Fund, either directly, through partnerships or fund management arrangements, aims to:

- Encourage improvement in the level of disclosure by companies of material climate change risks through collaborative initiatives, for example via our affiliations with Local Authority Pension Fund Forum (LAPFF), and the Institutional Investors Group on Climate Change (IIGCC); (membership costs £8k pa) http://www.iigcc.org/)

- Support and where applicable co-file –reasonable shareholder proposals to disclose/justify a company's approach to climate change risk;

- Review its fund managers to understand their approach to incorporating climate change considerations and encourage improvements in identifying and assessing the potential impact of climate change;

- Contribute to public policy with regards to climate change as it relates to investment considerations through participation with organisations such as the IIGCC. In support of this aim, the Fund is a signatory to the Global Investor Statement on Climate Change;

- Increase awareness of climate change as it applies to investment decision making through participation in relevant industry forums and collaborative initiatives;

- Keep up to date on the latest research and thinking on the financial materiality and interconnectedness of climate change within and across asset classes;

- Use and encourage adoption of the Transition Pathway Initiative's (TPI) toolkit for climate change management and performance; (http://www.lse.ac.uk/GranthamInstitute/tpi/)

- Disclose using the framework recommended by the Taskforce on Climate-related Financial Disclosures (TCFD), which is recognised as best practice. (https://www.fsb-tcfd.org/)

Memberships and Affiliations

Local Authority Pension Fund Forum. The Fund is a founding member of the Local Authority Pension Fund Forum (LAPFF). LAPFF is the UK's leading collaborative shareholder engagement group encompassing more than 70 local authority pension funds from across the country with combined assets of around £200 billion. The Fund is an active participant in LAPFF's engagement programs. Membership of LAPFF provides the Fund with:

- Independent research and advice on the RI risks of companies to inform further stakeholder engagement;

- Advice on the governance practices of companies;

- A forum to engage with companies to improve governance practices.

Appendix 1

Responsible Investment

Ethical investing: using ethical principles as the primary filter for choosing where to invest

ESG: investing which takes into account financial risks posed by environmental, social and governance factors

Green investing: investing in companies focussed on conserving natural resources or working on clean air and water initiatives, alternative energy sources and other environmental projects

Sustainable investment: a broad term, often considered synonymous with ESG, meaning investing in assets which are judged to be able to deliver long-term competitive returns and positive social impact.

Social impact investment: investments made with the intention of generating a positive social impact alongside a financial return

ESG factors can affect risk and returns

ESG factors comprise the following attributes and can affect potential risks and returns in some of the following ways (Figure 2):[6]

Figure 2: examples of ESG factors and risks

Environmental factors:

- Resource depletion, including water waste and pollution;
- Air pollution; and
- Deforestation.

Risks include:

- Poor environmental practices leading to depletion of resources, and/or hindering production and development; and
- Reputational risk.

Social Factors:

- Working conditions, including slavery and child labour;
- Health and safety;
- Employee relations;
- Diversity;
- Social unrest; and
- Income inequality.

Risks include:

- Reputational risk;
- Poor productivity; and
- Potential for legal difficulties (fines, sanctions, being forced to close or change).

Governance factors:

- Executive pay;
- Bribery and corruption;
- Board diversity, structure and culture.

Risks include:

- Some stakeholders being prioritised over others and/or disaffected;
- Poor strategic and operational decision-making; and
- Legal and regulatory risks.

Source: Pension Policy Institute ESG: past, present &future

4) Appendix: Glossary of Terms

Responsible Investment
The integration of environmental, social and corporate governance (ESG) considerations into investment management processes and stewardship practices in the belief that these factors can have an impact on financial performance. The Fund also supports the PRI's definition of responsible investment which can be found here:
http://www.unpri.org/introducing-responsible-investment

ESG
Environmental, social and corporate governance factors which could impact company performance and therefore investment returns. Examples include (but are not limited to) climate change, workforce issues, remuneration, independence of the board and auditors, board composition and diversity.

Governance
The process and principles by which a company or organisation undertakes its business. For the Fund, governance includes how it undertakes both its operational and investment responsibilities on behalf of its members.

Stewardship
Refers to the responsibility of the Fund to participate, where appropriate, in the governance decision-making of companies in which it invests by way of voting and by engagement with company management, either directly or via its fund managers. It also recognises the relevance of engaging with regulatory bodies and other market players to support policies that promote long-term sustainable growth.

Fund
London Borough of Enfield Pension Fund

Pensions Committee
Body established by London Borough of Enfield (the administering authority) in charge of the management of the administration of benefits and strategic management of the Fund's assets. The Committee is made up of 6 Councillors.

Pensions Board
The role of the Pensions Board is to assist in the good governance of the scheme through the monitoring of Fund performance and adherence to statutory duties. The Board consists of four employer and four member representatives The Pensions Board is not a decision-making body, nor does it hold a scrutiny function; its role is to assist in the compliance with scheme rules. The Fund's policies, including the ISS and the RI Framework, are reviewed annually by the Pensions Board.

ITEM 10

London Borough of Enfield

REPORT TO;	**Pension Policy & Investment Committee**
SUBJECT:	**Antin proposal for a new Infrastructure Fund**
LEAD OFFICER	**Paul Reddaway**

1. **RECOMMENDATIONS**

To note the Antin proposal and await the LCIV proposals. Officers will bring a report back to the next Committee meeting to compare the relative merits of both options.

2. EXECUTIVE SUMMARY

the Fund invested in the Antin III in January 2017. Is now fully committed in line with their original commitment timetable. Antin are now marketing a new Infrastructure Fund.to follow on from Fund III. They see a strong pipeline of projects to in. The new Fund is also likely to oversubscribed and a delayed decision may lead to our commitment being scaled down. The LCIV are also about to launch an infrastructure product based around a Fund of Funds management style.

3. DETAIL

3.1 ANTIN

In terms of the strategy, it's very much a continuation of Fund III (which Enfield is invested) , with the same return target (15% Gross IRR), focusing on the same sectors (Energy, Transport, Telecom and Social), the same geography (at least 70% in Europe), etc. Antin have 48 investment professionals working to maintain a pipeline of option's opportunities and would be confident of drawing capital in 2019 to act upon these. Fund III reflects the number of reflects Antin's sourcing capabilities, having completed four bilateral deals and at least one deal in each of the 4 sectors of investment.:

The investment timetable is shown below:

• Oct 4th Fund VI announced
• First Close in December and second(second close in January 2019 Investors coming into First Close will be guaranteed their desired allocation.
• Rolling closes in H1 2019
• Final close in June 2019

3.2 LCIV Infrastructure

LCIV are in the process launching an Infrastructure product on 8th November. The structure of the fund will be around a fund of fund management style with an outsourced head of LCIV infrastructure

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