PENSION POLICY & INVESTMENT COMMITTEE
Thursday, 5 September 2019 at 10.45 am
Civic Centre Room 1

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PENSION POLICY & INVESTMENT COMMITTEE

Thursday, 5th September, 2019 at 10.45 am in the Civic Centre Room 1

Membership:

Councillors: Tim Leaver, Claire Stewart, Yasemin Brett, Ergun Eren, Doug Taylor and Terence Neville OBE JP

Carolan Dobson (Independent Advisor)

AGENDA – PART 1

1. WELCOME AND INTRODUCTIONS

2. DECLARATION OF INTERESTS

Members are asked to declare any disclosable pecuniary, other pecuniary or non pecuniary interests relating to items on the agenda.

3. STANDING ITEMS (20 MINUTES) (Pages 1 - 38)

a. Risk Register
b. London Collective Investment Vehicle (LCIV)
c. Pension Fund Governance – Update
d. Corporate Governance
e. Employer – Late Payments

4. MINUTES OF THE MEETING HELD ON 13 JUNE 2019 (5 MINUTES) (Pages 39 - 46)

To receive and agree the minutes of the meeting held on 13 June 2019.

5. PENSION FUND GOVERNANCE AND COMPLIANCE (15 MINUTES) (Pages 47 - 66)

To receive a report on the revised Pension Fund Governance and Compliance Statement. (Report No: 93)

6. QUARTERLY PERFORMANCE REPORT - 30 JUNE 2019 (15 MINUTES) (Pages 67 - 72)

To receive the Quarterly Performance Report to 30 June 2019. (Report No: 89)

7. RESPONSIBLE INVESTMENT, SUSTAINABLE INVESTMENT AND IMPACT INVESTMENT (40 MINUTES)

To receive a presentation from Karen Shackleton (Pensions for Purpose).

8. ENVIRONMENTAL SOCIAL GOVERNANCE (ESG) AND FIDUCIARY DUTIES (15 MINUTES) (Pages 73 - 88)

To receive a report on Environmental, Social Governance and Fiduciary Duties. (Report No: 90)

9. PENSION FUND APPROACH TO ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) CRITERIA (35 MINUTES) (Pages 89 - 98)

To receive a report on the Enfield Pension Fund approach to Environmental Social and Governance (ESG) Criteria. (Report No: 91)

10. LOCAL GOVERNMENT PENSION SCHEME CURRENT ISSUES (10 MINUTES)

To receive a report on current issues concerning the Local Government Pension Scheme.

11. DATES OF FUTURE MEETINGS

To note the dates agreed for future meetings of the Committee:

- Thursday 21 November 2019
- Thursday 27 February 2019

All meetings to take place at 10.45am at the Civic Centre unless otherwise arranged.

AGENDA - PART 2

Please note that the documents included as part of this agenda contain exempt information. They should not be released to the press or public and will need to be handled in accordance with the Council's Information Security Policy. Under the policy anyone issued with a pack will be responsible for ensuring the information is stored securely in order to protect it against unauthorised access and maintain its confidentiality. Further details on the Information Security Policy can be found on Enfield Eye.

12. BOND PORTFOLIO CONSIDERATIONS (15 MINUTES) (Pages 99 - 106)

To receive a report on bond portfolio considerations. (Report No: 92)

13. PENSION FUND PROCUREMENT (15 MINUTES) (Pages 107 - 114)

To receive a report on the Pension Fund procurement plans. (Report No: 88)

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MUNICIPAL YEAR 2019/2020 REPORT NO. 87

MEETING TITLE AND DATE:
Pension Policy & Investment Committee – 5th September 2019

REPORT OF:
Executive Director of Resources
Contact officer and telephone number:

Paul Reddaway Ex: 4730

Paul.reddaway@enfield.gov.uk

Paul.reddaway@enfield.gov.uk

Agenda – Part:1	**Item: 3**
Subject: Standing Items **Wards: all**	
Cabinet Member consulted:	

1. **EXECUTIVE SUMMARY.**

1.1. The updated Risk Policy & Risk Register is shown in **Item 3a**. It has been updated for moving to a low carbon investment environment.

1.2. LCIV Update **Item 3b**

1.3. Pension Fund Governance – the task list has been updated to 30th August 2019 **Item 3c**

1.4. Corporate Governance – This is included in the main agenda

1.5. Employer late contribution payments - One admitted body is in arrears but there is an agreed payment schedule. Failure to meet this schedule will result it being reported to the Pension Regulator – **Item 3e**

1.6. Propose the Pension Committee/Board introduce a training monitor to be reported at each meeting.

2. Recommendations

2.1. The Committee is recommended to note the standing items 1.1 to 1.5

2.2. It is also recommended to add on an ongoing basis a training chart showing member training progress 1.6 this will be in line with the Pension Regulator requirements.

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ITEM 3a **Appendix 1**

London Borough of Enfield

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

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.

CIPFA and The Pensions Regulator's Requirements

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 PPIC
- 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
LIKELIHOOD	**High (B)** This month	B4	B3	B2	B1
LIKELIHOOD	**Significant (C)** This year	C4	C3	C2	C1
LIKELIHOOD	**Medium (D)** Next year	D4	D3	D2	D1
LIKELIHOOD	**Low (E)** Next 5 years	E4	E3	E2	E1
LIKELIHOOD	**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

Description	Actions in Place	Progress- comment	Risk category/	Lead officers/

London Borough of Enfield Risk register

Updated 27th August 2019

			rating/DOT	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)**	Head of Finance/ PPIC
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)**	Head of Finance/ PPIC
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 following persistent or severe underperformance.	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 = C4** **(Changed)**	Head of Finance/ PPIC

Description	Actions in Place	Progress- comment	Risk category/ rating/DOT	Lead officers/ Councillors
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 MTFP 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)**	Head of Finance/ PPIC
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)**	Head of Finance/ PPIC
PEN 06 -Pensions Administration poor quality information supplied to both members and the Fund Actuary	1.Pre-valuation meetings with Actuary to ensure requirements are understood and an action plan agreed and a progress meeting with Aon to establish an 'bottle necks' and opportunity to revise the timetable. 2. Progress report made to June PPIC	Final valuation for whole of Fund and Enfield Council individual will be available on 20th September. Employers meeting will be held in December to discuss outcomes	Strategic risk Likelihood = Low Impact = Large **Rating = E3 (Changed)**	Head of Exchequer/Pensions Manager
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 = D4 (Changed)**	Head of Finance/Pensions Manager
Description	Actions in Place	Progress- comment	Risk category/ rating/DOT	Lead officers/ Councillors

PEN 08- Succession Planning	Loss of experience pensioner officer -	Recruitment completed – two experience officers appointed and in place by end of June and proper handover in place	Strategic risk Likelihood = Low Impact = Medium **Rating = E4** **Static**	Director of Finance
PEN 9 - Impact of Government losing its appeal on the McCloud case	Impact of the McCloud Judgement on the 2019 valuation process – could increase employers % contribution by up to 0.9%	Working with the Fund's actuary to mitigate the impact of this judgement.	Strategic risk Likelihood = High Impact = High **Rating = D4** **Static**	Head of Finance
PEN 10 - Impact of moving to a low carbon investment Strategy on the Fund's fiduciary duty	Increasing Committee members' skills and knowledge on this area of investment. To widen understanding and appreciation of the complex decisions required The committee will take professional advice to ensure any decision is based on sound fiduciary foundations and not purely on ideological attitudes.	Assessing the impact of moving the index to a low carbon passive index and assessing the long-term implications over short term costs. Working with the LCIV to ensure there is an appropriate ESG policy with a reference to moving to a low carbon environment	Strategic risk Likelihood = High Impact medium **Rating = D2** **Added September 2019**	Head of Finance

MUNICIPAL YEAR 2019/2020 REPORT NO.

MEETING TITLE AND DATE:
Pension Policy & Investment Committee
5th September 2019

REPORT OF:
Director of Finance

Contact officer and telephone number:

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Agenda – Part:	Item:
Subject: London Collective Investment Vehicle (CIV) Update **Wards: All** **Key Decision No:**	
Cabinet Member consulted:	

1. **EXECUTIVE SUMMARY**

1.1. This report provides background information on London CIV and also the pooling arrangements as mandated by the Government and an update on the latest developments in respect of the pool that Enfield Pension Fund is participating in, which is London CIV by covering:

i) The new governance framework for the London CIV to replace the sectoral committee;

ii) LCIV Recharge Agreement and City of London required Guarantee and Agreement for admitting LCIV into their Local Government Pension Scheme;

iii) An update on existing and new fund developments; and

iv) London CIV Remuneration Policy Review.

2. **RECOMMENDATIONS**

2.1. **Members are recommended to:**

i) note the content of this report;

ii) delegate to the Executive Director of Resources and the Monitoring Officer to review and agree suitable terms and conditions for the Enfield Pension Fund and the Council regarding the London CIV Remuneration Policy, London CIV Pension Cost Recharge Agreement and LCIV Pension Guarantee Agreement for the City of London; and

iii) approve the agreements to be signed when recommendation (ii) above has been actioned in consultation with the Chair and Vice Chair of the Committee.

3. BACKGROUND

3.1. In the 2015 Summer Budget it was announced that the UK government would work with Local Government Pension Scheme (LGPS) administering authorities to reform how LGPS investments are managed.

3.2. The Government's plan was for LGPS funds to pool their assets into approximately six investment pools, in an effort to drive down investment costs and enable funds to develop the capacity and capability to become world leaders in infrastructure investment and help drive growth in the UK economy.

3.3. Across the LGPS in England and Wales the scheme holds £263bn of assets (2017/18 figure). These assets are currently held in eighty-nine local pension funds and are used to pay the pensions of former members of the Scheme and their dependants. The LGPS is one of the largest funded pension schemes in Europe

3.4. The Government commissioned research in 2015 which indicated that significant savings could be delivered by the creation of around six investment pools, each with assets of at least £25bn. Each LGPS administering authority was then obliged to join, or help create, an investment pool with other LGPS administering authorities.

3.5. Savings are to be achieved through economies of scale and increased bargaining power; investment costs will be reduced along with other costs for all types of investment used in the pool.

3.6. The Government would also like the LGPS to have the capacity and capability to be able to invest in infrastructure e.g. railway, road or other transport facilities or housing supply. Currently only a very small proportion of LGPS assets are invested in infrastructure, it is hoped that the creation of investment pools will make it easier for LGPS funds to invest in infrastructure due to their increased scale.

3.7. The UK's 89 Local Government Pension Schemes (LGPS) have finalised their asset-pooling plans by having eight regulated fund management entities to run almost all the LGPS assets, leaving individual funds to decide asset allocation and focus on other areas of pension scheme management.

3.8. The Eight entities/pools are:

a) **ACCESS (£40.8bn) -** LGPS funds: Cambridgeshire, East Sussex, Essex, Hampshire, Hertfordshire, Isle of Wight, Kent, Norfolk, Northamptonshire, Suffolk, West Sussex

b) **Border to Coast Pension Partnership (£43.7bn)** - LGPS funds: Bedfordshire, Cumbria, Durham, East Riding, Lincolnshire, North Yorkshire, Northumberland, South Yorkshire, Surrey, Teesside, Tyne & Wear, Warwickshire.

c) **Brunel Pension Partnership (£27.4bn) -** LGPS funds: Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, Wiltshire

d) **LGPS Central (£41.9bn)** - LGPS funds: Cheshire, Derbyshire, Leicestershire, Nottinghamshire, Shropshire, Staffordshire, West Midlands, West Midlands Transport, Worcestershire

e) **London Collective Investment Vehicle (CIV) (£34.5bn)** - LGPS funds: 32 London borough pension funds including the City of London Corporation

f) **Local Pensions Partnership (£14.5bn)** - LGPS funds: London Pensions Fund Authority, Lancashire, Berkshire

g) **Northern Pool (£42.1bn) -** LGPS funds: Greater Manchester, Merseyside, West Yorkshire

h) **Wales Pensions Partnership £16bn)** - LGPS funds: Cardiff, Clwyd, Dyfed, Greater Gwent, Gwynedd, Powys, Rhondda Cynon Taf, Swansea

London Collective Investment Vehicle (CIV)

3.9. The London CIV has 32 London borough pension funds including the City of London Corporation hence 32 shareholders, which is in contrast with other pools, in most cases with under 10 shareholders. This number of shareholder clients makes the challenge of identifying common definitions of strategies and asset classes greater. Hence a new governance arrangement has been sought.

3.10. London CIV was launched as an operator with Financial Conduct Authority (FCA) permission to manage authorised Alternative Investment Funds (AIFM) through an Authorised Contractual Scheme (ACS). To meet LLA shareholders' evolving requirements it is clear that a wider range of permissions and services are necessary, and shareholders agreed to London CIV variation of business activity to manage Unauthorised Alternative Investment Funds (UAIM) so that it can offer illiquid products such as Infrastructure Funds.

3.11. The Pensions CIV Joint Committee ("PCSJC") is a sectoral joint committee operating under the London Councils' governance arrangements (further to an agreement entered by all the London local authorities (LLA). Each London local authority which a shareholder in the London LGPS CIV Limited is ("London CIV") agreed to appoint a representative to the PCSJC.

3.12. To enable the new governance arrangements to properly take effect it was necessary for all the London local authorities (LLAs) to revoke the delegation of the joint exercise of functions to the PCSJC, and each London local authorities (LLA) then formally agreed and adopt the new governance arrangements.

3.13. The dissolution of the PCSJC was sought by end of 31 July 2018 to allow the new Shareholder Committee appointments to take effect from August 2018 and the first meeting of the new Shareholder Committee took place in September 2018. As part of these arrangements, additional non-executive directors nominated via the collective political processes of London Councils were made in accordance with the Articles of Association of the London.

3.14. The Shareholder Committee comprised of 12 members from London Local Authorities (LLAs) made up of 8 Leaders (or Pension Chairs or equivalent) and 4 Treasurers, plus the Chair of the (LCIV) Board (the “Members”). The members of the Committee were agreed by the Shareholders acting collectively and nominated for appointment by the collective political processes of London Councils or in the case of the Treasurers by the Society of London Treasurers.

3.15. Any Member of the Shareholder Committee, other than the Chair of the (LCIV) Board, must also be a Shareholder of the Company in good standing. No more than one Leader (or equivalent) and one Treasurer can be from a London Local Authority without direct investments in the London LGPS CIV Authorised Contractual Scheme or other pooling structure established by the Company from time to time. London Local Authorities which have Directors on the Board may not be Members.

3.16. The current Members were ratified at the Annual General Meeting of the London CIV held in July 2019. The 8 members of the Shareholder Committee (Pension Committee Chairs or equivalent) appointed via the collective political processes of the London Councils are set out below, providing political, geographical and gender diversity:

1. Cllr Yvonne Johnson, Ealing (Chair of the Shareholder Committee)
2. Cllr Robert Chapman, Hackney (Labour)
3. Cllr Antonia Cox, Westminster, (Conservative)
4. Nick Bensted-Smith CC, (City)
5. Cllr Elaine Norman, Redbridge (Labour)
6. Cllr Keith Onslow, Bromley, (Conservative)
7. Cllr Mark Shooter, Barnet, (Conservative)
8. Cllr Jill Whitehead, Sutton (Lib Dem Councillors)

The 4 treasurers nominated via the Society of London Treasurers, the individuals to be first appointed are:

1. Caroline Holland (Merton);
2. Ian Williams (Hackney);
3. Gerald Almeroth (Sutton); and
4. Duncan Whitfield (Southwark).

And the Trade Union Observer: Chris Cooper

Alternates /Substitutes

Cllr Corthorne, Hillingdon (Conservative)

Cllr Senior, Wandsworth (Conservative)

Cllr Simon Hall, Croydon (Labour)

Cllr Nitin Parekh, Harrow (Labour)

Cllr Doug Taylor, Enfield (Labour)

Cllr Mark Beynon, Kingston (LibDem)

Henry Colthurst CC

Trade Union Observer and Treasurer Substitutes have yet to be appointed.

3.17. London CIV is regulated by the FCA. All Board Directors are formally appointed by the Board of the Company, subject to the approval of the FCA. The names of the two additional Non-Executive Directors nominated via the collective political processes of the London Councils to improve shareholder and stakeholder are:

Cllr Stephen Alambritis, Leader Merton Council (Labour)

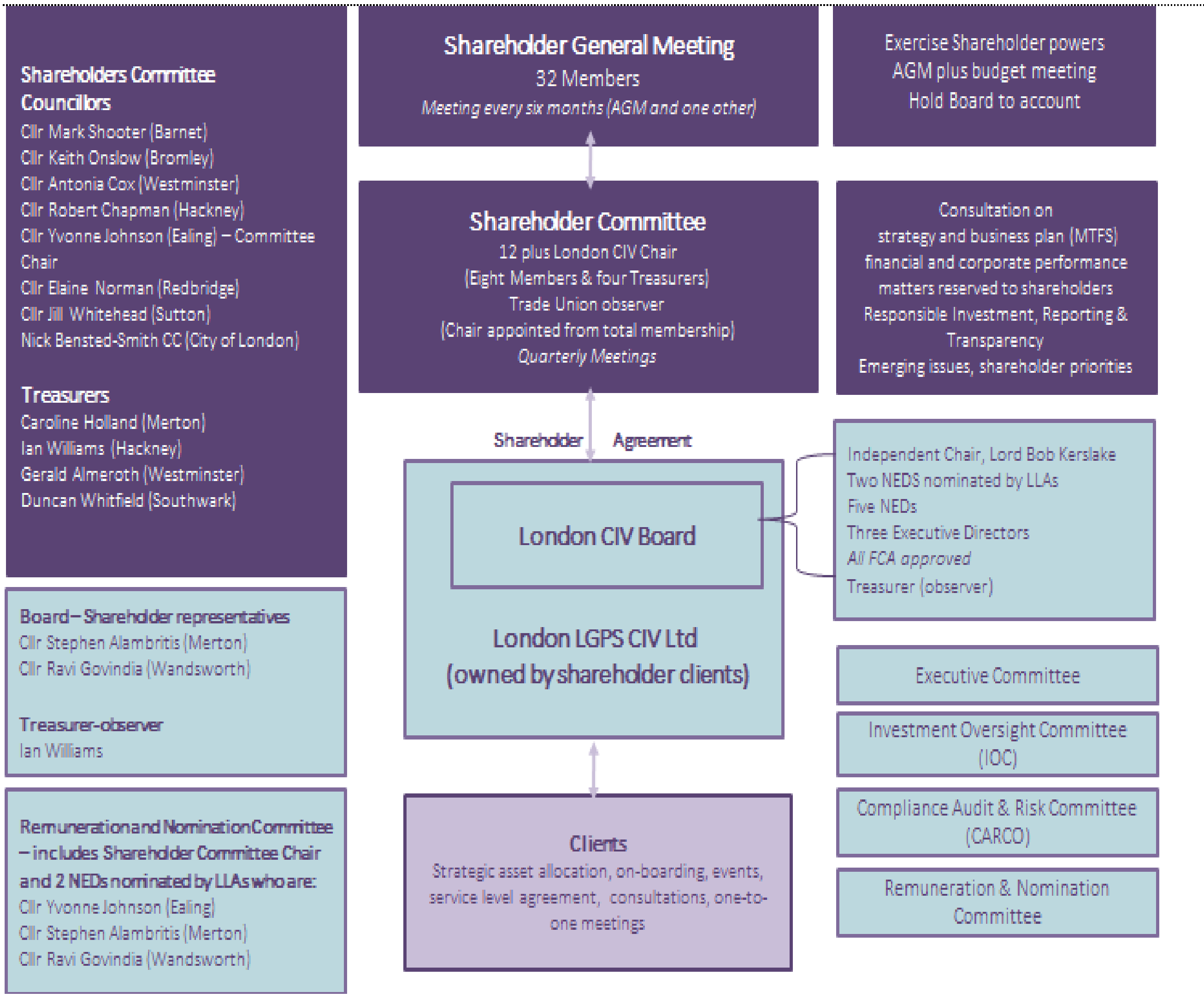
Cllr Ravi Govindia CBE Leader Wandsworth Council (Conservative)

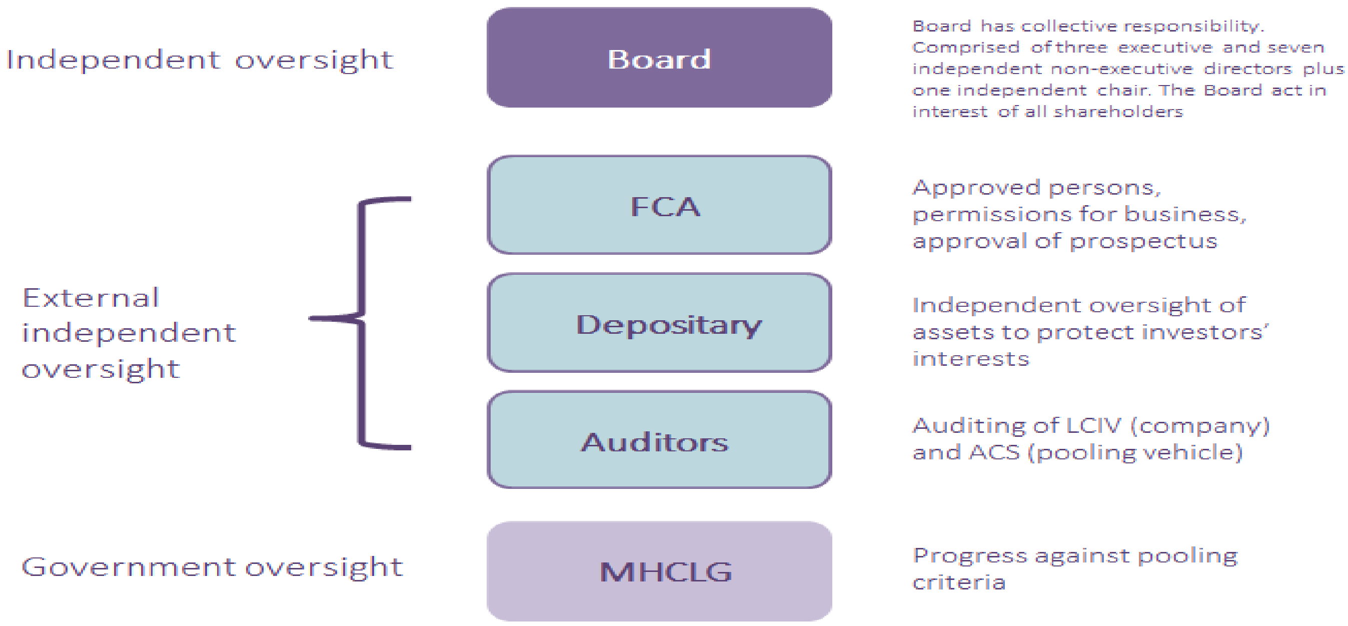
3.18. The treasurer observer to the LCIV Board, nominated via the Society of London Treasurers to be confirmed. The Society of London Treasurers (“SLT”) is a group made up of London section 151 officers.

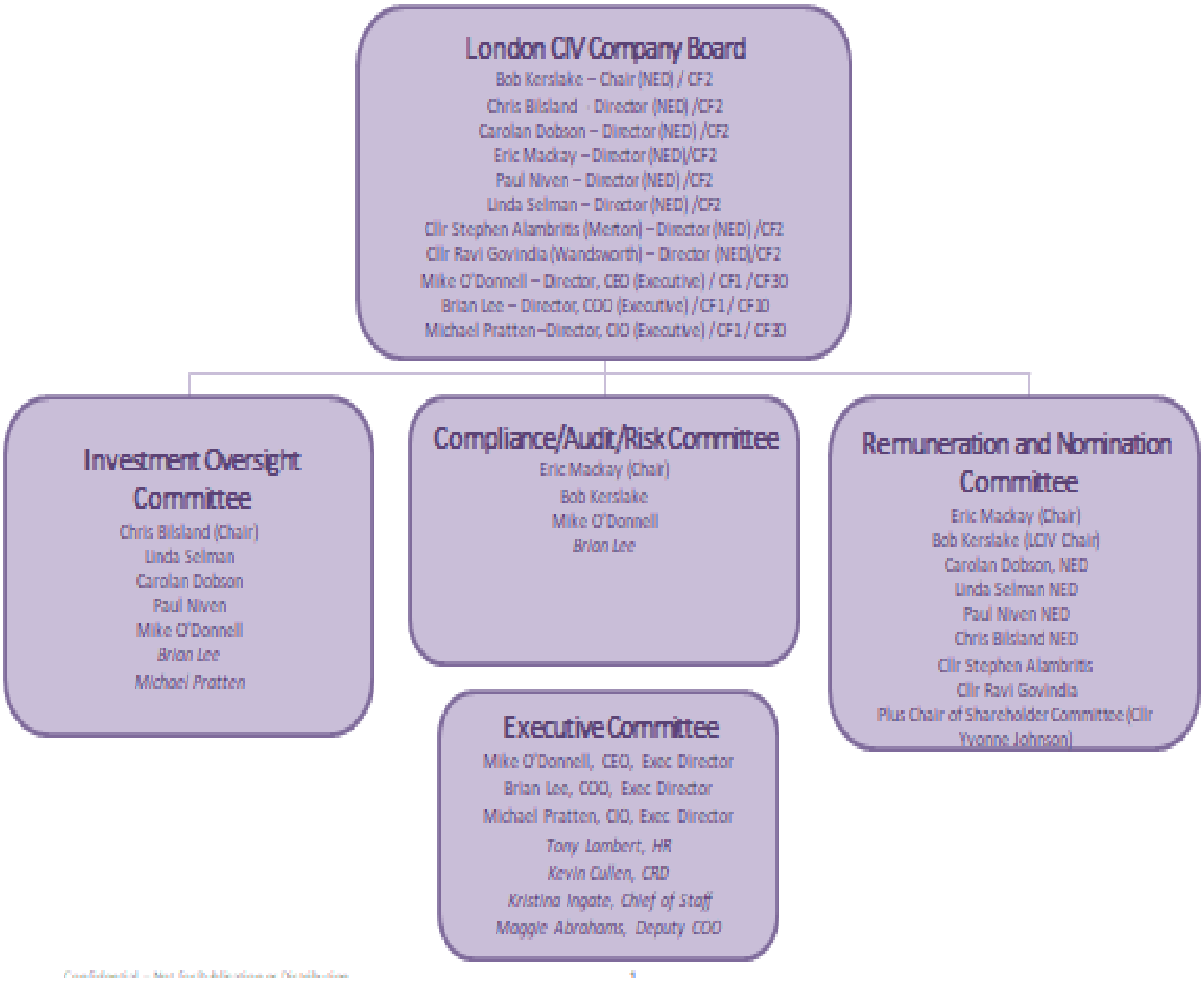
LCIV board directors:

1. Lord Robert (Bob) Kerslake (Chair, NED) from Sept 2015
2. Chris Bilsland (Chair Investment Oversight Committee, NED) from Sept 2015
3. Carolan Dobson (NED) from March 2016
4. Eric Mackay (Chair Audit, Risk and Compliance Committee, NED) from Nov 2015
5. Paul Niven (NED) from 1 Sept 2017
6. Linda Selman (NED) from 1 Sept 2017
7. Mark Hyde-Harrison (Chief Executive Officer)
8. Brian Lee (Chief Operating Officer with responsibilities as Chief Finance Officer and Chief Compliance Officer)

3.19. The new governance structure of London CIV is as shown below:

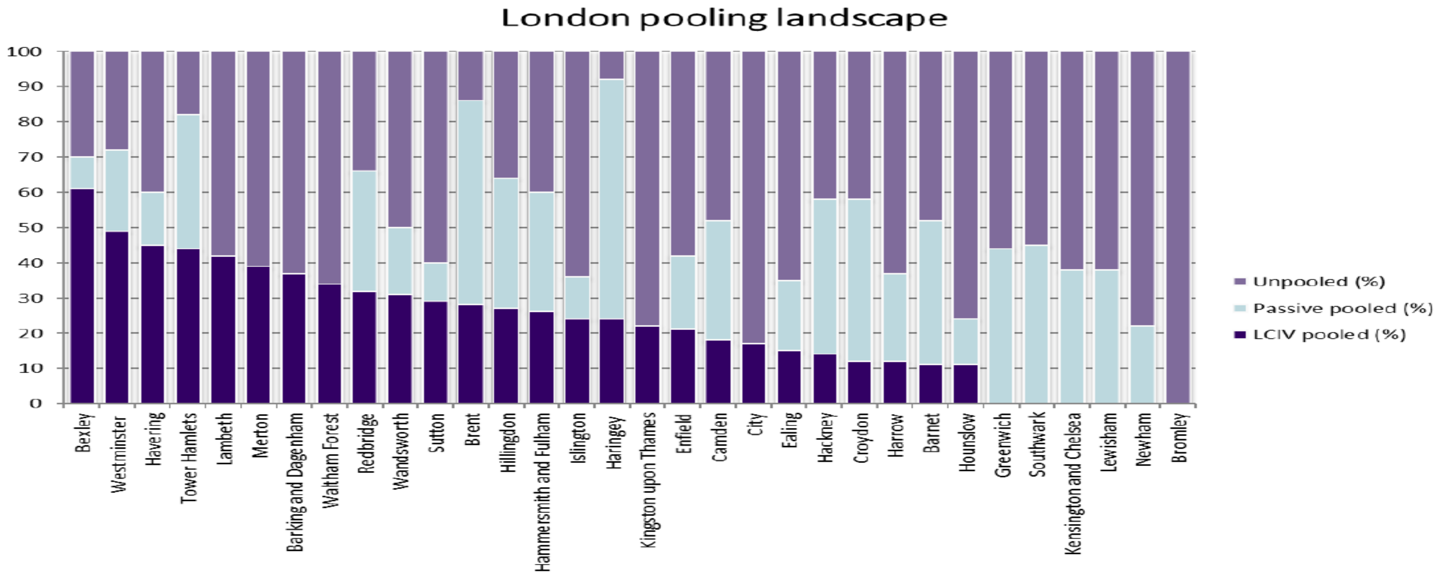

Shareholders Committee
Councillors
Cllr Mark Shooter (Barnet)
Cllr Keith Onslow (Bromley)
Cllr Antonia Cox (Westminster)
Cllr Robert Chapman (Hackney)
Cllr Yvonne Johnson (Ealing) – Committee Chair
Cllr Elaine Norman (Redbridge)
Cllr Jill Whitehead (Sutton)
Nick Bensted-Smith CC (City of London)
Treasurers
Caroline Holland (Merton)
Ian Williams (Hackney)
Gerald Almeroth (Westminster)
Duncan Whitfield (Southwark)
Shareholder General Meeting
32 Members
Meeting every six months (AGM and one other)
Exercise Shareholder powers
AGM plus budget meeting
Hold Board to account
Shareholder Committee
12 plus London CIV Chair
(Eight Members & four Treasurers)
Trade Union observer
(Chair appointed from total membership)
Quarterly Meetings
Consultation on
strategy and business plan (MTFS)
financial and corporate performance
matters reserved to shareholders
Responsible Investment, Reporting & Transparency
Emerging issues, shareholder priorities
Shareholder Agreement
London CIV Board
London LGPS CIV Ltd
(owned by shareholder clients)
Independent Chair, Lord Bob Kerslake
Two NEDS nominated by LLAs
Five NEDs
Three Executive Directors
All FCA approved
Treasurer (observer)
Board – Shareholder representatives
Cllr Stephen Alambritis (Merton)
Cllr Ravi Govindia (Wandsworth)
Treasurer-observer
Ian Williams
Executive Committee
Investment Oversight Committee (IOC)
Compliance Audit & Risk Committee (CARCO)
Remuneration & Nomination Committee
Remuneration and Nomination Committee – includes Shareholder Committee Chair and 2 NEDs nominated by LLAs who are:
Cllr Yvonne Johnson (Ealing)
Cllr Stephen Alambritis (Merton)
Cllr Ravi Govindia (Wandsworth)
Clients
Strategic asset allocation, on-boarding, events, service level agreement, consultations, one-to-one meetings


Independent oversight
Board
Board has collective responsibility. Comprised of three executive and seven independent non-executive directors plus one independent chair. The Board act in interest of all shareholders
External independent oversight
FCA
Approved persons, permissions for business, approval of prospectus
Depositary
Independent oversight of assets to protect investors' interests
Auditors
Auditing of LCIV (company) and ACS (pooling vehicle)
Government oversight
MHCLG
Progress against pooling criteria



3.20. London CIV implemented the new governance framework agreed at the AGM in July 2018. A review in Autumn 2019 will consider the effectiveness of the arrangements, with an emphasis on how they are building collaboration between London CIV and its shareholder clients.

3.21. At the end of March 2019 London CIV reached the milestone of 50% (£18bn) of potential assets, (including active funds on the ACS and passive funds managed by Blackrock and LGIM), across the 32 London Local Authorities (LLAs). An increase from 40% last year. £8.2bn being LCIV pooled on the ACS is less than the target of £8.6bn. Six LLAs have yet to invest directly with LCIV, although five are passive pooled and one LLA is yet to invest as shown in the chart below of LLAs pooling landscape.



LONDON CIV FUND OFFER AND HIGH-LEVEL PERFORMANCE OVERVIEW at 30 June 2019 source London CIV

	Size	Capacity*	Current Quarter (%)	1 Year (%)	Since Inception p.a. (%)	Inception Date	No. of Investors
UK Equity							
LCIV UK Equity Fund	£417m	£1,000m	0.44	(6.47)	(0.37)	18/05/2017	2
Benchmark: FTSE All Share Index			3.26	0.57	3.81		
Performance Against Benchmark			(2.82)	(7.04)	(4.18)		
Global Equity							
LCIV Global Equity Alpha Fund	£128m	Unlimited	8.03	12.16	16.18	02/12/2015	1
Benchmark: MSCI World Index Total Return (Net) in GBP			6.48	10.30	14.43		
Performance Against Benchmark			1.55	1.86	1.75		
LCIV Global Alpha Growth Fund	£2,689m	See note below	7.66	9.18	19.78	11/04/2016	13
Benchmark: MSCI All Country World Gross Index			6.24	10.50	16.16		
Performance Against Benchmark			1.42	(1.32)	3.62		
LCIV Global Equity Fund	£639m	Unlimited	6.37	12.10	10.08	22/05/2017	3
Benchmark: MSCI All Country World Index Total Return (Gross)			6.28	10.30	9.96		
Performance Against Benchmark			0.09	1.80	0.12		
LCIV Global Equity Focus Fund	£809m	£1,500m	4.17	11.69	10.19	17/07/2017	5
Benchmark: MSCI World Index Total Return (Net) in GBP			6.48	10.30	9.44		
Performance Against Benchmark			(2.31)	1.39	0.75		
LCIV Equity Income Fund	£250m	£750m	3.94	10.85	4.78	08/11/2017	2
Benchmark: MSCI World Index Total Return (Net) in GBP			6.48	10.30	7.75		
Performance Against Benchmark			(2.54)	0.55	(2.97)		
LCIV Emerging Market Equity Fund	£402m	£1,000m	5.60	4.58	(2.36)	11/01/2018	6
Benchmark: MSCI Emerging Market Index (TR) Net			3.01	4.99	(1.91)		
Performance Against Benchmark			2.59	(0.41)	(0.45)		
LCIV Sustainable Equity Fund	£303m	£1,000m	7.37	12.77	17.27	18/04/2018	2
Benchmark: MSCI World Index Total Return (Net) in GBP			6.48	10.30	14.49		
Performance Against Benchmark			0.89	2.47	2.78		
Multi Asset							
LCIV Global Total Return Fund	£320m	Unlimited	1.09	2.50	3.62	17/06/2016	5
LCIV Diversified Growth Fund	£672m	See note below	0.97	2.37	5.99	15/02/2016	8
LCIV Absolute Return Fund	£869m	£1,500m	1.62	(1.21)	3.63	21/06/2016	10
LCIV Real Return Fund	£184m	Unlimited	4.28	9.18	5.01	16/12/2016	2
Fixed Income							
LCIV MAC Fund	£842m	Unlimited	1.74	3.93	3.46	31/05/2018	12
LCIV Global Bond Fund	£269m	Unlimited	3.78	n/a	9.13	30/11/2018	3
Index: Barclays Aggregate – Credit Index Hedged (GBP) Index			3.23	n/a	8.29		
Performance Against Benchmark			0.55	n/a	0.84		
Total LCIV Assets Under Management	£8,793m						

*Total fund capacity as at 30 June 2019. Capacities may change, for details on remaining current capacity available for further investment please contact the Client Service Team at clientservice@londonciv.org.uk.

3.22. At the end of June 2019 London CIV had an offering of 14 funds available to client shareholders as shown above. During 2018/19 LCIV launched two new funds, the LCIV MAC Fund in May 2018 and LCIV Global Fund in November 2018 having launched the LCIV Sustainable Equity Fund in April 2018. This is less than their MTFS goal of 9 funds - which would be a stretching goal for any pool.

3.23. The Global Equity Core Fund has been filed with the FCA at the time of this report and the LCIV Private Debt and LCIV Infrastructure Funds are expected to launch in the first half of the 2019/20 financial year. The next two funds in the launch programme are LCIV Liquid Loans and LCIV Inflation Plus.

3.24. The fact that funds were not launched to the timeline planned is one contributor to LCIV not meeting the AUM target. LLA decision making timelines prior to investment, and a lack of clear LLA commitments before fund launches are a further contributor.

3.25. The London CIV is addressing the new fund launch process issues in two ways, which includes:

a. a clear client engagement framework and clear milestones; and
b. a greater focus on collaboration with LLAs to agree pooling priorities and ways to facilitate pooling.

3.26. The London CIV has developed a Service Level Agreement (SLA) and are currently consulting LLAs to ensure it is “fit for purpose” before signature.

Responsible Investment and Stewardship

3.27. In October 2018 the Board and Shareholder Committee approved the London CIV Responsible Investment Policy. London CIV is a UNPRI signatory. Following the appointment of Mike O’Donnell as CEO, LCIV began to consider how to do more to translate the policy into action. They began the “next steps” conversation at the April 2019 Shareholder Committee meeting and plan an interactive event with all Shareholders in September 2019. In addition to work about the implications for their fund range, immediate practical actions include enhanced ESG reporting in the Quarterly Client Information and more networking activity.

People

3.28. The London CIV achieved the 2018/19 MTFS objective of an increase in staff to 25. Mike O’Donnell was appointed as permanent CEO in March 2019, taking over from Mark Hyde-Harrison who had served as interim CEO for over a year and oversaw the implementation of the governance review. LCIV reported they are working hard to deliver improvements at a greater pace and the increase in staff is important to support this, as it is for the appointment of a permanent CEO and interim CIO (so they have three Executive Directors in place) early in 2019/20. Michael Pratten was appointed as interim Chief Investment Officer in May 2019 and Michael Thompson will join London CIV as permanent CIO in September 2019. This is seen as an important step by the Depositary to ensure that the business is suitably resourced.

3.29. London CIV will take the opportunity during this financial year in developing the forthcoming MTFS to consider whether they need a different staffing structure to support their future operating model and strategic plan. They also aim to find ways to collaborate with LLAs to recruit, exchange and develop staff to improve their capability to deliver pooling.

Operating and business model

3.30. London CIV was launched as an operator with Financial Conduct Authority (FCA) permission to manage authorised Alternative Investment Funds (AIF) through an Authorised Contractual Scheme (ACS). At the January 2019 General Meeting Shareholders agreed to amend the definition of business purpose in the Shareholder agreement so that it is wider than “the FCA Authorised Operator of an ACS” which is consistent with the evolving expectations of pooling companies. All but one Shareholder has now signed the necessary letter authorising the change to the Shareholder Agreement.

3.31. The business of London CIV will now be described as *acting as the Financial Conduct Authority (FCA) authorised company to provide a collaborative platform through which the Administering Authorities of the LGPS funds can aggregate their pension monies and other investments.*

3.32. The London CIV business model makes use of a streamlined core team and extensive use of third-party suppliers – investment managers and other services. This contrasts with the larger in-house staff teams of many other pools.

LCIV Recharge Agreement and City of London Guarantee Agreement

3.33. The LCIV’s pension arrangements are provided through the City of London Pension Fund and LCIV and City of London have been working together to formalise these arrangements.

3.34. There have also been similar discussions with the Pensions Sectoral Joint Committee and at the PSJC meeting in March and July 2018; members agreed that the formal process for each Authority to progress the signing of the agreements could begin.

3.35. The City of London took on London CIV, Local Government Pension Scheme (LGPS) provision on the basis that LCIV secure a bond or guarantee and secretary of state approval. The LCIV were on boarded to the City pension scheme with about 4 people, though the establishment has grown considerably.

3.36. City of London has opted for a guarantee as the alternative route for LCIV to secure a bond proved to be more expensive. Most London Local Authorities (LLAs) questioned why the LCIV is providing the LGPS for all their staff, but this was LCIV board decision, however the financial consequences of that decision have fallen on LLAs with little consultation.

3.37. One of the agreements covers the guarantee in favour of the City of London (the agreement protects the City of London Pension Fund from any deficit arising from the LCIV's membership in the Fund) and the second agreement is covering the FRS102 accounting liability (this is an accounting calculation of the deficit of the accrued benefits of the members of the LCIV membership of the scheme). The following is a summary of the position: -

i) Whilst recognising that LCIV has been participating in the City of London scheme since 2015 and that the guarantee was in place informally some time ago, the Recharge Agreements needs to be signed before the end of March 2018 to be effective in the financial year 2018/19. Although most LLAs have not signed this recharge agreements to date.

ii) The benefit of the Recharge Agreement is that it allows LCIV and ultimately its LLA shareholders to 'recover' the circa £2m capital hit caused by FRS102 defined benefit accounting rules. There is no extra financial cost to you as an LCIV shareholder in signing this agreement.

iii) The Recharge Agreement operates on an individual shareholder basis so there are 33 agreements, with each agreement 'on a several basis'.

iv) The Guarantee Agreement is an 'all shareholder' agreement which only becomes effective when the last shareholder signs.

v) Ultimately, if the Guarantee Agreement does not become effective then the City of London will expect the LCIV to provide a bond.

3.38. The London Local Authorities worked collectively to review these agreements and to have a collective legal review that enables them to all proceed with signing.

LCIV Remuneration Policy Review

3.39. The refusal of many LLAs to sign the LCIV Recharge Agreement and the City of London Guarantee Agreement brought about the Board of London CIV looking for alternative and hence proposing a way forward following the special shareholder committee of 18 July 2019 meeting. The Board made a commitment in the Budget approved at the 31 January General Meeting to review the Remuneration Policy. The review aims to ensure that London CIV is able to recruit, retain and develop the talented staff required to deliver its plans for the future, and to build a client and shareholder focused, collaborative work environment.

3.40. The review overseen by a sub-group of the Remuneration and Nominations Committee (now including Ian Williams the Treasurer Observer on the Board) began in March 2019 and makes a preliminary report to the working group on 26 June 2019, followed by a report to a special Board meeting and a special Shareholder Committee. It includes a review of options for the Pension Scheme. Final approval on the way forward is the responsibility of the board. This is subject to any further approval of matters reserved to Shareholders for approval or consultation e.g. any amendments to the Pension Scheme require Shareholder approval.

3.41. The Board of London CIV recognised that continuing with the status quo is unlikely to be affordable and appropriate in the longer term. London CIV Board is therefore proposing the following to:

i) keep the LGPS for existing staff and close it to new hires;

ii) recognise that to make the package competitive to new hires (given their current remuneration package) they will need to offer higher salaries (or a combination of a DC scheme and higher salary);

iii) explore the options for an appropriate DC scheme in more detail, bearing in mind that the current DC scheme is a “basic” NEST auto-enrolment scheme; and

iv) complete the outstanding formal processes of setting up the LGPS scheme begun in 2015. This requires boroughs to sign the existing guarantee agreement so that the Admission Agreement can be signed. This must be done before the scheme can be closed to new entrants.

3.42. A response is expected from all LLAs by 16 September 2019 so that the London CIV Board can decide on the way forward. Officers are reviewing London CIV proposition to assess if the Enfield Fund and the Council are comfortable enough to sign the agreements as they are.

4. ALTERNATIVE OPTIONS CONSIDERED

4.1. There is no alternative unless the Committee on behalf of the Fund do agree to the terms the London CIV agreements and proposal as they are.

5. REASONS FOR RECOMMENDATIONS

5.1. This report provides an update on progress to date on LCIV new governance arrangements, Fund launches and LCIV Agreements. The Fund and the Council are obliged to be comfortable with the terms and conditions to inherit future share of unlimited or unquantifiable pension liabilities. As the Council is not certain on London CIV decisions and these could impact the level of future liabilities.

5.2. For effective and efficient management of the Fund as regular engagement with the London CIV is crucial to the Fund, to ensure that the Pool makes available the strategies and services that Enfield Pension Fund and other London funds require. Successful delivery of these objectives will be crucial in ensuring that the anticipated longer term investment manager fee savings can be delivered.

6. COMMENTS FROM OTHER DEPARTMENTS

6.1. Financial Implications

a) This report provides an update on progress to date on LCIV new governance arrangement and Fund launches. Regular engagement with the London CIV going forwards is crucial to the Fund, ensuring that the Pool makes available the strategies and services that Enfield Pension Fund and other London funds require. Successful delivery of these objectives will be crucial in ensuring that the anticipated longer term investment manager fee savings can be delivered.

b) The Council has some £230m investments with London CIV sub-funds and £258m of passive pooled investments.

6.2. **Legal Implications**

a) This report provides an update on developments affecting the London Pooling arrangements. As a member of the London CIV, the Council must ensure compliance with its statutory duty to ensure the proper and efficient management of the Fund.

b) Improvements to the governance arrangements in the London CIV as well as reviewing and agreeing the LCIV renumeration policy, the LCIV Pension Cost Recharge and LCIV Pension Guarantee Agreement for City of London should assist the Council to meet its statutory duties.

7. **KEY RISKS**

a) It is important to keep abreast on current issues to facilitate the rigorous and robust management of the Pension Fund for a better, quicker and more effective decision-making process which can lead to better Fund performance and reduction in the contribution required from the Council towards the Fund.

b) The monitoring arrangement for the Pension Fund and the work of the Pension Policy & Investment Committee should ensure that the Fund optimises the use of its resources in achieving the best returns for the Council and members of the Fund.

Background Papers
None

Appendix 3

Dashboard showing progress made on outstanding requirements on the Pension Regulator's compliance checklist

Summary

	Initial review results	Total Tasks	Compliant	Partially Compliant	Not Compliant
A	Reporting Duties	4	3	0	1
B	Knowledge and Understanding	12	6	6	0
C	Conflicts of Interest	11	7	3	1
D	Publishing Information	4	2	2	0
E	Risk and Internal Controls	8	6	2	0
F	Maintaining Accurate Member Data	11	7	4	0
G	Maintaining Contributions	9	7	2	0
H	Providing Information to Members & Others	13	7	5	1
I	Internal Dispute Resolution	9	5	2	2
J	Reporting Breaches	3	0	2	1
K	Scheme Advisory Board Requests	15	7	4	4
		99	**57**	**32**	**10**

	Following six month review: 301st August 19	Total Tasks	Compliant	Partially Compliant	Not Compliant
A	Reporting Duties	4	4	0	0
B	Knowledge and Understanding	12	11	1	0
C	Conflicts of Interest	11	9	2	0
D	Publishing Information	4	4	0	0
E	Risk and Internal Controls	8	6	2	0
F	Maintaining Accurate Member Data	11	7	4	0
G	Maintaining Contributions	9	9	0	0
H	Providing Information to Members & Others	13	11	1	1
I	Internal Dispute Resolution	9	5	2	2
J	Reporting Breaches	3	0	2	1
K	Scheme Advisory Board Requests	15	10	3	2
		99	**76**	**17**	**6**

The Pension Regulator and Scheme Advisory Board Compliance Fund Governance - Improvement Plan

Author: Paul Reddaway – Head of Exchequer Services
Date: 27th August 2019
Introduction:
The Code of Practice is issued by The Pensions Regulator, the body that regulates occupational and personal pension schemes provided through employers.

The regulator's statutory objectives are to:
- protect the benefits of pension scheme members
- reduce the risks of calls on the Pension Protection Fund (PPF)
- promote, and improve understanding of, the good administration of work-based pension schemes
- maximise compliance with the duties and safeguards of the Pensions Act 2008

Codes of practice provide practical guidance on how to comply with the legal requirements of the pension regulations.

Review:
Aon undertook a review in 2015, then again in October 2018. Aon's overall findings showed a significant improvement in compliance with the TPR Code. There were however areas that were judged to be non-compliant or partially compliant.

The purpose of this Improvement Plan is to address those areas of non or partial compliance.

Monitoring:
The Pension Policy and Investment Committee will review the Improvement Plan periodically to monitor progress. A periodic report will be presented to the Local Pension Board for information.

Dashboard showing outstanding requirements on the Pension Regulator's compliance checklist

		Initial Review: 31 December	Position as 31 August 19	Lead Team	Target Completion Date
Reporting Duties					
A4	Have you responded to the latest TPR public service pension scheme survey /questionnaire?	Non-compliant	Fully completed	All	
Knowledge and Understanding					
B1	Are there policies and arrangements in place to support pension board members in acquiring and retaining knowledge and understanding?	Partially compliant	Fully completed	Investment	
B2	Has a person been designated to take responsibility for ensuring the framework is developed and implemented?	Partially compliant	Fully completed	Investment	
B5	Are pension board members aware of their legal responsibility in terms of Knowledge and Understanding?	Partially compliant	Fully completed	Investment	
B10	Is there a process in place for regularly assessing the pension board members' level of knowledge and understanding is sufficient for their role, responsibilities and duties?	Partially compliant	Fully completed	Investment	
B11	Are records of learning activities being maintained?	Partially compliant	Fully completed	Investment	
B12	Have the pension board members completed the Pension Regulator's toolkit for training on the Code of Practice number 14?	Partially compliant	Partially compliant	Investment	30th September

Conflicts of Interest					
		Initial Review: 31 December	Position as 31 August 19	Lead Team	Target Completion Date
C1	Does the Fund have a conflict of interest policy and procedure, which include identifying, monitoring and managing potential conflicts of interest?	Partially compliant	Fully completed	I	
C5	Is the conflicts policy regularly reviewed?	Partially compliant	Fully completed		
C6	Does the Fund have a conflicts register and it is circulated for ongoing review and published?	Non-compliant	Partially completed	Investment	30th September
C7	Is appropriate information included in the register?	Partially compliant	Partially completed	Investment	30th September
Publishing Information					
D1	Does the Administering Authority publish information about the pension board?	Partially compliant	Fully completed		
D2	Does the Administering Authority publish other useful related information about the pension board?	Partially compliant	Fully completed		
Risk and Internal Controls					
E4	Does the Administering Authority review the effectiveness of the risk management and internal control systems of the Fund?	Partially compliant	Fully completed		
E5	Does the Administering Authority regularly review the risk register?	Partially compliant	Fully completed		
		Initial Review: 31 December	Position as 31 August	Lead Team	Target Completion Date

			19		
E7	Does the Administering Authority have adequate systems, arrangements and procedures (internal controls) in place for the administration and management of the Fund and are they documented ?	Partially compliant	Partially compliant	Admin	31 Mar 2020
E8	Do these procedures apply equally to outsourced services, are internal controls reflected in contracts with third party providers and is there adequate reporting in relation to those controls?	Partially compliant	Partially compliant	Investment & Admin	31 Mar 2020
Maintaining Accurate Member Data					
F3	Does the Fund keep records of and reconcile transactions as required by the Record Keeping Regulations?	Partially compliant	Partially compliant	Investment & Admin	31 Dec 2020
F8	Does the Administering Authority carry out a data review at least annually?	Partially compliant	Partially compliant	Admin	30 Sept 2019
F9	Is a data improvement plan in place which is being monitored with a defined end date?	Partially compliant	Partially compliant	Admin	30 Sept 2019
F11	There is not a privacy notice on the member website and members should be informed by data controllers how the data will be used.	Partially compliant	Partially compliant	Admin	30 Sept 2019
Maintaining Contributions					
G6	Does the Fund maintain a record of any investigations and communications with employers?	Partially compliant	Fully completed	Investment	
G9	If the administration of contributions outsourced to a service provider, is there a process in place to obtain	Partially compliant	Fully completed	Investment	

	regular information on the payment of contributions to the scheme?				
Providing Information to Members & Others					
H1	Has an annual benefit statement been provided to all active members within the required timescales?	Partially compliant	Fully completed	Admin	
H2	Do these meet the legal requirements in relation to format?	Partially compliant	Fully completed	Admin	
H4	Does this meet the legal requirements in relation to format?	Partially compliant	Fully completed	Admin	
H8	Does this meet the legal requirements in relation to format?	Non-compliant	Non-compliant	Admin	31 Dec 2019
H9	Is all other information provided in accordance with the legal timescales?	Partially compliant	Partially compliant	Admin	31 Dec 2019
H12	Does the Administering Authority aim to design and deliver communications in a way that ensures scheme members are able to engage with their pension provision?	Partially compliant	Fully completed	Admin	
Internal Dispute Resolution					
I2	Does the Administering Authority's process highlight or consider whether a dispute is exempt?	Non-compliant	Non-compliant	Admin	30 Sept 2019
I3	Does the information made available to applicants about the procedure clearly state the procedure and process to apply for a dispute to be resolved including: - who it applies to - who the specified person (stage 1) is - the timescales for making applications	Partially compliant	Partially compliant	Admin	30 Sept 2019

	- who to contact with a dispute - the information that an applicant must include - the process by which decisions are reached?				
I6	Does the Administering Authority notify and advertise the procedure appropriately?	Partially compliant	Partially compliant	Admin	30 Sept
I8	Does the Administering Authority regularly assess the effectiveness of its arrangements?	Non-compliant	Non-compliant	Admin	30 Sept
Reporting Breaches					
J1	Is the Administering Authority satisfied that those responsible for reporting breaches under the legal requirements and TPR guidance understand the requirements?	Partially compliant	Partially compliant	Admin	30 Sept 2019
J2	Does the Administering Authority have appropriate procedures in place to meet their legal obligations for identifying and assessing breaches?	Partially compliant	Partially compliant	Admin	30 Sept 2019
J3	Are breaches being recorded in accordance with the agreed procedures?	Non-compliant	Non-compliant	Admin	30 Sept 2019
Scheme Advisory Board Requests					
K4	A Local Pension Board should designate a person to take responsibility for ensuring that the knowledge and understanding policy and framework is developed and implemented.	Partially compliant	Fully completed	Investment	
K7	Members of a Local Pension Board should undertake a personal training	Partially compliant	Fully completed	Investment	

	needs analysis and put in place a personalised training plan.				
K8	An Administering Authority should prepare a code of conduct and a conflicts policy for its Local Pension Board for approval in accordance with the Administering Authority's constitution and at the first meeting of the Local Pension Board. The Local Pension Board should keep these under regular review.	Partially compliant	Fully completed	Investment	
K11	An Administering Authority should agree the ongoing reporting arrangements between the Local Pension Board and the Administering Authority.	Non-compliant	Non-compliant	Admin/Investment	31 December 2019
K12	A Local Pension Board should understand the Administering Authority's requirements, controls and policies for FOIA compliance so that the Local Pension Board is aware of them and can comply with them.	Non-compliant	Partially compliant	Admin/Investment	31 December 2019
K13	A Local Pension Board should put in place arrangements to meet the duty of its members to report breaches of law.	Non-compliant	Non-compliant	Admin/Investment	31 December 2019
K14	A Local Pension Board should consider (with its Administering Authority) the need to publish an annual report of its activities.	Non-compliant	Partially compliant	Admin/Investment	30 September 2019
K15	An Administering Authority should consult on, revise and publish its governance compliance statement to include details of the terms, structure and operational procedures relating to its Local Pension Board.	Partially compliant	Partially compliant	Investment	30th September

Item 3e - Schedule of Employer Contributions

(Payments made by employers into the Pension Fund during 2019/20 (including analysis of late payments)

£000's	April	May	June
Enfield	2,314	2,663	2,382
Latymer school	24	24	29
Capel Manor	48	49	48
Oasis Enfield	57	56	58
Oasis Hadley	20	20	22
Aylward Academy	13	14	15
nightingale academy	8	9	8
Kingsmead academy	15	16	14
Enfield Grammar	16	17	16
Edmonton County	32	31	36
Southgate School	21	22	23
Cedars Learning Trust	14	14	13
Enfield Learning Trust	75	74	76
Adnan Jaffery Trust	1	1	1
Attigo Academy Trust	53	58	54
Ark John Keats Academy	9	9	8
Meridian Angel Primary School	3	3	3
Ivy Learning Trust	70	79	73
WOLFSON HILLEL PRIMARY SCHOOL	7	7	7
Children First Academy	97	91	83
Cuckoo Hall Academy Trust	39	38	39
Olive Dining (Winchmore)	0	0	0
Elior UK	1	1	2
Reed Momenta	2	2	2
Sodexo	2	2	2
Leisure Centre/fusion Lifestyle	2	2	2
Edwards and Blake	1	1	1
OutWard Housing	0	0	0
Independence & Wellbeing Enfield	88	99	98
Voluntary Bodies	3	3	3
*Olive Dining (Aylward)	1	1	1
Birkin Cleaning (Nightingale)	0	0	0
*Olive Dining (Nightingale)	1	1	1
Norfolk Cleaning Service	5	4	5
North London Homecare and Support Ltd	0	0	0

Note: red blocks refer to late payments

* Olive Dinning is making contributions for the current year. They are in arrears for previous years contributions, due to an issue with their admission agreement, and a payment schedule covering four payments has been agreed with Olive Dining Chief Executive.

MINUTES OF THE MEETING OF THE PENSION POLICY & INVESTMENT COMMITTEE HELD ON THURSDAY, 13TH JUNE, 2019

MEMBERS: Councillors Yasemin Brett, Ergun Eren, Tim Leaver, Claire Stewart, Doug Taylor and Carolan Dobson (Independent Advisor)

Officers: Paul Reddaway (Assistant Head of Finance), Matt Bowmer (Interim Director of Finance), Gareth Robinson (Head of Finance) and Penelope Williams (Secretary)

Also Attending: Councillor Derek Levy, Daniel Carpenter (AON), Jo Peach (AON) , Jonathan Teasdale (AON)

40. ELECTION OF CHAIR AND VICE CHAIR

Councillor Tim Leaver was elected Chair and Councillor Claire Stewart Vice Chair of the Pension Policy and Investment Committee.

41. WELCOME AND INTRODUCTIONS

The new chair welcomed everyone to the meeting and members introduced themselves.

42. DECLARATION OF INTERESTS

Councillor Yasemin Brett declared a non-pecuniary interest as her son works for JP Morgan.

Councillor Claire Stewart declared a non-pecuniary interest as one of her family was a member of the Local Government Pension Scheme and of Unison.

Carolan Dobson declared a non-pecuniary interest as a non-executive director of the London Collective Investment Vehicle.

Councillor Tim Leaver declared a non-pecuniary interest as a director of one of the Council companies.

Councillor Doug Taylor declared a non-pecuniary interest as a director of Capel Manor College.

Councillor Ergun Eren declared a non-pecuniary interest in CBRE group.

43. STANDING ITEMS

NOTED

1. In future all four standing items would be included on every agenda and that a governance update would be provided to the next meeting.

2. A glossary of terms including a list of acronyms would be circulated to all members.

1. Risk Register

The Committee received the Council's risk register setting out key risks, actions in place to address them, any progress made, risk categories and a lead officer responsible.

NOTED

1. Paul Reddaway's advice that:

   - In relation to PEN 08 Succession Planning that two experienced officers had recently been recruited to replace him as he was due to retire in September.

   - There were no issues in other areas. All employers in the scheme had paid in a timely manner. The valuation of the fund was the subject of a further report and was not seen to be a major risk at present.

2. Climate change and BREXIT would be added to the list of risks although these issues would already be included when considering fund allocations. Because of the diversity of investments across many different areas the risks in these areas were less.

3. The list of risks was not exhaustive and other issues could be added. Valuation including the threat from the resolution of the McCloud case would be included in the next report.

4. Comment was made that it was the committee's role was to fully understand risks, that the risk from Paul Reddaway's departure should continue to be included and that there was also a risk that members of the committee were not properly trained to understand their role. Training was an issue that the Pension Regulator would take an interest in and would be discussed later in the meeting. MiFID (Markets in Financial Instruments Directive) requirements were that any new member should be trained within 3 months of taking up a position on the committee.

5. A more detailed risk analysis was usually given to the Audit and Risk Management Committee but could also be provided to this committee.

6. Lack of continuity amongst the membership of the committee could be a risk.

7. Carolan Dobson (Independent Advisor) felt that the mortality assumptions should be rated as a medium/large risk.

2. London Collective Investment Vehicle (LCIV)

NOTED

1. A new chief officer had been appointed. Paul Reddaway would circulate their details.

2. A representative from the LCIV would be invited to attend the next meeting.

3. A management team at the fund Henderson, which the LCIV had bought into, had recently resigned leading to a review of the investment.

44. MINUTES OF THE LAST MEETING - 28 FEBRUARY 2019

The minutes of the meeting held on 28 February 2019 were agreed as a correct record.

45. COMMITTEE TRAINING PROGRAMME

The Committee received a report from Paul Reddaway on a possible training programme to be devised for the committee. (Report No: 20)

NOTED

1. The Local Government Association ran a three-day course investment training course. (10 and 30 October and 4 December 2019). The list of items covered was set out in Appendix 3. All members were encouraged to attend.
2. Paul Reddaway planned to hold a series of short hour-long training sessions over July, August and September. A timetable would be circulated.
3. Members were also encouraged to complete the online Pension Regulator Public Sector Tool Kit as set out in Appendix 1. This would provide necessary evidence and a good record of training undertaken.
4. A training session on ESG (Environmental and Social Governance) would be held early on. An earlier session had been planned, but it had been agreed to wait until after the new committee had been appointed.
5. The committee's role was as trustees of the pension fund, not the Council. The fund covered a total of 33 employers, not just the Council. The trustees were there to protect the interests of all the members of the pension fund.

6. Briefing sessions on specific topics would also be held before meetings.
7. An analysis of the Pension Fund accounts was thought to be a good starting point to understand the work of the committee.
8. An agenda setting meeting would be held with the Chair before all meetings.
9. Paul Reddaway would email members with press updates on key issues as they arose.
10. All training undertaken would need to be evidenced.

AGREED that the committee would undertake ongoing training to meet the requirements of being classed as a professional investor (MiFID II) and to be in line with the Pension Regulator Requirements.

46. PENSION STRATEGY BUSINESS PLAN 2019/20

The Committee received the report of Paul Reddaway on the Pension Strategy Business Plan 2019/20.

NOTED

1. The report provided an overview of the Investment Strategy Business Plan describing the different investment areas and building blocks indicating where the committee's priorities should be when considering their work for this year.

2. There is an overall objective to reduce the deficit which, at the time of the last actuarial valuation 3 years ago, was at 87%.

3. More detailed quarterly reports were provided on the performance of the various investments. This paper was just to give a high-level overview for new members.

4. Concern was expressed about a lack of information on any plan for recovery of the deficit, of comparable data, and of an explanation for the current position of the fund or where it was heading.

5. Training would be provided on the detailed investment and funding strategies on another occasion.

6. Agreement that the title of the report could be seen to be misleading.

7. Daniel Carpenter (AON) said that he was happy to talk to committee members in detail about the investment strategy.

AGREED to note the report.

47. DRAFT PENSION FUND ACCOUNTS 2018/19

The Committee received a copy of the Pension Fund Accounts for 2018/19.

NOTED

1. Over the past year the pension fund has grown mainly due to the favourable equity markets. Cash flow was positive. Contributions were higher than pension payments.
2. It was anticipated that this situation will deteriorate over the next 4-5 years. Other London pension funds had negative cash flows.
3. There had been an improvement in the liquidity of investments.
4. In future the fund will reduce the number of hedge fund managers. Some have not performed as well as expected, so fees have been lower.
5. The Enfield fund is not typical as it is more complex and more diverse than some of the other London funds.
6. Enfield holds investments at three different levels. Level 1 is those assets which are easily liquidated. Level 2 is those where quoted market prices are not available and Level 3 are hard to value long term investments. For example, Enfield had invested in Adam Street Partners in 2003. Its first investment has only just been realised. Through this fund Enfield had been an early investor in Facebook. These investments in general had a 8-9% rate of return.
7. Enfield had benefited in the past year from currency fluctuations particularly with the dollar which had increased by 24.8%.
8. Government requirements meant that more and more new investments will have to be invested in the London Collective Investment Vehicle (LCIV). This had been valued on 21 March 2019.
9. The report was presented in a format complying to the CIPFA code of practice. A different format will be used, and more detail provided, in the Annual Report for 2018/19, tying the figures back to the strategic allocations.
10. Investment management was stable and there had been increased returns. Oversight and governance costs had reduced mainly because the hedge portfolio was gradually being run down. In general Enfield costs were higher than average because of the variety of fund managers but this provided greater diversity and insurance against bad markets.
11. The fund had started to simplify its holdings to be in alignment with the Government’s pooling agenda.
12. The fully audited report would be bought back to a later meeting of the Committee.

AGREED to note the pension fund accounts for 2018/19.

48. QUARTERLY PERFORMANCE REPORT - 31 MARCH 2019

Discussion on this item took part in the part 2 section of the meeting.

49. 2019 ACTUARIAL VALUATION - UPDATE

The Committee received a report updating them on the actuarial valuation. (Report No: 24)

Jonathan Teasdale from AON presented the information to members.

NOTED

1. Actuarial valuations took place every three years, although in future there is a proposal that this will change to every four years.
2. Evaluation outcomes will be available by the end of September 2019.
3. The main aims of the valuation are to compare assets with liabilities, determine the employer contribution rates and to ensure that the legal and regulatory requirements are met. These are based on assumptions to estimate how much money is needed to meet the needs of the fund's pensioners.
4. The valuation was a chance to see what the results look like, to make changes to the strategic and long-term financial objectives and take decisions on the level of acceptable risks.
5. There was a legal requirement to be prudent. Currently the probability of funding success is 69%. This had to be well above 50%. If more money is needed, then the employer contribution rates will have to be increased. Employee rates are fixed by Government.
6. At the time of the last valuation, in 2016, the funding ratio was 87%. A plan was put in place to eliminate this deficit over 19 years. This year it was expected that the headline figure would be more favourable, as asset returns in global markets had been good and improvements in life expectancy had slowed down. This will probably mean that employer contribution rates will not have to increase. The aim was to achieve 100% funding.
7. There is some additional uncertainty related to the McCloud case which would be explained at a later meeting.
8. A timetable for the process had been agreed in March 2019, an employers' meeting held in December and a funding strategy statement was due in early July. Training on the valuation process would be prioritised.

AGREED to note the report.

50. BOND PORTFOLIO CONSIDERATIONS

Discussions on this item took part in the part 2 section of the meeting.

51. ANY OTHER BUSINESS

1. **Environmental Social and Governance (ESG)** – This was a complicated issue that needed further debate. There were differing views as to how best to address the issues. Some thought that we should divest from all fossil fuels and others believed in active engagement to screen out environmentally damaging investments. More information was needed to fully understand this and other ethical

investment issues. Enfield would need to work on this with the other boroughs in the LCIV. Training would be provided at an early date.

52. DATES FOR FUTURE MEETINGS

NOTED the dates agreed for future meetings:

- Thursday 5 September 2019
- Thursday 21 November 2019
- Thursday 27 February 2020

In future all meetings would take place at the Enfield Civic Centre, at 10.45am, unless otherwise indicated.

53. EXCLUSION OF PRESS AND PUBLIC

RESOLVED, in accordance with Section 100(A) of the Local Government Act 1972 to exclude the press and public from the meeting for the items listed on part two of the agenda on the grounds that they involve the likely disclosure of exempt information as defined in Paragraph 3 (information relating to the financial or business affairs of any particular person (including the authority holding that information) of Part 1 of Schedule 12A to the Act (as amended by the Local Government (Access to Information) (Variation) Order 2006).

54. QUARTERLY PERFORMANCE REPORT - 31 MARCH 2019

The Committee received the Quarterly Investment Report, covering investments in the last quarter, up to 31 March 2019. Report No: 23.

NOTED

1. The differences in the figures in this report and the final accounts are accounted for by use of estimates on the basis of available information at the time.
2. There are two types of funds passive and active. Passive funds are less expensive and move in line with indexes. Active funds are managed, cost more, but can have higher returns.
3. Funds are over and under weight in relation to strategic allocations.
4. Equities were the long-term driver of the fund. At present the pension fund was overweight in these and was in the process of reducing investments closed to the level of the strategic allocation. Some equities were in the LCIV, but not all.
5. The fund was overweight in private equities.
6. Money in hedge funds was being reduced and no further investments were envisaged.
7. The fund only had money in the UK property market at present. There were no property funds in the LCIV currently, but this was due to change.
8. Investments in infrastructure were generally stable and secure. There were currently none of these type of investments in the LCIV.

9. Investments in bonds were generally defensive, as they were low risk, long term inflation protection. The Enfield fund was underweight in these.
10. LCIV were closely monitoring the situation in one of the LCIV funds where fund managers had left. The LCIV had reacted very quickly to the changing situation. It is likely that the LCIV would leave this fund. This would involve some transitional costs.
11. There was an explanation of how funds were scored in the appendix.
12. In general, the funds had been well managed and had performed very well over the past 3 months

AGREED to note the contents of the report.

55. BOND PORTFOLIO CONSIDERATION

The committee received a report on bond portfolio considerations. (Report No: 25)

NOTED

1. At the last meeting an informal decision had been taken to withdraw from one fund and re-invest it in index linked bonds. This had not been acted upon as circumstances had changed and it was felt a formal recommendation, based on a fuller report, was needed.
2. Index linked gilts were expensive and had become even more expensive since the last meeting.
3. The pension fund was currently underweight in bonds and so it had been agreed that more investment should be put into these, thereby reducing risk and aligning back with the original strategy.
4. There was a total of £50m to be invested. Several options were available.
5. After discussion it was agreed that a further meeting would be held (possibly via skype) to make a firm decision based on a full report, including a full analysis of all the options.

AGREED to ask AON to work with Council officers to bring back a proposal on how to address the underweight bond position given the revised investment environment.

MUNICIPAL YEAR 2019/2020 REPORT NO. 93

MEETING TITLE AND DATE:
Pension Investment & Policy Committee
5th September 2019

REPORT OF:
Director of Finance

Contact officer and telephone number:

Bola Tobun – 020 8379 6879
E mail: Bola.Tobun@enfield.gov.uk

Agenda – Part: 1	**Item: 5**
Subject: Review of Enfield Pension Fund Governance Policy & Compliance Statement **Wards: All** **Key Decision No:**	
Cabinet Member consulted:	

1. EXECUTIVE SUMMARY

1.1. This report updates the Enfield Pension Fund Governance Policy and Compliance Statement. This policy has been prepared in accordance with the Local Government Pension Scheme Regulations. It sets out the governance procedures for the Fund and indicates where it is compliant with best practice as laid down in statutory guidance issued by the Secretary of State.

2. RECOMMENDATIONS

2.1. Members of the Pension Policy & Investment Committee are recommended to:

i) Approve the Enfield Pension Fund Governance Policy and Compliance Statement, and agree that officers may now proceed with the consultation with the Fund's employers and Enfield Council union officials; and

ii) Approve the Scheme of Delegation which is included as Appendix A of the attached draft Statement.

3. BACKGROUND

3.1 Since 1st April 2006, administering authorities have been required to publish and maintain a pension fund governance statement setting out the governance arrangements for their Fund including details of membership, how often they meet and the decision-making process. This requirement has been maintained in the LGPS Regulations 2013, with Regulation 55 requiring funds to prepare and maintain a governance compliance statement.

3.2 Regulation 55 requires that:

(1) An administering authority must prepare a written statement setting out:

(a) whether the authority delegates its functions, or part of its functions under these Regulations to a committee, subcommittee or an officer of the authority;

(b) if the authority does so-

(i) the terms, structure and operational procedures of the delegation,

(ii) the frequency of any committee or sub-committee meetings,

(iii) whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights;

(c) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying; and

(d) details of the terms, structure and operational procedures relating to the local pension board established under regulation 106 (local pension boards establishment).

(2) An administering authority must keep a statement prepared under paragraph (1) under review, and make such revisions as are appropriate, following a material change to any of the matters mentioned in that paragraph.

(3) Before preparing or revising a statement under this regulation, an administering authority must consult such persons as it considers appropriate.

(4) An administering authority must publish its statement under this regulation, and any revised statement.

3.3 This document therefore presents an update to the Governance Policy and Compliance Statement, under the programme of regular policy review set out in the Fund's business plan. It is recommended that the Committee approve the policy and statement for consultation with key stakeholders, including employers and other interested parties. It is intended that the final draft be brought to the November Pension Policy & Investment Committee for final approval.

3.4 The key amendments that have been made are:

a) Updating the Policy and Statement to reflect new regulations (including the LGPS (Management and Investment of Funds) Regulations 2016)

b) Updating officer delegations to reflect staff changes within the Pension Fund

c) Updating delegations to reflect changes to roles as a result of asset pooling

3.5 Appendix B of the document includes the Fund's Statement of Compliance against best practice as laid down in statutory guidance issued by the Secretary of State. It is pleasing to note that the Fund continues to be fully compliant in all areas.

4. ALTERNATIVE OPTIONS CONSIDERED

4.1 This is a legislative requirement so there is no alternative option to consider.

5. REASONS FOR RECOMMENDATIONS

a) Regulation 55 of the Local Government Pension Scheme Regulations 2013 requires Enfield Council, as the administering authority for the Enfield Pension Fund, to prepare a written statement setting out details of the authority's delegation of functions under the LGPS Regulations.

b) The statement sets out the governance procedures for the Fund and indicates where it is compliant with best practice as laid down in statutory guidance issued by the Secretary of State. This document presents an update to the existing statement as part of the review programme set out in the Pension Fund Business Plan.

6. COMMENTS FROM OTHER DEPARTMENTS

6.1 Financial Implications

a) The S151 Officer is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed and that there are no direct financial implications arising as a consequence of the revised Policy and Statement. The cost of compliance with the necessary regulations with regards to governance is minimal in comparison to the value of the fund, and the risks arising through failure to do so.

b) The effective and efficient management of Fund assets and achievement of performance targets are key to the achievement of the funding strategy objectives and this is a good decision which can result in greater cost savings to the fund.

6.2 Legal Implications

a) Regulation 55 of the Local Government Pension Scheme Regulations 2013 requires Enfield Council, as the administering authority for the Enfield Pension Fund, to prepare a written statement setting out details of the authority's delegation of functions under the LGPS Regulations. The statement sets out the governance procedures for the Fund and indicates where it is compliant with best practice as laid down in statutory guidance issued by the Secretary of State. This document presents an update to the existing statement as part of the review programme set out in the Pension Fund Business Plan.

b) It is a matter for the Pension Policy & Investment Committee to agree all Fund policies and strategies as well as recommending changes to the Terms of Reference. It is therefore appropriate for the Committee to formally approve this Governance Policy and Statement of Compliance. However, prior to any such approval there is a requirement to consult with appropriate stakeholders.

c) When exercising its functions in relation to the Pension Fund, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector duty). The Committee may take the view that good, sound investment of the Pension Fund monies will support compliance with the Council's statutory duties in respect of proper management of the Pension Fund.

7. KEY RISKS

a) The rigorous robust management of Enfield Pension Fund results in better quicker and more effective decision making which can lead to better Fund performance and reduction in the contribution required from the Council towards the Fund. The monitoring arrangement for the Pension Fund and the work of the Pension Policy & Investment Committee should ensure that the Fund optimises the use of its resources in achieving the best returns for the Council and members of the Fund.

Background Papers
Appendix 1 – Draft Governance Policy and Statement of Compliance
Appendix B – Enfield Pension Fund's Statement of Compliance

Appendix 1

London Borough of Enfield Pension Fund Governance and Compliance Statement

The London Borough of Enfield is the Administering Authority of the London Borough of Enfield Pension Fund and administers the Local Government Pension Scheme on behalf of participating employers

Resources Department
Enfield Council
Civic Centre, Silver Street
Enfield EN1 3XY

www.enfield.gov.uk

Pension Policy and Investment Committee

Governance and Compliance Statement

The London Borough of Enfield is the Administering Authority of the London Borough of Enfield Pension Fund and administers the Local Government Pension Scheme on behalf of participating employers.

Regulation 55 of the Local Government Pension Scheme Regulations 2013 requires Local Government Pension Scheme (LGPS) Administering Authorities to publish Governance Policy and Compliance Statements setting out information relating to how the Administering Authority delegates its functions under those regulations and whether it complies with guidance given by the Secretary of State for Communities and Local Government. It also requires the Authority to keep the statement under to review and to make revisions as appropriate and where such revisions are made to publish a revised statement.

Aims and Objectives
Enfield Council recognises the significance of its role as Administering Authority to the London Borough of Enfield Pension Fund on behalf of its stakeholders which include:

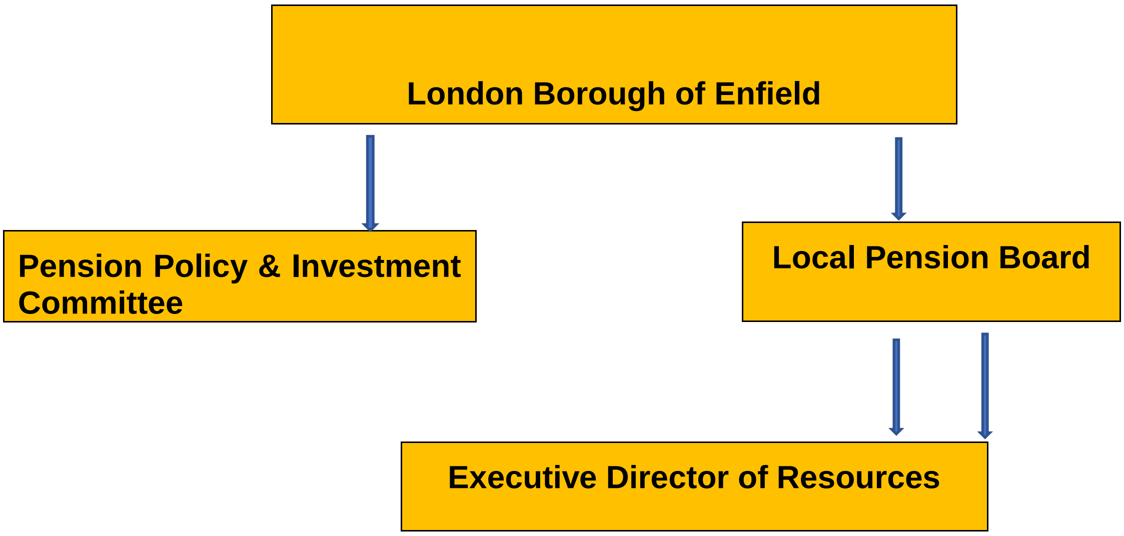
- Over 22,200 current and former members of the Fund, and their dependants
- around 40 employers within the Enfield Council area or with close links to Enfield Council
- the local taxpayers within the London Borough of Enfield.

In relation to the governance of the Fund, our objectives are to ensure that:

- all staff and Pension Policy & Investment Committee Members charged with the financial administration and decision-making with regard to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them
- the Fund is aware that good governance means an organisation is open in its dealings and readily provides information to interested parties
- all relevant legislation is understood and complied with
- the Fund aims to be at the forefront of best practice for LGPS funds
- the Fund manages Conflicts of Interest appropriately

Structure
The Constitution of the Council sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and that those who made the decisions are accountable to local people.

The Council delegates its responsibility for administering the Fund to the Pension Policy & Investment Committee. The terms of this delegation are as set out in the Council Constitution and provide that the Committee is responsible for consideration of all pension matters and discharging the obligations and duties of the Council under the Superannuation Act 1972 and various statutory matters relating to investment issues.
The Constitution sets out the framework under which the Pension Fund is to be administered as depicted in the diagram below.



Terms of Reference for the Pension Policy & Investment Committee

The Constitution allows for the appointment of a Pension Policy & Investment Committee which has responsibility for the discharge of all non-executive functions assigned to it.

The following are the terms of reference for the Pension Policy & Investment Committee:

a) To act as Trustees of the Council's Pension Fund, consider pension matters and meet the obligations and duties of the Council under the Superannuation Act 1972, the Public Service Pensions Act 2013, and the various pensions' legislation.

b) To make arrangements for the appointment of and to appoint suitably qualified pension fund administrators, actuaries, advisers, investment managers and custodians and periodically to review those arrangements.

c) To formulate and publish an Investment Strategy Statement.

d) To set the overall strategic objectives for the Pension Fund, having taken appropriate expert advice, and to develop a medium-term plan to deliver the objectives.

e) To determine the strategic asset allocation policy, the mandates to be given to the investment managers and the performance measures to be set for them.

f) To make arrangements for the triennial actuarial valuation, to monitor liabilities and to undertake any asset/liability and other relevant studies as required.

g) To monitor the performance and effectiveness of the investment managers and their compliance with the Statement of Investment Principles.

h) To set an annual budget for the operation of the Pension Fund and to monitor income and expenditure against budget.

i) To receive and approve an Annual Report on the activities of the Fund prior to publication.

j) To make arrangements to keep members of the Pension Fund informed of performance and developments relating to the Pension Fund on an annual basis.

k) To keep the terms of reference under review.

l) To determine all matters relating to admission body issues.

m) To focus on strategic and investment related matters at two Pension Policy & Investment Committee meetings.

n) To review the Pension Fund's policy and strategy documents on a regular basis and review performance against the Fund's objectives within the business plan

o) To maintain an overview of pensions training for Members.

Membership of the Pension Policy & Investment Committee

The Council decides the composition and makes appointments to the Pension Policy & Investment Committee. Currently the membership of the Committee is a minimum of 6 elected Members from Enfield Council on a politically proportionate basis and the Pension Policy & Investment Committee will elect a Chair and Vice Chair. All Enfield Council elected Members have voting rights on the Committee and three voting members of the Committee are required to be able to deem the meeting quorate.

Members of the Pension Policy & Investment Committee are required to declare any interests that they have in relation to the Pension Fund or items on the agenda at the commencement of the meeting.

The Fund is aware that good governance means an organisation is open in its dealings and readily provides information to interested parties; meetings are open to members of the public who are welcome to attend. However, there may be occasions when members of the public are excluded from meetings when it is likely in view of the nature of the business to be transacted or the nature of the proceedings that confidential information would be disclosed.

Meetings

The Pension Policy & Investment Committee shall meet at least four times a year in the ordinary course of business and additional meetings may be arranged as required to facilitate its work. Work for the year will be agreed with the Committee to include dedicated training sessions for Committee members.

Agendas for meetings will be agreed with the Chair and will be circulated with supporting papers to all members of the Committee, Officers of the Council as appropriate and the Fund's Investment Advisor.

The Council will give at least five clear working days' notice of any meeting by posting details of the meeting at the Enfield Civic Centre and on the Council's website. The Council will make copies of the agenda and reports open to the public available for inspection at least five clear working days before the meeting. If an item is added to the agenda later, the revised agenda will be open to inspection from the time the item was added to the agenda. The reason for lateness will be specified in the report.

There may on occasions be items which may be exempt from the agenda, reports and minutes of the meetings when it is likely in view of the nature of the business to be transacted or the nature of the proceedings that confidential information would be disclosed. Items which are most likely to be excluded are issues where to disclose information would contravene an individual's privacy or where there are financial interests which may be compromised as a result of disclosure for example discussions surrounding contracts.

The Council will make available copies of the minutes of the meeting and records of decisions taken for six years after a meeting. Minutes of meetings and records of decisions are available for inspection on the Council's website:

http://governance.enfield.gov.uk/ieListMeetings.aspx?CommitteeId=664

Other Delegations of Powers

The Pension Policy & Investment Committee act as quasi trustees and oversee the management of the Pension Fund. As quasi trustees the Committee has a clear fiduciary duty in the performance of their functions, they must ensure that the Fund is managed in accordance with the regulations and to do so prudently and impartially and to ensure the best possible outcomes for the Pension Fund, its participating employers, local taxpayers and Scheme members. Whilst trustees can delegate some of their powers, they cannot delegate their responsibilities as trustees. Appendix A outlines the areas that the Pension Policy & Investment Committee has currently delegated though these may be added to from time to time.

Under the Council's Constitution delegated powers have been given to the Executive Director of Resources in relation to all other pension fund matters, in addition to his role as Chief Financial Officer (often called S151 Officer). As Chief Financial Officer he is responsible for the preparation of the Pension Fund Annual Report & Accounts and ensuring the proper financial administration of the Fund. As appropriate the Executive Director of Resources will delegate aspects of the role to other officers of the Council including the Pensions & Treasury Manager and to professional advisors within the scope of the LGPS Regulations.

Pension Board

With effect from 1 April 2015, each Administering Authority is required to establish a local Pension Board to assist them with:

- securing compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme, and requirements imposed in relation to the LGPS by the Pensions Regulator
- ensuring the effective and efficient governance and administration of the Pension Fund

Such Pension Boards are not local authority committees; as such the Constitution of Enfield Council does not apply to the Pension Board unless it is expressly referred to in the Board's terms of reference. The Enfield Pension Board established by Enfield Council and the full terms of reference of the Board can be found within the Council's Constitution. The key points are summarised below.

Role of the Pension Board

The Council has charged the Pension Board with providing oversight of the matters outlined above. The Pension Board, however, is not a decision making body in relation to the management of the Pension Fund and the Pension Fund's management powers and responsibilities which have been delegated by the Council to the Pension Policy & Investment Committee or otherwise remain solely the powers and responsibilities of them, including but not limited to the setting and delivery of the Fund's strategies, the allocation of the Fund's assets and the appointment of contractors, advisors and fund managers.

Membership of the Pension Board

The Pension Board consists of 6 members as follows:

- Three Employer Representatives
- Three Scheme Member Representatives

Pension Board members, (excluding any Independent Member), have individual voting rights but it is expected the Pension Board will as far as possible reach a consensus.

A meeting of the Pension Board is only quorate when two of the six Employer and Scheme Member Representatives are present, and where the Board has an Independent Member they must also be present.

The members of the Board are appointed by an Appointments Panel which consists of:

- the Cabinet Member for Resources
- the Executive Director of Resources
- the Director of Finance
- the Executive Director of Legal & Governance

Members of the Pension Board are required to declare any interests that they have in relation to the Pension Fund or items on the agenda at the commencement of the meeting.

Meetings

The Pension Board meets at least twice a year in the ordinary course of business and additional meetings may be arranged as required to facilitate its work. The Pension Board will be treated in the same way as a Committee of Enfield Council and, as such, members of the public may attend and papers will be made public in the same way as described above for the Pension Policy & Investment Committee.

Policy Documents

In addition to the foregoing, there are a number of other documents which are relevant to the Governance and management of the Pension Fund. Brief details of these are listed below and the full copies of all documents can be found on the Pension Fund Website:
http://governance.enfield.gov.uk/mgCommitteeDetails.aspx?ID=664

Funding Strategy Statement

The Funding Strategy Statement forms part of the framework for the funding and management of the Pension Fund. It sets out how the Fund will approach its liabilities and contains a schedule of the minimum contribution rates that are required of individual employers within the Fund. The Funding Strategy Statement (FSS) is drawn up by the Administering Authority in collaboration with the Fund's actuary and after consultation with the Fund's employers. The FSS forms part of a broader framework which covers the Pension Fund and applies to all employers participating in the Fund. The FSS represents a summary of the Fund's approach to funding the liabilities of the Pension Fund.

Investment Strategy Statement

The Investment Strategy Statement (ISS) replaced the Statement of Investment Principles from 1st April 2016. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State.
This ISS is designed to be a living document and is an important governance tool for the Fund. This document sets out the investment strategy of the Fund, provides transparency in relation to how the Fund investments are managed, acts as a risk register, and has been designed to be informative but reader focused.
This document will be reviewed following the completion of the Fund investment strategy review and updated revised version will be tabled at the November Pension Policy & Investment Committee meeting for approval.

Governance Policy Compliance Statement
This sets out the Pension Fund's compliance with the Secretary of State's Statutory Guidance on Governance in the LGPS. This is attached as Appendix B and shows where the Fund is compliant or not compliant with best practice and the reasons why it may not be compliant.

Training Policy
Enfield Council has a Training Policy which has been put in place to assist the Fund in achieving its governance objectives and all Pension Policy & Investment Committee members, Pension Board members and senior officers are expected to continually demonstrate their own personal commitment to training and to ensuring that the governance objectives are met.
To assist in achieving these objectives, the London Borough of Enfield Pension Fund aims to comply with:

- the CIPFA Knowledge and Skills Frameworks and
- the knowledge and skills elements of the Public Service Pensions Act 2013 and
- the Pensions Regulator's (TPR) Code of Practice for Public Service Schemes.

As well as any other LGPS specific guidance relating to the knowledge and skills of Pension Policy & Investment Committee members, Pension Board members or pension fund officers which may be issued from time to time.

Members of the Pension Policy & Investment Committee, Pension Board and officers involved in the management of the Fund will receive training to ensure that they meet the aims of the Training Policy with training schedules drawn up and reviewed on at least on annual basis.

Annual Report and Accounts
As part of the financial standing orders it is the duty of the Chief Financial Officer to ensure that record keeping and accounts are maintained by the Pension Fund. The Pension Fund accounts are produced in accordance with the accounting recommendations of the Financial Reports of Pension Schemes - Statement of Recommended Practice. The financial statements summarise the transactions of the Scheme and deal with the net assets of the Scheme. The statement of accounts is reviewed by both the Pension Policy & Investment Committee and the Audit Committee and incorporated in the Statement of Accounts for the Council. Full copies of the Report and Accounts are distributed to employers in the Fund and other interested parties and a copy placed on the websites:
http://governance.enfield.gov.uk/mgCommitteeDetails.aspx?ID=664

Communication Policy
This document sets out the communications policy of the administering authority and sets out the strategy for ensuring that all interested parties are kept informed of developments in the Pension Fund. This helps to ensure transparency and an effective communication process for all interested parties. A copy of the policy can be found on the Pensions website:
http://governance.enfield.gov.uk/mgCommitteeDetails.aspx?ID=664

Discretions Policies
Under the Local Government Pension Scheme regulations, the Administering Authority has a level of discretion in relation to a number of areas. The Administering Authority reviews these policies as appropriate and will notify interested parties of any significant changes. Employing Authorities are also required to set out their discretions policies in respect of areas under the Regulations where they have a discretionary power. Copies of both the Administering Authority and the London Borough of Enfield' Employing Authority Discretions can be found on the website: http://governance.enfield.gov.uk/mgCommitteeDetails.aspx?ID=664

Pension Administration Strategy and Employer Guide
In order to assist with the management and efficient running of the Pension Fund, the Pension Administration Strategy and Employer Guide encompassing administrative procedures and responsibilities for the Pension Fund for both the Administering Authority and Employing Authorities has been distributed to employers within the Fund following consultation and can be found on the website: http://governance.enfield.gov.uk/mgCommitteeDetails.aspx?ID=664

This represents part of the process for ensuring the ongoing efficient management of the Fund and maintenance of accurate data and forms part of the overall governance procedures for the Fund.

Approval, Review and Consultation
This Governance Policy and Statement was approved by the London Borough of Enfield Pension Policy & Investment Committee following consultation with all the participating employers in the Fund and other interested parties. It will be formally reviewed and updated at least every year or sooner if the governance arrangements or other matters included within it merit reconsideration. In August 2019, this document has been reviewed and updated for Pension Policy & Investment Committee consideration and approval at its meeting of 5th September 2019.

Contact Information
Further information on the London Borough of Enfield Pension Fund can be found as shown below:

Email: pensions@enfield.gov.uk
Website: http://governance.enfield.gov.uk/mgCommitteeDetails.aspx?ID=664

Appendix A

Delegation of Functions to Officers by Enfield Pension Policy & Investment Committee

Key:

PPIC – Pension Policy & Investment Committee
EDR – Executive Director of Resources & Officers
IC – Investment Consultant
PTM – Pensions & Treasury Manager
DF - Director of Finance
FA – Fund Actuary
OAP-Officers & Advisers Panel
IA – Independent Adviser

Function delegated to PPIC	**Delegation to Officer(s)**	**Delegated Officer(s)**	**Communication and Monitoring of Use of Delegation**
Rebalancing and cash management	Implementation of strategic allocation including use of ranges	EDR, DF & PTM (having regard to ongoing advice of the IC, IA, FA and OAP)	High level monitoring at PPIC with more detailed monitoring by OAP and or PTM
Investment strategy - approving the Fund's investment strategy, Investment Strategy Statement and Myners Compliance Statement including setting investment targets and ensuring these are aligned with the Fund's specific liability profile and risk appetite	To formally review the Scheme's asset allocation at least every three year's taking account of any changes in the profile of Scheme liabilities and will assess any guidance regarding tolerance of risk. It will recommend changes in asset allocation to the Pension Policy & Investment Committee	EDR, DF & PTM (having regard to ongoing advice of the IC, IA, FA and OAP)	High level monitoring at PPIC with more detailed monitoring by OAP and or PTM
Monitoring the implementation of these policies and strategies on an ongoing basis.	New mandates / emerging opportunities To consider the Scheme's approach to social, ethical and environmental issues of investment, corporate governance and shareholder activism and recommend revisions to the	EDR, DF & PTM (having regard to ongoing advice of the IC, IA, FA and OAP)	High level monitoring at PPIC with more detailed monitoring by OAP and or PTM

	Pension Policy & Investment Committee.		
Selection, appointment and dismissal of the Fund's advisers, including actuary, benefits consultants, investment consultants, global custodian, fund managers, lawyers, pension funds administrator, and independent professional advisers.	Ongoing monitoring of Fund Managers and Pool Operator Selection, appointment, addition, replacement and dismissal of Fund Managers To evaluate the credentials of potential managers and make recommendations to the Pension Policy & Investment Committee To review the Scheme's AVC arrangements annually. If it considers a change is appropriate, it will make recommendations to the Pension Policy & Investment Committee.	EDR, DF and PTM (having regard to ongoing advice of the IA & IC) and subject to ratification by PPIC	High level monitoring at PPIC with more detailed monitoring by OAP & PTM Notified PPIC via ratification process.
Agreeing the Administering Authority responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.	Agreeing the Administering Authority responses where the consultation timescale does not provide sufficient time for a draft response to be approved by PPIC.	EDR, DF and PTM, subject to agreement with Chairman and Vice Chairman (or either, if only one available in timescale)	PPIC advised of consultation via e-mail (if not already raised previously at PPIC) to provide opportunity for other views to be fed in. Copy of consultation response provided at following PPIC for noting.
Agreeing the Fund's Knowledge and Skills Policy for all Pension Policy & Investment Committee members and for all officers of	Implementation of the requirements of the CIPFA Code of Practice	EDR & DF	Regular reports provided to PPIC and included in Annual Report and Accounts.

the Fund, including determining the Fund's knowledge and skills framework, identifying training requirements, developing training plans and monitoring compliance with the policy.			
The Committee may delegate a limited range of its functions to one or more officers of the Authority. The Pension Policy & Investment Committee will be responsible for outlining expectations in relation to reporting progress of delegated functions back to the Pension Policy & Investment Committee.	Other urgent matters as they arise	EDR, DF and PTM subject to agreement with Chairman and Vice Chairman (or either, if only one is available in timescale)	PPIC advised of need for delegation via e-mail as soon as the delegation is necessary. Result of delegation to be reported for noting to following PPIC.
	Other non-urgent matters as they arise	Decided on a case by case basis	As agreed at PPIC and subject to monitoring agreed at that time.

Appendix B

PRINCIPLE	REQUIREMENT	COMPLIANCE	COMMENT
STRUCTURE	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council	Compliant	The Council's Constitution states that the Pension Policy & Investment Committee is responsible for the management of the Pension Fund
	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Compliant	Trade union representatives and representatives of admitted bodies sit on the Pension Committee.
	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Compliant	A report of the Pension Policy & Investment Committee is presented at the following Pension Policy & Investment Committee. All key recommendations of the Pension Policy & Investment Committee are ratified by the Pension Policy & Investment Committee.
	That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Compliant	All members of the Pension Policy & Investment Committee are also members of the Pension Policy & Investment Committee.
REPRESENTATION	That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include :- • employing authorities (including non-scheme employers, e.g. admitted bodies), • scheme members (including deferred and	Compliant	Trade unions and admitted bodies are represented on the Pension Policy & Investment Committee.

PRINCIPLE	REQUIREMENT	COMPLIANCE	COMMENT
	pensioner scheme members), • independent professional observers, • expert advisors (on an ad-hoc basis).		
	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision-making process, with or without voting rights.	Compliant	Papers for Committee and the Pension Policy & Investment Committee are made available to all members of both bodies at the same time and are published well in advance of the meetings in line with the council's committee agenda publication framework.
SELECTION & ROLE OF LAY MEMBERS	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Compliant	Members of the Pension Policy & Investment Committee/ Pension Policy & Investment Committee have access to the terms of reference of each body and are aware of their roles and responsibilities as members of these bodies/ Panel.
VOTING	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Compliant	Members of the Pension Policy & Investment Committee/ Pension Policy & Investment Committee does not currently confer voting rights on non-Councillors in line with common practice across the local government sector.
TRAINING/FACILITY TIME/EXPENSES	That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Compliant	Regular training is arranged for members of the Pension Policy & Investment Committee. In addition members are encouraged to attend external training courses. The cost of any such courses attended will be met by the Fund.

PRINCIPLE	REQUIREMENT	COMPLIANCE	COMMENT
	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Compliant	The rule on training provision is applied equally across all members of the Pension Policy & Investment Committee.
MEETINGS (FREQUENCY/ QUORUM)	That an administering authority's main committee or committees meet at least quarterly.	Compliant	Meetings of the Pension Policy & Investment Committee are arranged to take place quarterly.
	That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	Compliant	Meetings of the Pension Policy & Investment Committee are arranged to take place quarterly.
	That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Compliant	Union representatives on the Pension Policy & Investment Committee are lay members. Other stakeholders of the Fund are able to make representations at the Annual General Meeting of the Pension Fund.
ACCESS	Subject to any rules in the Council's Constitution, all members of the main and secondary committees or panels have equal access to committee papers, documents and advice that fails to be considered at meetings of the main committee.	Compliant	Panel meeting papers are circulated at the same time to all members of the Pension Policy & Investment Committee/ Pension Policy & Investment Committee.
SCOPE	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Compliant	Pension Policy & Investment Committee considers are range of issues at its meetings and therefore has taken steps

PRINCIPLE	REQUIREMENT	COMPLIANCE	COMMENT
			to bring wider scheme issues within the scope of the governance arrangements.
PUBLICITY	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Compliant	This Governance Compliance Statement is a public document that is attached as an appendix to the annual pension fund report.

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MUNICIPAL YEAR 2019/2020 REPORT NO. 89

MEETING TITLE AND DATE: Pension Policy & Investment Committee 5th September 2019	**Agenda – Part: 1** **Item: 6**
REPORT OF: Director of Finance	**Subject: Quarterly Investment Report for June 2019**
Contact officer and telephone number:	**Wards: All**
Bola Tobun – 020 8379 6879	**Key Decision No:**
E mail: Bola.Tobun@enfield.gov.uk	**Cabinet Member consulted:**

1. EXECUTIVE SUMMARY

This report informs Members of the performance of the Pension Fund and its investment managers for the last quarter.

Over the quarter to 30 June 2019 the Fund posted a positive return of c.3.9%	Over the three-month period to 30 June 2019 all equity markets delivered positive returns in both local currency and sterling terms, except Japanese equities, that posted a negative return in local currency. The Fund outperformed its benchmark by 0.7%. Fund value was £1.223bn, a £42m increase from the March quarter end.
Thirteen mandates matched or achieved benchmark	For this quarter, thirteen mandates matched or achieved returns above the set benchmark. Seven out of twenty mandates underperformed their respective benchmark or delivered a negative return or return below cash return. The underperforming portfolios are Longview, Adams Street, Lansdowne, York, BlackRock Property, BlackRock Index linked and IPPL.
The Fund's investments produced strong returns over the 12-month period	Over the twelve-month period to 30 June 2019, the Fund outperformed its benchmark by 1.83%. For the year to 30 June 2019, Lansdowne generated a significant amount of unrealised loss of -12.8%. Looking at the longer-term performance, the three-year return for the Fund was 1.62% per annum above its benchmark return and for over five year, the Fund posted a return of 9.03% outperforming the benchmark return of 8.57% by 0.46%.
Currency appreciation is a major factor in performance	The appreciation of sterling versus the US dollar over the quarter decreased the value of dollar denominated holdings. The active equity managers have exposures to various currencies as they are all global mandates,
Fund is broadly in line with benchmark weightings	The distribution of the Fund's assets amongst the different asset classes is broadly in line with the strategic benchmark weight, albeit mildly overweigh in equities. The overweight position in equities has helped the fund's performance in recent months.

2. RECOMMENDATIONS

2.1. Members are recommended to note the contents of this report.

3. BACKGROUND

3.1. The Pension Fund Regulations require that the Council establishes arrangements for monitoring the investments of the Fund. It considers the activities of the investment managers and ensures that proper advice is obtained on investment issues.

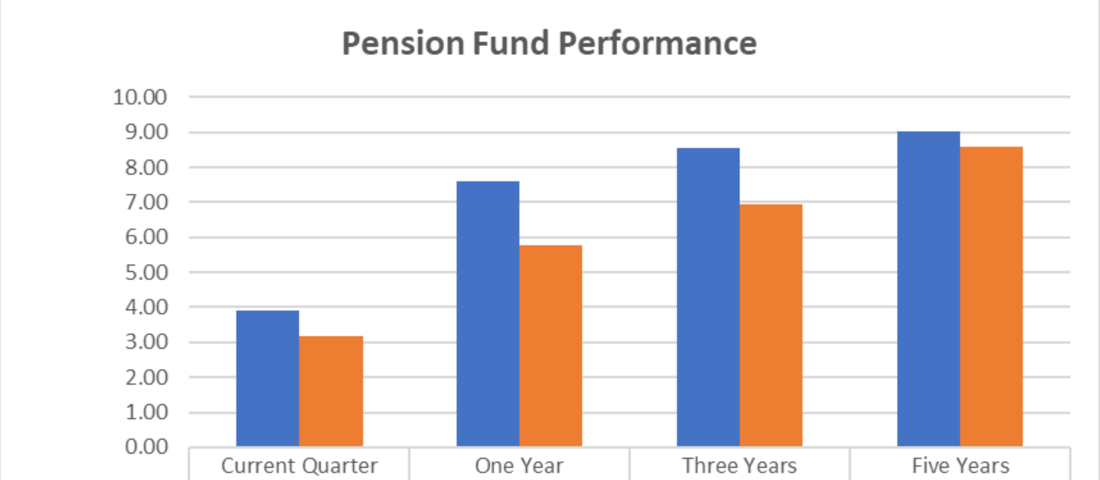
3.2. Officers and fund advisers meet regularly with investment managers to discuss their strategy and performance and if considered necessary may recommend that investment managers are invited to explain further to the Pension Policy & Investment Committee.

INVESTMENT PERFORMANCE

3.3. The overall value of the Fund at 30 June 2019 stood at £1,223.1m which is a substantial increase of £42m from its value of £1,181.3m as at 31 March 2019.

3.4. The fund outperformed the benchmark this quarter by posting a return of 3.89% against benchmark return of 3.19%. The twelve-month period sees the fund also ahead its benchmark by 1.83%.

3.5. Looking at the longer-term performance, the three years return for the Fund was 8.55%, which was 1.62% per annum ahead its benchmark return. Over the five years, the Fund posted a return of 9.03% outperforming the benchmark return of 8.57% by 0.46% per annum, as shown on the graph below.



	Current Quarter	One Year	Three Years	Five Years
Fund	3.89	7.60	8.55	9.03
Benchmark	3.19	5.77	6.94	8.57

3.6. For this reporting quarter, thirteen out of twenty mandates delivered positive return, matched or achieved returns above the set benchmark. The seven mandates posting negative returns or returns that did not meet their benchmarks were mandates with Lansdowne posting -4.1%; Adams Street lagging its benchmark by 7.9%; Longview lagging its benchmark by 2.3%; York, BlackRock Property lagging its benchmark by 0.2%; BlackRock Index linked lagging its benchmark by 0.1%; IPPL lagging its benchmark by 1.8%; and Insight lagging its benchmark by 1.88%.

3.7. For the 12 months to June 2019, five out of seventeen mandates underperformed their respective benchmarks or targets. The mandates that delivered negative returns or underperformed its benchmark/target were LCIV Baillie Gifford, Insight, York, Legal & General and Lansdowne. Lansdowne generated a significant amount of unrealised loss of -12.8% for one year to 30 June 2019.

INTERNAL CASH MANAGEMENT

3.8. Cash is held by the managers at their discretion in accordance with limits set in their investment guidelines, and internally by Enfield Council to meet working cashflow requirements, although transfers can be made to Fund managers to top up or rebalance the Fund.

3.9. The Pension Fund cash balance is invested in accordance with the Council's Treasury Management strategy agreed by Full Council in February 2019, which is delegated to the Executive Director of Resources to manage on a day to day basis within the agreed parameters.

3.10. The cash balance as at 30 June 2019, was £48.689m in short term deposits and money market funds. £25.067m with Goldman Sachs, £18.622m with Northern Trust and £5m with Close Brothers.

CURRENCY ANALYSIS

3.11. The appreciation of sterling versus the US dollar over the quarter decreased the value of dollar denominated holdings.

3.12. The Fund has 7.5% of total assets exposure to the euro, 31.7% to US dollar, 2.0% to yen and 5.5% to other currencies within its portfolio. The active equity managers have exposures to various currencies as they are all global mandates, and AON, the Fund Investment Consultant have approximated the currency exposures based on the geographical split of the underlying investments.

3.13. Adams Street, York and Davidson Kempner are US dollar denominated whilst Antin is euro-denominated. The Lansdowne, CFM, BlackRock, CBRE, Western, M&G Inflation Opportunities, Legal & General, Brockton, Insight and IPPL mandates are assumed to have no direct exposure to foreign currencies as they are either hedged to sterling or are sterling share classes.

3.14. US dollar exposure of 31.7% of the total assets is the largest foreign currency risk for the Fund. For example, a 1% foreign currency appreciation (depreciation), AON approximate that the value of the Funds' US dollar denominated assets will increase (decrease) by £3.9m, Euro denominated assets will increase (decrease) by £0.9m and Yen denominated assets will increase (decrease) by £0.2m.

3.15. It is therefore worth noting that movements in currencies may either contribute to or be caused by factors that move other asset classes. For example, the US dollar may appreciate at times of stress which could coincide with a fall in the value of the Fund's equity holdings.

ASSET ALLOCATION

3.16. The current strategic weight of asset distribution and the Fund's assets position as at 30 June 2019 are set out below:

Asset Class	Strategic asset allocation as at April 2019	Fund Position as at 30 June 2019	Variance as at 30 June 2019
Equities	35.0%	42.0%	7.0%
Private Equities	5.0%	6.0%	1.0%
Total Equities	**40.0%**	**48.0%**	**8.0%**
Hedge Funds	10.0%	8.1%	(1.9)%
Property	10.0%	6.2%	(3.8)%
Infrastructure	6.0%	5.0%	(1.0)%
Bonds	24.0%	21.8%	(2.2)%
Inflation protection illiquids	10.0%	7.3%	(2.7)%
Cash	0.0%	3.6%	3.6%
Total Equities	**100.0%**	**100.0%**	

3.17. The table above indicates the Fund is overweight by 3.6% in Cash and 8% in Equities; but the Fund has underweight position of 3.8% in Property, Bonds and Indexed linked gilts underweight position of 2.2%, Inflation protection illiquid underweight position of 2.7%, Hedge Funds with 1.9% underweight position and Infrastructure with 1%. Officers are consulting with the Fund Advisors for rebalancing possibilities.

3.18. Approximately 15% of the equity portfolio is being managed passively by BlackRock. The remainder is being managed on an active basis, with the largest holding with MFS.

3.19. In aggregate, 7.2% of the Fund's equity portfolio is allocated to Emerging Markets. As at 30 June 2019, the MSCI All Country World Index had a 11.8% exposure to Emerging Markets.

3.20. Asset allocation is determined by several factors including: -

i) The risk profile - there is a trade off between the returns that can be obtained on investments and the level of risk. Equities have higher potential returns, but this is achieved with higher volatility. However, the Fund remains open to new members and able to tolerate the volatility, allowing it to target higher returns, which in turn reduces the deficit quicker and should eventually lead to lower contribution rates by employers.

ii) The age profile of the Fund - the younger the members of the Fund, the longer the period before pensions become payable and investments must be realised for this purpose. This enables the

Fund to invest in more volatile asset classes because it has the capacity to ride out adverse movements in the investment cycle.

iii) The deficit recovery term - Most LGPS funds are in deficit because of falling investment returns and increasing life expectancy. The actuary determines the period over which the deficit is to be recovered and considers the need to stabilise the employer's contribution rate. The actuary has set a nineteen year deficit recovery term for this Council, which enables a longer term investment perspective to be taken.

3.21. Individual managers have discretion within defined limits to vary the asset distribution. The overweight position in equities has helped the fund's performance in recent months.

4. **ALTERNATIVE OPTIONS CONSIDERED**

4.1. There is no alternative unless the Committee on behalf of the Fund do agree to the terms the London CIV agreements and proposal as they are.

5. **REASONS FOR RECOMMENDATIONS**

5.1. The report informs the Pension Policy and investment Committee of the performance of pension fund managers and the overall performance of the Enfield Pension Fund.

6. **COMMENTS FROM OTHER DEPARTMENTS**

6.1 **Financial Implications**

This is a noting report which fulfils the requirement to report quarterly performance of the Pension Fund investments portfolio to the Pension Policy and Investment Committee. There are no direct financial implications arising from this report, however the long-term performance of the pension fund will impact upon pension contribution rates set by this Committee.

6.2 **Legal Implications**

a) The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 govern the way in which administering authorities should manage and make investments for the fund. There are no longer explicit limits on specified types of investment and instead administering authorities should determine the appropriate mix of investments for their funds. However, administering authorities must now adhere to official guidance; broad powers allow the Government to intervene if they do not. Under regulation 8, the Secretary of State can direct the administering authority to make changes to its investment strategy; invest its assets in a particular way; that the investment functions of the authority are exercised by the Secretary of State and that the authority complies with any instructions issued by the Secretary of State or their nominee.

b) The Council must take proper advice at reasonable intervals about its investments and must consider such advice when taking any steps in relation to its investments.

c) The Council does not have to invest the fund money itself and may appoint one or more investment managers. Where the Council appoints an investment manager, it must keep the manager's performance under review. At least once every three months the Council must review the investments that the manager has made and, periodically, the Council must consider whether or not to retain that manager.

d) One of the functions of the Pension Policy & Investment Committee is to meet the Council's duties in respect of investment matters. It is appropriate, having regard to these matters, for the Committee to receive information about asset allocation and the performance of appointed investment managers. The Committee's consideration of the information in the report contributes towards the achievement of the Council's statutory duties.

e) When reviewing the Pension Fund Investment Performance, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector duty). The Committee may take the view that good, sound investment of the Pension Fund monies will support compliance with the Council's statutory duties in respect of proper management of the Pension Fund.

7. KEY RISKS

7.1 Any form of investment inevitably involves a degree of risk.

a) To minimise risk the Pension Policy and Investment Committee attempts to achieve a diversification portfolio. Diversification relates to asset classes and management styles.

b) The monitoring arrangement for the Pension Fund and the work of the Pension Policy & Investment Committee should ensure that the Fund optimises the use of its resources in achieving the best returns for the Council and members of the Fund.

Background Papers

Appendices – The below appendices are attached electronically but not in the main pack.

- Appendix 1 – Northern Trust Performance Review Report
- Appendix 2 – AON Quarterly Report
- Appendix 3 – London CIV Sub-Funds Quarterly Report

MUNICIPAL YEAR 2019/2020 REPORT NO. 90

MEETING TITLE AND DATE:
Pension Investment & Policy Committee
5th September 2019

REPORT OF:
Director of Finance

Contact officer and telephone number:

Gareth Robinson – 020 8379 3018
E mail: gareth.robinson@enfield.gov.uk

Agenda – Part:	**Item: 8**
Subject: ESG & Fiduciary Duties	
Wards:	
Key Decision No:	

Cabinet Member consulted:

1. EXECUTIVE SUMMARY

1.1. The Pension Fund has a fiduciary duty to act on behalf of members of the Pension Fund and an overriding duty to achieve an appropriate risk-adjusted return. However, it may also take into consideration Ethical, Social and Governance (ESG) issues in determining its investment strategy and decisions over individual mandates.

1.2. There is a growing consensus around the impact of climate change requiring faster action than was previously contemplated. It is widely recognised that investment decisions should take this into account. Even the Bank of England has referred to such concerns.

1.3. This paper details the complexities of the fiduciary duties, the options available to members and the financial risks attached to the various options, including divestment, engagement, removing allocations to certain types of investment.

1.4. The paper also reminds Committee members that the Pension Fund makes decisions over the long-term that are in the best interest of the Pension Fund. At the Triennial Review, the Pension Fund has the ability to gradually reshape its investment allocation but it must still seek a prudent approach to achieving its underlying objectives.

1.5. The Council has asked the Committee to review its investment portfolio in light of what it describes as a ‘climate emergency’. This paper recommends key changes that would allow the Pension Fund understand its investments better and strengthen its influence.

1.6. There is a separate paper that details a potential approach to support Committee decision-making on investment decisions that takes into account ESG concerns. However, the paper does note that its passive mandate could be adjusted to a less carbon-intensive version with little tracking error.

1.7. The paper asks that the Fund commissions a professional survey of its members on ESG issues, to support the Triennial Review Process

2. RECOMMENDATIONS

2.1. The Pension Policy & investment Committee is recommended to:

i) Commit to the UK Stewardship Code;

ii) Develop a policy statement regarding the London Borough of Enfield's approach to carbon intensive investment with a view to inclusion as a section within the Fund's Investment Strategy Statement (ISS);

iii) Note options for switching some or all the passive equity mandates into a low carbon target index funds;

iv) Monitor carbon risk within the London Borough of Enfield Pension Fund and to appoint a specialist contractor to conduct a carbon footprint review of the Fund at an estimated cost of between of £5k to £20k.

v) Maintain the current engagement activities which the Local Authority Pension Fund Forum (LAPFF) carry out on behalf of the Fund;

vi) Continue engagement activities with the Fund's and new investment managers/London CIV on their approach to managing transition to low carbon economy and their contribution in dealing with climate change issues when making investment decisions;

vii) Maintain an active approach to climate change issues with investee companies/London CIV and look for further opportunities to work with others on issues of ESG importance.

3. BACKGROUND

3.1 There is increasing pressure being placed on Pension Funds by stakeholders to ensure that ESG factors are considered when making investment decisions. This pressure is coming from lobby groups, other stakeholders, the Bank of England and even the Pensions Regulator has warned that savers face long-term financial risks because trustees are failing to take climate change, responsible business practices and corporate governance into account when making investments.

3.2 There are many facets to responsible investing and they cannot all be covered within the scope this report. The most common term that is used when referring to responsible investment is Environmental, Social and Governance (ESG) Issues. This term is used to describe a group of risks that are explicitly acknowledged and incorporated into the investment research and decision-making process. The below list is some example of factors falling within each category.

Environmental	Social	Governance
Climate Change	Human Rights	Board Structure

Waste & Recycling	Diversity Issues	Employee Relations
Energy Usage/Conservation	Employee Relations	Executive Compensation
Sustainability	Consumer protection	Shareholder rights
Carbon Emissions	Community relations	Vision and Strategy
Supply Chain Management	Animal Welfare	Voting procedures

3.3 For the Committee to make an appropriate legal decision, the new Local Government Pension Scheme Guidance on Preparing and Maintaining an Investment Strategy Statement states in Regulation 7(2)(e) - How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.

3.4 When making investment decisions, administering authorities must take proper advice and act prudently. In the context of the local government pension scheme, a prudent approach to investment can be described as a duty to discharge statutory responsibilities with care, skill, prudence and diligence. This approach is the standard that those responsible for making investment decisions must operate.

3.5 Although administering authorities are not subject to trust law, those responsible for making investment decisions must comply with general legal principles governing the administration of scheme investments. They must also act in accordance with ordinary public law principles, in particular, the ordinary public law of reasonableness. They risk challenge if a decision they make is so unreasonable that no person acting reasonably could have made it.

3.6 The Council (London Borough of Enfield) is the Administering Body of the Pension Fund but the Pension Fund Assets are separate to assets of the Authority. Members of the Council and officers are duty bound to ensure that the actions on behalf of the Pension Fund are not driven by the self-interest of the members and officers or in Council objectives. This does not prevent members from taking into account wider concerns but members and officers need to recognise that they cannot override their fiduciary duties.

3.7 It is also helpful to remember that while the largest employer within the Pension Fund is the Council, it is not the only one. If the other employers felt the Council was not administering the Pension Fund in the best interest of the members, it could be open to legal challenge. The current contribution rate is £26.1m per year, whereas other employers contribute £8.9m per year. Any loss in performance only increases the contribution rate on the Council (and indirectly the savings target). If it could be argued that the poor performance led to higher liabilities and hence larger contribution rates (including on the Council), the Council could face legal challenge.

3.8 The law is generally clear that schemes should consider any factors that are financially material to the performance of their investments, including social, environmental and corporate governance factors, and over the long term, dependent on the time horizon over which their liabilities arise.

3.9 However, the Government has made clear that using pension policies to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries are inappropriate, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

3.10 Although schemes should make the pursuit of a financial return their predominant concern, they may also take purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment to the scheme and where they have good reason to think that scheme members would support their decision. This is the legal risk referred to in paragraphs 3.7 through 3.8.

3.11 Investments that deliver social impact as well as a financial return are often described as "social investments". In some cases, the social impact is simply in addition to the financial return; for these investments the positive social impact will always be compatible with a prudent approach to investing. In other cases, some part of the financial return may be forgone in order to generate the social impact. These investments will also be compatible with the prudent approach providing administering authorities have good reason to think scheme members share the concern for social impact, and there is no risk of significant financial detriment to the fund.

3.12 The extent of investors' fiduciary duty with regards to ESG factors has been the subject of considerable debate in recent years. The Law Commission published a report, 'Fiduciary Duties of Investment Intermediaries', which offered guidance to investors on the circumstances under which they might have a fiduciary duty to consider ESG factors. A recent update to the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2018, although not directly applicable to the LGPS, provided a further steer on the Government's view of the duties of trustees. It is therefore clear that investors are expected to take account of ESG factors where these are financially material and that such a stance should be assumed to be part of any compliant approach to this subject.

Climate change and fossil fuel investments

3.13 The scientific consensus is now 'unequivocal' in their opinion that greenhouse gases emitted as a result of human activities are causing global warming. The global temperature increase we will experience in the coming decades will profoundly impact people's lives and, therefore, our economies. In order to minimise the most damaging consequences, global leaders have agreed to limit the temperature increase to 1.5 – 2°c above the pre-industrial levels. It is an ambitious but achievable target if we can meaningfully shift our methods of generating and consuming energy globally.

3.14 Climate change, and its direct and indirect impact, pose a significant systemic risk for long-term investors. Due to the unpredictable and inconsistent nature of weather patterns, it is difficult to assess the exact level of its impact. The magnitude and likelihood of risks and the scope and scale for solutions are also highly dependent on the policy support for mitigating excess emission levels and adapting to more extreme and changing weather patterns.

3.15 It is widely acknowledged that the “The Stern Review on The Economics of Climate Change”, published in 2006, commissioned by the Chancellor as a contribution to assessing evidence and building understanding, was one of the earliest, most extensive and discussed pieces of research into the impact of climate change on the global economy. The full document runs to 700 pages. Stern concluded that, depending on the range of risks taken into account, climate change could cost the global economy between 5 to 20% of GDP in perpetuity unless action is taken to mitigate global warming.

3.16 In brief some of the key points were:

- Climate change is global in its causes and consequences
- Ignoring climate change will eventually damage economic growth
- All countries will be affected by climate change, but the poorest countries will suffer earliest and most
- Average temperatures could rise by 5°C from pre-industrial levels if climate change goes unchecked and could lead to untold consequences for people in terms of access to water, food and health
- Emissions have been and continue to be driven by economic growth but stabilisation of greenhouse gas is feasible if actions are taking to mitigate without significantly damaging economic growth
- Significant new opportunities could arise across a wide range of industries and services and markets for low carbon energy products are likely to be worth at least $500bn per annum by 2050.
- Collective action could lead to an effective response to climate change, this could include carbon pricing, technology policy, innovation and financing and improvements to energy efficiency. “There is still time to avoid the worst impacts of climate change if strong collective action starts now”.
- “No-one can predict the consequence of climate change with complete certainty, but we now know enough to understand the risks.”

Carbon Tracker Research

3.17 Carbon Tracker is a not for profit financial think tank aimed at enabling a climate secure global energy market by aligning capital market actions with climate reality. Climate tracker has published a number of research pieces, which can be found on their website: http://www.carbontracker.org/

Global Investor Coalition on Climate Change

3.18 Global Investor looked at the issues from the perspective of investors and it is relevant in any discussion on this subject to include a report provided by this group titled: Climate Change Investment Solutions: A Guide for Asset Owners which is included as an appendix to this report.

3.19 The guide is presented in 4 sections each of which sets out a range of suggested actions that asset owners can take.

i) Section 1: Strategic review – Presents actions to integrate climate change into investment beliefs and investment policies that are actionable and transparent.

ii) Section 2: Strategic asset allocation – Discusses actions for measuring and managing the risks and opportunities of climate change, both within the existing asset allocation structure and through evolving the asset mix over time.
iii) Section 3: Mitigation investment actions – Presents actions for reducing the carbon intensity of existing assets, along with opportunities to invest in low carbon, clean energy and energy efficient assets.
iv) Section 4: Adaptation investment actions – Discusses actions to reduce the vulnerability of existing assets to the physical impacts of climate change, as well as building exposure to adaptation opportunities.

3.20 **Investment consultancy firm, Mercer**, has undertaken two studies with a number of partners, including asset owners. These two studies focused on the investment implications for climate change and consider ways that investors should address these issues. The two reports are:

i) Climate Change Scenarios – Implications for Strategic Asset Allocation (2011)

ii) Investing in a Time of Climate Change (2015)

3.21 The most recent study, which is the second study completed in 2015 (*Investing in a Time of Climate Change)* – This study looks to address a number of questions having modelled a number of scenarios and how these might play out in the investment returns that are achieved in various sectors:

a) How big a risk/return impact could climate change have on a portfolio and when might that happen?

i) Climate change, under the scenarios modelled, will inevitably have an impact on investment returns, so investors need to view it as a new return variable.

ii) Industry sector impacts will be the most meaningful. For example, depending on the climate scenario which plays out, the average annual returns from the coal sub-sector could fall by anywhere between 18% and 74% over the next 35 years, with effects more pronounced over the coming decade (eroding between 26% and 138% of average annual returns). Conversely, the renewables subsector could see average annual returns increase by between 6% and 54% over a 35-year time horizon (or between 4% and 97% over a 10-year periods).

iii) Asset class return impacts could also be material – varying widely by climate change scenario. For example, a 2°C scenario could see return benefits for emerging market equities, infrastructure, real estate, timber and agriculture. A 4°C scenario could negatively impact emerging market equities, real estate, timber and agriculture. Growth assets are more sensitive to climate risks than defensive assets.

iv) A 2°C scenario does not have negative return implications for long-term diversified investors at a total portfolio level over the period modelled (to 2050) and is expected to better protect long-term returns beyond this timeframe.

b) What are the key downside risks and upside opportunities and how do we manage these considerations within the current investment process?

i) Key downside risks come either from structural change during the transition to a low-carbon economy, where investors are unprepared for change, or from higher physical damages. In the first instance, under a 2°C, or Transformation scenario, investors could see a negative impact on returns from developed market equity and private equity, especially in the most affected sectors. On the flip side, this scenario would be likely to lead to gains in infrastructure, emerging market equity, and low-carbon industry sectors.

ii) Under a 4°C, or Fragmentation (Higher Damages) scenario, chronic weather patterns (long-term changes in temperature and precipitation) pose risks to the performance of asset classes such as agriculture, timberland, real estate, and emerging market equities. In the case of real asset investments, these risks can be mitigated through geographic risk assessments undertaken at the portfolio level. To embed these considerations in the investment process, the first step is to develop climate-related investment beliefs alongside other investment beliefs.

iii) These can then be reflected in a policy statement, with related investment processes evolved accordingly. The next step is portfolio-oriented activity, including risk assessments, new investment selection/weights and, finally, enhanced investment management and monitoring.

c) What plan of action can ensure an investor is best positioned for resilience to climate change?

i) Investors have two key levers in their portfolio decisions — investment and engagement. From an investment perspective, resilience begins with an understanding that climate change risk can have an impact at the level of asset classes, of industry sectors and of sub-sectors.

Stranded Assets

3.22 Stranded assets are those which suffer unanticipated or premature write-offs, downward valuations, or are converted to liabilities. Assets may become stranded by one-off transformational shifts in valuation, or over time, as a result of appropriate risks not being analysed and priced into the future anticipated value of the assets.

3.23 This stranded asset issue has raised the profile in challenging its managers to take these factors into consideration when investing on behalf of the Fund and to includes questions on manager approaches to ESG when considering new investment mandates.

3.24 It is important to remember that the ‘stranded asset’ factor may already be taken into account within the pricing of the underlying assets. There is equally the possibility that other costs, such as de-commissioning of those same assets has not been. Therefore, it is important that the Pension Fund needs to assure itself that the investment manager has done appropriate due diligence.

Investment Manager Research and Index Providers

3.25 With the increasing emphasis that investors are placing on the risks around climate change, investment managers and index providers themselves are starting to address investor concerns to varying degrees. Some managers have undoubtedly been participating earlier in the debate than others and for some climate change falls under the broad remit of environmental, social and governance (ESG) research.

3.26 The Fund recently asked the fund managers to supply information on their engagement in reducing carbon foot prints of the fund. The intent is that this information will be made available on a quarterly or yearly basis at the Pension Policy and Investment Committee meetings.

3.27 The Fund, through its participation with Local Authority Pension Fund Forum (LAPFF), has supported progress towards an orderly transition to a low carbon economy. This is by actively working with other asset owners, fund managers, companies, academia, policy makers and others in investment industry.

3.28 Officers meet with a wide range of managers on a regular basis to gather intelligence and to explore investment ideas. Some of the managers have assisted officers in building their understanding of the facts, figures and risks around climate change and carbon intensive investments.

3.29 One of the key challenges faced comes from the fact that the Government has mandated Pension Funds to pool their assets to reduce management fees. The London CIV, which is the pool in which the Enfield Pension Fund participates, does not offer sufficient low-carbon products and has not focussed on this area as a priority. However, there are passive equity tracker funds, with a low-tracking error, that are available to the Pension Fund.

3.30 London Borough of Enfield and other London boroughs have already madetheir opinions known to the London CIV on an informal basis. Ultimately, more sub-funds can be created for to achieve such a purpose within the London CIV. For example, the pool's infrastructure sub-fund currently has a 25% target allocation to renewable energy, but this is not good enough for some pension funds that have previously invested in broad infrastructure. Hence LCIV is looking into creating or introducing a dedicated renewable energy sub-fund on their platform. This is because about seven pension funds are seeking to invest independently of the pool into renewable energy funds.

3.31 **Listed below is what other funds are doing:**

i) In June 2015, the Environment Agency Pension Fund committed £280m into the MSCI World Low Carbon Target Index Fund

ii) In July 2015, the London Assembly recommended that the London Pensions Fund Authority (LPFA) change fossil fuel investments to more responsible positions.

iii) In January 2016, Haringey Local Government Pension Fund announced it would shift one-third of its equity funds – equating to about £200m – into the MSCI World Low Carbon Target Index Fund, run by LGIM.

iv) September 2016, Waltham Forest Local Government Pension Fund announced it would “exclude fossil fuels from its strategy over the next five years”.

v) In December 2016, the London Borough of Southwark Pension Fund announced its commitment to sell off its investments in fossil fuels.

vi) In 2017, the London Borough of Islington Pension Fund embarked on a drive to reduce their Fund’s exposure to carbon, by setting goals to reach by the end of April 2022.

3.32 To date none of the above-mentioned Funds are fully divested out of fossil fuels as they realised, divestment is not an available or arguably legally appropriate route to deal with the climate change issue. The committees have shifted their emphasis to go beyond simply divestment from fossil fuels towards thorough decarbonisation of the Fund. This is because decarbonisation goes further, considering the carbon footprint of all the fund’s investments.

3.33 All the above-mentioned Funds had chosen to steadily decarbonise their existing mandates across their Funds and also allocating assets to impact investments such as renewable energy and some other carbon reduction strategy.

3.34 A key distinction should be made between socially responsible investments (SRI) and responsible investment (RI). RI is an approach that considers ESG (Ethical, Social and Governance) factors and considers how the risks posed by the non-sustainability of companies invested in can impact the financial wellbeing of the Fund. Therefore, responsible investment is driven more by how sustainable factors can have financial consequences rather than ethical or moral implications which can be very subjective.

3.35 Currently 40% of the Fund total assets is invested in equity and approximately 15% are held as a passive equity mandates with performance target of tracking the FTSE All Share index. The passive mandates do have c.5% weightings (£9m) in Oil, Gas and consumable fuels as at 30th June 2019.

3.36 The manager, Blackrock, managing Enfield Pension Fund’s passive mandates do have some low carbon products that we can switch into and this would be at a cost. Legal and General Investment Management (LGIM) also have low carbon products. London CIV do have a relationship with these two managers and in the past had negotiated lower fees for Funds with passive mandates with the managers.

Conclusion

3.37 Officers are recommending that the committee should consider an approach of reducing the carbon intensity of the Fund portfolios over time, and this is known as “**portfolio decarbonisation**”. The benefits of this approach include:

i) A portfolio that is less susceptible to increasing carbon pricing, stranded assets and/or related regulation.

ii) Supports the flow of capital to a resilient low-carbon economy and may help to address the market mispricing of carbon.

iii) Produces a market signal that incentivises companies to develop and invest in low carbon and clean technologies, influences policymakers and helps to catalyse a new standard for other institutional investors.

3.38 The alternative to reducing carbon exposure is an exclusionary approach (i.e. fossil fuel free), however:

i) This approach removes the potential to positively influence companies and help them transition to a lower carbon footprint.

ii) The actual reduction in carbon footprint can be lower, as relatively few companies are excluded (typically the big oil and mining companies), whilst companies that make heavy use of these commodities remain in the portfolio.

3.39 The Pension Policy and Investment Committee's foremost concern should always be their fiduciary duty to deliver the best risk-adjusted returns for the members of the pension scheme over the long term. The concern over the potential financial risk posed by carbon-intensive investments would therefore be a key driver of the fund's carbon exposure management agenda.

3.40 At present, the UK and wider global economies remain heavily based on fossil fuels; as we transition to a lower carbon economy, new opportunities will continue to open up. At present, fully restricting fossil fuels from the Fund investment strategy would excessively restrict the Committee investment options in the short-term, leaving it open to legal challenge; fossil fuel divestment is not cost or risk free and the Fund needs to balance the potential long-term benefits of reduction with the risks of increased investment management costs and short to medium term losses. However, as the prevalence of fossil fuels within the wider economy reduces and as the London CIV investment options improve, these risks should also reduce, permitting further reductions in fossil fuel exposure.

3.41 Therefore, to aid with the decision of disinvestment from certain asset class or sectors it is worth looking at returns and risk profile of certain indices and asset class. Hence officers are recommending the Committee should embark on an investment strategy review for the Fund, following the outcome of its latest triennial valuation. This review will incorporate the climate goals when considering changes to the current portfolio asset allocation. The investment strategy review will also consider how the Fund could increase its positive contribution to the transition to a low carbon economy by allocating assets to renewable energy, whilst meeting its own strategic investment requirements.

3.42 Members could consider deploying some allocation or all the current allocation to passive equity investment to a low carbon index or other ESG/quality factor constructed index. This is because an allocation to a Low Carbon Index Target passive global equity fund is expected to reduce the carbon exposure of our Pension Fund compares to a standard global equity benchmark (MSCI ACWI), in some cases to as much as 70% reduction. A separate paper will consider this recommendation.

3.43 Officers are also proposing to include a report in the quarterly monitoring pack which specifically would cover the engagement activities undertaken by LAPFF and the Fund's managers' responses to issues raised. Managers have been challenged and will continue to be challenged on their voting policies and the extent to which they are factoring in ESG in the company selections and increasing their approach to climate change issues.

3.44 In light of these changes, the Investment Strategy Statement (ISS) must be reviewed and revised by the Council as administering authority when any material changes take place such as changes to the investment beliefs; changes to the types of investment held; or the balance between the types of investments in the Fund.

Conclusions

3.45 Set below are plans and indicative timescales for future work on recommendations set in this report as the Fund's approach to management of carbon intensity investments including fossil fuel investment and management of the financial risks posed by climate change.

i) Commit to UK Stewardship Code – For the Committee to agree to become a signatory of the Stewardship Code. The principal aim of the Code is to encourage institutional investors, who manage other people's money, to be active owners and engage with their investee companies to encourage them to act in the interests of their beneficiaries. In the UK context these are primarily shareholders, but UK company law extends corporate responsibilities to wider stakeholders. The Code was revised and updated in September 2016. The seven principles of the Code are that Institutional investors should:

a) Publicly disclose their policy on how they will discharge their stewardship responsibilities.

b) Have a robust policy on managing conflicts of interest in relation to stewardship with this policy being publicly disclosed.

c) Monitor their investee companies.

d) Establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

e) Be willing to act collectively with other investors where appropriate.

f) Have a clear policy on voting and disclosure of voting activity.

g) Report periodically on their stewardship and voting activities.

ii) Develop a policy statement regarding the London Borough of Enfield's approach to carbon intensive companies/investments with a view to inclusion as a section within the Fund's Investment Strategy Statement (ISS), this will both demonstrate a commitment to managing carbon risk and set targets that are both quantifiable and measurable where this is appropriate.

iii) Review the option of switching the Pension Fund's passive equity mandates and the Fund's passive equity mandates are standard market capitalisation weighted index, currently managed by BlackRock which tracks the FTSE All share.

iv) Monitor carbon risk within the London Borough of Enfield Pension Fund and to appoint a specialist contractor to conduct a carbon footprint of the Fund at an estimated cost of between of £5k to £20k. Measuring emissions and climate risks in the portfolio will allow the Fund to establish a base of data from which to examine its investment assumptions and test investment processes. It will also enable the Fund to make an assessment on an ongoing basis as to how its exposure to climate change risks progresses over time. This work can start September 2019 and the initial results could be presented at a future Committee.

v) Continue engagement activities with the Fund's investment managers on their approach to fossil fuel and to promote consideration of climate change issues with managers when making investment decisions. This is an area in which further work will be undertaken over the coming months. Officers have been in contact with some of the Fund's asset managers to request more detailed reporting on environmental issues and will be looking at this in more detail in the near future.

vi) Maintain an active approach to climate change issues with investee companies and look for further opportunities to work with others on issues of ESG importance. The Fund continues to monitor ESG issues through the alerts issued by the LAPFF, a collection of Local Authority funds who, by acting collectively, can apply pressure to the management of companies. LAPFF has previously been involved with voting climate-change related resolutions and has invited its members to co-file. We will co-file these resolutions as part of LAPFF. Where Enfield's holdings in a company are through a pooled fund, a public expression of support will be made.

vii) Commissioning a professional survey of the membership will allow the Pension Fund to understand members' perspectives and will allow for a much more meaningful consultation on ESG matters.

3.46 Officers strongly believe that engagement with fossil fuel companies via organisations such as LAPFF to influence their future strategies should continue alongside the reductions in stock holdings in such companies. Simply selling stocks, whilst reducing the fund's exposure, does not in itself achieve the impact of an overall reduction in the use of fossil fuels. Others will buy the stocks released and they may not wish to engage with the companies in order to influence the move from fossil fuel.

4. ALTERNATIVE OPTIONS CONSIDERED

No alternative

5. REASONS FOR RECOMMENDATIONS

a) The Pension Policy & investment Committee act in the role of quasi trustees for the Pension Fund and are therefore responsible for the management of £1.16 billion worth of assets and for ensuring the effective and efficient running of the Pension Fund. The management of the Fund's investment portfolio and the investment returns that the Fund is able to deliver have significant financial implications, not just for the Fund itself but also on the Fund's employers in terms of the level of contributions they are required to make to meet the Fund's statutory pension obligations.

b) The Fund recognises that investment in fossil fuels and the associated exposure to potential 'stranded assets' scenarios may pose material financial risks. These risks apply not only to the Fund's investment portfolio but also long term global economic growth.

c) In recognising the risks that climate change and stranded assets scenarios could pose to the Fund, the Committee needs to understand where these risks might apply and how they can best be mitigated within the LGPS investment management framework. The recommendations provided on this report are aimed at developing both a greater understanding of the risks and a set of strategies to help mitigate them.

d) The costs involved will very much depend on future investment strategy decisions. Climate change risk will be integrated into the forthcoming new Investment Strategy Statement to ensure that it is considered as part of the Committee's asset allocation decisions, rather than in isolation. Potential costs that could be incurred through development of the recommendations above include additional fees from using low carbon indices; however, any such costs would need to be considered against the potential for risk mitigation and the performance of the mandate.

6. COMMENTS FROM OTHER DEPARTMENTS

6.1 Financial Implications

a) The current Investment Strategy been implemented to maximise returns of Fund's assets within acceptable risk parameters and to facilitate a reduction in the burden of deficit funding that employers in the Fund are liable for.

b) The performance of the Fund's Strategy is monitored through a quarterly report that is presented to the Committee. Recent performance has been good and generally either in line with or exceeded target.

c) A carbon risk audit would highlight the operational carbon footprint and exposure to fossil fuel reserves of the Fund's equity portfolio, setting out where the Fund is most exposed in terms of assets at risk of stranding. This would enable the committee to set a target in line with the revised investment strategy and review this target periodically to ensure that it remained consistent with the risks associated with investment in carbon assets and with the Committee's fiduciary duties.

6.2 Legal Implications

a) The Committee has legal responsibilities for the prudent and effective stewardship of the Pension Fund and a clear fiduciary duty in the performance of its functions. The LGPS (Management and Investment of Funds) Regulations 2016 require Administering Authorities to state the extent to which they comply with the Guidance given by the Secretary of State. In accordance with regulation 7(2)(e) the authority must set out in its Investment Strategy Statement, its policy on how social, environmental and corporate governance considerations are considered in the selection, non-selection, retention and realisation of investments.

b) Updated Statutory Guidance on preparing and maintaining an investment strategy statement was published on the 15th September 2016. Having a policy in place covering the authority's approach to ethical, social and governance issues will enable to authority to meet its statutory duties in this regard. The recommendations discussed in this report are in line with both the Committee's terms of reference and legal responsibilities.

7. KEY RISKS

a) The Fund recognises that investment in fossil fuels and the associated exposure to potential 'stranded assets' scenarios may pose material financial risks. These risks apply not only to the Fund's investment portfolio but also, when considered on a wider scale, to long term global economic growth.

b) In recognising the risks that climate change and stranded assets scenarios could pose to the Fund, the Committee needs to understand where these risks might apply and how they can best be mitigated within the investment management framework within which LGPS funds operate.

c) It is important that members do not let ESG policy objectives do not cloud the legal requirement for focussing on risk-adjusted returns or the Fund (and the Council) might be legally sued.

d) The recommendations provided on this report are aimed at developing both a greater understanding of the risks and a set of strategies to help mitigate them.

Background Papers

(To be email on request)

i) LAPFF Guidance on Fossil Fuel and Stranded Assets

ii) Blackrock – The Price of Climate Change, Global Warming's Impact on Portfolios (October 2015)

iii) Schroders: Global Climate Change Investment Themes

iv) Schroders - Responding to Climate Change Risk in Portfolio Management (February 2015)

v) Schroders - Understanding portfolio carbon foot printing an introduction (October 2015)

vi) MSCI - Beyond Divestment Using Low Carbon Indices (March 2015)

vii) Global Investor Coalition on Climate Change - Climate Change Investment Solutions: A Guide for Asset Owners

viii) Carbon Tracker - How the energy sector is missing potential demand destruction

ix) LGIM climate change policy

x) LGIM - Corporate Governance & Responsible Investment Policy – UK

MUNICIPAL YEAR 2019/2020 REPORT NO. 91

MEETING TITLE AND DATE:
Pension Investment & Policy Committee
5th September 2019

REPORT OF:
Director of Finance

Contact officer and telephone number:

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Agenda – Part:2	**Item: 9**
Subject: Integrating ESG considerations within the Pension Fund Investment Strategy	
Wards:	
Key Decision No:	

Cabinet Member consulted:

1. EXECUTIVE SUMMARY

i) This paper details a broad approach to support Committee decision-making on investment decisions that takes into account ESG concerns.

ii) The paper recommends that the Committee chooses to move a portion of the passive equity allocation to a low-carbon equivalent, the precise portion of which is to be delegated to the Director of Finance

iii) The paper discusses how the ESG concerns could be incorporated within the Investment Allocation Strategy of the Pension Fund and to use the window of opportunity of the Triennial Review to support that process.

2. RECOMMENDATIONS

The Pension Policy & investment Committee (PPIC) recommends

i. Using the survey of its membership on ESG issues, commissioned in a prior paper to support the Triennial Review process

ii. That officers conduct a thorough review of all its investments in a holistic manner at the same time it reviews its investment allocation at the Triennial review

iii. That the Fund switches some or all the passive equity mandates into a low carbon target index fund, the precise amount of which is delegated to the Director of Finance and the Chair of the PPIC

iv. That the Fund works with other Funds within the London CIV to shape the choice of the sub-funds available to ensure it has investment options available with the appropriate risk-adjusted return that take into account the ESG considerations raised by members of the Pension Fund.

v. That officers bring back a draft plan to the PPIC, with timescales on it that reviews the entire Fund and also its investment allocation.

vi. That the Fund considers how its investment portfolio could be de-carbonised, subject to appropriate available investments, and consult with other forward-thinking Pension Funds, such as Islington and Brunel, to find examples of good practice.

3. BACKGROUND

3.1 The Pension Fund is required to achieve the best possible risk adjusted return that it can reasonably achieve. However, it is also allowed to take into accounts ESG (Ethical, Social, Governance) issues, especially, as these issues may represent large risks to that same risk-adjusted return.

3.2 It is important to recognise that there are costs to moving out of investments that may or may not meet ESG concerns and these costs can be as a little as a few basis points (BPs) on the investment to percentages (0.03% on a £100m being £30k to 2% on a similar investment being £2m). It all depends on the original investment terms and conditions. Moving into investments can also be quite expensive, depending on the type of investment.

3.3 Equally, conducting a fire sale can mean moving out of investments that have a 15 or 25-year horizon, which in the case of private equity can mean selling at a significant discount (20% or more potentially).

3.4 Finally, it is worth noting that if the Fund was to have a lower return due to excessive costs, this will feed through into contribution rates, affecting both the Council and other employers. Other employers within the Pension Fund would not wish to fund poor performance and might seek legal action.

3.5 Inevitably, Pension Funds have long-term horizons, as they aim to afford the pension payments to members that may still be coming out of the Fund 75 years from now. In such a long-term horizon, there is a very strong focus on the investment allocation, which gets reviewed in detail every 3 years. Investment allocation, contribution rates and individual investment returns are the pillars upon which overall Fund performance rests.

3.6 There has been a need to review the Fund’s structure for a significant period of time, as it has approximately twice the number of sub-funds as typical Funds of a similar size. Therefore, there is an opportunity to restructure the fund and make a wider change in the individual investments gradually over the next few years to deliver **Portfolio De-Carbonisation**, as was discussed in the previous paper.

3.7 Nonetheless, this is not going to lead to an immediate change in all investments, as there need to be appropriate investments available. Government has mandated that investments are required to be procured through the relevant collective investment vehicle, wherever possible. This is because the economies of scale can and indeed have produced large savings to date for the Pension Fund.

3.8 Equally, over the next six months, the Pension Fund will be using the data from the Pension Fund Triennial valuation to develop the investment allocation.

3.9 Results from the ESG survey, commissioned by the Fund will come back to the Committee during this period. Members of the Pension Fund have already been advised through their Annual Benefit Letter that such a survey will be coming through to them.

3.10 The Pension Fund can use that window of time to review its entire portfolio, investment by investment, so that it not only understands the performance but the ESG implications to each investment.

3.11 The information developed by this work will allow the Pension Fund to determine what each investment building block should contain (number of investments and type). Member input will be supported by training that each member needs to complete. Similarly, officers will be refreshing their knowledge base on specific investment categories to ensure that they are able the decision-making process effectively.

3.12 This will support a measured approach to gradually re-allocate funds as and when appropriate over the coming years, when they do not meet the new investment allocation, without leading to discounted prices due to emergency sales.

3.13 It will also allow the Pension Fund to lobby the London CIV and work with fellow London boroughs for investment options where none currently exist.

Passive Equity

3.14 Some LGPS funds have converted some of their passive Equity funds to low carbon mandate and these portfolios are being managed by BlackRock and LGIM. Low carbon passive strategies are made available with reduced fee arrangements for LGPS funds.

3.15 Officers would work with the fund manager, investment adviser and investment consultant to identify a suitable approach to its passive mandates in an efficient cost-effective manner for the Fund with a view of implementing the appropriate strategy for the Fund in the current calendar year.

3.16 The tracking error for the low-carbon option is very low. Tracking error measures the difference between the performance of a fund and its benchmark.

3.17 Nonetheless, while it is in the list of the recommendations that some of the passive equity monies could be moved into a carbon-friendly option at low-risk, more research needs to be undertaken before the precise amount is determined for the immediate switch. The results of the Triennial Review and the Investment Allocation will support decisions over the remaining passive element.

4. ALTERNATIVE OPTIONS CONSIDERED

No alternative

5. REASONS FOR RECOMMENDATIONS

a) As per the previous report, the Pension Policy & investment Committee act in the role of trustees for the Pension Fund and are therefore responsible for the management of £1.16 billion worth of assets and for ensuring the effective and efficient running of the Pension Fund. The management of the Fund's investment portfolio and the investment returns that the Fund is able to deliver have significant financial implications, not just for the Fund itself but also on the Fund's employers in terms of the level of contributions they are required to make to meet the Fund's statutory pension obligations.

b) It is important that the Pension Fund undertakes decisions in a measured way, that links directly to Investment Strategy.

6. COMMENTS FROM OTHER DEPARTMENTS

6.1 Financial Implications

a) The current Investment Strategy has been implemented to maximise returns of Fund's assets within acceptable risk parameters and to facilitate a reduction in the burden of deficit funding for which employers in the Fund are liable.

b) The performance of the Fund's strategy is monitored through a quarterly report that is presented to the Committee. Recent performances have been good and generally either in line with or exceeded target.

c) The consideration to invest in Low Carbon strategy is to reduce the Enfield Pension Fund exposure to carbon investments.

6.2 Legal Implications

a) The Committee has legal responsibilities for the prudent and effective stewardship of the Pension Fund and a clear fiduciary duty in the performance of its functions. The LGPS (Management and Investment of Funds) Regulations 2016 require Administering Authorities to state the extent to which they comply with the Guidance given by the Secretary of State. In accordance with regulation 7(2)(e) the authority must set out in its Investment Strategy Statement, its policy on how social, environmental and corporate governance considerations are considered in the selection, non-selection, retention and realisation of investments.

b) Updated Statutory Guidance on preparing and maintaining an investment strategy statement was published on the 15th September 2016. Having a policy in place covering the authority's approach to ethical, social and governance issues will enable to authority to meet its statutory duties in this regard. The recommendations discussed in this report are in line with both the Committee's terms of reference and legal responsibilities.

7. KEY RISKS

a) The greatest risk to the Fund is in making overly quick decisions that lead to additional costs and potential legal challenges. It can reduce these by ensuring all members are trained, that it has a clear investment strategy.

b) As in the previous paper, in recognising the risks that climate change and stranded assets scenarios could pose to the Fund, the Committee needs to understand where these risks might apply and how they can best be mitigated within the investment management framework within which LGPS funds operate.

Background Papers
(To be email on request)

i) LAPFF Guidance on Fossil Fuel and Stranded Assets

Appendix 1: Islington Case Study

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LONDON BOROUGH OF ISLINGTON PENSION FUND

August 2019

PENSIONS FOR PURPOSE

www.pensionsforpurpose.com

Highlights

- London Borough of Islington's pension fund serves over 20,000 members and has an investment portfolio of £1.4 billion, some of which has already been pooled and is managed by the London Collective Investment Vehicle (London CIV).
- In 2017, the fund embarked on a drive to reduce the fund's exposure to carbon, by setting goals to reach by the end of April 2022.
- The fund is in the process of decarbonising existing mandates across its portfolio and is now allocating to impact investments in renewable energy.
- It is also considering allocations to social impact investments, specifically social housing.
- Its impact investments reflect risk-adjusted returns similar to those that London Borough of Islington's pension fund would expect from its traditional portfolio.
- The fund measures its carbon footprint and carbon emissions on an annual basis.

Quotes

"In Islington, we believe safeguarding our pensioners' incomes and tackling the global climate emergency go hand in hand. There is no tension between discharging our fiduciary duty and preserving the planet for our members' grandchildren. We're putting our money where our mouth is and taking a series of deliberate, practical steps to decarbonise the fund."

Cllr Andy Hull, Vice Chair of Islington Pension Fund.

Introduction

London Borough of Islington's £1.4 billion pension fund committed to reducing the carbon footprint of its investments in 2017. This followed a discussion by the pension's committee about their investor beliefs, a review of implementation issues and a desire to meet their key goals by the end of April 2022. The fund has also expressed an intention to allocate to social impact investments such as social housing.

Decarbonisation policy goals

The pension fund's decarbonisation policy has now been embedded into its Investment Strategy Statement. The targets and metrics include:

- Reducing the equity allocation's current exposure to carbon (so reducing its carbon intensity) by more than 50%, by the end of April 2022, compared to when it was measured in June 2016.

- Reducing the equity allocation's future exposure to carbon (so reducing its investment in fossil fuel reserves) by more than 75%, by the end of April 2022, compared to when it was measured in June 2016.
- Investing at least 15% of the fund in sustainability-themed investments (such as low carbon technology or green infrastructure) by the end of April 2022.
- Aiming to decarbonise other asset classes, besides equities, where possible.
- Engaging with companies in which the fund invests (including collectively through the London CIV), to urge them to reduce their carbon footprint and their reliance on fossil fuels.

Actions to date

In 2017, the pension fund began its decarbonisation process by shifting half its passive equity allocation across to the LGIM MSCI World Low Carbon Target Index Fund and shifting the other half to an in-house passive portfolio tracking the FTSE UK Low Carbon Optimised Index. This immediately resulted in a dramatic 45% drop in its carbon footprint. The committee then reviewed the actively managed equity portfolios, but since these were already invested in relatively low-carbon companies, these mandates were left unchanged at the time.

In 2018, having transitioned one of the active equity mandates onto the London CIV, as an in-specie transfer, the committee approved a switch from their Allianz sub-fund to the sustainable equity sub-fund offered by RBC. This sub-fund considers environmental, social and governance factors, which should enable the portfolio to deliver, over the long term, a carbon footprint which is lower than that of the MSCI World Index Net (Total Return).

The pension fund also decided to allocate £172 million to infrastructure. A core manager with an ESG focus was appointed (Pantheon), together with a low carbon infrastructure impact manager (Quinbrook).

In 2019, the committee approved a further transfer of their £190 million passive UK equity portfolio (which was already tracking a UK low carbon index) into the global low carbon portfolio already managed by LGIM. The global equity index has a lower carbon footprint than the UK index. This will be put into effect by the end of March 2020.

Why were these investments made?

The pension fund committee's foremost concern has always been their fiduciary duty to deliver the best risk-adjusted returns for the members of the pension scheme over the long term. The concern over the potential financial risk posed by carbon-intensive investments was therefore a key driver of the fund's decarbonisation agenda.

This was reinforced by Islington Labour's manifesto for 2018's local elections. Page 36 of the manifesto states: *"The Council's Pension Fund provides security to Council staff when they retire, and we will always ensure it is maintained and invested prudently. In recent years, responding to our concerns and those of staff and local people, we have worked hard to bring down the carbon footprint of the Fund's shares by 45%. We will go further and will work towards fully divesting the Council's Pension Fund from companies that extract fossil fuels."*

Lessons learnt and challenges

Since the publication of that manifesto, the pension's committee has shifted its emphasis to go beyond simply divestment from fossil fuels towards thoroughgoing decarbonisation of the portfolio. That is because decarbonisation goes further, considering as it does: the carbon footprint of all of the fund's investments, not just its equities; current carbon emissions (eg from shipping companies), not just future ones (eg from oil companies); and all greenhouses gases which contain carbon, such as methane, not just carbon dioxide.

Another challenge has concerned LGPS pooling. The London CIV has had a somewhat limited range of sub-funds available which are consistent with London Borough of Islington's climate goals, although ongoing dialogue with the pool means that a more environmental focus within other sub-funds is now being introduced. For example, the pool's infrastructure sub-fund now has a 25% target allocation to renewable energy.

Next steps

The fund is currently embarking on a strategy review, following its latest triennial valuation. This review will incorporate the climate goals when considering changes to the current portfolio asset allocation.

The strategy review will also consider the opportunities available in social housing, with a view to introducing social impact investment into the portfolio as well as investments with an environmental focus.

About Pensions for Purpose

Pensions for Purpose is an online collaborative initiative to raise awareness of impact investment among pension funds. Our members consist of Influencers (eg. impact managers, trade bodies and consultants) who want to promote the understanding of, and discussion around, impact investment, and Affiliates (eg. asset owners, government bodies, independent advisers and journalists) who want to deepen their knowledge of this important topic. Affiliates are able to register for free, which allows them to access additional, Affiliate-only material and to receive monthly updates of new content posted on the platform. For more information see https://www.pensionsforpurpose.com/.

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