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PENSION POLICY & INVESTMENT COMMITTEE
Thursday, 17 September 2020 at 9.30 am
Virtual - Microsft Teams Meeting

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PENSION POLICY & INVESTMENT COMMITTEE

Thursday, 17th September, 2020 at 9.30 am
Virtual - Microsft Teams Meeting

If you wish to attend this meeting please contact Penelope.Williams@enfield.gov.uk

Membership:

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

AGENDA – PART 1

1. WELCOME AND INTRODUCTIONS (2 MINS)

2. DECLARATIONS OF INTERESTS (3 MINS)

Members of the Council are invited to identify any disclosable pecuniary, other pecuniary or non-pecuniary interests relevant to the items on the agenda.

3. MINUTES FROM THE LAST MEETING (5 MINS) (Pages 1 - 8)

To receive and agree the minutes of the meeting held on the 23 July 2020.

4. PRESENTATION FROM ADAMS STREET (PRIVATE EQUITY) (15 MINUTES) (Pages 9 - 44)

To receive a presentation from Ana Maria Harrison and Sergey Sheshuryak from Adams Street.

5. PRESENTATION FORM MFS (GLOBAL EQUITY) (15 MINUTES) (Pages 45 - 108)

To receive a presentation from Victoria Higley and Elaine Ashton.

6. PRESENTATION FROM LONDON COLLECTIVE INVESTMENT VEHICLE (POOL) (30 MINUTES) (Pages 109 - 136)

To receive a presentation from Rob Hall and Silvia Knott Martin.

A ten minute break will follow this item.

BREAK (10 MINUTES)

7. DRAFT RESPONSIBLE INVESTMENT POLICY AND UPDATE ON MOVING TOWARDS LOW CARBON INVESTMENTS AND A REDUCED EXPOSURE TO FOSSIL FUELS (10 MINUTES) (Pages 137 - 160)

To receive a report from Bola Tobun (Finance Manager – Pensions and Treasury).

8. INVESTMENT STRATEGY REVIEW WALK THROUGH (20 MINUTES) (Pages 161 - 184)

To receive a walk through presentation on the Investment Strategy Review from Aon representatives.

9. QUARTERLY PERFORMANCE REPORT - 30 JUNE 2020 (5 MINUTES) (Pages 185 - 294)

To receive a report from Bola Tobun (Finance Manager Pensions and Treasury)

10. KEY DEVELOPMENTS, ECONOMIC AND MARKET OUTLOOK (5 MINUTES)

To receive a presentation from Aon representatives.

11. ENFIELD PENSION FUND CASH FLOW FORECAST (5 MINUTES) (Pages 295 - 304)

To receive a report from Bola Tobun (Finance Manager – Pensions and Treasury)

12. ANY OTHER BUSINESS (5 MINUTES)

13. DATES OF FUTURE MEETINGS

To note the dates scheduled for future meetings as follows:

- Thursday 26 November 2020
- Thursday 25 February 2021 and
- Thursday 29 April 2021

All meetings to begin at 9.30am

14. EXCLUSION OF THE PRESS AND PUBLIC

To consider, if necessary, passing a resolution under Section 100A of the Local Government Act 1972 excluding the press and public from the meeting for the item of business listed in Part 2 of the agenda on the grounds that it will involve the likely disclosure of exempt information as defined in those paragraphs of Part 1 Schedule 12A to the Act (as amended by the Local Government (Access to Information) (Variation) Order 2006

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Agenda Item 3

MINUTES OF THE MEETING OF THE PENSION POLICY & INVESTMENT COMMITTEE HELD ON THURSDAY, 23 JULY 2020

MEMBERS: Tim Leaver (Chair), Claire Stewart, Ergun Eren, Doug Taylor, Derek Levy & Terence Neville OBE JP.

OFFICERS: Bola Tobun, Finance Manager, Pensions & Treasury
Fay Hammond, Executive Director of Resources
Penelope Williams, Governance & Scrutiny
Metin Halil, Governance & Scrutiny
Elaine Huckell, Governance & Scrutiny Secretary

Also Attending: Councillor Oykener (Local Pension Board)
Daniel Carpenter, AON
Jo Peach, AON

1
WELCOME AND INTRODUCTION

Councillor Tim Leaver welcomed everyone to the virtual meeting which was the first meeting to be held since February. He gave a special welcome to Derek Levy who was a new member to the Committee.

Apologies for absence had been received from Matt Bowmer (Director of Finance) and Carolan Dobson (Independent Advisor)

Daniel Carpenter and Jo Peach were attending from AON and it was noted that their link was for audio only. It was hoped that in future it would be possible for them to view the meetings.

Attention was drawn to the need for the agenda to be circulated in good time to allow members to view all papers prior to the meeting. They must be circulated within 5 working days of the Committee meeting taking place.

2
DECLARATIONS OF INTERESTS

Councillor Oykener declared a non-pecuniary interest as his sister works for the Council.

3
MINUTES FROM THE LAST MEETING

AGREED
The minutes of the meeting of 27 February 2020 were agreed.

Under the ‘Declaration of Interests’ for the last meeting it was stated that Councillor Neville had declared a non-pecuniary interest that a family member

was a Director of a Hedge Fund. Councillor Neville clarified that this referred to his son-in -law.

4
INTERIM INVESTMENT STRATEGY STATEMENT

The Pensions & Treasury Finance Manager introduced this item she spoke to the report which set out a revised timetable for the development of the Fund's 2020 Investment Strategy following the 2019 actuarial valuation.

She highlighted the Investment Strategy Review Timetable shown at Appendix Y of the report.

It was noted that one of the proposals was to consider and approve that the fund reduce its total equity portfolio relative exposure to future emissions from fossil fuel reserves (measured in MtCO2e – million tonnes of CO2 emissions) by 50% in over the next 5 years (September 2025).

Councillor Taylor asked why it was decided to use the targets 50% in 5 years? How was this set of metrics arrived at?
The Pensions & Treasury Finance Manager said it takes time for levels to be reached, for example the LB Hackney have been going through a similar change and after a 3 year period an audit showed that a 40% reduction had been achieved.
She said she thought the targets proposed were achievable and a table could be prepared for the next meeting to show how various funds are progressing. Some local authorities had looked to make similar changes but had not been able to reach the zero- carbon target they had hoped for.

Following discussions, it was agreed that there was a need to determine whether targets /timeframe were reasonable and if targets were 'stretching enough'

Councillor Neville said any costs to the fund to enable ESG targets to be met should be clearly set out. It was noted that our 'investment beliefs' were still under discussion. He asked if there were any other material changes to the statement apart from ESG issues and had they been run by AON. It was noted this had not happened as it was an interim report.

The Chair summarised that this is a strategy and not a map, we would need to have an understanding of the costs involved when we modify the portfolio. The ESG is informing our decision in the same way that a portfolio switch would do between classes, it is difficult to show this until we make the changes.
These could be considered to be arbitrary targets, we need to have a review mechanism – reviewed on a six- monthly basis by the Committee and giving costs involved. Comparability figures for other funds and schemes should be provided to help in this process.

AGREED

1) Noted the timetable for development of the 2020 investment strategy attached as Appendix Y to the report:
2) That the fund reduce its total equity portfolio relative exposure to future emissions from fossil fuel reserves (measured in MtCO2e – million tonnes of CO2 emissions) by 50% in over the next 5 years. (September 2025);
3) To approve the fund measure the reduction relative to the Fund's total equity portfolio position as at 30 September 2019 and adjusted for Assets Under Management (£AUM);
4) To approve the interim Investment Strategy Statement (ISS) attached as Appendix Z of the report
5) Targets would be reviewed at the next Pension Policy & Investment Committee meeting in September using comparability to other funds and schemes. Targets would thereafter be reviewed on a six- monthly basis by the Committee.

5
DRAFT PENSION FUND ACCOUNTS 2019/20

The Committee received the draft Pension Fund Year End Financial Statements for 2019/20 from the Pensions and Treasury Finance Manager.

The Pensions and Treasury Finance Manager highlighted that we were waiting for auditors' approval but that currently no contentious issues had been raised.
Figures given in the report show the Enfield Pension Fund ranking and returns. The update position at the end of March 2020 indicated a weakened funding level position of 96% however due to market volatility this had 'bounced back' by the end of June 2020 and would now be considered to be at approximately 101% to 103% funding level.

Councillor Neville suggested that it would be helpful if future reports could focus on those areas where there were differences/ variances and provide a brief note on each.

Councillor Taylor drew attention to two amendments to be made relating to Note 25 in the Pension Fund Accounts -2019/20 – under 'Governance' it states that Enfield Council has decided that councillors should not be allowed to join the LGPS scheme. Cllr Taylor pointed out that this is the statutory, national position. He also mentioned that he was no longer a Governor of Capel Manor, a scheduled body.

NOTED
1. The contents of the report

AGREED
1. The Committee noted and considered the draft Pension Fund Financial Statements for 2019/20
2. The Committee noted the Enfield Pension Fund ranking and returns as prepared and produced by PIRC (Pensions & Investment Research

Consultants Ltd) UK Local Authority League table for 2019/20, set in section 25 to 28 and appendix B of the report.

The Chair thanked Fay Hammond and her team for their achievements in providing end of year figures in the current circumstances and said he awaits the final sign- off re the Pension Fund Accounts.

6
QUARTERLY PERFORMANCE REPORT - 31 MARCH 2020

The Committee received the Quarterly Performance Report from the Pensions and Treasury Finance Manager.
The Pensions and Treasury Finance Manager highlighted that at the end of March 2020 the Fund stood at £1,169m which was a reduction of £94m from its value of £1,263m as at 31 December 2019. However, by the end of June the position of the fund is £1,266m and has returned to its position as of December 2019.

Councillor Levy voiced his concerns about the high level of cash in the Fund and also on the performance levels of the London Collective Investment Vehicle (LCIV) , (item 8 on the agenda).

NOTED

1. The report

7
KEY DEVELOPMENTS, ECONOMIC AND MARKET OUTLOOK

The Committee received a presentation from Daniel Carpenter and Jo Peach from AON.

The presentation ‘Market Update and June Valuation’ highlighted market reactions as a result of the pandemic including Equities, Bond yields etc and looked at future economic prospects. It gave the latest valuation of our fund assets as at the end of June 2020. An Equity Manager Update was given on Baillie Gifford and Longview. It also provided an update on the Lansdowne Developed Market Fund.

The following key points made

- Markets have bounced back sharply recovering bulk of its losses since the start of the pandemic – unprecedented fiscal and monetary stimulus measures boosted
- Sustainable gains from here look more difficult with valuations looking stretched
- Market appreciation has ruled out scope to add to equity portfolios
- Diversification has paid off during volatile market conditions AON believe it retains an important role in portfolios given the degree of market uncertainty.

Councillor Leaver spoke about the need for caution when facing a potential second wave of the pandemic.
Councillor Taylor spoke about previous expressed concerns from Councillor Levy about the high cash levels in the Fund and whether AON had advice on moving this in the short term.
They responded that there were challenges in terms of cash being at a higher level than normal. We should be mindful that we are still drawing down proceeds to fund mandates over the course of this year. Also there is an upcoming investment strategy review which would look at this. In this environment of increased market volatility need to look at capital preservation for example investing in absolute return bonds or looking at areas such as multi asset credit.

8
LONDON COLLECTIVE INVESTMENT VEHICLE (LCIV) QUARTERLY UPDATE

The Pensions & Treasury Finance Manager presented a report which provided a summary of London Collective Investment Vehicle (CIV) an update of the Company's first Annual Review and the Statutory Report and Financial Statements for the year to 31 March 2020.

NOTED
1. The contents of the report

9
LOCAL GOVERNMENT PENSION SCHEME LATEST DEVELOPMENTS AND UPDATE

The Pensions & Treasury Finance Manager presented a report on the Local Government Pension Scheme Latest Developments and highlighted the following:
- McCloud case – MHCLG consultation proposals
- Impact of Covid 19 and consideration for funds
- Increased cyber risks
- RPI consultation
- Supreme court decision on LGPS

NOTED
1. The report

10
REVIEW OF ENFIELD PENSION FUND BUSINESS PLAN, BUDGET AND PPIC WORK PLAN FOR 2020/21

The committee received this report which reviews the business plan for the Pension fund and presents the budget for the Pension fund for 2020/ 21 along with the outturn for 2019/20.

The Pensions and Treasury Finance Manager highlighted the budget set for next year and the business plan including more workshops to be held on ESG issues. She said the AGM will need to be scheduled in for the end of the year.

Councillor Taylor drew attention to the Business Plan, he understands London CIV have provided local authorities with a schedule of costs and charges which would be useful for members to see, he said some areas were contentious regarding implicit charges. Useful to see how charges calculated. The Pensions and Treasury Finance Manager would arrange for this to be provided.

It had previously been requested that an additional two meetings of the committee be held during the year to allow for shorter meetings. The Pensions and Treasury Finance Manager would discuss this with the Governance team.

Councillor Leaver highlighted

- The need to reforecast our accounts and provide an update for the November/ December meeting. We may need to look at liquidity issues at this time.
- It was necessary to ensure the training opportunities, for example in relation to ESG issues, go ahead.
- Work is needed with the Pension Board to ensure that an AGM goes ahead preferably in November/ December to engage with pension fund members.

AGREED

1. Noted and approved the Business Plan attached as Appendix 1 of the report
2. Noted and approved the revised work plan for 2020/21 attached as Appendix 2 and
3. Noted and approved the Revenue Budget for 2020/21 attached as Appendix 3
4. London CIV schedule of costs and charges to be made available to members

11

REVIEW TRAINING AND DEVELOPMENT POLICY, MEMBER TRAINING NEEDS ANALYSIS AND TRAINING RECORD LOG

AGREED

This item to be postponed to the next meeting.

12

PROCUREMENT OF SERVICES UPDATE

The Pensions & Treasury Finance Manager updated the Committee

AGREED
That the procurement process should continue

13
ANY OTHER BUSINESS

Councillor Neville expressed his concern about Property – the closure of high street shops will have an effect on values and the increased prevalence of working from home may mean that office/ commercial values may drop – we need to be mindful of this as he thought approximately 10% of our assets are in property he asked AON representative for his thoughts on this.

He answered that he shared Councillor Neville's concerns regarding real estate values frozen at the moment with a lag in commercial property values . Also income from rents reducing, in the longer term property still has a role to play but in the short term may be problems and would not suggest an increase in property assets at present.

14
DATES OF FUTURE MEETINGS

It was suggested that the date of the next meeting of the Committee take place on Thursday 17 September 2020 at 9.30am.

The following meeting to be held Thursday 26 November 2020

Dates for meetings for the remainder of the Municipal year to be reviewed to allow for additional meeting.

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London Borough of Enfield

PENSION POLICY AND INVESTMENT COMMITTEE

Meeting Date: 17 September 2020

Subject: Draft Responsible Investment Policy and Update on Moving Towards Low Carbon Investments and a Reduced Exposure to Fossil Fuels

Cabinet Member: Cllr Maguire

Executive Director: Fay Hammond

Key Decision: [ ]

Purpose of Report

1. This report sets out Enfield Pension Fund's Proposed Responsible Investment Policy and an Update on Moving Towards Low Carbon Investments and a Reduced Exposure to Fossil Fuels.

2. The report also outlines the recent decisions made by the Committee, allocating the entire current passive equities portfolio into Low Carbon and also allocating 10% of the total Fund assets to renewable energy and sustainable funds. This is in a determined effort to support transition towards a low carbon economy through positive investment in renewable energy, in line with the recent reports that state that a rapid and orderly transition to other energy sources is increasingly urgent, at the same time meeting the Fund's strategic investment requirements.

3. The Committee will continue to engage with fossil fuel companies via organisations such as LAPFF in order to influence their future strategies with the objective of influencing a wider move from fossil fuels in the world economy.

Proposal(s)

4. The Pension Policy and Investments Committee are recommended to:
   a) consider and note the content of this report; and
   b) consider and note the content of the Draft Responsible Investment Policy attached as Appendix 1.

Reason for Proposal(s)

5. The Pension Policy and Investments Committee act in the role of quasi trustees for the Pension Fund and are therefore responsible for the management of £1.26 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.

6. 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.

7. 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 in this report are aimed at developing both a greater understanding of the risks and a set of strategies to help mitigate them.

8. 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 as a whole.

Relevance to the Council's Corporate Plan

9. Good homes in well-connected neighbourhoods.

10. Build our Economy to create a thriving place.

11. Sustain Strong and healthy Communities.

Background

12. Responsible Investment (RI) is an approach that takes into account ESG 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.

13. 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.

14. The Enfield Pension Fund has not been immune from this ongoing pressure. The Fund has subscribed to an annual review of carbon footprint of the Fund. However, Members are being asked to consider a number of new ways in which they can better integrate ESG factors into the investment decision making.

15. There are many facets to responsible investments, 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

16. The Responsible Investment Policy is set out in Appendix 1 of this paper. The purpose of this policy document is to set out the Fund's approach to how environmental, social and governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.

17. The long term nature of pension funds means that factors that can impact the investments in many years to come have to be considered. There are a number of ways in which pension funds can opt to demonstrate their commitment to ESG ranging from engagement with companies right the way through to divestment. Below is the Fund's current stance in regard to ESG.

ESG obligations of LGPS administering authorities and Fiduciary Responsibility

18. LGPS regulations issued by DCLG in September 2016, requires Investment Strategies of LGPS funds to outline their policy on how ESG considerations are taken into account within investment decision making. This marked a shift in the LGPS as a whole.

- **Regulation 7(2)(e)** requires funds to follow pertinent advice and act prudently when making investment decisions, *"…a prudent approach to investment can be described as a duty to discharge statutory responsibilities with care, skill, prudence and diligence".* They must consider any factors that are financially material to the performance of their investments, including **ESG factors** contemplating the time horizon of the liabilities along with their approach to social investments.

- **Regulation 7(2)(f)**, emphasises that *"administering authorities are encouraged to consider the best way to engage with companies to promote their long-term success, either directly, in partnership with other investors or through their investment managers, and explain their **policy on stewardship** with reference to the Stewardship Code. "*

- *Administering authorities are strongly encouraged to either vote their shares directly or ask their fund managers to vote in line with their policy under the Regulation 7(2)(f) and to publish a report of **voting activities** as part of their pension fund annual report under Regulation 57 of the 2013 Regulations.*

19. The role of the Council as administering authority for the LBE is to maintain, administer and invest the funds and to this end powers have been delegated to the to the Pension Policy and Investment Committee (PPIC). The regulations do not impose any legal obligation on the Committee to take ESG considerations into account. The PPIC acting in a quasi-trustee capacity have to act in a fiduciary manner meaning that they have to act in the best financial interest of the und.

20. According to legal advice obtained by the LGPS Scheme Advisory Board (SAB) and summarised on the SAB website, funds can take ESG factors into consideration provided that pension fund members do not suffer significant financial loss.

21. London Borough of Enfield (LBE) Pension Fund (the Pension Fund) is committed to be a responsible investor and a long-term steward of the assets in which it invests. The Fund has a fiduciary duty to act in the best interests of its beneficiaries and this extends to making a positive contribution to the long-term sustainability of the global environment.

22. The Pension Fund recognises that the neglect of corporate social responsibility and poor attention paid to environmental, social and governance (ESG) issues may lead to poor or reduced shareholder returns. This presents a significant responsibility for the Pension Policy & Investments Committee (the Committee). The ESG approach has become integral to the Fund's overall investment strategy.

23. The Fund maintains a policy of non-interference with the day-to-day decision making of the investment managers. The Committee believes that this is the most efficient approach whilst ensuring the implementation of policy by each manager is consistent with current best practice and the appropriate disclosure and reporting of actions.

24. There are a wide range of ESG issues, with none greater currently than climate change and carbon reduction. The Pension Fund recognises climate change as the biggest threat to global sustainability alongside its administering authority employer, Enfield Council, which has committed itself to achieving carbon neutrality by 2030.

25. Members of the Pension Fund place their trust in the Pension Fund Committee who hold a fiduciary duty to act in the members' best interests and ensure that their pension benefits are fully honoured in retirement. For this reason, as well as targeting investment returns that match the pension liabilities, the Committee is committed to managing the investment risks: the risks that pose a substantial threat to LGPS members' long-term future.

Engagements

26. This involves taking an active interest in the companies and tackling poor ESG standards by challenging management decisions deemed not to be in the best interests of the company. Ideally engagement should be robust with planned outcomes. The London Borough of Enfield is a member of the Local Authority Pension Fund Forum (LAPFF), a collaboration of more than 60 LGPS funds. Their collaboration and engagement are important in managing and mitigating risks associated with investments within the LBEPF's invested companies. Members and Officers attend business meetings. LAPFF identify strategic ESG risks for engagements and have engaged with companies across a number of cross cutting themes and have jointly filed resolutions.

27. Some of LAPFF's engagement includes meeting with Rio Tinto to discuss their climate change report in response to a shareholder issued resolutions they were involved in filing. They have also engaged with Shell and welcomed Shell's move to divest oil sands assets and continue to put pressure on Shell and other oil companies to migrate towards the lower carbon future that is fast approaching.

Voting

28. Equity share ownership in the majority of companies gives investors the right to vote and the LBEPF can use their vote to influence company behaviour. LBEPF has delegated voting to asset managers. The managers the Fund has appointed engage with companies on ESG issues and have detailed voting policies which set out how they will vote. The Fund can also override this by issuing voting direction on advice from the LAPFF.

29. Some funds appoint stewardship firms who assist in formulating a voting policy for the Fund and vote the shares on behalf of the Fund in accordance with the policy. These additional services are likely to be a cost to the fund.

Data

30. Reliable ESG data is important to investors if they are to measure risk and reward of best practice in ESG by investee companies. The key to reliable data is that it should be independent, objective and publicly-sourced.

31. The Companies the Fund invested in usually have ESG scores which is an expression of all its ESG stance and other key factors. These scores can then be aggregated to establish a portfolio score. Numerous underlying factors are obtained from a range of data points. Data vendors are able to acquire and validate underlying ESG company data. ESG scores are one of the metrics used by fund managers to assess the sustainability of investee companies.

32. Data Vendors who provide this information for asset managers can also provide information for underlying Investors who want to acquire and ESG score across their whole portfolio. Obtaining an ESG score across all investments from all asset managers can allow investor to better understand their ESG risk by comparing the Fund's portfolio score to standard market ESG benchmarks.

33. Members are asked to consider whether this is a service they wish to subscribe to or explore further by receiving a presentation at a future meeting.

Climate Change and Fossil Fuel Divestment

34. A number of lobby groups have been pressuring LGPS funds including LBEPF to divest or have a plan to divest from fossil fuels on the basis that coal, oil and gas consumption are contributing heavily to climate change and global warming to which some scientists have attributed responsibility for the increase in the incidence of natural disasters such as storms, floods heatwaves in recent times.

35. LGPS funds have continued to come under criticism for investing in controversial stocks such as oil, tobacco, alcohol producers, gambling firms, and payday lenders. Some local authority including Enfield Pension Fund, the London Boroughs of Islington, Haringey, Southwark and the Environment Agency have committed to reducing their exposure to carbon and some have gone on to state when they expect to be fully divested.

36. However some LGPS funds have opted to retain their investments in companies with significant carbon footprints on the basis that being invested enables them to continue to lobby the companies to reduce their CO2 emissions. The LAPFF working with a group of other investors successfully lobbied Shell to concede to a number of demands on climate change by lodging a shareholder resolution. The cost of immediate divestment will be substantial based on the returns on some of the companies alleged to be ESG offenders.

37. The Pensions Regulator specifically references climate risk in its Defined Benefit investment guidance, stating that 'Most investments in pension schemes are long term and are therefore exposed to long-term financial risks. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance. Despite the long-term nature of investments, these risks could be financially significant, both over the short and longer term'

38. Taking all of the above together, the Committee should consider it appropriate to take climate risk into account as a material financial risk within its investment strategy. The remainder of the paper sets out actions taken by the Committee to address this risk.

Update on Moving Towards Low Carbon Investments and a Reduced Exposure Fossil Fuels

39. Members of this Committee began its in depth consideration of carbon exposure towards the end of 2019. Between October 2019 and February 2020, the Committee members held several strategy meetings to consider in detail the Fund's approach to investment in fossil fuels and management of the financial risks posed by climate change.

40. The recommendations approved at its September 2019 and February 2020 meetings are set out below:

    a) *Consider and approve moving all the Fund's passive equity exposure to track a Low Carbon Index Strategy;*

    b) *Consider options for an initial active investment of approximately 5% of the Fund total assets in a sustainable or fossil fuel free global equity mandate and another 5% of the Fund total assets to be consider for a renewable energy/clean energy fund(s), given the right risk/return profile. Investment in such a fund would demonstrate the Fund's commitment to transition into low carbon economy;*

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

    d) *Consider initiating a programme where the Fund could engage with investee companies (through its managers, the London CIV or possibly directly) on ESG issues;*

    e) *Following the result of the carbon risk audit carried out by Trucost using the Fund valuation position as at 30th September 2019, to consider setting 2 year and 5 year targets to reduce the carbon footprint of the Fund; and*

    f) *Agree to monitor carbon risk annually by using a specialist contractor to conduct and assess the progress being made against the Fund's target to reduce the exposure to future CO2 emissions.*

41. The Committee agreed to move the 15% passive equity portfolios into a Morgan Stanley Composite Index (MSCI) Low Carbon index-tracking target strategy which aims to reduce the carbon exposure of the allocation by some 70%, relative to the broad market index, whilst still expecting to perform broadly in line with the wider market over the long term. The work on this was

delayed due to market volatility brought about by the current global corona virus pandemic. This work is scheduled to be completed in September 2020.

42. The Fund undertook its first carbon risk audit towards the end of 2019, following the recommendation made at the November 2019 meeting to commission a carbon footprint report for the Fund. This analysis was carried out by Trucost, using the end of September 2019 assets data and this audit assessed not only the carbon footprint of the Fund's equity portfolio, but also its exposure to future emissions through fossil fuel reserves.

43. After careful consideration of how carbon risk could best be reduced within the investment management framework in which LGPS funds operate, an appropriate way forward was deemed to be to set a quantifiable, time-bound target for a reduction in the Fund's exposure to future fossil fuel emissions hence the Committee set the below targets:

    i) the Fund to reduce its total equity portfolio relative exposure to future emissions from fossil fuel reserves (measured in MtCO2e – million tonnes of CO2 emissions) by 50% over 5 years (by 30th September 2025)

    ii) measure the reduction relative to the Fund's total equity portfolio position as at September 2019 and adjusted for Assets Under Management (£AUM)

44. The above targets represent an initial step in ensuring that the Fund is prepared for transition to a low carbon economy. It clearly set out the timeframe for decarbonisation and defined how it should be measured.

45. As the target was to be assessed over 5 years, the Committee will need to have an interim audit carried out just after receiving the 2022 formal valuation results to review progress against the target to assist with decision making for the 2023 investment strategy review.

Safeguarding Implications

46. The report provides clear evidence of sound financial management, efficient use of resources, promotion of income generation and adherence to Best Value and good performance management.

47. **Public Health Implications**

48. The Enfield Pension Fund indirectly contributes to the delivery of Public Health priorities in the Borough.

Equalities Impact of the Proposal

49. The Council is committed to Fairness for All to apply throughout all work and decisions made. The Council serves the whole borough fairly, tackling inequality through the provision of excellent services for all, targeted to meet the needs of each area. The Council will listen to and understand the needs of all its communities.

Environmental and Climate Change Considerations

50. Environmental and climate change considerations are all over this report.

Risks that may arise if the proposed decision and related work is not taken

51. Climate change is a key financially material environmental risk. The Committee believe that, over the expected lifetime of Enfield Pension Fund, climate-related risks and opportunities will be financially material to the performance of the investment portfolio. As such, the Committee will consider climate change issues across Enfield Pension Fund and specifically in areas such as Strategic Asset Allocation, Investment Strategy and Risk Management with the aim of minimising adverse financial impacts and maximising the opportunities for long-term economic returns on Enfield Pension Fund's assets.

Risks that may arise if the proposed decision is taken and actions that will be taken to manage these risks

52. Not approving the report recommendations and not adhering to the overriding legal requirements could impact on meeting the ongoing objectives of the Enfield Pension Fund.

Financial Implications

53. Spending time developing the responsible investment policy helps to ensure that the Committee are fulfilling their responsibilities as quasi Trustees of the Fund and that the Fund's investment objectives and policies are clearly set out in line with the Local Government Pensions Scheme (Management and Investment of Funds) Regulations 2016.

54. The development of a robust responsible investment policy helps the Fund to take an ordered and prudent approach to the management of its assets, helping to manage the long term costs associated with the Pension Fund.

Legal Implications

55. 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 taken into account in the selection, non-selection, retention and realisation of investments.

56. 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

Workforce Implications

57. The employer's contribution is a significant element of the Council's budget and consequently any improvement in investment performance will allow the Council to meet this obligation easily and could also make resources available for other corporate priorities.

Property Implications

58. None

Other Implications

59. None

Options Considered

60. The Committee could decide not to have this policy in place but as a long-term investor, committed to investing to build a better future through the integration of ESG issues at all stages of the investment decision-making process and also to gain the trust and pride of members in the governance process and the way in which in the Fund is invested on their behalf. It is therefore important for the Pension Fund to be completely transparent and accountable to members and stakeholders.

Conclusions

61. The Committee is planning to use the next investment strategy review to consider how the Fund could align its strategy with the Enfield climate action plan for 2020 which is agreed at the Cabinet meeting of 15th July 2020 and also to increase its positive contribution to the transition to a low carbon economy by increasing its investment in renewable energy, whilst meeting its own strategic investment requirements.

62. As part of the planned carbon risk audit, the Committee will consider an analysis of its energy exposure against the energy requirements for 2°C and 1.5°C future warming scenarios. This analysis can then be used to consider how the Fund might look to align its exposure to those scenarios.

63. Climate change is a key financially material environmental risk. The Committee believe that, over the expected lifetime of Enfield Pension Fund, climate-related risks and opportunities will be financially material to the performance of the investment portfolio. As such, the Committee will consider climate change issues across Enfield Pension Fund and specifically in areas such as Strategic Asset Allocation, Investment Strategy and Risk Management with the aim of minimising adverse financial impacts and maximising the opportunities for long-term economic returns on Enfield Pension Fund's assets.

64. The Pension Fund will continue to assess investment opportunities that have a positive impact on society as whole. These include but are not limited to, investments in fixed income (green bonds), property, low carbon assets, renewables and social impact opportunities.

65. The Pension Fund views engagement with companies as an essential activity and encourages companies to take position action towards reversing climate change. The Enfield Pension Fund is a responsible owner of companies and cannot exert that positive influence if it has completely divested from carbon intensive producing companies. The Pension Fund will continue to encourage positive change whilst officers will continue to engage with the investment managers on an ongoing basis to monitor overall investment performance, including carbon and other ESG considerations.

66. The Fund expects managers to integrate ESG factors into investment analysis and decision making. Monitoring these effectively can assist with resolving issues at early stages through effective engagement with companies and board members. The Fund expects asset managers where possible to engage and collaborate with other institutional investors, as permitted by relevant legal codes to ensure the greatest impact.

67. The measurement of ESG performance is still developing and benefitting from significant improvements. There are several performance benchmarks and disclosure frameworks that exist to measure the different aspects of available ESG data which include carbon emissions and a variety of social impact scores.

68. The Pension Fund carries out a carbon footprint exercise on its separate portfolios annually via a specialist firm. The outcome of this measurement exercise will be instrumental in ensuring that the fund is able to meet its decarbonisation goals through effective asset allocation.

69. The Pension Fund will continue to work closely with its investment managers to measure the carbon impact of its investments. This will involve developing internal metrics and agreed targets which will be reviewed on a regular basis.

70. Increasingly, there is growing interest in the investment community to develop investment strategies that focus on sustainable investments. As well as the wider investment community, the Pension Fund will support and contribute to the work carried out by the London CIV in the development of sustainable investments.

71. LBE's LGPS members have spent at least part of their careers helping to deliver key services to their community. It is important for them to understand how their Pension Fund is managed and the contribution its investments make in securing a sustainable future. Members are encouraged to take an active interest in the governance processes of their Pension Fund and their views are represented within the work of the Local Pension Board.

72. The Pension Fund will aim to provide members with a variety of information which allows them to easily understand the types of investments within the portfolio.

73. The Pension Fund reports on its overall performance annually through an annual report which is readily accessible to members on the fund's website.

74. Data within the annual report will include investment performance, an assessment of the key performance indicators (KPIs) of the Fund's administrative function and the Fund's assessment of its many risks.

75. The Pension Fund will host an annual general meeting (AGM), following the end of the financial year, which all members and key stakeholders will be invited to attend. Giving them updates on the administration service, investment performance, as well as a market update from an asset manager/investment consultant and a presentation from the Fund actuary.

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Date of report 8th September 2020

Appendices
Appendix 1 – Responsible Investment Policy

Background Papers
None

Appendix 1

London Borough of Enfield Pension Fund Draft Responsible Investment Policy

September 2020

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

RESPONSIBLE INVESTMENT POLICY

1. Introduction

1.1 Responsible Investment is defined by the United Nation's 'Principles for Responsible Investment' document as an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and to generate sustainable, long term returns. The Pension Fund's approach to responsible investment is aligned with the Fund's investment beliefs and recognises ESG factors as central themes in measuring the sustainability and impact of its investments.

1.2 Failure to appropriately manage ESG factors is considered to be a key risk for the Pension Fund as this can have an adverse impact on the Fund's overall investment performance, which ultimately affects the scheme members, employers and local council taxpayers.

1.3 The United Nations has established 17 Sustainable Development Goals (SDGs) as a blueprint to achieving a better and more sustainable future for all. These goals aim to address the challenges of tackling climate change, supporting industry, innovation and infrastructure, and investing in companies that are focused on playing a key role in building that sustainable future.

1.4 The Pension Fund acknowledges that these goals form a vital part of acting as a responsible investor alongside its administering authority, Enfield Council, with the Council having recently committed itself to achieving carbon neutrality by the year 2030.

1.5 The Pension Fund maintains a policy of engagement with all its stakeholders, including those operating in the investment industry. It is broadly recognised that, in the foreseeable future, the global economy will transition from its reliance on fossil fuels to the widespread adoption of renewable energy as its main source. The impact of this transition on the sustainability of investment returns will be continually assessed by officers, advisors and investment managers.

1.6 The Pension Policy & Investments Committee is committed to playing an active role in the transition to a sustainable economic and societal environment. To that extent, the Pension Fund will continue to seek investments that match its pensions liability profile, whilst having a positive impact on overall society. Greater impact can be achieved through active ownership and lobbying for global companies to change and utilise their resources sustainably.

1.7 With these noble objectives at the forefront, it is important to note that the Pension Policy & Investments Committee has a vital, fiduciary duty to act in the best interests of the LGPS beneficiaries to ensure that their pension benefits are honoured in retirement.

Policy Implementation: Selection Process

1.8 The Pension Policy & Investments Committee delegates the individual investment selection decisions to its investment managers. To that extent, the Pension Fund maintains a policy of non-interference with the day-to-day decision-making processes of the investment managers. However, as part of its investment manager appointment process, the Pension Policy & Investments Committee assesses the investment managers' abilities to integrate ESG factors into their investment selection processes.

1.9 This includes, but is not limited to:

a. evidence of the existence of a Responsible Investment policy;

b. evidence of ESG integration in the investment process;

c. evidence of sign-up to the relevant responsible investment frameworks such as the United Nations Principles for Responsible Investment (PRI);

d. evidence of compliance with the Stewardship Code as published by the Financial Reporting Council (FRC);

e. a track record of actively engaging with global companies and stakeholders to influence best practice;

f. an ability to appropriately disclose, measure and report on the overall impact of ESG decisions made.

1.10 As part of its investment selection process, the Pension Policy & Investments Committee will obtain proper advice from the Fund's internal and external advisors with the requisite knowledge and skills. The investment advisor will assess ESG considerations as part of its due diligence process and assess investment managers against the following criteria:

a. for active managers, the advisor will assess how ESG issues are integrated into investment selection, divestment and retention decisions;

b. for passive managers, the investment advisor is aware of the nature of the index construction in the investment selection process places and the proximity of ESG issues in comparison with an active portfolio, but still hold ESG issues in its responsible investment policy as the passive manager actively engages with global companies and stakeholders where appropriate;

c. consideration of whether managers are making most effective use of voting rights and if votes are exercised in a manner consistent with ESG considerations specified by the manager;

d. how significantly managers value ESG issues and whether any specialist teams and resources are dedicated to this area; and

e. how ESG risk assessment is integrated into the portfolio investment selection process and the value and effectiveness of these assessments.

1.11 Investment managers are expected to follow best practice and use their influence as major institutional investors and long-term stewards of capital to promote best practice in the companies/projects in which they invest. Investee companies will be expected to comply with all applicable laws and regulations in their respective markets as a minimum.

Policy Implementation: Ongoing Engagement and Voting

1.12 Whilst it is still quite difficult to quantify the impact of the less tangible non-financial factors on the economic performance of an organisation, this is an area that continues to see significant improvement in the measurement of benchmarking and organisational progress. Several benchmarks and disclosure frameworks exist to measure the different aspects of available ESG data which include carbon emissions, diversity on company boards and social impact. It is apparent that poor scoring on these ESG factors can have an adverse impact on an organisation's financial performance. It is therefore important for the appointed investment managers to effectively assess the impact such factors may have on the underlying investment performance.

1.13 The Pension Fund views active engagement as an essential activity in ensuring long-term value and encourages investment managers to consider assessing a range of factors, such as the company's historical financial performance, governance structures, risk management approach, the degree to which strategic objectives have been met and environmental, governance and social issues.

1.14 Pension Fund officers will continue to engage with the investment managers on an ongoing basis to monitor overall investment performance, including ESG considerations. This can be implemented in several forms which include, but are not limited to:

a. Regular meetings with investment managers to assess investment performance and the progress made towards achieving ESG targets;

b. reviewing reports issued by investment managers and challenging performance where appropriate;

c. working with investment managers to establish appropriate ESG reporting and disclosures in line with the Pension Fund's objectives;

d. contributing to various working groups that seek to positively influence the reporting of industry standards on ESG metrics;

e. actively contributing to the efforts of engagement groups such as the Local Authority Pension Fund Forum (LAPFF), of which the fund is a member (currently 83 LGPS member funds).

1.15 The Pension Fund holds units in pooled equity funds, where our asset managers will have the opportunity to vote at company meetings on our behalf. Engagement with companies can have a direct impact on voting choices and fund manager voting and engagement reports are reviewed on a regular basis.

1.16 The Fund will continue to collaborate with the London CIV on maintaining a shared voting policy for the equity managers on the London CIV platform and actively seek to align these policies with manager insights. Lobbying with other London CIV clients will give the Pension Fund greater control and impact over our voting choices and a centralised process will ensure our voting remains consistent and has the greatest impact.

1.17 The Pension Fund's officers will work closely with the London CIV pool, through which the Pension Fund will increasingly invest, in developing and monitoring its internal frameworks and policies on all ESG issues which could present a material financial risk to the long-term performance of the fund. This will include the London CIV's ESG frameworks and policies for investment analysis, decision making and responsible investment.

1.18 In preparing and reviewing its Investment Strategy Statement, the Pension Fund will consult with interested stakeholders including, but not limited to:

a. Pension Fund employers;

b. Local Pension Board;

c. advisors/consultants to the fund;

d. investment managers.

Policy Implementation: Training

1.19 The Pension Policy & Investments Committee and the Fund's officers will receive regular training on ESG issues and responsible investment. A review of training requirements and needs will be carried out at least once on annual basis. Training is intended to cover the latest updates in legislation and regulations, as well as best practice with regards to ESG integration into the pension fund's investment process.

FOSSIL FUEL DIVESTMENT PRINCIPLES

1.20 This section will specifically address the Fund's principles for the divestment over time of fossil fuel investments: The four key principles for divestment are set out below:

- Fossil fuel risk will be incorporated into the overall asset allocation strategy
- The commitment to reduction in fossil fuel investment is more than a long term risk mitigation strategy.
- Divestment is not risk free.

- Engagement and LCIV

Principle 1: Incorporation into asset allocation strategy

1.21 The primary purpose of the Fund is to meet the pension benefits for the members of the Fund. Every three years the Fund undergoes an actuarial valuation, which estimates the value of pensions due to be paid to members. The result of which allows the Fund to review the asset and investment strategy in order to establish the most appropriate mix of assets to best achieve the required level of net of fees investment return on an appropriate risk adjusted basis, whilst ensuring diversity of assets, sufficient liquidity and appropriate governance of the investments.

1.22 The Fund will seek to fully integrate fossil fuel risk into the investment strategy review process, from overarching asset allocation to individual investment choices. All investments will be considered through the lens of fossil fuel risk, but that any investment cannot be separated from the overall investment objectives for the Fund and must be subject to a full business case in consideration of the overall portfolio as well as fees and transition costs.

Principle 2: More than a long-term risk mitigation strategy

1.23 The Fund has a fiduciary duty to all the employers within the Fund and for the scheme members and as such must manage the investments assets effectively with an investment time horizon in line with the liabilities for the Fund and have due regard to the investment risk inherent within the portfolio

1.24 The Fund recognises the risk that fossil fuel investment places upon the Fund for future investment and as such, this document largely involves the desire to mitigate risk.

1.25 However, purely focussing upon those investments that are negatively exposed to the decline in profitability and viability of fossil fuel extraction and usage excludes a key consideration for the Fund; identifying those investments that are positioned to gain from such a transition.

1.26 The Fund therefore will proactively seek to identify suitable investments that fit within the overall asset allocation strategy and will be the beneficiaries from a low carbon regulatory and investment environment. The Fund will target both a downside risk mitigation strategy and a desire to invest in positive ‘green’ focussed assets.

Principle 3: Divestment is not risk free – Potential for negative implications

1.27 The Fund has sought to operate an uncomplicated and stable investment structure, resisting short term investment decision making. This approach has proved successful for the Fund with strong investment performance over the previous long term. The implementation of a fossil fuel risk mitigation commitment has the potential to complicate investment decision making.

1.28 It is therefore imperative that, as set out in Principle 2, the Fund must seek to incorporate fossil fuel implications into the overarching investment strategy rather than seeking to separately implement fossil fuel risk mitigation approaches.

1.29 The Fund has long held a large portion of equity investments as passive (investments that are held in the same proportion as that of the market as a whole) with a current target allocation of 40%. This approach acknowledges the challenges and typically higher costs involved in seeking to predict future investment winners and losers. The inclusion of a fossil fuel risk mitigation strategy within this leads to a risk that in the short term the Fund may be negatively exposed to overall market returns if fossil fuel based investments outperform the wider market. Global usage of fossil fuels is still predicted to comprise a significant portion of global energy usage in years to come and as such the Fund must be cognisant of the potential investment returns forgone should fossil fuel usage decline at a rate slower than the market has priced in.

1.30 There are likely to be additional management expenses within equity investment mandates that have some element of fossil fuel exclusion. As such the Fund must be confident that the additional risk from holding a portion of the Fund that is exposed to fossil fuels must be considered to be greater than the additional burden of higher management fees and any associated costs of transitioning assets from one mandate to another. It is therefore important for the Fund to collaborate with other local authority partners to work to reduce the costs for such reduced fossil fuel investments.

1.31 The measurement and assessment of which investments are most exposed to fossil fuels is not straightforward. Some companies may hold fossil fuel reserves or operations which are more damaging to the environment as a result of greater CO2 output but that might be paradoxically less exposed to changing regulatory environment due to lower extraction costs. Companies not directly involved in the production or extraction of fossil fuel may derive significant portions of their revenue from fossil fuel companies. The Fund must ensure that any assessment of exposure to fossil fuels risk is sophisticated and investments are not distorted by inaccurate data.

Principle 4: Engagement and Local Authority partnerships – LCIV

1.32 There is growing appreciation of the growing risks and opportunities that Pension Funds face from the transition away from traditional fossil fuel usage, including among Local Government Pension Funds. It is important that the Fund works with other Local Authority partners to share knowledge and best practice as well as utilising collective assets to push for the most effective and efficient implementation of reduced fossil fuel strategies.

1.33 The Fund will work with local authority partners, such as the London Borough of Hackney, Islington, Haringey as well as the LCIV, the pooled investment vehicle of which the Fund is a shareholder and active supporter, in the application of this commitment. The Fund will also seek to be an active voice in the investment community for the advancement of investment outside of fossil fuels.

1.34 The carbon footprint assessment of a portfolio is most commonly applied to listed equities as significant numbers of listed companies publicly report their estimated greenhouse gas emissions using the greenhouse gas protocol standard template for measurement. This allows for greater consistency in comparison between companies and sectors and allows an investor to better understand which elements of the portfolio are the most exposed to fossil fuel risk.

1.35 A key element for this document is to not just focus upon the risk to the Fund from fossil fuels but also to invest in assets that are best positioned to benefit from a low fossil fuel environment. Two companies involved in electricity generation may have a very similar current carbon output; but one has focussed capital spend and research on renewable energy and other 'green' activities. As part of a portfolio assessment, a data provider can analyse the extent to which income for the portfolio is derived from low fossil fuel sources.

1.36 This assessment is easier to perform for listed equities, due to the wider availability of company specific data, but can be extended to analyse other assets classes within the portfolio. The Fund commissioned a full assessment of the greenhouse gas exposure within the Fund equity portfolios on a current output and potential output basis. The results of which will allow the Fund to monitor progress in the reduction of exposure as well as to set meaningful targets for this reduction.

Timeline:

1.37 The Fund's implementation period for fossil fuel reduction is split into three main time horizons, encompassing short medium and long-term objectives.

- The short term: one-five years (2020-2024)
- The medium term: five-ten years (2024–2030)
- The long term: beyond ten years (2030+)

1.38 Given the difficulty in predicting the global investment and technological environment in addition to Fund specific liability and investment requirements, longer term periods will likely be subject to significant variability and uncertainty.

Short Term – From 2020 to 2024

Triennial Actuarial Valuation and Investment Strategy Review

1.39 The Fund published the most recent actuarial valuation in March 2020, the results will be the foundation for the next asset strategy review, to be completed by December 2020. The asset allocation review aims to ensure that the current investment allocation is appropriate to meet the required investment return to fund future pensions within a suitable risk profile. Where investment underperformance is identified or risk profile changes, either

across an asset class or manager specific, any subsequent reallocation will be considered with regard to overall fossil fuel exposure.

Local Authority Collaboration and Pooling

1.40 It is important that the Fund works together with other likeminded local authority partners, e.g. London Borough of Hackney, in order to develop suitable fossil fuel reduction opportunities. Collaboration will also seek to mitigate some of the fee and transition cost implications of changing investment allocation.

1.41 The Fund will engage with the LCIV through representation by officers and members on key LCIV governance panels to push for the availability of reduced fossil fuel investment mandates within the LCIV.

Fund Managers

1.42 Continue work with Blackrock to agree the transition of circa £190m, or circa 15% of the whole fund, to a specific low carbon equity index. This index re-weights investment exposure to those companies with low carbon emissions and low future carbon emissions, whilst minimising divergence from overall market returns. This is estimated to reduce carbon emissions by 70% from existing equity assets.

1.43 The Fund will continue dialogue with MFS Investment Management to ensure that fossil fuel risk is considered as part of stock decision making and that those with significant CO2 output be treated with caution.

1.44 The Fund will use this period to investigate the implications and opportunities in different low carbon equity investments as well as the possibility of deploying 10% of total assets in long-term investments in sustainable technology and alternative energy sources.

General

1.45 The Fund commissioned a carbon footprint assessment for the equity portfolios to analyse the overall exposure across each asset classes to identify the most effective methods to reduce the risk from fossil fuels. This analysis demonstrated the proportion of the Fund, which is positively exposed to low carbon or ‘green’ revenue. Quantifying exposure will allow the Fund to develop meaningful targets for the reduction in fossil fuel exposure over the long term, whilst also identifying the areas of greatest risk within the portfolio.

1.46 The Fund will continue to support the work of the Local Authority Pension Fund Forum (LAPFF) as representing 90 local authority pension funds in their engagement with companies to promote best practice climate aware business activities

1.47 Any changes to investment allocations will need to be communicated with key advisors, such as the Fund actuary, as well as the Fund’s external auditors.

Medium Term – From 2024 to 2030

Triennial Actuarial Valuation and Investment Strategy Review

1.48 The medium term will incorporate the results of the triennial valuation in 2025 and 2028 and will constitute key points for major review of assets and investments to ensure that these are best placed to meet the payment of benefits to members of the scheme. Fossil fuel risks and opportunities incorporated in the consideration for any amendments to the asset allocation strategy.

1.49 The carbon footprint and risk analysis will be re-calculated at each triennial asset allocation review and incorporated into the overall portfolio risk assessment.

Local Authority Collaboration and Pooling

1.50 The Fund is committed to working with the LCIV and will seek to comply with the Government requirements for pooled investments. Over the course of this period the proportion of assets under the control of the LCIV will increase significantly, which may limit the availability of reduced fossil fuel investment mandates. Therefore, the Fund will continue to seek to exert influence over the strategic direction of the available investments within the LCIV, alongside other local authority partners, to ensure that these are appropriate for the sustainable strategy that the Fund wishes to implement. The opportunity for reduced fossil fuel or sustainable investment in multi asset mandates will likely develop as part of continued engagement between the Fund and other likeminded members of the LCIV.

Fund Managers

1.51 Continued engagement with fund managers to ensure that fossil fuel risks and opportunities are consistently and appropriately taken into consideration throughout the decision making process.

General

1.52 The Fund will continue a policy of engaging with companies through membership of the LAPFF and the LCIV to encourage companies to adopt the highest of standards with regard to fossil fuels and energy efficiency.

1.53 The Fund will be able to measure progress made against targets for the proportion of investments exposed to low carbon or green revenues and the overall carbon exposure of the Fund. In the event that elements of the portfolio should be changed then subject to business case and appropriate due diligence, any change in portfolio must be considered in light of the overall investment strategy with regard to fossil fuels.

Long Term: 2030 onwards

Triennial Actuarial Valuation and Investment Strategy Review

1.54 The Fund will continue to assess the overall investment strategy as required to meet the pension benefits for members based upon the calculations within

the triennial actuarial valuations. As and when asset and manager allocations require amending, the risk of fossil fuel exposure will be incorporated into any due diligence regarding risk and reward decision making.

Local Authority Collaboration and Pooling

1.55 In the long term, the vast majority of assets will be invested through the LCIV so ensuring the availability of suitable opportunities within the LCIV will be key for the continued reduction in fossil fuel investments as well as positioning the Fund to benefit from clean technology and low carbon industries. This will allow the Fund to invest across a variety of disparate asset classes without compromising the ambition to be a long-term sustainable investor.

Fund Managers

1.56 Most of this engagement will be exercised through the LCIV pooled investment vehicle.

General

1.57 The Fund will fully incorporated fossil fuel risk, through regular and sophisticated monitoring and portfolio analysis into the investment decision making process. Carbon reduction targets as part of the overall portfolio will play a key role in the increasing percentage of investment assets within sustainable or low carbon income sources.

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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London Borough of Enfield

PENSION POLICY AND INVESTMENT COMMITTEE

Meeting Date: 17 September 2020

Subject: Quarterly Investment Report for June 2020

Cabinet Member: Cllr Maguire

Executive Director: Fay Hammond

Key Decision: **[ ]**

Purpose of Report

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.

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.

Proposal(s)

3. Pension Policy and Investments Committee are recommended to note the contents of this report.

Reason for Proposal(s)

4. 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.

5. **Relevance to the Council's Corporate Plan**

6. Good homes in well-connected neighbourhoods.

7. Build our Economy to create a thriving place.

8. Sustain Strong and healthy Communities.

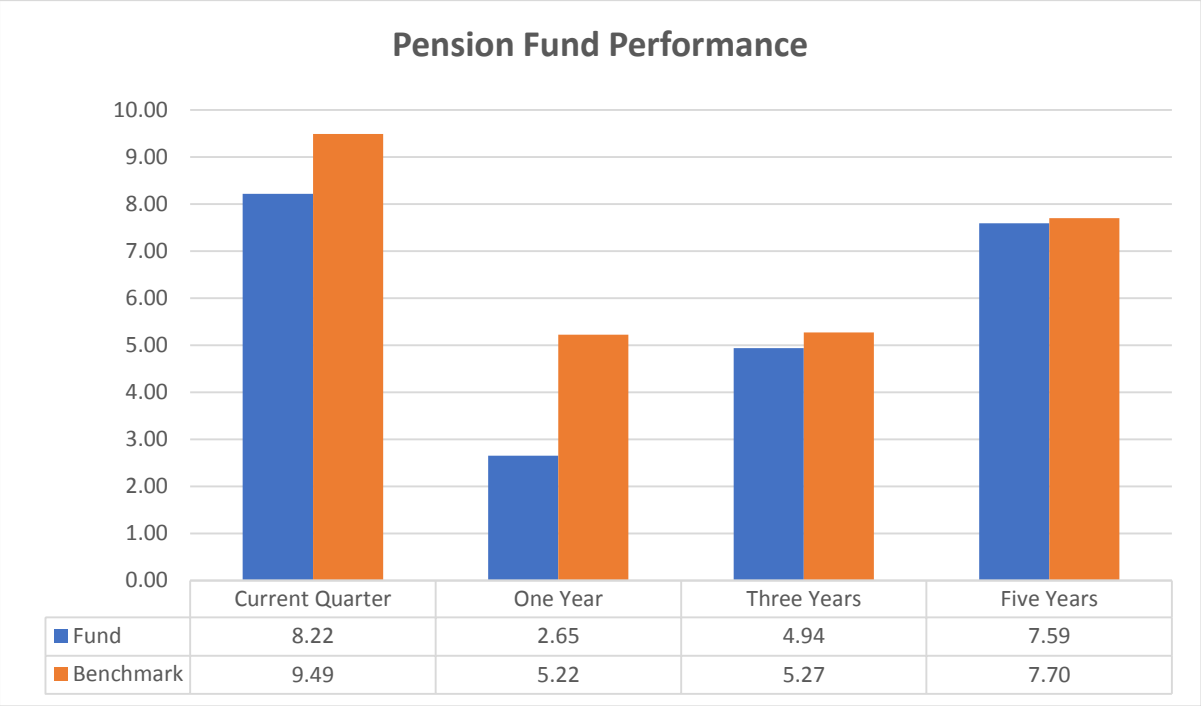
Background

INVESTMENT PERFORMANCE

9. The overall value of the Fund at 30 June 2020 stood at £1,266m which is a significant increase of £94m from its value of £1,169m as at 31 March 2020. This reduction was because of the Covid-19 outbreak that turned into a global pandemic. And brought about global equities selling off sharply after reaching all-time highs in mid-February.

10. The fund underperformed the benchmark this reporting quarter by posting a return of 8.22% against benchmark return of 9.49%. The twelve-month period sees the fund behind its benchmark by -2.56%.

11. Looking at the longer-term performance, the three years return for the Fund was 4.94%, which was -0.33% per annum behind its benchmark return. Over the five years, the Fund posted a return of 7.59% underperforming the benchmark return of 7.70% by 0.11% per annum, as shown on the graph below.



12. For June quarter end, most of the equity portfolios bounced back delivering returns matching their respective benchmarks or outperforming the respective benchmarks except MFS and Longview underperforming their respective benchmark relatively by -1.79% and -5.22%.

13. Twelve out of twenty-one mandates delivered returns, matching or achieving returns above the set benchmark. The seven mandates lagging the set benchmark for the quarter were Lansdowne by -1.08%, MFS by -1.79%, M & G by -3.48%, LCIV Longview -5.22%, Davidson Kempner by -5.87, Adam Street -28.77% and York Capital by -29.4%.

14. For the 12 months to June 2020, twelve out of twenty-one mandates underperformed their respective benchmarks or targets. The mandates that delivered negative returns or underperformed its benchmark/target were LCIV Henderson, LCIV Longview, LCIV CQS, Western, CFM Stratus, MFS, Blackrock UK Property, Insight Bonds, York Capital and Lansdowne. The following portfolios generated significant amount of unrealised losses for one year to 30 June 2020; LCIV CQS with -5.84%, Insight with -6.82%, LCIV Longview by -9.26%, Lansdowne with -20.54% and York Capital with -47.94%.

INTERNAL CASH MANAGEMENT

15. 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.

16. The Pension Fund cash balance is invested in accordance with the Council's Treasury Management strategy agreed by Full Council in February 2020, which is delegated to the Executive Director of Resources to manage on a day to day basis within the agreed parameters.

17. The cash balance as at 30 June 2020, was £53.961m in short term deposits and money market funds. £35.962m with Goldman Sachs and £17.998m with Northern Trust.

CURRENCY ANALYSIS

18. The depreciation of sterling versus the US dollar over the quarter increased the value of dollar denominated holdings. The Fund has exposure to the euro, US dollar, yen and other currencies within its portfolio.

19. At this reporting quarter, the Fund has 6.3% of total assets exposure to the euro, 33.6% to US dollar, 2.3% to yen and 4.6% to other currencies within it. 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.

20. Adams Street, York Capital 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, LCIV MAC 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.

21. US dollar exposure has increased by 1% to 33.6% of the total assets and still representing the largest foreign currency risk for the Fund. For example, a 1% foreign currency appreciation (or depreciation) for the Funds' US dollar denominated assets will increase (or decrease) by £4.3m, and for Euro denominated assets in the Fund, this will effect an increase (or decrease) by

£0.8m and for Yen denominated assets this will effect an increase (or decrease) by £0.3m.

22. 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

23. The current strategic weight of asset distribution and the Fund's assets position as at 30 June 2020 are set out below:

Asset Class	Strategic asset allocation as at April 2019 (%)	Fund Position as at 30 June 2020 (%)	Variance as at 30 June 2020 (%)	Variance as at 30 June 2020 (£m)
Equities	35.0	40.5	5.5	69.12
Private Equities	5.0	5.8	0.8	9.62
Total Equities	**40.0**	**46.2**	**6.2**	78.75
Hedge Funds	10.0	8.1	(1.9)	(23.93)
Property	10.0	5.9	(4.1)	(51.53)
Infrastructure	6.0	5.6	(0.4)	(5.06)
Bonds	24.0	22.1	(2.0)	(24.69)
Inflation protection illiquid	10.0	7.8	(2.2)	(27.3)
Cash	0.0	4.3	4.3	53.96
Total Equities	**100.0**	**100.0**		

24. The Fund has underweight position of 4.1% in Property, 2% underweight position in Bonds and Indexed linked gilts, 2.2% underweight Inflation protection illiquid and 1.9% underweight position in Hedge Funds. with 0.4% underweight position in Infrastructure and with 0.8% overweight position with Private Equities. There is a need for assets rebalancing to their strategic weights, the consideration for this will be included in the upcoming investment strategy review for the Fund.

25. The Fund triennial valuation result was very favourable with an outcome of 103% funding level. This means as at 31st March 2019 valuation, the Fund is in surplus. The outcome of Enfield Pension Fund of 103% funding level has put the Fund in a favourable position and it is worth noting that the strong 2016-2019 asset performance was due to high exposures to (strongly performing) overseas equities.

26. The next step, is for the Fund Investment Consultant to carry out an investment strategy review, incorporating the Fund's new investment beliefs. Bearing in mind that the high recent asset growth also leads to lower return expectations hence higher primary contribution.

27. 15% of the equity portfolio is being managed passively by BlackRock. The remainder is being managed on an active basis, with the largest share of 9.6% with MFS, followed by 7.5% with LCIV Baillie Gifford, 6% with LCIV Longview and 2% in LCIV EM.

28. As at 30 June 2020, the MSCI All Country World Index had a 12.2% exposure to Emerging Markets and in aggregate, the Fund's equity portfolio has £67.4m, a reduction in value by £44m compared to 31 March 2020 valuation of £23.4m. At this quarter end c.5% of the total assets are invested in Emerging Markets.

29. 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 / the surplus amortisation period - Most LGPS funds are fully Funded or almost 100% funded because of great investment returns but being tampered mildly by 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. For 2019 valuation, the actuary used 16 years as the target of reducing the funding ratio, to illustrate the surplus amortisation.

30. 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.

Safeguarding Implications

31. The report provides clear evidence of sound financial management, efficient use of resources, promotion of income generation and adherence to Best Value and good performance management.

Public Health Implications

32. The Enfield Pension Fund indirectly contributes to the delivery of Public Health priorities in the borough.

Equalities Impact of the Proposal

33. The Council is committed to Fairness for All to apply throughout all work and decisions made. The Council serves the whole borough fairly, tackling inequality through the provision of excellent services for all, targeted to meet the needs of each area. The Council will listen to and understand the needs of all its communities.

Environmental and Climate Change Considerations

34. There are no environmental and climate change considerations arising from this report.

Risks that may arise if the proposed decision and related work is not taken

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

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

37. 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.

Risks that may arise if the proposed decision is taken and actions that will be taken to manage these risks

38. Not noting the report recommendations and not adhering to the overriding legal requirements could impact on meeting the ongoing objectives of the Enfield Pension Fund.

Financial Implications

39. 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.

Legal Implications

40. 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.

41. 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.

42. 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.

43. 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.

44. 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.

Workforce Implications

45. The employer's contribution is a significant element of the Council's budget and consequently any improvement in investment performance will allow the Council to meet this obligation easily and could also make resources available for other corporate priorities.

Property Implications

46. None

Other Implications

47. None

Options Considered

48. There are no alternative options.

Conclusions

49. The Fund assets increased by £97m over the quarter to 30 June 2020 the Fund posted a return of 8.2%. All Equity markets delivered positive returns in both local currency and sterling terms. The Fund underperformed its benchmark by -1.27%.

50. For this quarter, twelve out of twenty-one mandates delivered returns, matching or achieving returns above the set benchmark. The seven mandates lagging the set benchmark for the quarter were Lansdowne by -1.08%, MFS by -1.79%, M & G by -3.48%, LCIV Longview -5.22%, Davidson Kempner by -5.87, Adam Street -28.77% and York Capital by -29.4%.

51. Over the twelve-month period to 30 June 2020, the Fund underperformed its benchmark by -2.56%. For the 12 months to June 2020, twelve out of twenty-one mandates underperformed their respective benchmarks or targets. The following portfolios generated significant amount of unrealised losses for one year to 30 June 2020; LCIV CQS with -5.84%, Insight with -6.82%, LCIV Longview by -9.26%, Lansdowne with -20.54% and York Capital with -47.94%.

52. Looking at the longer-term performance, the three-year return for the Fund was 0.3% per annum above its benchmark return and for over five years, the Fund posted a positive return of 7.6% underperforming the benchmark return of 7.7% by -0.11%.

53. The distribution of the Fund's assets amongst the different asset classes is broadly in line with the strategic benchmark weight, albeit there is a need to rebalance the assets and equities is mildly overweight. The overweight position in equities has helped the fund's performance in recent months.

54. Uncertainty around the impact of Coronavirus on the future of the real estate and infrastructure markets has created difficulties in pricing illiquid assets. In turn, most property fund managers have suspended dealing, to protect investors and avoid having to liquidate assets at potentially highly marked down prices.

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Date of report 7th September 2020

Appendices – To be attached electronically but not in the main printing pack.

Appendix 1 – AON Quarterly Report
Appendix 2 – London CIV Sub-Funds Quarterly Report

Background Papers
None

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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of the Local Government Act 1972.

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London Borough of Enfield

PENSION POLICY AND INVESTMENT COMMITTEE

Meeting Date: 17 September 2020

Subject: Enfield Pension Fund Cashflow Forecast 2020/21 to 2022/23

Cabinet Member: Cllr Maguire

Executive Director: Fay Hammond

Key Decision: [ ]

Purpose of Report

1. This report provides the Committee with the review of the Enfield Pension Fund's cashflow following the changes to the Council's contribution rate as a result of the 2019 valuation and with the added volatility that COVID-19 outbreak brings.

2. This report also presents the budget for the Pension Fund for 2020/21 along with the outturn for 2019/20. It considers income and expenditure from various sources and the impact on these for the Pension Fund in the next financial year.

3. The London Borough of Enfield Pension Fund is open to new entrants however it is maturing fast; hence this report is an update on the Pension Fund's projected cash flow forecast for 2020/21 to 2022/23. The Fund is projecting a £0.930m projected deficit on its income and expenditure at the end of the financial year without any cash draw down from investments. The Fund is expecting a projected cash short fall in 2021/22 and 2022/23 as the Fund expenditure exceeds the income from contributions.

4. The Executive Director of Resources is the Section 151 Officer and therefore has a statutory responsibility for the proper financial affairs of the Council including Fund matters.

5. The London Borough of Enfield Pension Fund represents an asset to the Council in terms of its ability for attracting and retaining staff who deliver services to residents. The review of the cashflow should lead to more effective management of the Fund.

6. A significant element of the Council's budget is the employer's contribution to the Fund. Therefore, any improvement in the efficiency of the Fund that leads to improvement in investment performance or cost savings will likely reduce contributions from the Council and release funds for other corporate priorities.

Proposal(s)

7. Pension Policy and Investments Committee are recommended to:

   a) note and approve the Revenue Budget for 2020/21 (Appendix 1); and

   b) note the cashflow forecast from operational activities for 2021/22 and 2022/23 attached as Appendix 1.

Reason for Proposal(s)

8. The London Borough of Enfield Pension Fund is part of the wider Local Government Pension Scheme LGPS). The Scheme as with other LGPS schemes is funded and distinct from 'pay as you go' schemes which are unfunded.

9. The Fund receives contributions and investment income from current members, employers and fund assets which is used to pay benefits as they fall due. Consequently, one of the main objectives of the Fund is to ensure that sufficient funds are available to meet all benefits as they fall due for payment. However, this objective may be jeopardised if the Fund does not maintain sufficient liquidity. The Pension Policy & Investments Committee is charged with meeting the duties of the Council in respect of the Pension Fund.

Relevance to the Council's Corporate Plan

10. Good homes in well-connected neighbourhoods.

11. Build our Economy to create a thriving place.

12. Sustain Strong and healthy Communities.

Background

13. For a number of years, the Pension Fund has received considerably more in contributions than it has paid out in benefits and has therefore experienced strong positive cashflow. Despite ongoing budgetary pressures, active membership has increased thanks to Auto-enrolment and a shift from temporary to permanent staff contracts, whilst the Council's contribution rate has remained consistent. During 2019/20, contributions received exceeded benefits paid by £7.064m, which is relatively consistent with previous years.

14. The outcome of the most recent (2019) valuation has been a reduction in the Council's contribution rate from 22.8% to 20% for 2020/21 to 2022/23. Contribution rates beyond this point will depend on the outcomes of future valuations.

15. Additionally, ongoing reductions to the Local Government settlement mean that the Council remains under considerable financial pressure; whilst officers

of the Fund are not currently aware of large scale plans for staff reductions, it is prudent to consider that these may be possible.

16. Although the scheme remains open, LGPS funds are beginning to mature, with increasing numbers of pensioners relative to their active membership. Large number of LGPS Funds are now cashflow negative, with many more predicted to become so in the short to medium term. The Fund's contribution rate is at the lower end of those paid by the LGPS. However, given the ongoing budgetary pressures and planned contribution rate reductions over the next 3 years, it is appropriate to consider cashflow planning in the medium term, to ensure likely notable reductions in the Fund's cashflow are anticipated and plans made accordingly.

17. Increasing scheme maturity and reduced cashflows often necessitate changes to investment strategy. As open schemes, often with substantial deficits, LGPS Funds have tended to use strategies focused on growth, maintaining high allocations to equities. However, this is beginning to change, as deteriorating cashflows require an increased focus on income, to avoid becoming a forced seller of assets. Forward planning is therefore essential to ensure that any necessary changes are made in timely and orderly manner.

PENSION FUND REVENUE ACCOUNT

18. Members are requested to note the pension fund's Revenue Account position and approve the proposed budget for 2020/21 set out in Appendix 1.

19. **2019/20 Actual expenditure -** The estimates for the Pension Fund can be difficult to predict because of the uncertainty surrounding a number of aspects such as transfer values, death grants, and volatility in investment markets. Total expenditure of £45.2m was budgeted for in 2019/20; the actual amount as at 31st March 2020 was £49.2m. This indicates an increase in payments.

20. **2019/20 Actual income** – Total income of £49.5m was budgeted and £49.2m was received as at 31st March 2020. £45.9m budget has been set for 2020/21, as the result of 2019 triennial valuation brought about a decrease of some 4% on employer contributions.

21. **2020/21 Proposed Budget –** As indicated above, the budget can be difficult to predict however the following paragraphs set out some of the assumptions behind the proposed 2020/21 budget estimates set out in Appendix 3.

a) Contribution Receivable

The budget figure is based on 2019/20 activity levels using the contribution rate as stipulated by the actuary plus a 2.5% to reflect the pay award for 2020/21. The Fund is in surplus and there is an overall reduction of some 4% in respect of employers' contribution hence contribution value for 2020/21 is less.

b) Transfer Values In

The level of transfers of staff in and out of the fund is not subject to control by the Council. Transfer values vary significantly depending on length of service, salary and can be either payable or receivable by the authority. It is not possible to make reliable forecasts of the financial effect of transfer activity.

c) Benefits Payable

For 2020/21, the budget figure is based on 2019/20 activity levels with a 1% Pensions Increase plus a year on year increase in the number of pensioners by 2% has been applied.

d) Payments to account of leavers

The level of transfers of staff in and out of the fund is not subject to control by the Council. Transfer values vary significantly depending on length of service and salary and can be either payable or receivable by the authority. It is not possible to make reliable forecasts of the financial effect of transfer activity.

e) Administrative and other expenses borne by the scheme

These costs are estimated on the basis of planned workloads with a 3.5% allowance for inflation. Costs include officers' time, the cost of provision of accommodation and IT facilities, bank charges, training for officers and members of the pension committee and pension board and professional advisers' fees.

f) Investment Income

Investment Income is assumed at 4% on average assets valuation of £1.1 billion and over *3/4* will be subsequently re-invested by the Fund Managers and also investment income is subjected to tax. This was further reduced based on declaration of some organisations declaring no dividends payments.

g) Change in Market Value of Investments

An investment of £1,168m is assumed to decrease by 10% due to assumed correction of asset price forecast for 2020/21. (As the economists has been saying that we are in uncharted waters). Prices for sovereign, corporate and high-yield bonds and equities are at, or near, record levels. The ultralow interest rates policy and the massive quantitative-easing programmes of the G3 central banks (the US Federal Reserve, the European Central Bank and the Bank of Japan) over the past decade. The combined return of investment income and capital growth for 2020/21 net assets has been assumed to be -8.5% per annum.

h) Fund Managers Fees

Fund managers' fees are calculated at an average rate of 0.475% on average assets valuation of £1.1billion.

i) Global Custodian Fees

from level of current activities, the fee is set at £60,000 as per fees schedule.

Safeguarding Implications

22. The report provides clear evidence of sound financial management, efficient use of resources, promotion of income generation and adherence to Best Value and good performance management.

23. **Public Health Implications**

24. The Enfield Pension Fund indirectly contributes to the delivery of Public Health priorities in the borough.

Equalities Impact of the Proposal

25. The Council is committed to Fairness for All to apply throughout all work and decisions made. The Council serves the whole borough fairly, tackling inequality through the provision of excellent services for all, targeted to meet the needs of each area. The Council will listen to and understand the needs of all its communities.

Environmental and Climate Change Considerations

26. There are no environmental and climate change considerations arising from this report.

Risks that may arise if the proposed decision and related work is not taken

27. Reviewing and forecasting the Fund cash position should result in a more efficient process of managing the Pension Fund.

28. This will minimise risks relating to the management of the Fund and should assist in managing down liquidity risk and of non-compliance with the Council's obligations under the Regulation as the administering authority of the London Borough of Enfield Pension Fund.

Risks that may arise if the proposed decision is taken and actions that will be taken to manage these risks

29. Not approving the report recommendations and not adhering to the overriding legal requirements could impact on meeting the ongoing objectives of the Enfield Pension Fund.

Financial Implications

30. For a number of years, the Pension Fund has received considerably more in contributions than it has paid out in benefits and has therefore experienced strong positive cashflow. However, in light of ongoing budgetary pressures for the Council and the recent reduction in its contribution rate, it is prudent to ensure that the likely impacts of reduced cashflows into the Fund are understood and planned for.

31. Budget monitoring on a quarterly and annual basis along with the additional cashflow work to be undertaken by the Fund actuary will assists the Committee in understanding the full impact of potential changes as a result of any significant falls in membership numbers or planned changes in contribution rates. Whilst there are costs to carrying out monitoring exercises, these are negligible in comparison to the benefits of understanding the Fund's likely future cashflows and planning for these accordingly.

Legal Implications

32. The Pension Policy & Investments Committee has been given delegated authority to manage the Pension Fund; under the Council's constitution they must therefore 'set the overall strategic objectives for the Pension Fund, having taken appropriate expert advice, and develop a medium term plan to deliver those objectives. Monitoring the Pension Fund's financial position including the prospects for cash flow helps the Committee to ensure that they are meeting their fiduciary role in the management of the Fund. Management of the Fund's solvency is a key objective across the short, medium and long term; the monitoring of cash flow performance is an important part of ensuring that objective is met.

Workforce Implications

33. The employer's contribution is a significant element of the Council's budget and consequently any improvement in investment performance will allow the Council to meet this obligation easily and could also make resources available for other corporate priorities.

Property Implications

34. None

Other Implications

35. None

Options Considered

36. The Fund is bound by legislation to ensure that members of the Fund receive benefits as they fall due under the Fund's terms. Although the Fund is free to determine how best to fund its liabilities as they fall due. It is expected to meet such obligations to its retired members.

Conclusions

37. The performance of the Pension Fund investments affects the required level of contributions due from employers.

38. Sound financial management of the Pension Fund, including budget-setting, helps ensure that the Pension Fund is run in an efficient and cost-effective manner. Poor management of the Pension Fund finances would result in

increased costs, which would need to be met through higher employer contributions to the Pension Fund.

39. The headline figures are that, during the financial year 2020/21, we are estimating that Enfield PF will pay £36.9m in pensions and receive £50.4m in contributions from employers and employees. The Fund has a value of £1.168bn at 31 March 2020. The proposed internal administration costs of £1.035m and £5.380m of investment management charges of external managers represent a cost of £274.68 per member of the scheme. Taken separately the external investment management costs are approximately £225.11 per member or 0.475% of assets under management.

40. The administrative and investment management expenses budget for 2020/21 at £6.4m is lower than the outturn for 2019/20, due to a decrease in investment management charges owing to market depreciation forecast for the Fund assets for this financial year.

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Date of report 7th September 2020

Appendices

Appendix 1: Enfield Pension Fund Revenue Budget for 2020/21 and Cashflow Forecast For 2021/22 & 2022/23

Background Papers - None

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ENFIELD Council

Appendix 1

Pension Fund Budget 2020/21 and Cashflow Forecast For 2021/22 & 2022/23

	2019/20 Actual at 31st Mar 2020 £,000	Budget for 2020/21 £,000	Forecast for 2021/22 £,000	Forecast for 2022/23 £,000
Contributions Receivable				
- from Employer	39,966	41,165	37,048	38,160
- from Employees	11,078	9,200	8,280	6,319
Transfer Values In	3,971		0	
Sub - Total Income	**55,015**	**50,366**	**45,329**	**44,480**
EXPENDITURE				
Benefits Payable				
- Pensions	(35,828)	(36,905)	(33,214)	(34,209)
- Purchase of Pensions				
- Lump Sums: Retirement Allowances & Death Grants	(6,949)	(7,995)	(7,196)	(8,271)
- Transfer Values Out	(5,173)			
Administrative and other expenses borne by the scheme				
- Administration and processing	(1,145)	(955)	(860)	(870)
- Actuarial fees	(60)	(30)	(55)	(50)
- Audit fees	(21)	(21)	(21)	(21)
- Legal and other professional fees	(5)	(10)	(9)	(10)
Sub - Total Expenses	**(49,181)**	**(45,917)**	**(41,355)**	**(43,431)**
Investment management Expenses (Invoice)				
-Fund Managers Invoiced Fees	(1,390)	(1,250)	(1,375)	(1,422)
-Global Custodian Fees	(63)	(60)	(54)	(60)
-Investment Consultancy Fees	(130)	(75)	(68)	(75)
Total Expenditure	**(50,764)**	**(47,302)**	**(42,851)**	**(44,988)**
NET CASH INFLOW/OUTFLOW	**4,251**	**3,065**	**2,477**	**(509)**
Opening Cash Balance	**49,534**	**53,785**	**6,850**	**9,327**
Forecast Cash Investments Injection		**(50,000)**		
Forecast Closing Cash Balance	**53,785**	**6,850**	**9,327**	**8,818**
Administrative and other the scheme expenses	(1,231)	(1,035)	(945)	(950)
Investment management Expenses	(7,925)	(5,380)	(7,925)	(6,380)
Total Admin & Investment Expense	**(9,156)**	**(6,414)**	**(8,870)**	**(7,329)**