

MUNICIPAL YEAR 2019/2020 REPORT NO.

MEETING TITLE AND DATE:

Pension Board – 18th July 2019

REPORT OF:

Executive Director of Resources

Contact officer and telephone number:

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Agenda – Part:1

Item: 6

Subject: Investing in a Low carbon Environment

Wards: all

Key Decision No:

Cabinet Member consulted:

1. EXECUTIVE SUMMARY

- 1.1. Cabinet at its meeting on 8th July made a recommendation to the Enfield Pension Fund to review its holdings in companies ensuring they contribute towards a de-carbonised economy. In particular, the Fund should continue to actively reduce its holdings in fossil fuel companies over a planned period of time.
- 1.2. The Pensions Policy & Investment Committee will consider this matter at its meeting on 5th September and its response will be reported back to the next meeting of this Board.

2. RECOMMENDATIONS

- 2.1. The Board is asked to note the report and ask for actions that are agreed at the September Pension Policy & Investment Committee to be brought back to the next Pension Board for consideration.

3. BACKGROUND

- 3.1. Enfield Pension Fund's investment strategy must deliver good returns without undertaking too much risk in order to fund the member's pensions. This strategy needs to take into account the affordability of employers' contributions as it is important to ensure that employers continue as going concerns.
- 3.2. This is a very difficult balancing act to achieve in volatile economic times. As a long term investor, the Fund recognises climate change and the shift to the low carbon economy as one of the risks to the value of the assets in the investment portfolio. It also notes that the Fund seeks to mitigate that risk where it can afford to do so, while recognising that not all risk is negative, as risk can also create investment opportunities.
- 3.3. It should be noted that over 2019/20 the Enfield Pension has reduced its exposure to fossil fuel companies. The bulk of its 'fossil fuel' companies are held in its passive funds.
- 3.4. On 8th July the Council's cabinet recommended the following:

“Recommend to Council that the Pension Policy and Investment Committee that they consider revisions to the policy on Environmental, Social and Governance (ESG) within its Investment Strategy Statement. The new policy would require the Fund to review its holdings in companies ensuring they do contribute towards a de-carbonised economy. In particular, the Fund should continue to actively reduce its holdings in fossil fuel companies over a planned period of time”

4. DEFINING CARBON EXPOSURE

- 4.1. Carbon exposure can be difficult to estimate precisely for a number of reasons, including areas where many disclosures are voluntary and vary in nature from company to company.
- 4.2. Within companies, many different points in the supply chain can cause carbon exposure. With companies that extract fossil fuels from the ground, it is usually obvious, but where a company’s supply chain causes a significant carbon exposure or simply uses a lot of power, it can be less transparent.
- 4.3. Other considerations should be given where a company may have a significant “carbon footprint” on the one hand but be investing significant resources in renewables on the other, which may mean the organisation will be less carbon intensive in the future.
- 4.4. Ultimately, the only clear way to measure a company’s exposure to carbon is through their carbon reserves, which are the fossil fuel assets owned by individual companies.

5. FIDUCIARY RESPONSIBILITY OF THE ADMINISTERING AUTHORITY

- 5.1. The Pension Policy & Investment Committee (PPIC) holds a key fiduciary responsibility to manage the Fund’s investments in the best interests of the beneficiary members and the council tax payers, where the primary focus must be on generating an optimum risk adjusted return. It is vital that any investment decisions or strategies developed, such as a carbon strategy, must not negatively impact on this primary responsibility.
- 5.2. The administering authority has fiduciary duties both to scheme employers and scheme members and the investment strategy must be exercised for investment purposes, and not for any wider purposes. Thus, investment decisions must be spread across a wide variety of investments classes, achieve a balanced risk and return objective.
- 5.3. The choice of investments can be influenced by ethical and environmental, social and governance (ESG) considerations, so long as that does not risk material financial detriment to the fund. Whilst deliberating on such issues, Queen’s Counsel’s (Nigel Giffin) advice, commissioned by the LGPS Scheme Advisory Board and published in 2014, states that the administering authority may not prefer its own specific interests to those of other scheme employers,

and should not seek to impose its particular views where those views would not be widely shared by scheme employers and members (nor may other scheme employers impose their views upon the administering authority).

- 5.4. To this end, if decisions on carbon reduction are taken by the PPIC, those decisions must be based on the likely positive investment outcome pertaining to the Pension Fund. It cannot be not be based on any ethical approach or ideological attitude adopted either by the PPIC or the local authority itself.
- 5.5. Putting performance implications to one side, there are transition costs of moving a passive fund to a low carbon fund. The fund management costs will also be higher due to the greater due diligence required to monitor the Fund to ensure it is carbon free.

6. NEXT STEPS

- 6.1. A joint training session is planned (prior to the PPIC meeting) for the Pension Board and PPIC members to discuss the issues and options around the introduction of a low carbon investment strategy.
- 6.2. A report will be taken to the next PPIC meeting on 5th September setting out the options around moving to a low carbon exposure investment strategy.
- 6.3. The outcomes of that meeting will be brought back to the Pension Board to review and provide the opportunity to scrutinise the decision.

7. FINANCIAL IMPLICATIONS

- 7.1. Included in the body of the report.

8. LEGAL IMPLICATIONS

- 8.1. Included in the body of the report.

