

**MINUTES OF THE MEETING OF THE PENSION POLICY & INVESTMENT
COMMITTEE
HELD ON THURSDAY, 5 SEPTEMBER 2019**

COUNCILLORS

PRESENT Tim Leaver, Claire Stewart, Yasemin Brett and Terence Neville OBE JP,

ABSENT Ergun Eren and Doug Taylor

OFFICERS: Matt Bowmer (Interim Director of Finance), Gareth Robinson (Head of Finance) and Bola Tobun (Finance) Penelope Williams (Secretary)

Also Attending: Councillor David Lee Sanders, Emily Mcguire (AON), Jo Peach (AON), Carolan Dobson (Independent Advisor), Karen Shackleton (founder Pensions for Purpose) attended Part 1 section of agenda only.

**1
WELCOME AND INTRODUCTIONS**

The Chair welcomed everyone to the meeting and introductions were made.

Apologies for absence were received from Councillors Doug Taylor and Ergun Eren and Matt Bowmer (Director of Finance).

**2
DECLARATION OF INTERESTS**

Councillor Tim Leaver declared a non-pecuniary interest as a director of Housing Gateway.

Councillor Yasemin Brett declared a non-pecuniary interest as she family members working in the pensions industry.

Councillor Terry Neville declared a non-pecuniary interest as a member of the Westminster Council Pension Board and with a family member as Director of a Hedge Fund.

Councillor Claire Stewart declared a non-pecuniary interest as she was a deferred member of the Local Government Pension Fund.

Carolyn Dobson declared interests as a non-executive director of the London Collective Investment Vehicle, Aberdeen Standard Fund Managers Ltd and M +G Securities Ltd.

3 STANDING ITEMS

The Committee received the report (Report No: 87) of the Executive Director Resources on five standing items as follows:

a. Risk Register

NOTED

1. The updated risk policy and risk register which now includes the impact of moving to a low carbon investment environment. This has been included as a yellow risk with a high likelihood and a medium impact.
2. In PEN10 the sentences beginning “The committee will take professional advice” And “ Working with the LCIV” to be removed as they were felt to be value judgements rather than risks.
3. The importance of having full regard to fiduciary duties was emphasised.
4. A list of the companies in which the Pension fund invests was requested.
5. The register would also be updated to include the risks associated with BREXIT.

AGREED to approve the register subject to the above changes.

b. LCIV (London Collective Investment Vehicle

NOTED

1. The information provided on the background to the London CIV and the pooling arrangements mandated by the Government.
2. The change to the governance structure so that instead of the joint committee formed by the LGA that existed previously, there is now a shareholder committee made up of representatives from 12 members of the London local authorities including 8 pension chairs and 4 treasury officers. The current chair is Cllr Yvonne Johnson from Ealing Council.
3. There are eight regulated fund management entities.
4. Enfield has pooled about 40% of their funds.
5. The LCIV is considering responsible investment vehicles.
6. The operating and business models have recently been extended.

PENSION POLICY & INVESTMENT COMMITTEE - 5.9.2019

7. The London boroughs have expressed some concern about the remuneration and pension arrangements of the LCIV staff. The staff are paid market rates and have access to the Local Government Pension Scheme.
8. There were some reservations about the LCIV and about the amount of money invested already, the open-ended commitment on the pensions arrangements, and whether the ethical LCIV investment offer would be appropriate to Enfield's needs.
9. The LCIV and similar pools were set up as mandated by Government and were seen as a way to pool resources and achieve economies of scale. They will take time to be successful. The trustees need to reflect on the risks and act accordingly. Any risks should be added to the risk register.
10. There was also concern about the governance arrangements and about the ability of the trustees to hold the LCIV to account.

AGREED

1. To note the contents of the report
2. To update the risk register
3. To report the reservations of the committee to the LCIV
4. To commit no further investments into the LCIV until the concerns of the committee were addressed.

c. Pension Fund Governance – to be discussed later on the agenda.

d. Corporate Governance

NOTED

1. The dashboard showing progress made on outstanding requirements on the Pension regulators compliance checklist.
2. There has been a general improvement from 57% compliant to 76% but there are still areas which are judged to be non-compliant or partially compliant.
3. There was concern about the lack of compliance in areas of record keeping, data management and the training of board members.

AGREED that

1. The risk register should be updated to include the risks of partial and non-compliance.
2. The governance arrangements should be updated and a presentation provided on how to meet compliance. If extra resources were needed, they should be provided.

e. Employer late payments

NOTED that one of the outstanding issues had already been resolved.

f. Training

NOTED

1. The proposal that training should be added to the standing items each meeting and a training programme developed that would be assessed annually. The Vice Chair would monitor training.
2. A brief training session could be held before each meeting.
3. CIPFA had a framework that a lot of authorities followed.
4. Everyone was recommended to sign up to the regulator tool kit.
5. Councillor Neville offered to obtain a copy of a training assessment form used by Westminster and send it through to Gareth Robinson

AGREED

1. To add training as a standing item for each meeting.

4

MINUTES OF THE MEETING HELD ON 13 JUNE 2019

The minutes of the meeting held on 13 June 2019 were agreed as a correct record with the following amendments:

- To include apologies for Councillor Terry Neville
- Claire Stewart was a deferred member of the Local Government Pension Scheme
- To change 7.1 to “the committee should consider whether” instead of “might consider whether”.

Incomplete actions from last meeting:

- A glossary of terms would be circulated to members.
- A member of the LCIV would be invited to a future meeting when appropriate.

Members were invited to send suggestions for topics for future meetings to the Chair who would be discussing future agendas at regular pre agenda meetings.

5

PENSION FUND GOVERNANCE AND COMPLIANCE

PENSION POLICY & INVESTMENT COMMITTEE - 5.9.2019

The Committee received a report updating them on the Enfield Pension Fund Governance Policy and Compliance Statement.

NOTED

1. The Committee suggested the following changes to the terms of reference:
 - To use gender neutral language
 - To include a revised training policy
 - To include the union representative membership of the Pension Board.
 - To include the Investment Strategy Statement under item f) on page 53 of the agenda pack.
 - To change the comment under access in Appendix B to Pension Board rather than Pension Policy and Investment Committee twice.

AGREED to

1. To note the Enfield Pension Fund Governance Policy and Compliance Statement.
2. To make the above changes and recirculate the documents marking the changes by the end of September
3. To note the scheme of delegation which is included as appendix A to the draft statement.

6

QUARTERLY PERFORMANCE REPORT - 30 JUNE 2019

To receive a report from the Director of Finance on the Quarterly Investment Report for June 2019. (Report No: 89)

NOTED

1. Members approval of the format. Officers had provided a summary but more detail was available if requested.
2. Some fund managers had met their targets, others had fallen short.
3. The return for the fund had been 8.55% over the last 3 years.
4. It had been agreed that the fund would in future divest its holdings from hedge funds gradually as seemed appropriate and that these would not be replaced. At the moment most Pools are not offering hedge funds.
5. Landsdowne had had a poor couple of years but had produced good returns in the past.
6. Acting defensively, the fund would not want to top up hedge funds or invest in property at the moment.
7. Cash balances were held in dollars not sterling.

PENSION POLICY & INVESTMENT COMMITTEE - 5.9.2019

8. Up until the 30 June the markets had been doing well, but this was changing.
9. The view that the asset allocation was felt to be misleading and it would be helpful to have an extra column spelling out what the percentages meant in monetary terms.
10. In future the report should contain more commentary as to how well the fund was doing and a more up to date assessment of the current situation.
11. Thanks to the officers for pulling the information together.
12. There was a debate about how much money the fund should keep in cash balances. Members suggested that it would be helpful to have a schedule of what the fund would be expected to pay out and look at the residual amounts.
13. It was more usual to keep cash in sterling, but if the fund received dollars and needed to pay out dollars it was better to keep some cash in dollars. The currency exposure of the cash balances up to now had been beneficial.
14. Emily Mcguire, from Aon gave a general update on the current state of the market. The market had recently taken a turn for the worse. Bond yields had fallen significantly. It was a transitional period following the longest run in a bull market ever. There were lots of worrying signs around the world. However, the strategy was looking over the long term.
15. Aon would provide a further update later in the Autumn and would produce a brief commentary to the next quarterly report for the next meeting.

AGREED to note the report.

7

RESPONSIBLE INVESTMENT, SUSTAINABLE INVESTMENT AND IMPACT INVESTMENT

Councillor Leaver introduced the item on responsible sustainable and impact investment saying that the Committee was looking at this topic in response to the recommendation in the motion agreed at full Council on 10 July 2019 that:

“The Pensions Policy and Investment should continue to play its part in reducing carbon and mitigating its affects by looking in consultation with pension beneficiaries, to invest in assets which contribute to a decarbonised economy: including divesting from assets, in a manged way, which do not contribute to meeting the objectives”

1. Presentation

The Committee received a presentation from Karen Shackleton, the founder of Pensions for Purpose, on Ethical, Sustainable and Impact Investing.

The presentation included information on the following:

- The Spectrum of Capital (1-8 on a scale from traditional to philanthropy)
- Moving from Traditional to responsible (1-2 on the Spectrum of Capital)
- How do Managers do this for you
- Moving from value investing to values investing
- Sustainable investing (3 on the spectrum of capital)
- What do sustainable portfolio's look like?
- Divesting v Decarbonising – which is best?
- Investing with Impact (3 to 4+ on the spectrum of capital)
- Impact Investment – what is it?
- The financials of impact investment
- What do listed impact investments look like?
- What do unlisted impact investments look like?
- A typical pension fund's journey to impact investment
- Impact measurement

2. Questions/Comments from Councillors

- 2.1 Trade unions had a role in asking questions of fund managers.
- 2.2 There was a hierarchy of debts – some funds did make money from distressed debts.
- 2.3 There were different ways of approaching ESG issues. Divesting means removing all investments from Carbon funds but this can also have unintended consequences. Decarbonisation was a more holistic approach, capturing a direction of travel rather than excluding things all at once. There were other polluting industries such as shipping and fashion which also need to be taken into account when making investment decisions.
- 2.4 The first stage in looking at this should be to discuss and agree on some investment beliefs. From this a policy can be developed and an agreement made on how to implement the policy.
- 2.5 The Pension Fund trustees will have to consider what can be done and what it is appropriate to do.
- 2.6 There is a shortage of quality investment vehicles at the moment. Some fund managers are better than others in these areas. But this has changed over the past two years and the situation is continuing to develop as more and more people are becoming interested in the investment areas. The industry is working to catch up with the changing environment.

PENSION POLICY & INVESTMENT COMMITTEE - 5.9.2019

- 2.7 There is also a need to separate out the environmental, social and governance issues.
- 2.8 AON track investment vehicles and give them a score based on the integration of their policies and their implementation.
- 2.9 In the impact area there are currently a few small niche boutique suppliers.
- 2.10 The way to make changes is to work with other local authorities.
- 2.11 The LCIV is holding a seminar in September on ESG issues.
- 2.12 At Islington it took three meetings of their pension committee to change their position on ESG.

8 ENVIRONMENTAL SOCIAL GOVERNANCE (ESG) AND FIDUCIARY DUTIES

The Committee received a report on Environmental, Social and Governance and Fiduciary Duties (Report No: 90)

NOTED

- 1. The Pension Fund trustees have a fiduciary duties around risk adjusted returns.
- 2. Investing in ESG would feed into the risks. Divesting from fossil fuels could result in an immediate reduction in profit.
- 3. ESG can be effective long-term investments.
- 4. A triennial review is due to take place where it would be possible to review all the fund investments. Work needed to be done to review every investment portfolio and look at the exposure to carbon on the basis of underlying values.
- 5. LCIV were not felt to be doing enough in this area but there was an opportunity to encourage them to bring in new investments.
- 6. Lobbying the LCIV to make changes could be effective as they can exercise economies of scale and work across the London boroughs. More research is needed.
- 7. Currently the structures do not exist, but it would be possible to put pressure on to enable them to be developed.
- 8. There were some concerns expressed about the way that the LCIV was working at present.
- 9. Any changes would also need to be discussed with the Pension Board.

AGREED to:

PENSION POLICY & INVESTMENT COMMITTEE - 5.9.2019

1. To note the direction of travel
2. To set up a separate meeting of the Committee to understand better the underlying issues, to review the portfolio and to consider investment values.

AON and officers will do some background research to find out more about what is available including from the LCIV.

9

PENSION FUND APPROACH TO ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) CRITERIA

The Committee received a report on Integrating ESG considerations within the Pension Fund Investment Strategy. (Report No: 91)

Discussion of this item took place at the same time as the previous item. See notes on previous item.

The Committee agreed to accept the report and note the conclusions and the following recommendations:

- i) To consider committing to the UK Stewardship Code;
- ii) Develop a policy statement regarding the London Borough of Enfield's approach to carbon intensive investment with a view to inclusion as a section within the Fund's Investment Strategy Statement (ISS);
- iii) To review options for switching some or all the passive equity mandates into a low carbon target index funds;
- iv) Monitor carbon risk within the London Borough of Enfield Pension Fund and to appoint a specialist contractor to conduct a carbon footprint review of the Fund at an estimated cost of between of £5k to £20k.
- v) Maintain the current engagement activities which the Local Authority Pension Fund Forum (LAPFF) carry out on behalf of the Fund;
- vi) Continue engagement activities with the Fund's and new investment managers/London CIV on their approach to managing transition to low carbon economy and their contribution in dealing with climate change issues when making investment decisions;
- vii) Maintain an active approach to climate change issues with investee companies/London CIV and look for further opportunities to work with others on issues of ESG importance.

10

LOCAL GOVERNMENT PENSION SCHEME CURRENT ISSUES

The Committee received an update on current issues impacting on the fund.

Actuarial Valuation – this had used to take place every three years but was changing to every four years. A written paper would be produced for the next meeting.

Pensions Board Survey – the chair reported that he had been asked by the Pension Board to circulate a survey to all fund members but this had not been thought to be appropriate at this time.

11

DATES OF FUTURE MEETINGS

Noted the dates agreed for future meetings:

- Thursday 21 November 2019
- Thursday 27 February 2020

In future all meetings will start at 10am with an hours training session beforehand.

The Chair thanked officers for pulling the meeting together.

12

EXCLUSION OF PRESS AND PUBLIC

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

Part 2

13

BOND PORTFOLIO CONSIDERATIONS

The Committee received the part 2 report of the Director of Finance, summarising the available investment options considered for the funds bond portfolio. (Report No: 92)

AGREED

1. To note the content of the report and the attached appendix prepared by AON
2. To note the current cash balance of £48.7m
3. That it was not possible to make a decision on investing these funds at this time as the proposed option was to invest in the LCIV and the committee re-interated that they were not willing to commit further funds to LCIV until their concerns per standing item 3b (above) were

addressed. The Committee was happy to leave the funds where they were at present.

14

PENSION FUND PROCUREMENT

The Committee received a report from the Director of Finance on Pension Fund Procurement Plans 2019/20 for the funds independent advisor, investment consultant and actuarial services. (Report No: 88)

AGREED

1. To note the contents of the report
2. To note the intentions for an additional meeting of the Committee around early to mid October, to consider presentations from shortlisted suppliers for the role of Independent Advisor and the Investment Consultant.

15

FAREWELL TO PAUL REDDAWAY

Members paid tribute to Paul Reddaway who was leaving the Council after over 30 years service in the Finance Department.

Councillor Neville said that he had known Paul since he was elected to the Committee in 1989. He had been a very professional, knowledgeable and brilliant officer who had always been able to give clear and impartial advice in a difficult and complex area.

During his time he has had to keep up to date with numerous changes which he had done with great aplomb. He was a first class officer who would be a big loss to Enfield.

The Committee noted their formal thanks to Paul for his years of service to the Pension Fund.