MUNICIPAL YEAR 2019/2020 REPORT NO. 227

Agenda – Part:1	Item: 6

MEETING TITLE AND DATE:
Pension Investment & Policy Committee
27th February 2020

REPORT OF:
Executive Director of Resources

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Subject: Investment Strategy Review Plan with ESG Considerations and An Update on Investment Beliefs for Enfield Pension Fund

Wards:

Key Decision No:

Cabinet Member consulted:

1. EXECUTIVE SUMMARY

1.1 The Local Government Pension Scheme (LGPS) Management and Investment of Funds Regulations 2016 requires the Enfield Pension Fund to publish an Investment Strategy Statement (ISS).

1.2 This report also provides a summary of the need to review the investment strategy following a Triennial Actuarial Valuation outcome and in light of current investment climate and issues.

1.3 The review will encompass an asset liability study which assesses the suitability of alternative investment strategies for the pension fund's liability profile; the longer the term until pensions become payable the higher the investment risk which can be accommodated by the fund.

1.4 This would be supplemented by a sophisticated modelling exercise which will set out the risk/ reward trade-off for alternative investment strategies.

1.5 The current ISS is attached, which sets out the Pension Fund's current policy on investment, risk management, LGPS pooling and ethical, social and governance (ESG) issues, for both its own investments and those being managed through the London Collective Investment Vehicle (LCIV).

1.6 The members of the Committee had several workshops, considering and deliberating on the Fund's approach to responsible investment practices and ways to increase the level of engagement on environmental, social and governance issues in relation to the management of the Fund investments. The outcome of their deliberations is the draft investments beliefs articulated for the Fund and is attached to this report to be formally approved at this meeting and be adopted as the core part of the Fund's investment strategy going.

1.7 The Fund has commissioned TruCost to carry out a carbon risk audit in order to measure the Fund's carbon footprint and exposure to future CO2 emissions. The outcome of this analysis to be considered at this meeting.

2. RECOMMENDATIONS

The Pension Policy & investment Committee is recommended to:

i. Consider and approve the draft Investment Beliefs for the Enfield Pension Fund, attached as Appendix 1;

ii. Note, consider and comment on the current Investment Strategy Statement (ISS) attached as Appendix 2 and to delegate authority to the Director of Finance in consultation with the Chair to publish the revised ISS once updated with the approved strategy changes and the approved investment beliefs;

iii. Note, consider and comment on AON's case for an Investment Strategy Review attached to this report as Appendix 3;

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

v. 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;

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

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

viii. 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

ix. 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 CO_2 emissions.

3. BACKGROUND

3.1 The Investment Strategy Statement (ISS) sets out the requirements of the Local Government Pension Scheme (LGPS) legislation and the Fund current Investment Beliefs. The ISS has been prepared in accordance with the Ministry of Housing, Communities and Local Government (MHCLG) Guidance on Preparing and Maintaining an Investment Strategy Statement.

3.2 The six main objectives of the legislation are then detailed in relation to Enfield Pension Fund policies and strategies. These are:

i) Objective 7.2 (a): A requirement to invest fund money in a wide range of instruments. This sets out how the investment strategy deals with diversification and return to meet the long term objectives of the fund;

ii) Objective 7.2(b): The authority's assessment of the suitability of particular investments and types of investment. This sets out how the Committee assesses the suitability of investments and measures their suitability;

iii) Objective 7.2(c): The authority's approach to risk, including ways in which risks are to be measured and managed. This sets out how the Committee assesses the different types of risk in order to establish what is acceptable to ensure that the fund meets its obligations;

iv) Objective 7.2(d): The authority's approach to pooling investments, including the use of collective investment vehicles. This sets out the Committee's approach to LGPS pooling and also what the LCIV can offer in terms of investment opportunities;

v) Objective 7.2(e): How environmental, social and governance (ESG) considerations are taken into account in the selection, non-selection, retention and realisation of investments. This sets out how the Fund meets these obligations, and also how potential investments with the LCIV will comply with these obligations;

vi) Objective 7.2(f): The exercise of rights (including voting rights) attaching to investments. This sets out how the Fund meets these obligations and also how potential investments with the LCIV will be dealt with.

3.3 The ISS also deals with the Funds compliance with the CIPFA Pensions Panel Principles for investment decision making in the LGPS, shown as Appendix 2 of the ISS. These six principles cover a range of factors as follows:

i) Effective decision-making
ii) Clear objectives
iii) Risk and Liabilities
iv) Performance Assessment
v) Responsible Ownership
vi) Transparency and Reporting

3.4 "Under Regulation 7(6) and (7), the Investment Strategy Statement must be published by 1st April 2017 and then kept under review and revised from time to time and at least every three years." The statement was last reviewed August 2019 and approved by the Committee at their November 2019 meeting as part of Enfield Pension Fund Annual Report for 2018/19. The ISS is currently in line with the Fund current investment strategy.

3.5 Following the meeting of 5th September 2019, the Committee agreed to have additional meetings to meet in order to develop a policy statement regarding the London Borough of Enfield' approach to Environmental, Social and Governance (ESG) issues (including carbon intensive companies/investments) with a view to include as a section within the Fund's Investment Strategy Statement (ISS), to demonstrate a commitment to managing ESG issues (including carbon risk). Attached as Appendix 1 to this report is Enfield Pension Fund, Draft Investment Beliefs.

3.6 This report also sets out the need to review the investment strategy in light of Pension Fund Triennial Actuarial Valuation outcome.

3.7 The Triennial Valuation cycle provides a good point at which to review the investment strategy as the Fund will have a current valuation of the liabilities of the Fund. The changes in funding level between one valuation and the next is effectively the best measure of how the Fund's liabilities are developing in comparison to changing bond yields in the market; widely considered to be the best measure of asset return that match those of the Pension Fund liabilities.

3.8 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. The high recent asset growth also leads to lower return expectations hence higher primary contribution.

3.9 The Fund's current investment strategy was agreed following the review in 2017, and although the strategy has been revised a number of times since it was implemented the overall balance between growth seeking assets (60%) and lower risk matching assets (40%) has remained broadly similar to that agreed in 2017.

3.10 The Fund is currently starting a procurement exercise for the Fund's Investment consultant and it is intended that the successful provider will be commissioned to undertake an investment review shortly after appointment.

3.11 The successful investment consultant will look at a range of investment issues and also work closely with the Fund actuaries to model the probability of the Fund achieving its funding targets with a range of investment strategies and use these to formulate a de-risking strategy. The Fund at this time maintains a relatively medium risk strategy (60% growth assets) on the basis that growth assets will deliver outperformance enabling the Fund to close the funding gap over a period of time.

3.12 The investment review will also provide the Committee with an update on the Fund's existing manager's performance.

3.13 There are many advantages in undertaking a review of the investment strategy, which can be summarised as follows:

a) It will define the parameters within which the investment decisions can be made i.e. eliminates the extremes.

b) Provide a context for Members to consider the risk they are willing to assume for investment issues.

c) Provide an assessment of whether the current strategy which was devised in 2017 remains appropriate in the current investment environment.

Current ISS and Responsible Investment Approach

3.14 The Fund's Responsible Investment policy is set out in section 13 to 16 of the ISS. The purpose of this policy document is to lay out the Fund's approach to how environmental, social and governance (ESG) considerations are considered in the selection, non-selection, retention and realisation of investments.

3.15 No consistent definition of Responsible Investment exists, the term has a variety of meanings. The UN Principles for Responsible Investment (PRI) uses a definition of responsible investment that emphasises the health of the market as a whole: "Responsible investment is an approach to investment that explicitly acknowledges the relevance to the investor of environmental, social and governance factors, and of the long-term health and stability of the market as a whole. It recognises that the generation of long-term sustainable returns is dependent on stable, well-functioning and well governed social, environmental and economic systems."

3.16 The subject of Responsible Investment has been considered by the Pensions Committee on a number of occasions. The Committee has aimed to reduce the extent to which the Fund is exposed to financial risk associated with Environmental, Social and Governance (ESG) factors but also to effectively express its views on ESG issues through the exercise of the Fund's voting rights and enhance the Fund's approach to engagement with its investee companies more generally. However, the rapid changes currently taking place across the sector have raised a number of questions about how RI approaches can best be delivered through the new pooled structures.

3.17 The Fund currently asked the fund managers to supply information on their engagement in reducing carbon foot prints of the fund and this information will be made available on a quarterly or yearly basis at the Pension Policy and Investment Committee quarterly meeting.

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

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

Carbon and Environmental Footprints Analysis

3.20 Further to the Council declaration of being carbon neutral by 2030, the Committee embraced this initiative and started discussion on how to align this agenda in their decision making process for the pension fund lining this up with their fiduciary duty as the quasi trustee of the Fund.

3.21 At the Committee meeting of 5th September 2019, it was recommended and discussed with the Committee the need to measure and monitor carbon risk within the London Borough of Enfield Pension Fund and to appoint a specialist contractor to conduct a carbon footprint of the Fund at an estimated cost of between of £5k to £20k.

3.22 Measuring emissions and climate risks of the Fund, will allow the Committee and the Fund to establish a base of data from which to examine its investment assumptions and test investment processes. It will also enable the Fund to make an assessment on an ongoing basis as to how its exposure to climate change risks progresses over time. This carbon foot print analysis work has started, just after the November 2019 Committee meeting and the initial results will available to be presented at the February Committee meeting. The analysis outcome would have been included with this report, unfortunately, at the time of writing this report, this result is not available.

3.23 During the investment strategy review for the Fund, the Investment consultant would look into appropriate and relevant targets worth setting to monitor the progress of strategy implemented to decarbonise the Fund. This will enable us to review target periodically to ensure that it remains consistent with the risks associated with investment in carbon assets and with the Committee's fiduciary duties.

3.24 The carbon footprint analysis measures the greenhouse gas emissions produced within each equity portfolio (per tonnage) in relation to their annual revenue, demonstrating how much of their return is determined by activities which emit carbon dioxide to enables comparison between companies, irrespective of size or geography.

3.25 The Equity mandates of the Fund is currently undergoing carbon footprint analysis of each individual asset holding, encompassing both direct and first tier indirect impacts. Direct impacts are those which result from a company's own vehicles, operations and waste. First tier indirect impacts occur as a result of a company procuring services from within their supply chain.

3.26 Currently the overwhelming majority of carbon footprint measures rely on a what are known as Scope 1 and Scope 2 emissions:

- Scope 1 – all direct greenhouse gas ('GHG') emissions owned or controlled by a business e.g. factory, buildings, company vehicles etc.
- Scope 2 – all indirect GHG emissions associated with consumption off-site e.g. purchased electricity

3.27 It is estimated that approximately half of Scope 1 & Scope 2 emissions are directly reported, and the balance is estimated. Scope 3 emissions cover

GHG sources not owned or controlled by a business e.g. raw material production, non-owned distribution, end use of products etc. Currently a lack of definition and data prevents Scope 3 emissions being measured in a meaningful way.

AON's Illustrative impact on equity portfolio volatility

3.28 The Fund Investment Consultant advised If we focus solely on maximizing carbon reduction there is a risk of unintended financial consequences. For example, in equities the variability of returns could increase significantly, as shown by looking at the illustrative tracking errors below:

Strategy	Current tracking error	Low carbon / environmental tracking error	Current outcome range	Low carbon / environmental outcome range
Passive equity (vs Low Carbon)	+/- 0.05%	+/- 0.5%	**+/- £90,000**	**+/- £900,000**
Passive equity (vs ex-Fossil Fuels)	+/- 0.05%	+/- 0.9%	**+/- £90,000**	**+/- £1,600,000**
Active equity (vs active environmental strategy)	+/-3.0%	+/- 7.0%	**+/- £9,300,000**	**+/- £21,800,000**

Historic tracking errors and possible impact are illustrative only and do not constitute a forecast
Note 1: Based on passive equity £179m and active (listed) equity at £311m at 30 June 2019
Note 2: Tracking error relative to a standard global equity benchmark
Note 3: Assume passive equity switch to MSCI ex-Fossil Fuels benchmark
Note 4: Assume active equity switch to a single environmental focused strategy (not just low carbon)

3.29 These figures look at the possible impact of solely focusing on maximising carbon reduction / environmental focus. The consultant recognised if we take a more measured approach, not overly focused on exclusion, they believe that any increase in volatility can be reduced.

3.30 The consultant also commented that the impact of pursuing lower carbon exposure across other asset classes would vary considerably and is likely to be harder to implement and measure.

3.31 It is also worth noting that when an investor makes changes to the funds they invest in, there are two elements of cost that need to be considered:

- Costs of change (i.e. disinvesting from the current funds and investing in the new funds)
- Ongoing costs (i.e. change in annual management charge between the current funds and the new funds)

3.32 The consultant produced the below estimated costs of change for switching the Fund current passive equity assets with BlackRock to a low carbon alternative:

	Estimated Costs of change	Estimated Ongoing Costs
BlackRock passive equities	c. £560k	c. £18k p.a. (increase from c. £9k p.a.)

Figures are illustrative
Note 1: Based on passive equity £168m
Note 2: Low carbon alternative used is BlackRock ACS World Low Carbon Equity Tracker Fund Class X2 as an illustration
Note 3: Dealing spreads, used for costs of change, based on data as at 21 August 2019 for current funds / 23 August for Low carbon alternative
Nore 4: Annual Management Charges, used for ongoing costs, exclude London CIV fees. Note that BlackRock have an LGPS only discounted fee

3.33 The consultant further stated they would expect as much as possible of the passive equity transition to be completed on an in-specie basis by the manager, which would **reduce** the estimated costs of change.

3.34 It is worth mentioning that ongoing costs increase when moving the traditional market capitalisation passive equity fund to a low carbon approach, as it requires a more specialist approach.

3.35 Costs of change would be higher in other asset classes, most notably property and alternatives. In addition, illiquid assets likely to have 'lock-in' periods where the money cannot be withdrawn and/or can only potentially be sold on a secondary market.

3.36 Currently 40% of the Fund total assets is invested in equity and approximately 15% are held as a passive equity mandates with performance target of tracking the FTSE All Share index. The passive mandates do have c.5% weightings (£9m) in Oil, Gas and consumable fuels as at 31st December 2019.

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

3.38 The Fund 15% allocation to a passive global equity mandate being managed by Blackrock tracking FTSE World Developed Index which means that the managers invest in all the shares within the opportunity set of this FTSE benchmark (i.e. the universe of the selected index). There are a number of pre-constructed indexes such as low carbon or others with a multi factor approach.

3.39 Factor Indexation: in this case although the investment is passive the index is constructed in such a way as to have exposure to a range of factors e.g. quality, low volatility, e.g. the Future World Fund which follows a multi factor approach and includes a carbon tilt overlay addressing ESG and tilts towards sustainable companies and excludes companies that are involved in the production of controversial weapons under international treaties.

3.40 ESG benchmark: There are some benchmarks constructed in such a way as to minimize ESG related risks (in particular carbon risk) which goes further than engagement and these funds track ESG focused indices e.g. the MSCI World Low Carbon Target Index Fund. As policymakers and governments place a greater focus on addressing climate change there is a financial risk that the oil companies, we invest in are unprepared for the transition to lower carbon economy and carbon pricing increases and fossil fuel assets become stranded. So MSCI and FTSE have developed indices that help to manage this risk. According to Mark Carney Governor of the Bank of England "The vast majority of carbon reserves are unburnable"

3.41 BlackRock and LGIM, Low Carbon Passive strategies are made available with reduced fee arrangements for LGPS funds. Officers have been working with the fund manager and the investment consultant over the past few months to identify suitable approach and strategies in an efficient cost-effective manner for the Fund with a view of implementing the appropriate strategy for the Fund by May 2020.

3.42 The table below illustrates how the World Low Carbon Target Index (recommended Fund's strategy) which the Committee should consider investing in, compares to the wider market cap index and other environmentally focused indices with regards to carbon intensity, carbon emissions and allocations to coal and fossil fuels.

	MSCI World Index	World ex Coal	World ex Fossil Fuels	World Low Carbon Leaders	World Low Carbon Target
	Previous Index	An Alternative	An Alternative	An Alternative	Fund's Strategy
Carbon Intensity (vs MSCI World Index)	100%	-4%	-19%	-50%	-64%
Potential Carbon Emissions (vs MSCI World Index)	100%	-7%	-96%	-52%	-83%
Coal Reserves (% index weight)	2.6%	0.0%	0.0%	1.0%	0.0%
Fossil Fuel Reserves (% index weight)	8.4%	8.0%	0.0%	5.5%	4.1%

3.43 The Low Carbon Target Index compares favourably versus other environmentally focused indices with regards to carbon intensity.

Renewable Energy

3.44 How do we define renewable energy? As the energy transition intensifies, definitions of renewable or clean energy strategies are starting to widen. Here is the current classification of renewable energy:

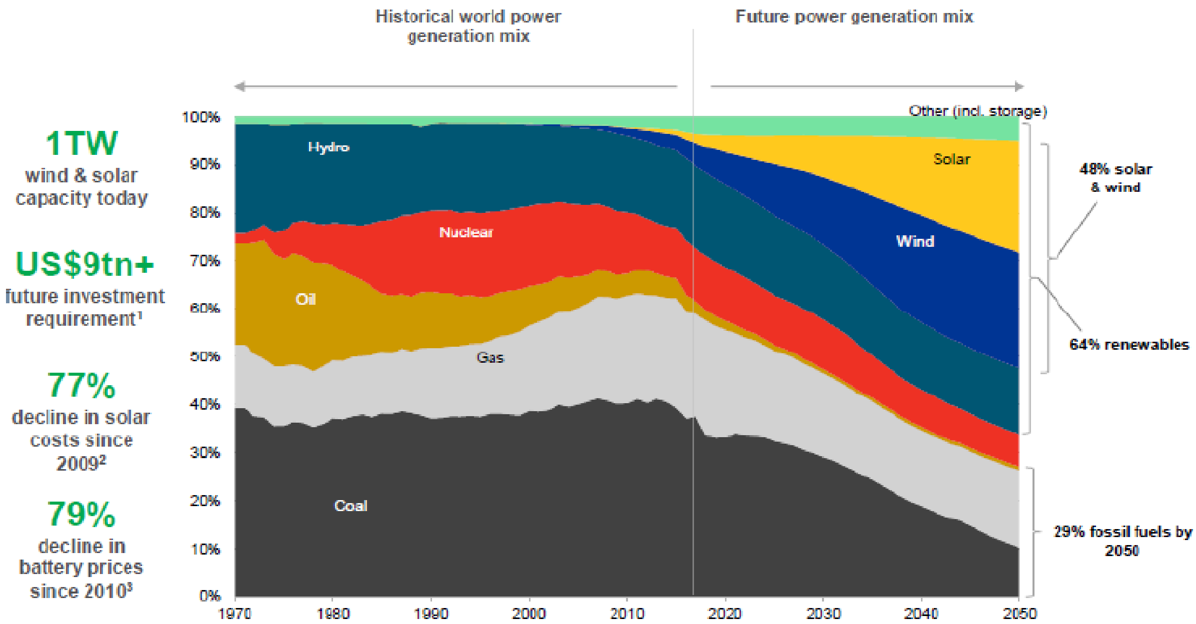
i) Traditional Strategies – On-Shore Wind, Solar, Off-Shore Wind and Hydro

ii) Emerging Investment Themes – Energy Efficiency, Energy from Waste, Combined Heat/Power, Plants & Gas Peaking, EV Charging and Sustainable Agric.

3.45 Further to the training Committee members have had, this is just a quick reminder that investing in renewable energy was once a small niche of the Infrastructure asset class, renewable energy investing has exploded in size and maturity with a universe of over 50 managers offering strategies dedicated to the sector.

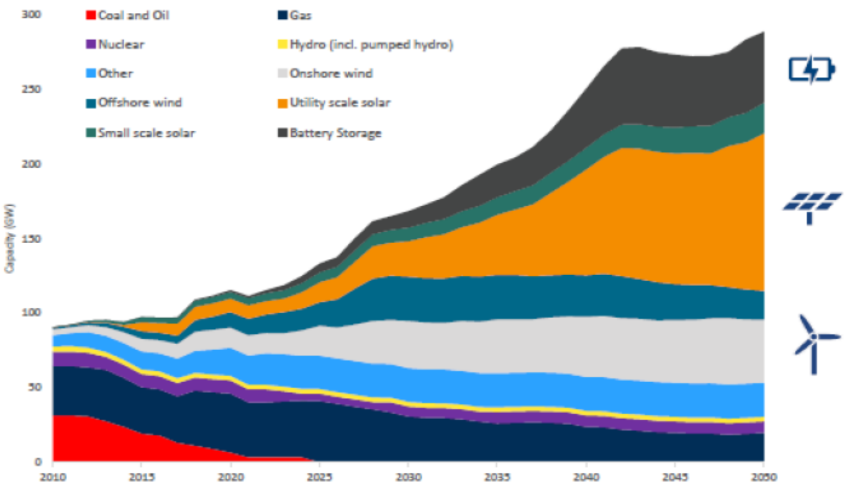
3.46 Despite the growing importance of renewables, some conventional power projects remain attractive. Given natural gas will remain an important "transition fuel", gas-fired power stations operating favourable markets should remain attractive to infrastructure investors.

3.47 Motivation for renewable energy allocation is multi-faceted, but led by diversification, income generation and potential for return enhancement. And for Enfield Pension Fund focus to invest in renewable energy is to contribute to the Fund carbon intensity/exposure reduction as shown in the chart below, demonstrating from two-thirds fossil fuels to two-thirds renewables.



Source: BlackRock; bfinance research

…with renewables expected to be the dominant generation source in the UK



Source: BNEF; bfinance

Conclusion

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

3.49 If the above is agreed, it is recommended that members delegate powers to the Executive Director of Resources and the Director of Finance in consultation with the chair and deputy chair of the PPIC to review and determine the most appropriate low carbon strategy benchmark to best place the funds and to determine the proportion.

3.50 Ongoing dialogue with the London CIV means that more focus will be given to Funds needs and sub-funds could be created to address this need. For example, the pool's infrastructure sub-fund now has a 25% target allocation to renewable energy, but this is not good enough for some pension funds already invested in broad infrastructure hence LCIV is looking into creating or introducing a dedicated renewable energy sub-fund on their platform. This is because about seven pension funds are seeking to invest independently of the pool into renewable energy funds.

3.51 LCIV is launching an exclusion version of their current Sustainable Equity Fund as they had strong lead interest in this investment. Expectation to launch this sub-fund is in early 2020.

3.52 If all the highlighted changes are implemented, the Investment Strategy Statement (ISS) will be review and the updated version will be brought to the Committee for an approval. The Council as the administering authority do have the responsibility of revising and updating the ISS with any material changes, such as changes to the investment beliefs; changes to the types of investment held; or the balance between the types of investments in the Fund.

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

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

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

3.56 Officers strongly believe that engagement with fossil fuel companies via organisations such as LAPFF to influence their future strategies should continue alongside the reductions in stock holdings in such companies.

3.57 To reduce the Fund carbon intensity further, it is recommended that Committee consider options for an active investment of approximately 5% of the total Fund assets in a sustainable funds and another 5% in renewable energy or clean energy fund(s), given the right risk/return profile, investment in such a fund would demonstrate the Fund’s commitment to transition to low carbon economy.

4. ALTERNATIVE OPTIONS CONSIDERED

4.1 No alternatives have been considered at this stage. The Committee could decide to continue with its existing strategy.

5. REASONS FOR RECOMMENDATIONS

5.1 As the 2019 valuation outcome is out, it is appropriate to consider the approach to funding and employer contributions in order to consider whether the current approach is likely to remain so for the Fund and its employers.

5.2 The Committee’s role means that they need to ensure that there are realistic strategies in place to meet funding goals, that strategies are affordable, prudent and provide stability for employers in the Fund. Understanding the impact of adopting different approaches to the investment strategy and the setting of employer contribution strategies enables the Committee to consider the longer term financial impact of such decisions and to take reasonable financial decisions when setting investment and contribution strategies.

6. COMMENTS FROM OTHER DEPARTMENTS

6.1 Financial Implications

a) This report helps in addressing value for money through planning to have a rigorous and robust investment strategy in place to aid in bridging the Fund’s funding gap.

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

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

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

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

6.2 Legal Implications

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

b) The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, Regulation 11 requires Administering Authorities to formulate a policy for the investment of its fund money and be formulated with a view:

i) to the advisability of investing fund money in a wide variety of investments; and

ii) to the suitability of particular investments and types of investments.

c) The regulations further require the Administering Authority to invest in accordance with its investment policy, having obtained proper advice at reasonable intervals about its investments and considered that advice before making any decisions.

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

7. KEY RISKS

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

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

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

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

Background Papers
Enfield Pension Fund – Low Carbon Initiative

Appendices
Appendix 1 – Draft Investment Beliefs (Not for publication yet)
Appendix 2 - Enfield Pension Fund Current Investment Strategy Statement
Appendix 3 - Initial Investment Strategy Review discussions (Not for publication)

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