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London Borough of Enfield

PENSION POLICY AND INVESTMENT COMMITTEE

Meeting Date: 27 July 2022

Subject:	**Enfield Pension Fund Responsible Investment Policy**
Cabinet Member:	**Cllr Leaver**
Executive Director:	**Fay Hammond**
Key Decision:	**[ ]**

Purpose of Report

1. This report presents Enfield Pension Fund Responsible Investment Policy to remind and introduce to the new members of the Committee of decisions made and the work done in establishing the Fund's ESG approach to date.

2. The Committee must maintain its focus on the achievement of the investment returns required to meet its liabilities when they fall due. And to create an investment strategy which delivers the best financial return, commensurate with appropriate levels of risk, to ensure that the Fund can meet both its immediate and long term liabilities.

Proposal(s)

3. Members are recommended to note, review and comment on the current Responsible Investment Policy attached as Appendix 1.

Reason for Proposal(s)

4. 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 £1.53 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.

5. 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.

6. The costs involved will very much depend on 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.

Relevance to the Council's Corporate Plan

7. Good homes in well-connected neighbourhoods.

8. Build our Economy to create a thriving place.

9. Sustain Strong and healthy Communities.

Background

10. 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.

11. The Fund has a longstanding policy of supporting good corporate governance in the companies in which it invests. The Fund will also challenge companies who do not meet either the standards set by their peers or reasonable expectations as measured by best practice. The Fund's approach is part of its overall investment management arrangements and its active responsible investment framework. There are three main pillars to the framework: selection (of assets), stewardship (of assets), and transparency & disclosure.

12. The Committee committed and set a goal of making its investment portfolios net zero in terms of carbon emissions by 2030. This is a very aggressive time scale for action of this sort. The BT Pension Scheme which is considerably larger than Enfield Pension Fund has committed to a 2035 goal and other schemes are looking at or have committed to 2040 or 2050, in line with the Paris agreement.

13. Thus, Enfield Pension Fund is looking to move further and faster than its peers to net zero and must do so within the context of the pooling process which to some extent, particularly when looked at together with key elements of our investment beliefs, limits our flexibility.

14. Achieving Net Zero is a journey and the Committee's view in setting the 2030 goal was clearly that the journey needed to begin and be undertaken at pace. Accordingly, we will need to do a number of things at the same time rather than wait for the completion of one piece of work before beginning the next. This is will be reflected in the Action Plan that will be brought to the next Committee meeting.

15. The road to Net Zero is not going to be a straight line, and while more precise targets will be developed when better data is available it is clear that progress is likely to be lumpy, with key strategic changes having a significant impact

while the actions of investee companies contribute a steadier underlying positive trend in emissions. Therefore, it will be important to maintain focus on the end goal and the direction of travel rather than individual way points.

ESG obligations of LGPS administering authorities and Fiduciary Responsibility

16. 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.*

17. 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.

18. 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.

19. 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.

20. 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.

21. 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.

22. 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.

Engagement

23. The Fund's strategy is to engage with its investee companies and other key stakeholders through partnerships and on its own. The Fund aims to protect and increase shareholder value by engaging on a range of financially material ESG investment factors.

24. A significant part of the Fund's engagement programme is implemented through partnerships including the Principles for Responsible Investment (PRI), the Local Authority Pension Fund Forum (LAPFF), the Institutional Investors Group on Climate Change (IIGCC) and through working with the Fund's investment pool operator (London CIV).

Voting

25. 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.

26. 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

27. 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.

28. 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.

29. 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.

30. 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

31. 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.

32. 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.

33. 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 CO_2 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.

34. 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'

<u>Update on Moving Towards Low Carbon Investments and a Reduced Exposure Fossil Fuels</u>

35. Members of the Pension Policy and Investment 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.

36. 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.*

37. The Committee invested 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. This work was completed March 2021.

38. 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.

39. 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.

40. At Committee meeting in March 2021 the Committee were asked to include within the Fund's Responsible Investment Policy Framework a commitment to making its investment portfolios net zero in terms of carbon emissions by 2030. In doing the Committee agreed to work on a plan (Net Zero Action Plan) for achieving this goal, this plan will be presented for their consideration at their November meeting.

41. Aon the Fund Investment Consultant has been asked to develop an action plan and a high level Net Zero framework d using the Institutional Investors' Group on Climate Change (IIGCC) Net Zero Investment Framework. As this recognises that there can be no "one size fits all" route to net zero, investors like LBEPF need to focus on maximising efforts that achieve decarbonisation in the real economy. This requires a comprehensive investment strategy led approach supported by concrete targets (at portfolio and asset class level) combined with smart capital allocation and engagement and advocacy activity. Such a strategy led approach must not just deliver emissions reductions, but also increase investment in the climate solutions which we need to achieve net zero. This approach will reduce the exposure of Enfield Pension Fund's investment portfolios to climate risk while increasing their exposure to climate opportunity, thus providing greater long term protection for our scheme members' savings.

42. All of this does, of course, need to be seen in the context of the Fund participation as one of 32 funds within the London CIV pool that will need to work with and gain the co-operation of the other partners and the operating company in order to achieve our goal.

43. The Fund will embrace and report in line with the requirements of the Task Force on Climate Related Financial Disclosure. The Fund will also consider presenting, the progress in achieving net zero in the Annual report.

44. The Net Zero Action Plan will start with the Fund's beliefs, it will provide the framework within which the Fund will develop objectives which will lead to us taking actions, which will lead to outcomes and consequently which we will then review to see whether we have achieved the Fund's objectives, and so the cycle goes on.

45. In making any decisions in relation to any of the stages of this cycle it is important to remember that the Committee is required by the LGPS Investment Regulations to ensure that it has taken proper advice. In most cases this will be provided by a combination of officers, Investment Consultant and the independent investment adviser, but in this area, there is likely to be a requirement at various points for additional specialist advice. Given the requirement to pool which is placed on LGPS funds there is also a need to ensure that London CIV are engaged with the Committee on this journey.

46. Before putting in place a strategy to achieve the goal of net zero it is important to understand what the Committee meant by it and importantly how it will be measured. For example, what the Committee/Fund is seeking to achieve, is that the net level of carbon emissions from the holdings in the Fund's investment portfolio equals zero. This seems simple. However, there are several ways of defining carbon emissions and it is important that the Committee do have a clear understanding and which of the known elements/definitions we are using so that we can pull the right levers in order to achieve our goal.

47. The accepted standard for defining (and measuring) carbon emissions has "3 scopes" as follows:

    i. **Scope 1** - Emissions are direct emissions from company-owned and controlled resources. In other words, emissions released to the atmosphere as a direct result of a set of activities, at a firm level.

    ii. **Scope 2** - Emissions are indirect emissions from the generation of purchased energy, from a utility provider. In other words, all GHG emissions released in the atmosphere, from the consumption of purchased electricity, steam, heat and cooling.

    iii. **Scope 3** - Emissions are all indirect emissions – not included in scope 2 – that occur in the value chain of the reporting company, including both upstream and downstream emissions. In other words, emissions that are linked to the company's operations.

48. Companies reporting in line with the requirements of the Task Force on Climate Related Financial Disclosure Standard (TCFD) must report on Scope 1 and 2 whereas reporting on Scope 3 is voluntary and as will be clear from the definition incredibly hard to measure with the significant risk of double counting as between direct producer and indirect consumer organisations.

49. The Financial Stability Board established the TCFD to develop recommendations for more effective climate-related disclosures that could promote more informed investment, credit, and insurance underwriting decisions and, in turn, enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks.

50. The data being reported by fund managers to Funds makes no distinction as to these different types of emission, and while a restricted definition might make a 2030 goal easier this is not practical and would leave the Enfield Pension Fund open to the accusation of avoiding the key issues in emissions reduction.

51. For the purpose of delivering the Authority's Net Zero Goal the following definition will be used:

    "The Enfield Pension Fund's goal is for the net carbon emissions from the totality of its investment portfolio to be zero by 2030."

52. While concentrating on scope 1 and 2 emissions allows the Fund to set targets which are comprehensible and where data is likely to be available, this position will need to be kept under review as more data becomes available and the investment impacts of using specific measures becomes clear. Measurement and regulation are continually developing in this area and to a significant degree we are going to be trying to hit a moving target, particularly in the next few years when the pace of change in these areas is likely to be greatest.

53. It is also the case that the measures identified within these definitions are of necessity backward looking and so thought will need to be given to adding a more forward looking element to the definition to ensure that investment opportunity is not lost in too great a focus on backward looking data.

Setting Targets Objectives and Reporting

54. Measurement and reporting will be central to how we drive forward the changes that are required in order to achieve the net zero commitment. The detail of these will flow from some of the strategic work that Aon is currently being carried out and will be set out in the Net Zero Action Plan. Whereby a comprehensive baseline position will be established which enables us to understand how far we have to travel to achieve net zero.

55. In simple terms what we are seeking to do is to establish a set of steps to reduce carbon in each element of the portfolio over a given time. How this will be achieved for individual asset class is difficult. However, we need to be in a place to do that so that they can feed into the reviews of individual mandates and investment products as well as the overall review of the investment strategy.

56. The other key consideration here is that we are not the only investor in the products in which we are invested and while in terms of the London CIV we can seek to influence we cannot dictate. Nor are we able to simply switch into a carbon neutral fund because the pool does not offer one, and to do so would require a fundamental change in the Fund's longstanding investment approach (either in terms of active v passive management).

57. Setting targets alone is not enough. We need to be held accountable for our progress towards those targets, which means we need to report publicly on our progress towards the net zero goal and also on the specific steps we have taken towards that objective.

Asset Class Implementation

58. The products in which the Fund invests are all made up of very different sorts of asset which have different characteristics, therefore it is highly unlikely that one approach to implementing net zero will be applicable across such a wide range of assets ranging from infrastructure to private equity investments in tech start-ups, through traditional instruments such as shares and bonds.

59. The Net Zero Action Plan will look at each major asset class in turn and identifies an initial approach which will reflects the need to focus on the real economy and the practical issues associated with operating within the context of pooling, where the Fund is not wholly in charge of its own destiny. All of this also needs to be set within the context of the Fund's broader beliefs about how to do investment.

60. Specifically, the Fund believes in:

- Being an active investor – This means picking the best stocks to invest in using the skill of individual managers. However, our moderate risk appetite means that while we believe in active investment we invest in active products that maintain broad portfolios within a particular asset class and select the best companies in particular sectors as opposed to highly active products which would select both companies and sectors, and thus generate much more concentrated portfolios.

- Being a global investor – This means that we will be exposed to investment in emerging economies such as China and India where the stage of development means that economic growth is sometimes being driven by companies in industries such as cement which are high emitters.

- Engagement over divestment or exclusion – The Fund has long operated on the basis that it seeks to influence companies through engagement, this is part of being rooted in the real economy. However, this is a position that is likely to be challenged in some areas by the setting of such an aggressive timescale for achieving net zero.

61. As we progress along the road to net zero (and further along the pooling journey more generally) these beliefs about how to do investment are all likely to be challenged in different ways and the Fund will need to at some point to consider whether it continues to support each of these propositions or whether it needs to take a different approach. However, in doing so it will need to consider not just the achievement of the net zero objective but its primary responsibility which is to ensure that the pension fund is able to meet its liabilities.

62. The other contextual factor to be considered before looking at the approach in each asset class is the fact that the Fund (like all other LGPS Administering Authorities) is part of a pool and needs to secure the co-operation of the other shareholder funds within the London CIV in order to make progress where changes are required to investment products. While there is a broad consensus within the shareholder funds about the significance of climate risk there is, as yet, not a consensus over the means of addressing it, although there does appear to be movement towards the idea of targets. Clearly this will significantly influence the pace at which the Enfield Fund can move.

63. **Listed equities** are the single largest asset class in which the Pension Fund is invested and in order to achieve LBEPF's proposed goal, on a straight line basis it will be necessary to reduce the contribution to aggregate emissions from these portfolios by at least 50% by 2025. This could be achieved in a

number of ways depending on the outcomes of the review of the investment strategy, and on the views of other investors in the funds. For example, investing in Paris Aligned Funds with London CIV.

64. An important feature of investment in listed equities is the voting rights which are conferred on asset owners. The way in which the Fund, through the external managers and London CIV, chooses to exercise these voting rights has the potential to accelerate progress by companies towards net zero. For example, if the Fund worked with external managers and London CIV to adopt a voting guideline that says votes will be cast against the reappointment of board members where companies are not making progress towards net zero as assessed by the Transition Pathway Initiative (TPI). Once this position is established, it will be appropriate to review its impact and consider whether a further strengthening of the voting position would be helpful in achieving the net zero goal.

65. **Fixed Income** portfolio are managed by a mixture of external managers and London CIV just like equity portfolio, using a variety of performance targets against a benchmark index. The favoured investment styles within these products tend towards relatively low turnover approaches which seek the best credits to buy with little reference to the composition of the index.

66. Emissions data is less available within fixed income than in equity investment, although for corporate credits there is the ability to use the same underlying data for both types of investment. However, many of the credits included in these portfolios are from sovereigns or multi-lateral institutions (such as the European Investment Bank) where the calculation of emissions data is much more difficult. While it is possible to engage with corporate bond issuers in the same way as for equities this is not possible for sovereigns and multi-lateral institutions so the ability to influence behaviour is not present in the same way.

67. So the proposition id for Fund managers in this space do seek to engage with corporates in order to have an increasing issuance of “green bonds” both by corporates and governments which will begin to form part of portfolios where they meet the wider investment criteria, although currently the scale of issuance means that the supply of such bonds is currently not always great enough to be investable while yields are slightly lower than the market as a whole making them less attractive as an investment. These are issues which will be resolved through market forces over time.

68. However, at this stage until data is available we are to a great degree “flying blind” therefore the immediate actions alongside encouraging managers to both engage more actively and consider “green bonds” where they are genuinely investable, are to gather relevant data so the baseline can be established which will allow a move to setting of targets although this will require the agreement of the other investors in the Blackrock and London CIV products.

69. Alternatives - While there are three asset classes within alternatives (Private Equity, Inflation protection and Infrastructure) these will, at this stage, be considered together.

70. The key initial issue here is the lack of data, which will need to address, to some extent. However, we cannot manufacture data where it does not exist and to some extent, we will be dependent on movement in market expectations driving fund managers to provide the data needed, including the implementation of some new legislation during 2021.

71. Regardless of the data issue, this asset class are the area where Net Zero provides the greatest opportunity. The Fund is currently considering allocations of 5% - 10% investments in renewables and other investments which support the transition (such as electric trains replacing more polluting diesels), and the low carbon transition is a clear investment theme within these portfolios. This will over time result in a build-up of assets with positive characteristics.

72. **The property portfolio** provides a number of opportunities in terms of the movement to Net Zero. Again, there is a lack of comprehensive data, and there are some challenges in undertaking alterations such as the addition of solar panels where the cost needs to be recovered through service charges, particularly in the current economic climate.

73. We can review options for switching some of the existing property mandate into a low carbon property fund.

Accurate Assessment of Exposure to Fossil Fuels

74. Divest Enfield did a press release using inaccurate data from a third party and their estimate of Enfield Pensions Fund’s exposure to fossil fuels was overstated.

75. Divest’s estimation of the Enfield Pension Fund’s exposure to fossil fuels is incorrect and overstated and also ignores significant action taken by the Fund over the past year to reduce the exposure.

76. The value of exposure to fossil fuels used by Divest Enfield in their press release of 15 July originates from a third party (Carbon Underground 200) which was based on their own analysis of the world’s largest 100 coal and oil and gas producers in the public global benchmark equity and bond indices, and assumed that Enfield Pension Fund has an identical exposure to these companies as the public benchmark (e.g. MSCI ACWI at 3.9%; Bloomberg Barclays Sterling Corporate Bond Index at 2.8%).

77. In other words, each of the Fund's mandates/portfolio has been assumed to have identical allocation to coal, oil and gas, based on public equity or bond market index exposure.

78. The true picture of the Fund's exposure is significantly lower and varies considerably at a mandate/portfolio level.

79. An investigation was performed by the Fund Investment consultant as at 31 December 2020, asking each of the managers to provide:

- ❖ A full breakdown of the Fund’s exposure to oil, gas and coal, as the Enfield Pension Policy and Investment Committee was looking to establish the extent to which the Fund is invested in debt or equity of firms which produces, extracts or explores for oil, gas or coal as a material part of its business model;
- ❖ The weights to specific companies making up this aggregate exposure, along with the names of the companies themselves; and
- ❖ The geographic breakdown of this exposure.

80. Notably, each of the Fund's managers showed awareness of the importance of these issues to the Fund, and to UK pension funds in general. Each manager was open and transparent in their data provision.

81. As expected, a number of mandates/portfolios hold zero exposure (three of the Fund's equity mandates; and a number of illiquid mandates). Within the equity space, notably, all of the Fund's active managers with exposure to fossil fuels hold lower than MSCI ACWI weightings.

82. The Fund's exposure to fossil fuels, as measured by investment in physical or synthetic debt or equity of a firm which produces, extracts, or explores for oil, gas, or coal as a material part of its business model was 1.1% of Fund value, or £15.1m as at 31 December 2021. This compares to the Divest Enfield press release figure as at 31 December 2020 of 2.6%, or £30.0m.

83. The same exercise was therefore repeated as at 31 March 2021, the Fund’s exposure to Fossil fuels is lower than the exposure as at 31 December 2020. 0.9%, or £13.1m in sterling terms. The reduction is largely driven by the Fund's transition of £220m to a passive low-carbon equity approach with BlackRock in early 2021, which successfully reduced the Fund’s fossil fuel exposure by £4.2m.

84. The Fund has put a quarterly reporting regime in place with the next report going to PPIC on 31 March 2022 for 31 December 2021 quarter end position.

Safeguarding Implications

85. 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

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

Equalities Impact of the Proposal

87. 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

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

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

89. 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

90. Not considering and 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

91. 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.

92. 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.

93. There are no direct financial implications arising from this report. The Draft Action Plan highlights the need to use a number of processes, such as the investment strategy review, which are already budgeted to facilitate delivery of the Net Zero goal.

Legal Implications

94. 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.

95. As indicated in the body of the report, the Committee must ensure that it continues to demonstrate a focus on its duty to meet the obligation to pay pensions when due while at the same time positively addressing climate change. The two need not be incompatible, but there is a tension of which the Committee must remain aware and stay on the right side of.

Workforce Implications

96. 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

97. None

Other Implications

98. None

Options Considered

99. The Committee could decide not to set a target date to achieve Net Zero Carbon Emission goal for the Fund. Having this target in place as a long-term investor, will assist 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

100. 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.

101. 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.

102. The Fund expects the pool and the asset 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.

103. 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. A detailed Net Zero Action Plan will be brought to the Board in 6 months.

104. There is Increasingly, growing interest in the investment community to develop investment strategies that focus on sustainable investments in different asset class. Enfield Pension Fund will encourage, support and contribute to the work being carried out by the London CIV in the development of sustainable investments in the private markets and other asset class.

105. The Pension Fund set a goal of making its investment portfolios to be net zero carbon emissions by 2030. The initial stages in this approach will be twofold:

    i. Firstly, an increase in exposure to investments which support the low carbon transition, by allocating and investing 10% of total funds into renewable energy.

    ii. Secondly a restructuring of the various equity mandates. This restructuring will result in a reduction in the carbon emissions and intensity of these portfolios, through changing the universe of shares that can be invested in. At this stage this does not involve ruling out whole classes of company, but it may (based on an investment case) involve divestment from specific companies.

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Appendices
Appendix 1 – Responsible Investment Policy