

London Borough of Enfield

PENSION POLICY AND INVESTMENT COMMITTEE

Meeting Date: 27 July 2022

Subject: Investment Strategy Update and Fund Rebalancing Plan

Cabinet Member: Cllr Leaver

Executive Director: Fay Hammond

Key Decision: []

Purpose of Report

1. This report introduces Aon's reports on Enfield Pension Fund Investment Strategy next step and rebalancing plan.

Proposal(s)

2. Pension Policy and Investments Committee is recommended to
 - a) note the contents of this report and the Investment Strategy next step, appended as confidential appendix 1;
 - b) note and approve the Fund rebalancing to its strategic benchmark weight as stated in appendix 2 of this report; and
 - c) reconsider and approve the recommendation of investing the Fund's new 5% allocation to alternative fixed income into the LCIV Global Bond Fund, appended as confidential appendix 3 to this report.

Reason for Proposal(s)

3. The decisions taken around investment strategy are some of the most important decisions taken by the Committee. Contributions and investment returns are the only two options available to fund benefit payments; decisions around the contribution and investment strategies are therefore some of the most significant in terms of their overall impact on the Fund. It should be noted that the high level decision making around the type of assets held has far more impact than manager selection.
4. **Relevance to the Council's Corporate Plan**
5. Good homes in well-connected neighbourhoods.
6. Build our Economy to create a thriving place.

7. Sustain Strong and healthy Communities.

Background

8. Appendix 1 report provides the Committee with an overview of the various stages for implementing the Fund's revised investment strategy.
9. Focussing first on the Fund's equity portfolio, Aon continues to believe that a balanced approach remains appropriate, both in terms of management approach (active vs passive) and management style (growth vs value vs quality). We recommend that the Fund's holdings in the LCIV Global Alpha Growth Fund be moved to the Paris-Aligned version of the fund and also that the Committee review the LCIV Sustainable Equity Fund in more detail.
10. For the additional allocation to fixed income, they believe that the Fund should diversify its portfolio more globally, hence the recommendation that the Committee should review the LCIV Global Bond Fund in more detail.
11. The increased allocation to infrastructure is to allow the Committee to reflect its ESG beliefs by considering investing into sectors such as renewables. Aon recommends that the Committee review both of the LCIV's infrastructure funds in more detail; the LCIV Infrastructure Fund and the LCIV Renewables Fund.
12. In relation to the redemption of the Fund's hedge fund portfolio, despite the length of notice periods being relatively long, consideration will need to be given to the timing of the redemption request submissions, to avoid the Fund holding an excess balance in Cash for a prolonged period.
13. The implementation of the Fund's revised investment strategy will continue into 2023, but there are a number of areas where progress can be made before the end of this year. These include making changes to the Fund's equity portfolio (in particular in relation to the Paris-Aligned version of the Global Alpha Growth Fund) as well as engaging with the LCIV and the underlying managers to review their offerings in relation to sustainable equity, global bonds and infrastructure.
14. Importantly, it should be noted that these proposed changes will help to address and progress the Fund towards its previously set climate related objectives as it would represent a "greener" asset allocation.

Safeguarding Implications

15. None.

Public Health Implications

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

Equalities Impact of the Proposal

17. 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

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

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

19. Any form of investment inevitably involves a degree of risk.
20. To minimise risk the Committee attempts to achieve a diversification portfolio. Diversification relates to asset classes and management styles.
21. 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.

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

22. Not adhering to the overriding legal requirements could impact on meeting the ongoing objectives of the Enfield Pension Fund.

Financial Implications

23. The Aon's papers set out a number of recommendations in respect of the implementation of a revised Investment Strategy and also rebalancing the Fund to its strategic asset allocations.

Legal Implications

24. Regulation 7 of the 2016 Regulations requires the Administering Authority to formulate an Investment Strategy in line with guidance published by the Secretary of State. Regulation 7(2) stipulates that the authority's investment strategy must include:
 - a) a requirement to invest fund money in a wide variety of investments;
 - b) the authority's assessment of the suitability of particular investments and types of investments;
 - c) the authority's approach to risk, including the ways in which risks are to be assessed and managed;
 - d) the authority's approach to pooling investments, including the use of collective investment vehicles and shared services;

- e) the authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
 - f) the authority's policy on the exercise of the rights (including voting rights) attaching to investments.
25. This paper helps demonstrate that the Committee is investing in line with Regulation 7(2), by carrying out an assessment of the suitability of different types of investments and considering how some of the risks to which the Fund is exposed can be managed through setting an appropriate investment strategy.

Workforce Implications

26. 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

27. None

Other Implications

28. None

Options Considered

29. No alternative options considered.

Conclusions

30. The Committee has responsibility for the prudent and effective stewardship of the Pension Fund and a clear fiduciary duty in the performance of its functions.

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Date of report 14th July 2022

Appendices

- Appendix 1 – Aon Investment Strategy Next Steps for Enfield Pension Fund (Confidential)
- Appendix 2 – Aon Rebalancing Considerations for Enfield Pension Fund (Confidential)
- Appendix 3 – Aon Alternative Fixed Income Allocation Report for Enfield PF (Confidential)