

	<h2>Pension Fund Committee</h2> <h3>26 June 2018</h3>
<b>Title</b>	<b>Fossil Fuel and Corporate Engagement</b>
<b>Report of</b>	Director of Finance
<b>Wards</b>	All
<b>Status</b>	Public
<b>Urgent</b>	No
<b>Key</b>	No
<b>Enclosures</b>	Appendix A – Email from Mayor of London Appendix B – LAPFF Annual Report
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## Summary

The Mayor of London has issued a press release calling for London funds to divest from fossil companies. The Committee's current approach focuses on engagement rather than disinvestment. Engagement will be enhanced through participating in the Local Authority Pension Fund Forum.

## Recommendations

1. That the Pension Fund Committee
  - asks Legal and General to provide training on the available approaches to passive equity investing, including low carbon, and
  - acquires membership of the Local Authority Pension Fund Forum.

## 1. WHY THIS REPORT IS NEEDED

1.1 This report covers two issues of a related nature:

- Press release from the Mayor of London concerning disinvestment from fossil fuel companies;
- Invitation to join the Local Authority Pension Fund Forum.

### Mayor of London Press Release

- 1.2 Attached (appendix A) is a copy of a press release issued during March by the Mayor of London calling on London local authority pension funds to divest their pension funds from fossil fuel companies. This is aimed at companies whose main business activities are oil, gas and coal extraction and processing. It is not directly targeted at companies who use oil and gas e.g. car industry, transport or power generation.
- 1.3 The fund's equity holdings (40% of total fund) have exposure to fossil fuel companies close to the index. Currently the world index has a 6.3% allocation to oil and gas and 2.0% allocation to basic resources (a small proportion being coal). The Committee does not currently have a policy on avoiding classes of companies.
- 1.4 The Mayor's press release supports the proposal to divest stating "By working together, we will have a louder voice to convince polluting firms to change their ways in order to tackle climate change." The Committee has previously taken the stance that by selling holdings we lose all influence and that continuing to invest and use our voting rights is a better way to influence management to consider the interests of the wider community. It is interesting to note that the action taken by the London Pension Fund Authority is in respect of active equity holdings. The Barnet equities are managed wholly passively (index tracking).
- 1.5 The current equity allocations are split between a market capitalisation allocation and the RAFI index based on a composite of fundamental factors, including total cash dividends, free cash flow, total sales and book equity value. Legal and General offer a range of 'passive' strategies, one of which includes a low carbon index. This index claims to avoid 80% of fossil fuel exposures of the market capitalisation based index while mirroring the return of the latter index.
- 1.6 It is suggested that the Committee invite Legal and General to provide training on the various equity indices before the Committee discuss the Mayor of London's proposal.

### Local Authority Pension Fund Forum

- 1.7 Barnet is one of a minority of local authority pension funds who are not members of the Local Authority Pension Fund Forum (LAPFF). The LAPFF is

a voluntary association of local authority pension funds, and membership is open to all Local Government Pension Scheme (LGPS) funds. The Forum:

- Seeks to protect and enhance the value of members' shareholdings by optimising local authority pension funds' influence as shareholders on environmental, social and governance (ESG) issues and thereby to promote Corporate Social Responsibility and high standards of Corporate Governance
- Facilitates commissioning of research and policy analysis of issues more effectively than individual members
- Provides a forum for consultation on shareholder initiatives
- Provides a forum for information exchange and discussion about any investment issues
- Provides a forum to consider issues of common interest to all pension fund administrators and trustees.

1.8 Currently 75 local authorities are members of the LAPFF. The annual cost is £9,000. The benefits of local authorities working together to influence the behaviour of companies was recognised in the Myners Principles that pension funds are urged to follow:

“Authorities may wish to consider seeking alliances with either other pension funds in general, or a group of local authority pension funds, to benefit from collective size where there is a common interest to influence companies to take action on environmental, social and governance issues. For example, the Local Authority Pension Fund Forum (LAPFF) exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders while promoting corporate social responsibility and high standards of corporate governance among the companies in which they invest.”

1.9 Joining the LAPFF and supporting its activities is a strong signal that the Committee takes its responsibilities as a shareholder seriously and uses its influence to ensure companies are well managed. It is compatible with the stance taken on fossil fuels that engagement is more likely to change behaviour than divestment.

1.10 A copy of the latest LAPFF annual report is attached for information.

## **2. REASONS FOR RECOMMENDATIONS**

2.1 Public scrutiny of the way local authority pension funds are managed has been increasing with calls for greater attention to socially responsible / ESG investing. The proposals in this paper provide the Committee with an opportunity to consider how it responds to external pressure to take a more active stance.

### **3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED**

3.1 The Committee is not required to take any action and can retain the current stance.

### **4. POST DECISION IMPLEMENTATION**

4.1 The recommendations include training on passive low carbon investing.

### **5. IMPLICATIONS OF DECISION**

#### **5.1 Corporate Priorities and Performance**

5.1.1 To ensure that the Pension Fund is being invested prudently and to the best advantage in order to achieve the required funding level. Effective monitoring of the Pension Fund will ensure that long term investment targeted returns are achieved and will provide support towards the Council's corporate priorities (2015-2020).

#### **5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)**

5.2.1 The proposal to join the LAPFF will incur annual fees of £9,000, chargeable to the Pension Fund. This is a cost-effective way to engage with corporates.

#### **5.3 Social Value**

5.3.1 Contributing to the Pension Fund ensures that contributing members have a secured income on retirement.

#### **5.4 Legal and Constitutional References**

5.4.1 Included within article 7 of the Constitution is the responsibility to appoint fund managers. Legal and General currently manages 40% of the fund. The suggestion that they provide training is part of the monitoring of the investment strategy.

5.4.2 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 requires the investment strategy statement to include 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.

#### **5.5 Risk Management**

5.5.1 There are many risks faced by the pension fund. The risk that investments generate low returns is monitored on a quarterly basis. There is also a risk that the Council attracts adverse publicity due to the way it implements the fund's investment strategy. This paper addresses the latter risk.

#### **5.6 Equalities and Diversity**

5.6.1 Pursuant to the Equalities Act 2010, the Council is under an obligation to have due regard to eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation, marriage and civil partnership.

## 5.7 **Consultation and Engagement**

5.7.1 Not required.

## 5.8 **Insight**

5.8.1 The report provides insight into the direction of public debate on the management of local authority pension funds.

## 6. **BACKGROUND PAPERS**

6.1 None