

	<p><b>Pension Fund Committee</b></p> <p><b>31 January 2023</b></p>
<b>Title</b>	<p><b>Developing the Fund’s Responsible Investment strategy - update</b></p>
<b>Report of</b>	<p>Executive Director of Resources (S151 officer)</p>
<b>Wards</b>	<p>N/A</p>
<b>Status</b>	<p>Public</p>
<b>Urgent</b>	<p>No</p>
<b>Key</b>	<p>No</p>
<b>Enclosures</b>	<p>Appendix A - Summary of RI day sessions  Appendix B - Update on Officer activity following the RI day  Appendix C - High-level timeline 2023</p>
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<p><b>Summary</b></p>	
<p>This report provides the Pension Fund Committee with an update on matters relating to Responsible Investing (“RI”) with a view to further progressing the Fund’s strategy in this area.</p> <p>Specifically, this report covers:</p> <ul style="list-style-type: none"> <li>- A summary of the output and discussions at the Fund’s RI day held on 1 December 2022</li> <li>- Draft principles for constructing the Fund’s Net Zero strategy</li> <li>- An update on activity by Officers to progress the Fund’s RI strategy</li> </ul>	
<p><b>Officer Recommendations</b></p>	
<p>That the draft principles for developing a framework for working towards a Net Zero investment strategy (as set out in the report under paragraph 1.18) are agreed.</p>	

## **WHY THIS REPORT IS NEEDED**

- 1.1 On 1 December Officers, Pension Fund Committee and Local Pension Board members held a days' conference considering Responsible Investment issues with a focus on developing the Pension Fund's Net Zero strategy
- 1.2 We hosted speakers from a number of different organisations and the conference was held at Middlesex University. General feedback has been that the conference was a positive and constructive event and will provide a good platform to develop Barnet's Responsible Investment policies
- 1.3 This paper summarises the key output from the event plus the plan for taking our Responsible Investment policies forward through 2023

## **Summary of the Day**

- 1.4 The day comprised six sessions. Materials for each of the sessions have been circulated to Committee members and attendees. The session was also recorded and Officers are considering how these recordings can be condensed down into bite size training modules for future reference
- 1.5 The overall theme of the session with their key messages are summarised within Appendix A
- 1.6 Appendix B provides an indication of initial thinking of Officers to take forward actions (for information only at this stage)
- 1.7 Note that the issues are complex and we expect this process to continue through-out 2023 before we are able to make firm proposals to the Committee.
- 1.8 However, Officers will work to keep the Committee up-to-date with progress in between Committee meetings so PFC members can see the progress being made. A timeline of anticipated activity during 2023 is set out in Appendix C
- 1.9 To close the day we broke out into two groups to consider how we take actions forward for the Barnet Pension Fund – a broad summary of the discussion is set out in the section below.

## **Summary of concluding discussions**

- 1.10 The discussions were split out into the following three areas:
  - Net Zero
  - Engagement (e.g. Stewardship, Voting)
  - Impact investment

## Net Zero strategy

- 1.11 There was an extensive discussion around what Net Zero target the Barnet Pension Fund should set - there was broad agreement that Barnet should set a Net Zero target, but there was disagreement about how this should be framed.
- 1.12 On the one hand, there was a feeling, which was broadly supported through the sessions, that setting a target that was aligned with the Council's 2030 target was not credible because the "real world" we would be investing into would not be Net Zero and so there would be a lack of breadth of opportunities to invest in
- 1.13 However, and on the other hand, there was a feeling that the Pension Fund's target should be consistent with what the Council was aiming to achieve on its operational side and that setting a later Net Zero target would be sending a conflicting message about what the Council was looking to achieve.
- 1.14 In summary there was broad consensus of sentiment that the Council should target a Net Zero strategy as soon as possible, but whether the right approach would be to:
  - to set a very ambitious target (e.g. 2030) to drive momentum and energy towards meeting it, but with a recognition that the target would be difficult to achieve; or
  - set a more realistic target (2040+) and seek to accelerate against that target.
- 1.15 It was also noted that we need to be very conscious that reducing Carbon emissions in the Pension Fund does not necessarily reduce Carbon in the real world
- 1.16 That said, we also noted that "making a statement" that we are aiming for a Net Zero Target would help drive the market and behaviour in the wider economy, and so does have value that will drive outcomes indirectly
- 1.17 Officers have developed a possible Framework, which we will develop with our advisors for initial consideration at the March 2023 PFC meeting – a summary of the initial thinking is set out in Appendix B of this paper

1.18 Underpinning the development of this framework will be the principles we work to. Officers are proposing the following guiding principles for formulating our Net Zero strategy:

1. **Leading and credible voice:** Our framework should provide a platform for Barnet to be a leading voice in discussions around targeting a Net Zero strategy for an LGPS Pension Fund
2. **Ambitious and measurable:** our target should be evidence based, credible, measurable and ambitious
3. **Risk and return focused:** We should not compromise risk or return potential in targeting a Net Zero strategy
4. **Wider Council alignment:** We should echo the wider targets set by the Council

1.19 Officers are seeking agreement from PFC members that these are the right principles to build our framework around.

## Engagement

1.20 There was a discussion around our reporting around engagement. Overall, it was felt that hearing presentations from Hymans, LCIV and EOS was very positive as it 'brought to life' the work already being done around engagement. However, from Barnet's point of view there is less clarity around how to take this element of our Responsible Investment strategy forward.

1.21 It is Officers' view that Barnet could improve governance by increasing the frequency and transparency of reporting around engagement.

1.22 Stewardship is complex, and Officers are keen to make sure they understand how the engagement and stewardship "chain of command" works for the investments Barnet hold as a first step – initial thinking around this is set out in Appendix B

## Impact

1.23 Whilst during the day the concept of Impact investment was seen as being an interesting area to explore, there was no appetite to set an explicit objective around this

1.24 We also noted the FCA consultation on Sustainability Disclosure Requirements, which is due to conclude during 2023.

1.25 Officers will consider Impact in more detail once the conclusions of the FCA review are available and we are clearer as a Council on our strategy around Net Zero and Engagement / Stewardship.

## **2. REASONS FOR RECOMMENDATIONS**

2.2.1 The Council has ambitious plans to meet its responsibilities around sustainability generally and climate change specifically. Having clarity on the principles we will use to develop our NetZero strategy will help frame future conversations and make it more likely that our strategy will meet the desired outcomes

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

3.1.1 Not applicable.

## **4. POST DECISION IMPLEMENTATION**

4.1.1 Not applicable

## **5. IMPLICATIONS OF DECISION**

### **5.1.1 Corporate Priorities and Performance**

5.1.2 Good management of the Pension Fund, including developing governance around climate change and ESG, will minimise the cost of providing benefits thus enabling funds to be directed to Council priorities.

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

5.2.1 there are no direct resources issues however changes in the financial performance of the pension fund affects the pension fund deficit reflected in the Authority's accounts and the level of contributions payable by the Council and other employers.

### **5.3 Social Value**

5.3.1 The Public Services (Social Value) Act 2012 came into force on 31 January 2013. It requires people who commission public services to think about how they can also secure wider social, economic and environmental benefits.

5.3.2 Before they start the procurement process, commissioners should think about whether the services they are going to buy, or the way they are going to buy them, could secure these benefits for their area or stakeholders.

5.3.3 The Act is a tool to help commissioners get more value for money out of procurement. It also encourages commissioners to talk to their local provider market or community to design better services, often finding new and innovative solutions to difficult problems.

5.3.4 There are no specific social value issues arising out of this report, however membership of the Pension Fund ensures the long-term financial health of contributing employees on retirement.

## **5.4 Legal and Constitutional References**

5.4.1 The LGPS (Management and Investment of Funds) Regulations 2016 (Regulation 7(7)) requires the Committee to periodically (at least every three years) to review the investment strategy and publish a statement of any revisions made.

5.4.2 The Council's Constitution – Article 7 – includes within the responsibilities of the Pension Fund Committee, (1) the approval of the Investment Strategy Statement (ISS) and (2) the appointment of investment managers. This paper considers factors that will influence the asset allocation set out in the ISS.

## **5.5 Risk Management**

5.5.1 Risk management is central to the LGPS; which are in themselves risk management tools, managing the risk that future employer income streams will be able to meet future pensions liabilities by creating a reserve from which future liabilities will be met.

5.5.2 Understanding the causes of sources and variabilities of scheme returns informs the management of investment and funding risk.

## **5.6 Equalities and Diversity**

5.6.1 Pursuant to the Equality Act 2010, the Council is under an obligation to have due regard to 1) eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; 2) advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and 3) 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. The Council also has regard to the additional protected characteristic of marriage and civil partnership even though this does not apply to parts 2) and 3) (above) of the public-sector equality duty.

5.6.2 The rules governing admission to and participation in the Pension Fund are in keeping with the public-sector equality duty. The Public Sector Equality Duty requires public authorities in carrying out their functions, to have due regard to the need to achieve the objectives set out under s149 of the Equality Act 2010.

Good governance arrangements will benefit everyone who contributes to the fund.

## **5.7 Corporate Parenting**

5.7.1 Not applicable in the context of this report.

## 5.8 **Consultation and Engagement**

5.8.1 Not required, although consultation may ultimately be needed before formalising any specific targets around Net Zero.

## 5.9 **Insight**

5.9.1 Not applicable

## 6. **ENVIRONMENTAL CONSIDERATION**

6.1 Not relevant.

## 7. **BACKGROUND PAPERS**

7.1 A paper summarising the Fund's Responsibility Investment activity to date was shared at the July 2022 Pension Fund Committee meeting and can be accessed [here](#)