

Report for: Pensions Committee and Board 14 March 2019

Item number:

Title: Emerging Market Equity Review

Report authorised by: Jon Warlow, Director of Finance (S151 Officer)

Lead Officer: Thomas Skeen, Head of Pensions, Treasury & Chief Accountant
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Ward(s) affected: N/A

**Report for Key/
Non Key Decision:** Non Key decision

1. Describe the issue under consideration

- 1.1. This paper seeks to review the fund's low carbon equity holdings, with a view to considering the potential to reduce the fund's carbon exposure.

2. Cabinet Member Introduction

- 2.1. Not applicable.

3. Recommendations

- 3.1. That the Committee consider the report, and information outlined by Mercer in Confidential Appendix 1.
- 3.2. That the Committee agrees to commission a further report on this topic for the next meeting of the Pensions Committee and Board, reflecting the views expressed by members at this meeting.

4. Reason for Decision

- 4.1. The fund has a commitment to investing in a manner which not only secures sufficient returns to meet the fund's strategy to increase the overall funding level, and keep employer contributions to a minimum, but which also takes serious consideration of Environmental Social and Corporate Governance (ESG) factors. The fund's Investment Strategy Statement states that *'The Fund believes that further reduction in exposure to fossil fuel industries will reduce risk and secure stronger returns for the fund over the long term.'* This paper aims to examine

some potential options for changing the funds strategy in the future, as part of a longer ongoing project to review the fund's exposure to risk, and make positive and proactive changes, wherever these are judged to be consistent with the fund's overriding fiduciary duties. A further report will be able to follow this one at the next meeting of the Pensions Committee and Board with detailed implementation information, and at this point, a change in strategy could be considered.

- 4.2. Mercer has produced a review of three alternative options to the fund's current emerging market equity strategy, the historic performance data of these three options, along with carbon emissions information, is attached in their report at Confidential Appendix 1, in order to provide an evidence base for the Committee and Board to consider.

5. Other options considered

- 5.1. None

6. Background information

- 6.1. The most important investment role for the Committee and Board is the setting of an asset allocation strategy. This is the desired allocation to the various asset classes e.g. equities, bonds, property, cash etc. Different asset allocations will have different expected outcomes in terms of future returns and also the predictability of returns.
- 6.2. In setting the current strategy that has a high allocation to equities, whose values, as an asset class, have a long term correlation with economic growth, the Committee and Board is focused on funding the promised benefits primarily from investment returns while seeking to minimise / stabilise employer contributions. The Committee and Board is required to keep the strategy under review considering the impact of funding levels and market conditions.
- 6.3. The fund has undertaken regular reviews of its equity holdings in recent years, both reducing overall allocations, and utilising alternative indexation, currency hedged funds, and low carbon options, with the aim of smoothing returns, and managing overall risk for the fund. Half of the fund's developed market equity is currently invested in a low carbon fund.
- 6.4. The Fund has an overall 6.66% allocation to emerging market equity. Although the percentage of total fund holding has varied as the fund has reduced exposure to equity over time, these holdings have been passively invested in the same emerging markets indexed fund since 2013/14. The current value of these holdings is £92.1m as at 31.12.18.

- 6.5. The report produced by Mercer, attached at Confidential Appendix 1, outlines 3 potential options which the fund could explore utilising in the future to reduce carbon exposure within its emerging markets portfolio. The performance figures, and carbon exposure figures are highlighted in this report. Members of the Pensions Committee and Board will be encouraged to discuss and debate these options in the meeting.

7. Contribution to Strategic Outcomes

- 7.1. None.

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

Finance and Procurement

- 8.1. The Fund has enjoyed strong returns in recent years primarily from rising equity valuations. The Pension Committee and Board's responsibility is to look to the long term when setting an investment strategy, ensuring an appropriate degree of diversification.
- 8.2. Whilst commitment to ESG issues is clearly a key consideration for Haringey Pension Fund, the overriding aim of the fund's investment strategy must be to improve the funding position with the aim of reaching fully funded status, whilst maintaining stability of employer contributions. Any future changes to the Fund's investment strategy must be consistent with these principles.

Legal

- 8.7 The Council as administering authority for the Haringey Pension Fund has the power to invest fund monies as set out in Local Government Pension Scheme (Management & Investment Funds) Regulations 2016.
- 8.8 Any changes to the allocations must comply with the Pension Fund Investment Strategy Statement. There are no legal implications in respect of the recommendation.

Equalities

- 8.5 There are no equalities issues arising from this report

9. Use of Appendices

- 9.1. Confidential Appendix 1 – Emerging Market Equity Investments

10. Local Government (Access to Information) Act 1985

10.1. Not applicable.