

**Report for:** Pensions Committee and Board – 23 November 2020

**Title:** Implementation of the RAFI Multi Factor Climate Transition Strategy

**Report authorised by:** Thomas Skeen, Assistant Director of Finance (Deputy Section S151 Officer)

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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. The Pensions Committee and Board, at its meeting in March 2020, agreed in principle to switch the Fund's investment in the RAFI Multi Factor developed strategy to low carbon derivative of the RAFI strategy: RAFI Multi Factor Climate Transition (MFCT) Developed Index.
- 1.2. This report presents the result of further assessment of the RAFI MFCT index in line with Committee and Board instructions and summarises implementation considerations for the Fund.

## **2. Cabinet Member Introduction**

- 2.1. Not applicable.

## **3. Recommendations**

The Pensions Committee and Board is asked:

- 3.1. To agree to implement the RAFI Multi Factor Climate Transition (Developed) strategy set out in Appendix 1 and delegate the authority to implement the strategy to the Assistant Director of Finance, subject to confirmation of costs by Legal and General Investment Management.
- 3.2. If the above recommendation is agreed, to delegate authority to the Assistant Director of Finance to update and republish the fund's Investment Strategy Statement consistent with this change.

- 3.3. To note that moving to the RAFI Multi Factor Climate Transition Strategy will reduce the Fund's carbon intensity by 70% compared to the current index and will further reduce the Fund's carbon intensity by 7% annually.
- 3.4. To note that moving to the RAFI Multi Factor Climate Transition Strategy will reduce the Fund's equity portfolio carbon footprint overall by 50% compared to current levels.

#### **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.'*
- 4.2. The Pensions Committee and Board (PCB), at its March 2020 meeting, agreed in principle to move to the Fund's investment into a low carbon version of the RAFI Multi Factor strategy: the RAFI Multi Factor Climate Transition strategy subject to further due diligence work being completed on the suitability of this strategy to the Fund after the index launches.
- 4.3. Mercer, the Fund's Investment Consultant, has undertaken an assessment on the suitability of RAFI Climate Transition Index. This is appended at Confidential Appendix 1.

#### **5. Other options considered**

- 5.1. Not applicable.

#### **6. Background information**

- 6.1. The Fund has been seeking to decarbonise its investment portfolio further in recent years to manage the investment risks posed by exposure to highly carbon intensive industries. The PCB agreed in principle at its meeting in March 2020 to switch the Fund's equity allocation to the RAFI multi factor into a low carbon version of the strategy.
- 6.2. The PCB also requested that the decision is subject to due diligence and that a further report should be brought to the Committee and Board once the strategy has launched and prior to implementation of the new strategy.
- 6.3. A back test of the strategy was conducted to demonstrate the effectiveness of the RAFI MF climate transition strategy on decarbonisation of the Fund's

equity holdings. Had the Fund been invested using this strategy, there would have been a 30% reduction in carbon intensity from day one of implementing the strategy and annual 7% decrease in carbon intensity annually whilst overperforming the current strategy over all periods reviewed.

- 6.4. LGIM, the funds passive equity manager has indicated that they will be in a position to launch a fund that tracks the RAFI Multi Factor Climate Transition index by Q2 2021. However, officers have requested that this is implemented as soon as possible, and if as late as Q2 2021 at the start of Q2.
- 6.5. Although, the cost of implementation is yet to be confirmed by LGIM, these costs are not expected to be significant and should be available for the meeting of the Pensions Committee and Board to be updated to the meeting verbally. Aside from fund management fees charged by LGIM, Research Affiliates also operate a license fee which is similar to what the Fund currently pays to utilise the RAFI Multi Factor strategy.
- 6.6. As the Haringey Fund will be a seed investor in the fund once it launches and will likely initially have to pay slightly higher operation costs to maintain the strategy. However, LGIM have expressed a high degree of confidence in potential to bring other investors on board. This will facilitate cost sharing with other investors which will lower net cost to the Haringey Fund.

## **7. Contribution to Strategic Outcomes**

- 7.1. Not applicable.

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

### Finance and Procurement

- 8.1. This report provides further details on the implementation process for the RAFI Multi Factor Climate Transition strategy that the Committee and Board had previously agreed in principle to implement. The Fund will incur some initial transactions cost for switching the current RAFI strategy to the climate transition strategy, but it is not expected that these will be significant relative to the total value of assets being transferred.
- 8.2. As a seed investor in this strategy, the Fund may have to pay higher operational cost to maintain the strategy, but these costs will reduce as more funds implement the strategy. Additional implementation and ongoing costs are also not anticipated to be material, and must be balanced against the benefits of implementing the strategy – namely the management of the risks associated with fossil fuel industries and the Fund's belief that further

reducing exposure to these will secure stronger returns for the fund over the long term.

### Legal

- 8.3. The Council as administering authority for the Haringey Pension Fund must periodically review the suitability of its investment portfolio to ensure that returns, risk and volatility are all appropriately managed and are consistent with its overall investment strategy.
- 8.4. All monies must be invested in accordance with the Investment Strategy Statement (as required by Regulation 7 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016) and members of the PCB should keep this duty in mind when considering this report and take proper advice on the matter.

### Equalities

- 8.5. There are no equalities issues arising from this report.

## **9. Use of Appendices**

- 9.1. Confidential Appendix 1 – RAFI Multi Factor Climate Transition Index Implementation Proposal

## **10. Local Government (Access to Information) Act 1985**

- 10.1. Not applicable.