

24th November 2017	Title: Investment Strategy Review – Carbon (Fossil Fuels) Investment Reduction
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Recent media stories have claimed the Council has £92m invested in fossil fuel holdings. The actual figure at September 2017 was £67m, so around 4.7% of the £1.4bn fund. This was an increase in value from £54m over the year, but that was due to investments increasing in value. The majority of this exposure is within the equity portfolio part of the fund. Members of the Pension Committee and Pension Boards are disappointed that recent media stories have not underlined a commitment by Members to reduce carbon investments by the Pension Fund.

The Pension Committee (with support from the Pensions Board) is committed to reducing share holdings in carbon based investments. The Committee has been working with external investment advisors to formulate a revised investment strategy. Members of the Pension Committee and Pension Board are fully aware of the risk of fossil fuel investments becoming “stranded assets” (assets in oil and gas companies that might become worthless due to climate change legislation), and they have invited speakers to recent meetings to have in-depth discussions on fossil fuel investment.

At a recent meeting the Committee agreed to rebalance some of its investments as part of the three year review of the position of the Pension Fund. The following changes to the portfolio have been agreed, and are in the process of being implemented:

1. A reduction in the total equity exposure from 60% to 50% of total assets, with the proceeds invested into multi-asset funds with much lower equity holdings (and hence lower exposure to carbon-intensive assets).
2. Of the remaining 50% of assets that make up the equity portfolio, 15% will be invested into a Low Carbon index-tracking strategy which aims to reduce the carbon exposure of the portfolio by around 70%, relative to the broad market index, whilst still expecting to perform broadly in line with the wider market over the long term. This will reduce the Council's exposure to carbon investments.

It is expected that the change to the equity allocation will be completed during the first quarter of 2018.

Social, environmental or corporate governance factors are considered as part of the Pension Committee's review of the Pension Fund Investment Strategy. The investment strategy is being considered as part of the next Pension Committee agenda.

Both the Pension Committee and Pension Board are pleased with the progress that has been made to date, but recognise that investment strategy is an ongoing process, and the Fund needs to remain a leader in terms of sustainable investment more broadly but including fossil fuel exposure.

At a recent meeting of the Committee, its Investment Consultant observed that the carbon investments in the Tower Hamlets Fund were lower than other comparative funds. The Pension Committee will be conducting an annual review of the strategy, is working in terms of reducing the carbon exposure of the fund. New Members of the Pension Committee will receive training on investment matters and their fiduciary duty to manage the fund.

The Pension Committee has a legal duty to ensure that pension liabilities due to members of the scheme are fulfilled and to ensure the fund is sustainable. In the three years to March 2016, the funding level of the Pension Fund increased from 71.8% to 82.7%, so this demonstrates that the fund is on track to meet its future liabilities.

An additional complication is a number of the Council's investments are with the London CIV to reduce investment costs from pooling investments across funds. The London CIV is a London wide investment organisation owned jointly by all London Councils to pool investments. Involvement by Council pension funds is required by the Government. The London CIV is exploring the potential for low carbon funds but these investments vehicles are not yet in place. When these funds are available the Committee will proactively look to see if there are opportunities to move investments into those funds.

In addition to low carbon investment, the Council Pension Fund is a member of the LAPFF (Local Authority Pension Fund Forum) – this is a UK wide organisation to co-ordinate shareholder voting activity in companies pension funds are invested with.
