1 **SUMMARY**

1.1 This report covers the following:

An update of the equity protection strategy and UK/Global Equities rebalancing transition.

Information relating to the progress and monitoring of the Fund’s fossil fuel equity holdings.

Update concerning the fund’s London CIV Equities Emerging Market investment.

Equities Voting Summaries and ESG information

2 **RECOMMENDATIONS**

2.1 Pension Fund Committee is recommended to:
2.1.1 **Note** the update in relation to the Equity Protection Strategy and UK/Global equities rebalancing.

2.1.2 **Note** the information relating to the progress and monitoring of the Fund’s fossil fuel equity holdings.

2.1.3 **Note** the update on the London CIV emerging market investment

2.1.4 **Agree** that the Strategic Director of Finance and Governance in consultation with the Chair of the Pension Committee, the Fund’s investment consultant Mercer, Independent Advisor and fund officer, make the decision on the direction of the emerging markets investment.

2.1.5 **Note** the equities voting summaries and ESG information.

### 3 Update Equity Protection and UK/Global Equities rebalancing

During April the fund implemented its transition to the L&G equity protection strategy as part of this transition rebalancing between UK and global equities with the London CIV took place to complete the latest rebalancing of these allocations to the target allocation between these two equity allocations.

Please find below a Transition Summary table:

<table>
<thead>
<tr>
<th>Transition Activity</th>
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<tbody>
<tr>
<td>£102,825,564 was disinvested from Wellington.</td>
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<tr>
<td>£77,174,436 was disinvested from AXA.</td>
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<tr>
<td>£5,000,000 was disinvested from the Pension Fund cash.</td>
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<tr>
<td>£55,000,000 was invested at LCIV.</td>
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<tr>
<td>£130,000,000 was invested at L&amp;G.</td>
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<table>
<thead>
<tr>
<th>Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Manager</strong></td>
</tr>
<tr>
<td>AXA</td>
</tr>
<tr>
<td>LCIV</td>
</tr>
<tr>
<td>Wellington</td>
</tr>
<tr>
<td>L&amp;G</td>
</tr>
<tr>
<td><strong>Total cost</strong></td>
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<tr>
<td><strong>Total cost as a percentage of assets transferred</strong></td>
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*Actual costs were significantly lower than the estimated costs due to the investments in the LCIV not incurring a dilution levy.*

### 4 Fossil Fuel Equities Divestment

Since the decision to divest from fossil fuel equities investments have reduced by some £11.9m.
In September 2016 the Pension Fund Committee agreed that within five years it would divest from fossil fuel equity investments. The background to this is that it is felt that for investment reasons there will be better returns achieved by investing in the future low carbon economy. The five year period will allow the fund to identify the best approach for implementing this policy. Therefore the aim is to have divested from oil, gas and coal companies by 31st December 2021. It is recognised that the Pension Committee will have to take consideration of the Government’s requirement to pool. Therefore, the fund is very much dependant on the London CIV having the necessary sub-funds to invest through.

Since the decision the fund has reviewed the approach to global equity investing and the weighting between global equities and United Kingdom equities (increasing exposure to global equities).

This realignment of investments resulted in the selection of new managers through the London CIV during 2017. A key feature of the appointment process was the consideration of environmental, social and governance issues in managers’ investment philosophy.

Three London CIV sub-funds were selected replacing JO Hambro. Transfer of funds was completed in September 2018 with further rebalancing during April 2019.

The impact of the action has already seen a significant reduction in the investment in fossil fuel companies. At 31st March 2017 (the end of the year in which the divestment decision was made) investments in oil, gas and coal companies accounted for some 14% of the Global Equities investment allocation. Currently these sectors only account for 2.1%.

The fossil fuel position through our UK Equities allocation has actually increased and this has off-set some of the reduction through Global Equities. Currently the proportion of investments in oil, gas and coal account for 10% of the allocation compared to 7% at the end of March 2017.

In total the fossil fuel equities investment is 5.3%, down from 6.6% at March 2017. Although the overall % reduction is relatively low, in cash terms this a £11.9m reduction equivalent of 20% of the amount invested at the end of March 2017.

With regard to the UK Equities officers have looked at the London CIV option and this would see an increase in the carbon footprint of investments. The AXA fund is actually exposed to gas, oil and coal significantly less than the FTSA all share index (10% vs 18%).

Taking the policy forward officers have discussed with the London CIV their plans to offer suitable funds that meet our investment strategy.
requirements, and this is under review by the London CIV. Officers have also discussed with AXA Framlington our concerns about the relatively high level of investment in fossil fuels and are in the process of identifying any opportunities to reduce exposure to them.

In appendix 3 is AXA’s explanation concerning its holdings in fossil fuel companies.

Further to the above the fund’s investments in Capital Dynamic’s CEI II and III which represents 5.4% of the funds assets has the following positive impact on Climate Change:

investment in these funds has produced environmental benefits equivalent to avoiding approximately 120,000 metric tons of greenhouse gas emissions per year and carbon emissions from 13,500,000 gallons of gasoline otherwise consumed.

Progress towards the implementation of the policy is presented graphically below

Further information and analysis is attached in appendix 1 from Mercer.

5 London CIV Emerging Market Investment

Janus Henderson have informed LCIV of the resignation of the lead manager on their Emerging Market Equity Fund, Glen Finegan. This fund is currently selected as the underlying manager for the LCIV Emerging Market Equity Fund ‘the Fund’), which has 6 underlying LLAs and a total AUM of £385m (as at 02/05/2019). The paper in appendix 2 outlines the situation and what LCIV have been doing to address the risks involved, including the possible options going forward.

6 Voting and ESG

Please see attached in appendix 4 AXA Voting and ESG information.

7 CONSULTATION
7.1.1 Consultation on this proposal has taken place with the Fund’s Investment Advisors Mercers along with Strategic Director of Finance and Governance and Chair of the Pension Fund Committee.

8 IMPLICATIONS

8.1 Finance, Value for Money and Risk
8.1.1 The success of the investment strategy and achievement of performance targets are key to achievement of the funding strategy objectives taking into account in the 2016 triennial valuation. Monitoring and rebalancing asset allocation in line with policy should achieve a closer alignment of actual asset allocations with the investment strategy agreed by the Committee, and thus less risk of unplanned outcomes following from differential performance of different asset classes.

8.2 Legal
8.2.1 No specific implication at this stage.

8.3 Equality and Diversity
8.3.1 No specific implications

8.4 Sustainability (including climate change, health, crime and disorder)
8.4.1 No specific implications

8.5 Council Infrastructure
8.5.1 No specific implications

BACKGROUND INFORMATION
(Access to Information) Act 1985)

There are no background papers for this report which require listing.