

FINANCIAL INVESTMENT BOARD
Wednesday, 23 September 2020

Minutes of the virtual meeting of the Financial Investment Board held on
Wednesday, 23 September 2020 at 1.45 pm

Present

Members:

Nicholas Bensted-Smith (Chairman)
Henry Colthurst (Deputy Chairman)
Anne Fairweather
Alderman Prem Goyal
Deputy Tom Hoffman
Alderman Robert Howard
Alderman Robert Hughes-Penney
Deputy Jamie Ingham Clark
Deputy Clare James
Tim Levene
Andrien Meyers
Deputy Henry Pollard
Deputy Philip Woodhouse

Officers:

Peter Kane	- The Chamberlain
Kate Limna	- Chamberlain's Department
James Graham	- Chamberlain's Department
Joseph Anstee	- Town Clerk's Department
Damian Nussbaum	- Director of Innovation and Growth
Simi Shah	- Innovation and Growth
Divindy Grant	- Innovation and Growth
Grace Rawnsley	- Innovation and Growth
James Gibson	- Chamberlain's Department
Chloe Rew	- Town Clerk's Department

Also in attendance:

Alderman Alison Gowman	
Deborah Cairney	- Mercer

1. APOLOGIES

Apologies for absence were received from James de Sausmarez.

2. MEMBERS' DECLARATIONS UNDER THE CODE OF CONDUCT IN RESPECT OF ITEMS ON THE AGENDA

There were no declarations.

3. RESOLUTION OF THE INVESTMENT COMMITTEE

The Board received the resolution of the Investment Committee on 21 July 2020 appointing the Board and approving its terms of reference.

4. **MINUTES OF THE PREVIOUS MEETING**

RESOLVED - That the public minutes and non-public summary of the meeting held on 13 July 2020 be agreed as a correct record.

5. **OUTSTANDING ACTIONS**

The Board received a list of outstanding actions. The Chamberlain advised that a section on Treasury Management for the Pension Fund had been incorporated into the Pension Fund's Investment Strategy Statement, which was on the agenda for the Board's consideration.

RESOLVED – That the report be noted.

6. **MONTHLY INVESTMENT ANALYSIS REVIEW**

The Board received a report of the Chamberlain concerning the monthly investment analysis review for July 2020. The Board noted the current investment list, total investment values and average rate of return set out in the report. In response to a request by the Chairman, the Chamberlain clarified the reporting of the rate of return in respect of the Board's investments in Short Dated Bond Funds, which included both income and capital gains.

RESOLVED – That the report be noted.

7. **END OF YEAR TREASURY MANAGEMENT REVIEW 2019/20**

The Board received a report of the Chamberlain, providing an end of year report reviewing Treasury Management in 2019/20. The Chamberlain introduced the report and drew Members' attention to key points including cash balances and the impact of Covid-19 on monetary policy.

In response to a question from a Member on the increased cash balances, the Chamberlain advised that in addition to the receipt of borrowing proceeds from City's Cash, the receipt of the April Business Rates Levy had taken place one day earlier than usual, causing a further temporary increase as at 31 March 2020. However, this was an operational matter and not considered to be a cause for concern.

A Member queried whether the prospect of negative interest rates being introduced in the near future was a cause for concern or would necessitate any changes. The Chamberlain responded that due to significant decreases the Board was already operating in a very low interest rate environment, but in the event of further decreases to zero or negative interest rates, there could be increased pressure on the revenue budget for the Funds going forward. Members suggested that this possibility be revisited as the Board may need to develop a strategy to manage any further developments. The Chairman asked that this review be added as an outstanding action with an update to be brought to the next meeting on the Board, adding that swifter action may be required if circumstances were to change earlier than expected.

A Member suggested that the Board maintain a number of bench managers for near-cash or short-date options to balance out any changes to the portfolio, and suggested that consideration of a longlist be undertaken for this purpose.

RESOLVED – That the report be noted.

8. **CLIMATE ACTION STRATEGY**

The Board received a report of the Town Clerk and Chief Executive containing a scoped and costed Climate Action Strategy for the City of London Corporation, to be considered by the Policy & Resources Committee in September and the Court of Common Council in October 2020. The Chairman introduced the item and reminded Members of the wider context surrounding the report before handing over to the Director of Innovation and Growth to introduce the report.

The Director of Innovation and Growth then introduced the report and gave the Board an introduction to the Climate Action Strategy (the Strategy), before outlining the headline figures, and key points of the strategy, principally that the City of London Corporation will work towards 2027 as a date for net zero in its own operations or what is referred to as Scope 1 and 2, and to a net zero date of 2040 for our full value chain, or Scope 3 emissions. The City of London Corporation would also support net zero by 2040 in the Square Mile and build resilience to extreme weather in our infrastructure buildings and public realm.

The Board was then advised of the action points for the Financial Investment Board to undertake as part of implementing the strategy. This consisted of four high-level actions:

1. Embed ESG Integration and Climate Related Financial Risk in Investment Mandates;
2. Ensure climate criteria are embedded in Fund Manager selection criteria;
3. Commit to having at least 60% of our portfolio Paris-aligned by 2040; and
4. Join others in signalling ambition for 100% portfolio aligned by 2030 and become signatory to Task Force on Climate-Related Financial Disclosures

The Chairman then advised that Mercer had been consulted on the Strategy's proposals and invited Mercer's comments on the report. Mercer advised that it was felt the net-zero ambitions were achievable and were in line with other organisations, some of whom Mercer was working with on the framework to transition. Mercer advised that implementation was easier in the equity space, due to product availability and development in passive spaces. Furthermore, full commitment may necessitate strategic or management changes. Mercer commented that more detailed analysis on the existing portfolio would be beneficial for assessing what changes were required in the short and medium term.

The Chairman then invited the Deputy Chairman of the Finance Committee to comment in his capacity working across Committees on the Strategy with Members and Officers. The Deputy Chairman of the Finance Committee stressed that the objectives of developing the Strategy were that it remain

affordable, achievable and impactful, without affecting current spending commitments. The Strategy was ultimately a long-term Court of Common Council commitment, with substantive expenditure beginning in April 2021. Financial Investment Board issues were relevant to a period of 20 years, but would need to account for the Bridge House Estates Strategy and other impacts.

The Chairman then invited Members of the Board to discuss the report. A Member expressed their support for the hugely important work, but sought assurances that officers had or would have the resources required to implement the Strategy. The Member also queried whether the net-zero target of 2040 might constrain the Board's options with regards to fund managers, for instance those who were working towards a 2050 target.

The Chamberlain advised that the Corporate Treasury team would require further resources to implement the Strategy. The proposed revenue funding earmarked for use on Financial Investments was for £100,000 (per annum for the first four years from 21/22), subject to decision at Court of Common Council, which must be used for the marginal costs associated with Climate Action. The Director of Innovation and Growth advised that the Climate Action Strategy funding arrangements also contained further resources for which impacted areas could bid. The Chamberlain added that it was vital to ensure that the appropriate level of resources were in place.

The Director of Innovation and Growth then advised that whilst some organisations had set a 2050 target for net-zero, others had set a target of 2030, and added that the target was for 60% of the portfolio, which allowed some flexibility. The Chamberlain added that there was an increasing demand for relevant products, and it was expected that managers would respond to this demand.

A Member asked, in reference to the three separate Funds, whether climate change impact scenarios would be undertaken, and whether the Board should add references to carbon footprint to the Pension Fund Investment Strategy Statement. The Chairman added that distinctions between the three separate portfolios would be a key consideration. In response, the Chamberlain advised that the Pension Fund Investment Strategy Statement was a live document and would need to be amended, and a separate Investment Strategy Statement was expected for Bridge House Estates following its review. The Chamberlain added that the Board would need to consider doing an assessment of the impact of climate change, including the impact on risk and return.

A Member commented that the situation would not be static and that products and risks would continue to change over time, but certain risks such as carbon taxes needed to be kept in mind. The City of London Corporation had a responsibility to continue taking matters forward and contribute to maintain its reputation and a voice in the ongoing discussion.

A Member then asked whether a target of 60% by 2040 was sufficiently ambitious. The Director of Innovation and Growth explained the methodology

used to designate the target, and added that the target could be raised at a later stage.

The Deputy Chairman drew the Board's attention to the four actions for the Financial Investment Board. As the Board had done significant work on ESG, he hoped ESG integration could be embedded into the relevant structures quickly, and suggested aiming for a more ambitious target on decarbonising the portfolio. However, he added this aim would need more detailed reporting on what changes would be required and their impact, plus what resources were required and how these would be obtained, noting that there were likely to be differences across the three Funds. The Deputy Chairman suggested devising a clear action plan to get to April 2021, with a platform and structure for implementation after that date.

The Chairman then noted the proposed commitments set out. Whilst some actions were more easily progressed, such as embedding ESG integration and looking at climate change criteria with fund managers, there was some limitations on making precise commitments elsewhere, without knowing objective requirements for each fund and how they might be impacted by other factors currently at play.

A Member commented that looking at future strategy on each of the three funds would be part of the Strategy work, including climate change impact. Some assessment had been done at fund level for potential pinch points. It was reiterated that a 60% target by 2040 was a Corporation-wide commitment and would allow for some flexibility between the level achieved by each Fund depending on their needs.

Members recognised the need for some caution, but felt the Board could agree on the thrust and aspirations of the Strategy, and begin on the suggested ground work to enable further work after April 2021. A Member asked what flexibility the Board had to enable and push the Strategy forward, such as reallocation or ringfencing funds. The Chamberlain advised that the position would be different for each fund. The Chamberlain further advised that ringfencing funding and addressing mandates with managers were options, but work would be required to find the right balance of actions and underpin any decisions.

Members further commented that different decisions could be taken in the future as the situation developed, and that the Board could keep an open mind on achieving the aims of the Strategy as the baseline on green products moved and became increasingly mainstream. A Member added that an annual checkpoint for the whole Strategy had been inserted, and the Strategy would be subjected to the annual budget cycle. This would enable changes to affect how the Strategy was implemented as the situation developed over time.

The Chairman, summing up the discussion, felt that the Board shared approval of the thrust and aspirations of the Strategy, but also shared concern on the need for better understanding of the current situation and impact of current direction, as well as being mindful of the consequences of prospective action

on factors such as returns and risk profile. The Chairman asked whether Members were content with this position, which was agreed. The Deputy Chairman commented that it would be helpful if this summary could be reported at Policy & Resources Committee, adding that there were a number of moving parts under the Board's remit, which made it difficult to understand easily all the factors involved in measurement, and that implementation would not be a straightforward exercise regardless of aspiration.

The Chairman advised that he was unable to attend the Policy & Resources Committee meeting, and advised that the Board could agree a resolution, or ask a Member of the Board also on the Policy & Resources Committee to report the Board's position on consideration of the Strategy. The Board were content for the Deputy Chairman of the Finance Committee, also a Member of the Policy & Resources Committee, to report the Board's position, also noting that the Chamberlain would be in attendance at the meeting.

The Director of Innovation and Growth thanked Members and officers for their discussion and feedback on the Strategy.

RESOLVED – That the Financial Investment Board:

- a) Note the report; and
- b) Provide their comment and feedback on the Strategy as above, to be reported to the Policy & Resources Committee on their consideration of the Strategy.

9. **CITY OF LONDON PENSION FUND - INVESTMENT STRATEGY STATEMENT**

The Board considered a report of the Chamberlain presenting a revised Investment Strategy Statement for the Pension Fund for approval. The Chamberlain introduced the report and confirmed the Statement was a public document and subject to periodic review at least every three years. The Chamberlain drew Members' attention to amendments made following review of the Statement by the Board, including a section on Treasury Management and added control ranges for each asset class within the strategic asset allocation.

RESOLVED – That the Financial Investment Board agree the revised Investment Strategy Statement as presented.

10. **LOCAL GOVERNMENT PENSIONS BOARD - PENSION FUND INVESTMENT ACTIVITIES 1 APRIL 2019 TO 31 MARCH 2020**

The Board considered a report of the Chamberlain providing an annual summary of investment activity in relation to the Pension Fund for onward referral to the Local Government Pensions Board. The Chamberlain introduced the report and invited any additional comments from Members to be incorporated before the report was submitted to the Local Government Pensions Board. The Board then approved the report for onward referral to the Local Government Pensions Board.

RESOLVED – That the Financial Investment Board:

- a) Note the report; and
- b) Agree that the report be referred to the Local Government Pensions Board.

11. QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE

There were no questions.

12. ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT

There was no other business.

13. EXCLUSION OF THE PUBLIC

RESOLVED - That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items on the grounds that they involve the likely disclosure of exempt information as defined in Part I of the Schedule 12A of the Local Government Act.

Item No.	Paragraph(s) in Schedule 12A
14-19	3
20-21	-

14. NON-PUBLIC MINUTES OF THE PREVIOUS MEETING

RESOLVED - That the non-public minutes of the meeting held on 13 July 2020 be agreed as a correct record.

15. NON-PUBLIC OUTSTANDING ACTIONS

The Board received a list on non-public outstanding actions.

16. INVESTMENT PERFORMANCE MONITORING REPORTS

a) Performance Monitoring to 31 July 2020: Pension Fund

The Board received a report of the Chamberlain.

b) Performance Monitoring to 31 July 2020: City's Cash and Bridge House Estates

The Board received a report of the Chamberlain.

c) Quarterly Monitoring Report to 30 June 2020

The Board received a report of Mercer.

17. PRI - ASSESSMENT UPDATE

The Board received a report of the Chamberlain.

18. METHODOLOGY FOR CARBON FOOTPRINTING INVESTMENTS

The Board received a report of the Chamberlain.

19. **STEWARDSHIP PLAN**

The Board considered a report of the Chamberlain.

20. **NON-PUBLIC QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**

There were no non-public questions.

21. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT AND WHICH THE COMMITTEE AGREE SHOULD BE CONSIDERED WHILST THE PUBLIC ARE EXCLUDED**

There was other business.

The meeting ended at 3.25 pm

Chairman

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