



Leicestershire County Council Pension Fund

LGPS Central Limited Update

PRESENTED BY



MIKE WESTON
CEO



GORDON ROSS
CIO

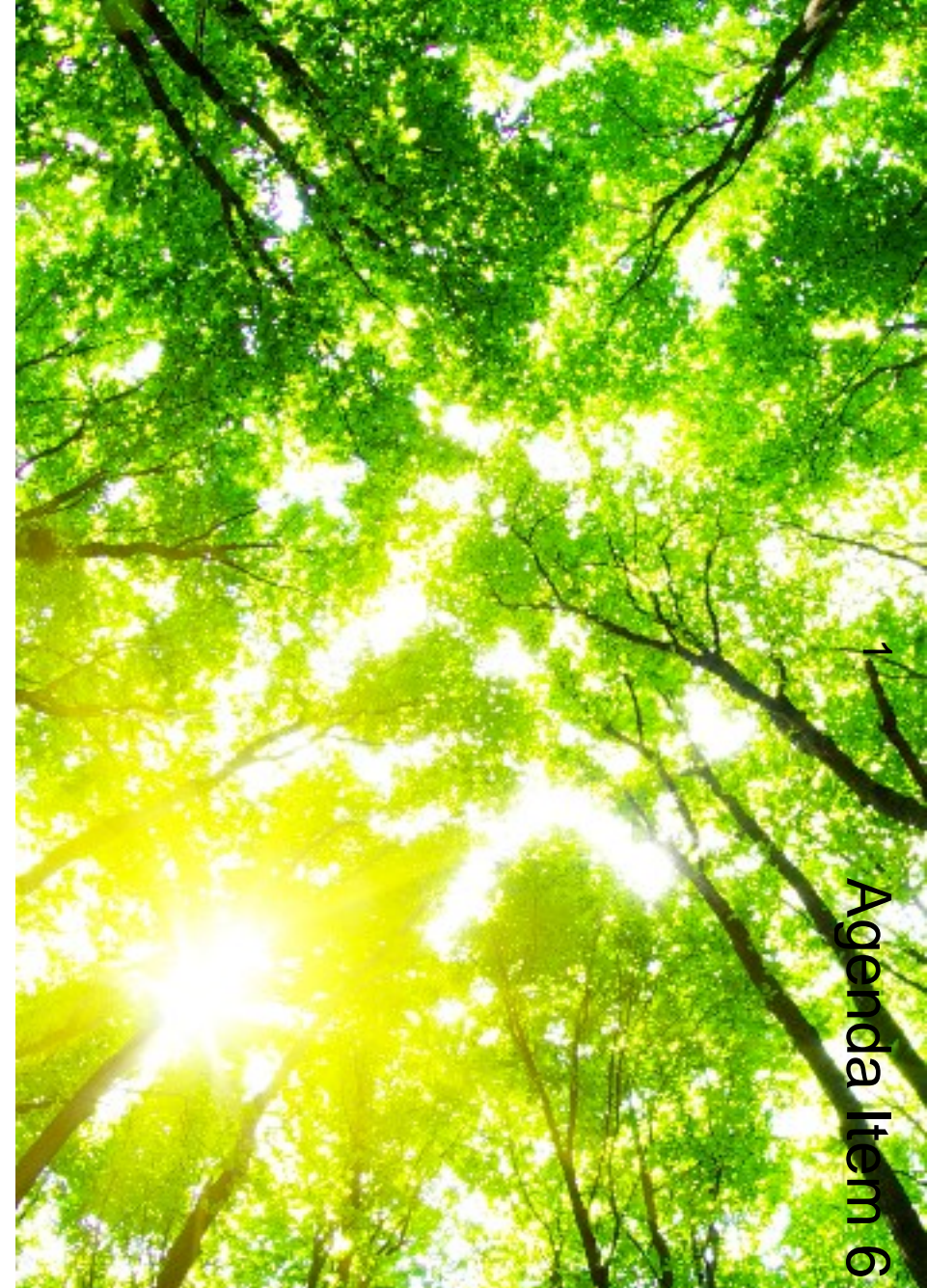


Patrick O Hara
Head of RI&E



Matthew Jones
Chief Stakeholder Officer

20th January 2023



Agenda Item 6



SECTION 1: SHAREHOLDER UPDATE

- LGPS pooling progress across England & Wales
- LGPS Central company update and pooling progress

SECTION 2: CLIENT UPDATE

- Investment Performance Overview
- LGPSC oversight of underlying managers



LGPS Central

Shareholder Update

Mike Weston

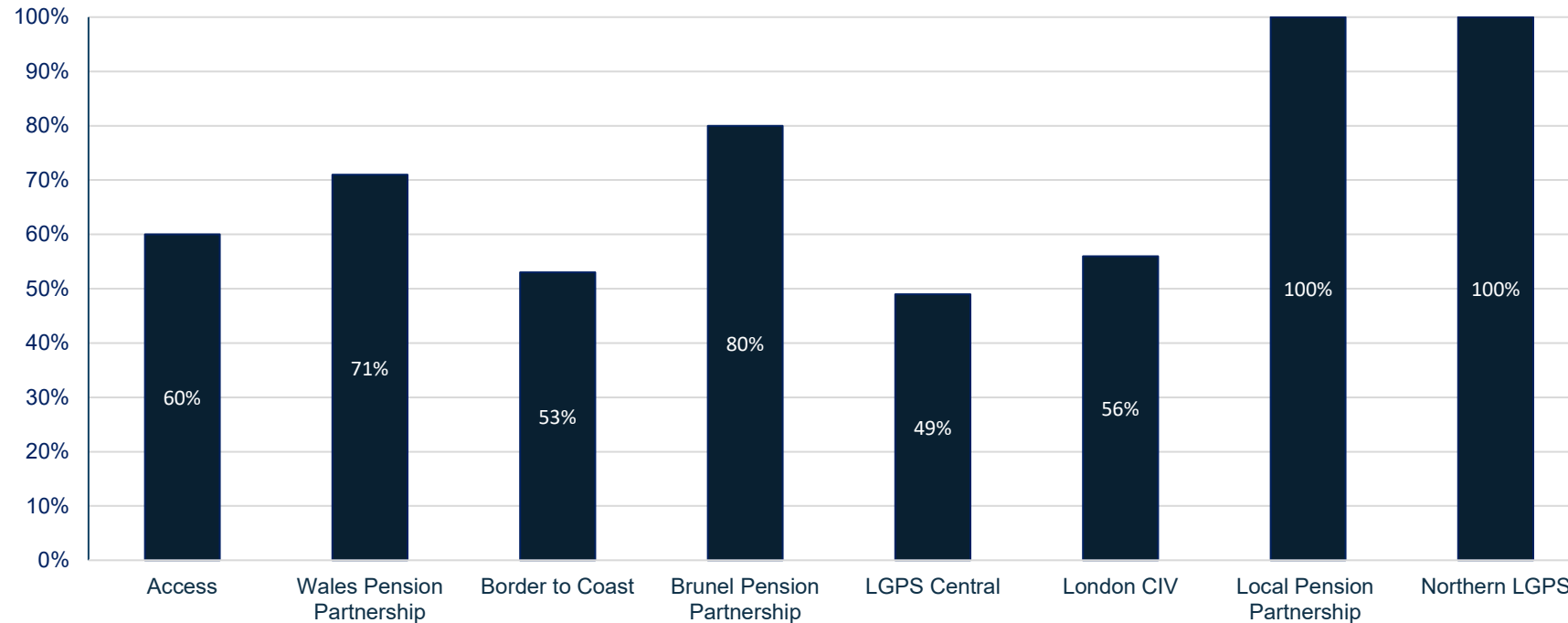


Pooling progress across England & Wales



HEADLINE TRANSITION RATES VARY SIGNIFICANTLY ACROSS POOL COMPANIES

Percentage of Partner Fund Assets transitioned as at 31 March 2022

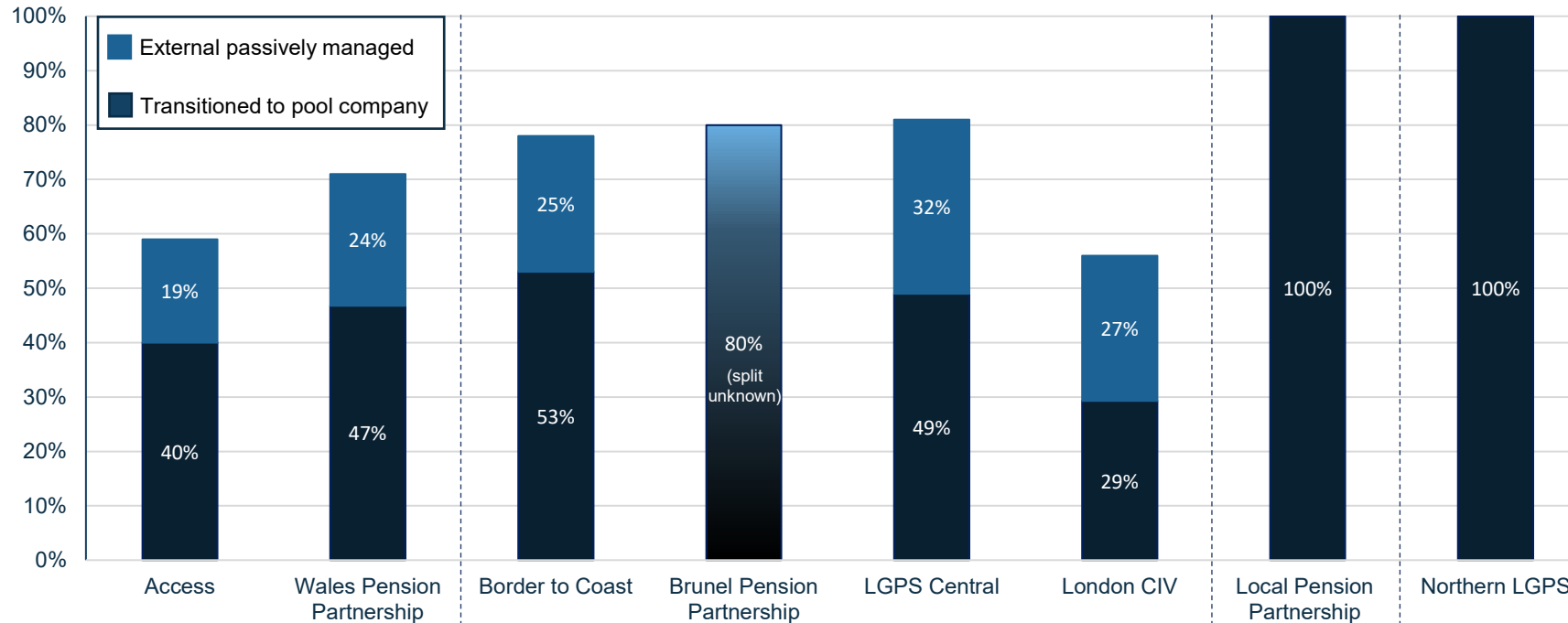


Pooling progress across England & Wales



MORE INFORMATIVE COMPARISON WHEN CONSIDERED ON A LIKE FOR LIKE BASIS

Percentage of Partner Fund Assets transitioned as at 31 March 2022



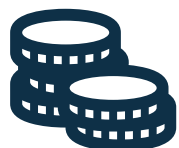
| | | | | | | | | |
|--------------------------------|--------------------------------|---|----------------------------------|----|---|-------------|---|---------------------|
| Number of Partner Funds | 11 | 8 | 11 | 10 | 8 | 32 | 3 | 3 |
| Type of pool company | Shared procurement/outsourcing | | FCA regulated investment manager | | | FCA + admin | | Oversight structure |

Source: LGPS Central analysis of public documents

LGPS Central Company update



CONTINUING TO GROW WITH YOUR SUPPORT



c£30bn AUM



23 investment vehicles

Property fund due to launch in January 2023



£315m cost savings
to 2033/34



79 staff

TCFD



Signatory of:
**STEWARDSHIP
CODE | 2021**



Advisory services to PFs

LGPS Central Funds



BROAD SPREAD OF FUNDS AVAILABLE NOW TO MEET PARTNER FUND NEEDS

| Fund | Launched |
|---|----------|
| Public Markets | |
| UK Equity (Passive) | 2018 |
| Global Equity (Passive) | 2018 |
| Global Dividend Growth (Passive) | 2018 |
| Multi-Factor Fund (Passive) | 2021 |
| ● Climate Fund (Passive) | 2019 |
| ● Global Equity MM Fund (Active) | 2019 |
| ● EM Equity MM Fund (Active) | 2019 |
| ● Corporate Bonds MM Fund (Active) | 2020 |
| ● EM FI MM (Active) | 2020 |
| ● Global MAC MM Fund (Active) | 2021 |
| Global Sustainable Broad Fund (Active) | 2022 |
| Global Sustainable Targeted Fund (Active) | 2022 |
| Global Sustainable Thematic Fund (Active) | 2022 |

| Fund | Launched |
|-------------------------------------|----------|
| Private Markets | |
| ● Private Equity - 2018 Primary | 2019 |
| Private Equity - 2018 Co-Investment | 2019 |
| ● Private Equity - 2021 Primary | 2021 |
| Private Equity - 2021 Co-Investment | 2021 |
| Private Inflation Credit Fund | 2021 |
| ● Private Lower Credit Fund | 2021 |
| ● Private Higher Credit Fund | 2021 |
| ● Infrastructure Core Fund | 2021 |
| Infrastructure Value Add Fund | 2021 |
| Infrastructure JPM Fund | 2021 |

- Leicestershire County Council Pension Fund have invested in these Funds

5 Passive funds launched

8 Active funds launched

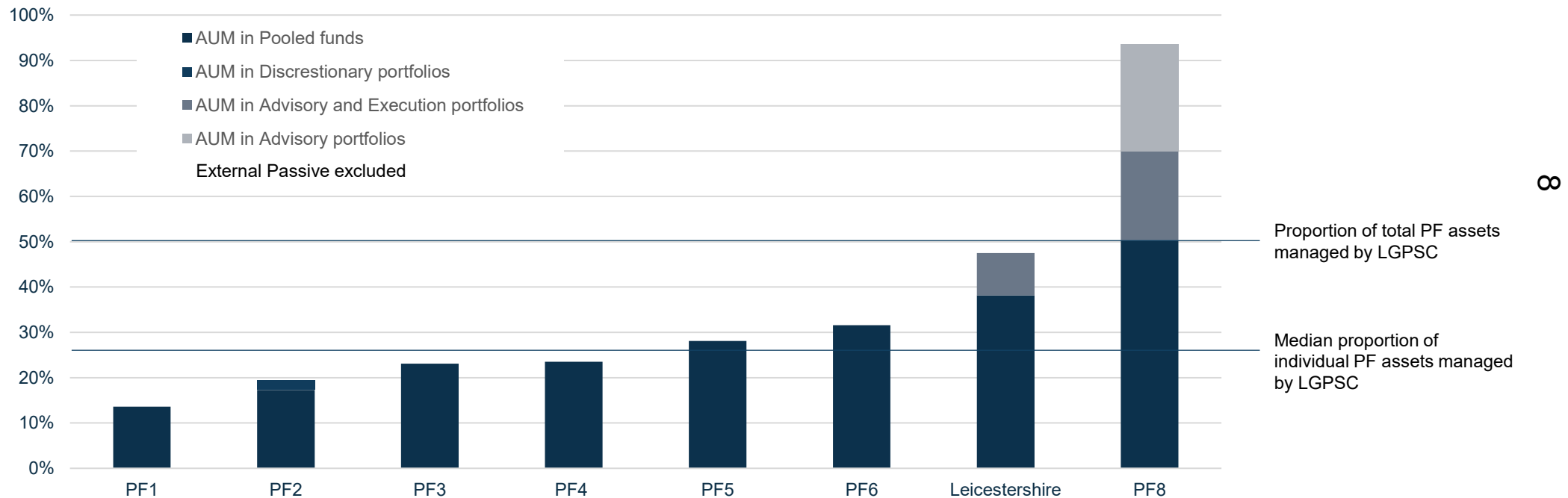
10 Private Market funds launched

Pooling progress across the LGPS Central pool



DIFFERENT PARTNER FUNDS AT DIFFERENT STAGES OF TRANSITION

Percentage of Partner Fund Assets transitioned as at 30 September 2022



Investment Performance Overview

Gordon Ross
Chief Investment Officer



LCCPF Investments in LGPS Central Funds



ASSETS UNDER MANAGEMENT 30 NOVEMBER 2022

| Asset Class | Fund | LCCPF's Assets | Total Fund AUM | LCCPF % of Fund |
|----------------------------|---|----------------|----------------|-----------------|
| Passive Global Equity | LGPS Central Limited All World Equity Climate Multi Factor Fund | £907m | £4,331m | 21.0% |
| Active Global Equity | LGPS Central Limited Emerging Markets Equity Active Multi Manager Fund | £183m | £795m | 23.0% |
| Active Global Equity | LGPS Central Limited Global Equity Active Multi Manager Fund | £517m | £3,133m | 16.5% |
| Active Global Fixed Income | LGPS Central Limited Investment Grade Corporate Bond Multi Manager Fund | £111m | £1,496m | 7.4% |
| Active Global Fixed Income | LGPS Central Limited Global Active Emerging Market Bond MM Fund | £109m | £560m | 19.4% |
| Active Global Fixed Income | LGPS Central Limited Global Active Multi Asset Credit MM Fund | £208m | £722m | 28.8% |
| Private Equity | LGPS Central PE Primary Partnership 2018 LP | £10m* | £257m* | 3.9% |
| Private Equity | LGPS Central PE Primary Partnership 2021 LP | £30m* | £320m* | 9.4% |
| Private Credit | Credit Partnership 1 – Higher | £60m* | £305m* | 19.7% |
| Private Credit | Credit Partnership 2 – Lower | £100m* | £1,025m* | 9.8% |
| Infrastructure | GPS Central Core/Core Plus Infrastructure Partnership LP | £100m* | £724m* | 13.8% |

**£2,335m assets
invested with
LGPS**

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All World Equity Climate Multi Factor Fund



DELIVERING IN LINE WITH THE PERFORMANCE OBJECTIVE

| Annualised Performance Since Inception to 30 November 2022 – PASSIVE ACS | Inception Date | Fund (% p.a.) | B'mark (% p.a.) | Tracking Error |
|--|----------------|---------------|-----------------|----------------|
| LGPS Central Limited All World Equity Climate Multi Factor Fund | Oct 2019 | 11.27 | 11.09 | |

- The Fund continues to outperformed the benchmark since inception (11.27% p.a. vs 11.09% p.a.) driven by small stock misweights relative to the benchmark index.
- Over the course of 2022 (to 30 November), the Fund's benchmark index outperformed the wider FTSE All World Index (net of tax) by 0.53%.
- This outperformance was driven by a relative underweight to the Consumer Discretionary sector and lower exposure to stocks such as Amazon, Tesla and Netflix, all of which delivered double-digit negative returns over the year.
- As at September 2022, the Fund benchmark's climate enhancements relative to the FTSE All World Index were in line with the targets (60% lower carbon intensity, 70% reduction in fossil fuel reserves and 70% uplift in green revenues)
- Over the first three quarters of 2022, LGPS Central engaged with more than 500 companies held in the Fund across a range of environmental, social and governance issues and objectives.



Emerging Market Equity Active Multi Manager Fund



BEHIND BENCHMARK AND TARGET – ACTIONS IN PROGRESS

| Annualised Performance Since Inception to 30 November 2022 – ACTIVE ACS | Inception Date | Fund (% p.a.)* | B'mark (% p.a.) | Target (% p.a.) |
|---|----------------|----------------|-----------------|-----------------|
| LGPS Central Limited Emerging Markets Equity Active Multi Manager Fund | July 2019 | -0.43 | 2.43 | 4.43 |

- The Fund has underperformed the benchmark and as a result the target objective.
- Q1 2022 in particular was a difficult period with Russia's invasion of Ukraine and subsequent market reactions having a detrimental impact on absolute and relative to benchmark performance.
- The Fund's overweight position towards China has acted as a performance headwind as the country's COVID induced lockdowns have significantly curtailed economic activity.
- LGPSC have taken the decision to terminate the delegated investment management agreement with Columbia Threadneedle Investments and begin the procurement process for a new Emerging Market manager.
- Further details of how LGPSC undertook this decision as part of its oversight of underlying managers and specifically for this fund is shown on the next slide.
- Opportunities persist as valuations are relatively inexpensive and company balance sheets largely healthy, however, geopolitical risks will continue into 2023

Emerging Market Equity Active Multi Manager Fund



SALE OF LGM BUSINESS TO POLEN CAPITAL

- Proposed Columbia Threadneedle to sale of a large portion of its LGM business to Polen

TRIGGERS LGPSC FOCUSED INTERVENTION

- Major personnel change with the two lead Portfolio Managers deciding to go their separate ways
- Alteration in their process and the degree of RI integration raised significant concerns
- Losing access to the wider CTI Responsible Investment platform will have an impact on implementation of process
- Performance has been poor, the manager significantly trails the benchmark and target objective
- If Polen submitted this proposal in the initial search they would not have progressed

LGPSC FOCUSED INTERVENTION DECISION → REPLACE

- CTI LGM informed of refusal to migrate to Polen. CTI LGM to continue to actively run assets. The Team remains in place until deal completes at the end of January 2023
- Additional oversight measures put in place by LGPSC to ensure CTI LGM are acting inline with mandate
- LGPSC three stage procurement has commenced, Due Diligence meetings to include client observers
- Transition expected to occur in Q1 2023

Global Equity Active Multi Manager Fund



AHEAD OF BENCHMARK, BEHIND TARGET

| Annualised Performance Since Inception to 30 November 2022 – ACTIVE ACS | Inception Date | Fund (% p.a.)* | B'mark (% p.a.) | Target (% p.a.) |
|---|----------------|----------------|-----------------|-----------------|
| LGPS Central Limited Global Equity Active Multi Manager Fund | March 2019 | 12.50 | 11.60 | 13.10 |

- Union underperformed initially due to trendless markets. Harris was hit by Value exposure, compounded by the impact of adverse FX moves. Schroders benefited from stock selection and a Growth bias.
- Union benefited more recently from trending markets, rewarding 'fundamental change' strategy. Harris held on to losing positions for too long, although it has run winners too. The depth of the team at Schroders has aided returns by supporting allocation and stock calls.
- The three-year review of the Fund highlighted the need for a manager with a bias to the Quality style of investing. Inclusion will help to improve the blend of the Fund and aim to enhance returns.
- Equities have been pressured due to the resilience of inflation; valuations continue to be impacted by rising interest rates.
- Valuations have not bottomed out yet, but we are closer to a turning point.

Global Active IG Corporate Bond MM Fund



BEHIND BENCHMARK – BUT CONFIDENCE REMAINS IN UNDERLYING CREDIT QUALITY

| Annualised Performance Since Inception to 30 November 2022 – ACTIVE ACS | Inception Date | Fund (% p.a.)* | B'mark (% p.a.) | Target (% p.a.) |
|--|----------------|----------------|-----------------|-----------------|
| LGPS Central Limited Global Active Investment Grade Corporate Bond MM Fund | March 2020 | -1.40 | -1.12 | -0.32 |

- Since inception, the Fund has underperformed the benchmark and target and of the two managers, Neuberger Berman (“NB”) and Fidelity, the latter is the weaker performer since inception.
- NB run a more conservative and diversified portfolio which has contributed to outperformance; Fidelity are focused on Europe and UK which has underperformed the US market this year contributing to their underperformance.
- Fidelity also have a higher exposure to hybrids – these are long dated or perpetual bonds that are issued with a call date
 - This sector underperformed in quarter two 2022, as yields and interest rates rose.
 - Despite some rebound in quarter three the sector continues to underperform.
 - LGPSC in conversation with the manager have identified the two major hybrid issues that have contributed to the underperformance.
 - Further analysis and Fidelity’s rationale for these investments including risk discipline was requested and provided.
 - As market volatility declined the hybrid sector has recouped some of its underperformance.
 - Fidelity feels that hybrid sector is undervalued and will maintain their exposure.
 - However, the manager will look for opportunities to trim some of the hybrid exposure in favour of banks senior debt investments on a relative value basis.

Global Active Emerging Market Bond MM Fund



AHEAD OF TARGET

| Annualised Performance Since Inception to 30 November 2022 – ACTIVE ACS | Inception Date | Fund (% p.a.)* | B'mark (% p.a.) | Target (% p.a.) |
|---|----------------|----------------|-----------------|-----------------|
| LGPS Central Limited Global Active Emerging Market Bond MM Fund | Dec 2020 | -9.67 | -11.23 | -10.23 |

- The Fund has outperformed both benchmark and target since inception; of the two managers, Amundi and M&G, the latter is the stronger performer.
- The outperformance since inception is mainly because the manager is measured against a hard currency benchmark; this benchmark was chosen because historically it has been the better performing index.
- The managers can invest up to 30% in "off benchmark" local currency bonds and corporates, both of which outperformed the hard currency index in the period.
- M&G have a larger exposure to these sectors which explains their stronger performance versus Amundi.
- Both managers are running conservative portfolios, slightly short in duration with security selection accounting for outperformance.
- LGPSC continues to regularly monitor the managers' exposures and remains comfortable with the levels of risk in the portfolio.
- With ongoing geopolitical tensions, China's Covid policy uncertainties, and economic recession risk the economic outlook remain challenging for this sector.
- Both managers feel that successful security selection in the near term will navigate the portfolio through market volatility.

Global Active Multi Asset Credit MM Fund



BEHIND BECHMARK – IMPACTED BY CASH BENCHMARK IN A RISING YIELD ENVIRONMENT

| Annualised Performance Since Inception to 30 November 2022 – ACTIVE ACS | Inception Date | Fund (% p.a.)* | B'mark (% p.a.) | Target (% p.a.) |
|---|----------------|----------------|-----------------|-----------------|
| LGPS Central Limited Global Active Multi Asset Credit MM Fund | April 2021 | -5.98 | 1.03 | 5.03 |

- Since inception, the Fund has underperformed
- Both fund managers, Columbia Threadneedle Investment (CTI) and Western Asset Management (WAM), showed negative returns in the period with the latter the worst performer.
- Both fund managers were negatively impacted by duration positioning as yields increased significantly in 2022.
- Most fixed income single sectors have returned significant negative performance in 2022 making the Fund's cash benchmark impossible to achieve given it is a long-only bond fund.
- When measuring the Fund's performance against the market using the underlying indices, it has shown that it has performed relatively well in the market conditions, and both fund managers are ahead of the median.
- LGPSC has challenged fund managers' duration position and risk management but remain comfortable that the managers are performing as would be expected. We will continue to closely monitor risk and performance.
- With higher yields and the expected slowing of interest rate rises, the benchmark and target should be easier to achieve.
- The market is expected to be more supportive to the strategy in 2023 due to signs that inflation may be reaching a peak, particularly in the US.

Private Equity Primary Partnership 2018/2021 LP



PERFORMANCE AHEAD OF TARGET ON 2018 LP

| Annualised Performance Since Inception to 30 June 2022 – PRIVATE MARKETS | Inception Date | Fund (% p.a.)* | B'mark (% p.a.) | Target (% p.a.) |
|--|----------------|----------------|-----------------|-----------------|
| LGPS Central PE Primary Partnership 2018 LP | Jan 2019 | 22.4 | 9.6 | 13.6 |

- Publicly listed investments have been a detractor, but overall portfolio is very resilient
- Wrong: Sell more of their listed holdings sooner
- Right: Invested in businesses with robust business models
- LGPSC continue to monitor managers closely (quarterly update calls, meetings, AGMs etc)
- Outlook remains positive with investments continuing to increase revenues and EBITDA

2021 LP OUTLOOK REMAINS POSITIVE

- Managers continue to seek investments that offer attractive risk-adjusted returns
- Investment pace has been deliberate and considered to date, but is expected to pick up as competition fades
- LGPSC continue to commit to top performing managers with robust value-add strategies and experience from previous downturns
- With capital to be deployed in what should be a more benign investing environment, the outlook is positive

Note that formal performance data is not yet available for more recent Private Market vintages given the immaturity of these partnerships.

Other private markets update

EARLY PERFORMANCE INDICATORS REMAIN POSITIVE

Infrastructure



- Funds are in their infancy and as a result performance to date based on manager valuations.
- Valuations are in-line with expectations and have not raised any concerns.

Private credit



- Early-stage performance monitoring requires an indirect approach and is based on manager-reported risk ratings.
- All portfolios remain healthy with no credit delinquency reported.
- To highlight the level of diversification, a key driver of our capital preservation strategy, there are currently 38 and 99 loans within the portfolios of the Higher and Lower Return strategies respectively.
- Once fully deployed there will be in excess of 80 and 400 loans in these two strategies.

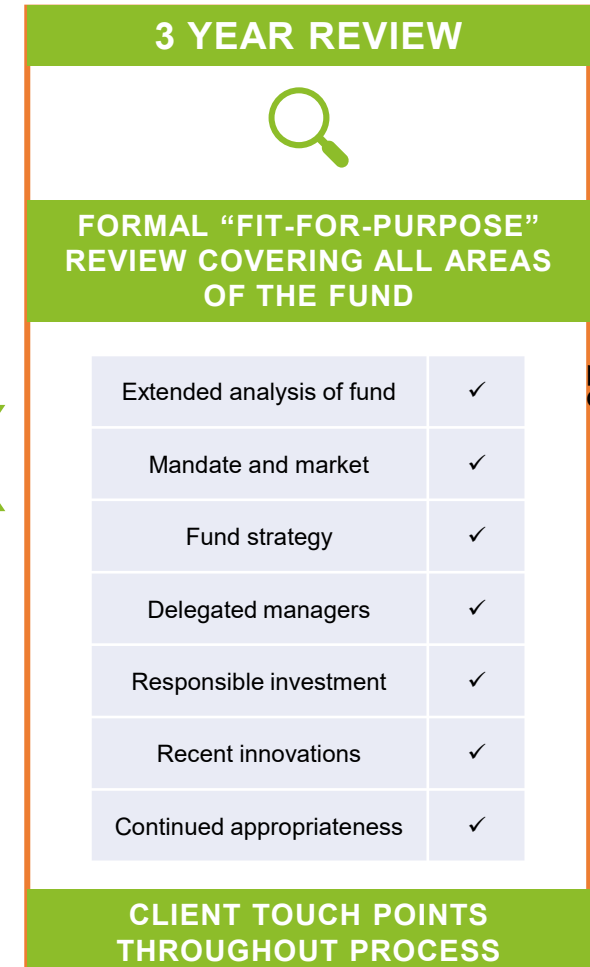
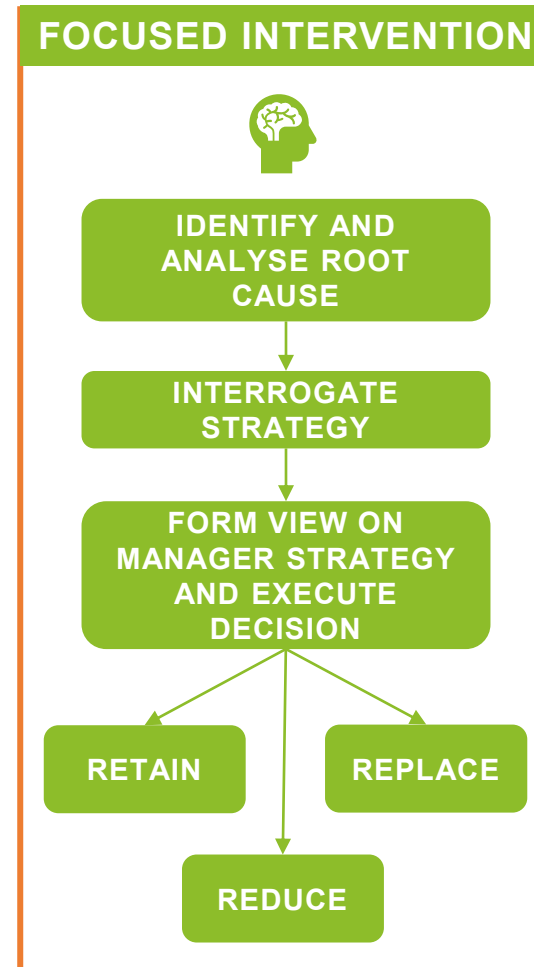
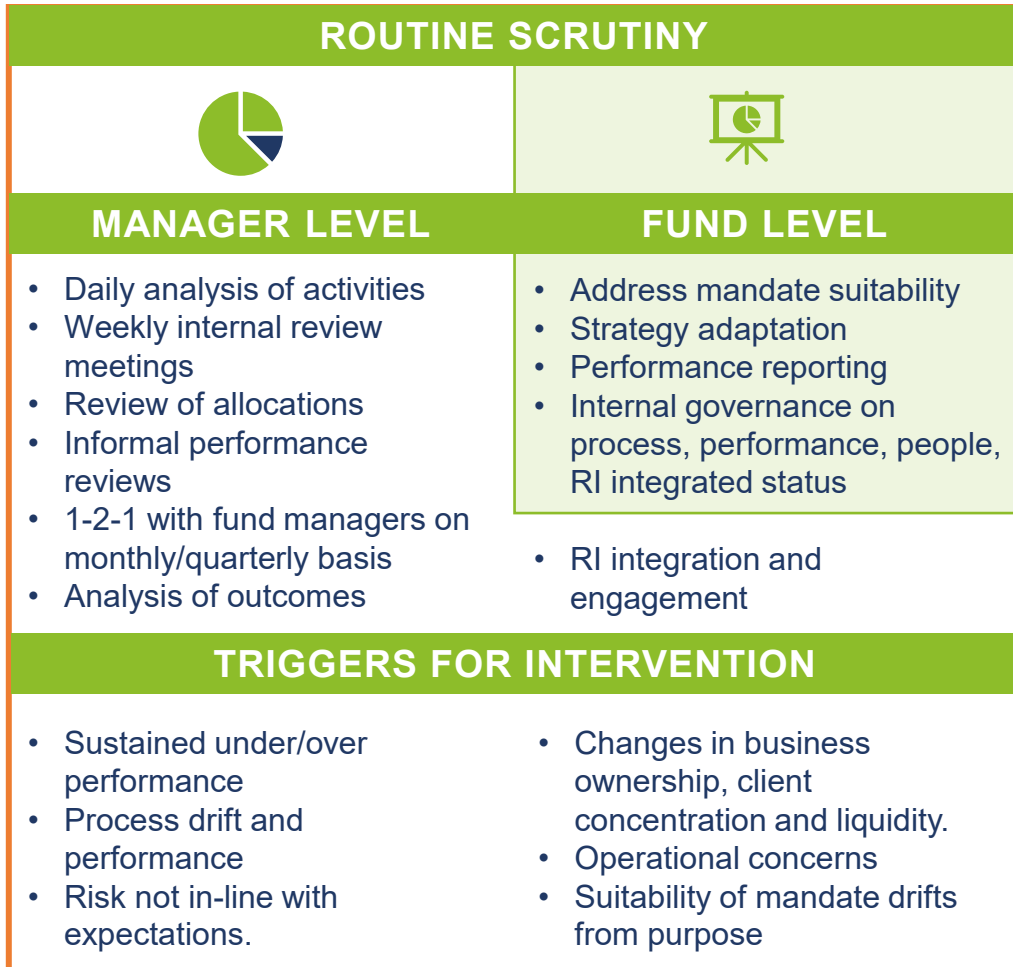
Property



- FCA approval for LGPS Central Property ACS fund received on 21 December 2022.
- Fund launch in January 2023 with initial investment from LCCPF.
- Thank you for your support!

LGPSC oversight of underlying managers

CONSTANT FOCUS ON MANAGERS AND STRATEGIC INTERVENTION WHERE NEEDED



Responsible Investment & Engagement

Patrick O'Hara
Director, Responsible Investment



Climate Risk Monitoring Service Update

CLIMATE RISK MONITORING SERVICE UPDATE

- Continuing delivery of **Climate Risk Reports**.
- Revised Mercer **Climate Scenario Analysis** incorporated into 2022 reports and enhanced metrics.
- TCFD Reporting, Stewardship Plan, Climate Change Strategy and Climate Change Training.
- **New TCFD regulations** entering into force Q4 2024, following consultation period which ended November 2022. LGPSC is supportive of the new proposals.
- Further review of **Climate Risk Reports** to incorporate potential requirements from Department for Levelling Up, Housing and Communities (Consultation Closed 24th November 2022) and other enhancements.



Engagement and Voting Update



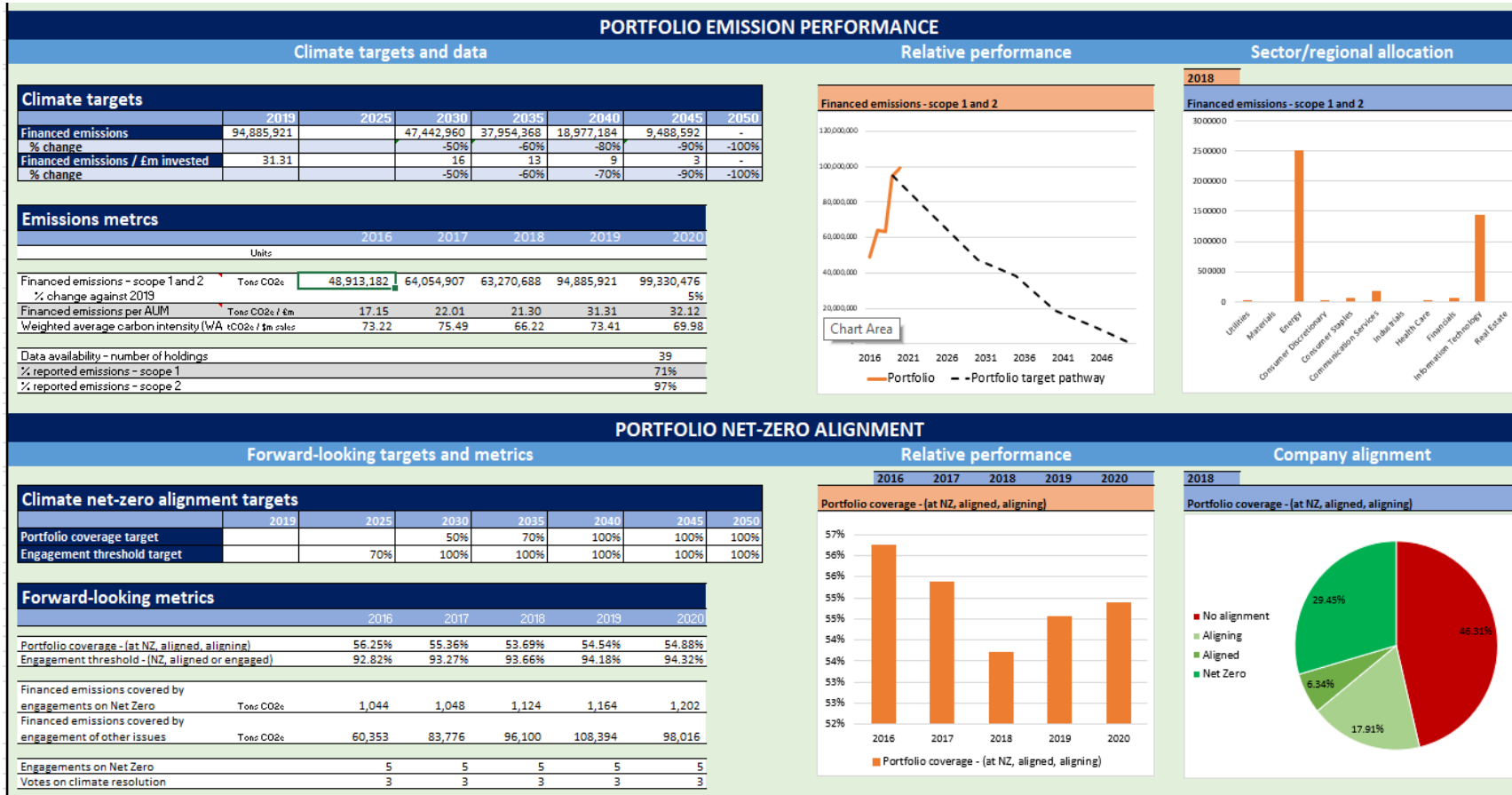
ENGAGEMENT AND STEWARDSHIP RESPONSIBILITY REMAINS A HIGH PRIORITY

- **LGPSC maintained signatory status to FRC's Stewardship Code** and will continue to support Leicestershire and other partner funds with their reports.
- Examples used in **FRC Stewardship Highlights** and 2023 Stewardship Expectations report.
- **Engagement Update:** In Q4 we engaged with 255 companies, with 41% of engagements related to the Environment, 28% of engagements related to Social Issues, and 20% related to Governance. The final 11% related to Strategy, Risk and Communication.
- **Higher expectations on companies' climate transition plans.** Voted against several oil & gas and mining companies' plans that are not aligned with 1.5C, Co-filed shareholder resolution at Credit Suisse.
- Pursued engagements relating to all 4 agreed stewardship themes - **Tax, Plastic Pollution, Climate Change, Tech (Human Rights).**



Net Zero Strategy

THE CENTRAL POOL APPROACH



- LGPSC Net Zero commitment to transition investment portfolio to Net Zero by 2050.
- Development of LGPSC Net Zero dashboard to track climate performance of ACS funds.
- Metrics and Milestones.
- Net Zero incorporated in manager selection and monitoring.
- Net Zero Stewardship Plan.

Key points from 2022 Climate Risk Report



Total Equities carbon intensity dropped by 25% since 2019.

Financed Emissions decreased by 20% over the same period.

The **Emerging Market Equity Active Multi Manager Fund** experienced an increase in the portfolios carbon intensity.

- However, 12.9% of the portfolio's carbon intensity in 2022 is attributed to TSMC, a company which provides semi-conductors, a technology fundamental to the green transition.
- TSMC holds a large weighting in Emerging Market portfolios which further drives it's contribution to the portfolio's carbon intensity.
- Furthermore, total carbon intensity remains 59% less than the benchmark.
- An estimated 0.29% of the revenue of the companies in the portfolio is attributed to fossil fuel production.

The carbon intensity of **LGPSC Corporate Bond Fund** was 29% greater than the benchmark.

- 37% of this figure can be attributed to one holding: The Southern Company.
- Figure is negatively impacted by poor data coverage (60%). Following LGPSC's engagement with data providers, 2023 CRRs are expected to benefit from a significant increase in data coverage.

Reflections & Looking Forwards



Reflections from 2022

- Inclusion of innovative **new metrics** into the Climate Risk Report (financed emissions).
- Continued **development of the team**.
- Procurement of new **ESG tool**.

Goals for 2023

- **Refresh of Climate Risk Report**, including increase coverage of asset classes.
- Expanded reporting following procurement of new **ESG tool**.
- Further **integration of net zero** into our own business strategy.
- Improved strategising of **stewardship and engagement** activities.
- Further develop **knowledge sharing** between LGPSC and the partner funds.

Summary

WORKING TOGETHER IN PARTNERSHIP

- We continue to work closely with LCCPF as a valued client to understand your needs and objectives and we welcome your continued support.
- Our focus remains on delivering the investment returns you need
- We would be delighted to welcome Committee members to our office in the centre of Wolverhampton to get a better view and understanding of how we operate

SAVE THE DATE RESPONSIBLE INVESTMENT SUMMIT

9 MARCH 2023
11AM – 3PM

Join LGPS Central and a range of guest speakers on the critical subject of responsible investment.

Look out for further details!



Thank you for your time

LGPS CENTRAL LIMITED

YOUR FEEDBACK IS IMPORTANT TO US!

Please complete our post meeting pulse survey which should be appearing in your inboxes about now!

DISCLAIMER:



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Share Class and Benchmark performance displayed in GBP.

Performance is shown on a Net Asset Value (NAV) basis, with gross income reinvested where applicable.

All information is prepared as of **6 January 2023**

This document is intended for **PROFESSIONAL CLIENTS** only.

“One Central team, working in partnership to invest with purpose and deliver superior returns”



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