

**Minutes of a meeting of the Local Pension Committee held at County Hall,
Glenfield on Friday, 24 January 2020.**

PRESENT:

Leicestershire County Council

Mr. P. C. Osborne CC (Chairman)
Mr. T. Barkley CC
Mr. P. Bedford CC

Dr. S. Hill CC
Mr. Max Hunt CC

Leicester City Council

Cllr. R. I Govind
Cllr. D. Bajaj

District Council Representative

Cllr Chris Frost

University Representative

Zubair Limbada

Staff Representatives

Mr. N. Booth

Ashley Wilson

1. Chairman's Announcement.

The Chairman and all members of the Committee thanked Mr. R. Bone for his long standing commitment and contribution to the Leicestershire Pension Fund as an employee representative which ended following the Fund's Annual General meeting.

2. Minutes.

The minutes of the meeting held on 8 November 2019 were taken as read, confirmed and signed.

Following questions from Mr. Z. Limbada concerning the proposed Financial Strategy Statement (FSS) and the potential financial impact on certain employers, the Director of Corporate Resources reassured the Committee that the Authority continued to engage with employers concerning their proposed contribution rates and any outstanding issues would be resolved prior to the employer contribution rates coming into effect on 1 April 2020.

3. Question Time.

The Chief Executive reported that no questions had been received under Standing Order 35.

4. Questions asked by members.

The Chief Executive reported that no questions had been received under Standing Order 7(3) and 7(5).

5. Declarations of interest.

The Chairman invited members who wished to do so to declare any interest in respect of items on the agenda for the meeting. No declarations were made.

6. Urgent items.

There were no urgent items for consideration.

7. Responsible Investment Plan 2020.

The Committee considered a report of the Director of Corporate Resources which sought approval for a Responsible Investment (RI) Plan 2020 which set out the Fund's approach to improving its management of responsible investment risks. A copy of the report marked "Agenda Item 6" is filed with these minutes.

The Director informed Members that the term responsible investment referred to the integration of financially material environmental, social and corporate governance factors into investment processes. RI had relevance both before and after a decision to invest and was a core part of the Fund's fiduciary duty.

Arising from the discussion the following points were noted:-

- i) Officers would bring the items listed within the Plan to the Committee for consideration as they became available, such as the Climate Risk report which could be expected in Q3 of 2020/21.
- ii) The Director informed members that RI reporting would initially focus on the Fund's investments managed by LGPS Central (Central) and Legal and General Investment Management (LGIM), with a scope to increase reporting from individual investment managers in the future. Members were pleased that RI reporting was being improved and felt it would enable the Committee to have a wider oversight of the Fund's activities.
- iii) LGPS Central's RI approach focused on engagement with investment managers rather than exclusion. This allowed the fund the opportunity to influence companies RI behaviour through stewardship, rather than waive that ability through a divestment approach. This was standard across the pools.
- iv) LGPS Central, LGIM and the Fund's other investment managers had the ability to hold the companies to account, greater than the Fund could as a single entity. Pooling of resources enabled a stronger voice to engage, which was further enhanced through LGPS central's use of Hermes, an active asset manager with

a focus on positive engagement and intervention to improve RI performance and sustainability.

- v) The Committee felt it would be beneficial for the Fund to develop its own stance on Environmental Social and Governance (ESG) factors in order for all investment managers to understand the Fund's requirements. The Director informed Members that work was underway to integrate ESG into manager selection and monitoring.

Members thanked officers for producing a comprehensive plan and looked forward to receiving future reports on the matter.

RESOLVED:

- a) That the Responsible Investment Plan 2020 be approved;
- b) That the Director of Corporate Resources be authorised to make any necessary minor alterations following the Local Pension Board's consideration of the Plan.

8. Overview of the Leicestershire Pension Fund Asset Allocation Strategy.

The Committee considered a report from the Director of Corporate Resources which provided an overview of the Fund's current strategic investment allocation activity in year and a summary of the proposed future allocation. A copy of the report marked "Agenda Item 7" is filed with these minutes.

Arising from the discussion the following points were noted:-

- i) Since the last review of the strategy in January 2019 the Fund had transferred its active listed global and emerging markets equities to LGPS Central's (Central) equivalent products; and entered into an agreement with Central to provide advisory services for its Property, Targeted Return and Emerging Market Debt asset classes.
- ii) Over the previous year Central had developed a more formal approach to product development to improve accountability and delivery through enhanced communication and clarification of responsibility between Central and each partner fund. This enabled Central to focus its resources on asset classes that partner funds were most interested in.
- iii) The Director of Corporate Resources acknowledged that pooling had been slower than initially anticipated, resultant from staff turnover and the complexities involved with pooling across the partner authorities. Section 151 officers across the partner funds had recognised these issues and had set up meetings to ensure each authority was aligned in their approach to ensure collective working. Ultimately the savings originally presented prior to the pool being established were reliant on each fund transferring the majority of its assets to LGPS Central.
- iv) Members noted that Government had not yet produced statutory guidance following the consultation in January 2019 regarding LGPS asset pooling. It was expected, considering the direction of the consultation, that upcoming guidance would stipulate future investments would need to be attained through pooling, not via the fund's own individual manager appointments. In the meantime, the Fund would keep a consideration of its allocations with a view to invest in Central as

products were developed. It was considered most cost effective to utilise Central's services as much as it could, due to its cost of running.

- v) Virtually all of the Fund's equity asset classes were pooled through Central's investment services, advisory services or Legal and General Investment Management (LGIM) passive management. LGIM's services were deemed cost-effective and it was not proposed to move the mandate to Central as it would be unlikely to generate a cost saving.
- vi) The Fund had previously committed £10million to LGPS Central's Private Equity Fund, however following the loss of the Investment Director no product was launched for 2019/20. The Investment Subcommittee, at its meeting on 16 October 2019, agreed to commit £30million to Adams Street Partners to maintain the Fund's allocation to Private Equity.
- vii) The Investment Subcommittee had also agreed at its meeting on 16 October 2019 to commit £100million to Partners Group Fund V in the absence of a developed Private Credit product from Central. The Director reiterated that any future investment in Private Credit would also be dependent on government guidance. The Director informed the Committee that Private Credit was a relatively new investment line that had arisen following the banking crises, and while it had performed well for the Fund since its inception it was unlikely that opportunity for yield would always be there.
- viii) Central were providing the advisory services for the Fund's Property Assets which made up 9% of the Fund's total assets as at 30 September 2019. Work was ongoing by Central to look at the potential for partner funds to transfer existing assets into a Property Asset Fund. Any potential costs to the fund's would be considered as part of product development and a business case. Like all products launched it would need approval of all partner funds. Property made up a significant portion of the proposed £250million saving that had been stated in the original business case for LGPS Central and if other partners were unable to engage in the product then the savings might need to be reprofiled.
- ix) The Fund's Property holding was focused on holdings in England as experience in overseas property markets had been volatile. The Fund had other asset classes that focused on the overseas markets.
- x) The Fund had expressed interest in LGPS Central developing an Infrastructure product however there had originally been limited appetite with partners. Another partner fund has now indicated a potential interest and a product may now be developed later in 2020.
- xi) Progress had been made with Central's Emerging Market Debt fund, and subsequent to a successful tendering exercise it was hoped to be launched early summer 2020.
- xii) Plans to develop a Multi Asset Credit fund were in early stages and would progress subject to sufficient interest from other partner funds.
- xiii) Discussions were ongoing with Central regarding a Targeted Return fund, however it seemed like there was limited appetite among the other fund's.

- xiv) The Fund's current investment with Timberland was close-ended and investment would be returned to the Fund as it matured. Future investment in Timberland would depend on the statutory guidance produced by government and the time frame for allowing investment outside of pooling.

RESOLVED:

That the report be noted.

9. Exclusion of the Press and Public.

RESOLVED:

That under Section 100(A) of the Local Government Act 1972 the public be excluded from the meeting for the remaining items of business on the grounds that they involved the likely disclosure of exempt information as defined in paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Act.

10. Annual Review of the Asset Strategy and Structure.

The Committee considered a report of the Director of Corporate Resources which was accompanied by appendices produced by the Fund's Investment Consultants Hymans Robertson. The report recommended a number of changes to Leicestershire Fund's strategic investment benchmark and portfolio structure. A copy of the report marked "Agenda Item 10" is filed with these minutes. The report and appendices were not for publication by virtue of Paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

Representatives from Hymans Robertson provided the rationale for the recommended changes set out in the report and responded to questions from the Committee regarding the Fund's revised strategic benchmark. The Committee were advised the changes presented evolution, rather than revolution and would help the Fund achieve its overall objectives.

RESOLVED:

- a) That the revised strategic benchmark for the Fund, as shown below, be approved;

Proposed target weight (%)		Comments
Equities (44.75% - 48.75%)		
Listed equity	40.0-44.0	
LGIM passive/RAFI		Retain through LGPS Central negotiated fee
Multi-factor passive		Introduce LGPS Central sub-fund
Emerging markets active		LGPS Central sub-fund
Global active		LGPS Central sub-fund
Private equity	4.75	Including ASI secondaries
Real (24.75%)		
Inflation-linked bonds	5.0 (-2.5)	Reduce allocation, move to IG credit
Infrastructure	9.75	Includes timberland and Infracapital investment
Property	10.0	Retain, but review LGPS Central offering
Alternatives/Credit (27.5%)		
Targeted return	7.5 (-4.0)	
Currency overlay (notional)	0.0	Remove
Emerging market debt	2.5	
Investment grade credit	3.0 (+3.0)	Introduce LGPS Central sub-fund, or LGIM passive
Liquid multi-asset credit	4.0 (+3.5)	Increased allocation, pending LGPS Central sub-fund
Global credit private debt	10.5	Including 3.5% for M&G DOF and CRC
Total	100.0	

- b) That the Investment Subcommittee consider, over the course of 2020, the changes necessary to align the Fund's investment with the revised strategic allocation;
- c) That the Investment Subcommittee be also asked to consider, over the course of 2020, the product launches by LGPS Central or other investment managers, and if necessary, the appropriate commitments to be made by the Fund, including the investments to divest;
- d) That the current notional exposure of £340million to the Millennium currency overlay be terminated.

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24 January 2020

CHAIRMAN