

**Minutes of a meeting of the Local Pension Committee held at County Hall,
Glenfield on Friday, 22 January 2021.**

PRESENT:

Leicestershire County Council

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

Leicester City Council

Cllr. Ratilal Govind
Cllr. A. Clarke

District Council Representative

Cllr. Malise Graham MBE

University Representative

Mr. Z. Limbada

Staff Representatives

Mr. N. Booth	Ashley Wilson
Ms. J. Dean	

Independent Advisers and Managers

Clare Scott	
Emma McCallum	Hymans Robertson
Andy Green	Hymans Robertson

1. Minutes.

The minutes of the meeting held on 27 November 2020 were taken as read, confirmed and signed.

2. Question Time.

The Chief Executive reported that no questions had been received under Standing Order 34.

3. Questions asked by members under Standing Order 7(3) and 7(5).

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

4. To advise of any other items which the Chairman has decided to take as urgent elsewhere on the agenda.

There were no urgent items for consideration.

5. Declarations of interest in respect of items on the agenda.

The Chairman invited members who wished to do so to declare any interest in respect of items on the agenda for the meeting.

Cllr. M. Graham and Mr. P. Osborne CC declared personal interests in reference to any discussion held on farming as part of the Annual Review of the Asset Strategy Structure related to their positions as landowners.

6. Funding Strategy Statement - Employer Risks and Exits

The Committee considered a report by the Director of Corporate Resources seeking approval to consult on proposed changes to the Funding Strategy Statement following regulation changes to employer risks and exits. A copy of the report, marked 'Agenda Item 6', is filed with these minutes.

Arising from the discussion the following points were noted:-

- i. The Fund was not minded to allow reviews of employer contributions outside of the usual Fund valuation process. In exceptional cases where a Fund employer was experiencing genuine financial difficulty however, the Fund would look to review the contribution rate if it were to increase the chance of repayment. The risk would first be considered alongside risk to other Fund employers, and would be assessed to consider putting additional security in place. The Fund would seek actuarial advice on all cases.
- ii. When an employer withdrew from the Fund, the Fund would provide all information to the Actuary to allow them to assess the potential ongoing pension costs, including spousal payments. The Actuary would then provide the Fund with the cessation termination value, which the employer would pay to remove ties with the Fund.

The Committee welcomed the proposals and acknowledged that consultation would begin on 1st February 2021 for four weeks to allow employers to review the proposals and feedback as part of the consultation.

RESOLVED:-

- a) That the draft Funding Strategy Statement, in relation to changes on employer risks and exits, be approved for consultation with employers.
- b) That a further report be submitted to the Committee in the year setting out the outcome of the consultation and submitting the final Funding Strategy Statement for approval.

7. Draft Responsible Investment Plan 2021.

The Committee considered a report of the Director of Corporate Resources which sought approval for a Responsible Investment (RI) Plan 2021 which set out the Fund's approach to improving its management of responsible investment risks. A copy of the report marked 'Agenda Item7' is filed with these minutes.

Arising from the discussion the following points were noted:-

- i) The 2021 Responsible Investment Plan was a continuation of what had been agreed within the 2020 Members were pleased that the Plan evidenced the Fund's commitment to continual improvement and oversight of RI on the Fund.
- ii) LGPS Central, in collaboration with partner funds, had agreed four key stewardship themes, including 'fair tax payment and tax transparency'. Engagement looked to support policy initiatives regarding transparency and voluntary country-level tax disclosure. Members were assured they would get a chance to question LGPS Central on the matter at a future meeting.
- iii) Members were assured that the Fund's approach to RI was to engage rather than divest in relation to the Climate Risk Report. Members discussed the important role farming had within Leicestershire and the benefits high quality farming had in comparison to factory farming on the environment and the local economy.
- iv) As part of the Plan the Fund would produce a Taskforce on Climate Financial Disclosure(TCFD) in Quarter 1. The Committee were pleased to note that the Fund was ahead of Government's proposal to introduce compulsory disclosure of such information and that the Fund continued to keep an eye on proposed parliamentary legislation that would look to further influence how public and private pension funds responded to climate change ahead of the 26th UN Climate Change Conference of the Parties (COP26).

Members thanked officers for producing a comprehensive plan and looked forward to receiving future reports indicated within the Plan.

RESOLVED:

That the Responsible Investment Plan 2021 be approved

8. 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 Independent Investment Advisor and Investment Consultants Hymans Robertson. The report recommended a small number of changes to the Leicestershire Fund's strategic investment benchmark and portfolio structure. A copy of the report and appendices marked '8' are filed with these minutes.

The Committee welcomed Emma McCallum and Andy Green from Hymans Robertson (Hymans) to the meeting.

Leicestershire Pension Fund targeted a 5.9% investment return per annum. However, due to market conditions, in particular low interest rates and credit spreads the Fund's investments were currently expected to earn 5.5% per annum. Members were assured that the Fund's 2019 valuation of the funding level and deficit calculation was based upon

an 80% likelihood of meeting the investment return, equivalent to 3.8% per annum. This meant that the revised 5.5% assumption was still comfortably ahead of the Fund's target. Furthermore, falling inflation and the expected move from RPI to CPI was also expected to result in a small improvement in the funding level, however not materially. As a result, given current market circumstances, Hymans recommended no significant changes to the Fund's asset strategy.

Arising from the discussion the following points were noted:-

- i. The switch from RPI to CPI post 2030 meant it would be possible to hedge the sensitivity of CPI pension increases with index-linked gilts, however, index-linked gilts remained expensive. As a result the Committee supported reduction of the strategic allocation to index-linked gilts, with reallocation to manage the currency hedge programme managed by Aegon.
- ii. Hymans assumed returns relative to expected CPI, assuming a 1% difference between expected RPI and CPI, which was consistent with the assumption made by the Fund's Actuary in 2019. Overall the Fund and advisors did not believe the move from RPI to CPI would overly impact on the value of liability for the Fund, or assets with small holdings in index-linked gilts.
- iii. The Fund remained underweight in property, which was considered appropriate due to current market conditions and illiquidity. It was evident that Covid-19 had accelerated the transition away from the high-street in regard to commercial property, and it was difficult to predict its return with a 20% fall of its capital value, despite supermarkets strong position.
- iv. It was recommended that the Fund look at alternative property investments which covered purpose built rental accommodation blocks, as such property had proved most resilient during the crisis. The diversification away from commercial property holdings was considered positive by the Committee and it was agreed that there needed to be a focus on climate friendly sustainable properties. The Fund would consider such diversification via either LGPS Central or existing managers as opportunity arose.
- v. It was recommended that the Fund consider an allocation to Adams Street Partners secondaries fund. This was considered more suitable than Aberdeen Standard secondaries due to its earlier stage of the programme, which would result in more throughput for the Fund. Secondly, Adams Street would look at specific holdings that they were already aware of and hold bigger assets in a small number of funds which would provide better visibility of what was being invested in.
- vi. Hymans had considered different allocations per region for currency hedging. On balance it was felt the difference between strategic and longer-term analysis was not worth the complexity in the long term. Furthermore, Aegon's mandate allowed the manager to implement its judgement regarding weighting, for example as at end of December it had increased weighting to 60% rather than 50% on the dollar, due to consideration of regional differences and hedging as it saw fit.
- vii. It was further recommended that the Fund reduce its foreign currency hedge weighting from 50% to 30%. Due to the size of the programme (£850m) it was expected the positioning would need to be gradual across months. The Director of

Corporate Resources would consult with Aegon and the Fund's investment consultants regarding the best approach.

- viii. In response to queries regarding Ruffer Investment Manager the Fund's Investment Consultants were looking into the background of decisions that had been made regarding investment in Bitcoin. It was believed that Ruffer saw such investment as an alternative to gold as it had no economic dependency of a developed economy linked to it.

RESOLVED:

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

	Proposed target weight (%)	Comments
Growth (55.25%)	55.25	
Listed equity	42.0 (40.0-44.0)	Broad factor based passive allocation implemented December 2020, using LGPS Climate multi-factor sub-fund
Private equity (inc secondaries)	5.75	Increase in strategic target, reflecting existing allocations Consider opportunistic investment in Adam St Secondaries
Targeted return	7.5	Currently hold higher allocation. Use this to fund sub-inv grade credit allocation; Review LGPS sub-fund when details available
Income (36.75%)	36.75	
Infrastructure (inc timberland)	9.75	Review and use LGPS sub-fund
Property	10.0	Consider introducing residential property; Consider LGPS Central proposals
Emerging market debt	2.5	-
Global credit – liquid sub inv grade markets	4.0	Existing JPM fund holding and reduction in Target Return used to fund allocation, subject to due diligence
Global credit - private debt	10.5	Review M&F DOF team mid-year to decide whether to make further allocation to distressed debt
Protection (8%)	8.0	
Inflation-linked bonds	4.5	0.5% reduction in strategic allocation, reflecting recognition of cash held to manage currency hedge
Investment grade credit	3.0	Including up to c.0.5% retained by Aegon to support currency hedge programme
Currency hedge	0.5	Recognition of cash held by by Aegon for this mandate. Adjust benchmark hedge ratios used by Aegon from 50% to 30%
Total	100.0	

- b) That the Investment Subcommittee consider, over the course of 2021, the changes necessary to align the Fund's investment with the revised strategic allocation and relevant product launches by LGPS Central and other investment managers;

- c) That the Director of Corporate Resources, following consultation with Aegon and the Fund's investment consultants, be authorised to determine the appropriate time to reduce the Fund's foreign currency exposure within the Aegon Currency Hedge mandate from 50% to 30%.

9. Date of the next meeting.

That the next meeting of the Committee be held on 26 February 2021 at 9.30am.