

**Minutes of a meeting of the Local Pension Committee held at County Hall,
Glenfield on Friday, 26 November 2021.**

PRESENT:

Leicestershire County Council

Mr. T. Barkley CC (Chairman)
Dr. K. Feltham CC
Mr. K. Merrie CC MBE

Mr. D. Grimley CC

Leicester City Council

Cllr. A. Clarke (online)

District Council Representative

Cllr M. Graham MBE

University Representative

Mr. Z. Limbada (online)

Staff Representatives

Ms. J. Dean (online)

Independent Advisers and Managers

Ms. C. Scott

Hymans Robertson (minute 74 refers)

Mr. S. Tart
Mr. T. Hoare

LGPS Central (minute 75 and – refers)

Ms. V. Lie
Ms. A. Gaston
Mr. P. O'Hara
Mr. M. Davies

69. Minutes.

The minutes of the meeting held on 10 September were taken as read, confirmed and signed.

70. Question Time.

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

71. Questions asked by members.

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

72. Urgent Items.

There were no urgent items for consideration.

73. 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.

No declarations were made.

74. 2022 Fund Valuation Assumption.

The Committee considered a report of the Director of Corporate Resources on the 2022 Fund Valuation Assumptions and received a presentation by Hymans Robertson, the Fund's Actuary. A copy of the report and presentation slides marked 'Agenda Item 6' is filed with these minutes.

The Chairman welcomed Mr. T. Hoare and Mr. R. Tart to the meeting, representing the Fund's Actuary, Hymans Robertson.

Arising from the discussion, the following points were noted:

- i. The Actuary recommended that the Fund reduces the assumption for 'likelihood that returns would be achieved', to 75% for the 2022 valuation. At the previous 2019 valuation the Actuary had increased prudence due to uncertainty surrounding the McCloud judgement.
- ii. Employers that were '100% funded' at the 2022 valuation would not cease contributions to the Fund as funding levels referred only to past service, whereas in the ensuing 50 years two thirds of benefits paid would be in respect of future service accrual.
- iii. The Actuary advised that the long-term assumption on inflation was derived from their own inhouse view which was modelled long-term. While different actuaries could take an alternate approach, they generally did not tend to differ more than 0.1% or 0.2% on CPI.
- iv. Longevity analysis was undertaken by Club Vita for the Fund. Assumptions would be tailored specifically to Leicestershire Fund scheme members, though it was yet unknown what effect the pandemic would have on life expectancy. All assumptions would then be presented at the June Committee meeting for final approval.
- v. The Director provided assurance that in recent years contributions to the Fund had increased at a healthy rate, as locally the public sector had seen staff growth due to increased service demand pressure. Ultimately it was the maturity of the Fund and its employers that mattered, which was strong, evidenced by the cash flow positive nature of the Fund.

- vi. Officers advised that the Fund looked to set out stabilised employer indicative rates by April 2022, and full rates by April 2023, when the rates would be implemented. Information would be circulated to non stabilised employers from November 2022. Members were assured that the Fund would talk to employers in advance regarding risk rates, and that it would depend on individual employers.

RESOLVED:

- a) That the assumption for likelihood of returns being achieved be set at 75% for the 2022 Fund Valuation.
- b) That the remaining assumptions be noted.

75. Responsible Investing Update.

The Committee considered a report of Corporate Resources setting out the Responsible Investing Update, including the Fund's Climate Risk Report and received a presentation by LGPS Central. A copy of the report and presentation slides marked 'Agenda Item 7' is filed with these minutes.

The Chairman welcomed representatives from Climate Action Leicester and Leicestershire, to the meeting, and noted the detailed representations received on the case to divest, which is filed with these minutes.

The representatives set out the importance of divestment and the reasons they felt that the Fund should divest:

- Firstly, that investment in fossil fuel was financially risky due to the shift towards renewable energy.
- Secondly, that divestment complimented the Fund's fiduciary duty, having cited a study from BlackRock that divestment did not affect investment return. Additionally, their view was that the Fund was legally able to consider ethical considerations as part of its strategy, which some other funds had already taken on board.
- Lastly, they set out their view that the Fund's preference to engage with companies on Climate Change would not work fast enough to sufficiently reduce emissions to keep the world below 1.5 degrees warming. Furthermore, there was a concern that engagement provided cover for companies, such as Shell, who had not done enough to sufficiently address the challenges faced, as highlighted by the Local Authority Pension Fund Forum.

The Chairman thanked Climate Action Leicester and Leicestershire for their engagement on the matter with the Fund and Committee. The Chairman highlighted that the Fund agreed Climate Change was a principal risk, however in line with Government's recommendation its position was to engage with carbon intensive companies, before a divestment decision would be taken. It was evident that no company was insulated from the economic impact of extreme global warming. Hence, engagement was considered more compatible with the Fund's fiduciary duty and more supportive of responsible investment as it provided the opportunity to influence companies, something that would not be possible if the investment was divested.

The Chairman concluded that Climate Change rightly needed to be at the front of the Committee's mind when making investment decisions but taking a measured approach was most appropriate for its fiduciary duty and the Fund.

The Chairman welcomed Ms. V. Lie and Ms. A. Gaston to the meeting representing LGPS Central.

Arising from the discussion the following points arose:

- i. The Transition Pathway Initiative Carbon Performance assessed, and validated, companies claim that they were aligned to the Paris Agreement.
- ii. The Fund indicated its intention to create a Climate Strategy Plan. The timeline for completion had not been finalised but it was expected in the first half of 2022. Officers would provide a timeline which would set out detail of a consultation timeframe and coordination with LGPS Central.
- iii. Members recognised the rationale for both engagement and divestment. However, questioned whether more information could be provided on other LGPS funds that had taken an alternative route to divestment, such as Waltham Forest, Islington and Cardiff councils. In response the Director advised the Committee that across pension schemes there were funds that had declared they would become net zero, such as the Environment Agency Scheme by 2045. However, schemes still needed to publish their plans to meet set targets, which would not necessarily address all asset classes. As an example, the Paris Aligned Investment Institute set out a framework which proposed key components of a net zero investment strategy, which initially focused on four asset classes.
- iv. In response to a query regarding action achieved by engagement, it was highlighted that positive action had been achieved in the case of EXXON, where three responsible investment (RI) savvy investors had been appointed to the management Board after it was felt RI goals had not been achieved quickly enough.
- v. Carbon Risk Metrics were figures produced by companies. Some companies used external auditors to validate the figures, others did not, meaning data was disaggregated. However, officers were aware that work was being done on the creation of standardised reporting methods.
- vi. Various polluting firms looked to offset their carbon figures by tree planting, these offsets were not included within Carbon Risk Metrics. It was expected that once companies declared their net zero plans it would be inevitable that some sectors were required to use offsets, and other technologies to reach net zero. This would present another area for shareholders to demand the highest standards possible.

RESOLVED:

That the following recommendations as set out within the Climate Risk Report 2021 be approved, to:

- a. Develop a Climate Strategy
- b. Integrate communications on climate risk into communications strategy
- c. Make clear the roles of key governance committees in the ISS
- d. Update the governance policy statement to explain how climate risks are governed

- e. Review as part of the FSS the extent to which climate risks could affect other risks noted in the FSS
- f. Consider reporting against the Stewardship Code, should it be deemed feasible given the Fund's resources

76. LGPS Central Emerging Markets Equity and Global Equity Funds Update.

The Committee received a report from the Director of Corporate Resources and a presentation from representatives from LGPS Central providing an update on Central's Emerging Market Equity and Global Equity funds. A copy of the report and presentation marked 'Agenda Item 8' is filed with these minutes.

The Committee was joined by a representative from LGPS Central Mark Davies.

Arising from the presentation the following points were noted:-

- i. A key area of discussion over Q3 with LGPS Central's fund managers was regarding becoming signatories to the Net Zero Asset Managers Initiative.
- ii. The largest contributor to the Funds carbon footprint was the world's largest public generator of renewable energy. As part of the journey to a low carbon economy it was clear that companies, such as GlenCore, still required exposure to carbon commodities that were necessary in the transition through wind turbines and development of new technologies.
- iii. Members noted that renewable energy generated did not offset carbon within the funds as it did not remove greenhouse gases from the atmosphere, unlike environmental projects such as tree planting.
- iv. In response to a question regarding underlying managers taking positions in carbon intensive producers, such as cement, Central advised that fund managers had full delegated decisions in line with their agreed mandate, and there were currently no carbon metrics within it. Central however did have monthly calls with its managers with its RI Team, to ensure managers were properly understanding the risk in their assumptions.
- v. There were currently no targets or parameters agreed regarding carbon, but Central ensured that its managers included ESG considerations and demonstrates how they were comfortable with that process.

RESOLVED:

That the presentation provided by LGPS Central on Emerging Markets Equity and Global Equity Funds be noted.

77. Change to Order of Business.

The Chairman sought and obtained the consent of the Committee to vary the order of business from that set out on the agenda.

78. Pension Fund Annual Report and Accounts.

The Committee considered a report by the Director of Corporate Resources, the purpose of which was to seek approval of the Pension Fund Annual Report and Accounts 2020/21. A copy of the Report Marked 'Agenda Item 11' is filed with these minutes.

The Director informed the Committee that the External Auditor had identified some minor areas that had been missed as per CIPFA's latest guidance following the publication of the report. Amendments to be made were tabled and are filed with these minutes. It was agreed to update the report prior to it being received at the Fund's Annual General Meeting.

The Committee noted there was only one area within the areas identified that could not be updated, related to a new value for money statement, which officers would investigate. Members noted that it was only minor and none of the highlighted areas would delay the External Audit Opinion which was expected to be unqualified.

RESOLVED:

- a. That the progress report provided by the External Auditor's, which anticipated issuing an unqualified opinion on the Pension Fund Accounts be noted.
- b. That it be noted that the Corporate Governance Committee would consider the External Audit of the 2020/21 Leicestershire County Council Statement of Accounts, Annual Governance Statement and Pension Fund Accounts at its meeting on 3rd December 2021.
- c. That the Pension Fund's Annual Report and Accounts, be approved, subject to the inclusion of the small number of additional disclosures required by the new CIPFA guide as discussed.

79. Risk Management and Internal Controls.

The Committee considered a report by the Director of Corporate Resources the purpose of which was to detail any concerns relating to the risk management and internal controls of the Fund. A copy of the report marked 'Agenda Item 12' is filed with these minutes.

RESOLVED:

That the revised risk register be approved.

80. Summary Valuation of Pension Fund Investments.

The Committee considered a report from the Director of Corporate Resources, the purpose of which was to set out the summary valuation of Pension fund Investments as at 30 September 2021. A copy of the report marked 'Agenda Item 9' is filed with these minutes.

RESOLVED:

That the report be noted.

81. Local Pension Board Annual Report.

The committee considered a report by the Local Pension Board, the purpose was to set out the Board's Annual Report 2020/21. A copy of the report marked 'Agenda Item 10' is filed with these minutes.

Mrs. R. Page CC, Chairman of the Local Pension Board presented the report and highlighted key sections from within the report for the Committee to be aware of.

It was noted that the Pension Regulator planned to replace Code of Practice 14, with a new code of practice which the Board would consider as part of its remit to assist the Administering Authority.

RESOLVED:

That the Local Pension Board's Annual Report be noted.

82. Update on LGPS Central Joint Committee and Annual General Meeting.

The Committee received a report by the Director of Corporate Resources, the purpose of which was to update members on the LGPS Central Joint Committee and Annual General Meeting. A copy of the report marked 'Agenda Item 13' is filed with these minutes.

RESOLVED:

That the report be noted.

83. Action Agreed by the Investment Subcommittee.

The Committee received a report by the Director of Corporate Resources, the purpose of which was to inform members of the decisions taken by the Investment Subcommittee as its meeting on 13 October 2021. A copy of the report marked 'Agenda Item 14' is filed with these minutes.

RESOLVED:

That the report be noted

84. 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 involve the likely disclosure of exempt information as defined in Part 1 of Schedule 12(A) of the Act.

85. Climate Risk Report.

The Committee considered an exempt report from the Director of Corporate Resources providing Members with the Climate Risk Report. A copy of the report marked 'Agenda Item 16' is filed with these minutes.

The report was not for publication by virtue of paragraph 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

The Chairman again welcomed Ms. V. Lie and Ms. A. Gaston to the meeting representing LGPS Central.

Arising from the presentation the following points were noted:-

- i. Cement, despite its carbon intensity was popular within stock markets due to its demand post lockdown with the resumption of construction. As evident within Central's Emerging Market Equity Multi Manager fund. Central challenged its fund managers environment, social and governance (ESG) process, and the three concrete companies invested in were leaders in decarbonisation and energy efficiency. It was evident that due to its integral part within economic activity, and green initiatives, it would be hard to avoid, however it was also clear that the position would not be long term with the introduction of carbon pricing.
- ii. The item was taken in private session due to Central's contract with its data partner MSCI, who looked to protect its intellectual property as leaders within the space. Members were assured that the public report contained all but the underlying mandate climate metrics, and that the Fund would look to be as transparent as possible, and would continue to share as much data as it could contractually.
- iii. Central would continue to monitor its managers and engage on stewardship objectives to focus on greater company disclosure regarding climate change and Paris aligned reduction targets.

RESOLVED:

That the report be noted.

86. LGPS Central Quarterly Report.

The Committee considered an exempt report by LGPS Central, a copy of which marked '17' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted

87. Ruffer Quarterly Report

The Committee considered an exempt report by Ruffer, a copy of which marked '18' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted

88. Aspect Capital Quarterly Report

The Committee considered an exempt report by Aspect Capital, a copy of which marked '19' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted

89. Adams Street Quarterly Report.

The Committee considered an exempt report by Adams Street, a copy of which marked '20' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted

90. Legal and General Investment Manager Quarterly Report

The Committee considered an exempt report by Legal and General, a copy of which marked '21' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted

91. Pictet Quarterly Report

The Committee considered an exempt report by Pictet, a copy of which marked '22' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted

92. Aegon Active Value Property Quarterly Report.

The Committee considered an exempt report by Aegon, a copy of which marked '23' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted

93. Christofferson, Robb and Company Quarterly Report.

The Committee considered an exempt report by Christofferson, Robb and Company, a copy of which marked '24' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted

94. IFM Investors Quarterly Report

The Committee considered an exempt report by IFM Investors, a copy of which marked '25' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted

95. JP Morgan Quarterly Report

The Committee considered an exempt report by JP Morgan, a copy of which marked '26' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted

96. KKR Quarterly Report

The Committee considered an exempt report by KKR, a copy of which marked '27' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted

97. LaSalle Quarterly Report.

The Committee considered an exempt report by LaSalle, a copy of which marked '28' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted

98. Millennium Global Quarterly Report

The Committee considered an exempt report by Millenium, a copy of which marked '29' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted

99. Partners Quarterly Report.

The Committee considered an exempt report by Partners, a copy of which marked '30' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted

100. Stafford Timberland Quarterly Report

The Committee considered an exempt report by Stafford Timberland, a copy of which marked '31' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted

101. Aegon Quarterly Report

The Committee considered an exempt report by Aegon, a copy of which marked '32' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted

9.30am-12.10
26 November 2021

CHAIRMAN