



Meeting: **Local Pension Committee**

Date/Time: **Friday, 20 January 2023 at 9.30 am**

Location: **Sparkenhoe Committee Room, County Hall, Glenfield**

Contact: **Mrs Angie Smith (0116 305 0589).**

Email: **Angie.Smith@leics.gov.uk**

Please note: this meeting will be filmed for live or subsequent broadcast via <https://www.youtube.com/watch?v=rn6l31VWkeg>

AGENDA

<u>Item</u>	<u>Report By</u>	<u>Marked</u>
1. Minutes of the meeting held on 18 November 2022		(Pages 3 - 20)
2. Question Time.		
3. Questions asked by members 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.		
5. Declarations of interest in respect of items on the agenda.		
6. LGPS Central Update	Inderjit Lahel	(Pages 21 - 22)
7. Responsible Investment Plan 2023	Director of Corporate Resources	(Pages 23 - 32)
8. Pension Fund Training Update	Director of Corporate Resources	(Pages 33 - 44)



9. Overview of the Current Asset Strategy and Proposed 2023 Asset Strategy Director of Corporate Resources (Pages 45 - 52)

10. Date of next meeting.

The next meeting is scheduled for 3 March 2023.

11. Any other items which the Chairman has decided to take as urgent.

12. Exclusion of the Press and Public.

The public are likely to be excluded during consideration of the remaining item in accordance with Section 100(A)(4) of the Local Government Act 1972 (Exempt Information).

13. Annual Review of the Asset Strategy and Structure Director of Corporate Resources (Pages 53 - 116)

TO:

Leicestershire County Council

Mr. T. Barkley CC (Chairman)

Mr. D. Grimley CC

Mr. P. King CC

Leicester City Council

Cllr. A. Clarke

Cllr. S. Waddington

District Council Representatives

Cllr. M. Graham MBE

Cllr. N. Grundy

University Representative

Mr. Z. Limbada

Scheme Member Representatives

Mr. N. Booth

Mr. G. Lawrence

Mr. C. Pitt

Mr. D. Bill CC MBE

Mrs. A. Wright CC



**Minutes of a meeting of the Local Pension Committee held at County Hall,
Glenfield on Friday, 18 November 2022.**

PRESENT:

Leicestershire County Council

Mr. T. Barkley CC (Chairman)
Mr. D. J. Grimley CC

Mr. P. King CC

Leicester City Council

Cllr. A. Clarke
Cllr. S Waddington

District Council Representative

Cllr. Malise Graham MBE
Cllr. Nigel Grundy

University Representative

Mr. Z. Limbada

Staff Representatives

Mr. N. Booth
Mr. G. Lawrence

Independent Advisers and Managers

Aegon

Mr. James Lynch (Online)
Mr. Richard McGrail
Mr. Rory Sandilands

LGPS Central

Mr. Alex Galbraith
Mr. Patrick O'Hara
Mr. Basyar Salleh

Climate Action Leicester and Leicestershire

Ms. Zina Zelter

The Chairman informed the meeting that apologies were received from Mr. D. Bill CC.

35. Minutes of the meeting held on 10 June 2022.

The minutes of the meeting held on 10 June 2022 were taken as read, confirmed and signed.

36. Question Time.

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

37. 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).

38. 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.

39. 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.

Mr. P. King CC declared an other registrable interest in all of the substantive items on the agenda as Leader of Harborough District Council which was a constituent member of the pension fund.

40. Aegon - Bond Market Update

The Committee considered a report of the Director of Corporate Resources which provided the Committee with background information on the Leicestershire Pension Fund (Fund) Investments held with Aegon asset management and the performance of bonds generally. A copy of the report marked 'Agenda Item 6' is filed with these minutes.

Mr Richard McGrail, Mr Rory Sandilands and Mr James Lynch of Aegon Asset Management were in attendance and supplemented the report with the presentation which was included with the report.

Arising from the presentation the following points arose:

- i. There had been a modest drop in the client valuation of the Global Short Dated Climate Transition Fund since inception and the top up of £60million in March 2022. The Fund now valued £82.3m
- ii. In terms of market review, 2022 had been a challenging year for bond markets in general, with a number of factors contributing, including the recent pandemic, persistence in inflation and the war in Ukraine which had exacerbated supply chain problems, and had contributed to central banks raising base rates over the course of the year to levels not seen in recent years.
- iii. It was noted on the index linked bond portfolio there had been an almost 30% drop in returns over 2022. It was explained that index linked bonds were a long duration asset which meant they were very sensitive to movements in interest rates.

- iv. In response to a question as to whether index linked bonds should be classed as a riskier investment rather than a protection asset as the Pension Fund currently classed them, it was noted that it was dependent on the assumption of risk or protection and what liabilities they were being held against. Over the past two to three years, the movements in index linked bond prices had become a more volatile asset class, and an increased risk with uncertainty in inflation and interest rates, and it was further believed that volatility would be experienced in future years.
- v. It was noted that when looking at a longer-term view on inflation, taken into consideration was CPI or the RPI inflation as there was almost a 1% difference. It was explained that since 1997 up to the start of the Covid-19 pandemic, there had been a 2% average CPI inflation over that period. The assumption going forward was that there would be structurally higher inflation than the post financial crisis, but it was hard to predict over a 20-year average.
- vi. Interest was paid on the nominal value of the bond multiplied by the RPI rate, for example, when it came to redemption, the figure was the RPI fixing in 20 years multiplied by the nominal value.
- vii. In relation to inflation expectations it was asked that, as nations looked to reduce the amount of goods it was outsourcing abroad, if it would lead to inflation being higher structurally. In response it was acknowledged this change could be one of the reasons for rising inflation. It was noted that from the UK's point of view it had been fortunate to have a 'just in time' economy, receiving quick imports from cheaper sources. Unfortunately, the fragility of supply chains had been seen through Covid, and there would be more onshoring of goods, not just in the UK but in other countries also. The fragilities in the global system and security of the supply chain of goods, whether food, energy security, and even defence security, would all lead to structurally higher inflation than previously experienced.
- viii. It was noted it had been a very challenging year, but it was firmly believed that this asset class over the medium to long term did display characteristics of being very resilient in terms of yield and capital return.
- ix. The Bank of England had been raising rates aggressively (as seen in the deposit rates) and shown in examples given in the presentation for short-rated gilts and short rated bonds assets in the portfolio. With the cost of living issue and slowdown in the mortgage market, it was thought the Bank of England would not push to further increase rates, and the next period should be more positive.
- x. Reference was made to breakdown by credit rating, with the heavy weighting on the triple B percentage at over 45%. It was asked if, with the current economic crisis, companies were at risk of slipping beyond that figure. In response, it was reported that the portfolio had a limit of 70% triple B risk, and that the position reflected caution towards the current market. It was noted the last few years of very low interest rates had allowed a lot of investment grade companies to term out to longer maturity debt, which meant they did not have to face re-financing risk and had longer-term security. It was further noted that credit rating agencies had more companies on upgrade than downgrade risk through 2022 and it was only recently the position was beginning to shift, reflecting the fact the outlook was more challenging.

- xi. It was reiterated that the Fund's portfolio was short-dated, within the region of 25% of the bonds maturing every year, and therefore there was no immediate concern of default risk. Whilst there might be the one or two companies in the portfolio facing pressure over the next 12-18 months, there was capacity within the portfolio to hold onto such companies and confidence remained that all the securities in the portfolio would be paid.
- xii. In response to a question regarding the Fund's name, it was noted that it had changed earlier in 2022 to the Aegon Global Climate Transition Fund following a piece of work undertaken in order to factor in climate transition framework into the portfolio to reflect a new investment philosophy and provide relevance to investors. In practice the fund sought to direct its investors to those companies with robust and credible transition plans towards a net zero future.
- xiii. Climate guidelines were there as a steer and over time the portfolio would be adjusted, with a focus on shift to better companies regarded as leaders, and those names that failed to improve their transition credentials would more likely be disinvested in, by not being reinvested in rather than sold. The output of that work meant there was an additional target within the portfolio of weighted average carbon intensity, a commonly used measure of carbon impact across portfolios.
- xiv. In response to a question as to what metrics or trigger points would lead to potential staged disinvestment, it was emphasised that this was not an exclusionary approach to transition, but an approach to invest in companies best positioned for the transition. One of the trigger points could be that one of the targets had not been met, for example, when looking at what interim targets those companies had set themselves to reduce their carbon footprint over the next ten to twenty years. The assessment of a company would be more holistic rather than focussing on one quantitative metric like carbon intensity or absolute emissions. It was suggested that the trigger for disinvestment could be identified when the portfolio had to be reviewed in 2024, but companies would continue to be monitored.
- xv. The different levels of the weighted average carbon intensity (WACI) metric measure of carbon reduction were Laggard (bottom), Unprepared, Transitioning, Prepared and Leader (top). In response to a question, it was explained that Anglian Water were classed as 'Unprepared' based on their initial (base) assessment which would include what they had done to date, what their targets were over the medium term and the long term and how aligned their corporate strategy was with those targets. They then had a sector adjustment which placed them as one of the weaker companies compared to other water companies in the UK, in terms of ambitions, targets and the realism of those targets.

RESOLVED:

That the report and presentation be noted.

41. Outcome of Engagement on Net Zero Climate Strategy Targets and Draft Strategy and Responsible Investing Update

The Committee considered a report of the Director of Corporate Resources on the outcome of engagement on Net Zero Climate Strategy targets and draft strategy and responsible investing update. A copy of the report marked 'Agenda Item 7' is filed with these minutes.

Ms Zina Zelter, a representative of Climate Action Leicester and Leicestershire, presented to the Committee a representation on behalf of Climate Action, a copy of which is attached to the minutes. The representation set out a request to include three actions in the draft Leicestershire Pension Fund Net Zero Climate Strategy (NZCS), which were:

1. Formally stop investing in all fossil fuel companies which continue to develop new oil, gas and coal reserves.
2. Focus climate engagement on the banks and insurance companies the fund was invested in. Those companies could play a major role in accelerating the global path to Net Zero.
3. Invest some of the pension funds into local projects that actively provide solutions to climate change and fuel poverty.

Ms. Zelter was thanked for her representation and consultation response that would be considered as part of the development of the draft strategy.

During presentation of the report and appendices, and subsequent discussion, the following points were made:

- i. It was noted there was circa 70% engagement responses supported the target for Net Zero by 2050 with an ambition for an earlier achievement date. Similar rates of support were received for the other underlying measures and targets consulted upon.
- ii. The Fund's response to representation from Climate Action Leicester and Leicestershire was included at paragraph 38 of the report. It was noted that quarterly reports on the Fund's responsible investment activity provided to the Committee included company engagement information, which contained specific bank engagements.
- iii. The draft NZCS, developed with Hymans Robertson, was attached at Appendix A to the report. The document outlined the LCC Pension Fund strategic approach to managing climate risk and proposed approach to achieving Net Zero 2050, and included four key sections:
 - a. Climate Change Risks and Opportunities
 - b. Targets and Measures
 - c. Decision Making
 - d. Stewardship, Engagement and Divestment
- iv. In reference to Aegon Asset Management's approach to responsible investing, the Director said it was a good approach which it would like to see other fund managers take in terms of investing in companies which were better placed to achieve responsible investment targets.
- v. The Strategy would be reviewed every three years and progress monitored annually. There was further work to be undertaken on asset plans and with managers to set out expectations and for them to understand their own Net Zero targets and commitments.
- vi. The Committee was being asked to approve the draft Strategy for formal consultation. A final Strategy would then be presented to the Committee in March 2023 for approval.
- vii. In reference to Climate Action Leicester and Leicestershire's comments regarding local investment, it was noted that approaching local councils for investment

proposals would lend itself to conflict of interest and the Pension Fund did not have resources to manage individual investments. It was further noted that local authorities could access far cheaper capital than they would be able to via the Pension Fund.

- viii. One member suggested that on the basis that the majority of people who completed the initial engagement would have an interest on climate change matters, the fact that 20% of people who responded to the survey did not agree with any action on climate change was significant and questioned whether independent polling would produce a different response rate compared to specific questions which may have leant themselves to certain answers. In response, it was noted that opinion polls over many years had shown a significant majority of the general population had real concerns about climate change.
- ix. In response to a question concerning the trigger withdrawal for companies who were not adhering to the Fund's Net Zero approach it was noted that a specific measure was being developed with LGPS Central as to how underlying companies alignment or non-alignment to Net Zero could be measured. It was stated that in the future there would be targets and expectations for the companies to align to, but each sector would have its own different transition pathway to Net Zero.
- x. A member raised concern that the draft Strategy was confusing with regard to the suggestion that engagement and divestment could not be achieved together when in fact that they could coexist if worked through properly. There was a need to recognise ESG holistically, to understand when engagement was not working, and when the final outcomes of COP27 were known there would be a need for more focus on trigger points for disinvestment. He added that there should be an explicit threat of divestment when recognising the risk to the fund was under five percent of total investment, and when considering the risk to polluters of divestment, the Fund's risk was so much lower than any risk of moving towards divestment with Shell or other polluting organisations of that scale.
- xi. It was recognised there was a value in and a need to divest from companies that would ultimately harm the Fund.
- xii. In response to a question, the Director said that an eight-page summary document had been created which set out the Strategy's key points and would be made available as part of the consultation. The document had been considered by the County Council's Engagement and Communications teams and would be circulated to members of the Committee for comment prior to its publication. All employers would be contacted through the employer bulletin, and around 40,000 scheme members where emails were known would be emailed, and the consultation advertised on the scheme's website.
- xiii. It was noted that a significant proportion of the respondents to the engagement said they had little or no understanding of the fiduciary duty. It would therefore be beneficial for further work to be undertaken to help, members of the Pension Fund understand the duty and how investment performance could have an effect on how much employers would have to pay in future.

That Chair said that a lot of work had been undertaken to produce the draft Strategy and he thanked officers for all their efforts. He acknowledged that people felt strongly about climate change and it as difficult to produce a Strategy which aligned all people's opinions on the topic.

RESOLVED:

That the Committee:

- a) Noted the findings of the engagement exercise on the draft targets and measures to be included in the draft Leicestershire Pension Fund Net Zero Climate Strategy (NZCS);
- b) Approved the draft NZCS for consultation, subject to the consultation document be circulated to Members of the Committee for comment prior to consultation;
- c) Approved the Fund's response to the Department for Levelling Up, Housing and Communities consultation on proposals to require LGPS administering authorities in England and Wales to assess, manage and report on climate-related risks;
- d) Noted the quarterly update on stewardship, engagement and voting.

42. Climate Risk Report 2022

The Committee considered a report of the Director of Corporate Resources which provided the Committee with background information on the Leicestershire Pension Funds (Fund) 2022 Climate Risk Report (CRR) and Climate Scenario Analysis. A copy of the report marked 'Agenda Item 8' and a presentation which was shared at the meeting, is filed with the minutes.

The Committee were joined by Alex Galbraith, Patrick O'Hara and Basyar Salleh from LGPS Central.

Arising from the presentation and discussion, the following points were noted:

- i. Carbon risk metrics largely focussed on in the report were:
 - a. Portfolio carbon intensity – each company will have a carbon intensity calculated as the carbon emissions divided by sales;
 - b. Exposure to clean tech and fossil fuel reserves – which firstly looked at what exposure a company had to fossil fuel reserves, including thermal coal or coal power generation as well as clean tech, and secondly to look at the weight of the portfolio appointed by revenue;
 - c. Financed emissions – the emissions of the portfolio the Fund was responsible for, for example, 1% ownership of BP, meant responsibility for 1% of their emissions.
- ii. Some companies were reporting absolute emissions and were not reporting emissions net of offsets which was a problem with companies reporting statistics differently. There needed to be assurance that those offsets were robust and that they were offset emissions in perpetuity and were not a temporary offset, and to ensure those offset certificates were not being used by others to offset their emissions.
- iii. From 2019 to 2022 there had been a significant decrease in the total equities carbon intensity. The change had been largely driven back in 2020 when the Leicestershire Pension Fund made the decision to switch to the LGPS Climate

Multi-Factor Fund, a large contributor to the decrease in carbon emissions of total equities.

- iv. The top five companies contributed around 15% of the portfolio financed emissions.
- v. It was explained that financed emissions were the absolute emissions apportioned to investors based on their ownership of a company, so were for all intents and purposes the same thing.
- vi. Scope Three emissions were estimated through a complicated process. For example, when looking at downstream emissions of a car manufacturer's supply chain, there would be a lot of assumptions when trying to model emissions, as there would also be when looking at Scope Three emissions upstream for cars in use, which would be dependent on who was driving them and for how many miles. It was noted the Government was consulting on the legal requirement for local authority pension funds to include Scope Three emissions in its reporting, but there needed to be consistent methodology around the data collection and analysis.
- vii. Climate Scenario Analysis tried to project short, medium and long term returns of the funds based on several scenarios and the impact is measured against a baseline of normal expected return of the fund. The rapid scenario was recognised as uncoordinated or sudden actions from governments and companies, for example, carbon tax, or mandate to use certain technologies. The orderly scenario was a more coordinated approach whereby the impact would not be seen short term with governments working together on climate change. The failed scenario was described as government and companies not doing anything at all on climate change, with long term physical impact of climate change. The key message was that orderly transition offered better long-term results and was in keeping with fiduciary responsibility to bring about the 1.5 degree outcome, with the failed transition scenario the worst outcome for investors.
- viii. It was noted that some investments could be ethically questionable in other ways. It was reported that usually investments were made in private markets which were given robust due diligence and challenged as hard as possible.
- ix. There was a requirement for all managers across all asset classes to integrate ESG considerations into their investment processes, so in terms of divestment there would have been a process of assessment in those companies. There was also a need for confidence in managers for disclosure and their ability to manage transition and to report to LGPS Central on a quarterly basis where decisions on investment would be scrutinised.
- x. Cemex was given as an example as having improved, having met none of the criteria in only one category and achieved the criteria in four of the categories.
- xi. Glencore was a further company where constructive discussions had taken place, with several improvements in their short and medium-term climate targets with an increased target reduction of 50% by 2025.
- xii. In 2022 when companies issued their climate action plans to shareholders, each plan was reviewed thoroughly to assess how the plans were aligned to the 1.5degree scenario. Analysis was being undertaken by a University College Dublin, which was tracking the climate action against a company's own pledges.

Details of the professor overseeing the work would be circulated to Members following the meeting.

RESOLVED:

- a) That the Climate Risk Report be noted
- b) That the recommended actions and considerations set out in paragraph 42 of the report be approved for inclusion within the Fund's Responsible Investment Plan 2023.

43. Pension Fund Valuation - Indicative Whole Fund Results

The Committee considered a report of the Director of Corporate Resources which provided the Committee with indicative whole fund valuation results and the proposed change to the CPI assumption. A copy of the report marked 'Agenda Item 9' is filed with these minutes.

Arising from the discussion the following points arose:

- i. The assumptions had been presented to the Pension Committee in June 2022 and to the Local Pension Board in August 2022. Given the recent financial uncertainty there was a proposed change to the CPI assumption from 2.7% to 2.9%.
- ii. Whole fund results had been received. In 2019 at the previous valuation the Fund was 89% funded. The 2022 valuation, using the 2.9% CPI, had increased to 105% funded, which was a remarkable improvement and was largely driven by investment return over the three years.
- iii. Taking the long-term funding view, careful consideration needed to be given to the result and how it impacted the employer individual results which would be confirmed in the next few weeks.
- iv. With the Fund at 105% funded, it was anticipated that some of the employers would be significantly over funded, and officers were looking at a strategy to enable some of those contributions to be returned to those employers in a stepped manner.
- v. The Autumn Statement had also focussed on protecting benefits, such as State Pension, and other types of benefits with inflation, and it was believed it was likely there would be increase of 10.1% applied to pensions across the board in 2023.
- vi. In order to protect the Fund inflation would need to be monitored in order to mitigate risks as far as possible. One way would be to invest in real assets in order to get inflation linked returns over the long term.
- vii. Work would be undertaken by officers to consider the liquidity and cash flow assets of the Fund, as when benefits went up, it put more pressure on income within a pension fund to ensure there was enough liquid money to pay benefits as they were due.
- viii. In response to a question concerning whether the Government could change the inflation assumption uplift, it was noted that to do so the Government would have to lay a Pension Increase Order under legislation, and it was in the Government's remit to change the 10.1% CPI figure to another number.

RESOLVED:

- a) That the rise in the Leicestershire Pension Fund's CPI assumption from 2.7% to 2.9% be approved.
- b) That it be noted that the indicative whole fund valuation result as at 31 March 2022 was 105% funded.

44. Funding Strategy Statement, Investment Strategy Statement and Investment Advisor Objectives

The Committee considered a report of the Director of Corporate Resources which informed the Committee of the key changes in the Leicestershire Local Government Pension Scheme (LGPS) draft Funding Strategy Statement (FSS), the Investment Strategy Statement (ISS) and the investment advisor objectives for Hymans Robertson. A copy of the report marked 'Agenda Item 10' is filed with these minutes.

Arising from the discussion the following points arose:

- i. As part of the valuation, all employers were consulted with on the FSS which was reviewed regularly. The statement had been recently reviewed and indicative results would be circulated late November / early December 2022.
- ii. The layout and style of the FSS had been amended to make it an easier document to navigate through. The key change to highlight to employers concerned the significant overfunding position of some employer's contributions. A matrix had been included in the FSS in order to allow consultation with the employers individually, to take on board their concerns and comments.
- iii. The last update to the ISS had been approved in February 2021. It was proposed that a revised version be approved for consultation. The updated Strategy included updated investment beliefs, climate change, the 2022 Strategic Asset Allocation and various other changes as detailed in the report.
- iv. There was a requirement to have objectives as part of investment management which were reviewed annually. It was noted that Hymans Robertson were the Investment Fund's advisor.

RESOLVED:

- a) That the Leicestershire Pension Fund's draft Funding Strategy Statement be approved for consultation.
- b) That the Leicestershire Pension Fund's draft Investment Strategy Statement be approved for consultation.
- c) That the Fund's investment advisor's investment objectives be approved for submission to the Competition and Market's Authority.

45. Pension Fund Policy Report

The Committee considered a report of the Director of Corporate Resources which provided an annual update of the Pension Fund's current strategies and policies and sought the Local Pension Committee's approval of a new Cyber Policy. A copy of the report marked 'Agenda Item 11' is filed with these minutes.

Arising from the discussion the following points arose:

- i. Members were informed of a new policy outlining the Fund's approach to cyber risk. It was stated the preparation of the new policy was good governance and was one of the Pension Fund's regulators' requirements. The new policy outlined the Fund's approach to cyber risk and had been developed in conjunction with the County Council's Technical Security Officers, and alongside working with providers of systems, particularly Heywood, the main system provider.
- ii. In response to a questions it was noted that, because of legal grounds, the Council would not pay a ransom.
- iii. The use of passwords was referred to at Section 7c. to the policy, with the current County Council password policy having no expiry dates set on passwords. A member suggested it was excessive to have nine attempts for password retries. Whilst the Director undertook to raise the point with the relevant officers, it was noted that the Council followed industry best practice and had introduced the requirement to have more complex passwords in order for compulsory changes having to be done less frequently.

RESOLVED:

That the Cyber Policy be approved.

46. Summary Valuation of Pension Fund Investments, Investment Performance of Individual Managers and Investment Advisor Objectives

The Committee considered a report of the Director of Corporate Resources which provided an update on the investment markets and how individual asset classes were performing, a summary value of the Fund's investments as at 30th June 2022, together with figures showing the performance of individual managers. The report also provided information into the effect of inflation on pensions and how the Fund was managing the recent rise. A copy of the report marked 'Agenda Item 12' is filed with these minutes.

Arising from the discussion the following points arose:

- i. The current markets performance and outlook were presented at Paragraph two of the report, with the extent of the turmoil in the global economy noted and the position not expected to settle for some time.
- ii. Other changes to the Fund were highlighted at Paragraph 29, including the work to deliver a targeted return product, which was a complex piece of work undertaken alongside Hymans. The product would be presented to the Committee once the Strategic Asset Allocation was approved in January 2023.
- iii. The summary table at Paragraph 34 highlighted the volatility of the market impacting the Fund's performance, however it was noted that at three years the projected 5.3% would give returns over target, and officers were satisfied that the diversification of funds was good enough to see the Fund through turbulent times.
- iv. It was noted that Aspect and Stafford (Timberland) had performed well in the quarter from June to September 2022.
- v. There were concerns that some debt managers had not performed well, with emerging market debt, investment grade credit and index linked bonds showing

volatility affecting the Fund. LGPS Central were due to attend the Local Pension Committee meeting in January 2023 where they would provide information concerning what their expectation of managers was and why the performance had fallen below what was normally expected.

RESOLVED:

That the valuation of the Fund be noted.

47. Pension Fund Update - Budget 2022/23, LGPS Central Joint Committee and Annual General Meeting

The Committee considered a report of the Director of Corporate Resources which provided an update regarding the Pension Fund Budget, LGPS Central's (Central) Joint Committee and Annual General Meetings (AGM) and other relevant matters. A copy of the report marked 'Agenda Item 13' is filed with these minutes.

RESOLVED:

That the budget and matters considered at recent meetings of the LGPS Joint Committee and Annual General Meeting be noted.

48. Risk Management and Internal Controls.

The Committee considered a report of the Director of Corporate Resources which informed the Committee of any changes that related to the risk management and internal controls of the Pension Fund, as stipulated in the Pension Regulator's Code of Practice. A copy of the report marked 'Agenda Item 14' is filed with these minutes.

Members referenced the Appendix to the Report, risk number 3, "Failure to take account of all risks to future investment returns within the setting of allocation policy and/or the appointment of investment managers", with a Risk Score of 12. There was concern that significant risks that had been discussed and highlighted in the climate risk report, and that there was the potential risk for fossil fuels to fail to transition to renewables, and that the risks should be more explicit in the risk register with statements of cause and consequence. Officers agreed and noted there would be a significant review of the investments, notwithstanding the climate risk report, draft strategy and strategic risk allocation. Further information would be presented at a future meeting of the Local Pension Committee.

RESOLVED:

That the revised risk register of the Pension Fund be noted.

49. Pension Fund Annual Report and Accounts 2021/22

The Committee considered a report of the Director of Corporate Resources which sought the approval of the appended Annual Report and Accounts of the Pension Fund for the financial year 2021/22. A copy of the report marked 'Agenda Item 15' is filed with these minutes.

It was noted that the auditors were still working through the accounts, and the outcome of the audit would be presented to the Committee in January 2023.

RESOLVED:

- a) The progress report provided by the External Auditor which anticipates issuing an unqualified opinion on the Pension Fund Accounts be noted.
- b) That it be noted that the Corporate Governance Committee will receive the External Audit of the 2021/22 Leicestershire County Council Statement of Accounts, Annual Governance Statement and Pension Fund Accounts on 27th January 2023.
- c) That the Pension Fund's Annual Report and Accounts be approved subject to its consideration by the Corporate Governance Committee.

50. Date of Future Meetings

RESOLVED:

That the future meetings of the Committee take place on the following dates at 9:30am:

Friday 20th January 2023
 Friday 3rd March 2023
 Friday 16th June 2023
 Friday 8th September 2023
 Friday 1st December 2023

Members were asked to note that the LGPS AGM Meeting was scheduled to take place on Friday 12th December 2022 at 12.00noon, Council Chamber, County Hall, and would be open to all scheme Members.

51. 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.

52. Climate Risk Report

The Committee considered an exempt report by the Director of Corporate Resources. A copy of the report marked 'Agenda Item 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.

53. LGPS Central Quarterly Investment Report

The Committee considered an exempt report by LGPS Central Limited. A copy of the report marked 'Agenda Item 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.

54. Aberdeen SL Capital SOF III Quarterly Report

The Committee considered an exempt report by Aberdeen SL. A copy of the report marked 'Agenda Item 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.

55. Adams Street Leicestershire - Quarterly Report

The Committee considered an exempt report by Adams Street Leicestershire. A copy of the report marked 'Agenda Item 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.

56. LGIM - Quarterly Report

The Committee considered an exempt report by LGIM. A copy of the report marked 'Agenda Item 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.

57. LGPS Central PE Primary 2018 Quarterly Report

The Committee considered an exempt report by LGPS Central PE Primary. A copy of the report marked 'Agenda Item 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.

58. Pictet Quarterly Report

The Committee considered an exempt report by Pictet. A copy of the report marked 'Agenda Item 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.

59. Ruffer Quarterly Report

The Committee considered an exempt report by Ruffer. A copy of the report marked 'Agenda Item 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.

60. Aspect Diversified Fund Quarterly Performance Report Jun-22

The Committee considered an exempt report by Aspect. A copy of the report marked 'Agenda Item 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.

61. LGPS Central Quarterly Reports

The Committee considered an exempt report by LGPS Central. A copy of the report marked 'Agenda Item 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.

62. Aegon Asset Management Quarterly Report

The Committee considered an exempt report by Aegon. A copy of the report marked 'Agenda Item 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.

63. IFM Global Infrastructure Fund

The Committee considered an exempt report by IFM Global. A copy of the report marked 'Agenda Item 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.

64. Infracapital Greenfield Partners I LP

The Committee considered an exempt report by Infracapital Greenfield Partners ILP. A copy of the report marked 'Agenda Item 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.

65. JP Morgan Quarterly Report

The Committee considered an exempt report by JP Morgan. A copy of the report marked 'Agenda Item 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.

66. KKR Global Infrastructure Investors

The Committee considered an exempt report by KKR Global. A copy of the report marked 'Agenda Item 33' 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.

67. LaSalle LCC Pension Fund Quarterly Report

The Committee considered an exempt report by LaSalle. A copy of the report marked 'Agenda Item 34' 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.

68. LGPS Central Core / Core Plus Infrastructure Partnership LP

The Committee considered an exempt report by LGPS Central Core / Core Plus Infrastructure Partnership LP. A copy of the report marked 'Agenda Item 35' 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.

69. M&G Quarterly Report

The Committee considered an exempt report by M&G. A copy of the report marked 'Agenda Item 36' 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.

70. Partners Group Quarterly Report

The Committee considered an exempt report by Partners Group. A copy of the report marked 'Agenda Item 37' 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.

71. Stafford Timberland Quarterly Report

The Committee considered an exempt report by Stafford (Timberland). A copy of the report marked 'Agenda Item 38' 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.

72. CRC CRF V

The Committee considered an exempt report by CRC CRF V. A copy of the report marked 'Agenda Item 39' 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.

73. CRC - CRF III

The Committee considered an exempt report by CRC CRF III. A copy of the report marked 'Agenda Item 40' 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.

74. Aegon Global Short Dated Climate Transition Fund

The Committee considered an exempt report by Aegon Global. A copy of the report marked 'Agenda Item 41' 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.

75. Aegon LCC Pension Fund Institutional Client Report

The Committee considered an exempt report by Aegon LCC Pension Fund. A copy of the report marked 'Agenda Item 42' 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.

9.30 – 12.20
18 November 2022

CHAIRMAN



LOCAL PENSION COMMITTEE – 20 JANUARY 2023

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

LGPS CENTRAL UPDATE

Purpose of the Report

1. To provide the Committee with an update on the Fund's pooling of assets into LGPS Central ("Central"). A presentation will also be given by Central detailing:
 - a. A shareholder update on pooling progress and Central's company update;
 - b. A client update setting out the Fund's holdings performance overview, and Central's oversight of underlying managers.
 - c. how responsible investing is incorporated into ongoing monitoring;
 - d. an update their net zero approach and Responsible Investment goals for 2023.

Background

1. Government instigated 'pooling' of pension funds in 2015 with the publication of criteria and guidance on pooling of Local Government Pension Scheme (LGPS) assets. Administering authorities formed their own groups and eight asset pools were formed, which are now all operational. The scale of each pool gives significant buying power in the investment market, that would not normally be accessible to funds.
2. LGPS Central (Central), an investment management company jointly owned by eight midlands based Local Government Pension Scheme funds to deliver investment pooling, started operating on 1st April 2018.
3. The Fund is a stakeholder from two different perspectives:
 - a co-owner of the company (shareholder) and
 - as a recipient of investment services
4. The Leicestershire Pension Fund (the Fund) has invested in a number of Central products which as of 30 September 2022 was valued at c£1.9b. The Fund also has a further c£900m in low-cost passive pooled investment with investment manager Legal and General. In addition, the Fund has advisory agreements for Property and Targeted Return with LGPS Central.
5. As at 30 September 2022 the following had been invested by Central on behalf of the Fund:

Asset Class	Fund	LCCPF Invested
Passive Global Equity	All World Equity Climate Multi Factor Fund	£840m
Active Global Equity	Emerging Markets Equity Active Multi Manager Fund	£178.6m
Active Global Equity	Global Equity Active Multi Manager Fund	£474.0m
Active Global Fixed Income	Investment Grade Corporate Bond Multi Manager Fund	£104m
Active Global Fixed Income	Global Active Emerging Market Bond Multi Manager Fund	£100m
Active Global Fixed Income	Global Active Multi Asset Credit MM Fund	£200m
Private Equity	Private Equity Fund	£6.7m
Private Credit	Low Return 2021	£8.7m
Private Credit	High Return 2021	£10.3m
Infrastructure	Infra Core/Core+	£28.4m

6. Local management of investments will continue for closed-ended funds, and where Central do not have a suitable product to transition into. For example, whereby an investment manager is appointed to fulfil a specific purpose via fund that is set up to run for a specified period of time. These investments will be managed locally until the capital is repaid, due to the lack of a natural ability to exit the investment in the event of issues arising.

Presentation by LGPS Central

7. A presentation providing further detail on the pooling of assets by LGPS on behalf of the Fund will be provided at the meeting.

Recommendation

8. The Local Pension Committee is asked to note the report.

Equality and Human Rights Implications

9. None

Officers to Contact

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LOCAL PENSION COMMITTEE – 20 JANUARY 2023

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

DRAFT RESPONSIBLE INVESTMENT PLAN 2023

Purpose of the Report

1. The purpose of this report is to seek the Local Pension Committee's approval of the Leicestershire Pension Fund's Responsible Investment Plan 2023 (Appendix A) to enable the Fund to further improve the management of responsible investment risks.

Background

2. The term 'responsible investment' refers to the integration of financially material environmental, social and corporate governance ("ESG") factors into investment processes. It has relevance both before and after the investment decision and is a core part of the Fund's fiduciary duty. It is distinct from 'ethical investment', which is an approach in which the moral persuasions of an organisation take primacy over its investment considerations.
3. The Fund's approach to Responsible Investment matters have been incorporated into the Investment Statement Strategy and all actions the Fund undertakes. These are considered in two key areas:
 - Sustainable Investment: considering the financial impact of ESG factors on its investments.
 - Stewardship and Governance: Acting as responsible and active investors/owners through considered voting of shares and engaging with investee company management as part of the investment process.
4. The first Responsible Investment plan was approved at the January 2020 Local Pension Committee meeting, with updated plans being presented and approved annually since. A progress update of the latest 2022 plan is attached as Appendix B.

Responsible Investment Plan 2023

5. Officers have developed the Fund's 2023 Responsible Investment (RI) plan in conjunction with LGPS Central's in-house RI team. The plan includes outputs and recommendations from the Fund's latest Climate Risk Report which was supported by the Local Pension Committee at its meeting on 18 November 2022.

6. The plan builds on the three previous iterations and improves on the approach and beliefs detailed in the Fund's ISS and development of the draft Net Zero Climate Strategy.
7. The draft RI plan for 2023 is attached as Appendix A. Some highlights are as follows:
 - Continuation of quarterly manager presentations to the Local Pension Committee that include manager views and performance on ESG matters.
 - A wholesale review of the Fund's investment managers' approaches to climate risk as at 31 March 2023. To include what commitments and initiatives they are signed up to, their climate commitments for financed emissions, whether the Fund's investment falls within these commitments, the climate metrics reported and how they will report to the Fund on climate issues and RI issues. This will help the Fund understand alignment with the Fund's proposed Net Zero Climate Strategy (subject to approval), and shape engagement and discussions held with managers throughout the year.
 - Climate Risk Report/Task Force on Climate Related Financial Disclosures reporting – LGPS Central are in the process of refining their offering for partner funds. The Fund will look to support this review with the aim of streamlining and simplification of reporting, considering the Fund's proposed Net Zero Climate Strategy and further integration of other asset classes into climate reporting, such as bonds.
 - LGPS Central are hosting a Responsible Investment Stakeholder Day on 9 March, all Members are encouraged to attend.
8. The proposed Net Zero Climate Strategy will help shape several actions set out in the plan subject to its approval. There will also be further actions required for implementation of the Net Zero Climate Strategy that will expand the RI Plan, alongside ongoing RI activities undertaken throughout the year as needed.
9. The Committee will continue to receive quarterly reports on stewardship, voting and engagement each quarter. Committee members are encouraged to highlight any areas of particular interest (for example, company specific, sector or type of engagement) if they would like more in-depth reporting on specific matters.

Collaboration on Responsible Investment Matters

10. There are various bodies, codes and initiatives the Fund could join if it so wished. Historically, other than with the Local Authority Pension Fund Forum, the Fund has not become a direct signatory to certain key initiatives relating to RI and has been comfortable that as its investment managers have always been signatories the Fund was adhering to the broad principles by default. However, the Fund will consider further collaboration vehicles as it sees fit.
11. The Fund's strategy has been to engage with its investee companies and other key stakeholders through its current partnerships. In order to protect and increase shareholder value by engaging on a range of financially material ESG investment factors. This engagement programme is implemented through partnerships

including the Local Authority Pension Fund Forum (LAPFF), Equity Ownership Service (EOS) at Federated Hermes (via a contract held by LGPS Central Ltd, the Fund's investment pool operator). LGIM also have a strong engagement programme which covers the Fund's passive portfolio.

Local Authority Pension Fund Forum

12. The Fund is a member of the LAPFF, alongside Central and the other partner funds. This is a collaborative shareholder engagement group with over £350 billion in assets and accounts for at least 84 of 98 LGPS funds, and most pools.
13. The Forum publishes quarterly stewardship progress reports, as well as key voting alerts many of which are in relation to supporting climate lobbying and resolutions related to setting carbon emission targets. The activity of LAPFF is highlighted at each quarterly Committee meeting.
14. LAPFF held an annual responsible investment conference 7-9 December 2022 titled "Now More than Ever". The conference held various sessions which covered topics such as human rights, responsible mining, the pandemic, a just transition, sustainability, climate change, electric vehicle charging, remuneration, privacy rights, levelling up, sustainable water, racial equity and stakeholder resolutions. The conference set out many positive examples of progress with engagements possible through collaboration, as set out in their quarterly and annual reporting cycles.
15. LAPFF engage with companies on behalf of LGPS funds, and while progress can seem slow, escalation is evidenced and supported through their collaboration with other asset owners and managers. The Fund may wish to increase its approach in this area through other groups and initiatives set out below.

Further Opportunities for Collaboration

16. There is no obligation for the Fund to be a signatory of any body, however, it may be prudent where they are strongly aligned with the views and beliefs of the Committee. It is not intended that the Fund sign up to any new code, initiative or group at this stage given resource dedicated in development and expected implementation of the Net Zero Climate Strategy.
17. Instead, it is proposed that as part of the RI Plan officers look to explore these opportunities throughout the year. Where there is added value to the Fund not already achieved through its current approach and collaborations, this will be reported to Committee.

Stewardship Code 2020

18. The Financial Reporting Council's (FRC) UK Stewardship Code 2020 ('the Code') sets elevated expectations for how investors, and those that support them, invest, and manage money on behalf of UK savers and pensioners, and how this leads to sustainable benefits for the economy, the environment and society. It is a set of 12 Principles for asset owners and asset managers, and a separate set of six Principles for service providers: investment consultants, proxy advisors, data providers and others.

19. Organisations must apply and out of the 189 organisations that applied in 2021 only 64 were approved, evidencing the high standards required to successfully apply. As at September 2022 there is a total of 245 signatories accounting for £40.6trillion in assets under management. Organisations range by size of assets, asset classes, geographies, investment style and role in the investment community. It is understood that the Code's Stewardship Term will begin the planned review of the regulatory framework for stewardship alongside the FCA, DWP and TPR. Alongside a consultation on the Code from late 2023. The review will look at whether the code is creating a market for effective stewardship and the need for any further regulation in the area.
20. Signatories are expected to explain how stewardship has been exercised across asset classes, and how the Fund's purpose, investment beliefs strategy and culture enable it to practice stewardship. Signatories are expected to report annually on its stewardship activity and outcomes.
21. Several Fund managers are already signatories of the Code, including LGPS Central, which will cover the Fund's investments managed through Central. Other managers are Aegon Asset Management, LaSalle, Legal and General, M&G, Quinbrook. Ruffer, Standard Life (abrdn). Within the LGPS Central pool West Midlands and Worcestershire are successful code signatories.
22. It is worth highlighting that the Stewardship Code's latest [Review of Stewardship Reporting](#) was published November 2022. Within the report they have highlighted two engagements by LGPS Central as providing robust reporting in line with the FRC's requirements. One example relates to the Global Equity Active Multi Manager fund and highlights one of the underlying external managers Schroders:
- Schroders engaged with a utility company to set a clear decarbonisation strategy. The company did not have an overarching net zero commitment or quantitative targets to reduce emissions. Schroders further engaged with the company in September 2021, setting out key expectations. This was then escalated. The company has been receptive to Schroder's requests making valid points about the importance of shorter-term targets. However, Schroders do not believe this precludes the company setting longer term targets. If the Company does not announce 2030 or 2050 targets Schroders will re-engage.

Principles of Responsible Investment

23. The United Nation Principles for Responsible Investment (PRI) were developed by an international group of institutional investors to reflect the increasing relevance of ESG issues to investment practices. There are six principles which the Fund has included within the ISS (Investment Strategy Statement) since 2019.
- **Principle 1:** We will incorporate ESG issues into investment analysis and decision-making processes.
 - **Principle 2:** We will be active owners and incorporate ESG issues into our ownership policies and practices.
 - **Principle 3:** We will seek appropriate disclosure on ESG issues by the entities in which we invest.

- **Principle 4:** We will promote acceptance and implementation of the Principles within the investment industry.
- **Principle 5:** We will work together to enhance our effectiveness in implementing the Principles.
- **Principle 6:** We will each report on our activities and progress towards implementing the Principles.

24. Over 5000 organisations have globally committed to the PRI. Given the global nature of the initiative a majority of the Fund's managers are signatories including LGPS Central and LGIM. Within the pool only West Midlands is a direct signatory. Annual subscription costs to become a signatory are circa £7,000 for a Fund of Leicestershire's size, and do not account for the internal cost to the Fund related to reporting expectations. While there is no strict criteria to qualify for approval initially, the Fund must demonstrate adherence to the principals.

25. The PRI is in the process of assessing how best to ensure accountability on responsible investment practices globally. If the Fund was to sign up it would have a one-year grace period for reporting and assessment against the principles in its current form which include stringent requirements on reporting.

26. Other groups and initiatives are set out below. Often these collaborate and rarely stand alone:

Group	About	Asset Coverage	Cost	LGPSC link
Climate Action 100+	Investor led initiative to undertake collaborative engagement with largest greenhouse gas emitters.	700 global investors (\$68trillion)	[Must be member of a coordinating investment network such as PRI (Principles for Responsible Investment)]	yes
Transition Pathway Initiative	Independent, authoritative source of research and data into the progress being made by the financial and corporate world in making the transition to a low-carbon economy.	131 global investors (\$50 trillion)	No cost to become supporter.	yes
Institutional Investor Group on Climate Change	Leading global investor body focussing specifically on climate change.	375 global investors (€60trillion)	£4,200	yes
Ceres Investor Network	Advance sustainable investment practices, engage with corporate leaders, and advocate for key policy and regulatory solutions to accelerate the transition to a	220 institutional investors (\$60trillion)	Not advertised.	no

	just, sustainable, net zero emissions economy.			
Net Zero Asset Owner Alliance	Global asset owners committed to decarbonising their investment portfolios and achieving net-zero emissions by 2050.	83 asset owners (\$11trillion)	Circa \$10,700	no
UK Sustainable Investment and Finance Association	The leading membership organisation for sustainable and responsible finance in the UK.	300+ UK based institutions (£19trillion)	£470+Vat	no

27. Each group and initiative will have its own benefits, these may relate to engagement with companies, policy development/lobbying, collaboration, networking, communication and best practice. However, may also involve internal costs in relation to reporting requirements and resource required. Officers will review membership benefits to the Fund, it is important it demonstrates key benefits to the Fund, outside of use of a logo.

Recommendation

28. It is recommended that the Local Pension Committee approves the Responsible Investment Plan 2023.

Equality and Human Rights Implications

29. None.

Appendix

Appendix A: Draft 2023 Responsible Investment Plan

Appendix B: Progress against 2022 Responsible Investment Plan

Background Papers

Local Pension Committee – Friday 18 November 2022 – [Climate Risk Report](#)

Local Pension Committee – Friday 21 January 2022 – [Responsible Investment Plan 2022](#)

Officers to Contact

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RESPONSIBLE INVESTMENT PLAN 2023

<i>Financial Quarter</i>	<i>Date (where applicable)</i>	<i>Title</i>	<i>Description</i>
Q4	20 January 2023	RI Plan	Communication and publication of the Fund's 2023 RI Plan
	3 March 2023	Manager Presentation	Partners Group. As part of Manager report to Committee overview of approach to Environment, Social and Governance factors (ESG) in relation to Partners management of private credit assets on the Fund's behalf.
	3 March 2023	Net Zero Climate Strategy (NZCS)	Consideration of outcome of consultation and seeking approval for final Strategy.
	9 March 2023	LGPS Central RI Summit	All Members have been invited to attend LGPS Central Responsible Investment Summit.
		Manager Climate Snapshot as 31 March	The Fund will request climate related information from all investment managers to understand how they are monitoring/managing climate risk. This will be used to drive discussions on matters related to the NZCS with Investment Managers throughout the year.
Q1	16 June 2023	Taskforce on Climate-Related Financial Disclosures (TCFD) Report	Public report of the Fund's approach to climate risk, set out in alignment with the recommendations of the TCFD, updates in relation to NZCS, Climate Risk Report and stewardship reporting where applicable. This is subject to review in line with the Climate Risk Report and work with LGPS Central on streamlining and simplification and expected government guidance following their consultation late 2022.
	16 June 2023	Manager Presentation	Manager TBC. As part of Manager report to Committee overview of approach to ESG.
Q2	8 September 2023	Manager Presentation	Manager TBC. As part of Manager report to Committee overview of approach to ESG.
		Administration and	Review further to any changes resultant from NZCS engagement.

		Communication Strategy	
		Responsible Investment & Engagement 101 Training	LGPS Central to provide two-hour training session on responsible investment and engagement in advance of November Climate Risk Report
		Investment Advisor Objectives	Review in line with Competition and Market Authority requirements.
Q3	1 December	Climate Risk Report	LGPS Central are holding discussions with partner funds about future reporting. The Fund will ensure it is reviewed in light of reporting on NZCS and seek to expand data coverage.
	1 December	Manager Presentation.	Manager TBC. As part of Manager report to Committee overview of approach to ESG.
		Strategic Asset Allocation Review	To take into account Climate risk as per NZCS and Climate Risk Report.
	TBC	Pension Fund AGM	Presentation as part of Pension Fund Annual General Meeting.
Q4	January 2024	Strategic Asset Allocation Committee	Consider recommendations from Climate Risk Report and Net Zero Climate Strategy
		RI Plan	2024 Plan.

Ongoing Activities throughout the year

- Quarterly reports to the Local Pension Committee on voting, engagement, and stewardship activities of LGPS Central, LGIM and the Local Authority Pension Fund Forum, and developments on responsible investment matters.
- Implementation and further inclusion of actions positively correlated with broader Net Zero Climate Strategy through LGPS Central and other external managers to ensure the climate transition and physical risks are identified and managed through stewardship and/or asset allocation activities. Especially in regard to active equity portfolios.
- Review the listed equity portfolio with the investment advisor taking into account the Net Zero Climate Strategy.
- Work with appointed managers to understand how they are assessing, monitoring, and mitigating key transition and physical risks within material sectors.
- Working with LGPS Central to continue to develop climate reporting.
- Continue to engage companies highlighted in Climate Stewardship Report via our engagement partners including LGPS Central on companies and engagements selected.
- Exploration of potential codes/bodies (e.g. Stewardship Code 2020, Principles for Responsible Investment) for application.

Appendix B: Progress 2022 Responsible Investment (RI) Plan

Financial Quarter	Title	Description	Update
Q4 21/22	Communicate draft RI Plan to Pension Committee	Publication of the Fund's 2022 RI plan.	Complete
	Manager review	ESG approach alongside presentation to Committee	Complete: IFM Infrastructure presentation
	Climate Change Strategy	Begin work on the production of a LCCPF Climate Change Strategy with a view to publication in late-2022.	Complete.
	Climate Strategy Workshop	Meeting of the Fund's Officers and Pension Fund Committee to discuss and plan the Fund's Climate Change Strategy.	Complete 25 March 2022
Q1 22/23	TCFD Report (Taskforce on Climate related Financial Disclosures)	Public-facing report of the Fund's approach to climate risk, set out in alignment with the recommendations of the Taskforce on Climate-related Financial Disclosures	Reported to June Committee meeting.
	Manager review	ESG approach alongside presentation to Committee	Complete: LGIM
Q2 22/23	Climate Strategy Update	Pension Fund Committee meeting to discuss progress of Climate Change Strategy.	Agreed engagement start in June. Progress reported in September meeting papers (subsequently cancelled).
	Manager review	ESG approach alongside presentation to Committee	Meeting Cancelled.
Q3 22/23	Receive Climate Risk Report (CRR)	CRR 2022 containing updated carbon risk metrics results measured against the baseline from the previous two reports.	Reported to November Committee.

	Climate Risk Training	Further training of pension fund officers, Pension Committee and possibly Pension Board on the risks and opportunities associated with climate change.	Briefing held with LPC Members October 2023.
	Climate Change Strategy Publication	Publish the Fund's draft Climate Change Strategy. This should be consistent with the TCFD Recommendations and be monitored regularly by the Pension Fund Committee.	Committee approved further consultation on draft NZCS, subject to caveats which were resolved post-meeting. To be brought back March 2023.
	Governance Review	Publish updated draft Funding Strategy Statement and Investment Strategy Statements for consultation in line with the Fund's new Climate Change Strategy. Final approval in Q4 22/23.	Committee approved further consultation with employers. To be brought back March 2023.
	Manager review	ESG approach alongside presentation to Committee	Complete: Aegon presentation.
TBC	Review of company engagements and TCFD recommendations		To be continued into 2023 plan in line with NZCS development.



LOCAL PENSION COMMITTEE – 20 JANUARY 2023

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PENSION FUND TRAINING UPDATE

Purpose of the Report

1. The purpose of this report is to provide the Local Pension Committee with an update on the Pension Fund's Training Policy which details the Fund's approach to delivery, assessment and recording of training which members of the Local Pension Committee and Board are expected to complete in order to demonstrate a suitable level of knowledge and understanding.

Background

2. The Pensions Regulator (TPR) identifies good governance as essential for a pension scheme to be successful. The following extract from TPR's website explains the link to training:

“There is a clear link between good governance and good fund performance so it is an essential part of effective scheme management. Without good governance, you are unlikely to achieve good outcomes for members. Good governance is about having motivated, knowledgeable and skilled people involved with running the scheme. It's also about having the right structures and processes to enable effective, timely decisions and risk management, and to provide clear scheme objectives. It helps you to effectively oversee:

- administration and record-keeping
- investment and funding (in local government schemes)
- communications with members

You should spend time and resources getting your scheme governance right. This will help you to minimise risk and maximise opportunities for your scheme and your members. Investing in good governance is likely to save you in the long run, delivering good value for members and employers, and improving member outcomes.”

3. The Fund's Training Policy was first approved by the Local Pension Committee on the 8 November 2019. The latest version of the Training Policy was approved by the Committee on 25 March 2022.
4. The policy, and regular training, is required because of:
 - the distinction of fiduciary duty owed to the Fund, compared to members and officers usual business.

- the complexity of pension and investment issues.
 - inevitable changes in the membership due to the election cycles
 - the Fund being treated by investment managers as a professional client.
 - the potential consequences of not administering the Fund in an appropriate manner
 - responsible investing, and how the Fund achieves this.
5. The importance of training is reflected in the Terms of Reference of both the Committee and Board which states the membership must demonstrate to the Administering Authority their capacity to attend and prepare for meetings or to participate in required training.

Training Policy

6. Members of both the Local Pension Board and Committee should demonstrate a suitable level of knowledge and understanding. The Training Policy sets out the Fund's approach to delivery, assessment and recording plans.
7. Board and Committee Members are asked to complete a Training Needs Assessment on a yearly basis. The anonymised results are attached as Appendix A. The results of the questionnaire, together with the current priorities for the Fund are used to decide on the approach and topics of training offered. As of 11 January 2023, 12 out of 19 Committee and Board members had completed the assessment. A paper version of the survey will be available at the meeting for Members that were not able to complete it online.
8. Officers, on a regular basis, inform Committee and Board members of relevant training opportunities, including:
- Face-to-face sessions provided by external bodies, for example, Local Government Association.
 - Face-to-face sessions held internally, delivered by officers and/or the Fund's providers, for example, actuary, investment advisers, investment managers. Sessions may be held jointly with both Committee and Board, or held separately, depending on priorities and availability. Some sessions may be held adjacent to scheduled meetings and may be linked to specific issues on the agenda.
 - Recommended reading material to keep up-to-date with pensions issues.
 - Modules of the Hymans on-line training package These modules are web based and include a video summary from pensions professionals, printable slides if needed and knowledge checks at the end of the module. There are six modules to complete which cover the following:
 - Module 1 – an introduction to the LGPS
 - Module 2 – LGPS Governance and oversight bodies
 - Module 3 – administration and fund management
 - Module 4 – funding and actuarial matters
 - Module 5 – investments
 - Module 6 – current issues [topics are regularly updated and added to this module by Hymans]

9. In addition, induction training is made available for all new members of the Committee and Board, including potential substitute members.
10. Each Member of the Committee will also receive an updated Information Pack which will contain information key to their role as set out in the Training Policy.
11. It is intended that the pack will be updated post the March 2023 Committee meeting and circulated given the key updates expected. The contents of this pack is shown below and will be subject to change over time. The pack is focused on investment related areas in the main and hence Committee members are asked to bring a copy to meeting whilst Board members are not.

1	Title	Purpose	To be Updated
1	AGM Presentation	General Background	December 2022
2	Investment Strategy Statement	Provides the structure in relation to how the Fund's investments are managed	March 2023
3a	Asset Strategy and Structure	Details the allocation of assets to specific classes, the rational and expected return	January 2023
3b	Investment Mapping to LGPS Central Pool	Comparison of current investments to LGPS Central's expected offering	
4	Responsible Investment and Engagement Framework (LGPS)	Explains how Environmental, Social and Corporate Governance (ESG) factors are accounted for in LGPS Central's investment process	
*	Net Zero Climate Strategy	The Fund's Approach to Managing Climate risk and Opportunities	March 2023
5	Actuarial Valuation Report	High level outcomes from the 2022 actuarial valuation	March 2023
6	Funding Strategy Statement	Governs how employers pay their liabilities	March 2023
7	Active Equities Newsletter	Explain use of Style Analytics in manager monitoring	
8	Investment Performance Overview	Demonstration and Explanation of Portfolio Evaluation's manager performance reports	
9	LGPS Central accounts	Updated annually. Year end March. Accounts available later in the year.	
11	Summary of member benefits	Shows the key features of the LGPS	
12	Local Fund governance	ToR for LPC and LPB	
13	Web links covering National Governance	To cover: Regulations for governance, benefits and investments, guidance, scheme advisory board, pensions regulator code of practice, section 13 review of funding by government actuary, cost cap mechanism	
14	Training	Web link to pensions regulator toolkit Our training programme	

13. Completion of the training needs assessment and records of training by Committee and Board members, is included within the relevant Annual Report. Appendix B provides a summary of the training undertaken by the Pension Board and Committee since March 2022.

Recommendation

14. It is recommended that the Local Pension Committee notes the report.

Equality and Human Rights Implications

15. None.

Appendices

Appendix A – Training Needs Assessment Anonymised
Appendix B – Current Training Progress March 2022-February 2023

Background Papers

Local Pension Committee – 25 March 2022 – [Training Policy Refresh](#)

Officers to Contact

Mr C Tambini, Director of Corporate Resources
Tel: 0116 305 6199 Email: Chris.Tambini@leics.gov.uk

Mr D Keegan, Assistant Director Strategic Finance and Property
Tel: 0116 305 7668 Email: Declan.Keegan@leics.gov.uk

Appendix A - Training Needs Assessment as at 11 January 2023

General Understanding - LPC and PB	LPC	LPC	LPC	LPC	LPC	LPC	LPC	LPC	LPC	PB	PB	PB	PB
General pensions legislative framework in the UK, for example defined benefit, defined contribution, tax treatment and auto-enrolment	3	2	3	3	2	4	3	4	4	4	3	3	4
The roles and powers of the UK Government in relation to the LGPS	2	3	3	3	2	4	3	4	3	2	3	3	3
The main features of the LGPS legislation relating to benefits, administration and investment	3	2	3	3	2	4	3	4	4	3	3	3	3
The role of the Council as administering authority in relation to the LGPS in relation to the Fund	3	2		3	2	4	3	4	4	4	3	3	4
The stakeholders of the pension fund (including members and employers) and the nature of their interests	3	3	3	3	2	4	4	4	4	3	3	3	4
Investment pooling and the role of LGPS Central	3	2	3	3	2	4	4	4	3	4	3	3	3
The role of the LGPS Scheme Advisory Board and how it interacts with other bodies in the governance structure	3	3	3	3	2	4	2	3			3	3	3
The roles and powers of the Pensions Regulator	3	3		3	2	4	4	3	4	3	3	3	3
Awareness of the Pensions Regulator's Code of Practice for public sector pension schemes	3	3	3	3	2	4	2	2	3	3	3	3	3
The role of the Pension Board	3	2		4	2	4	2	4	4	4	3	3	3
The roles of the Pensions Advisory Service and the Pensions Ombudsman relate to the workings of LGPS	3	2	3	3	2	4	2	3	4	3	3	3	3
The role and statutory responsibilities of the Administering Authority's treasurer and monitoring officer	3	2		3	2	4	3	4	3	3	3	3	3
Accounting and Audit Regulations and legislative requirements relating to internal controls and proper accounting practice	3	2	3	3	2	4	4	3	3	3	3	3	3
How the Fund communicates with stakeholders and consults with them on changes	3			4	2	4	4	4	4	3	3	3	4
Key risks facing the Fund	3	3	3	4	2	4	4	4	3	3	3	3	3
How pension fund management risks are monitored and managed	3	2	3	4	2	4	4	3	3	3	3	3	4
Potential conflicts of interest, how they are identified and managed	3	2	3	4	2	4	4	3	4	3	3	3	4
An understanding of how breaches in law are reported	2	2	3	4	2	4	4	3			3	3	3
Funding - LPC													
The role of the fund actuary.	4	3	3	3	2	4	4	4			3	3	
The actuarial valuation process, including developing the funding strategy in conjunction with the fund actuary	3	2	3	3	2	4	4	4	2	3	3		
The key assumptions in the actuarial valuation	3	2	3	3	2	4	4	4	2	3	3		
The types of employer eligible to join the Fund	4	2	3	3	2	4	4		3	2	3		
The importance of the employer covenant and the relative strengths of the covenant across the Fund's employers	3	2	3	3	2	4	3	4	1	2	3		
How employers' contribution rates are set	3	2	3	4	2	4	4	4			3	3	
Where an employer leaves the Fund, how the promised pensions liabilities are paid for	3	2	3	3	2	4	2	3	2	3	3		
How employer outsourcings and bulk transfers are dealt with	2	2		3	2	4	2	3	2	3	3		
An understanding of the Fund's Funding Strategy Statement	3	2	3	4	2	4	3	4	3	3	3		
Investment - LPC													
The role of the Fund's investment in paying future pension payments	4	3		3	2	4	4	4	2	3			
The risk and return characteristics of the main asset classes (equities, bonds, property etc) the role of these asset classes in long-term pension fund investing.	3	2	3	3	2	4	4	4	2	3	3		
Awareness of the Fund's Statement of Investment Principles	3	2	3	3	2	4	4	4	3	3	3		
Awareness of the Fund's current investment strategy	4	2		4	2	4	4	4			3	3	
Key aspects of investment strategy and investment manager monitoring	3	2	3	3	2	4	4	3	2	3	3		
The Fund's approach to responsible investment	4	2	3	4	2	4	4	3	2	3	3		
The Fund's membership and role of the Local Authority Pension Fund Forum (LAPFF)	4	2	3		2	4	2	2	1	2	3		
Pensions Administration - PB													
The Fund's pensions administration strategy and how the service is delivered to the Fund's members and employers	3	2	3	4	2	4	3	4	3	3	3	3	4
The Fund's strategy of communicating with key stakeholders including members and employers	4	2	3	4	2	4	3	4	3	3	3	3	4
Understanding of the required and adopted scheme policies and procedures relating to: • Member data maintenance and record-keeping processes • Internal dispute resolution • Contributions collec...	3		3	4	2	4	4	3	4	2	3	3	
LGPS discretions and how employers' discretionary policies impact on the pension fund	3	2	3	4	2	4	2	3	4	2	3	3	
The tax treatment of pensions including pensions, retirement lump sums, annual allowance and lifetime allowance	3	2	3	3	2	4	3	4	4	2	3	4	
The Fund's Additional Voluntary Contribution (AVC) arrangements, the choice of investments offered to members and the oversight of the provider's performance	3	2	3	4	2	4	3	4	4	4	3	3	
Statutory deadlines and Key Performance Indicators (KPIs)	4	2		4	2	4	3	3	4	3	3	3	3

1 = I have no knowledge

2 = I have some, but limited, knowledge

3 = I am reasonably familiar but additional training would be helpful

4 = I am fully conversant

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Appendix A – Training Progress March 2022 - January 2023

Meeting Training

LPC March 2022

- Hymans Valuation Training
- Infrastructure – IFM Presentation

LPC June 2022

- Pre-meeting induction for new LPC Members
- Club Vita Presentation & Valuation Assumptions
- Private Markets – LGPS Central
- Equity – LGIM Macro Update

LPC November 2022

- Short Dated Investment Grade Credit – Aegon
- LGPS Central Climate Risk Report

		March 2022	June 2022	November 2022
Tom Barkley CC	LPC	yes	yes	yes
Cllr A. Clarke	LPC	yes	yes	yes
Cllr. M. Graham	LPC	yes	apols	yes
Cllr Grundy	LPC	-	yes	yes
Cllr. Frost (to May 2022)	LPC	apols	-	-
Mr.Z. Limbada	LPC	apols	yes	yes
Mr. A. Wilson (To December 2022)	LPC	yes	yes	apols
Mr. N. Booth	LPC	apols	yes	yes
Mr. G. Lawrence (From December 2021)	LPC	yes	yes	yes
Mr. C. Pitt (from December 2022)	LPC	-	-	-
Mr Bill (from May 2022)	LPC	-	yes	apols
Dr Feltham (to May 2022)	LPC	yes	-	-
Mr. Merrie MBE (to May 2022)	LPC	yes	-	-
Mr. Grimley (to May 2022)	LPC	yes	yes	yes
Cllr. S. Waddington (From January 2022)	LPC	yes	-	yes
Mrs A. Wright (from May 2022)	LPC	-	yes	apols
Mr. P. King (from May 2022)	LPC	-	yes	yes

LPB 5 May 2022

- Hymans Actuarial Valuation

LPB 26 October 2022

- Roles of Advisors and other Key Persons/Bodies

		05-May-22	26-Oct-22
Mrs. R. Page	LPB	yes	Yes
Mr. R. Shepherd	LPB	yes	Yes
Cllr. D. Bajaj	LPB	yes	/

Cllr. V. Singh Riyait (from November 2022)	LPB	-	-
Mr. M. Saroya	LPB	yes	Yes
Ms. C. Fairchild	LPB	yes	Yes
Ms. R. Gilbert	LPB	yes	apols

Hymans Module Training (up to end of December 2022)

Fullname	Course Name	LGPS Role	Course Enrolment Status
Adam Clarke	Module 4 - Funding and Actuarial Matters	Pension Committee	Subscribed
Adam Clarke	Module 1 - An introduction to the LGPS	Pension Committee	In Progress
Adam Clarke	Module 5 - Investments	Pension Committee	Subscribed
Adam Clarke	Module 3 - Administration & Fund Management	Pension Committee	Subscribed
Adam Clarke	Module 2 - LGPS Governance & Oversight Bodies	Pension Committee	In Progress
Adam Clarke	Module 6 - Current Issues	Pension Committee	Subscribed
Amanda Wright	Module 4 - Funding and Actuarial Matters	Pension Committee	Subscribed
Amanda Wright	Module 1 - An introduction to the LGPS	Pension Committee	Subscribed
Amanda Wright	Module 5 - Investments	Pension Committee	Subscribed
Amanda Wright	Module 6 - Current Issues	Pension Committee	Subscribed
Amanda Wright	Module 3 - Administration & Fund Management	Pension Committee	Subscribed
Amanda Wright	Module 2 - LGPS Governance & Oversight Bodies	Pension Committee	Subscribed
Ashley Wilson	Module 6 - Current Issues	Pension Committee	Completed
Ashley Wilson	Module 4 - Funding and Actuarial Matters	Pension Committee	Completed
Ashley Wilson	Module 2 - LGPS Governance & Oversight Bodies	Pension Committee	Completed
Ashley Wilson	Module 3 - Administration & Fund Management	Pension Committee	Completed
Ashley Wilson	Module 1 - An introduction to the LGPS	Pension Committee	Completed
Ashley Wilson	Module 5 - Investments	Pension Committee	Completed
Caroline Fairchild	Module 2 - LGPS Governance & Oversight Bodies	Pension Board	Completed
Caroline Fairchild	Module 5 - Investments	Pension Board	Completed
Caroline Fairchild	Module 6 - Current Issues	Pension Board	In Progress
Caroline Fairchild	Module 3 - Administration & Fund Management	Pension Board	Completed
Caroline Fairchild	Module 1 - An introduction to the LGPS	Pension Board	Completed
Caroline Fairchild	Module 4 - Funding and Actuarial Matters	Pension Board	Completed
Nigel Grundy	Module 1 - An introduction to the LGPS	Pension Committee	In Progress
Nigel Grundy	Module 6 - Current Issues	Pension Committee	Subscribed
Nigel Grundy	Module 3 - Administration & Fund Management	Pension Committee	Subscribed
Nigel Grundy	Module 4 - Funding and Actuarial Matters	Pension Committee	Subscribed
Nigel Grundy	Module 5 - Investments	Pension Committee	Subscribed
Nigel Grundy	Module 2 - LGPS Governance & Oversight Bodies	Pension Committee	Subscribed
Daniel Grimley	Module 6 - Current Issues	Pension Committee	Completed

Daniel Grimley	Module 5 - Investments	Pension Committee	Completed
Daniel Grimley	Module 1 - An introduction to the LGPS	Pension Committee	Completed
Daniel Grimley	Module 3 - Administration & Fund Management	Pension Committee	Completed
Daniel Grimley	Module 2 - LGPS Governance & Oversight Bodies	Pension Committee	Completed
Daniel Grimley	Module 4 - Funding and Actuarial Matters	Pension Committee	Completed
David Bill	Module 5 - Investments	Pension Committee	Subscribed
David Bill	Module 2 - LGPS Governance & Oversight Bodies	Pension Committee	Subscribed
David Bill	Module 1 - An introduction to the LGPS	Pension Committee	Subscribed
David Bill	Module 4 - Funding and Actuarial Matters	Pension Committee	Subscribed
David Bill	Module 3 - Administration & Fund Management	Pension Committee	Subscribed
David Bill	Module 6 - Current Issues	Pension Committee	Subscribed
Deepak Bajaj	Module 6 - Current Issues	Pension Board	Subscribed
Deepak Bajaj	Module 5 - Investments	Pension Board	Subscribed
Deepak Bajaj	Module 2 - LGPS Governance & Oversight Bodies	Pension Board	Subscribed
Deepak Bajaj	Module 1 - An introduction to the LGPS	Pension Board	Subscribed
Deepak Bajaj	Module 4 - Funding and Actuarial Matters	Pension Board	Subscribed
Deepak Bajaj	Module 3 - Administration & Fund Management	Pension Board	Subscribed
Deepak Bajaj	Module 2 - LGPS Governance & Oversight Bodies	Pension Committee	Completed
Geoff Lawrence	Module 1 - An introduction to the LGPS	Pension Committee	Completed
Geoff Lawrence	Module 4 - Funding and Actuarial Matters	Pension Committee	Completed
Geoff Lawrence	Module 5 - Investments	Pension Committee	Completed
Geoff Lawrence	Module 6 - Current Issues	Pension Committee	Completed
Geoff Lawrence	Module 3 - Administration & Fund Management	Pension Committee	Completed
Manjit Saroya	Module 4 - Funding and Actuarial Matters	Pension Board	In Progress
Manjit Saroya	Module 3 - Administration & Fund Management	Pension Board	Subscribed
Manjit Saroya	Module 2 - LGPS Governance & Oversight Bodies	Pension Board	Subscribed
Manjit Saroya	Module 5 - Investments	Pension Board	Subscribed
Manjit Saroya	Module 6 - Current Issues	Pension Board	Subscribed
Manjit Saroya	Module 1 - An introduction to the LGPS	Pension Board	Completed
Malise Graham	Module 6 - Current Issues	Pension Committee	In Progress
Malise Graham	Module 1 - An introduction to the LGPS	Pension Committee	Completed
Malise Graham	Module 2 - LGPS Governance & Oversight Bodies	Pension Committee	Completed
Malise Graham	Module 5 - Investments	Pension Committee	Completed
Malise Graham	Module 3 - Administration & Fund Management	Pension Committee	Completed
Malise Graham	Module 4 - Funding and Actuarial Matters	Pension Committee	Completed
Nick Booth	Module 2 - LGPS Governance & Oversight Bodies	Pension Committee	Subscribed
Nick Booth	Module 6 - Current Issues	Pension Committee	Completed
Nick Booth	Module 1 - An introduction to the LGPS	Pension Committee	Completed
Nick Booth	Module 4 - Funding and Actuarial Matters	Pension Committee	Completed

Nick Booth	Module 5 - Investments	Pension Committee	Completed
Nick Booth	Module 3 - Administration & Fund Management	Pension Committee	Subscribed
Phil King	Module 6 - Current Issues	Pension Committee	Subscribed
Phil King	Module 2 - LGPS Governance & Oversight Bodies	Pension Committee	Subscribed
Phil King	Module 1 - An introduction to the LGPS	Pension Committee	Subscribed
Phil King	Module 4 - Funding and Actuarial Matters	Pension Committee	Subscribed
Phil King	Module 5 - Investments	Pension Committee	Subscribed
Phil King	Module 3 - Administration & Fund Management	Pension Committee	Subscribed
Richard Shepherd	Module 5 - Investments	Pension Board	In Progress
Richard Shepherd	Module 3 - Administration & Fund Management	Pension Board	Completed
Richard Shepherd	Module 2 - LGPS Governance & Oversight Bodies	Pension Board	Completed
Richard Shepherd	Module 4 - Funding and Actuarial Matters	Pension Board	In Progress
Richard Shepherd	Module 6 - Current Issues	Pension Board	Subscribed
Richard Shepherd	Module 1 - An introduction to the LGPS	Pension Board	Subscribed
Rosita Page	Module 1 - An introduction to the LGPS	Pension Board	In Progress
Rosita Page	Module 2 - LGPS Governance & Oversight Bodies	Pension Board	In Progress
Rosita Page	Module 5 - Investments	Pension Board	In Progress
Rosita Page	Module 3 - Administration & Fund Management	Pension Board	In Progress
Rosita Page	Module 6 - Current Issues	Pension Board	Subscribed
Rosita Page	Module 4 - Funding and Actuarial Matters	Pension Board	In Progress
Ruth Gilbert	Module 6 - Current Issues	Pension Board	Subscribed
Ruth Gilbert	Module 4 - Funding and Actuarial Matters	Pension Board	Completed
Ruth Gilbert	Module 5 - Investments	Pension Board	Subscribed
Ruth Gilbert	Module 3 - Administration & Fund Management	Pension Board	Subscribed
Ruth Gilbert	Module 1 - An introduction to the LGPS	Pension Board	Completed
Ruth Gilbert	Module 2 - LGPS Governance & Oversight Bodies	Pension Board	Completed
Sue Waddington	Module 2 - LGPS Governance & Oversight Bodies	Pension Committee	Subscribed
Sue Waddington	Module 6 - Current Issues	Pension Committee	Subscribed
Sue Waddington	Module 3 - Administration & Fund Management	Pension Committee	Subscribed
Sue Waddington	Module 1 - An introduction to the LGPS	Pension Committee	In Progress
Sue Waddington	Module 4 - Funding and Actuarial Matters	Pension Committee	Subscribed
Sue Waddington	Module 5 - Investments	Pension Committee	Subscribed
Thomas Barkley	Module 6 - Current Issues	Pension Committee	Subscribed
Thomas Barkley	Module 4 - Funding and Actuarial Matters	Pension Committee	Subscribed
Thomas Barkley	Module 5 - Investments	Pension Committee	Subscribed
Thomas Barkley	Module 1 - An introduction to the LGPS	Pension Committee	In Progress
Thomas Barkley	Module 3 - Administration & Fund Management	Pension Committee	Subscribed
Thomas Barkley	Module 2 - LGPS Governance & Oversight Bodies	Pension Committee	In Progress
Zubair Limbada	Module 3 - Administration & Fund Management	Pension Committee	Subscribed

Management			
Zubair Limbada	Module 4 - Funding and Actuarial Matters	Pension Committee	Subscribed
Zubair Limbada	Module 6 - Current Issues	Pension Committee	Subscribed
Zubair Limbada	Module 5 - Investments	Pension Committee	Subscribed
Zubair Limbada	Module 2 - LGPS Governance & Oversight Bodies	Pension Committee	Subscribed
Zubair Limbada	Module 1 - An introduction to the LGPS	Pension Committee	Subscribed

Other External Training

External Events

LGPS Governance Conference 2023

Ms. C. Fairchild LPB

LGPS Fundamentals (three day course) 2022

Mr M Saroya LPB

Mr P King LPC

Mr. G. Lawrence LPC

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LOCAL PENSION COMMITTEE – 20 JANUARY 2023

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

OVERVIEW OF THE CURRENT ASSET STRATEGY AND PROPOSED 2023 ASSET STRATEGY

Purpose of the Report

1. The purpose of this report is to inform the Local Pension Committee of the annual review of the Leicestershire Pension Fund's (the Fund) strategic investment allocation and structure.

Background

2. The nature of the Fund's liabilities is long-term. The strategic investment benchmark is structured to reflect the nature of liabilities by focusing on the need for long-term returns and a degree of inflation-linked returns. Market fluctuations will cause the Fund's actual asset allocation to vary from the agreed strategic asset allocation and investment within asset classes in which funding is 'drawn down' over a period of time will create further variation. The strategic benchmark, which is set each year, should therefore be considered an 'anchor' around which the actual asset allocation is managed.
3. The Fund is part invested in funds administered by LGPS Central (Central), a private company jointly owned by the Fund and seven other administering authorities. By pooling investment, Central aims to reduce costs, provide additional manager monitoring and improve responsible investment credentials and investment returns to the ultimate benefit of Fund employers.
4. Central's product offer continues to develop and the strategy review has been undertaken with this in mind like previous years. Dialogue continues with Central and other partner funds on a regular basis to ensure that Central's offer meets the goals of the Fund. Pooling of Fund assets has resulted in Central becoming the single largest investment manager the Fund invests with. The Fund has made good progress regarding an orderly transition to Central products to date. Some investments in niche areas or where the investments are illiquid will take time to transition or may be kept outside of the pool on the advice of the Fund's investment advisor.
5. As at September 30th 2022, the value of pooled funds directly managed by Central and low cost index trackers collectively procured from Legal and General totals £2.7 billion or 48% of the Fund's total value. The Fund has significant uncalled commitments made to Central illiquid products that, all things being equal, once called will increase the proportion of pooled funds. During 2022 commitments were made to property, infrastructure and private credit products.

6. Any decision on the appropriate investment allocation is inherently difficult and will inevitably come down to a 'trade-off' between expected risk and return. Whilst historic measures for risk and return can be instructive about how different asset classes are correlated to each other, they clearly give no guarantee that these historic links will persist, and as a result an 'optimal' asset mix does not exist. 2022 was a reminder of this as previously held beliefs were proven not to be the case as both bonds and equities sold off. This does not detract from the desirability to agree a strategic asset allocation benchmark that makes intuitive sense in terms of the risks being taken to achieve a required return in line with the Fund's required rate of return as calculated by the Fund's actuary Hymans Robertson.

Summary of last years (Jan 2022) proposals and progress

7. No changes to asset allocations were proposed at the January 2022 Local Pension Committee, however, a number of asset class reviews were recommended, the outcomes of which are summarised in the table below.

Proposal	Actions
Listed equity review	This review has not commenced and has been communicated to the committee that approving a net zero climate strategy and incorporating the required targets into the scope of the listed equity review would take place once the net zero climate strategy (NZCS) is approved. This strategy is currently under consultation and the listed equity review will take place in 2023. The upcoming review will take into account geographic mix, active/passive split, style exposure as well as climate risks and opportunities.
Property review to restructure the current portfolio	A strategy review conducted by Hymans was approved by the Investment Sub-Committee (ISC) at the April 2022 meeting. This review included setting geographical targets, the desired mix of direct and indirect investments as well as a route to transition to the target mix.
Infrastructure review	An infrastructure review was conducted by Hymans and presented to the ISC in July 2022. Three investment proposals we approved (with one requiring completion of due diligence) that would bring the Fund closer to its target infrastructure allocation of 9.75%. The review also outlined the target geographical and risk profile for the overall infrastructure portfolio. As at September 2022 the actual weight was 9.2% with a commitment made but uncalled by the manager to bring the actual weight closer to target.
Targeted Return review	The Central offer for this product became available in late 2022 and due diligence by Hymans was commenced. Given the complexity of the offer and timing of the 2023 SAA it was agreed by officers to delay bringing a proposal to committee until after the SAA proposal was completed. At present, officers and Hymans are in discussion with Central. Further due diligence may take place and an update will be provided to the relevant committee in 2023.

Review of distressed debt	This review was concluded by Hymans with the scope expanded to include all private debt. The proposal was brought to the October ISC with multi-year commitments approved to manage the allocation to this asset class approved. Hymans advised against allocating to distressed debt as part of their advice.
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Summary of 2023 proposals

8. The summary of proposals made by Hymans have been assessed by officers, who have since shared the proposals with LGPS Central in order to gain further insight with respect to future pooling. Officers have also discussed the proposals with LGPS Central which helps their understanding and development of products and is in line with the spirit of pooling.
9. For 2023, Hymans propose the Fund make a number of changes to the Fund's target asset allocations. The changes are presented in the table below showing the 30th September actual weighting, current target SAA alongside the 2023 proposed target SAA.
10. Due to their sensitive nature, the specific investments which are affected by the proposed changes, timing and mechanics of investing and divesting are detailed in a separate paper which will be considered during the exempt part of the agenda.

Proposed changes

Asset Group	Asset Class	Sep 2022 Actual	Current SAA	Proposed SAA	Change
Growth	Listed equities	43.4%	42.00% (40% - 44%)	37.50%	- 4.5%
Growth	Private equity	8.0%	5.75%	7.50%	+ 1.75%
Growth	Targeted return	8.9%	7.50%	5.00%	- 2.5%
Income	Infrastructure (incl. timber)	9.2%	9.75%	12.50%	+ 2.75%
Income	Property	8.9%	10.00%	10.00%	
Income	Emerging market debt	1.8%	2.50%	0.00%	- 2.5%
Income	Global credit – liquid sub inv grade markets	3.6%	4.00%	9.00%	+ 5%
Income	Global credit - private debt (inc M&G/CRC)	7.4%	10.50%	10.50%	
Protection	Inflation-linked bonds	3.3%	4.50%	4.50%	
Protection	Investment grade credit	3.4%	3.00%	2.75%	-0.25%
Protection	Currency hedge	1.0%	0.50%	0.75%	+0.25%
Protection	Cash / cash equivalent	1.1%	0.00%	0.00%	

Investment objectives and required return

11. Underpinning the changes proposed is the investment objectives and required return for the Fund. The Fund's recent valuation (as at March 2022) was presented at the November Local Pension Committee. The Fund's actuary, Hymans Robertson shared with the investment advisor (also Hymans Robertson) the outcomes of the actuarial valuation and assumptions contained within. The proposed changes in target allocation are proposed such that attainment of the overall investment performance is consistent with that assumed by the actuary.
12. The Fund most recent valuation calculates a 75% likelihood of achieving 4.4% investment return per annum and reports a 105% funding level as at 31st March 2022. The median return projection (50% likelihood of achievement) associated with the most recent valuation is 6.5% pa. These returns were calculated by the actuary based on long term asset assumptions as at 31st March 2021.
13. The proposed 2023 SAA investment returns is based on the most recent asset returns expectations (as at 31st October 2022) for asset classes. The median (50% likelihood) return expectation is 8.2% in comparison to the actuarial returns expectation of 6.5%, also 50% likelihood.
14. The excess returns expected over the actuarial required return is largely due to the increase in interest rates and government bond yields experienced through 2022 which has impacted the returns expectation as used for the SAA.
15. For comparison the existing SAA has a median return expectation of 8.1% based on the same latest return expectations of asset classes and demonstrates a similar level of return is expected for the proposed change in SAA.
16. The strategic asset allocation benchmark is designed around the required future investment return and an acceptable level of risk. Without this clarity it would be possible to have a strategy that targets a return that is high but takes excessively large risks and as a result has a higher possibility of failing to achieve its target, thereby putting unnecessary upward pressure onto employers' contribution rates. Likewise, a target that is too low may be easily achieved but has a lower probability of producing the returns needed to reduce future employers' contribution levels.
17. Hymans have taken into account the Fund's draft net zero climate strategy (NZCS) and are mindful of changes to the SAA and the impact on delivery of the proposed 2030 medium term targets included within the draft NZCS.
18. The next full Fund valuation is due in March 2025 (with results available later in 2025), and will align investment return expectations which will again be matched with liability forecasts. In the period between now and 2025 annual reviews of the SAA will take place where the proposed SAA may be changed in line with the views of the Fund's investment advisor working with officers.
19. Proposed changes in SAA targets are briefly described below with more detailed contained within the exempt report.

Listed Equity

20. A reduction is proposed from the current weighting down to 37.5%. The actual weight is currently within the bounds of the existing target. This is the largest absolute change in value within this year's proposed strategy. The exact nature of the change will be dependent on a separate listed equity review which was postponed from 2022 partly due to the completion of the net zero climate strategy which will feed into the medium-term requirements for a listed equity portfolio.

Private Equity

21. An increase to the weighting has been proposed to 7.5%. The current weight is 8.0% and so on the face of it no immediate changes are required. Noting that private equity valuations usually lag listed equity equivalents which are priced far more frequently, there may be a catch up of downward valuations if markets remain in their current mood.

Targeted Return

22. A reduction to the weighting has been proposed to 5.0%. Targeted return currently comprises of three of managers (each weighted equally). The actual weight as at end of September 2022 of 8.9% will have decreased due to two divestments in December 2022 to fund calls made on various commitments during the year.

Infrastructure

23. Hymans noted as part of the 2022 SAA proposal a potential future increase to the infrastructure weight. As part of the 2023 SAA proposal an increase to 12.5% is proposed. The July ISC approvals which included an infrastructure strategy and a number of manager commitments means the Fund is closer to the existing 9.75% target with a number of calls made in recent months bringing the Fund even closer.

Liquid Global Credit – sub investment grade and emerging market debt (EMD)

24. An increase to the weighting has been proposed to 9.0% from the current 4.0%. The current holding is made up a single multi manager product which is near the target weight of 4.0%. 2.5% of the 5% increase is dependent on changes that need to be agreed with the relevant manager of the single multi manager product. More information is provided within the exempt paper.
25. A review of the EMD weight is to take place at the same time alongside reviewing the single multi manager product. There are dependencies associated with this change that are described in the exempt paper.

Investment grade credit and currency hedge

26. A reduction to the investment grade weighting of 0.25% has been proposed alongside an increase of 0.25% to the collateral held for the Funds currency hedge. The increase of the allocation to the currency hedge to 0.75% recognises the value of the collateral held under normal circumstances over the last 12 months with Aegon, the Funds currency hedge manager. A weight of 0.75% equates to c£40m which, given the Fund's benchmark hedge of 30% of foreign currency exposure, feels appropriate given the level of volatility experienced in recent times.

27. The reduction of 0.25% in investment grade bonds will be taken at the appropriate time during 2023 as part of the cash management and or based on tactical information received from the Fund's advisor.

Reviews pending

28. The proposals include a number of reviews that will be planned to take place during the year which include a listed equity review, targeted return review and protection assets review. Officers will plan with Hymans the relevant investment subcommittee that these reviews will be presented to.

Rebalancing principles

29. The Fund's rebalancing principles were drafted and presented to the Local Pension Committee at the November 2022 meeting. The rebalancing principles are included within the Investment Strategy Statement which is currently under consultation. The rebalance range (where no rebalancing is required) and the target for each asset class will be updated in the Investment Strategy Statement with the 2023 SAA if approved. The ISS will be presented to the Local Pension Committee for approval in March 2023.
30. The Hymans scope for the SAA reviewed the rebalancing principles. The investment advisor concluded that they consider the ranges and principles included as appropriate.

Leicestershire Pension Fund Conflict of Interest Policy

31. Whilst not a conflict of interest, it is worth noting that the County Council also invests funds with three managers which the Leicestershire County Council Pension Fund invests with, namely Partners Group, JP Morgan and Christofferson Robb and Company (CRC). The County Council's investments were made following due diligence Hymans Robertson had provided the Fund.

Supplementary Information

32. An exempt report providing further detail of the proposals for the Fund's asset strategy and structure, which is of a sensitive nature, is included within the exempt part of the agenda.

Recommendation

33. It is recommended that the Local Pension Committee notes the report.

Equality and Human Rights Implications

34. None.

Background Papers

Local Pension Committee – 18 November 2022 – [Summary Valuation of Pension Fund Investments, Investment Performance of Individual Managers and Investment Advisor Objectives](#)

Local Pension Committee - 21 January 2022 – [Annual Review of the Asset Strategy and Structure](#)

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