

**Minutes of a meeting of the Investment Subcommittee held at County Hall,  
Glenfield on Wednesday, 19 April 2023.**

**PRESENT:**

Leicestershire County Council

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

District Council Representative

Cllr. M. Graham MBE

Staff Representative

Mr. C. Pitt

University Representative

Mr. Z. Limbada

Independent Advisers and Managers

Hymans Robertson

Mr. Abhishek Srivastav  
Mr. Philip Pearson

Fulcrum

Mr. J. Davidson  
Mr. N. Abdoula

**55. Minutes of the previous meeting**

The minutes of the meeting held on 12 October 2022 were taken as read, confirmed and signed.

**56. Question Time.**

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

**57. 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).

**58. 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.

**59. Declarations of interest in respect of items on the agenda.**

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

**60. Cash Deployment, Strategic Asset Allocation Update and Infrastructure Investment Top Ups**

The Sub-Committee considered a report of the Director of Corporate Resources which provided an update on the cash holding of the Leicestershire County Council Pension Fund (Fund) and the plans for its deployment against the strategic asset allocation (SAA). The report provide background regarding commitments to three infrastructure investments. A copy of the report is filed with these minutes marked 'Agenda Item 9'.

The Director reported on the positive cashflow nature of the Fund, the new SAA approved at the Local Pension Committee meeting in January 2023 and its comparison to the SAA of 2022, and three primary areas to address to align the Fund to the SAA.

Under Plans for 2023/24, it was reported there were not many ISC changes as there had not been any approvals to date, but in 'commitments approved' changes were reported at infrastructure (£239million), global credit (£300million) and property (£120million), to close the underweight position of the income class.

The proposed Hymans Robertson framework had assisted in the decision making of fund investing, based on risk and geography. In considering the framework and following discussions with managers, a list of three commitments had been proposed, as outlined in the report, totalling £100million. £30million would be held back until further reassessment later in 2023/24.

Arising from queries, the following points were noted:

- i. Cash balances were collected each night and held within money market funds. It had at one time not been useful to hold cash as there was no allocation to cash within the SAA and rates had been near to zero, which was no longer the case as rates had risen.
- ii. When considering Hyman's targets by geography, Members queried that the targets did not total 100% (total 95% based on mid points used from the Hymans framework). Members were informed it was acceptable to be within the ranges of the targets, and that actual allocations could change within the UK, overseas and advanced emerging geographies but would be managed within the ranges from the framework.

- iii. It was acknowledged that every decision made took into account all risks to be considered, including climate and the Fund's Net Zero Climate Strategy.
- iv. A Member queried the SAA in relation to the Net Zero Climate Strategy, the latter of which was approved after the SAA. It was reported the SAA had been written with the assumption that the NZCS would be approved, and Hymans had built in as many options within the SAA as possible. Hymans went on further to state that the way in which each of the individual asset classes was implemented had a bigger impact on climate risk than the SAA itself, and listed in the equity review was a proposed reduction in emerging markets as agreed at the SAA which was helpful in terms of climate risk, and there would, over time, be examples of the way the NZCS was implemented.
- v. In response to a query about £5million of investment management expenses being paid directly by the Fund, if there was information on how those investments were divested. It was reported that they were not divested as such, but some fees were billed by the Manager (to the pension Fund), and for others fees were deducted (directly) from the Fund.
- vi. In response to a query as to how the balance of fees was funded, it was noted that some were funded from £5million as outlined, and some were paid by the manager within the fund, without the need to divest assets to pay fees.

**RESOLVED:**

That the Investment Sub-Committee approve:

- a. An additional £35m commitment to the LGPS Central Core / core plus infrastructure fund bringing the total commitment to £135m
- b. A \$24m commitment to the JPM IIF fund
- c. A \$54m commitment to the Quinbrook Net Zero Power Fund split equally between the main fund and co-investment fund

The infrastructure commitments would be funded from existing cash as they were called by the managers, and if additional cash was needed, divestments from overweight areas versus the SAA would be considered alongside other changes to the portfolio which were planned.

**61. Date of Next Meeting - 26 July 2023 at 10.00am.**

It was noted that the next meeting would be held on 26 July 2023.

## **62. 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.

## **63. Recommended Changes to Targeted Return Investments**

The Chairman informed the meeting of a change to the running order of the agenda, with Agenda Item 10 to be taken as the next substantive item.

The Sub-Committee considered a report by the Director of Corporate Resources which provided Members with information in respect of the targeted return investments and proposed changes. The paper was supported by a presentation from Hymans Robertson (Hymans) the Fund's investment advisor and Fulcrum Asset Management. A copy of the report is filed with these minutes marked 'Agenda Item 10'. 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.

Representatives from Hymans set out the purpose of the review which was undertaken as a result of recommendations approved at the 20 January 2023 Local Pension Committee, where three asset class reviews were proposed alongside other recommendations which included the update to the strategic asset allocation (SAA) that moved the targeted return target allocation to 5% of total fund assets.

Hymans presented the scope of the review, which compared three options for the targeted return allocation for the Fund, and options comparison qualitative results. The options were outlined as:

- Option 1, continue with the current managers, and associated strategies;
- Option 2, modify the current bench of managers/strategies which would improve the robustness of the current allocation, but could have significant governance implications;
- Option 3, replace the current managers with the LGPS Central fund, as currently specified.

In presenting their findings, Hymans concluded when comparing Options 2 and 3, both options were better placed to meet investment objectives of the portfolio compared to Option 1. Hymans summarised Option 2 as being more attractive in terms of improved complexity, transparency and liquidity risk, as well as RI credentials compared to other options, and provided recommendations from their findings.

In response to a question on the costs of investment if trying to exit from (current targeted return managers) them, it was acknowledged that the Fund would always look to minimise exit levies.

*[At this point representatives from Fulcrum joined the meeting]*

Fulcrum representatives delivered a presentation which provided an introduction to Fulcrum Diversified Core Absolute Return (DCAR), the focus of which was to provide an alternative return stream, providing genuine diversification at times when traditional portfolios were failing. The company had adopted a macro approach that helped long-term investors sustainably build wealth, and to build robust portfolios that could stand the test of various macro environments.

The Sub-Committee heard of the objectives of an Absolute Return Strategy to generate returns, provide downside protection and which were complementary to client portfolios. The Sub-Committee questioned Fulcrum on the fund feature to target inflation + 3-5% per annum over five-year periods, investing with an absolute return mindset, and how it could be controlled. Members were assured it could be controlled over shorter terms, but that over longer-term the intrinsic risk would not alter if inflation were high.

The Sub-Committee were assured that Fulcrum took its stewardship responsibilities seriously and had a strong level of support for environmental and social resolutions, and had supported more proposals than many of the world's largest asset managers. It was further noted that the RI policy aligned with the objectives of DCAR.

*[At this point representatives from Fulcrum left the meeting]*

The Sub-Committee discussed the recommendation to the report. They sought further clarity the fee rates and asked for an amendment to recommendation c) in the report.

*[At this point representatives from Fulcrum re-joined the meeting]*

Fulcrum representatives were informed of, and agreed the suggested amendment to recommendation c) to the report that fees would be negotiated via the Director of Corporate Resources.

RESOLVED:

That the Investment Sub-Committee approve:

- a. The Director of Corporate Resources be authorised to take the necessary action in order for the Fund to disinvest the targeted return investments during 2023/24, as outlined in preferred Option 2 in the report.
- b. That an investment increasing to 3% of total fund assets be made to the existing Ruffer mandate over 2023/24.
- c. That an investment totalling 2% of total fund assets be made to the new Fulcrum diversified core absolute return fund over 2023/24, subject to negotiation of fees via the Director of Corporate Resources.

The meeting took a short break at 12:05pm and reconvened at 12:11pm.

#### **64. Recommended Changes to Listed Equity Investments Covering Legal and General Investment Management and LGPS Central**

The Sub-Committee considered a report by the Director of Corporate Resources which provided information in respect of the listed equity portfolio review and proposed changes to investments, and supporting presentation from Hymans Robertson (Hymans), which was followed by questions from Members. A copy of the report is filed with these minutes marked 'Agenda Item 9'. 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.

Representatives from Hymans set out the purpose of the review which was undertaken as a result of recommendations approved at the 20 January 2023 Local Pension Committee, where three asset class reviews were proposed alongside other recommendations which included an update of the strategic asset allocation (SAA) that moved the listed equity target allocation to 37.5% of total fund assets.

Hymans presented the scope of the review, which focused on six areas outlined as:

- a. Geographical allocations, including to what extent a 'home' (UK) bias is sensible and if an overweight allocation to emerging markets is sensible.
- b. If investing based on the market capitalisation is appropriate (i.e., holding more of a company the larger it becomes)
- c. The allocation between active and passive management
- d. How to employ factor-based strategies
- e. Responsible investing considerations
- f. How to implement any recommendations

Hymans reported that the main findings of the review showed the overall portfolio was well structured, with a decent alignment with investment objectives to deliver a return in excess of inflation over the long term. It was further noted that the proposed changes offered refinement and were not a radical change.

Hymans suggested there was a strong case for the sub-portfolio to be restructured to provide a better balance of risk and return without materially impacting investment outcomes but would require further consideration. Hymans further recommended that detailed transition plans would be required, and suggested the transition be executed in stages.

Members welcomed the fact that underperformance of LGPS Central investment products was being managed by LGPS Central.

**RESOLVED:**

That the Investment Sub-Committee approve the following to the listed equity mandates and the Director of Corporate Resources be authorised to take the

necessary action for the Fund to manage the changes as outlined below:

- a. Enact the reduction from 42.5% to 37.5% of listed equities per the SAA
- b. Once the outcome of the Central Global Equity manager procurement is concluded and deemed satisfactory by Hymans Robertson continue with:
  - i. appointing a transition advisor to make changes outlined in c, d and e below, to aid in formalising the timeline and strategy for the changes.
- c. Collapse the regional passive LGIM portfolio including the single stock funds into three Funds with LGIM,
  - i. L&G UK Equity Fund to 2% of total Fund assets
  - ii. L&G All World Equity Fund to 8% of total Fund assets
  - iii. L&G Low Carbon Transition Fund to 3.5% of total Fund assets
- d. Decrease the allocation to the Central Climate Multi-Factor fund to 12% of total Fund assets.
- e. Increase the allocation to the Central Global Equity Active multi manager fund to 12% of total Fund assets.
- f. Divest from the Central Emerging Market Active multi manager fund.

Wednesday, 19 April 2023  
10.00am – 12.54pm

CHAIRMAN