

**Minutes of a meeting of the Investment Subcommittee held at County Hall,  
Glenfield on Wednesday, 26 July 2023.**

**PRESENT:**

Leicestershire County Council

Mr. T. Barkley CC (Chairman)  
Mr. D. C. Bill MBE CC

Mr. D. J. Grimley CC

Staff Representative

Mr. C. Pitt

Independent Advisers and Managers

Aegon (Minute 6 refers)

Mr. Jordan Irvine  
Mr. James Lynch

Hymans Robertson (Minutes 7 and 8 refer)

Mr. Philip Pearson

**1. Minutes of the meeting held on 19 April 2023**

The minutes of the meeting held on 19 April 2023 were taken as read, confirmed and signed.

**2. Question Time.**

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

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

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

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

There were no urgent items for consideration.

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

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

No declarations were made.

## **6. Aegon Asset Management - Index Linked Bonds Update**

The Sub-Committee considered a report of the Director of Corporate Resources the purpose of which was to provide information on the Leicestershire Pension Fund (Fund) investments held with Aegon Asset Management (Aegon) and the performance of mandates held with them. A copy of the report marked 'Agenda Item 6' is filed with these minutes.

Mr James Lynch and Mr Jordan Irvine from Aegon were in attendance at the meeting for this item, and supplemented the report with a presentation which is also filed with these minutes.

Arising from discussions the following points arose:

- i. A Member questioned who set the mandate parameters for investments made. Aegon stated that the original mandate had been set in 2013 and had been far wider ranging and more global in nature with more investment overseas. In 2016 Aegon and the County Council had agreed to move to a more restricted mandate.
- ii. When presenting information in the UK index linked Fund performance, Aegon explained a high level of returns had been reached at the end of 2021 / beginning 2022, following which there had been a large draw down on index linked bonds. It was noted that, as a long-duration asset, it was more sensitive to changes in interest rates, and though performance had dipped providing a negative return the loss of capital would come back over time. Furthermore, if the value of the index linked gilts fell, so did the Fund's liabilities, and when interest rates fell, the value of index linked gilts would rise along with the Fund's liabilities.
- iii. With regards to the cost of pensions increasing, when actuaries calculated the current value of future liabilities, they had to convert the cost of future liabilities to present day value by discounting future liabilities at an interest rate related to yield on index linked gilts. With a higher yield, the ability to meet those liabilities was enhanced, and was checked every three years, with a mid-point high level check. Information was provided in an annual report presented to the Local Pension Committee.
- iv. A Member voiced concern that there would not be an upturn in the economy any time soon, and that the country was not manufacturing or exporting enough and had lost the ability to trade successfully with the world. Aegon confirmed that the assumption around manufacturing decline was a correct one. However, interestingly post-Covid19 other areas of the world were onshoring manufacturing (particularly the USA) to help the manufacturing industry and also for security reasons after experiencing difficulties in accessing goods throughout the Covid19 pandemic. The UK's focus currently remained in the service industry.

RESOLVED:

That the presentation and report be noted.

Mr Lynch and Mr Irvine from Aegon left the meeting at this point.

## **7. Cash Update and Amendment of Previous Recommendation to Private Credit Investments**

The Sub-Committee considered a report of the Director of Corporate Resources the purpose of which was to provide an update on the cash holding of the Leicestershire County Council Pension Fund (Fund) and the plan for its deployment against the Strategic Asset Allocation (SAA). The report also sought approval to remove the limits previously approved by the Sub-Committee in October 2022 regarding commitments to LGPS Central in 2023/24. A copy of the report marked 'Agenda Item 7' is filed with these minutes.

In presenting the report, the Director highlighted an error at page 36, Pt. 12 of the report; the heading of column three of the table should read '2022 SAA', and of column four should read '2023 SAA'.

Mr Philip Pearson from Hymans Robertson was in attendance at the meeting for this item.

Arising from discussions the following points arose:

- i. When presenting information on the Private Debt recommendations change, assurance had been given by advisers that disapplying the 20% limit would not put the Fund at risk, and that no additional specifics had been received from Hymans other than that they were supportive of waiving the 20% limit based on the assurances of LGPS Central.
- ii. A Member queried if the Fund was discouraging investment in fossil fuels. It was explained that inroads were being made into the targets set and contained within the Funds Net Zero Climate Strategy approved by the Local Pension Committee in March 2023. Members recalled that the Investment Sub-Committee at its meeting in April 2023, had approved changes to the listed equity portfolio which would further reduce carbon footprint in the Fund's investments. It was further noted that LGPS Central looked at a Manager's targets prior to appointing new managers.

RESOLVED:

That the Fund proceed to commit in 2023/24:

- a. £180m to the new LGPS Central Low Return Sleeve; and
- b. £100m to the LGPS Central Real Assets Sleeve as approved by the Investment Sub-Committee (ISC) on 12 October 2022, but that the 20% limit on these commitments also previously agreed by the ISC no longer

be applied for the reasons outlined within the report.

## **8. Recommended Changes to the Protection Assets Group of Investments for the Leicestershire LGPS**

The Sub-Committee considered a report of the Director of Corporate Resources the purpose of which was to provide information in respect of the protection assets group portfolio review and proposed changes to investments. A copy of the report marked 'Agenda Item 8' is filed with these minutes.

Mr Philip Pearson from Hymans Robertson (Hymans) was in attendance at the meeting for this item and supplemented the report with a presentation which is also filed with these minutes.

Arising from discussion the following points arose:

- i. In presenting key metrics during the presentation, it was noted that funding was not sensitive to long-term inflation, as all asset classes worked together to provide protection throughout the portfolio.
- ii. There was sensitivity to long-term real yields, in particular if falling below -2%. Members were reassured that the likelihood was they would be fully funded above 2%, and that the charts included within the presentation were displaying extreme scenarios.
- iii. When considering the recommendation to increase the allocation to investment grade corporate bonds (IGC) to equal weights, officers queried if the +/-1% linked to overall investment outcomes would deliver a better return as a result. Hymans advised that modelling had suggested that the trade-off was best set at equal weight against the two asset classes. It was believed that the equal combination had better long-term outcomes, and that the additional return from investing in IGC would outweigh the slightly reduced protection from index-linked bonds (ILB) which gave some protection against inflation.
- iv. It was noted some current cash and currency (FX) hedging arrangements, there were inconsistencies with some investments unhedged, some with partial exposure, and some fully hedged. Hymans advised that there was scope to apply the current policy more consistently.

**RESOLVED:**

That the Investment Sub-Committee approve the following changes to protection assets and other impacted mandates and that the Director of Corporate Resources be authorised to take the necessary action for the Fund to manage the changes as outlined below:

- a. Implement a change to the ILB allocation to 3.5% and for IGC 3.75% of total Fund assets. However, to defer the reallocation of capital between ILB and IGC until Hymans have concluded their outlook on both asset classes.

- b. Engage with Aegon regarding the ILB mandate and their ability to enhance and protect returns by investing in overseas bonds at the appropriate times.
- c. Consider the changes to the FX hedging arrangements as described at points 37-44 of this paper.
- d. At the next SAA review (planned for January 2024) the Fund reviews the target allocation to protection assets and explore further the inclusion of alternative protection assets.

Mr Pearson left the meeting at this point.

### **9. Date of Next Meeting**

It was noted that the next meeting would be held on 11 October 2023, at 1.30pm.

### **10. 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 ground that they involve the likely disclosure of exempt information as defined in Part 1 of Schedule 12(A) of the Act.

### **11. Investment Management Fee Savings**

The Committee considered an exempt report by the Director of Corporate Resources, which provided information in respect of the investment management fee savings made for the benefit of the Leicestershire County Council Pension Fund (Fund). A copy of the report marked 'Agenda Item 11' is filed with these minutes. The report was not for publication by virtue of paragraphs 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

Officers informed the meeting there would be a decision on where best to invest the management fee savings. Members congratulated officers on the discussions that had resulted in the savings.

RESOLVED:

That the report be noted.