

Minutes of a meeting of the Local Pension Committee held at County Hall, Glenfield on Friday, 8 March 2024.

PRESENT:

Leicestershire County Council

Mr. T. Barkley CC (Chairman)
Mr. D. C. Bill MBE CC
Mr. D. J. Grimley CC
Mr. D. Harrison CC
Mr. P. King

Leicester City Council

Cllr. A. Clarke (online virtual)
Cllr. M. March

District Council Representative

Cllr. M. Cartwright
Cllr. R. Denney

Staff Representatives

Mr. N. Booth
Mr. C. Pitt

Independent Advisors in Attendance

Mr. Patrick O'Hara	LCPS Central
Mr. Sameed Afzal	LGPS Central
Ms. Ana Maria Harrison	Adam Street Partners
Mr. Ross Morrison	Adam Street Partners
Mr Yohan Hill	Adam Street Partners

121. Minutes.

The minutes of the meeting held on 26 January 2024 were taken as read, confirmed and signed.

122. Question Time.

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

123. 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).

124. Urgent Items.

There were no urgent items for consideration.

125. Declarations of interest.

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

There were no declarations were made.

126. Terms of Reference.

The Committee considered a joint report of the Director of Corporate Resources and the Director of Law and Governance, the purpose of which was to seek the Committee's approval of the revised Terms of Reference for the Local Pension Committee. A copy of the report marked 'Agenda Item 6' is filed with these minutes.

Arising from discussion, the following points were made:

- i. A Member welcomed the changes to the revised document, but queried if a change should be made to allow Employee Representatives to have voting powers.
- ii. A Member queried why changes had been made to the Terms of Reference at this point in time. The Head of Law reported they were due to a cyclical review of the document which required every three years.

RESOLVED:

That the revised Terms of Reference appended to the report be approved.

127. Pension Fund - Business Plan and Budget 2024/25.

The Committee considered a report of the Director of Corporate Resources the purpose of which was to seek the Committee's approval of the Pension Fund's Administration and Investment Business Plans, and the Pension Fund budget for 2024/25. A copy of the report marked 'Agenda Item 7' is filed with these minutes.

- i. Members believed the speed of the action of the Authority in response to the McCloud Remedy was exemplary.
- ii. Members welcomed the training initiative to hold in person sessions with Members of the Local Pension Committee and Local Pension Board.

RESOLVED:

- (a) That the Pension Fund's Administration and Investment Plans attached to the report as Appendices A and B respectively, and Pension Fund budget for 2024-25 be approved.
- (b) That Committee Members be requested to complete the Hymans on-line training Module 2 – Pension Governance sub section, LGPS oversight bodies (The Pensions Regulator).
- (c) That the training plan for the year 2024/25 attached as Appendix C to the report be noted.

128. Summary Valuation of Pension Fund Investments.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to provide an update on the investment markets and how individual asset classes were performing. The report also provided an update on progress in relation to the listed equity changes, as approved by the Investment Sub-Committee (ISC) on 19 April 2023 with an update on progress provided to the ISC in October 2023. A copy of the report marked 'Agenda Item 8' is filed with these minutes.

Arising from the discussion, the following points were made:

- i. A Member queried if the £421million held in cash by the Fund was part of the general cash flow. The Director reported that this was as a result of steps being taken to move away from listed assets, namely moving listed assets into private assets. As part of this process the money would be held as cash for managers to buy private assets when something appropriate became available. Members noted that this cash balance was currently earning 5.35% in interest.
- ii. A Member noted the level of cash held was above the strategic asset allocation (SAA) limit of 0.75% of total Fund assets and questioned what was being done to manage this. The Director reported that commitments had been made to private markets and it was expected the money would be called in due course over the next 18 months, with most of it going to infrastructure private credit property and liquid multi-asset credit (MAC). It was further noted that the SAA was presented to the Committee annually and had always been in a position of being fully invested.

RESOLVED:

That the report on the Summary Valuation of Pension Fund Investments be noted.

129. Risk Management and Internal Controls.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to advise of any changes relating to the risk management and internal controls of the Pension Fund, as stipulated in the Pension Regulator's Code of Practice, and to provide an update on the appointment of the Chief Executive Officer (CEO) for LGPS Central. A copy of the report marked 'Agenda Item 9' is filed with these minutes.

Arising from discussion, the following points were made:

- i. Members asked if Mr. Richard Law-Deeks, new CEO for LGPS Central, would be attending any future meetings of the Local Pension Committee, to which the Director

confirmed his appointment was subject to FCA approval but it was expected Mr. Law-Deeks would be attending the Committee meeting in June 2024.

- ii. Members queried if the Autumn Statement put the Fund at any great risk as it had been included in the Risk Register. It was noted that when the report was produced, there was a requirement to have an investment in British equities, for which the Fund was already compliant.

RESOLVED:

That the report on Risk Management and Internal Controls be noted.

130. Pension Fund Policy Report.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to provide an annual update of the Pension Fund's current strategies and policies, and to seek approval of the revised policies appended to the report. A copy of the report marked 'Agenda Item 10' is files with these minutes.

Members agreed 'partial termination' requests from employers seeking to lock in a favourably low value of liabilities was not in the interests of members of the Fund or employers and questioned if partial termination was being driven by employers seeking to try to reduce revenue costs. Members further questioned if it had been recognised in the risk register that potentially an employer could state that they could not afford to increase contribution payments towards the fund, some of whom were already paying in excess of 30%. The Director explained that the identified risk of increased contribution rates following the next valuation was unrelated to partial termination requests, and that if an increase were required there would need to be a review of assumptions as part of the wider valuation exercise, and employers could then challenge the proposed increase. However, it was recognised that there needed to be a balance in the interests of long-term funding.

RESOLVED:

That the following revised policies appended to the report be approved:

- Appendix A – Overpayment of Pensions Policy
- Appendix B – Draft Administration and Communication Policy
- Appendix C – Draft Administering Authority (Fund) Discretions Policy
- Appendix D – Draft Cyber Policy
- Appendix E – Fund Employer Risk Policy
- Appendix F – Investment Strategy Statement

131. Responsible Investing Update.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to provide the Committee with an update on progress versus the Responsible Investment (RI) Plan 2024, and the Fund's quarterly voting report and stewardship activities. A copy of the report marked 'Agenda Item 11' is filed with these minutes.

The Chairman welcomed to the meeting Mr. Patrick O'Hara and Mr. Sameed Afzal from LGPS Central, who supplemented the report with a presentation. A copy of the presentation slides is filed with these minutes.

Arising from discussion and questions, the following points were made:

- i. Members questioned what levels of engagement took place with fund managers, and whether these were formal, recorded and minuted discussions available for viewing. LGPS Central advised that information was contained in stewardship reports, but meetings were often covered by the Chatham House Rule to encourage open discussion. Minutes or notes were not therefore made public, though the minutes of Annual General Meetings (AGMs) were.
- ii. In response to a Member's question on the level of engagement, LGPS Central reported it had over 3,000 holdings, and that it voted at all AGMs. However, at the beginning of the year it undertook a prioritisation process for engagement which was risk based, with one criterion being how much of a holding LGPS Central had in the company in terms of the portfolio, resulting in around 50 priority engagements. Through partnership engagement on LGPS Central's behalf, such as EOS and Climate Action 100+, it was thought engagement would cover the first thousand holdings. It was further expected that managers across fixed income and active equities would have stewardship programmes, providing quarterly updates.
- iii. Timescales for resolving issues identified varied. An example given was the use of slave labour which it would be expected would be resolved quickly by managers, whereas addressing climate change was harder but managers would still be expected to set targets that played out over time. LGPS Central reported that it was in the process of introducing reporting similar to climate risk monitoring, but focussed on other ESG risks, such as, pollution, modern slavery, and child labour, running portfolios through that methodology which would feed into engagement prioritisation with companies. LGPS Central's engagement tracker was used to gauge success and outcomes through a focussed approach with companies
- iv. Members noted that it was difficult to bring a case on the grounds of climate performance as a court would have to accept this was an appropriate method for influencing company behaviour which would be difficult in the absence of being able to demonstrate a direct financial loss. However, there had been some success, for example, the Netherlands had influenced the strategy of Shell, and in the case of a Brazilian company whose shareholders brought a class action against BP as they were able to point to financial loss and share price.
- v. Members were reassured that underlying managers with LGPS Central had decided to divest from some companies that did not meet ESG standards of its sustainability mandates, despite engagement. An example of this being a company with a good sustainability story through successful energy efficient air conditioning units, but which also had an arm of business that was producing weapons.
- vi. Members noted that before investing in external managers a deep dive would be undertaken on their ESG credentials for assurance. LGPS Central reported that a company would only be divested from when the risk to the investment had become unacceptable, and at the suggestion of Members, going public before doing so would be a useful engagement tool, whilst not delving into the realms of politics or fiduciary

responsibility. It was noted that during any consideration to divest, conversations would be had with the fund manager and investment directors internally on publicity.

- vii. In response to a question on voting at AGMs, LGPS Central stated that a high level of dissent from shareholders would be around 25-30% which would usually attract media interest. For example, a vote on the CEO of Morgan Stanley had gained about 60-70% against a remuneration vote, showing shareholder concerns. It was added that some votes were not binding, as ultimately management of the company and delivery of strategy would be a matter for the chief operating officers.
- viii. Members were pleased to hear that LGPS Central was a signatory to the Stewardship Code and Principles for Responsible Investment, having scored 5 stars out of 6 areas in its most recent report demonstrating commitment to responsible investment, noting that responsible investment teams across asset management businesses tended not to compete with each other but worked collaboratively.
- ix. A Member questioned a statistic under climate change that the investment strategy over all was based on assumptions 1% to 10% of investments would be impacted by 2100 by climate change. Members were advised that some estimates stated 2% of global financial assets would be at risk of the impacts of climate change by 2100, but in the worst-case scenario could rise to 10% which would be a warming of four to five degrees as opposed to the aimed for 1.5 degree Paris aligned low carbon economy. It was noted a lot of investors were engaging with companies aligned to the goals of the Paris agreement, however, all companies were exposed to climate change. The figures related to the impact to global financial assets would be checked.

RESOLVED:

- (a) That the progress versus the Responsible Investment (RI) Plan 2024 and the Fund's quarterly voting report attached as Appendices A and B respectively to the report be noted.
- (b) That the presentation now delivered by LGPS Central and the slides attached as Appendix C to the report be noted and welcomed.
- (c) That LGPS Central be requested to provide clarity on the estimated figures presented to the Committee regarding the percentage of global assets that would be at risk of the effects of climate change by 2100.
- (d) That the Director of Corporate Resources be requested to consider how best to disseminate information contained in LGPS Central's presentation to Fund members for information.

132. Adam Street Partners (ASP) - Private Equity Presentation.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to provide information to the Committee on the Leicestershire Pension Fund (Fund) private equity (PE) investments and the performance of the Fund's PE

investments held with Adam Street Partners (ASP). A copy of the report marked 'Agenda Item 12' is filed with these minutes.

The Chairman welcomed Ms. Ana Maria Harrison, Mr. Ross Morrison and Mr Yohan Hill from ASP, who supplemented the report with a presentation. A copy of the presentation slides is filed with these minutes.

Arising from discussion the following points were made:

- i. In 2017 APS had created a LGPS aggregation discount whereby it treated the Fund's plan the same as any other pool, and any LGPS investor could benefit from the aggregation discount regardless of what pool they were in. Members noted that analysis from pre-pooling and post-pooling showed a 37% discount.
- ii. A Member commented that it was harder to see ESG tangible gains as reliance was placed on ASP to provide reassurance that such goals were being met. ASP agreed that transparency was a challenge in private markets, but that the position was improving with more information becoming available to provide reassurance that the investments were not in carbon intensive industries. More transparency was being provided around ESG through the process of annual surveys to gain more insight into the practice of target setting at manager level, with monitoring year on year and engaging if necessary with high risk managers. ASP also reported that issues such as human rights issues around modern-day slavery, child labour and controversial weapons, would be flagged during monitoring. Members requested that a breakdown of ESG risks considered by managers be provided outside the meeting, acknowledging the need for anonymity.

[Mr King and Mr. Bill left the meeting at 11.51am]

- iii. In response to a Member's question on digital technology, ASP reported that there were mature and immature technology investments. Mature were proven businesses with profitable cash flows in a growing business. ASP also allocated a smaller amount of investment to new technologies (immature companies).
- iv. A Member highlighted that performance over the long term had been excellent, but that this had been during a period of low interest rates and so it questioned with interest rates rising to a more normal level, what the position would be moving forward. It was explained that ASP operated a lower leverage high growth strategy, in that within private markets it could choose to invest in different stages or sizes of companies. It was noted that ASP's and the Fund's portfolio was disproportionately tilted towards the smaller side of the buyer market, therefore the requirement for leverage was on the lower side, with a lower burden of financial costs.

RESOLVED:

- (a) That the report on Leicestershire Pension Fund (Fund) private equity (PE) investments, and the performance of the Fund's PE investments held with Adam Street Partners (ASP) be noted.
- (b) That the presentation now provided by ASP and the slides appended to the report be noted and welcomed.

- (c) That ASP be requested to provide further detailed survey information around environmental, social and governance (ESG) risks challenged by managers.

[Mr. Grimley and Councillor March left the meeting at 11.58am]

133. Date of next meeting.

RESOLVED:

That it be noted that the date of the next meeting would be 9 June 2024, at 9.30am.

134. 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.

135. Adam Street Partners Quarterly Report.

The Committee considered an exempt report of the Director of Corporate Resources. A copy of the report marked 'Agenda Item 17' is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

Ms. Ana Maria Harrison, Mr. Ross Morrison and Mr Yohan Hill from ASP were present, and supplemented the report with a presentation, which is also filed with these minutes.

RESOLVED:

That the report and presentation delivered by Adam Street Partners (ASP) be noted.

[Ms. Ana Maria Harrison, Mr. Ross Morrison and Mr Yohan Hill left the meeting]

136. Supplementary Information - LGPS Central Stewardship Approach.

The Committee considered an exempt report of the Director of Corporate Resources. A copy of the report marked 'Agenda Item 17' is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report and presentation delivered by LGPS Central be noted.

137. LGPS Central Quarterly Investment Report.

The Chairman welcomed back to the meeting Mr. Patrick O'Hara and Mr. Sameed Afzal from LGPS Central, who delivered a presentation. A copy of the presentation slides is filed with these minutes.

RESOLVED:

That the presentation be noted.

[Mr. Patrick O'Hara and Mr. Sameed Afzal left the meeting]

138. Leicestershire Summary Valuation - Hymans Robertson.

The Committee considered an exempt report by Hymans Robertson. A copy of the report marked 'Agenda Item 19' is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

139. Ruffer Quarterly Report.

The Committee considered an exempt report by Ruffer. A copy of the report marked 'Agenda Item 20' is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

140. Aberdeen SL Capital.

The Committee considered an exempt report by Aberdeen SL Capital. A copy of the report marked 'Agenda Item 21' is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

141. Aspect Capital Quarterly Report.

The Committee considered an exempt report by Aspect Capital. A copy of the report marked 'Agenda Item 22' is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

142. Legal and General Investment Manager Quarterly Report.

The Committee considered an exempt report by Legal and General Investment Manager. A copy of the report marked 'Agenda Item 23' is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

143. LGPS Central PE Primary Partnership Quarterly Report.

The Committee considered an exempt report by LGPS Central. A copy of the report marked 'Agenda Item 24' is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

144. Pictet Asset Management Quarterly Report.

The Committee considered an exempt report by Pictet Asset Management. A copy of the report marked 'Agenda Item 25' is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

145. IFM Investors Quarterly Report.

The Committee considered an exempt report by IFM Investors. A copy of the report marked 'Agenda Item 26' is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

146. UK Active Value Property Unit Trust.

The Committee considered an exempt report by UK Active Value Property Unit Trust. A copy of the report marked 'Agenda Item 27' is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

147. Colliers Global Investors.

The Committee considered an exempt report by Colliers Global Investors. A copy of the report marked 'Agenda Item 28' is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

148. Christofferson Robb & Company.

The Committee considered an exempt report by Christofferson Robb & Company. A copy of the report marked 'Agenda Item 29' is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

149. Infracapital Greenfield Partners.

The Committee considered an exempt report by Infracapital Greenfield Partners. A copy of the report marked 'Agenda Item 30' is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

150. JP Morgan Quarterly Report.

The Committee considered an exempt report by JP Morgan. A copy of the report marked 'Agenda Item 31' is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

151. LaSalle Quarterly Report.

The Committee considered an exempt report by LaSalle. A copy of the report marked 'Agenda Item 32' is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

152. LGPS Central Core/Core Plus Infrastructure Partnership LP Quarterly Report.

The Committee considered an exempt report by LGPS Central. A copy of the report marked 'Agenda Item 33' is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

153. LGPS Central Credit Partnership.

The Committee considered an exempt report by LGPS Central. A copy of the report marked 'Agenda Item 34' is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

154. M&G Investments Quarterly Report.

The Committee considered an exempt report by M&G Investments. A copy of the report marked 'Agenda Item 35' is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

155. Stafford Timberland Quarterly Report.

The Committee considered an exempt report by Stafford Timberland. A copy of the report marked 'Agenda Item 36' is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

156. Aegon Asset Management Quarterly Report.

The Committee considered an exempt report by Aegon Asset Management. A copy of the report marked 'Agenda Item 37' is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.