



**Minutes of a meeting of the Local Pension Committee held at County Hall,
Glenfield on Friday, 10 September 2021.**

PRESENT:

Leicestershire County Council

Mr. T. Barkley CC (Chairman)
Dr. R. K. A. Feltham CC

Mr. D. J. Grimley CC
Mr. K. Merrie MBE CC

Leicester City Council

Cllr. A. Clarke

District Council Representative

Cllr. Malise Graham MBE

Staff Representatives

Mr. N. Booth

Independent Advisers and Managers (Online)

Ms. C. Scott – Independent Advisor

Hymans Robertson (Minute 42 refers)

Mr. T. Hoare
Mr. R. Warden

Pictet Asset Manager (Minute 47 refers)

Mr. A. Cole
Mr. S. Ramsey

37. Minutes.

The minutes of the meeting held on 4 June were taken as read, confirmed and signed.

38. Question Time.

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

39. Questions asked by members.

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

40. Urgent Items.

There were no urgent items for consideration.

41. 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. No declarations were made.

42. Funding Position 31 March 2021.

The Committee considered a report of the Director of Corporate Resources updating them on the Funding Position as at 31 March 2021. A copy of the report marked 'Agenda Item 6' is filed with these minutes.

The Director set out that the mid-valuation funding position as at 31 March 2021 estimated an improvement to the overall funding level to 100% funded. Furthermore, the Fund only required investment returns of 3.8% (rather than the 4.5% assumed in 2019) to achieve a fully funded required rate of return, this equated to an improved likelihood of achieving that level of return from 70% to 80%, which Members welcomed.

Arising from the discussion the following points were raised:

- i. Hymans indicated that the cost of future benefit accrual (the primary employer rate) was likely to increase. However, as the past service funding position would have a positive impact, the secondary rate (for benefits already accrued) could slightly reduce.
- ii. Members recognised it was challenging to predict the future returns with certainty but were pleased that due to prudent analysis and assumptions over the years it was unlikely there would be any major changes to employers funding plans, which could equate to a possible levelling of some employer rates.
- iii. The Fund needed to manage the funding level of individual employers carefully now that an increasing number could be over funded. Just as the Fund ensured it was proportional in setting employer contribution rates when it was underfunded, it must ensure stability in the contributions it received when overfunded. The review of the Financial Strategy Statement would look to address the issue.
- iv. The cost of accrual of pension benefits for an employer featured in their financial accounts, as part of operating costs, and was driven by accounting assumptions rather than the fund valuation.
- v. The surplus also meant the Fund could consider its approach to investments, to perhaps a more defensive strategy, balanced against the financial impact upon employers. This could be considered at a future asset strategy review.

RESOLVED:

That the report be noted.

43. Pension Fund Business Plan and Budget Update 2021/22.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to update Members on the Business Plan and Budget 2021/22. A copy of the report marked 'Agenda Item 7' is filed with these minutes.

Arising from the discussion the following points were noted:-

- i. Pooling had served to reduce the percentage of Fund management fees, as per the transition of Ashmore's Emerging Market Debt to Central's own Emerging Market Debt Fund, as well as the LGIM passive funds to LGPS Central's Climate fund.
- ii. Regarding performance fees, if a manager's one year performance had been successful, but subsequently had missed its performance target the Fund was able to, in some instances, clawback the positive performance payment, depending on the contract.
- iii. Higher manager performance fees were not necessarily unwelcome, as they rose due to assets under management increasing because of positive performance.

RESOLVED:

That the report be noted.

44. Risk Management and Internal Controls.

The Committee considered a report by the Director of Corporate Resources the purpose of which was to detail any concerns relating to the risk management and internal controls of the Fund. A copy of the report marked 'Agenda Item 8' is filed with these minutes.

The Director set out the details regarding the administration error that resulted in a write off of £11,000, as agreed by the Director of Corporate Resources following consultation with the Chairman of the Local Pension Committee. Members were assured that processes had been put in place to avoid future errors, and checks had been put in place.

Members welcomed the reduction in a couple of risks set out in the report due to missing data being received from employers for the McCloud exercise and Prudential actively working with the Fund to implement improvements. Furthermore, it was noted that Internal Audit had reviewed the process and were satisfied processes were working effectively.

RESOLVED:

That the revised risk register be approved.

45. Action Agreed by the Investment Subcommittee and LGPS Central Update.

The Committee received a report from the Director of Corporate Resources, the purpose of which was to set out the actions agreed by the Investment Subcommittee and the update provided on LGPS Central and the Fund's cash holding. A copy of the report is filed with these minutes, marked 'Agenda Item 9'.

RESOLVED:

That the report be noted.

46. Investment Subcommittee Membership.

The Committee received a report from the Director of Corporate Resources, the purpose of which was to set out the membership of the Investment Subcommittee. A copy of the report is filed with these minutes, marked 'Agenda Item 10'.

RESOLVED:

That the report be noted.

47. Pictet Asset Management Markets Update.

The Committee received a report from the Director of Corporate Resources, the purpose of which was to introduce Pictet Asset Management's Market Update. A copy of the report is filed with these minutes, marked 'Agenda Item 11'.

The Committee were joined by representatives from Pictet Asset Management, Andrew Cole, Shaniel Ramsey who presented and set out a detailed presentation providing a market update. A copy of the presentation is filed with these minutes.

Arising from the discussion, the following points were made:-

- i. Pictet was able to invest in a wide range of asset classes and switch between those as it saw fit, taking a medium-term approach to investment. It held different asset classes including developed government bonds, developed and emerging market equity, real estate and gold.
- ii. It was evident that the effects of climate change were becoming more visible, thus it was important to incorporate the risk it may have on bonds in the future, as it was important to ensure it received the return for taking the risk of the assets in the first place.
- iii. To reduce exposure to the risk of climate change Pictet worked under the fundamental belief that the world was moving towards a low carbon economy, meaning it was important to want exposure from companies within that sector.
- iv. Commodities would also play a part in the returns received and had been a strong contributor over the year as a result of Covid-19.

RESOLVED:

That the report be noted.

48. Summary Valuation of Pension Fund Investments.

The Committee considered a report from the Director of Corporate Resources on the Summary Valuation of Pension Fund Investments as at 31 June 2019. A copy of the report is filed with these minutes marked 'Agenda Item 12'.

The Director set out the main portfolio changes in the quarter which were predominantly where assets were invested which were generally straightforward cash transitions.

The Fund would look to review its distressed debt allocation in the future, while it had been doing ok it was noted M&G should have had higher performance, for the risk taken

on, compared to the funds Private Debt manager, which was not to be expected given market conditions.

RESOLVED:

That the report be noted.

49. Responsible Investment Quarterly Report.

The Committee considered a report from the Director of Corporate Resource providing Members with the responsible investment quarterly report. A copy of the report marked 'Agenda Item 13' is filed with these minutes.

Members noted representations received from Climate Action Leicester and Leicestershire and thanked them for their contributions. In response Officers informed Members that the Fund would reflect on the comments received and would look to consider them as part of the Climate Risk Report due at the Committee's November meeting, where the Committee would also be updated on the Climate Stewardship Plan that identified eight companies with a high level of climate risk.

Following the discussion, the following points arose:-

- i. Members recognised their Council's Climate Emergencies and the importance that the Committee, and funds nationally across the LGPS, advocated for evidenced based research and looked at pathways being developed to enable the Fund to drive down emissions. As part of this it was felt it was important the Fund set out a plan to achieve net zero.
- ii. The Fund's Independent Advisor added that it was important to emphasise the importance of balancing risk and the cost of investments. While the Fund was a defined benefit scheme and scheme members benefits were guaranteed, the Committee needed to focus on its fiduciary duty, as ultimately if the Fund did not achieve its targets the burden would fall on employers.
- iii. It was recognised that holding shares, rather than divestment allowed for engagement with companies. For example, it was noted that a small activist investor was able to elect directors to the Exxon's Board, which would push for the company to move gradually away from fossil fuels.

Members felt assured by the work and attention given to responsible investment and environmental, social and governance factors by the Fund internally, through partnership work with engagement providers and LGPS Central and looked forward to further information on how the Fund looked to address such matters.

RESOLVED:

That the Committee note the report and representations received by Climate Action and Leicestershire and consider them further as part of November's Climate Risk Report.

50. Future Meetings Dates.

RESOLVED:

That future meetings of the committee take place on the following dates at 9.30:-

Friday 26 November 2021
Friday 21 January 2022 – Annual Strategy Meeting
Friday 25 March 2022
Friday 10 June 2022
Friday 9 September 2022
Friday 18 November 2022

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. LGPS Central Quarterly Manager Report.

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

RESOLVED:

That the report be noted

53. Ruffer Quarterly Report

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

RESOLVED:

That the report be noted

54. Adams Street Partners Investment Manager.

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

RESOLVED:

That the report be noted

55. Aspect Capital Quarterly Report

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

RESOLVED:

That the report be noted

56. Legal and General Investment Manager Quarterly Report

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

RESOLVED:

That the report be noted

57. Pictet Quarterly Report

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

RESOLVED:

That the report be noted

58. Aegon Asset Management Quarterly Report (Property).

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

RESOLVED:

That the report be noted

59. Christofferson Robb & Company Quarterly Report.

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

RESOLVED:

That the report be noted

60. IFM Investors Quarterly Report

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

RESOLVED:

That the report be noted

61. Infracapital Quarterly Report.

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

RESOLVED:

That the report be noted

62. JP Morgan Quarterly Report

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

RESOLVED:

That the report be noted

63. Kohlberg Kravis Roberts Quarterly Report.

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

RESOLVED:

That the report be noted

64. LaSalle Quarterly Report.

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

RESOLVED:

That the report be noted

65. M&G Quarterly Report

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

RESOLVED:

That the report be noted

66. Partners Group Quarterly Report.

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

RESOLVED:

That the report be noted

67. Stafford Timberland Quarterly Report

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

RESOLVED:

That the report be noted

68. Aegon Quarterly Report

The Committee considered an exempt report by Aegon, a copy of which marked '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

CHAIRMAN

10 September 2021

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