Leicestershire County Council

LOCAL PENSION COMMITTEE – 19 JUNE 2024

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

ACTION AGREED BY THE INVESTMENT SUB COMMITTEE

Purpose of Report

1. The purpose of this report is to provide the Local Pension Committee (LPC) with details of decisions taken by the Investment Subcommittee (ISC) at its meeting held on 1 May 2024.

Policy Framework and Previous Decisions

2. The Leicestershire Pension Fund (the Fund) has a requirement to maintain investments in asset classes close to the Fund's Strategic Asset Allocation (SAA) as existing investments are returned.

3. At the January 2024 LPC meeting, the 2024 SAA was approved. There were no changes from the previous year's 2023 strategic asset allocation. The new 2024 SAA and changes from the 2022 SAA are shown in the table below.

Asset Group	Asset Class	2022 SAA	2023 &2024 SAA	Change from 2022 SAA
Growth	Listed equities	42.00% (40%-44%)	37.50%	- 4.5%
Growth	Private equity	5.75%	7.5%	+ 1.75%
Growth	Targeted return	7.50%	5.00%	- 2.5%
Income	Infrastructure (incl. timber)	9.75%	12.50%	+ 2.75%
Income	Property	10.00%	10.00%	
Income	Emerging market debt & Global credit – liquid sub inv grade markets	6.50%	9.00%	+ 2.5%
Income	Global credit – private debt (inc M&G/CRC)	10.50%	10.50%	
Prot	Inflation-linked bonds	4.50%	*3.5% changed from 4.50%	
Prot	Investment grade credit	3.00%	*3.75% changed from 2.75%	-0.25%
Prot	Currency hedge	0.50%	0.75%	+0.25%
Prot	Cash / cash equivalent	0.00%	0.00%	

*At the July 2023 meeting of the ISC a change was recommended and approved for inflation linked bonds and investment grade credit from the January 2023 SAA approval. The weights shown for these 2 asset classes represent the most up to target weights from the July 2023 ISC meeting approval

4. A schedule of work was agreed with Hymans Robertson (the Fund’s investment advisor) at the January 2024 LPC meeting to facilitate the implementation of the SAA in a similar way to what was done in 2023 with proposals considered with officers in advance of presenting these to the ISC at its meetings:

    a. A protection assets review, which will consider amongst other things an increase to the protection assets weighting if the change may result in better risk adjusted returns. Hymans will also investigate if alternative asset classes could be included within the protection assets group.

    b. A review to maintain exposure to two asset classes which will be returning capital over the coming years, bank risk share investments and Timberland. This review will be presented to the July 2024 meeting of the ISC.

Protection assets recommendation

5. The protection assets review is now complete, the ISC were asked to note the report. Hymans concluded the current strategy should be retained with no clear need to make changes to the target weights of the existing protection assets and no clear rationale at this stage to add new asset classes to this group.

6. Hymans added, the results of the asset liability modelling (ALM) does not provide a compelling case for increasing the weighting to protection assets at the current time, however:

   - They note an increased allocation might improve probability of success and downside risk, but only marginally so;

   - They believe an increased allocation to protection assets would help in tail risk (the risk to investment returns from low probability events) scenarios, but they would not eliminate the risk of material deficits re-opening;

   - They believe maintaining a reasonable level of contributions and investment risk/return in order to maintain a healthy funding surplus is believed to be a better approach to mitigating tail risk;

   - An increased allocation to protection assets would also be more helpful in the event of sustained equity underperformance, but it is not recommended to tailor investment strategies to specific scenarios.

7. In summary, at present the current SAA for protection assets as described earlier in the paper applies until the next annual review.

Leicestershire Pension Fund Conflict of Interest Policy

8. Whilst not a conflict of interest, it is worth noting that the County Council also invests funds with four managers with whom the Leicestershire County Council Pension Fund invests, namely Partners Group, JP Morgan, DTZ investors and Christofferson Robb and Company (CRC). Decisions on the County Council's investments were made after the Fund had made its own commitments.

Recommendation

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

Environmental Implications

10. The Fund has developed a Net Zero Climate Strategy (NZCS). This outlines the high-level approach the Fund is taking to its view on climate risk. This will align with the Fund's Responsible Investment approach as set out in the Investment Strategy Statement. The Fund is committed to supporting a fair and just transition to net-zero. There are no changes to this approach as a result of this paper.

11. The Fund will look to engage with investment managers to ensure they are taking appropriate action on capital allocation and engaging with underlying issuers to achieve real-world emissions reductions. It is recognised the Fund may also need to consider if further changes need to be made to the protection portfolio to support decarbonisation.

Equality Implications

12. There are no direct implications arising from the recommendations in this report. The Fund incorporates financially material Environmental, Social and Governance ("ESG") factors into investment processes. This has relevance both before and after the investment decision and is a core part of the Fund's fiduciary duty. The Fund will not appoint any manager unless they can show evidence that responsible investment considerations are an integral part of their decision-making processes. This is further supported by the Fund's approach to stewardship and voting through voting, and its approach to engagement in support of a fair and just transition to net zero. There are no changes to this approach as a result of this paper.

Human Rights implications

13. There are no direct implications arising from the recommendations in this report. The Fund incorporates financially material Environmental, Social and Governance ("ESG") factors into investment processes. This has relevance both before and after the investment decision and is a core part of the Fund's fiduciary duty. The Fund will not appoint any manager unless they can show evidence that responsible investment considerations are an integral part of their decision-making processes. This is further supported by the Fund's approach to stewardship and voting through voting, and its approach to engagement in support of a fair and just transition to net zero. There are no changes to this approach as a result of this paper.

Background Papers

Local Pension Committee 26 January 2024, Overview of the Current Asset Strategy and Proposed 2024 Asset Strategy (Agenda item 6)
https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=740&MId=7538&Ver=4

Investment Sub-Committee 1 May 2024, Review of the Leicestershire LPGS Protection assets portfolio (agenda item 7)
https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=919&MId=7534&Ver=4

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