

**Minutes of a meeting of the Local Pension Committee held at County Hall,
Glenfield on Friday, 10 June 2022.**

PRESENT:

Leicestershire County Council

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

Mr. P. King CC
Mrs. A. Wright CC

Leicester City Council
Cllr. A. Clarke (online)

District Council Representative
Cllr. N. Grundy

University Representative
Mr. Z. Limbada

Staff Representatives

Mr. N. Booth
Mr. G. Lawrence

Mr. A. Wilson (online)

Independent Advisers and Managers

Club Vita (Minute 8 refers)
Mark Sharkey

Hymans Robertson
Tom Hoare (online) (Minute 8 refers)
Richard Warden (online) (Minute 8 refers)
Philip Pearson (online) (Minute 10 refers)
Mhairi Gooch (online) (Minute 10 refers)

LGPS Central (Minute 9 refers)
Jas Sidhu
Mike Hardwick
Mike Gillespie
Ian Brown (online)
Patrick O'Hara (online)

LGIM (minuet 9 refers)
Tim Armitage (online)
James Sparshott (online)

1. Appointment of Chairman.

That Mr. T. Barkley CC be appointed Chairman of the Local Pension Committee for the period ending with the date of the Annual Council meeting in May 2023.

Mr. T. Barkley CC in the Chair

2. Election of Vice Chairman.

That Mr. D. Grimley CC be elected Deputy Chairman of the Local Pension Committee for the period ending with the date of the Annual Council meeting in May 2023.

3. Minutes of the meeting held on 25 March 2022.

The minutes of the meeting held on 25 March 2022 were taken as read, confirmed and signed.

4. Question Time.

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

5. 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).

6. 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.

7. 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.

Mr. D. Bill CC MBE declared a non-registrable interest as recipient of an LGPS pension.

Mr. P. King CC declared a registrable interest as Leader of Harborough District Council.

8. Pension Fund Valuation.

The Committee considered a report of the Director of Corporate Resources updating the Committee on the proposed assumptions used in the 2022 Pension Fund valuation. A copy of the report marked 'Agenda Item 8' is filed with these minutes.

Mark Sharkey from Club Vita was in attendance and presented to the Committee on how its longevity analysis was used as part of the Leicestershire Pension Fund's triennial valuation. A copy of the presentation is filed with these minutes.

Club Vita provided a bespoke set of assumptions specifically tailored to fit the membership profile of the Fund. The assumptions were continually updated to take allowance of changes in longevity, based on the actual experience of the Fund.

The Committee were also joined by Richard Warden and Tom Hoare from the Fund's Actuary, Hymans Robertson.

Arising from the presentation the following points arose:

- i. Club Vita's coverage was UK wide which allowed for a detailed view of the diversity in the demographic characteristics of pensioners, even if outside Leicestershire.
- ii. There had been strong increases to life expectancy in the 2000's which had slowed since 2010. Members noted that if they looked at more specific socio economic groups Club Vita held, more affluent individuals' life expectancy continued to experience higher improvements.
- iii. It was proposed to increase the life expectancy improvement assumption from 1.25% p.a. to 1.5% p.a.. The Committee were advised that the assumption was made up of various projections from short term improvements into the long term and would feed into other assumptions.
- iv. Club Vita also analysed current employees and the impact of early retirement, or ill health grounds. The analysis fed into the views for the assumptions of the Fund and included propensity for a spouse and spousal age differences.
- v. It was suggested that scheme members generally underestimated how long they were going to live by around ten years, given the figures presented at the meeting. A Member felt it highlighted how poor the lump sum choice could be (£12 for every £1 of annual pension given up). Hymans agreed, noting private sector schemes often presented £25 for every £1 of annual pension given up. The Committee recognised that the Fund had no control over the matter given it was set nationally across the LGPS by the Government Actuary's Department.
- vi. The Committee had approved the Fund's investment prudence level for the valuation in November. It was expected that the move from 80% to 75% prudence would take some pressure off employer contributions. The decision was made to ensure employers had enough certainty over contributions whilst having sufficient prudence to avoid deficit growth. The Actuary advised that most pension fund schemes also set a 75% level of prudence.
- vii. The pressure on some contributing employers was noted given general financial pressures. In response the Director assured the Committee that the Fund had achieved good investment returns since the last valuation, which would help take pressure off employers. It was noted that the valuation took place on a triennial basis, at which point prudence levels and assumptions were adjusted as required after evaluation of experience versus assumptions previously set.
- viii. The Committee agreed that the Fund needed to find a balance between affordability and risk, noting that some funds had underfunded their schemes which cost employers more in the long-term.
- ix. A Member questioned the impact of long-term inflation, noting the increase in the CPI Inflation assumption since the 2019 valuation. Members were advised that the Fund hedged against inflation within equity, and that capital appreciation was higher during high inflation which provided a level of protection for the Fund. The Actuary further modelled, and stress tested its assumptions against low and high

inflation to ensure it met the prudence criteria. Were inflation to stay above what was modelled for a sustained period the Actuary would revisit it as part of the next triennial evaluation.

The Committee thanked Club Vita and Hymans Robertson and Officers for their detailed report and the assurance provided on the assumptions as set out.

RESOLVED:

That the ;

- a. approach to the Fund Valuation be approved.
- b. following assumptions be approved, subject to any changes before February 2023.

Assumption	Approach
Longevity	A long-term trend of 1.5% annual improvements
Investment Return	4.4% p.a. assumed investment return over 0 to 20 years aiming to meet a 75% success rate, using Hymans latest economic scenario model
Discount Rate	Beyond 20 years, use the Fund's agreed level of prudence of 75%
Benefit Revaluation and Pensions Increase	The median (average) CPI over the first 20 years of 2.7% p.a.
Salary Increases	0.5% above 2.7% CPI inflation
Others	Model using the Leicestershire Fund data and based on the Club Vita analysis

c. Director of Corporate Resources, following consultation with the Chair of the Local Pension Committee, be authorised to make any amendments to the assumptions set out in b., noting any changes will be reported to Committee.

9. LGPS Central Private Markets Update and LGIM Economic Update.

The Committee considered a report of the Director of Corporate Resources providing an update on LGPS Central Private Markets Update and an LGIM Economic Update. A copy of the report and the presentation marked '9' is filed with these minutes.

Jas Sidhu, Mike Hardwick, Mike Gillespie, Ian Brown and Patrick O'Hara from LGPS Central (Central) were in attendance and presented to the Committee an overview on Infrastructure, Private Equity, Private Debt and Environmental and Social Governance within Private Markets.

Arising from the discussion the following points arose:

- i. It was questioned whether there was higher climate risk within the Private Equity (PE) asset class as it was less visible than public markets. In response Central advised Members that while public markets were much more advanced in terms of responsible investment generally, there was increasing pressure within PE to disclose what investment managers are doing within portfolios in terms of environmental, social and governance factors. Central assured the Committee it had reached out to all direct investments to encourage transparency and was working with the industry to improve transparency across managers.

- ii. Central did not generally hold investments within the energy sector, and most managers they worked with also did not include it as a subsector.
- iii. Leicestershire had committed £70million to Central's Core/Core-plus Infrastructure fund. The portfolio's mandate set out that 50% needed to be sterling denominated funds, with 20-30% in UK based assets. It was noted currently the fund held 90% UK based assets due to its early investment stage, of which any initial investment substantially affected weighting.
- iv. In terms of Environmental, Social and Governance (ESG) considerations Central focused on due diligence when choosing its investment managers and looked at people, processes, and systems, before partnering with them. It was also expected that managers partnered with GRESB (the global ESG benchmark for financial markets).

Tim Armitage and James Sparshott from LGIM were in attendance online and presented to the Committee a macro update on the Fund's LGIM's asset allocation.

The Committee noted the steps LGIM were taking to navigate inflation as set out within the presentation, which included diversification for bond exposures, consideration of foreign currencies and blending long-term growth assets and short-run hedges and diversification of global assets. The Committee further noted that bonds were considered one of the more reliable assets to protect against recession risks.

RESOLVED:

That the presentations be noted.

10. Responsible Investing Update.

The Committee considered a report of Corporate Resources setting out the Responsible Investing Update. A copy of the report marked 'Agenda Item 10' is filed with these minutes.

Philip Pearson and Mhairi Gooch from Hymans Robertson Fund's Investment Advisor were in attendance to present their report on engagement versus divestment and view of the Fund's proposed Net Zero goals and metrics.

The Director of Corporate Resources set out a correction to engagement item nine within Appendix F and clarified that the target was for the Fund's own operations to be net zero by 2030, alongside LGPS Central and investment managers. The target was expected to be easily achievable as it related to emissions arising from its office.

Arising from the discussion the following points arose:

- i. The Fund delivered an annual report on delivery of the Fund's Taskforce on Climate Financial Disclosure (TCFD). The report had been updated to reflect that the Fund had commenced reporting of climate metrics on an annual basis. The metrics would be contained within the Climate Risk Report that would be considered by the Committee in November 2022. The Committee noted that the Fund continued to work with LGPS Central to refine the metrics used.

- ii. The Committee acted as quasi trustees for the Pension Fund and worked to ensure the Fund met its fiduciary duty to invest for the benefit of members and on behalf of the employers within the Fund. While there was no legal requirement for the Fund to become carbon neutral, climate change was considered as a fundamental financial risk, and therefore needed to be managed by the Fund as a risk, as with inflation.
- iii. Hymans Robertson advised that engagement and divestment were both necessary tools in any effective stewardship strategy. The Committee noted the pros and cons relating to engagement and recognised divestment was a key tool where a company was not conducive to effective engagement, an immediate risk, or as part of an escalation strategy. Members recognised the importance of the tools and felt it was important that the Fund was clear about its limits of engagement within the Net Zero Climate Strategy, and the point at which it would consider divestment.
- iv. Hymans Robertson further highlighted that where an oil or gas company was committed to Net Zero, had a credible plan and was prepared to be transparent within reporting processes Hymans would argue that company (if legitimate and an attractive investment) was important to retain. Though any support would stop if the company ceased its transparency and no longer had a credible plan for Net Zero.
- v. The proposed target of “Net Zero 2050 or sooner” had been selected as it aligned with most sovereign nation targets and best practice, which posed an achievable but challenging target for the Fund. Officers advised that the date allowed the Fund to maintain a reasonable level of financial return while mitigating risk, allowing the Fund to balance reduction in emissions and continue to support companies through decarbonisation.
- vi. Members supported the proposed targets and metrics and emphasised that the issue was a trade-off between divestment, and ensuring the Fund met its fiduciary duty. As part of that duty the Committee recognised engagement was not just about the environment but also social and governance factors, ensuring managers were investing responsibly in good, well-run companies, as that was most conducive to Leicestershire as a long-term investor.
- vii. Hyman’s view of the Fund’s proposed targets was that they were generally realistic. However, advised that the ‘absolute emissions target’ was fairly ambitious given the Fund’s starting point, the fact the Fund was projected to grow, and the assumption that the world would decarbonise at the required rate, which it had yet to do. Hymans recommended more work took place on the absolute emissions target prior to finalisation of the Net Zero Climate Strategy.
- viii. A Member expressed their support to the original ‘absolute emissions to be reduced by 40% from 2019 reported levels by 2030’ as expressed within the report, with a view that it was important for the Fund to strive to achieve such targets.

The Committee thanked officers for the detailed report and set out their support for the metrics and proposed engagement with scheme members and employers.

RESOLVED

The Committee

- i. Approved the proposed engagement process with Employers and Scheme Members with respect to beliefs and targets for the Net Zero Climate Strategy.
- ii. Noted the latest position and next steps in the creation of the Net Zero Climate Strategy, especially in respect of Hymans Robertson the Fund's investment advisor's feedback.
- iii. Noted the Fund's Taskforce on Climate Financial Disclosure and the quarterly voting and stewardship reports.

11. Summary Valuation of Pension Fund Investments.

The Committee considered a report of the Director of Corporate Resources the purpose of which was to present a summary valuation of the Fund's investments at 31 March 2022.. A copy of the report marked agenda item '11' is filed with these minutes.

RESOLVED:

That the report be noted.

12. Risk Management and Internal Controls.

The Committee received a report from the Director of Corporate Resources the purpose of which was to provide an update on risk management, internal control and the Internal Audit plan. A copy of the report marked '12' is filed with these minutes.

RESOLVED:

That the revised risk register be approved.

13. Action taken by Investment Subcommittee 27 April 2022.

The Committee received a report from the Director of Corporate Resources regarding the action agreed by the Investment Subcommittee on 27 April 2022 and progress with LGPS Central transitions. A copy of the report marked '13' is filed with these minutes.

RESOLVED:

That the report be noted.

14. LGPS Central Update - Joint Committee and General Meetings.

The Committee considered a report of the Director of Corporate Resources updating the Committee on LGPS Central company matters. A copy of the report and the presentation marked '14' is filed with these minutes.

RESOLVED:

That the report be noted.

15. Investment Subcommittee Membership.

The Committee considered a report from the Director of Corporate Resources concerning the membership of the Investment Subcommittee for the period ending with the date of the annual Council meeting in May 2018. A copy of the report marked '15' is filed with these minutes.

RESOLVED:

That the report be noted.

16. Date of next meeting.

RESOLVED:

That the next meeting of the Committee take place on 9 September 2022 at 9.30am.

17. 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.

18. LGPS Central Quarterly Report.

The Committee considered an exempt report by LGPS Central, 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

19. Adams Street Partners Quarterly Report.

The Committee considered an exempt report by Adam Street Partners, 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

20. Aspect Capital Quarterly Report

The Committee considered an exempt report by Aspect, 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

21. Legal and General Investment Manager Quarterly Report

The Committee considered an exempt report by LGIM, 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

22. Pictet Quarterly Report

The Committee considered an exempt report by Pictet, 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

23. Ruffer Quarterly Report

The Committee considered an exempt report by Ruffer, 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

24. SL Capital Quarterly Report.

The Committee considered an exempt report by Aegon Asset Management, 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

25. Aegon Asset Management Quarterly Report.

The Committee considered an exempt report by Aegon Asset Management, 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

26. IFM Investors Quarterly Report

The Committee considered an exempt report by IFM Investors, 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

27. Infracapital Greenfield Partners Quarterly Report.

The Committee considered an exempt report by Infracapital, 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

28. JP Morgan Quarterly Report

The Committee considered an exempt report by JP Morgan, 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

29. LaSalle Quarterly Report.

The Committee considered an exempt report by LaSalle, 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

30. Colliers Quarterly Report.

The Committee considered an exempt report by Colliers, 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

31. M&G Quarterly Report

The Committee considered an exempt report by M&G, 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

32. Partners Quarterly Reports.

The Committee considered an exempt report by Partners, 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

33. Stafford Timberland Quarterly Report

The Committee considered an exempt report by Stafford Timberland, a copy of which marked '34' 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

34. Aegon Quarterly Report

The Committee considered an exempt report by Aegon, a copy of which marked '35' 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

9.30 – 12.00
10 June 2022