



# LGPS Central Joint Committee

## Minutes of the meeting held on 20<sup>th</sup> November 2020

### Virtual Meeting – Broadcast Live

#### **Attending:**

**Councillors:** Kerry (Chair up to Item 4), Biggins (Newly elected Chair), Hogg (Newly Elected Vice-Chair) Atkin, Atkins, Jaspal, Middlebrough, Osborne, Perkins, Simm

**Scheme Member Representative:** Malcolm Cantello (MC), Unison

#### **Other Attendees:**

**Partner Fund representatives:** Rachel Brothwood (RB), Justin Bridges (JB), Jill Davys (JD), Bhulesh Kachra (BK), Dawn Kinley (DK), Keith Palframan (KP), Charles Riley (Clerk, CR), Maggie Sheppard (MSh), Melanie Stokes (MS), Rob Wilson (RW)

**LGPS Central Ltd (LGPSCCL):** Ian Brown (IB), John Burns (JB), Callum Campbell (CC), Mark Davies (MD), Dave Evans (DE), Valborg Lie (VL), Gordon Ross (GR), David Searle (DS), Joanne Segars (JS), Jaswant Sidhu (JSi), Mike Weston (MW)

**Observer:** None

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#### **Item 1 - Meeting Protocol:**

- 1.1 The Chair invited the Clerk to describe the virtual meeting protocol and the Clerk outlined that the Joint Committee would operate in accordance with Cheshire West Council's previously adopted protocol for virtual meetings.

#### **Item 2 - Apologies for absence:**

- 2.1 There were no apologies for absence and no substitutes

#### **Item 3 - Declarations of Interest:**

- 3.1 No declarations of interest were received in any of the categories listed.



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### **Item 4 - Election of Chair and Vice-Chair**

- 4.1 Councillor Kerry invited nominations for elections of the post of Chair and Vice-Chair of the Joint Committee.
- 4.2 For Chair, Councillor Kerry proposed Councillor Biggins, seconded by Councillor Jaspal. Election was unanimous, Councillor Biggins was duly elected as Chair of the Committee. Councillor Biggins then assumed chairing the Committee.
- 4.3 Councillor Biggins then nominated Councillor Hogg for Vice-Chair, seconded by Councillor Kerry. Election was unanimous. Councillor Hogg was duly elected Vice-Chair of the Committee.
- 4.4 Chair thanked and congratulated Councillor Kerry for his work for more than the allotted 12 months in the position, especially in light of the pandemic. Councillor Kerry also thanked the officers and staff for their hard work.

### **Item 5 - Minutes of the last meeting dated 21.06.19**

- 5.1 The Chair explained the last meeting was in June 2019 and since then, due to the pandemic, members received a written briefing note in August 2020 which was subsequently published.
- 5.2 There were no matters arising.
- 5.3 **The minutes were confirmed as a correct record. Proposed and recommended by Councillors Biggins and Atkins.**

### **Item 6 - Public Questions**

- 6.1 Members of the public submitted written questions in the period prescribed under the Joint Committee rules. The Chair explained that the time limit of 15 minutes to read out questions and answers would be exceeded at this meeting due to the previous Committee meeting not taking place as a result of the pandemic. However, in future meetings the 15minute rule would be strictly adhered to.



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- 6.2 The questions were read out by the Clerk and a verbal response was read out by VL on behalf of the company. The questions and responses have also been published on the LGPS Central Joint Committee webpage at:

<https://www.cheshirepensionfund.org/members/wp-content/uploads/sites/2/2020/11/Joint-committee-20.11.20-public-Qs.pdf>

- 6.3 **NB** - One public question that was received prior to the deadline was inadvertently omitted to be read out and answered at the meeting. That question will be answered in writing and published on the LGPS Central Joint Committee webpage.

### **Item 7 - Practitioners Advisory Forum Report**

- 7.1 MSh presented an overview of the published report including key themes and the progress of the four working groups. There were additional points made regarding the success of dispersed working in this pandemic period and an outline of key performance indicators plus information on the position and funding of the company with a forecast underspend for this financial year. Any recommendations requiring Joint Committee decision arising from ongoing discussions regarding moving pooling forward would be fed through to Joint Committee.
- 7.2 MSh also described the latest iteration of the costs saving model. MSh thanked colleagues in Derbyshire for managing the process. Costs savings are slightly ahead of the savings forecast originally.
- 7.3 Councillor Atkin asked when the working groups are going to finalise their recommendations. MSh responded that the working groups would come to fruition in the coming weeks before and after the Christmas period. A further update will be provided to Councillors accordingly.
- 7.4 Councillor Hogg asked what the decision tree was at 6.4 of the report. MSh replied that it was a logical and structured flow of decision making to ensure that as assets are transitioned into the pool or kept outside the pool, there is a clear decision making process that can be referred to for clients and members.
- 7.5 MC – queried Page 26, Appendix 2, which showed £77.3m costs for the company. Should transition costs be shown separately? MSh stated the model deals with a long period of time rather than a year or 3 years. Costs have also changed according to the company and the range of products has altered.



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Costs of buying and selling are also factored in. MC responded that he thought Appendix 2 covered 3 years. MSh said costs model has applied since 2017 but the costs as detailed are for a longer period to 2033.

- 7.6 The Chair, Councillor Biggins, proposed the report be received, seconded by Councillor Osborne. The Committee unanimously agreed to formally receive the report.**

### **Item 8 Pool Risk Register**

- 8.1 JD outlined the published report and explained it was updated from the report sent out in June. Officers work closely with the company to produce the report and assess the risks of investment pooling. There are two high risks evident, one linked to changing requirements for partner funds in response to changes in strategic asset allocation. The second risk is the political dimension, such as the impact of Brexit. There have been some delays in pooled product development, due to the practicalities encountered with the pandemic. There has been an additional risk added within the reputational area on climate change given the increasing interest in and lobbying on this subject.
- 8.2 MC asked whether the renegotiation of the lease for the office accommodation has been added as a risk. JD responded that this was not included as a separate high level risk as there are mechanisms to support the office move and discussions are ongoing in that respect.
- 8.3 The Chair, Councillor Biggins, proposed the report be received, seconded by Councillor Hogg. The Joint Committee approved the report and noted the Risk Register will continue to be assessed and updated and will be reported to Joint Committee.**

### **Item 9 LGPSC Limited Performance/Investment Outlook/Company Update**

- 9.1 MS presented a brief introductory summary to the report at Item 9 and invited the Company representatives to make their slide presentation on overall performance, company picture, investment performance and client survey.
- 9.2 JS welcomed the Committee on behalf of the company. Thanks were extended to Councillor Kerry for his leadership and support. JS looked forward to working with the new Chair and Vice-Chair.



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- 9.3 The overview of the year shows continued progress based on devising products for partner funds' needs. There are £20bn of assets within nine pooled funds. On the basis of the products launched thus far there were £14.2m gross savings. The year has been dominated by Covid and the company's staff has responded remarkably to continue to deliver to partner funds and have received much support in return. The company has continued to produce reports in this period and issued responsible investment climate risk reports (RICRR). The Corporate Bond Fund has been launched. Gordon Ross has become permanent CIO and Ian Brown has joined as Head of Private Markets. Also refreshed company beliefs to harness skills of able company staff from public and private sector. JS thanked partner funds for their continued support and engagement
- 9.4 GR made his presentation referring to the relevant slides 36. He outlined the passive and active funds. The passive funds have just under £6bn of partner funds invested. Each of the active funds has external managers who are overseen by the company. The active funds have specific investment targets over and above their benchmark. Two of these funds are equity based (£3bn) and the third is the new global fixed income bond fund (£1.5bn).
- 9.5 IB presented the private market element of the company at slide 37. The LGPS primary partnership is too young yet to measure performance meaningfully.
- 9.6 DE presented on the passively managed funds at slides 39-47. Key points made were
- The passive Equity Fund and Global Passive Equity funds are tracking the benchmark almost exactly, which is the aim.
  - There is recognition of ESG and climate change and there had been extensive company engagements in the period.
  - The Dividend Growth Factor Fund has performed close to the benchmark including a small out-performance achieved by reclaiming tax. Equal weightings are held in the 3 main global geographical regions.
  - The Climate Multi-Factor Fund is of interest. The Fund is designed to reduce exposure to companies with higher levels of fossil fuel and carbon outputs. Value stocks are sought within a climate focus. DE explained the climate characteristics of the Fund at slide 47. DE noted a typo on p47 where in the last box the word "higher" should read "lower".



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- 9.7 MC noted it was useful to see the performance summary. He asked what the tracking error was in the summary. DE answered that it is a risk measure in how closely the fund tracks its benchmark. If it tracks exactly it will read zero. Any error lower than 0.5 will be close to the benchmark. Zero isn't normally achievable as that would require trading all the time. MC said the summary gives a figure of 0.35 which is different from the specific slide reading 0.05. DE stated he will go away and report back as to the discrepancy.
- 9.8 Councillor Atkin referred to slides 39 and 40 where Astrazeneca are the largest investment and may have impacted performance. DE responded that the UK market was down by 1.5%. There will be change and volatility as companies suffer due the pandemic but the Fund is performing to benchmark.
- 9.9 MD presented for the company in respect of the Global active equity funds, explaining the styles of the funds' appointed managers: Harris are a value manager, Schrodgers have a growth bias and Union which has a more neutral stance.
- 9.10 The Global Active Fund has underperformed its target since inception. Growth stocks have outperformed value stocks, particularly technology stocks. Schrodgers and Union have outperformed. Harris is underperforming at present but from September with the advent of the Covid vaccine and Biden's victory in the US presidential elections there appears to be a move back towards value stocks and more recent performance is on track. . The Fund has Responsible Investment and Environment (RI&E) status with over 400 engagements with companies and the carbon footprint of the holdings at 33% below the index.
- 9.11 MC asked that there is an ever increasing widening trend between target and fund performance. Why is the graph not showing between target and benchmark? MC replied that all three can be included but the remit was for the former. MC asked if the target is being set too ambitiously. MD replied not and that the performance gap is narrowing. The Chair also stated that the target is the more valuable measure for actively managed funds it is good news the gap is narrowing on all the measures and will hopefully go above target. Councillor Jaspal asked what news there was on dividends, given many companies have suspended payment. MD considered companies were quick to cut them to weather the storm of Covid. He considered the banks will start paying dividends soon and other companies to follow suit in the next 12 months.



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- 9.12 MD continued with his presentation moving on to the Emerging Markets Fund (slide 51). This has lagged against its target and whilst in recovery this is slower compared with other funds. There are three managers (BMO, Vontobel and UBS) BMO have had mixed fortunes on performance due to its quality focus and resulting lower exposure in China whereas China has been the best performing stock market globally during the pandemic. The fund's RI&E status has been achieved and carbon footprint has been 55% below the index, although emerging market indices have a lower exposure to oil and gas stocks. Since September, the fund has outperformed benchmark and target. Councillor Middlebrough asked how concerned MD is by the BMO manager performance, particularly in view of their approach to China. MD responded that they meet BMO every month and this month extended the meeting to include partner fund officers. This month BMO are 2% ahead so are closing the gap. They don't hold Alibaba stock even though it is the largest stock in that sector, but their governance arrangements are not clear and a recent spin-off Initial Public Offering (IPO) has not gone ahead and BMO have benefitted from not investing.
- 9.13 GR presented on the Corporate Bond Fund. It is outperforming its target which is the benchmark plus 1%. This Fund was launched over the day the first national lockdown started on 23.03.20 with two external managers appointed. Further fixed income funds will be opened in the coming months (slide 55). Councillor Atkin congratulated the company for performance above the benchmark figures. He asked how much did it cost to transition to the Corporate Bond Fund and how did it compare to expectations? GR replied that he did not have the details to hand but he would follow that up. Councillor Kerry asked that in recent months Sterling has strengthened and what is the impact of that exchange rate change and has that change been reflected in the performance figures? GR replied that the global benchmark is hedged into sterling and 90% has to be in sterling. With the pound strengthening this has protected the returns.
- 9.14 JS presented the private equity funds (slide 57). He commenced with the primary fund, it is a fund of funds arrangement. He stated the company is very pleased to secure allocations from top performing managers as the funds are over-subscribed. 28% of capital has been called upon. All managers are now engaged. Blackstone hadn't made any investment at the end of September but has now completed an investment deal in Q3 and two more for Q1 next year.



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On RI&E, in response to the pandemic specific charitable donations have been made by several of the managers. Slide 58 shows the Co-Investment Partnership which invests directly having got off to a strong start due to exposure to the health and IT sectors. There are no underlying fees in this fund. The fund has had a good start as it invests in IT and healthcare. There has been a further investment in Acun Capital. GFL Environmental, a Canadian waste business has become public and its share price has improved by 33% since IPO. In terms of RI, 25% of GFL's fleet of trucks run on compressed natural gas and Transporean's software helps logistics companies to run fewer empty loads. Covid impact has impacted most businesses and some impacts were highlighted.

- 9.15 MC asked why Blackstone's fund has not been called at all. JS replied there is a lot of demand for these managers and when they raise new funds the managers will sequence activity to complete investments in existing funds first. Investors need to commit as new funds are launched but know there is likely to be a time lag from new funds being launched to moneys being called down.
- 9.16 GR summed up via slide 59: passive funds are performing in line with expectations, active funds' performance is improving with early stages for private equity.
- 9.17 VL presented the RI&E report (slides 61 and 62). Best practice asset management includes RI&E consideration. The company works within an RI&E integrated status approach. Additionally LGPSC were shortlisted in LAPFF awards for their RI&E approach and has received an A+ rating for Principles for RI short PRI established by the UN. In terms of company engagement, the emphasis is on the quality rather than quantity of engagement. The company has retained EOS Hermes to support engagement and voting activity. Climate action is a high priority. The Company is transparent its website also has detailed information on RI&E activity. The company has commissioned services to provide climate risk reports which assist partner funds to develop climate strategies and reports for the Taskforce for Climate Related Financial Disclosures (TCFD). There are also two new graduate recruits employed by the company. At COP26 LGPSC works with IIGCC who will have a seat at the conference.
- 9.18 MW announced that Patrick O'Hara will join LGPSC as the new RI&E Director.



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- 9.19 MC referred to slide 62 and asked whether the embedding of RI into advisory mandates will be strong enough and that fund managers will be aware of the importance. JS responded that 'advisory' in this context may not be accurate. Councillor Atkin congratulated the company on its performance and asked whether companies that have suffered due to Covid will impact on the portfolio. MW responded that it is a difficult situation as some companies are failing and, as a consequence, if publicly quoted will affect the passive funds, whereas the active managers should react to these situations. It is difficult to assess the detailed impact. Councillor Jaspal asked if population growth is raised as an issue with company engagement. VL responded that a rise in demand does feature in conversations but there is also a large increase in public and customer awareness. Councillor Middlebrough asked about the variation in the cost saving budget to 2033 and whether the RI investments impact on budget arrangements. MW replied it is part of this strategy and the costs savings budget was first developed in 2016 whereas RI&E has increased in scope since then. Whilst costs have increased the net returns have increased for the company. The target of exceeding savings against costs is still on target for 2024. Transition costs are decreasing as more transitions take place.
- 9.20 MW summarised the report via slides 64 to 67. 75% of KPIs are green. two of the red indicators are on investment performance. On November's measure one of the KPIs will be green. On Compliance, the company has a zero-tolerance approach to errors. There were seven errors in the reporting period, four caused internally and three due to external managers. No loss of funds was caused. MW emphasised the new mission statement for the company on slide 67. Councillor Jaspal asked whether there were any gaps in the management team. MW replied there are no gaps today. GR promoted to Chief Investment Manager and IB as Head of Private Markets. Kara Forest is anew appointment and will also assist Callum Campbell on the client investment side.
- 9.21 **The Chair, Councillor Biggins, proposed the report be received, seconded by Councillor Atkin. The Joint Committee approved and agreed to formally receive the report.**

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The Chair announced that the next meeting of the Joint Committee will be published in due course. The meeting was closed.



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I declare these minutes are a true record of the Joint Committee meeting held on 20<sup>th</sup> November 2020

Signed by: (Signature of the Chairman)

T H BIGGINS

Received by Charles Riley, Clerk