LGPS Central Joint Committee
Minutes of the meeting held on Friday 21 July 2023
Council Chamber, Wyvern House, The Drumber, Winsford, Cheshire, CW7 1AH

Present:
Councillors: Hogg (**Chair**) (Cheshire), Barkley (Leicestershire), Eyre (Worcestershire), Kerry (Nottinghamshire), Wilson (Derbyshire)
Scheme Member Representative: Malcolm Cantello, Unison

Other Attendees:
Partner Fund officers: Justin Bridges (Shropshire), Rachel Howe (West Midlands), Bhulesh Kachra (Leicestershire), Dawn Kinley (Derbyshire), Sherief Loutfy (Worcestershire), Keith Palframan (Nottinghamshire), Melanie Stokes (Staffordshire), Aaron Thomas (Cheshire – Clerk), Cat Tuohy (Leicestershire), Steven Wilcock (Cheshire)
LGPS Central Ltd (LGPSC Ltd): John Burns, Cara Forrest, Matthew Jones, Harj Kaur, Susan Martin, Patrick O'Hara, Gordon Ross
Scheme Advisory Board: Rebecca Clough
Observer: Rachel Brothwood (West Midlands), Karendeep Darwet (Partner Fund Support Office)

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1 WELCOME AND INTRODUCTIONS

1.1 Committee members and report presenters introduced themselves.

2 APOLOGIES FOR ABSENCE

2.1 It was noted that apologies had been received from Cllrs Biggins (Shropshire), Jaspal (West Midlands) and Sutherland (Staffordshire).

3 DECLARATIONS OF INTEREST

3.1 Malcolm Cantello declared his interest in Unison as an outside body interest. There were no other declarations of interest.

4 MINUTES

4.1 **DECIDED:** That:

4.1.1 the minutes of the open session of the Committee's meeting held on 11 November 2022 be received and approved; and

4.1.2 there were no matters arising or clarifications required from the minutes.

4.2 It was noted that the minutes of the closed session of the Committee's meeting held on 11 November 2022 would be addressed under Any Other Business.

5 PUBLIC QUESTION TIME / OPEN SESSION

5.1 Four members of the public had submitted a written question prior to the meeting in the period prescribed under the public questions protocol adopted by the Committee.

5.2 The questions were read out by the Chair and responses were read out by the Clerk on behalf of the Committee. A copy of the questions and responses are set out in the appendix to these minutes.

6 SCHEME ADVISORY BOARD UPDATE

6.1 Members received a presentation from Rebecca Clough on behalf of the Scheme Advisory Board (SAB), with an overview of key matters that SAB secretariat team are working on at present.

6.2 An introduction to SAB was given, noting its role as a conduit between the Department for Levelling Up, Housing and Communities (DLUHC) and Administering Authorities.

6.3 An overview of current issues was presented and discussed. An overview of SAB's current committee structure was provided. It was noted that there are five significant workstreams within the scope of the Compliance & Reporting Committee.

6.4 Highlights from the SAB Annual Report 2022 were discussed. It was noted that the Annual Report, collating 86 Fund reports together, is a comparatively recent initiative. The full report is available on the SAB website.

6.5 An update on the Good Governance project was provided. Draft regulations from DLUHC are expected in early 2024. The relevant SAB workstream is working with Funds to help them get ahead of the requirements before they are formally published. Key areas of focus for Funds prior to the regulations being published are Conflicts of Interest and Knowledge & Skills.

6.6 An update on the Boycotts, Divestment and Sanctions Bill was provided. It was noted that the LGPS is named in the Bill. The SAB have produced an

LGPS Live webinar on the subject. The potential enforcement role of The Pensions Regulator was discussed.

6.7 An update on Climate Risk Reporting was provided. It was noted that no new duties will be imposed on Funds until 2024 at the earliest.

6.8 The recently published DLUHC consultation on LGPS Investments was discussed. It was noted that an LGPS Live webinar had been held on the subject. SAB are preparing a response to the consultation.

7 PRACTITIONERS ADVISORY FORUM UPDATE

7.1 Members received a report from Justin Bridges updating them on the work of the LGPS Central Practitioners Advisory Forum (PAF), as described in detail in the accompanying report. It was noted that the Moving Pooling Forward in Consultation exercise is ongoing, with more work to do as a result of the recently launched DLUHC consultation on investments, which includes recommendations on LGPS pooling.

7.2 Cllr Wilson asked why the cost sharing model is being reviewed (per page 14 of the agenda pack). Keith Palframan, chair of the Finance Working Group, noted that the model has been in use for five years. The allocation of costs to various categories, and the basis of apportionment of costs to Partner Funds, requires review in light of experience over the five years of the operation of the current cost sharing model, to ensure it remains fair and consistent to all Funds.

7.3 Cllr Hogg queried what was meant by a “soft launch” of the Direct Property fund (per page 12 of the agenda pack). Gordon Ross noted that the fund has been launched, a fund manager has been appointed, and Partner Funds have committed funds, but no actual properties have been selected for purchase yet and so no actual investment has taken place.

7.4 **DECIDED:** That the Practitioners’ Advisory Forum report be noted.

8 POOL RISK REGISTER

8.1 Members received a report from Rachel Howe on the Pool Risk Register. It was noted that the register relates to the Investment Pool in its widest sense and is not a reflection of the risk assessment of either LGPSC Ltd, or individual Partner Funds.

8.2 It was noted that the Risk Register update was prepared prior to the launch of the DLUHC consultation on LGPS Investments, and that the risk rating attributed to regulatory change had been assessed prior to its launch in line with the publication timetable for this meeting's papers.

8.3 It was highlighted that COVID has been removed as a risk since the last risk register report to the Committee. A new risk on the register is Cyber Risk / Business Continuity Planning. The risk rating in respect of Cyber Risk reflects heightened awareness of this issue.

8.4 Cllr Kerry noted that LGPSC Ltd has reacted to the recent consultation, as stated in their presentation.

8.5 **DECIDED:** That the Investment Pool Risk Register report be noted.

9 LGPS CENTRAL UPDATE

9.1 Members received a presentation from LGPSC Ltd, including an investment overview, an investment performance update, and a responsible investment and engagement update.

9.2 Six key areas of focus were discussed by John Burns. It was noted that a search for a fourth investment manager to support the global equity fund was underway. It was stated that responsible investment and engagement is essential to LGPSC Ltd and what they offer. The criticality of the Moving Pooling Forward in Collaboration project was highlighted. It was explained that the private markets administration function had been outsourced due to significant growth in this area, creating more resilience. Continuing recruitment challenges were noted. It was stated that after five years of operation, the company is now operating in "business as usual" mode.

9.3 Gordon Ross gave an overview of the investment products available through LGPSC Ltd, as set out in the published report. Key points to note included:

9.3.1 One direct property fund has recently been launched.
9.3.2 A number of private markets fund business cases are in development.
9.3.3 LGPSC Ltd is looking for opportunities to increase exposure to infrastructure.
9.3.4 There are currently four Private Credit partnerships with two new vintages to launch in future.
9.3.5 In respect of manager monitoring, LGPSC Ltd are looking for a new emerging equities fund manager to replace an existing manager.
9.3.6 Part of the three year review process involves looking at managers who were not selected when the relevant fund was launched, to see if any changes have arisen which would affect future selection.

9.4 Gordon Ross gave an overview of investment performance of LGPSC Ltd funds, as set out in the published report. Points to note:

9.4.1 In respect of the market outlook update, it was noted that the market now expects interest rates of 6% in the UK.

9.4.2 In respect of Asia, it was noted that China's rapid lifting of COVID restrictions was expected to lead to growth, but this does not appear to have happened. It was noted that a new Bank of Japan governor has been appointed.

9.4.3 It was noted that all five LGPSC Ltd passive funds are performing within tolerance range of their benchmark.

9.4.4 It was noted that the report states that 5 out of 8 active funds are ahead of their benchmark, when in fact 4 out of 8 are ahead of benchmark, with one fund matching its benchmark.

9.4.5 It was noted that Private Markets have been a rapid growth area in the last 12 months and that this will continue. Private market performance has a lag of around three years in respect of meaningful performance data following launch, meaning those launched in 2018 are the best indicators of performance – these are outperforming the benchmark and have returned money to investors.

9.5 Cllr Kerry asked if Company-wide weighted average performance against benchmark could be reported. Gordon Ross responded that this information was not available at this Committee meeting but would be provided at a future date.

9.6 Malcolm Cantello noted that performance of the Global Active Multi Asset Credit Multi Manager Fund is poor, and queried whether the manager of this fund is under review. Gordon Ross noted that two managers are involved in this fund and are both still believed to offer acceptable performance. All fixed income markets performed poorly last year. Because investment managers are unable to hold much cash, and are forced to hold fixed income investments, this has caused the below target performance of the fund.

9.7 Cllr Wilson noted three active funds which are performing well behind target and asked for a comment from LGPSC Ltd. Gordon Ross noted that the Corporate Bond MM Fund would be rated as amber rather than red based on latest performance as at the date of the Committee. He further noted in respect of the Emerging Market Equity Fund that the existing managers have been assessed as part of the three year review process, and that performance is being impacted specifically by the Chinese market, with separate discussions taking place on the actions arising from this situation. A third manager is to be placed with this Fund. Discussions are ongoing with partner funds on this mandate.

9.8 Malcolm Cantello expressed surprise that Worcestershire Pension Fund are not investing in any private market segments. Cllr Eyre noted that the intention is for Worcestershire Pension Fund to move in this direction in future.

9.9 Patrick O'Hara gave an overview of Responsible Investment and Engagement issues, as set out in the published report. Points to note:

9.9.1 In respect of the Annual Stewardship Report it was noted that LGPSC Ltd are awaiting feedback from the Financial Reporting Council on their submission.

9.9.2 In respect of the Climate Risk Report, it was noted that this is currently a lengthy and difficult to digest document, and that developments are underway to make it easier to both produce and to read, with additional metrics beyond Scope 1 and 2 Emissions to be included.

9.9.3 The three year review of Stewardship Themes was noted as a review which will commence once the new Stewardship Manager joins LGPSC Ltd.

9.9.4 It was noted that the Net Zero Strategy will be discussed with ExCo, the Board, and then with Partner Funds.

9.9.5 On the subject of voting patterns, it was reported that LGPS Central Ltd had voted at over 4,000 meetings and had supported 55% of all shareholder resolution in 2023. Support for shareholder resolutions on climate change has declined during this annual general meeting (AGM) season but is expected to increase in future.

9.9.6 It was noted that LGPSC Ltd are working on their own Taskforce on Climate-related Financial Disclosures (TCFD) report and are also supporting partner funds with their TCFD reporting. It is expected that reporting on natural capital and biodiversity will be required in future, although with no obvious data points available at present.

9.10 Malcolm Cantello queried the acronyms TCFD and TNFD (per page 41 of the agenda pack). Patrick O'Hara explained that they refer to the Taskforce on Climate-related Financial Disclosures and the Taskforce on Nature-related Financial Disclosures respectively. The latter relates to natural capital and biodiversity. Malcolm Cantello queried why two sets of regulations are required for the same area. Patrick O'Hara noted that TCFD is focussed on carbon emissions and climate change, while TNFD is much broader in focus, and further noted that compliance with the reporting requirements will be onerous but will result in a positive step forward in respect of improved reporting.

9.11 Cllr Eyre queried whether TNFD could impact on the long term viability of infrastructure projects. Patrick O'Hara noted that this will become a consideration once reporting becomes mandatory, and noted that every infrastructure development is likely to have some form of environmental impact.

9.12 Cllr Hogg noted the number of votes recorded against company resolutions, and queried whether such votes influence companies in the longer term. Patrick O'Hara noted for example the AGMs for BP and Shell received a lot of media attention because of the dissent responsible investors showed at the meetings. It is believed that this shines a light on these companies and can have an impact on their customer-facing businesses.

9.13 Cllr Hogg noted the sums of money adding up to over £21bn invested by Partner Funds into the Central Pool (per page 29 of the agenda pack) and that this represents around 50% of total available assets across Partner Funds. Cllr Hogg asked whether LGPSC Ltd have a target percentage of total Partner Fund assets that they wish to see invested in LGPSC Ltd products. John Burns noted that no fixed target is in place. It is noted that some assets exist which are not immediately suitable for pooling via LGPSC Ltd. Given the direction central government has indicated in its LGPS Investments consultation, the direction of travel over the next two to three years is subject to review.

10 ANY OTHER BUSINESS

10.1 No members of the public were present at this point of the Committee meeting. Cllr Hogg proposed moving into a closed session of the meeting to discuss the minutes of the closed session of the 11 November 2022 meeting of the Joint Committee - if any such discussion was required by Committee members. Cllr Hogg further asked whether the minutes could be accepted as a correct record of the closed section of the previous meeting, and whether there were any matters arising or clarifications required from the minutes. No discussion of the contents of the minutes was requested or took place.

10.2 **DECIDED:** That:

10.2.1 the minutes of the closed session of the Committee's meeting held on 11 November 2022 be received and approved; and

10.2.2 there were no matters arising or clarifications required from the minutes.

10.3 Cllr Wilson noted the importance of agreeing minutes during meetings as part of normal procedure. This was noted by the Chair.

10.4 The next meeting of the LGPS Central Joint Committee is scheduled to take place in November 2023, with a date to be confirmed in due course.

APPENDIX 1

Item 5: Public Questions

<u>Question 1: received 29/06/2023 from D Plunkett</u> The June 2023 PLSA conference report PENSIONS AND GROWTH lists the major benefits for the UK economy from our pension funds investing in the UK rather than abroad, "as large and long-term investors, pension funds also invest in infrastructure projects, such as renewable energy, transportation, and affordable/social housing. Investments that create UK jobs, support economic development, and help to address long-term societal challenges, such as climate change and housing affordability." My own Cheshire Pension Fund also showed that 83% of investment income came from just the 22% of CPF fund assets invested in the UK, (2021/2022 Annual Report, p140, LGPS SAB). Therefore, given the clear benefits of investing in the UK for future growth: What percentage of LGPS Central assets are invested in the UK, and what percentage of investment income do this produce?
<u>Response</u> At 30 June 2023, there was c. £17.2bn invested within the ACS funds managed by LGPS Central. These funds cover a variety of different asset classes including active equity, passive equity, fixed income, and real estate. Of this c. £17.2bn, c £2.3bn is invested within the UK (13.2%) (source: Northern Trust). Whilst investment income is received within the Funds, this is re-invested in line with investment mandates specified for each Fund. Over the year to 31 March 2023 c. £397m was received in investment income (gross of fees and tax), of which 23% was attributable to UK investments. More details on the ACS Funds and their underlying holdings can be found on the LGPS Central website.
<u>Question 2: received 03/07/2023 from D Challen</u> What is the size of the current holding LGPS Central has invested in Climate Bonds? If the current holding is zero, will these bonds be acquired in future?
<u>Response</u> As at 31 March 2023, there was c. £2.9bn invested within the LGPS Central Fixed Income ACS Funds, of which c. £174.4m (c. 5.9%) is invested in Green Bonds (including sustainability bonds, sustainability index-linked bonds and social bonds)

(source: LGPS Central, Northern Trust and underlying investment managers, please note some underlying manager data as at 31 December 2022, however we do not anticipate a material difference to this figures).

Question 3: received 04/07/2023 from J Cameron

In view of increasing reports of failures in meeting climate change targets which indicate a failure of the trusts policy of engagement with the fossil fuel industry, increasing risks of being left with stranded assets, isn't it time now to move towards divestment rather than engagement?

Response

LGPS Central supports a policy of engagement with the fossil fuel industry rather than divestment. We believe that environmental, social and governance (ESG) integration and stewardship are effective tools for managing stranded asset risks and encouraging responsible corporate behaviour.

We believe that collaboration between government, investors, and corporates is essential for an urgent and "just" transition to a low carbon economy. We see ourselves as long-term owners of the companies we invest in, encouraging management to adopt a strategic approach towards addressing climate change. Our position is that divestment by asset owners may result in the ownership of companies shifting to investors with shorter-term interests and less inclination to consider the interests of other stakeholders. We believe this could hinder, rather than accelerate, the transition to a low carbon economy.

According to the International Energy Agency (IEA) Net Zero scenario, fossil fuels are likely to be part of the global energy mix until 2050 and beyond, albeit in smaller amounts. We see a role for the fossil fuel industry in developing technologies for capturing and storing emissions and supporting the decarbonisation of industries such as aviation and maritime transportation through the development of alternative fuels. We place emphasis on the importance of analysing sectors and companies individually when making investment decisions and assessing risks, including the risk of asset stranding. We believe a sector-level approach to divestment is not the most effective way to manage the risks and opportunities associated with the low carbon transition.

LGPS Central engages with companies through initiatives like Climate Action 100+ and the Institutional Investor Group on Climate Change. These engagements focus on reducing carbon emissions and encouraging companies to embrace renewable energy options and carbon capture and storage. We also engage with policymakers to promote regulatory frameworks that facilitate the integration of ESG considerations into investment processes.

LGPS Central believes that engagement efforts should address both the demand and supply of fossil fuels. We do not support companies selling their fossil fuel assets to other operators, as it would only transfer emissions rather than contribute

to decarbonisation. We emphasise the need for a global concerted effort to achieve real-world decarbonisation. LGPS Central provides regular updates on our engagements and stewardship activities to enhance transparency and accountability.
Question 4: received 05/07/2023 from P Hollett: When is the end to giving to arms dealers?
Response LGPS Central take an approach to Responsible Investing (RI) which relies on integration of material environmental, social and governance (ESG) factors into investment decision making and on engagement with companies to encourage better standards across the ESG risk spectrum. LGPS Central do not divest from specific sectors on moral or ethical grounds; however, it is expected that the companies invested in should behave responsibly and abide by international law and global norms. Our external investment managers are required to monitor this within their portfolios, and we expect them to engage accordingly. LGPS Central considers that engagement and ESG integration invariably leads to better outcomes for investors, corporations and other stakeholders.