LGPS Central Joint Committee
Minutes of the meeting held on Friday 2 February 2024 at County Hall, Leicestershire County Council, Glenfield, Leicester, Leicestershire LE3 8RA

Present:

Councillors: Barkley (**Chair**) (Leicestershire), Biggins (Shropshire), Eyre (Worcestershire), Hogg (Cheshire), Kerry (Nottinghamshire), Sutherland (Staffordshire), Wilson (Derbyshire)

Scheme Member Representative: Malcolm Cantello (Unison)

Other Attendees:
Partner Fund officers: Justin Bridges (Shropshire), Chris Bujac (**Clerk**) (Cheshire), Deborah Harris (Staffordshire), Rachel Howe (West Midlands), Bhulesh Kachra (Leicestershire), Sherief Loutfy (Worcestershire), Adam Nelson (Derbyshire), Tamsin Rabbitts (Nottinghamshire), Melanie Stokes (Staffordshire), Leanne Teece (Staffordshire), Steven Wilcock (Cheshire).

LGPS Central Ltd (LGPSC Ltd): John Burns, Cara Forrest, Susan Martin, Patrick O'Hara, Gordon Ross, Joanne Segars

Observer: Amy Baker (Partner Fund Support Office)

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1 ELECTION OF THE JOINT COMMITTEE CHAIR AND VICE CHAIR

1.1 The Clerk to the Joint Committee noted that the previous Chair of the Joint Committee, Cllr Hogg (Cheshire), had stepped down at the end of his term of office, and offered the thanks of the Committee for Cllr Hogg's chairmanship. The Clerk proposed Cllr Barkley (Leicestershire) as Chair, and Cllr Sutherland (Staffordshire) as Vice-Chair.

1.2 **DECIDED:** That:

i. Cllr Barkley be appointed as Chair to the LGPS Central Joint Committee; and

ii. Cllr Sutherland be appointed as Vice-Chair to the LGPS Central Joint Committee.

2 WELCOME AND INTRODUCTIONS

2.1 Committee members and report presenters introduced themselves.

3 APOLOGIES FOR ABSENCE

3.1 It was noted that apologies had been received from Cllr Jaspal (West Midlands).

4 DECLARATIONS OF INTEREST

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

5 MINUTES

5.1 **DECIDED:** That the minutes of the Joint Committee's meeting held on 21 July 2023 be approved.

6 PUBLIC QUESTION TIME / OPEN SESSION

6.1 Three 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.

6.2 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.

7 JOINT COMMITTEE TERMS OF REFERENCE REVIEW

7.1 Members received a report from the Clerk to the Joint Committee, presenting an updated version of the Terms of Reference and the accompanying protocol for dealing with public questions, and proposing the reinstatement of the Partner Funds' current shared objectives into the Joint Committee Terms of Reference.

7.2 **DECIDED:** That the Terms of Reference and the protocol for dealing with public questions was approved.

8 PRACTITIONERS ADVISORY FORUM UPDATE

8.1 Members received a report from Rachel Howe, updating them on the work of the LGPS Central Practitioners Advisory Forum (PAF), as described in detail in the accompanying report. Progress was noted in respect of LGPSC Ltd's business planning process, submission of annual returns to the Department for Levelling Up, Housing & Communities (DLUHC), a review of cost sharing principles, fund launches by LGPSC Ltd, a review of stewardship themes, the "Moving Pooling Forward in Consultation" exercise, and the development of a future vision for pooling.

8.2 **DECIDED:** That the Practitioners' Advisory Forum report be noted.

9 POOL RISK REGISTER

9.1 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.

9.2 Committee members' attention was drawn to the updates on risks associated with the outcome of the DLUHC consultation on the future of LGPS investments and pooling, resourcing across the Pool, and ongoing regulatory change, noting the recent publication of The Pension Regulator's General Code of Practice.

9.3 **DECIDED:** That the Pool Risk Register report and supporting appendix be received and noted.

10 INTERNAL AUDIT WORKING GROUP UPDATE

10.1 Members received a presentation from Debbie Harris and Leanne Teece, representing the Internal Audit Working Group (IAWG).

10.2 Committee members were provided with a thorough briefing on the working of IAWG, which is a working group of PAF. The presentation included details of IAWG membership, the aims of the group, an overview of the group's annual work programme, a description of the group's audit process, a summary of the work completed to date during the current four-year planning cycle, and the key themes emerging from investment and governance audits conducted.

10.3 The presentation described the process by which IAWG uses and places reliance on other assurance reports, and how their work forms part of the overall assurance framework which supports the Pool, including an extract from the detailed Assurance Framework operated by IAWG. The presentation ended with an overview of planned activity in the coming year. Staffordshire will complete a review of investment management, procurement and monitoring arrangements. Wolverhampton will complete a review of governance, focussing on communication within governance arrangements for the Pool. An update to the internal audit assurance framework is underway, reflecting changes to the Pool Risk Register.

10.4 Malcolm Cantello queried whether IAWG liaise with the auditors of LGPSC Ltd as part of their work. Debbie Harris confirmed that IAWG receive assurance reports from the internal auditors of LGPSC Ltd, and then follow up on the issues identified in such reports directly with representatives of LGPSC Ltd.

10.5 **DECIDED:** That the role of IAWG and the work undertaken by the Group be noted.

11 LGPS CENTRAL PERFORMANCE UPDATE

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

11.2 John Burns described the outcomes from the recent DLUHC consultation on the future of LGPS investments and pooling, the key message being an acceleration of pooling. A target of £50bn of assets under management in the short to medium term was noted. LGPSC Ltd will work with clients to facilitate asset transitions. The longer-term intention is to offer products which improve the benefits of pooling. Success will be driven by greater investment scale, long term investment views, and operational resilience.

11.3 John Burns stated that LGPSC Ltd need to offer products and services to help the Partner Funds achieve required returns. LGPSC Ltd offer a range of funds, and Responsible Investment and Engagement services which the Partner Funds may not be resourced to deliver internally. The importance of building confidence in investment performance and service delivery was noted.

11.4 The initial aims of pooling were described and progress against these targets were noted, including 33% of Partner Fund assets now managed by LGPSC Ltd, and £77m of savings achieved to date. Access to new investment opportunities have been facilitated, e.g. in Private Markets. LGPSC Ltd's ambition is to continue the pooling journey, offer benefits of scale, and leverage partnerships in the short to medium term.

11.5 Malcolm Cantello queried whether the previously stated ambition of achieving a stated level of savings by 2032/33 was still an area of focus. John Burns confirmed that the savings target of £300m is still in place for 2032/33.

11.6 Gordon Ross gave an overview of the investment products available through LGPSC Ltd, as set out in the published report. He noted that the number of available funds has grown over time. £8.3bn of assets are managed within passive funds, which mirror market performance over time. Nearly £9bn of assets are held in active funds, which are outsourced to third party investment managers, whose performance is then monitored internally. A range of Private Markets funds have been established, covering private equity, private credit and infrastructure.

11.7 Gordon Ross gave an overview of macroeconomic conditions during the year and summarised LGPSC Ltd's fund performance against this backdrop. Passive funds as expected have tracked market performance and are within required tracking error targets. The active fund performance report shows that four out of eight funds have performed above benchmark ("amber" performance) since inception, and one out of eight funds have performed above target ("green" performance). However, during 2023 alone, five out of eight active funds have performed above benchmark, and six of eight have done so in the final quarter of 2023. Therefore, although the report indicates a majority of "red" and "amber" performance since inception, the direction of travel is improving.

11.8 Gordon Ross provided an overview of Private Markets activity, with 13 funds launched to date and more planned during 2024. The recent launch of a UK Direct Property fund was noted. Private Markets performance was summarised, noting that it can take two to three years from commitment of funds before meaningful performance information can be reported. The Private Equity Primary Partnership and Co-Investment Partnership of 2018 are reporting performance above benchmark and target.

11.9 An overview of product development priorities was provided, including a "buy and maintain credit" fund, a new private equity vintage, continuing opportunities in infrastructure, and a new private credit fund. Gordon Ross outlined priorities for 2024, including collaboration with Partner Funds to understand their strategic asset allocations and investment requirements, with the aim of producing funds which solve asset allocation requirements. The external manager procurement process is being reviewed, noting that it is more likely that LGPSC Ltd will add more investment managers rather than create new products. A long-term view on funds will be maintained.

11.10 Cllr Wilson noted that seven of eight active funds are reporting either amber or red performance ratings, indicating that they are performing below target, and queried what assurance could be given to the Joint Committee about LGPSC Ltd's ability to deliver performance against targets. Gordon Ross noted that performance has improved since the reported performance levels were calculated in November 2023. Manager monitoring takes place and where necessary changes to investment managers will be made. It was noted that the Global Equity Active Multi Manager Fund's rolling three-year performance is outperforming benchmark and within 13 basis points of its target. It is expected that this level of performance will continue. Cllr Wilson queried whether all funds would therefore report positive performance above target in future. Gordon Ross responded that this could not be guaranteed but that LGPSC Ltd's intention was to improve performance.

11.11 Malcolm Cantello queried what is meant by an indirect property fund. Gordon Ross responded that a direct property fund involves a direct investment into specific properties, while an indirect property fund involves investing in third parties who themselves then invest in specific properties.

11.12 Cllr Sutherland noted that while headline inflation levels have fallen, "core" inflation remains more stubborn, and queried what is meant by "core inflation". Gordon Ross noted that core inflation tends to exclude fuel and focusses on food and services, which tend to demonstrate a longer time lag on inflation movements.

11.13 Cllr Sutherland asked for further information on what is meant by manager replacement. Gordon Ross noted that when a fund is established, managers are selected through a process, in the belief that they are the correct managers to achieve the required investment outcomes. Sometimes the appointed managers do not achieve the required outcomes, and will sometimes display so-called "red flag" behaviours, such as key personnel leaving, or organisational changes, which deviate from the reasons for selecting the manager originally. This will sometimes lead to LGPSC Ltd procuring a new manager, to provide a better fit for the original investment objectives.

11.14 Returning to Cllr Wilson's question on performance, John Burns noted that long term investment success is founded on philosophy, processes, and checks and balances. Markets can be volatile but should align to long term trends. Markets will rise and fall, and results are not always good, and it is important that LGPSC Ltd are able to respond to these situations, to give confidence that they will achieve results in the long term. The company cannot offer guarantees, but their processes mean they have the best opportunity to achieve the required returns.

11.15 Cllr Barkley queried whether a period of five to six years since inception is a reasonable period over which to measure performance. Gordon Ross noted that investment manager contracts tend to be placed for three to five years, and that a three-year rolling performance period is typically used to measure performance.

11.16 Patrick O'Hara gave an overview of Responsible Investment and Engagement (RI&E) issues, as set out in the published report. A net zero strategy was launched during 2023, which will now be implemented during 2024.

11.17 Climate Risk Monitoring Service (CRMS) enhancements were delivered during 2023. A lot of development work was involved, which impacted negatively on production of climate reporting to Funds. Minimal development work is anticipated during 2024, meaning regular reporting should return to normal. The CRMS will be extended to cover Private Markets during 2024.

11.18 A new Stewardship Engagement Tracker has been launched, focussing on stewardship impacts, and allowing better reporting. Stewardship themes have been refreshed at the end of their three-year cycle. A summary of key engagement areas during 2023 was provided, with human rights, climate change, taxation and executive remuneration being key areas.

11.19 The results of an industry wide survey into RI&E approaches and activities were summarised. LGPSC Ltd have achieved above average scores in most areas of activity. A range of other highlights were summarised, including establishment of an internal RI&E Champions network.

11.20 RI&E priorities for 2024 were noted as including a focus on Private Markets, the launch of a Sustainable Investment Monitoring Service, and implementation of the new net zero strategy, as well as the launch of a net zero strategy for LGPSC Ltd itself.

11.21 Cllr Sutherland noted the impressive results of the industry survey, and on behalf of Staffordshire Pension Fund, welcomed the enhancement of the RI&E service and the improved measures of engagement effectiveness being developed.

11.22 Cllr Barkley noted that five of the eight Partner Funds are accredited with the Stewardship Code and asked whether any more are planned. Patrick O'Hara noted that other Partner Funds are planning to begin reporting compliance this year.

11.23 Cllr Barkley noted that the contents of the RI&E update were welcome and demonstrated impressive achievements during the year.

11.24 Gordon Ross noted the matter arising from the 26 July 2023 Joint Committee, that a Company-wide weighted average performance against benchmark would be reported. LGPSC Ltd's presentation includes information provided in response to this request. Public market funds have added £22m in value to

December 2023 since inception. Equity funds have contributed £52m, with bond funds overall losing £30m, and the Multi-Asset Credit Fund in particular losing £60m in value, mainly due to rising interest rates since inception. The report does not include private market performance at present. These will be included in this report as and when performance information is meaningful.

11.25 Joanne Segars provided closing remarks on behalf of LGPSC Ltd. The report provides an overview of work carried out on behalf of Partner Funds. Partner Funds were thanked for their support. It was noted that real progress has been made, a broad spectrum of assets are available to meet Partner Fund needs, and the progress is a testament to collaboration, which is essential to continued success. It was noted that 2024/25 will be an eventful year in the context of the macroeconomic and political environment. Following the outcome of the DLUHC consultation into the future of LGPS investments and pooling, LGPSC Ltd are considering what the outcomes mean for the future of the Pool, and how they can deliver to Partner Funds both as clients and as shareholders.

11.26 **DECIDED:** That the presentation from LGPSC Ltd be noted.

12 ANY OTHER BUSINESS

12.1 No additional items of business were raised.

12.2 The next meeting of the LGPS Central Joint Committee is scheduled to take place in the summer of 2024, with a date to be confirmed in due course.

APPENDIX 1

Item 6: Public Questions

DLUHC consultation
Question 1: received 7 January 2024 from Mr D Plunkett In paragraph 9 of the 2023 DLUHC consultation "Next Steps on LGPS Investments", the percentage transferred from the eight partner funds to LGPS Central was 30%, which was identified as the lowest of all of the Pools, and contrasted with LPP at over 80% transfers. In respect of LGPS Central's response to the consultation: **i) Will LGPS Central now publish their full response to the DLUHC consultation on their website; and** **ii) At which meeting did the eight LGPS funds agree the LGPS Central response to the DLUHC consultation?**
i) The Company's response has been published on their website, and can be found in the 'Consultations' section of the 'News' channel. ii) Various meetings were held with Partner Funds where the Company's position was discussed. Partner Funds received a copy of the Company's consultation response ahead of submission to DLUHC. The response is reflective of the Company's views, and each Partner Fund submitted their own individual response.

Responsible Investment
Question 2: received 15 January 2024 from Mr D Challen The FCA Policy Document PS23/16 signals that the UK will implement rules on Sustainability Disclosure Requirements (SDR) and Investment Labels, to ensure claims on ESG are honestly and fully disclosed, and to prevent greenwashing by funds. Similarly in France the term Responsible Investment will not be allowed from 2024 for any fund that invests in fossil fuels. The LGPS Central Climate Fund invests in fossil fuel companies, and gambling, tobacco, and arms companies. **Will LGPS Central divest such companies from this portfolio voluntarily, before UK rulings force them to do so?**

LGPS Central maintains that stewardship is a superior approach to driving change in the real economy compared to divestment. Regarding equities, divestment would resemble trading out of a position, rather than directly withdrawing finance from a company, as our investments are secondary finance. Thus, stewardship remains integral to our climate strategy. We believe climate change is a complex challenge requiring a nuanced response. Fossil fuel companies possess the resources, expertise, and incentive to contribute to this response, and this contribution is essential for a successful and just transition.

Regarding regulation, there are no signs that the UK Chancellor & HM Treasury or the UK's leading opposition party plan to restrict the investment universe of UK pension schemes or follow the French Finance and Economy Minister's announcement. Any such decision would be political rather than regulatory (FCA). UK regulations focus on representing and clearly labeling investment strategies and products concerning sustainability, without mandating divestment from fossil fuels or any sector.

Divestment would not decrease demand for fossil fuels, which can only occur through technological and policy changes driving clean energy substitutes' mass adoption—a focus area for Stewardship.

Climate Change

Question 3: received 26 January 2024 from Ms J Blackman

Carbon Tracker's recent report, "Loading the Dice Against Pension Funds" (see pages 18, 56-57)*, reveals that many pension funds, including some in the LGPS Central pool, use investment models that rely on economists' flawed estimates of damages from climate change to predict that global warming of 2°C to 4.3°C would have only a minimal impact on member portfolios. The report makes it clear that these flawed economic models cannot be reconciled with warnings from climate scientists that global heating on this scale would be "an existential threat to human civilisation."

To illustrate this failure, the Carbon Tracker report refers to Mercer's investment modelling and gives as an example the climate scenarios and modelling produced by Mercer for Shropshire County Pension Fund's Climate-Related Disclosures Report 2020 (see pages 10-11)**.

Will the LGPS Central Joint Committee now urgently:
i) Follow Carbon Tracker's advice to "look at the compelling evidence in the climate science literature, and to implement investment strategies which are based on a rapid wind-down of the fossil fuel system, and on a 'no regrets' precautionary approach?"
ii) Find new investment consultants who use investment models founded on

contemporary climate science and which assume the need for a rapid wind-down of the fossil fuel system, and on a 'no regrets' precautionary approach?" * https://carbontracker.org/reports/loading-the-dice-against-pensions/ ** https://shropshire.gov.uk/committee-services/documents/s26021/6. Appendix A TCFD Disclosure Final Report.pdf
Please note that the scope of the LGPS Central Joint Committee, as per its Terms of Reference, is a public forum for the Administering Authorities within the LGPS Central Pool to provide oversight of the delivery of the objectives of the Pool, the delivery of client service, the delivery against the LGPS Central business case, and to deal with common investor issues. The data quoted in the Carbon Tracker report were taken from 2020 TCFD reports and reflect the predictions made in the Mercer climate change analysis at that time. Further TCFD reports have been issued since that time, which have utilised an updated model that Mercer has developed in partnership with Ortec Finance and Cambridge Econometrics. The reports acknowledged that climate scenario analysis remains a developing field, which uses assumptions about inherently unpredictable matters over long time horizons. The outputs from the analysis are used as directional information on the sensitivity of the Funds' portfolio to different climate scenarios, and considered in tandem with all the other factors which have the potential to impact on investment returns. Pooling partners are aware of the potentially devastating impacts of climate change and the need for the global economy to accelerate its transition to low carbon energy solutions. However, pooling partners have not reached a conclusion that divesting from fossil fuels will accelerate this transition. We recognise advice from our pooling company on the importance of i) companies being owned by responsible investors that demand long-term thinking from corporate management and credible transition plans, and ii) the demand for fossil fuels within the economy reducing and being replaced by demand for renewable energy. We are advised that focusing on only the supply of fossil fuels does not address the challenge. We recognise that climate change results in risks for investors, as indicated by recent climate scenario analysis which illustrated that a successful transition and restricting global warming to 1.5°C is a much more favourable outcome than a failed transition in terms of investment performance.   Pooling partners welcome the continued development of climate scenario analysis to support our management of the risks associated with climate change.