

INVESTMENT COMMITTEE

("IC" or "Committee")

Minutes of the Meeting

Date: Monday 20 March 2023
Time: 14:45-17:00
Location: LPFA Meeting Room, 2nd Floor, 169 Union Street, London SE1 0LL

Present:	Tamlyn Nall Rita Bajaj Debbie Rees Belinda Howell	Chair (" Chair ") Committee Member* LPFA Board Member Committee Member
In attendance:	Janet Adeyemi Peter Ballard Jill Davys Anastasia Guha Julia French Paul Hewitt Sarah Morris Joe Peach Chris Rule Richard J Tomlinson	Interim LPFA Governance Manager London Pension Fund Authority (" LPFA ") Funding and Risk Director (" FRD ") Redington Director, Assets (item 5 only) * Redington Global Head of Sustainability (Item 5 only) * Local Pension Partnership Investments Limited (" LPPI ") Deputy Manager, Responsible Investment (item 3 only) * LPFA Responsible Investment Manager LPPI In-House Actuary (until item 7) * LPPI Senior Analyst (until item 7) * Local Pensions Partnership (" LPP ") and LPPI CEO (until item 7) * LPPI Chief Information Officer (" CIO ") (until item 7) *

1. IC36 – INTRODUCTORY MATTERS

Submission

To present the minutes and action points of the previous IC meeting held on 6 December 2022.

Discussion

Apologies

- 1.1 Apologies for absence were received from Sophia Morrell who was on maternity leave.
- 1.2 The Chair confirmed that a quorum was present, and the meeting was opened.

Declarations of interest

- 1.3 It was confirmed that no declarations of interest had been received since the previous meeting.

Minutes and actions

- 1.4 The Committee considered the minutes of the IC meetings held on 6 December 2022.
 - 1.5 The Committee confirmed that it was satisfied with the status of all of the actions reflected as completed or in progress.
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The Committee **RESOLVED** to:

1. **Approve** the minutes of the IC meeting held 6 December 2022, and agree for these to be signed as a true and accurate record;
2. **Approve** the signing of the minutes using the Chair's electronic signature; and
3. **Note** the progress made on the action points and confirm that the Committee is content with the status of the actions from previous meetings.

2. IC37 INVESTMENT PERFORMANCE REPORTING

Submission

To provide an overview of LPFA investment performance for Q4 2022.

Discussion

- 2.1 The LPPI Senior Analyst reported that as of 31 December 2022, the Fund's total value had stood at £7.5 billion, and remained approximately at this value since then. It was also advised that in the 12 months to 31 December 2022, the Fund had outperformed the Portfolio Policy Benchmark ("PPB") by 1.9 percent.
- 2.2 The Committee welcomed the three-year summary attribution information that accompanies the performance report. In discussion, LPPI Senior Analyst reported that the Fund outperformed the Portfolio Policy Benchmark ('PPB') over the 3 years to 31st December 2022 on a cumulative basis by 1.3%.
- 2.3 The Chair raised concerns about the high short-term inflation on infrastructure performance versus average long-term inflation and questioned what effect this might have on the Fund. The Chair further stated that the high short-term inflation is being seen in the 10% increase in pension awards that need to be made this year and queried whether the Funds assets were tracking the higher short-term inflation. This prompted a discussion on the inflation sensitivity of assets, with the LPFA FRD advising the figures used by the actuaries over the long term are an average. LPPI CEO advised that he is comforted by the ability for assets to track inflation over the longer term. The Committee noted that Real Estate has been robust.
- 2.4 A discussion on the recent developments involving Credit Suisse's acquisition by UBS and its potential impact on the Fund was held. LPPI CEO advised there is some exposure in relation to Credit Suisse and stated that the team are gathering information and will draft a note for circulation to the Committee. **Action for LPPI, which has now been completed.**

The Committee **RESOLVED** to **note** the Q4 2022 investment performance report and supporting appendices.

3. IC38 RESPONSIBLE INVESTMENT

Submission

To present a paper from the LPFA RI Manager providing an overview of ongoing work to improve RI reporting, as well as the LPPI Q4 2022 Responsible Investment ("RI") Report, including the LPPI RI Dashboard and Quarterly Active Ownership Report.

Discussion

- 3.1 The LPFA RI Manager explained that LPFA has been working with colleagues at LPPI to evolve the content of the RI reporting provided by LPPI to the IC and is collaborating on the Net Zero engagement initiatives.

- 3.2 The Committee welcomed the comprehensive report and when asked if the Transition Pathway Initiative (TPI) reporting is still helpful, the LPFA RI Manager advised that TPI reporting is a helpful tool that provides LPFA with some additional understanding. It was explained that the TPI reporting tool is reliant on company annual disclosures and that there is a time lag because new updated information becomes available on the tool on a quarterly basis.
- 3.3 The Committee noted through the LPFA stakeholder network, the organisation received an invitation from ShareAction to participate in a collaborative engagement towards five of the largest European banks to require them to stop financing new projects in the field of fossil fuel exploration and extraction.
- 3.4 The Chair questioned whether it was the best use of LPFA's time commitment to engage in causes even though the organisation is not a shareholder in any of the five banks in question. It was advised that LPFA participating in the ShareAction initiative is beneficial for the organisation as it aligns with its priorities and represented a very low burden on LPFA officers.
- 3.5 Concerning the Robeco Deep Dive, the Chair questioned whether LPPI can influence whether Robeco's engagements are in alignment with LPPI's priorities. The LPPI representative informed the Committee that LPPI and Robeco have a good working relationship.
- 3.6 The Chair raised concerns about the types of engagement and how material the engagement Robeco has carried out on behalf of LPPI is. The Committee was advised that engagement include in-person one-to-one phone calls and meetings.
- 3.7 The Committee requested that LPPI present yearly information on what LPPI is engaging in to enable the IC to get a full picture of the work that Robeco is carrying out on behalf of LPPI and hence LPFA. **ACTION: C Rule**
- 3.8 The Chair asked LPPI CEO about alternative providers in the market if he was satisfied that Robeco is doing the job that LPPI wants them to do and has LPPI looked at other providers in the market. The LPPI CEO explained that when Robeco was appointed over a year ago a tender was carried out across the market to decide who LPPI should partner with to provide engagement services for its Global Equities and Fixed Income Investment portfolios. The LPP and LPPI CEO added that he will check the contract agreement with Robeco to see the number of years they are appointed for. **ACTION: C Rule**
- 3.9 During a discussion on potential areas of improvement to RI reporting, the LPPI RI dashboard was highlighted for improvement The Chair requested that the LPPI RI dashboard should detail the number of companies LPPI is engaging with and how.

The Committee **RESOLVED** to

1. **Note** the overview from the LPFA RI Manager on work to improve RI reporting; and
2. **Note** the LPPI Q3 2022 RI Report, including the LPPI RI Dashboard and Quarterly Active Ownership Report.

4. IC39 RESPONSIBLE INVESTMENT POLICY

Submission

To provide an overview of the timeline and plan for the revision of LPFA's Responsible Investment Policy ("RI Policy") and Climate Change Policy and also review and propose revisions to LPFA's RI Beliefs

Discussion

- 4.1 LPFA RI Manager outlined that the RI policy was last updated in 2019 and the Climate Change Policy in 2020. Both are therefore due for review and have been scheduled for review and re-publishing during 2023. It was explained that the re-casting of the LPFA RI approach would be in two phases. A robust RI policy statement will set the background to articulate why and how RI is important. An RI strategy will then be set out on how LPFA will go about implementing the policy.
- 4.2 It was explained that the LPFA's Responsible Investment Policy will be informed by the Investment Committee and that LPFA Board members will have the opportunity to provide comments and contribute to the Policy. The

Committee noted that the final decision on the Policy will be sought from the LPFA Board. The LPFA Funding and Risk Director reminded the Committee that the Policy is being driven by the Investment Committee Terms of Reference, which states that every three years the review and changes to policies relating to investment and climate will be recommended to the Board.

- 4.3 The Chair requested that the main content of the Policy is tabled at the LPFA Board awayday in September 2023 and that the policy document will be considered during the subsequent Investment Committee meeting.
- 4.4 The LPFA RI Manager explained that the short list of the issues identified would be presented at the June 2023 Investment Committee meeting.
- 4.5 Regarding the Responsible Investment Beliefs review, the LPFA RI Manager outlined that the review consists of bringing LPFA's statement of beliefs up to date with the values the organisation has established in recent years through the elaboration of its approach to climate risk and noting that the review will also take into consideration examples from LPFA peers, including LPPI, LCPF and RCBPF if appropriate, all of whom have revised their RI policies since LPFA's last update in 2019.
- 4.6 A detailed discussion on the proposed Responsible Investment Beliefs was held and the Chair commended the LPFA RI Manager for producing an excellent piece of work.

The Committee **RESOLVED** to

1. **Note** the project outline for review of LPFA's RI Policy and Climate Change Policy; and
2. **Approve** the proposed RI Beliefs for inclusion in LPFA's RI Policy review and for onward recommendation to the LPFA Board

5. IC40 NET ZERO

Submission

To provide an update on the progress made towards Net Zero targets during 2022 and also present a paper from Redington representatives that provide information and background for the Committee to determine a position on what constitutes climate solutions.

Discussion

- 5.1 The LPFA RI Manager provided a brief overview noting that significant progress has been made against all Net Zero targets during 2022. It was explained that progress is ahead of target in three (portfolio emissions, implied temperature rise, and alignment) and that progress is slightly behind target in one area (engagement)
- 5.2 The Committee commented on the excellent comprehensive reporting of the progress being presented and stated that the report reassures the Committee that LPFA is reporting in the right way and that the report demonstrates LPFA's journey on Net Zero.
- 5.3 In response to a question raised, it was confirmed that the improvement in the alignment goals was due to a change in methodology. The Chair stressed the need for the report to include a footnote to explain this fact – i.e., on the whole company behaviour had not changed. LPPI was asked to provide additional information in the report to the next IC.
- 5.4 Concerning Climate Solutions, the LPFA RI Manager explained that there are two main objectives. Firstly, as a part of LPFA's commitment to the Paris Aligned Investment Initiative (PAII), the organisation has an objective relating to increasing the proportion of our portfolio which is invested in "Climate Solutions" and secondly, related to LPFA PAII climate solutions commitment, LPPI is potentially developing a new Climate Solutions fund which will act as a vehicle for investing in climate solutions related assets.

- 5.5 The Committee were advised that the Redington report proposes that LPFA request that LPPI widens the scope to allow flexibility in the development of the climate solutions fund. This proposed approach reflects the intrinsic linkage between climate solutions and natural capital. Redington colleagues suggested that the Committee should ask LPPI to consider this as an environmental solutions fund rather than simply climate a solutions fund.
- 5.6 A member of the Committee observed that they were happy to see the industry-wide issues and opportunities in the report that LPFA and LPPI will need to consider when making decisions on the climate solutions fund. Other Committee members expressed that the greater the flexibility given to the Investment team the better the opportunity for LPFA and LPPI to make a return.
- 5.7 The Chair reminded the Committee of the primary driver stemming from LPFA's Net Zero commitment and added that widening the environmental concerns gives LPFA opportunities and flexibility. The Chair cautioned on the meaning of "impact", noting that sometimes the impact means there might not be any returns, stressing that LPFA must have a return. Overall, the Chair agreed to recommend to the LPFA board the organisation have flexibility in its approach and should not feel constrained by its commitment to the Paris Aligned Investment Initiative (PAII).
- 5.8 LPPI Chief Investment Officer welcomed the idea of a broader climate opportunities approach. He questioned how the implementation of the Fund would fit into the overall strategic asset allocation. LPFA's Funding and Risk Director expressed caution at creating a separate strategic asset allocation for environmental solutions, noting that as a multi-asset fund the risk adjusted return expectations are more relevant to each constituent asset class than at fund level.
- 5.9 The LPP and LPPI CEO advised the Committee that the that the Fund is still work in progress.
- 5.10 The Committee requested that "*mitigation*" is added to the proposed definitions for both LPPI's climate solutions fund and ICAP reporting.

The Committee **RESOLVED** to

1. **Note** the progress made towards Net Zero targets during 2022; and
2. The Committee **accepted** the recommendation to develop an environmental solutions fund, with a wider definition than just climate solutions; and
3. **Approve** the following definition for climate solutions for the purposes of net zero target setting and reporting, based on Redington's paper: "*Climate solutions encompass economic activities that aid climate transition, implement climate mitigation enabling strategies or climate adaptation strategies*".

6. IC41 RISK REPORTING

Submission

To present the LPFA Investment Risk Dashboard (Appendix 2), along with commentary on LPFA's risk exposures within and across asset classes, and also the LPFA Investment and Funding Risk Report for Q3 2022.

Discussion

- 6.1 The paper was taken as read. The LPFA FRD reminded those present that the implied contribution rate, which estimates the average total (member plus employer) contribution rate that might apply if an actuarial valuation were carried out immediately, is 23.3% of pay. This represents a 3.0% increase relative to the contributions in force following the 2022 valuation. The main reason for this is the reduction in funding level, which would put some employers in deficit and reduce the negative secondary contributions for others.

The Committee **RESOLVED** to note the Investment Risk Dashboard and the Funding Risk Report.

7. IC42 OPTIONS FOR FUTURE MANAGEMENT OF ORPHAN ASSETS

Submission

To provide an overview of the implications of adopting a separate investment strategy for Exited Employer assets.

Discussion

- 7.1 The LPFA FRD reminded the Committee that “orphan” refers to those assets and liabilities relating to employers that have ceased participation in the Fund.
- 7.2 The Chair observed that the reasons in support of the current approach are based on the belief that the benefits of the surplus held or associated with these Exited Employer assets are of more use being invested in return-seeking assets as a source of future investment returns to support remaining employers and provide a buffer against adverse experience, rather than being invested in bonds as a way of reducing the risk on the investment, which would limit upside potential.
- 7.3 The Chair agreed that Committee should report back to the LPFA board that the current surplus due to exited employers was sufficient to withstand future volatility and reducing this surplus by investing in bonds, say, to protect remaining employers, was not deemed necessary at this stage. The Chair also noted that administrative burden should not be used as a reason not to manage these assets separately should the need arise.
- 7.4 The LPFA FRD stressed that at this stage the LPPI is not giving any advice, but outlining the practical implication of managing the EE assets separately. LPPI advice will come as part of the Strategic Asset Allocation (SSA) review on investment strategy statement review.

The Committee **RESOLVED** to note the implications of adopting a separate investment strategy for EE assets.

LPPI colleagues were thanked for their contributions and left the meeting.

8. IC43 GOVERNANCE MATTERS

- 8.1 To present the IC Forward Agenda for 2023/24 for noting.

The Committee **RESOLVED** to note the IC Forward Agenda 2023/24

9. IC44 STRATEGIC REVIEW OF LPPI

Submission

To present the findings from PricewaterhouseCoopers (PWC) from the strategic review of the LPPI business with a view to informing shareholder decisions about the actions needed to support LPPI’s development in future.

- 9.1 The LPFA FRD informed the Committee that the findings have been shared with Shareholders’ representatives and that stakeholders’ feedback has been received.
- 9.2 The Committee noted that LPPI is not entirely satisfied with the findings and a discussion was held as to what needs to be done with LPP and LPPI going forward.
- 9.3 The LPFA FRD advised the Committee that the actions that need to be taken by LPPI to address these findings are dependent on the appetite for growth and how that growth is achieved. This is primarily a

shareholder decision; however, the Investment Committee may wish to provide input to any discussion at LPFA Board.

The Committee **RESOLVED** to note the findings of the strategic review of LPPI carried out by PWC.

10. ANY OTHER BUSINESS

10.1 The Committee extended its gratitude to the outgoing LPFA Funding and Risk Director who is leaving LPFA and thanked him for his professionalism and contribution to LPFA and wished him well with his next professional step.

10.2 With no other business, the Chair declared the meeting closed at 17.00.

Signed as an accurate record of the meeting:

Tamlyn Nall
Committee Chair

Date: 12 June 2023