

INVESTMENT COMMITTEE

Minutes

Date: Monday 12 June 2023
Time: 15:00 – 17:00
Location: 169 Union Street, room G04

Present:

Rita Bajaj	Committee Member
Belinda Howell	Committee Member
Sophia Morrell	Committee Member
Tamlyn Nall	Committee Chair

In attendance:

Matt Hannay	LPPI Senior Equity Analyst (Item 2 – via Teams)
Paul Hewitt	LPFA Responsible Investment Manager
Jason McKenzie	LPFA Interim Governance Manager (Minutes)
Sarah Morris	LPPI Head of Actuarial Risk
Mark Norquay	LPFA Interim Fund and Risk Director
Joe Peach	LPPI Senior Analyst
Chris Rule	LPPI Chief Executive Officer
Richard Tomlinson	LPPI Chief Investment Officer
Max Townshend	LPPI Head of Investment Strategy
Jill Davys	Redington (Item 6)
Edwin Whitehead	Redington (Item 6)
Fleur Dubbelboer	CEM (Item 8) – via MS Teams.

Observing: John Preston LPFA Chair

Apologies: None

1. IC43 – INTRODUCTORY MATTERS

Submission

To present the minutes and action points of the previous IC meeting held on 20 March 2023.

1.1. The Chair confirmed a quorum was present and the meeting was opened.

Declarations of interest

1.2. Mark Norquay declared he is an employee of Barnet Waddingham and is acting as the interim LPFA Funding & Risk Director until the new permanent director joins in August. The Committee acknowledged this declaration and agreed it does not constitute a conflict of interest to Committee business. No other interests were declared.

Decision made by email

1.3. It was confirmed the Committee had not taken any decisions by email since the previous meeting.

Minutes and actions

1.4. The Committee considered the minutes of the previous meeting held on 20 March 2023.

1.5. The Committee confirmed that it was satisfied with the status of all of the actions reflected as completed or in progress.

The Committee **RESOLVED** to:

1. **Approve** the minutes of the meeting held on 20 March 2023, 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. IC44 – Investment Performance Reporting

Submission

To present an update on LPFA's investment performance and asset class mandate (ACM) limit monitoring (including LPFA Fund Manager Limits – risk positions versus limits) from Local Pensions Partnership Investments Ltd (LPPI).

Discussion

- 2.1. LPPI provided the Committee with an overview of the executive summary of pages 18-19 and 24-25, noting figures from Q1 2020 during Covid are now excluded from the three-year reporting period; and the forecast is inline or ahead of the return objective.
- 2.2. The Committee discussed Asset Performance noting Baillie Gifford have performed well, particularly due to the investment in Nvidia. LPPI agreed to monitor the allocation to Nvidia to ensure it remained appropriate.
- 2.3. LPPI confirmed the LPPI Committee have approved the appointment of a new external manager to the global equities fund and are currently in IMA negotiations with the manager.
- 2.4. The Committee noted Wellington's good performance in 2022, against its relatively poor performance in 2023, and LPPI confirmed that they are planning a deep dive session.
- 2.5. LPPI corrected an error in the report confirming in the Global Market the UK is included in the Europe category of 6%.

Matt Hannay joined via MS Teams

- 2.6. The Committee discussed the process for integrating ESG into decision-making on the investment in Thermo Fisher Scientific Inc., noting the major considerations are around product governance and innovations, long term value creation and low carbon intensity.
- 2.7. The Committee discussed the controversy of how certain customers use Thermo Fisher Scientific equipment, as some corporations will not allow unethical use of their products. Thermo Fisher Scientific has ceased sales to China since 2018 and M Hannay will further investigate the issue to ensure that human rights are given appropriate consideration by the companies in which we invest.

Matt Hannay left the meeting.

The Committee **RESOLVED** to note the Investment Performance Report.

3. IC45 – RESPONSIBLE INVESTMENT REPORT

Submission

To note the reported activity on Responsible Investment undertaken by LPFA to date.

Discussion

- 3.1. The RI Manager presented an overview of the report highlighting the activity with LPPI in joining the Net Zero iEngagement Initiative, and the application has been submitted to be the leading engager on three stocks: AERCAP Holdings NV, AMG Advanced Metallurgical Group and BAE Systems PLC.

- 3.2. The Committee noted the LAPFF engagement meeting held in March discussed Nestle, one of our three largest equity holdings, and the meeting covered proposed positioning in priority RI issues for LPFA in several areas of Nestle's operations including the climate crisis, plastic use, nutrition, and human rights. The next LAPFF business meeting is scheduled in July.
- 3.3. The Committee noted the LPFA presented at City Hall as part of the C40 Cities Divest/Invest event on the Net Zero workstream, meeting similar organisations from several countries including the US and New Zealand.
- 3.4. The Committee again questioned the relevance of The Transition Pathway Initiative (TPI) given that the data is refreshed annually and therefore no significant changes are included in the quarterly reports. The LPPI CEO added that he is a member of the TPI Board and has flagged the difficulty of this approach internally at the TPI.
- 3.5. The Committee noted the Robeco contract is for five years with two years remaining.

The Committee **RESOLVED** to note the contents of the report.

4. IC46 RESPONSIBLE INVESTMENT POLICY REVIEW

Submission

To note the proposed revised approach for renewing LPFA's RI Policy; and Agree the proposed RI thematic priorities: Climate Change, Natural Capital, Just Transition, and Strong Governance.

Discussion

- 4.1. The Committee noted the Board intends to discuss the draft policy at the September Away Day, with the draft proposal to be formally submitted at the October meeting and a decision at the December meeting.
- 4.2. The Committee discussed feedback received from members regarding the health impact of investments, particularly whether we should consider the question of exclusion on the basis of ethical considerations, such as tobacco. Whilst exclusion commitments are made in certain areas such as extractive fossil fuels as a part of our Net Zero strategy, these have been justified on investment grounds and none have been made in relation to ethical issues. Member consultation assists verification of alignment between fund priorities and member views.
- 4.3. The Committee noted the Climate Change Policy will be managed in parallel with the RI Policy which deliberately complements the core priority of climate risk, through the complementary themes of Natural Capital and Just Transition.
- 4.4. The Committee discussed if a wider policy will be developed to help evaluate the value to the LPFA of being involved in collaborative engagements where LPFA is not a shareholder (such as the recent case involving the financing of oil exploration and extraction by financial institutions). The RI Manager confirmed these opportunities are managed on a case-by-case basis and sometimes divesting from certain sectors sends a stronger message than engaging.
- 4.5. The Committee considered the wording of the thematic priorities, recommending minor changes to ensure clearer and tighter definitions; including clearer articulation of "Equality" as a part of Just Transition, clarification of what is meant by "Strong Public and Financial Institutions" and the inclusion of reference to the importance of collaboration in the statement of RI Beliefs.

The Committee **RESOLVED** to agree the approach of the policy noting the above recommendations.

5. IC47 Net Zero

Submission

To note the establishment of benchmarks to set targets for Paris Aligned Asset Owners Net Zero commitment in relation to Real Estate (RE) and Infrastructure assets.

The Committee is asked to **note** the project timeline and **approve** the approach to setting RE and Infrastructure targets.

Redington joined.

- 5.1. Redington provided an overview of the report highlighting the challenge in obtaining quality data for the RE and Infrastructure assets, with a suggested resolution being to use appropriate proxies. Real data for RE assets was likely to be obtainable in a shorter time frame than for Infrastructure.
- 5.2. The Committee discussed the question of what value or gain might be had in undertaking a proxying exercise. Redington emphasised that using proxy data enables better transparency for understanding the broad challenges. It was noted the challenge lies with obtaining real data in respect of infrastructure assets and the considerable effort and resource needed to collect it does not align to the project timeframes.
- 5.3. The LPPI CEO commented the data collection is often dependent on the asset tenants providing the information. LPPI is advancing a toolkit for 2024 to motivate and help tenants understand how to do this.
- 5.4. The value of a proxy exercise was again discussed, with the Committee concluding it is not an ideal solution given the degree of estimation and the resources needed.
- 5.5. The Committee thanked Redington for their report and agreed to focus on RE without allocating significant resource to Infrastructure at this time.

Redington left the meeting.

6. IC48 Review of Liquidity of Investments and Cashflow requirements

Submission

To note the cashflow and liquidity position of LPFA's assets.

- 6.1. The Interim Funding and Investment Director provided an overview of the report.
- 6.2. The Committee asked for the distinction in responsibilities for cashflow and liquidity oversight of the Investment Committee and the Audit and Risk Committee to be reflected in the Terms of References.

ACTION: M Norquay/J McKenzie.

7. IC49 Risk Reporting

Submission

To note the Investment Risk Dashboard; and note the Funding Risk Report.

- 7.1. The Interim Funding and Investment Director provided an overview of the report.
- 7.2. The Committee asked for the Investment Risk Dashboard to include an inflation forecast for the period to be able to compare the relative data (see pg244 for reference). **ACTION: M Norquay/LPPI.**
- 7.3. The Committee asked to ensure the numbers are consistent across the dashboard (see 0% on pg248 for reference). **ACTION: M Norquay/LPPI.**

8. IC50 CEM Benchmarking

Submission

To note the CEM Benchmarking report.

F Dubbelboer joined via MS Teams.

- 8.1. The Committee noted the broadly stable costs of LPFA due to the strategic allocation being stable compared to other sectors.
- 8.2. CEM confirmed LPFA are paying 7.5 bps less in fees compared to their “benchmark cost”. The benchmark cost is calculated by using peer median costs applied to the LPFA’s asset allocation. The saving results from a large part of the LPFA’s portfolio being managed in-house i.e. by LPPI.
- 8.3. The Committee commented that the relative performance of the funds last year was less volatile. They noted the increased returns of the Diversifying Strategies portfolio and LPPI’s performance relative to other fund managers. It was further noted that the selling of the Diversifying Strategies funds will result in a reduction of fees overall as this is a relatively expensive part of the portfolio.
- 8.4. The Committee thanked CEM for their report.

F Dubbelboer left the meeting

9. IC51 Bi-Annual Update on implementation of Diversifying Strategies divestment process

Submission

To note the report.

- 9.1. LPPI provided an overview of the report and the Committee noted progress is on-track to achieve the 5% target, commenting the portfolio is being well managed for the investments for the remaining period.
- 9.2. The Committee had no questions.

10. IC52 Governance Matters

Submission

To approve the minor changes to the IC ToR and to note the IC forward planner.

- 10.1. The Committee discussed the proposed changes to the ToR.
- 10.2. The Committee asked for clarification to 5.3 for the key ask i.e. overseeing/agreeing etc with respect to the appointment of Advisors. **ACTION: R Branagh/J McKenzie**
- 10.3. The Committee asked for clarification if the Board holds responsibility for approving the ToR instead of this Committee.

11. ANY OTHER BUSINESS

- 11.1. The Committee thanked Janet Adeyemi for her contribution as interim Governance Manager.
- 11.2. It was noted that the next meeting is scheduled for Monday 2 October 2023, 10.00-12.30

Close

There being no further business, the Chair declared the meeting closed at 17:08.

Signed as an accurate record of the meeting:

Tamlyn Nall
Investment Committee Chair

Date: 02 October 2023