



INVESTMENT COMMITTEE

MINUTES

Date: Tuesday 28 November 2023
Time: IC Meeting | 10:00-12:30 | Deep Dive Session | 13:00 – 14:30
Location: 10 Union St, London SE1 1SZ & via MS Teams

Present: Rita Bajaj Committee Member
 Belinda Howell* Committee Member
 Tamlyn Nall Committee Chair

Attendance: Robert Branagh LPFA CEO
 Jill Davys Redington Head of LGPS, Global Assets (Item 8 Only)
 Ashley Durkan LPFA Governance Manager
 Julia French LPPI Responsible Investment Manager
 Paul Hewitt LPFA Responsible Investment Manager
 Edina Molnar Redington VP, Sustainable Development (Item 8 Only)
 Sarah Morris LPPI Actuary, Actuarial and Funding Risk
 Joe Peach LPPI Head of Client Management
 Chris Rule LPP Group CEO
 Max Townshend LPPI Head of Investment Strategy
 Lana Watson LPFA Funding and Investment Director

Apologies: Sophia Morrell Committee Member
 Richard Tomlinson LPPI CIO

* Joined via MS Teams

1. IC60 Introductory Matters

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

Declarations of interest

1.2 Rita Bajaj noted that she had received regulatory approval for Chair of Threadneedle Investment Services Limited as on 1st of January 2024

Decisions 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 02 October 2023.

1.5 The Committee were satisfied with the status of the actions reflected as completed or in progress.

1.6 The Committee **RESOLVED** to:

- a) **APPROVE** the minutes of the meeting held on 02 October 2023, and agreed for these to be signed as a true and accurate record; and
- b) **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. IC61 Strategic Asset Allocation

- 2.1 The LPFA Funding and Investment Director provided her report on the Strategic Asset Allocation (SAA) and the report was taken as read. She provided background context with a reference to the 12 June 2023 meeting, where the scope of SAA advice was agreed with LPPI. The core themes identified for analysis were the suitability of the Long Term and proposed Strategic Asset Allocations to meet the Fund's Investment Objectives within its risk appetite, the response of the Fund's assets to both short and long-term inflation, and the balance between income and return considering the Fund's cash flow negative profile.
- 2.2 LPPI had previously presented their advice and proposed SAA at the 2 October 2023 Investment Committee meeting. Following robust discussion, the Committee requested further details on the Trend Following Mandate for the next meeting. LPPI's follow-up paper, provided at Appendix 1, contained detailed insights on the construction of a Trend Following Fund, including the expectation of having 2 to 3 managers and the need to source 1 to 2 new managers within approximately six months. It was suggested by LPPI that the LPFA would provide the main allocation of 2.5% of their Fund, with potential participation from other Funds leading to around 1.5% of LPPI's assets under management.
- 2.3 It was noted that the LPPI's Executive Committee did not fully support the business case for offering a Trend Following Fund due to the small allocation of assets expected and the additional costs associated, suggesting that resources might be better allocated to support other products. Nonetheless, an investment case for Trend Following still existed and they indicated willingness to pursue a Trend Following Fund if the LPFA expressed sufficient interest. The Investment Committee was advised to consider these points, especially whether the benefits of the Trend Following Fund could be achieved elsewhere, given the small allocation proposed. The LPP Group CEO confirmed that should a Trend Following Fund be attractive to clients in future, the LPPI's Executive Committee would be open to creating one.
- 2.4 Further discussion centred around the current Long-Term SAA, with LPPI maintaining that it was on track to deliver LPFA's Investment Objectives. This included balancing expected outcomes for funding and contributions against the risks of adverse scenarios. The additional portfolios proposed maintained the Private Equity allocation in line with the current Long-Term SAA.
- 2.5 The Committee also reviewed the modelling results for these additional portfolios, which were based on Q2 2023 market conditions. Compared to the current Long-Term SAA, the modelling outcomes were similar, confirming that the proposed changes were an evolution of the existing SAA. The analysis showed that Trend Following could positively impact expected funding and reduce adverse funding/contribution risk. The Committee noted that incorporating the Environmental Opportunities Fund into the SAA might be more effectively achieved from the "No DS" portfolio rather than the current LT SAA.
- 2.6 The Committee agreed that the new SAA without Trend Following was the most suitable strategy, aligning with the current market conditions and the fund's long-term objectives. The proposed new SAA included slight adjustments in allocations across various asset classes such as Global Equities, Fixed Income, Credit, and Real Estate. The LPP Group CEO underscored the importance of making decisions that were agile and adaptable to changing market dynamics. There was a consensus that the new SAA would provide a balanced approach to risk and return, meeting the Fund's long-term goals. It was also agreed to accept the proposed tolerance ranges and the proposed Strategic Currency Allocation (SCA) as set out in LPPI's SAA advice paper.
- 2.7 The LPP Group CEO confirmed that LPPI will be considering the announcements made in the Autumn Statement, in particular in the pooling consultation response, and will provide further information at the next Investment Committee meeting. The Chair also highlighted that the Committee would need to determine what 'comply and explain' means for the LPFA.
- 2.8 The Committee **APPROVED** the updated SAA and SCA for recommendation to LPFA Board.

3. IC62 LPPI Investment Reporting

- 3.1 The Investment Committee reviewed the Fund's performance, noting that the value of its assets as of 30 September 2023 was £7,557m, a decline of £148m from the previous quarter's end. This decrease was attributed to challenging market conditions, particularly influenced by Central Banks' interest rate decisions and inflation outlooks.
- 3.2 The LPPI Head of Client Management provided an overview, pointing out the Fund's return of -0.6% over the quarter, underperforming both the Policy Portfolio Benchmark and the Return Objective. This underperformance contributed to a decrease in the Fund's funding level to 113.2%. He also mentioned the strategic shifts within the Fund, including redemptions from the LPPI Diversifying Strategies Fund, subscriptions to the LPPI Real Estate Fund, and change of manager within the LPPI Global Equities Fund. Post-quarter-end, the LPP Group CEO shared GLIL's agreement to purchase a stake in Cornerstone Telecommunications Infrastructure Limited.
- 3.3 Discussing the long-term performance, the LPPI Head of Client Management highlighted the impact of elevated inflation levels on the Fund. Specifically, the performance of infrastructure investments, benchmarked against CPI + 4%, was significantly affected. The Fund's Return Objective, directly linked to CPI, also faced challenges due to high inflation rates.
- 3.4 The Chair raised concerns about the actual sensitivity of the Fund's assets to inflation, especially in infrastructure investments. She questioned the delta of infrastructure to inflation and its effect on the Fund's funding level, particularly the portfolio's response to short-term inflation spikes.
- 3.5 The LPPI Head of Investment Strategy acknowledged the challenges in keeping pace with short-term inflation spikes in risk assets. He explained the long-term correlations with inflation were higher, which aligned with the LGPS discount rate methodology.
- 3.6 The LPP Group CEO and the LPPI Head of Client Management also discussed the impact of currency on asset performance. The Chair emphasised the need to differentiate between the underlying asset performance and the effects of currency movements, urging for a clearer reporting structure. **ACTION: LPPI**
- 3.7 The Committee acknowledged the challenges posed by high inflation and interest rates, emphasising the Fund's position as a long-term investor equipped to handle short-term volatility. The necessity of reviewing and potentially adjusting the policy portfolio benchmark and return objectives was recognised to better reflect the current economic conditions and what each asset class is trying to achieve.
- 3.8 The Committee **NOTED** the updates provided.

4. IC63 LPPI Investment Risk Reporting

- 4.1 The Investment Risk Dashboard as of 30 September 2023 was reviewed including Appendices 1 and 2, which provided commentary on the dashboard. The comparison between LPPI's Capital Market Assumptions and the Barnett Waddingham actuarial discount rate revealed that the actuarial discount rate of 5.0% per annum was 1.3% per annum lower than LPPI's assumptions, offering a comfortable margin over the 0.9% per annum included in the actuarial valuation.
- 4.2 The LPFA Funding and Investment Director brought attention to the quarterly LPPI Investment and Funding Risk report, detailed in Appendix 3. The report highlighted the ongoing amber status of certain metrics, particularly the implied total contributions and the percentage of scenarios where total contributions exceed 20% of pay in three years' time. The LPFA Funding and Investment Director had discussed these observations with LPPI and the Fund Actuary and proposed a review of the full Funding Risk Management Framework.

- 4.3 The Chair raised concerns regarding the short-term inflation spikes and their impact on the Fund's funding level. She suggested examining how the impact of short-term inflation on valuations could affect future contribution rates.
- 4.4 Committee members discussed the need for effective communication with employers about funding levels and contribution rates. They stressed the importance of employers being prepared for potential changes and understanding the impact of short-term inflation on contributions.
ACTION: Lana Watson
- 4.5 The LPPI Actuary, Actuarial and Funding Risk introduced the new addition of a Surplus Bridge in the report covering the period since the valuation to provide clearer context on changes since the last valuation. The Chair complimented the current reporting style for its effectiveness in highlighting the major issues faced by the Fund and suggested it was an opportune time for a thorough review.
- 4.6 In their discussion, the Committee **NOTED** and **AGREED** on the importance of reviewing the Funding Risk Management Framework in light of ongoing amber statuses. The need for a more detailed analysis and potential revision of the framework was emphasised, focusing on alignment with the Fund's objectives and the current economic environment. **ACTION:** Lana Watson

5. IC64 Responsible Investment

- 5.1 The Responsible Investment (RI) report was lighter than usual, as much of its content was broken out across other items on the agenda. The main report, presented by the LPFA Responsible Investment Manager, highlighted the RI policy, which had undergone styling revisions by the LPFA communications team. The structure of the document was modified for clarity, but the content remained materially unchanged. The revised RI policy was included at Appendix 1 for the Committee's review.
- 5.2 A key highlight from the LPPI RI report for Q3 2023 was the maintenance of the proportion of green investments above 4%, despite a decrease in asset value. The proportion of green investments favourably compared against the brown sector, which remained broadly flat. Notably, 96% of green investments derived from the infrastructure portfolio.
- 5.3 The Committee discussed LPPI's involvement in various initiatives, such as the Nature Action 100+ initiative and active ownership manager engagement, using the Net Zero Framework as a reference point. These activities aligned with the proposed revisions to the Climate Change Policy and were seen as opportunities to identify nature-related indicators to support the implementation of the RI policy.
- 5.4 Regarding shareholder voting and Climate Action 100+ alerts, the report contained less volume of information than previous quarters, reflecting the seasonal nature of AGMs. The committee expressed interest in understanding the outcomes of engagements, particularly the feedback and impact resulting from these activities. **ACTION:** LPPI
- 5.5 LPPI's active ownership through Robeco, especially the new engagement theme on just transition in emerging markets, was noted. This theme aligns with the LPFA's RI policy, and efforts were underway to map Robeco's engagement priorities against LPFA's RI priorities. **ACTION:** Paul Hewitt
- 5.6 The Committee also discussed stakeholder interaction, including updates to the Net Zero hub on the LPFA website and a series of informational pieces explaining responsible investment for fund members. Officers' participation in RI-themed market events and seminars was highlighted as part of the ongoing stakeholder engagement.
- 5.7 A separate item on the agenda covered the proposed timetable for developing the RI Strategy, implementing the RI Policy. Additionally, the proposed new Climate Change Policy, which refreshes the existing policy with details specific to the Net Zero commitment, was scheduled for discussion.

- 5.8 The Chair inquired about the outcome of engagements mentioned in the report, emphasising the importance of understanding the impact of these engagements. Discussions also touched on LPPI and Robeco's activities in the context of LPFA's portfolio and the alignment of these activities with LPFA's RI priorities.
- 5.9 The Committee acknowledged the need for better presentation of data in the reports, including contextual information like the number of companies involved and the percentage of AUM represented in various engagements. The importance of diversity in imagery and representation in the reports was also highlighted by the Chair.
- 5.10 The Committee **NOTED** the RI report and thanked the team for their hard work.

6. IC65 Responsible Investment Strategy

- 6.1 The meeting progressed to discussing the development of a new Responsible Investment (RI) strategy following the approval of the RI policy in the last cycle of meetings. The report presented to the Committee provided an overview of the intended structure for the strategy, key considerations, and a proposed timetable for its development and implementation.
- 6.2 The overall structure of the strategy was outlined, with the RI Policy's six high-level objectives setting the context. These objectives would guide the strategy for achieving them. The strategic activities were to be categorised into workstreams, including Objectives, Measures and Goals; Active Ownership; Monitoring; and Reporting.
- 6.3 Each objective was planned to have specific goals to define clear ambitions, with relevant measures identified to track progress. The process of identifying these measures and goals would be asset-specific, starting with listed equity, and would be developed in phases. The strategy would also include plans for revising these measures and goals over time.
- 6.4 Active ownership was a critical aspect of the strategy. This included establishing LPFA's position on the use of voting rights, examining alignment between RI priorities and LPPI's voting activities, and mapping existing engagement activities. The strategy would also consider collaboration with other investors on common objectives.
- 6.5 Regarding monitoring, the strategy would outline approaches to evaluating managers' alignment with goals and LPFA's accountability to stakeholders. This might involve procuring external third-party data or services.
- 6.6 In terms of reporting, transparency was emphasised as a key strategic commitment. The RI strategy would encompass existing reporting commitments and anticipate mandatory regulatory requirements like TCFD, as well as consider voluntary standards such as the Stewardship Code.
- 6.7 The LPFA Responsible Investment Manager explained the thinking process behind the strategy development and working in conjunction with LPPI.
- 6.8 The Chair thanked the LPFA Responsible Investment Manager for the hard work on developing the RI strategy. The Committee also expressed satisfaction with the timetable and the careful approach to policy and strategy development, emphasising the importance of ensuring the strategy complements LPPI's work.
- 6.9 The Chair raised a caution about avoiding duplication of efforts and ensuring LPFA's position aligns with LPPI's, while maintaining distinct responsibilities. The LPFA Responsible Investment Manager agreed, noting the significance of complementing LPPI's work and aligning efforts.
- 6.10 The Committee **NOTED** the RI strategy and its development timeline.

7. IC66 Climate Change Policy

- 7.1 During the meeting, the Committee reviewed the revised Climate Change Policy, initially updated in 2020 and scheduled for review in 2023. The revision was influenced by the development of LPFA's new responsible investment policy, with climate change recognised as a systemic issue. This warranted its own specific policy, alongside the inclusion of a climate pillar in the new RI policy.
- 7.2 The LPFA Responsible Investment Manager explained that the revised policy primarily reflected the LPFA's net zero agenda. The policy now included specific references to biodiversity loss and natural capital depletion as key aspects of climate risk. These amendments were made to align the policy with the LPFA's evolving approach to managing climate risks, particularly since the LPFA's commitment to net zero and the publication of the Investor Climate Action Plan in Autumn 2022. Additionally, external developments, such as the Taskforce for Nature-related Financial Disclosures and the Dasgupta Review, influenced the revisions.
- 7.3 The Chair inquired if the policy's title should change to reflect the inclusion of broader environmental aspects like biodiversity. However, the Responsible Investment Manager believed that climate should remain the primary focus, with the additional aspects reflecting their interconnectedness with climate issues. This view was supported by the LPP Group CEO who emphasised the resonance of a climate-focused policy with stakeholders.
- 7.4 The Chair also raised concerns about the representation of the Transition Pathway Initiative in the policy, noting its limited coverage. The LPP Group CEO addressed these concerns, affirming the usefulness of TPI, especially for focusing on high-emitting sectors. The Chair suggested adding more details about carbon capture solutions to include industrial solutions alongside natural ones. The Responsible Investment Manager clarified that the inclusion of natural carbon capture solutions was to reflect the natural capital aspect and not to signal a specific direction. No further action was required.
- 7.5 The Committee **APPROVED** the Climate Change Policy for onward submission to the LPFA Board for approval.

Jill Davys and Edina Molnar from Redington joined the meeting.

8. IC67 Net Zero Target Setting

- 8.1 Following the discussion on Net Zero Target Setting, the Committee reviewed LPPI's proposed Net Zero targets for real estate assets and the analysis provided by Redington. LPPI proposed three targets for directly held real estate assets, focusing on decarbonization, alignment with a net zero pathway, and engagement and stewardship actions. For indirectly held assets, LPPI aimed to engage with investment managers to improve data availability for setting future targets.
- 8.2 The Chair highlighted the need to demonstrate effective action in light of the Global Equity Fund's (GEF) current achievements in this area. The focus was drawn to the data presented on page 243, prompting an analysis of whether the noted increase was due to a shift in portfolio structure or a result of positive engagement. The importance of having a tangible method to measure the impact and effectiveness of our engagement strategies was underscored.
- 8.3 In a constructive response, the LPP CEO suggested sharing a chart detailing the changes in target settings. This chart would offer a clearer insight into the progress and driving factors behind these changes. **ACTION: LPPI**
- 8.4 The Committee acknowledged LPPI's collaboration with Knight Frank and internal teams in developing detailed investment plans for property assets. These plans were designed to ensure any new assets acquired were either aligned with net zero objectives or had a clear plan to achieve alignment.

- 8.5 Redington presented their perspective on these targets, emphasising that they aligned with best practices and were ambitious, especially considering the challenges in setting targets for indirectly held assets and the inclusion of scope 3 operational emissions. However, they noted the importance of monitoring developments in incorporating embodied carbon emissions and the need to set targets for the indirectly held assets in the real estate equity funds in the near future.
- 8.6 The Committee discussed the importance of measuring scope 3 emissions in listed equity and corporate fixed income, recognising the challenges due to data uncertainties. They agreed it was essential to monitor and report scope 3 emissions but held off on including these in target setting until data quality improved. The Committee appreciated the insights into the complexities of scope 3 emissions and the need for cautious progression in this area.
- 8.7 Overall, the Committee expressed satisfaction with the progress and ambition demonstrated in the proposed Net Zero targets for real estate assets and the careful consideration given to the complexities of scope 3 emissions.
- 8.8 The Committee **RESOLVED** to:
- a) **APPROVE** the Real Estate Targets:
 - b) **APPROVE** the LPFA Actions for 2024:
 - c) **NOTE** the updates provided.

Jill Davys and Edina Molnar from Redington left the meeting.

9. IC68 Investment Costs

- 9.1 The LPFA Funding and Investment Director submitted her report in Investment Costs and the report was taken as read. She highlighted that her report covered a review of the Cost Transparency Initiative data provided by LPPI for 2022/23. The Committee noted that the total investment expenses were lower in absolute terms compared to the previous year, and overall expenses had continued to reduce in percentage terms. There were significant changes in performance fees and carried interest charges from the previous year.
- 9.2 The Committee also discussed the PIRC Benchmarking, noting that LPFA's return of 2.7% last year placed it second in the overall ranking of 62 LGPS funds. However, they acknowledged that the PIRC methodology is high-level and not the primary method for assessing investment performance for LPFA or LPPI.
- 9.3 Furthermore, LPPI's annual submission to DLUHC was reviewed, indicating net cost savings of £40m over 2022/23 across all LPPI's pooled assets with LPFA's net fee savings being £18m. This submission showed a total of £153m in savings for LPPI since the pool's launch.
- 9.4 The Committee reviewed LPPI's Annual Assessment of Value report, which had been submitted as of 31 March 2023. This report evaluated the performance of LPPI's Authorised Contractual Schemes (ACSS), including Global Equities, Fixed Income, and Real Estate, against seven criteria set by the Financial Conduct Authority (FCA). LPPI had expressed their satisfaction that these funds had provided good value over the assessment period. The detailed Assessment of Value report was included as Appendix 5 for the Committee's consideration.
- 9.5 During the discussion, there was an emphasis on the relevance and impact of this report, especially in relation to retail investors. The Committee reflected on the need for more comprehensive information beyond a simple affirmation of the funds' value for retail investors. They acknowledged the importance of establishing a longer track record to more accurately assess the funds' value. The possibility of future modifications to the report's format was discussed, noting the new LPPI Chair's intention to closely review this aspect in the upcoming year.

10. IC69 Any Other Business

10.1 The Committee, on behalf of the London Pensions Fund Authority (LPFA), Local Pensions Partnership Investments (LPPI), and all its members, expressed sincere gratitude to the Chair as she concluded her eight-year tenure. Members acknowledged her leadership and invaluable contributions, noting the significant advancements made under her guidance.

10.2 The next meeting is scheduled for Tuesday 5 March 2024.

10.3 There being no further business, the Chair declared the meeting closed at 12:30.

Signed as an accurate record of the meeting:

Rita Bajaj

LPFA Investment Committee Chair.

Date: 05 March 2024