

LPFA Investment Committee

MINUTES

APPROVED

Date: Tuesday 5 March 2024
Time: 10.00-14.00
Location: LPFA Offices & Virtual - MS Teams

Present:	Irshaad Ahmad	Committee Member
	Rita Bajaj	Committee Member and Interim Chair
	Belinda Howell	Committee Member
	Sophia Morrell	Committee Member
In Attendance:	Robert Branagh	LPFA CEO
	Ashley Durkan	LPFA Governance Manager
	Paul Hewitt	LPFA Responsible Investment Manager
	Lana Watson	LPFA Funding and Investment Director
	Julia French	LPPI Responsible Investment Team Manager
	Sarah Morris	LPPI Head of Actuarial Risk
	Joe Peach	LPPI Head of Client Management
	Richard Tomlinson	LPPI CIO
	Max Townshend	LPPI Head of Investment Strategy
Apologies:	Chris Rule	LPPI CEO

1. IC69 – Introductory Matters

Chair's welcome, apologies, and declarations

1.1 The Chair welcomed those present and confirmed that the meeting was quorate.

Minutes of the Meeting held on 28 November 2023

1.2 The Board **REVIEWED** and **APPROVED** the minutes of the last meeting held on 28 November 2023.

Action Points

1.3 The Board **NOTED** all other actions from previous meetings, the updates on how those actions were being addressed and those marked for closure.

2. IC – LPPI Investment Reporting

2.1 The LPPI Head of Client Management began by presenting a high-level overview of the latest investment report. This overview highlighted the strong performance of risk assets, particularly equities, in the last quarter of 2023, attributed to a more optimistic outlook for interest rates. The report also delved into LPPI's investment philosophy, stressing a long-term view and the acceptance of short-term volatility, with a special focus on the importance of liquidity management for client pension funds.

2.2 The LPPI Chief Investment Officer (CIO) then discussed the challenges posed by the “noise” within the LGPS, stemming from numerous advisors and speculative market predictions on different asset classes and strategies. He expressed frustration over the speculative nature of these predictions and the lack of accountability. The importance of maintaining transparency and staying aligned with the long-term investment goals of clients was emphasised, especially in light of short-term performance pressures.

- 2.3 The LPFA CEO commented on the increasing assertiveness among consultants in the LGPS, suggesting it was a reaction to perceived threats. A growing scepticism towards real assets was noted as a concern.
- 2.4 The year's investment performance was reviewed, noting a 2.2% underperformance against the policy portfolio benchmark. This was mainly attributed to the challenge of infrastructure returns compared to the CPI-linked benchmark and specific equity market dynamics. Despite this, the longer-term performance of the fund was highlighted as strong.
- 2.5 Discussions then shifted to the Environmental Opportunities Fund (EOF), with updates on progress towards its formal launch. The focus was on partnerships and collaborations to leverage external expertise. The selection process for a fiduciary manager with a strong environmental focus was nearing completion, signalling a step forward in the fund's strategic initiatives.
- 2.6 An in-depth analysis of asset allocation revealed adjustments made to reflect market conditions and strategic objectives, it was reported that the value of the funds assets was expected to have increased since the end of 2023. New procedures for cash flow and liquidity management were introduced to ensure pension payments and other liabilities are met efficiently. These adjustments and new procedures underline LPPI's proactive approach to managing investments and liquidity to support its clients' needs.
- 2.7 The Committee **AGREED** to continue monitoring and adjusting asset allocation strategies in response to market conditions and strategic goals.

3. IC71 – LPPI Investment Decision Making

- 3.1 The purpose of this item was to update on the evolution of LPPI's governance and investment decision-making frameworks, particularly to acquaint new LPFA Investment Committee members with the operations. The LPPI Chief Investment Officer initiated the session, noting the progressive development of LPPI's governance structures over time.
- 3.2 He detailed the foundational elements of LPPI's approach to serving its clients, which encompassed investment advice, whole scheme management, managing investment vehicles, and providing general support and advice. These services, he explained, formed the bedrock upon which the Clients' Strategic Asset Allocations and activities were built. Further elaboration was given on the role and structure of its Investment Committee (IC) as a Sub-Committee of the LPPI Board, underlining its key responsibilities.
- 3.3 A significant evolution in the governance model was highlighted, showing a shift from a framework where the LPPI IC made all decisions to a more delegated approach where specific responsibilities, such as capital allocation and redemption, were now within the CIO's purview. This change had led to the creation of less formal decision-making meetings, albeit with comprehensive inclusion of risk management, responsible investment, and investment strategy perspectives.
- 3.4 The Chair voiced concerns regarding the integration of Risk Management within the new governance framework at LPPI, stressing the need for independent oversight and accountability measures. The discussion broadened to cover the mechanisms ensuring accountability in investment size decisions and strategy review processes, with a particular focus on portfolio management and oversight.
- 3.5 Discussions then turned to challenges in Risk Management, acknowledging difficulties in providing comprehensive analytics and oversight under the current governance arrangement. The importance of engaging second-line functions more effectively in the investment review process was stressed, aiming to ensure a robust challenge and oversight mechanism.

3.6 In conclusion, while it was acknowledged that LPPI's full investment process encompassed multiple documented stages with sign-offs from various business areas including risk, operations, legal, and tax, and that all investment decisions were open to challenge from risk management, the Chair recommended that LPPI continued to scrutinise any potential conflicts of interest in the current model, particularly with regard to the composition of members on various committees and groups. She also stated her expectations that second line investment risk to be key to good governance and oversight (as is normal practice for investment managers) of investment decision making process. **ACTION:** LPPI The Chair requested that LPPI respond on this challenge at the next meeting.

3.7 The Committee **NOTED** the updates provided.

4. IC72 SAA & SCA Implementation Plan

4.1 During the last Investment Committee (IC) meeting, the LPFA Investment and Fund Director highlighted the agreement of the proposed Strategic Asset Allocation (SAA) and Strategic Currency Allocation (SCA), which was subsequently approved by the LPFA Board in December 2023. The focus was now on the implementation of these allocations, taking into account various factors such as disinvestment in diversified strategies and future considerations for the Environmental Opportunities Fund. The aim was to align with the SAA without rushing, due to the minor changes involved.

4.2 The Chair emphasised the importance of discussing the timing and speed of implementation to align with the SAA and address current allocations. The Head of Investment Strategy at LPPI suggested an effective date of 1st April for the SAA and close of business on 29th March for the SCA, with another rebalancing of the SCA programme once the March data was available, due to the moderately large USD short position currently being run in the SCA overlay programme.

4.3 Discussions then moved to the underweight allocations in real estate, infrastructure and credit, and the overweight in equities and private equity according to the new SAA. It was acknowledged that adjusting the credit and infrastructure allocations would realistically take up to two years. Concerns were raised about setting allocation targets that might pressure the team into making less than ideal allocations.

4.4 The LPPI CIO addressed these concerns, emphasising the difference between being allocators and investors, and the importance of adhering to investment standards without hastily deploying capital. It was mentioned that any substantial changes in the investment process due to a rapid deployment of funds would be a greater concern than adjusting allocations over time.

4.5 Committee members discussed the practicality of adjusting targets to reflect actual allocations and the potential risks of being measured against unattainable targets. Suggestions were made to possibly follow the diversified strategy (DS) profile for implementation (a staggered SAA over time), considering the risks and performance measurement implications over time.

4.6 The Chair and the LPFA Funding and Investment Director expressed a preference for establishing clear timelines and guardrails for implementation, emphasising the need to review progress over the coming quarters without forcing investments. The importance of keeping the Board updated on progress and considering review in the next six months was acknowledged, taking into account the fluid nature of the SAA and potential upcoming allocation to the Environmental Opportunities Fund. **ACTION:** LPFA/LPPI

4.7 The Committee **RESOLVED** to:

a) **APPROVE** the SAA and SCA Implementation Timeline and recommend to the LPFA Board for approval; and

b) **NOTE** the updates provided.

5. IC73 – LPPI Investment Risk Reporting

- 5.1 The Investment Risk Dashboard, as detailed in the cover note at Appendix 1 and further elaborated in Appendix 2 as of 31 December 2023, provided a comparison between LPPI's Capital Market Assumptions and the Barnett Waddingham actuarial discount rate. Despite being constructed for different purposes and time frames, the comparison revealed a comforting aspect for the Committee.
- 5.2 The actuarial discount rate stood at 4.7% per annum, which was 1.9% per annum lower than LPPI's capital market assumptions at 6.6% per annum. This margin of 1.9% exceeds the 0.9% per annum margin explicitly included in the actuarial valuation.
- 5.3 The quarterly LPPI Investment and Funding Risk report, attached as Appendix 3, highlighted several key metrics. For five consecutive quarters, the metrics for implied total contributions and the percentage of scenarios where total contributions exceed 20% of pay in three years have been amber. This prompted a discussion in the last IC meeting, with a resolution to review these metrics in the Funding Risk Management Framework (FRMF) as part of the 2025 valuation process.
- 5.4 Key findings from the report included:
- The funding position was assessed at 116%, an increase from the previous quarter's 113%, mainly due to asset returns surpassing the discount rate over the period. However, a decrease from a funding level of 132% to 116% was noted since the valuation, attributed to higher observed inflation and asset performance lower than the valuation discount rate.
 - The risk of the funding level falling below 100% in ten years was assessed at 14%, and the risk of falling below 75% funded was at 2%. Both metrics remained green and similar to the previous quarter.
 - The implied contribution rate was estimated at 24.2% of pay, marking a 3.8% increase from the contributions following the 2022 valuation. This increase was primarily due to the secondary rate increase, likely placing some employers in deficit and reducing negative secondary contributions for others.
 - The chance of total contributions exceeding 30% in three years was estimated at 11%, with a 63% chance of exceeding 20%. The best estimate for the total average contribution rate in three years was 21.7%, reflecting a slight improvement and better-projected funding levels in the future.
 - Allocation metrics were all assessed as green against the interim allocation from 1 October 2022 to 30 June 2024.
- 5.5 The Committee **NOTED** the updates provided.

6. IC74 - Responsible Investment

- 6.1 The Responsible Investment Manager provided an overview of Responsible Investment (RI) activities undertaken by LPFA, focusing on LPPI's RI reporting for Q4 2023. Key points from LPPI's report include a slight decrease in the proportion of green investments to just below 4%, attributed to market value declines in green infrastructure assets. Despite this, the decrease is viewed in the context of a larger drop in the proportion of brown sector investments, following disposals in infrastructure and the Global Equity Fund (GEF).
- 6.2 The introduction of a new Transition Pathway Initiative methodology has expanded the scope and analysis of GEF companies, improving insights into their transition risk management. The report also

highlights the use of the Net Zero Framework by GLIL and their adoption of NZIF guidance, aligning with LPFA's Climate Change Policy updates.

- 6.3 LPPI's shareholder voting guidelines now include nature and biodiversity considerations, in line with LPPI's commitment as a Nature Action 100 signatory. Robeco's engagement report, noting their early adoption of Nature Action 100, aligns with LPFA's RI and Climate Change Policy.
- 6.4 Discussions between LPPI and LPFA are underway to revise RI reporting, aiming to propose measures and targets aligned with LPFA's RI Strategy, expected in Q2 2024. The new RI Policy, published in January, is being supported by a communications campaign.
- 6.5 The development of an RI strategy to implement the new policy involves workstreams like Objectives, Goals and Targets, Active Ownership, Monitoring, and Reporting, aimed at executing the RI policy effectively across various asset classes.
- 6.6 Active Ownership includes plans for voting and engagement across assets, collaboration with initiatives, and stakeholder organisations, with a current focus on climate-related shareholder resolutions and RI priorities.
- 6.7 Monitoring efforts are enhancing the review process for Investment Committee reports from LPPI and seeking external data to support LPPI and LPFA's reporting.
- 6.8 Reporting strategies involve preparing for regulatory and voluntary reporting requirements, with plans to consider becoming signatories of the Stewardship Code and enhancing LPFA's communication on RI commitments.
- 6.9 The report also provided updates on the Climate Change Policy, Net Zero achievements, and engagements with companies under the IIGCC's Net Zero Engagement Initiative. Efforts were ongoing to set targets in the Credit Fund, Real Estate Fund, and Infrastructure to continue the asset class expansion of LPFA's net zero agenda.
- 6.10 The Good Economy project, to understand the social impact of real estate and infrastructure investments is in progress, alongside engagements with CDP, LAPFF, and participation in regulatory and market consultations on RI themes.
- 6.11 The Committee **NOTED** the updates to the report including the RI Strategy Timetable.

7. IC75 - Forward Agenda

- 7.1 The Committee **REVIEWED** and **NOTED** the forward plan of business and the updates provided.
- 7.2 The Committee **NOTED** that its next meeting was scheduled to take place on 6 June 2024
- 7.3 There being no further business, the Chair declared the meeting closed.