

LPFA INVESTMENT COMMITTEE

MINUTES

Date: Thursday 06 June 2024

Time: 12.30-15.30

Location: LPPI Offices, 1 Finsbury Ave, London.

Present:

Irshaad Ahmad	Committee Member
Rita Bajaj	Committee Member and Interim Chair
Belinda Howell	Committee Member
Sophia Morrell	Committee Member

In Attendance:

Ashley Durkan	LPFA Governance Manager
Julia French	LPPI Responsible Investment Team Manager
Paul Hewitt	LPFA Responsible Investment Manager
Sarah Morris	LPPI Head of Actuarial Risk
Joe Peach	LPPI Head of Client Management
Chris Rule	LPPI Chief Executive Officer
Richard Tomlinson	LPPI Chief Investment Officer
Max Townshend	LPPI Head of Investment Strategy
Lana Watson	LPFA Funding and Investment Director

Apologies Robert Branagh LPFA Chief Executive Officer

1. IC76 – 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 05 March 2024

1.2 The Board **REVIEWED** and **APPROVED** the minutes of the last meeting held on 05 March 2024 subject to a minor clarification on investment decision making at 3.6 of the minutes.

1.3 Irshaad Ahmad declared a new interest in Robeco, having accepted the position of Head of Institution for Europe, Africa, and North America. This new interest had been cleared by the LPFA Chair and CEO. He clarified that his new role would not impact his duties within the LPFA due to the indirect nature of Robeco's relationship with LPFA as an outsourced provider to LPPI. However, should any matters related to Robeco be brought before the LPFA Investment Committee via LPPI, he confirmed he would recuse himself from any decision-making. Committee Members congratulated him on his new position.

Action Points

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

Investment Strategy Statement (ISS) Update

- 1.5 It was noted that the Investment Strategy Statement (ISS) provides an overview of the management of the Fund's investments. Any changes to the Strategic Asset/Currency Allocations (SAA/SCA) necessitate an update to the ISS. Given the relatively minor changes to the SAA/SCA, management recommended postponing the ISS update until a position and commitment to the Environmental Opportunities Fund (EOF) had been agreed upon.

Diversifying Strategies Asset Class Compliance

- 1.6 The Committee was informed that the Fund's allocation to the Diversifying Strategies asset class was nearing non-compliance with investment restriction 8.2 of the Asset Class Mandates (ACM). This restriction specifies a maximum investment of 50% of the asset class's value in a single External Mandate and requires investment in at least three External Mandates. As of 30 April 2024, the LPPI Investment Pooling Vehicle (IPV) was invested in only one External Mandate. The non-compliance resulted from the ongoing wind-up of the IPV. LPPI requested that investors in the IPV sign a 12-month waiver, effective from 30 April 2024, to avoid repeated notifications of non-compliance.

LPPI Fee Rebate for 2023/24 Financial Year

- 1.7 The Committee was informed that LPPI had delivered an operating surplus in the previous year, aided by an unexpected VAT refund from HMRC. This enabled LPPI to offer a rebate to its clients, including the London Pensions Fund Authority (LPFA), in the amount of £280,821.78. The rebate was implemented through the non-billing of LPPI management fees within the LPPI Global Equity Fund for March 2024.

- 1.8 The Committee **RESOLVED** to:

- a) **REVIEW** and **APPROVE** the minutes from the meeting held on 05 March 2024;
- b) **REVIEW** and **APPROVE** the actions from the previous meetings;
- c) **APPROVE** the Funding and Investment Director to make the necessary changes to the ISS following any changes to the SAA for an allocation to the EOF; and
- d) **APPROVE** the Funding and Investment Director to agree to the waiver for the Diversifying Strategies IPV.
- e) **NOTE** the updates provided

2. IC77 - Private Session on Private Equity Deep Dive #2

- 2.1 The Chair opened the discussion by asking for thoughts on the management of the Private Equity Portfolio from the last meeting and Deep-Dive Session.
- 2.2 Irshaad Ahmad shared his thoughts, noting that the approach to identifying general partners (GPs), deploying typical bite sizes, and selecting manager archetypes appeared sensible and well-suited for the LPFA Pension Fund. He mentioned that his experience on the Investment Committee, although limited due to him joining the LPFA in January 2024, suggested the portfolio was being managed appropriately.
- 2.3 The Chair noted two positive outcomes from the last Private Equity Deep-Dive Session:

increased clarity on the investment decision-making process and responsibilities over the Private Equity Portfolio, which had previously lacked granularity from the first Deep-Dive session. However, the Chair raised a concern about the strategy for continually managing and reassessing the portfolio.

- 2.4 Belinda Howell expressed that while the second meeting provided insight, it lacked the detailed granularity on portfolio construction seen in the first meeting. She questioned whether more detailed information should be requested in the future.
- 2.5 The Chair reiterated that the internal management of the portfolio should be more clearly defined, especially given recent manager changes. The Chair emphasised the need for a strategy on how to handle the tail-end of investments and whether to continually add to this asset class.
- 2.6 The Funding and Investment Director confirmed the action from the previous meeting was for LPPI to provide more detailed information on the private equity strategy, pipeline, and associated costs. Although this was not an urgent action for the current meeting, it was noted that LPPI was working on providing this information.
- 2.7 The Chair concluded by stating that the governance and decision-making regarding the Private Equity Fund should primarily be the responsibility of LPPI's internal governance structures, not the LPFA IC. The Chair stressed the importance of having clear strategies and regular updates to ensure continued confidence in the management of the portfolio.
- 2.8 The Committee **NOTED** the need for more detailed information from LPPI on the Private Equity Strategy, the pipeline, and costs associated with managing the tail-end of investments.

ACTION: LPPI

LPPI Colleagues joined the meeting

3. IC78 - LPPI Investment Reporting

- 3.1 The Chair revisited the discussion and action from the last meeting regarding investment decision-making and the role of the investment risk element. The Chair sought updates on how the second line of involvement, particularly the investment risk function, was being addressed across multiple asset classes.
- 3.2 The LPPI CEO provided an update. He explained that LPPI had an operating model designed to balance agility with appropriate decision-making levels and necessary guardrails. The governance structure included the LPPI Board, which set governance arrangements and asset class mandates, the Investment Committee, which held accountability for investment outcomes, and a Schedule of Delegations, ensuring decisions followed set guardrails and infrastructure.
- 3.3 He then detailed the decision-making process. Decisions, whether made by delegated authority or by the Investment Committee, had to follow the same approval and documentation process. This involved various teams, including operations, investment, tax, legal, compliance, and risk. All decisions were reported back to the Investment Committee and monitored by oversight functions. Risk limits were monitored in real time where possible, with any breaches escalated appropriately.
- 3.4 The Chair highlighted the need for good governance and ensuring that investment risk

perspectives were included in asset class reviews. The Chair sought clarity on whether investment risk professionals had a voice at the table during portfolio reviews and decision-making processes.

- 3.5 The LPPI CEO confirmed that the LPPI Chief Risk Officer (CRO) was a permanent member of the Investment Committee with veto power. Investment risk professionals were present at asset class reviews to ensure compliance with mandates and challenge decisions where necessary. The role of risk professionals was to ensure risk awareness and compliance, not to override the portfolio management team's decisions. He acknowledged recruitment challenges within the investment risk team and mentioned ongoing efforts to increase resourcing, including a recent offer to a new investment risk professional. The CRO had been more hands-on due to vacancies, but increased resourcing should alleviate this in the future.
- 3.6 The Chair noted the importance of robust second-line challenges in decision-making processes and expressed interest in receiving updates on LPPI's efforts to enhance investment risk expertise and resources. The LPPI CEO added that improvements in technology and data systems were part of LPPI's medium-term plans to better manage and analyse risk across asset classes. This would aid in consolidating various asset classes and improving the overall risk assessment.
- 3.7 The LPPI Head of Client Management provided a performance overview. He highlighted key points from the CIO review within the meeting pack, noting that equity market strength continued during the first quarter to the end of March 2024, while fixed income markets experienced a negative quarter due to recalibration of rate cut expectations. Excess liquidity and proceeds from diversified strategies redemptions were deployed into fixed income, aligning with the strategic allocation.
- 3.8 He also mentioned that pension increases of 6.7% took effect from 1 April 2024, with the fund well-positioned to account for this due to its income and liquidity projections. At the end of the quarter, the fund was overweight in both global equities and private equities relative to the strategic asset allocation, with the most underweight position in credit.
- 3.9 Notable appointments within the credit portfolio in asset-backed lending were highlighted, with ongoing efforts to find opportunities in this space and the commercial real estate market. The fund's value was just over £8 billion at the end of March 2024, an increase of over £200 million for the quarter, leading to an improved funding level. Absolute returns remained strong at 7.4% over one year and 7.8% per annum over three and five years.
- 3.10 The LPPI Head of Client Management acknowledged challenges in comparing returns to benchmarks, with equities and infrastructure being the main drivers for underperformance over the year. The infrastructure benchmark, linked to CPI, posed a challenging target due to elevated CPI levels. Additionally, global equity performance was impacted by the below-market weight in the "Magnificent Seven" stocks and energy. Additional material was added to the review to provide insight into the drivers of performance over recent and longer periods.
- 3.11 The Chair questioned the strategy for reducing the overweight position in private equity. The LPPI CIO explained the two aspects: dealing with legacy assets and getting closer to the target allocation. Legacy assets, such as those within EMG, were under constant review for potential secondary sales, although current prices were not favourable. The goal was to manage this

reduction without precipitating a meaningful haircut.

- 3.12 The Chair expressed concerns about the continued overweight position in private equity and questioned the timeframe for achieving the target. The LPPI CIO responded that gradual reductions through secondary sales and managing cash distributions were the current approach. Max Townsend, LPPI Head of Investment Strategy, added that despite aggressive discounts in the secondary market, projections indicated potential reductions, though caution was advised given the challenging exit environment.
- 3.13 The Chair emphasised the importance of adhering to a long-term investment strategy and questioned if the current cautious stance on global equities suggested a need for portfolio protection. The LPPI CEO clarified that while LPPI were not negative on equities, as maintaining a long-term growth exposure was important for matching liabilities. He acknowledged that derivative-based strategies for protection could be considered, but there were no current plans to do so. The focus remained on long-term compounding and diversification to provide downside protection.
- 3.14 The Chair and other members discussed the performance targets and the feasibility of achieving them, given the current market conditions. The LPPI CIO and CEO reiterated the commitment to the existing strategy while being mindful of the need to balance short-term and long-term goals. The Chair acknowledged the challenges but stressed the importance of maintaining a rational target that justified active management without taking excessive risks.
- 3.15 The Chair noted the interaction with government representatives and the ongoing dialogue about encouraging pension funds to invest in the UK. The LPPI CEO mentioned that LPPI's portfolio was well-positioned, with about 20% invested in the UK, above government expectations.

The Committee **RESOLVED** to:

- (a) **NOTE** the updates provided by the LPPI CEO on the LPPI governance and decision-making processes.
- (b) **REQUEST** regular updates on the progress of enhancing the investment risk function, including recruitment efforts and improvements in technology and data systems.
- (c) **NOTE** the importance of ensuring that investment risk perspectives were integrated into all levels of the decision-making process and that this should be continuously monitored and reported.
- (d) **NOTED** the updates provided.

4. IC79 - LPPI Investment Risk Reporting

- 4.1 The LPFA Funding and Investment Director provided the Investment and Funding Risk Reports and noted that the reports were taken as read. She highlighted key points, including the ongoing amber rating for contributions, which had been discussed previously and would be reviewed as part of the 2025 valuation process. The funding level had improved slightly, with some metrics also showing slight improvements. She invited questions from the Committee.

- 4.2 The LPPI Head of Actuarial Risk addressed the Investment Risk Dashboard, noting that while it showed an amber RAG rating, it should have been green. She confirmed that the numbers were accurate, but the colour coding required correction. She stated that there were no further issues to discuss.
- 4.3 The Chair acknowledged the updates, noting the importance of tracking these metrics accurately and considering potential hedges as previously discussed.
- 4.4 The LPFA Funding and Investment Director noted the quarterly LPPI Investment and Funding Risk report as at 31 March 2024. She summarised the main points of the report:
- The funding position was assessed at 117%, up from 116% in the previous quarter, mainly due to asset returns being higher than the discount rate over the period.
 - The risk of falling below 100% funded in ten years' time was assessed at 12%, and the risk of falling below 75% funded was assessed at 2%. Both metrics remained in the green range.
 - The implied contribution rate was 24.4% of pay, a 4.0% increase relative to contributions following the 2022 valuation, primarily due to the secondary rate increase.
 - The chance of total contributions rising above 30% in three years' time was estimated at 9%, while the chance of total contributions being above 20% in three years' time was 59%. The best estimate of the total average contribution rate in three years' time was 21.2%, showing a slight improvement since the previous quarter.
 - All allocation metrics were green against the new SAA in place from 1 April 2024.
- 4.5 The Committee **NOTED** the updates provided.

5. IC80 - Responsible Investment Strategy Report

- 5.1 The LPFA Responsible Investment Manager provided his RI Strategy report, which was taken as read. He highlighted the progress on establishing metrics, focusing more on metrics related to the characteristics of the underlying assets as opposed to stewardship process, particularly equity listed assets. He noted the successful engagement mapping in relation to Robeco's reporting, which showed a good level of confidence in the overlap between Robeco's activities, LPPI's priorities and LPFA's RI policy.
- 5.2 The Responsible Investment Manager moved on to discuss net zero target setting. He emphasised the importance of putting a number on climate solution targets within the portfolio, expressing confidence in achieving this objective this calendar year.
- 5.3 In relation to the Good Economy Project, he mentioned ongoing efforts with the LPFA Head of Marketing and Communications to determine the focus for year two, with a particular interest in the London Fund and its associated assets.
- 5.4 Belinda Howell highlighted the recently published The Good Economy Report and the ICAP Report, praising their quality and asking whether the publications were adequately publicised to the LPFA Board and the public. The Responsible Investment Manager responded that he would check with LPFA Head of Marketing and Communications to ensure these reports were being effectively communicated.
- ACTION:** LPFA RI Manager

- 5.5 Belinda Howell also raised a question about a new engagement in the human rights domain within the luxury goods sector, particularly involving LVMH and Kering. She referred to a BBC investigation into the perfume industry, highlighting human rights abuses related to the sourcing of Egyptian jasmine. She expressed interest in understanding whether LVMH was involved in this supply chain issue and suggested further investigation given the seriousness of the allegations of child labor.
- 5.6 The LPFA Responsible Investment Manager clarified that the engagement reporting related to activities undertaken by LAPFF. He assured that he would follow up to obtain more information on these engagements, especially regarding the sourcing practices of LVMH and Kering in the context of the BBC investigation. **ACTION:** LPFA RI Manager
- 5.7 The LPPI Responsible Investment Team Manager, reiterated some key points and provided updates on broader industry changes and regulatory updates. She mentioned the ongoing PRI strategy update, which would significantly alter the reporting requirements. She also noted the upcoming reviews of stewardship codes and their potential impact on LPPI's reporting.
- 5.8 The LPPI Responsible Investment Team Manager advised the Committee about the recent implementation of the UK's anti-greenwashing regulations, effective from Friday 7 June 2024. These regulations were being integrated into LPPI's processes, with more detailed reporting expected in the future. She also mentioned various internal data review projects that would help understand and implement the discussed data points.
- 5.9 The Chair enquired about the IC members' awareness of the regulatory changes, particularly the anti-greenwashing regulations and their implications for marketing and claims. The LPPI CEO offered to support by providing training sessions similar to those conducted with the LPPI Audit and Risk Committee and LPPI Board. He suggested supplementing LPPI-specific material with LPFA-relevant content as part of the training plan to be presented at the next meeting. **ACTION:** LPFA RI Manager & LPPI
- 5.10 The Committee **RESOLVED** to:
- (a) **NOTE** the updates provided by the LPFA Responsible Investment Manager and the LPPI Responsible Investment Team Manager on the RI Strategy and the regulatory changes;
 - (b) **REQUEST** that the Responsible Investment Manager ensure The Good Economy Report and ICAP Report are adequately publicised to the LPFA Board and the public.
 - (c) **AGREE** to incorporate responsible investment elements into the IC/Board training plan to enhance awareness and compliance with new regulatory standards, particularly the anti-greenwashing regulations.

LPPI Colleagues left the meeting

6. IC81 - CEM Benchmarking Cover Report

- 6.1 The LPFA Funding and Investment Director introduced the CEM Benchmarking report, noting that although the report was for the 2022-23 period and therefore somewhat outdated, it still provided valuable insights. The report showed that LPFA was relatively low cost compared to its

peer group and demonstrated positive net value added.

- 6.2 Irshaad Ahmad commended the CEM benchmarking results, highlighting the impressive cost efficiency relative to the benchmark. He emphasised the importance of these positive results for LPPI, noting that cost management directly impacts the net returns to stakeholders.
- 6.3 The Chair noted that the structure of the fund had changed since the reported period, specifically mentioning the move to zero allocation in diversified strategies for the current year. She explained that this shift would likely impact the cost metrics in the next benchmarking report, as funds previously allocated to diversified strategies with higher fees had been moved to equities, which generally have lower fees.
- 6.4 The Funding and Investment Director added that future benchmarking reports would reflect these changes in allocation. Depending on where the funds were eventually deployed, such as into the Environmental Opportunities Fund, the cost metrics might vary. The comparisons in the CEM report considered benchmarks, asset allocations, and other funds, providing a comprehensive view of performance and cost efficiency.
- 6.5 The Chair emphasised the importance of understanding the value delivered relative to the fees charged. She noted that while the overall portfolio performance looked positive, the decision to exit certain strategies was driven by the net value they provided after fees. She cited the example of diversified strategies, which had taken two years to exit and had only provided a cumulative return of 2% to 3%, despite incurring substantial fees.
- 6.6 The Chair suggested that future discussions should focus on ensuring that investments provide superior returns rather than merely incurring superior costs. She mentioned the potential consideration of passive investment routes as a means to reduce costs while maintaining performance targets. She acknowledged the complexities of achieving a benchmark plus 2% return but emphasised the need for a careful evaluation of fees versus returns.
- 6.7 The Chair also highlighted the importance of portfolio construction, noting that while some strategies had performed well, others had not, leading to a net effect that was suboptimal. She stressed the need for proper sizing and selection of strategies to ensure that the overall portfolio delivers the desired performance without incurring excessive fees.
- 6.8 The Committee **RESOLVED** to:
- (a) **NOTE** the updates provided by the Funding and Investment Director and the positive results of the CEM Benchmarking report.
 - (b) **AGREE** to continuously monitor the impact of changes in fund allocation on the cost metrics and performance, ensuring that the overall strategy aligns with the goal of delivering superior net returns.

7. IC82 – Environmental Opportunities Fund (LPFA only)

- 7.1 The Chair introduced the discussion on the Environmental Opportunities Fund, highlighting a question raised by the LPFA Funding and Investment Director regarding the approach and implications for target setting. Additionally, the Chair sought the Committee's views on obtaining an external opinion from Redington.

- 7.2 Sophia Morell expressed a positive outlook on the current proposal for the Fund's mandate. She emphasised the importance of detailed monitoring, particularly how filters are applied in practice, the ongoing assessment of the balance between transition and natural capital and thought there was benefit in seeking external input from Redington. She suggested maintaining active dialogue with StepStone, who had shown keen interest and engagement in the Fund, to leverage their expertise and enthusiasm.
- 7.3 The Chair acknowledged Sophia's points and posed additional questions about collaboration with other pools that already have climate funds and the understanding the potential risks associated with LPFA as an anchor investor in this fund. Sophia noted that while collaboration was beneficial, she was not opposed to LPFA being a lead investor, given its historical leadership in this area. In relation to this point, the LPFA Responsible Investment Manager observed that there may be a difference between being a seed investor of an external fund and supporting a bespoke fund as we are discussing here.
- 7.4 Belinda Howell expressed reassurance after hearing from StepStone and emphasised the value of obtaining external perspectives, particularly from enterprises and managers with relevant experience. She supported the idea of seeking an independent review.
- 7.5 The Chair shared her careful approach, favouring a gradual increase in investment with appropriate controls and guardrails due to the higher risk profile of early-stage environmental investment areas. She highlighted the importance of having concrete performance data to back up investment decisions and the need to ensure the chosen managers could handle the specific requirements of the Fund.
- 7.6 The LPFA Responsible Investment Manager added that LPFA would be ahead of many peers in setting climate solutions targets, which would add profile for the Fund. He supported the idea of obtaining a broader perspective from Redington to ensure the approach was sound and aligned with best practices.
- 7.7 Irshaad Ahmad commented positively on the EOF and echoed the importance of thorough due diligence and suggested defining a clear brief for Redington to provide a horizon scan and assess the risk-return profile and fit within the Strategic Asset Allocation (SAA).
- 7.8 The Chair concluded that seeking Redington's input would provide valuable insights and help position the Fund in relation to broader industry practices. She requested further details of LPPI's decision-making process and criteria, StepStone's track record, fees, as well as exploring collaboration opportunities with other pools. **ACTION: LPPI**
- 7.9 The Committee **RESOLVED** to:
- a) **NOTE** the information provided on the Environmental Opportunities Fund and the positive feedback from the committee members.
 - b) **REQUEST that LPPI provide further information relating to the EOF as outlined in 7.8**
 - c) **REQUEST** that the LPFA Funding and Investment Director reach out to Redington for an independent review, focusing on horizon scanning, risk profiling, and best practices in managing similar funds. **ACTION: LPFA**

- d) **AGREE** to maintain active engagement with StepStone and monitor the fund's progress, ensuring ongoing communication and collaboration to optimise the fund's strategy and implementation.
- e) **DECIDE** to incorporate findings from Redington's review into future strategic discussions, with a follow-up workshop, potentially planned to take place at the LPFA Board Awayday in September to review the outcomes and finalise the approach before it being presented to the IC and LPFA Board for approval in October 2024.

8. IC83 – Any Other Business

- 8.1 The Governance Manager highlighted that the IC Terms of Reference had been reviewed in line with the UK Corporate Governance Code and FCA Framework. Minor amendments were made to update the document, which was deemed fit for purpose.
- 8.2 The Funding and Investment Director reminded the Committee about the current internal audit on Investment Strategy Governance and Objectives. The 2024/25 audit plan looked to include an investment implementation and oversight review, expected in Q4 of the financial year. The Committee will consider the audit's value and necessity once the current investment strategy review had been completed.
- 8.3 The Committee **REVIEWED** and **NOTED** the forward plan of business and the updates provided.
- 8.4 The Committee **NOTED** that its next meeting was scheduled to take place on 8 October 2024
- 8.5 There being no further business, the Chair declared the meeting closed.

Irshaad Ahmad, Chair

Date: 9 October 2024
