

# LPFA INVESTMENT COMMITTEE

## MINUTES

**Date:** Tuesday 8 October 2024  
**Time:** 11.45 – 14.30  
**Location:** LPPI Offices, 1 Finsbury Ave, London.

**Present:**

Irshaad Ahmad	Chair & Committee Member
Rita Bajaj	Committee Member
Belinda Howell	Committee Member
Sophia Morrell	Committee Member (MS Teams)

**In Attendance:**

Hugh Braddock	Minerva Account Executive
Thomas Bolger	Minerva Senior Executive
Ashley Durkan	LPFA Governance Manager
Jill Davys	Redington, Head of LGPS
Julia French	LPPI Responsible Investment Team Manager
Anastasia Guha	Redington, Global Head of Sustainable Investment
Paul Hewitt	LPFA Responsible Investment Manager
Dev Jadeja	LPPI Deputy CIO
Sarah Morris	LPPI Head of Actuarial Risk
Joe Peach	LPPI Head of Client Management
Charlie Sheridan	Redington, Vice President LGPS Consulting
Chris Rule	LPPI Chief Executive Officer
Richard Tomlinson	LPPI Chief Investment Officer (MS Teams)
Max Townshend	LPPI Head of Investment Strategy
Lana Watson	LPFA Funding and Investment Director

### 1. IC84 – 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 6 June 2024

1.2 Belinda Howell inquired about a previous engagement question regarding LVMH and confirmation received from the Local Authority Pension Fund Forum (LAPFF). Specifically, she asked what form of confirmation was provided and whether LAPFF had ongoing engagements in this sector.

1.3 The Responsible Investment (RI) Manager confirmed that LAPFF had an ongoing engagement within the luxury goods sector, including LVMH. He explained that LAPFF had requested meetings, and reporting primarily covered L'Oreal and Kering. Notably, L'Oreal responded proactively, having pre-emptively issued reports ahead of a Panorama investigation, although these reports were not highlighted in the final broadcast. Kering, meanwhile, was less responsive but remained optimistic about scheduling a meeting in the current quarter.

1.4 The Committee acknowledged the updates, expressing satisfaction with the active engagement by LAPFF.

### Action Points

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

## **2. IC85 – LPFA Investment Strategy & Objectives Internal Audit**

2.1 The Committee reviewed the recent internal audit findings report, which included three medium-priority items, one low-priority item, and one advisory point. The audit report's recommendations centred around liquidity management and the Committee's approach to seeking external advice on the Strategic Asset Allocation (SAA). The summary report and specific management actions were taken as read.

### **Liquidity Management Discussion**

2.2 A key recommendation focused on liquidity, with auditors suggesting the need for a defined escalation protocol for liquidity issues. The Committee acknowledged the auditors' concerns, noting that LPPI's liquidity ladders were well-structured, particularly given the FCA's guidance on stress scenarios and selling protocols.

2.3 Members discussed the importance of documenting specific escalation points in the liquidity policy, especially under extreme stress scenarios, and agreed that such documentation could clarify at what point LPPI should report back to the IC on liquidity issues.

2.4 The Chair and members reviewed the liquidity processes already in place, including LPPI's reporting on liquidity projections, cash balances, and stress-testing against target allocations. Members highlighted that LPFA had delegated responsibility to LPPI, while the IC retained oversight, including controls on cash holdings and asset tolerance levels. The Committee agreed that LPPI's process aligned with expectations, minimising the need for further actions beyond clarifying escalation procedures, particularly if leverage was introduced in the future.

### **Decision on External Advice for Strategic Asset Allocation**

2.5 The Committee revisited the discussion on whether external advice was required for SAA reviews. Members agreed that the IC possessed the expertise to challenge SAA decisions and could choose to seek external advice as needed. The Committee discussed the auditors' recommendation to formalise a process for external advice but deemed it sufficient to retain the option to seek advice rather than impose a strict protocol.

2.6 The Committee also recognised that the next SAA review was scheduled for 2026-2027, with annual health checks in place. Members confirmed that if external advice was deemed necessary before the next review, they would document this decision in future minutes. The IC agreed that any additional risk for the Fund as a result of relying solely on LPPI's advice was minimal and would be managed within the usual parameters.

### **Update on Reporting and Return Objectives**

2.7 The Committee discussed an audit point regarding reporting against the return objective of CPI +3.6%. Members acknowledged that monitoring and reporting covered various benchmarks but noted the need to address some outdated aspects of the Advisory & Management Agreement (AMA). The Committee agreed that these updates could be included in a broader reporting review planned for the current financial year.

2.8 The Committee **AGREED** to incorporate a documented escalation protocol in the liquidity policy, contingent on any future introduction of leverage. Additionally, the Committee **CONFIRMED** that external advice for SAA reviews would be sought as deemed necessary and **NOTED** the need for reporting updates as part of the current strategic review.

### 3. IC86 – LPPI Investment Risk Reporting

- 3.1 The Committee noted the latest risk report, with the most significant update being the funding ratio. Funding levels had decreased slightly, while implied contribution levels had risen, largely due to asset returns being lower than the discount rate over the quarter.
- 3.2 The Funding and Investment Director observed that the RAG ratings mirrored previous quarters. The contribution rate remained at an amber rating within the Funding Risk Management Framework, with its status to be reviewed as part of the valuation process.
- 3.3 Members discussed the framework within which the slight drop in funding was noted, confirming that it remained within the acceptable range (green rating) as aligned with long-term objectives. No additional issues or outliers were identified in the risk report, and members concluded that the situation was consistent with recent trends.
- 3.4 The Committee **NOTED** the updates provided in the Investment and Funding Risk Reports.

### 4. IC87 – Responsible Investment

- 4.1 The Responsible Investment (RI) Manager presented the RI report, covering updates on responsible investment activities and metrics tracking. This report included a retrospective update on RI targets and an outline of proposed metrics for the new RI policy.
- 4.2 The Committee noted that the report contained detailed insights into the evolving data availability issues in tracking human rights and DEI policies across companies. Members discussed the challenges of obtaining reliable data and debated whether current metrics risked becoming a tick-box exercise. The RI Manager emphasised the importance of continuing to question companies on their policy implementations and accountability, noting that such engagement helps ensure that companies act on stated commitments.
- 4.3 Further discussions highlighted specific metrics, including water and energy usage for technology development, particularly in high-impact areas like artificial intelligence (AI) and data centres. Members questioned the sufficiency and distinction of metrics, particularly between those for responsible tech development and circular economy initiatives. The RI Manager clarified that the environmental metric captures the environmental impact of AI, such as energy and water usage, while the responsible tech development metric focuses on the societal impact of AI products themselves, from a social perspective rather than an environmental one. The RI Manager also acknowledged the challenges in monitoring these areas due to rapid developments in AI and limited data availability.
- 4.4 The Committee considered how the proposed metrics framework could be made more actionable, helping the IC to assess progress easily and communicate outcomes externally. Members requested that RI reporting continue to evolve to reflect emerging data standards, especially in sectors where accountability metrics are harder to define or track.

4.5 The Committee **NOTED** the updates provided in the Responsible Investment report.

## 5. IC88 – Net Zero Target Setting and Evaluation

*Redington Attendees joined the meeting*

5.1 The Committee reviewed the papers on Net Zero target setting, specifically within the corporate fixed income portion of the Credit Fund and indirect real estate portfolios. Redington joined the meeting to provide insights, noting alignment with LPPI's proposed targets for corporate fixed income but raising additional points on indirect real estate.

### Credit Fund (Corporate Fixed Income)

5.2 Redington expressed general alignment with the targets set for corporate fixed income, including a target of 50% weighted average carbon intensity (WACI) by 2030 based on a 2019 baseline. Additional goals included achieving 50% Paris alignment for credit by 2030 and a full 100% alignment by 2040. The Committee noted Redington's support for these targets, recognising that they reflected industry standards and LPPI's broader engagement approach.

### Indirect Real Estate

5.3 The discussion on indirect real estate highlighted data collection challenges. Redington explained that data availability from third-party managers was limited, which hindered LPPI's ability to set firm decarbonisation targets. The Committee acknowledged the need for enhanced engagement efforts with external managers to increase data transparency and establish a foundation for meaningful targets.

5.4 The Committee agreed that engagement and monitoring would be the primary strategy for improving data coverage in the indirect real estate portfolio, with an aim to increase coverage to at least 70% by 2029. However, members expressed concerns that 2029 might be too conservative and requested a strategy to expedite this goal where feasible. LPPI clarified that their expectation is to achieve the objective well before 2029.

### Recommendations and Next Steps

5.5 LPPI recommended a phased approach for engaging indirect real estate managers, prioritising larger holdings for initial engagement efforts. They proposed a case study approach to track progress, focusing on the top five to ten indirect holdings by AUM, where LPPI and LPFA might have the greatest influence. The Committee concurred, emphasising the importance of collaborating with other investors to drive progress within commingled funds.

The Committee **AGREED** to adopt LPPI's proposed net zero targets for the corporate fixed income assets in the credit fund and the indirect real estate targets. Additionally, the Committee **REQUESTED** that LPPI provide an update in six months on the phased engagement strategy for indirect real estate, prioritising large holdings for enhanced reporting and engagement.

*Certain information has been redacted from these minutes due to commercial sensitivities. This ensures the protection of confidential details that could impact ongoing discussions, negotiations, or strategic interests*

## 6. IC89 – Environmental Opportunities Fund – Redington Review

6.1

[REDACTED]

[Redacted]

[Redacted]

[Redacted]

*Redington Attendees left the meeting.*

[Redacted]

6.6 [Redacted]

[Redacted]

*LPPI Attendees rejoined the meeting*

**7. IC90 – Environmental Opportunities Fund LPPI Discussion**

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**8. IC91 – SAA Health Check**

8.1 The Committee received an update on the Strategic Asset Allocation (SAA) health check. The review assessed LPFA’s current risk positioning against other LGPS funds, highlighting considerations around liquidity, risk tolerance, and alignment with long-term funding goals.

**Current SAA Risk Position**

8.2 The LPPI Head of Investment Strategy presented the health check findings, noting that while de-risking has become a priority for some LGPS funds, LPFA’s risk allocation was well-positioned to meet long-term affordability and contribution stability goals. The Committee acknowledged the challenge of balancing stability with affordability, particularly when considering market volatility and inflation risks. The LPPI Head of Investment Strategy mentioned that into 2025, they would conduct further internal evaluations on de-risking costs and its potential impact on fund objectives.

[REDACTED]

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[REDACTED]

[REDACTED]

**Inflation and Market Resilience**

8.5 In response to questions about inflationary pressures, LPPI noted that while inflation could affect long-term valuations, LPFA’s diversified portfolio and high exposure to private assets offered natural hedges. The EOF’s focus on energy transition investments could also provide resilience against certain inflation scenarios, especially if inflation were driven by supply-side energy constraints.

8.7

## 9. IC92 – LPPI Investment Reporting

9.1 The Committee received an update from LPPI's Head of Client Management on LPPI's investment performance across asset classes, with a particular focus on performance variances in global equities and private equity. He began by directing attention to the latest performance data, highlighting key drivers and underlying market trends.

### Performance Summary

9.2 LPPI's Head of Client Management provided an overview of recent performance across asset classes, noting that global equities had the highest absolute performance at 11.9% over the year, despite a 6.8% underperformance relative to benchmark. He attributed this variance primarily to shifts in tech stocks. The Committee reviewed private equity's strong five-year annualised return of 12.7%, which he noted as a standout, driven by LPPI's long-term approach to growth-oriented investments.

9.3 Real estate, however, was highlighted as the only asset class with a negative absolute return over the one-year period. The LPPI Head of Client Management explained that the decline largely stemmed from a recent revaluation of direct property holdings due to a change in valuer, which impacted paper-based valuations. He clarified that the revaluation process had been impartial, with the new valuer not provided with prior valuation data to ensure a fair assessment.

### Private Equity and Liquidity Considerations

9.4 The Committee explored options for managing the portfolio's overweight position in private equity, particularly through potential sales of tail-end assets. The LPPI Head of Client Management reported that LPPI had recently tested the market for some of these assets, with early offers reflecting significant discounts of 20-40%. This high discount underscored the challenges in liquidating certain private equity holdings, with the LPPI CIO noting that the less desirable assets attracted lower bids, while assets with higher desirability were not ones LPFA wished to sell.

9.5 The discussion covered the current economic environment's impact on exit activity within private equity portfolios. LPPI's Head of Investment Strategy mentioned recent indications of an increase in portfolio company exits, following a low period, which might improve cash returns to LPFA over the medium term.

### Business Update and Organisational Changes

9.6 The LPPI CEO provided a brief business update, focusing on LPPI's engagement with government stakeholders, with weekly meetings between LPPI leadership and public officials to discuss key issues. LPPI had also hosted Emma Reynolds at one of their assets, underscoring

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their commitment to ongoing government relations. Additionally, he informed the Committee of a recent resignation within the infrastructure team. Gerald Wu, a portfolio manager, had been headhunted by another infrastructure manager. To address this gap, Louise Warden from the real estate team would temporarily assist with infrastructure fund management.

### **Conclusion of Diversified Strategies (DS) Fund**

- 9.7 LPPI confirmed that LPFA's holdings in the Diversified Strategies (DS) fund were now fully redeemed, with remaining assets to be managed alongside LPFA's other balance sheet holdings. While LPFA retained a limited partner status until the fund's formal wind-down in April 2025, LPPI agreed that further DS updates would be unnecessary unless new issues arose.
- 9.8 The Committee **NOTED** the updates on investment performance and **AGREED** on the strategic approach to managing liquidity within the private equity portfolio. Additionally, the Committee **ACKNOWLEDGED** LPPI's commitment to ensuring continuity in infrastructure fund management following the recent personnel changes.

*LPPI Attendees left the meeting with the exception of Joe Peach and Julia French  
Minerva Attendees joined the meeting*

## **10. IC93 – Minerva Vote Monitoring**

- 10.1 The Committee welcomed representatives from Minerva to present LPFA's new vote monitoring service, which aims to enhance insight into voting activities conducted by LPPI on LPFA's behalf. The LPFA RI Manager introduced the item, highlighting the importance of this service as part of LPFA's Paris Aligned Asset Owners (PAAO) commitment and its focus on climate-related stewardship. The session focused on Minerva's approach to vote monitoring and the proposed climate-focused voting principles for LPFA.

### **Introduction and Purpose of Vote Monitoring**

- 10.2 The LPFA RI Manager provided background on LPFA's engagement with the UK Stewardship Code and explained that while LPFA is not currently a signatory, aligning with stewardship best practices remains an important objective. Minerva's service would enable LPFA to monitor voting conducted by LPPI and identify any divergences in voting alignment, particularly in climate-related decisions. Hugh Braddock and Thomas Bolger from Minerva introduced themselves and their roles, explaining that Minerva's service is designed to support asset owners in understanding and potentially aligning voting outcomes with established principles.

### **Vote Monitoring Process**

- 10.3 Hugh Braddock explained the operational setup of the monitoring service, which includes a daily feed of holdings through BNY Mellon and regular reporting. Minerva receives voting data from LPPI, which they then compare against a bespoke voting template based on LPFA's climate-focused principles. This review will help LPFA evaluate the patterns of alignment between LPPI's voting and LPFA's climate commitments and highlight any deviations. Minerva's first quarterly report, due October 24, will offer an initial assessment, allowing LPFA to track trends over time and identify areas where strategic adjustments may be necessary.

### **Climate Voting Principles**

- 10.4 Thomas Bolger introduced the climate voting principles developed in collaboration with LPFA, which align with LPFA's Responsible Investment (RI) and climate change policies, as well as the Institutional Investors Group on Climate Change (IIGCC) Net Zero Voting Guidelines. The principles address expectations in areas such as audit and reporting, board composition, capital

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allocation, remuneration, mergers and acquisitions, and climate-specific shareholder resolutions. These principles aim to establish clear guidance for voting on climate issues while providing flexibility for adaptation in response to evolving corporate practices.

### **Integration with Engagement Efforts**

10.5 The Committee discussed how Minerva's vote monitoring would complement LPPI's engagement work with Robeco, which focuses on direct engagement with companies on climate targets and other ESG issues. The LPPI RI Manager explained that insights from Robeco's engagements would supplement the climate voting process, enabling a comprehensive view of each company's progress on climate commitments and helping identify areas for additional engagement. The LPFA RI Manager noted that Minerva's vote monitoring would offer a "black and white" view of compliance with climate voting principles, while explanation from LPPI on engagement may provide in-depth, "colour" context on the companies' ongoing climate actions.

### **Approval of Climate Voting Principles**

10.6 The LPFA RI Manager sought the Committee's approval of the climate-focused voting principles, which would form the foundation of LPFA's monitoring framework. He clarified that while the initial focus is on climate-related votes, there is potential to expand these principles to other areas of LPFA's RI policy in the future, particularly in alignment with the development of new metrics and measures. The Committee reviewed and supported the principles, with members noting that the principles were intentionally broad to ensure applicability across diverse climate-related voting issues.

10.7 The Committee **APPROVED** the adoption of the climate voting principles, authorising Minerva to proceed with implementing the vote monitoring service. The Committee also **REQUESTED** regular updates on the alignment between LPPI's voting and LPFA's climate principles, with the first report expected at the next meeting of the Committee.

*Minerva Attendees left the meeting*

## **11. IC94 – Forward Planner**

11.1 The Committee **REVIEWED** and **NOTED** the forward plan of business and the updates provided.

11.2 The Committee **NOTED** that its next meeting was scheduled to take place on 28 November 2024.

11.3 There being no further business, the Chair declared the meeting closed.

**Irshaad Ahmad**, Chair

**Date** 28/11/2024

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