

# LPFA BOARD CORPORATE & STRATEGIC SESSION

## LPFA Investment Committee Summary Report

26 March 2025  
Agenda Item 8, PF2406

<b>Authority &amp; decision trail</b>	<b>Decision Trail:</b> LPFA Investment Committee <b>Authority:</b> LPFA Board
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<b>Supplementary Appendices:</b>	<b>Appendix 1:</b> Investment Strategy Statement
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### Summary

The LPFA Investment Committee's activities in March 2025 focused on investment performance, responsible investment, employer risk management, net zero commitments, and governance oversight. Key updates include progress on benchmarking reviews, investment strategy alignment, oversight of LPPI's governance framework, and updates on liquidity management.

### Note for Board Members

Board members can access the full Investment Committee reports on Diligent Boards for further reference.

### Recommendations

The Board is asked to:

1. **Note** the update provided.
2. **Approve** the Investment Strategy Statement, as recommended by the Investment Committee.

## Detail of the report

### Investment Performance and Benchmarking

LPPI reported that absolute returns remained strong, aligning with funding objectives. However, challenges in relative returns arose due to benchmarking structures within listed equities and infrastructure. LPPI is currently reviewing alternative benchmarking structures to ensure alignment with long-term fiduciary responsibilities.

A balanced scorecard approach is being developed to provide a broader assessment of performance, incorporating peer comparisons and risk factors. Additionally, LPPI is conducting further analysis on portfolio exposure and concentrated mandates to mitigate potential risks.

### Responsible Investment (RI)

Regulatory developments in global ESG frameworks remain a key consideration. While geopolitical pressures have led some asset managers to withdraw from responsible investment initiatives, LPPI has reaffirmed its commitment to responsible investment principles.

Legal and fiduciary considerations, particularly in the US, are being monitored to assess their potential impact on LPFA's investment strategy. LPPI is ensuring that responsible investment considerations continue to be integrated into its decision-making processes.

### Paris Alignment and Net Zero Commitments

Following the allocation of 3% to the Environmental Opportunities Asset Class (EOAC), LPFA has set a 5% climate solutions investment target to ensure meaningful progress towards sustainability objectives. A review of the 22 net zero targets confirmed that over 80% of the Fund's investments are now covered, with ongoing efforts to integrate private equity and credit assets into the framework in due course.

The Committee also reviewed the distinction between Paris-aligned and net zero approaches, with net zero being recognised as the more quantitative and widely institutionalized framework. It was agreed that LPFA would maintain the use of net zero terminology as the primary reference in investment commitments.

### Investment Strategy and Asset Class Benchmarking

The Investment Strategy Statement (ISS) has been updated to reflect changes in the Strategic Asset Allocation (SAA). This includes the allocation to the Environmental Opportunities Asset Class and the minor changes to the SAA agreed in the review last year. LPPI is further reviewing asset class benchmarks to ensure realistic return expectations and will provide recommendations on appropriate performance measures.

The Investment Committee recommends that the Board approve the ISS, aligning with LPFA's broader investment strategy. The Committee also discussed the suitability of CPI +4% as a benchmark for infrastructure investments and the relevance of the UK Quarterly Property Index for real estate, with further review planned.

## **Employer Risk Management**

Discussions are continuing regarding the feasibility of multiple investment strategies tailored to different employer risk profiles. Before proceeding, LPFA is conducting further analysis on employer demand and the cost implications of implementing varied investment approaches, as well as expected implementation of such strategies across the LGPS. A summary of the latest position is expected in the coming months.

## **LPPI Oversight and Governance**

Independent oversight of LPPI remains a priority, with plans to implement an annual external assessment of governance and investment processes. The procurement framework for selecting an independent provider is being developed, with the final appointment requiring Board approval. The assessment will cover governance maturity, internal challenge processes, and peer benchmarking.

## **London Treasury Liquidity Fund Update**

An update was provided on the London Treasury Liquidity Fund (LTLF), confirming it continues to manage assets related to residual liabilities, with £61 million allocated (representing 2% of the total LTLF holdings). Approximately 40% of assets are allocated to residential mortgage-backed securities (RMBS), with the remainder in cash-based investments.

Further analysis of the underlying mortgage composition within RMBS allocations will be conducted to assess potential concentration risks.

## **Meeting Paper Structure**

LPPI is streamlining its reporting processes to improve efficiency. The Committee is also looking at any additional reporting changes that could streamline the meeting pack and provide the key information. A suggested summary document will be shared at the next meeting pack to highlight key developments in funding, liabilities, assets, and investment strategy. Detailed asset class reports will be moved to supplementary materials for reference.

## **Ongoing Workstreams and Next Steps**

The Committee reviewed ongoing areas of focus, including:

- Oversight of LPPI governance and investment processes.
- Ongoing benchmarking reviews across asset classes.
- A focus on responsible investment.
- The case for multiple investment strategy options.
- Implementation of revised reporting structures for improved efficiency.

It was agreed that deep-dive sessions on key investment topics should continue as part of the Committee's ongoing work.

The Committee will consider this further and share areas for consideration at the next meeting.

## **Forward Planning**

Key priorities for the upcoming period include continued benchmarking reviews, valuation assessments, and further engagement on net zero targets.

Additionally, as part of committee transitions, Rita Bajaj's contributions were acknowledged in her final meeting with the LPFA Investment Committee.

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