Attendees

Name	Initials	Organisation
Councillor Julie McManus (Chair)	CP	WBC
Councillor Ruth Molyneux	RM	WBC
Councillor Brian Kenny	BK	WBC
Councillor Pat Cleary	PC	WBC
Councillor Chris Carubia	CC	WBC
John Raisin	JR	Pension Board
Donna Ridland	DR	Pension Board
Roger Bannister	RB	Unison Member Rep
Jill Davys	JD	Redington
Edina Molnar	EM	Redington
Paul Watson	PWa	Independent Advisor
Rohan Worrall	RW	Independent Advisor
Peter Wallach	PW	MPF
Adil Manzoor	AM	MPF
Owen Thorne	OT	MPF
Alex Abela-Stevenson	AA	MPF
Emma Littler	EL	MPF
Greg Campbell	GC	MPF
Elizabeth Breen	EB	MPF
Ciaran Sharp	CS	MPF
Daniel Proudfoot	DP	MPF
Neil Gill	NG	MPF
Dragos Serbanica	DS	MPF

1. Apologies

Councillor Ann Ainsworth
Councillor Peter Norris

2. Minutes of IMWP 6th September 2023

Noted, no amendments.

3. Market Commentary – Rohan Worrall (RW)

In Q3 2023, global equity markets faced headwinds overall, with the notable exception of resilience in UK equities. While UK inflation saw a decrease, core inflation in the UK remains higher than in other countries. Central banks continue to grapple with the challenge of meeting inflation targets, suggesting high-interest rates will persist in the near future.

Year to date, major equity markets have seen growth, but over the last quarter have witnessed a period of relative weakness. Notably, Japan emerged as a top performer. Value stocks proved more resilient than growth stocks over the quarter. Medium and longer-term bond yields rose over the quarter, due to the expectation of interest rates remaining higher for longer.

Sterling has exhibited strength over a twelve-month period but faced weakness over the last quarter. Energy prices rose in Q3 as gas prices rebounded. Precious metals prices generally fell, while industrial metal prices rose.

Looking ahead, central banks maintain a focus on high-interest rates as a strategy to curb inflation. The markets are divided on the potential for a serious recession, with indications pointing towards a slowdown in growth rather than a severe downturn.

Brian Kenny (BK) sought clarification on the distinction between CPI and core CPI. RW clarified that core inflation (CPI) is the change in the costs of goods and services without the inclusion of the food and energy sectors, which are often more volatile.

Pat Cleary (PC) inquired about the reluctance of central banks to decrease interest rates despite falling inflation. RW explained that central banks are cautious, fearing a potential resurgence of inflation if rates are lowered too quickly.

4. MPF Investment Update – Peter Wallach (PW)

The monitoring report reveals a higher number of mandates flagged as red, which is sub optimal, yet not all flagged mandates raise concerns. Notably, the performance of Internal UK equities has shown weakness in the past three years but surpasses the benchmark over the last five years. A similar trend is observed in the Blackrock UK equity external mandate. Significant concerns tend to arise when a manager diverges from their investment philosophy or there are departures of key individuals. While a few mandate changes are in the pipeline, only critical changes will be implemented will occur ahead of the completion of Redington's review.

Specifically, the Unigestion and Newton mandates are currently being flagged as concerns and are, for the time being, utilised as a source of funds.

RW inquired about the ongoing review of the Fund's allocation to hedge funds. PW confirmed that the allocation is indeed included in the areas of the fund to be reviewed.

5. Strategic Asset Allocation – Jill Davys (JD)

JD presented and covered the key changes to the Strategic Asset Allocation (SAA). The revised proposal was to retain a higher exposure to equities and reduce the amount of additional capital to be allocated to fixed income. Broader ranges within the Investment Strategy Statement (ISS) were suggested to provide flexibility, considering market dynamics, and acknowledging the gradual implementation of the new strategy, especially in private markets.

Paul Watson (PWa) suggested that now would be an opportune moment to reassess underperforming mandates amid these ongoing changes.

JD continued and acknowledged the likely persistence of amber traffic lights in the Pension Risk Management Framework (PRMF), with a proposed annual review to assess progress towards the new Strategic Asset Allocation (SAA) and its impact on key metrics.

The need for realistic timeframes in adjusting the private markets allocation was emphasised, recognising the slower pace due to the illiquid nature of these assets.

PC asked about the local investment process, to which JD explained it would fall under the alternatives category. JD also expressed the view that organising an impact property training session for councillors could be valuable. PW highlighted the potential of this initiative to address pressing social and environmental concerns, such as housing shortages.

6. Responsible Investment Policy – Jill Davys (JD)

JD introduced a draft responsible investment policy for the Fund, aligning it with the Fund's core beliefs and engagement principles. Emphasising the inclusion of Environmental, Social, and Governance (ESG) factors was highlighted as pivotal in meeting fiduciary responsibilities. The Fund presently prioritises engagement as opposed to divestment. It was noted that divestment was available as an option in the draft escalation policy. The stakeholder survey revealed that climate change and biodiversity, human rights, and corporate governance rank as the most significant factors in consideration.

BK sought additional details on the key issues slide. JD responded that climate change and biodiversity were central to the survey and underscored their crucial role in investment decision-making.

Chris Carubia (CC) asked whether the Fund lags behind others in achieving targets for implementing key ESG themes compared to other funds. JD clarified that the Fund stands out as a strong proponent of stewardship and engagement, ranking amongst the best in its category in terms of activity. CC suggested enhanced collaboration between Redington, and the Fund could facilitate further progress. RW added that, while a couple of pools might be ahead, the Fund generally holds a favourable position in implementing key ESG themes. PC asked about the possibility of providing evidence to benchmark against other funds.

7. Net Zero Target Setting – Edina Molinar (EM)

EM presented and explained that the purpose of the paper was to provide recommendations for the Committee's consideration in establishing a short-term interim net-zero target. Highlighting the Fund is actively talking steps toward achieving net-zero goals, EM acknowledged the potential for further progress.

PWa asked about the timeline for target reviews. EM clarified that they are currently at the initial phase, with targets set to be assessed annually thereafter. The ongoing evaluation will enable continual monitoring of progress, facilitating adjustments to targets as necessary.

EM presented the three key components of the investor climate objectives, emphasising their crucial role in achieving the Fund's climate goals and managing climate risks.

PWa asked if the components will cover companies using carbon credits measurements. EM explained that the targets would encompass both measurements and address companies' alignment strategies and Net Zero trajectory, with Redington also evaluating fund investments in climate solutions.

PC raised concerns about the 2050 timeline, noting 2030 is just six years away. While acknowledging the potential distraction of long-term targets, PC appreciated the inclusion of a shorter-term goal. PC sought insights into the Fund's plan to achieve these targets and its overall activity.

OT outlined the approach, highlighting a re-evaluation of external mandates. Additionally, collaboration with FTSE Russell and LGPS Central demonstrates a concerted effort to align with industry standards. The importance of tailoring actions for each portfolio was emphasised, recognising the unique characteristics and objectives of individual investment profiles.

PW added that achieving targets will involve both asset allocation changes as well as setting climate goals for managers, referencing the 2019 baseline and the non-linear nature of the action plan.

EM underscored the impact of engagement as an assessment tool for target actions.

RW asked about the receptiveness of managers to conversation on this topic. EM responded positively, acknowledging sector-specific challenges but noting a positive shift in attitudes. Collaborative engagement and the ongoing debate around engagement versus divestment were highlighted.

PW sought Redington's perspective on aligned benchmarks. EM explained that emissions monitoring may not capture asset transition adequately, emphasising the importance of assessing the trajectory of emissions alignment with benchmarks.

PWa brought up the discussion on avoided emissions and its role in the paper's conclusions. EM acknowledged that it is a work in progress for further scopes, with future assessments to be conducted by the Fund, recognising the complexity of capturing CO_2 per ton of energy produced sustainably.

OT discussed the focus on reducing emissions without resorting to offsetting. CC inquired about the integration of this approach into asset management and its influence on returns. EM affirmed that it stems from implementing guidelines within investment mandates. As the climate evolves, companies assessed through this lens demonstrate improved performance. Managers are now tasked with excluding or adjusting sectors to align with risk considerations. Clear communication and alignment of relationships and expectations with managers are crucial to meet the Fund's objectives.

CC voiced concerns about returns and fiduciary duty, to which EM responded by highlighting actions taken in sustainable funds, excluding energy companies which had been detrimental to performance in the short term. The impact of climate targets on investment returns remains uncertain due to lack of a long-term perspective for investors. Monitoring returns and climate impact is crucial for the fund.

OT emphasised the capability of asset management firms in addressing these concerns, citing the importance of governance strategy and clear client expectations. Acknowledging it as a core client expectation, OT stressed the industry's progress and the need for professional asset managers to seamlessly integrate these expectations while delivering returns.

EM presented on decarbonisation, proposing an emissions intensity-based interim target over an absolute emissions target for the Fund, with a focus on both scope 1 and 2, and acknowledging challenges with scope 3 emissions data.

RW questioned the impact of financed emissions in investee companies, particularly emphasising the significant role of banking-financed emissions under scope 3. OT stressed the importance of engagement on these issues, highlighting progress in disclosure and transparency by banks. However, the role of debt and capital markets remains unclear due to limited disclosure.

EM affirmed considering this approach, noting the bulk of scope 3 emissions lies in the value chain, which will be included in the assessment as disclosure improves, although currently, this data is only estimated.

EM discussed regulators' recommendations on scope 3 measurement, emphasising the phased incorporation into target setting as data accuracy improves. While ISSB scope 3 requirements for UK companies are encouraged, the acknowledged challenge is recognised.

RW asked about the purpose of monitoring subset data if it is not utilised in setting targets. EM explained that monitoring data quality is crucial for enhancing reliability over time. RW highlighted the potential for informed decision-making with the comprehensive scale of scope 3. EM acknowledged the difficulty of selling assets based on estimated data.

EM discussed the merits and drawbacks of incorporating scope 3 in measurements, advising a focus on scope 1 and 2 due to its current relevance. Suggesting the use of 2019 as a baseline, EM highlighted the accessibility of data from S&P.

PWa asked about the assessment's coverage, questioning whether it spans the entire portfolio or only measurable aspects, EM clarified that it encompasses equities and fixed income, constituting 50% of the Fund.

PC acknowledged the ambitious 2030 target for the Fund and highlighted the need to consider the current behaviours implications for achieving these goals. Seeking guidance on overseeing current managers, PC asked how to prompt action. EM outlined engagement, monitoring, and investment decision-making as the methods, emphasising that actions would align with the set targets.

PWa inquired about the potential impact of shifting asset allocation to the US on emissions. EM affirmed its positive influence on US equities, particularly in technology stocks, though not applicable to bonds.

JD discussed the ongoing strategic asset allocation shift from equities to fixed income, emphasising the importance of exploring scope 3 exposure in new asset classes. RW noted the increasing complexity of decision-making in this regard, and JD highlighted the heightened pressure on managers to align with Paris Agreement goals.

PC reassured that assuming financial returns would suffer is unwarranted, emphasising that de-risking is beneficial for the Fund's long-term prospects.

John Raisin (JR) acknowledged the value of the Redington paper on understanding scope 3.

PW encouraged the Committee to assess risks across all scopes, highlighting the importance of considering the ability to meet pension obligations. Cautioning against exclusions in scope 1 and 2 before having definitive scope 3 data as scope 3 data could fundamentally change a company's carbon footprint.

RW proposed evaluating the Fund's performance against internally set targets rather than just comparing with peers.

CC expressed reservations about divestment, questioning its impact, and inquired about the effectiveness of the 6% reduction. EM highlighted challenges in measuring financed emissions, making it unclear.

OT clarified the approach of monitoring decarbonisation on an annualised basis, aiming to establish a consistent rate and signal expectations to the market. Continuous monitoring is crucial for improvement and achieving targets.

EM delved into the alignment target, suggesting the Fund maintains alignment with the Paris Agreement goals on an aggregate level. The proposal aims to enhance the percentage of assets within scope aligned with 1.5°C and 1.5 to 2 °C trajectories. The ultimate goal is for all Fund assets to align with a trajectory below 2 °C by 2030.

EM concluded by addressing climate solutions. Redington advised against setting a quantitative target currently, recommending the Committee establishes a high-level goal to boost investments in climate solutions and monitors methodological developments.

8. PIRC/LAPFF Report – Owen Thorne (OT)

OT affirmed that a forthcoming RIWP paper will be presented to the Committee shortly. The RIWP will be tasked with executing policy and addressing stewardship-related issues, encompassing an evaluation of impact investing and sustainable outcomes. Conversely, the IMWP will direct its attention to strategic asset allocation.

PC sought confirmation that a report establishing the RIWP will be brought to the Committee in December.

LAPFF quarterly engagement report
https://lapfforum.org/wp-content/uploads/2023/10/LAPFF-Q3-2023-QER.pdf

Northern LGPS quarterly stewardship report
https://northernlgps.org/assets/pdf/stewardq3_2023.pdf