

**LEICESTERSHIRE LOCAL GOVERNMENT PENSION FUND – ANNUAL
GENERAL MEETING
9 DECEMBER 2024**

QUESTIONS ASKED UNDER STANDING ORDER 34

Questions asked by Mr. Anthony Simmons

1) What is the total value of the funds in the Central Pool?

Reply by the Chairman:

To date Leicestershire County Council Pension Fund (the Fund) is over 40% pooled (c.£2.6billion) as at the end of September 2024.

Combined assets of all partner funds within LGPS Central (Central) amounts to approximately £61billion based on numbers taken from the Government's ongoing 'Fit for the Future' consultation.

As at 31 March 2024 Central were responsible for the management of £29.9bn of the eight partner funds' assets.

2) What are the advantages and disadvantages of being in the Central Pool?

Reply by the Chairman:

The Fund alongside Central and other partner funds work in close partnership and collaboration. This has delivered significant benefits including:

- Delivery of cost savings for partner funds in support of efficiency and value for money.
- Increased the range of investment opportunities, providing diversification benefits alongside management fee reductions to external managers only possible with scale.
- Internal investment expertise and capabilities not available without pooling which includes significant responsible investment and engagement services.

While limited, part of the drawback of pooling relates to a limited ability to invest in smaller scale niche investments and having an investment product available to match the Fund's investment priorities. Any potential disadvantages are managed via close partnership with Central and partner funds.

3) The Government is encouraging Local Government Pension Funds to form a 'mega fund'. If this happens, what would be its total value and what could be the advantages and disadvantages of such a coalition?

Reply by the Chairman:

The Government are in the process of consulting on proposals for the Local Government Pension Scheme (LGPS) entitled 'Fit for the Future' in relation to asset pooling, UK and local investment and governance. At this time any reference to 'mega fund' by the Government refers to the continuation and acceleration of existing pooling structures. The focus is on further pooling of investments and not merging of fund administration.

4) Is there an arrangement somewhere between the current situation and the 'mega fund' that could be more advantageous and/or have less disadvantages?

Reply by the Chairman:

As set out in the response to Question 3 above, the proposals are looking to conclude what was started in 2015 with the introduction of pooling. These proposals do have important considerations for how they impact schemes and initial views were set out at the Local Pension Committee in November 2024. A link is provided to the relevant paper [here](#).

Governments consultation proposals at a high level relate to:

- Pooling - Mandating certain minimum standards for pooling including, delegation of implementation of investment strategy to pools, pools providing principle investment advice and a requirement to transfer legacy assets to pools by 31 March 2026.
- UK and Local Investment - Funds to set out approach to local investment with regard to local growth plans and local economic priorities in setting their investment strategy, noting however the definition of 'local' requires further clarification.
- Governance - Strengthening the governance of both LGPS funds and LGPS pools.

At this point the Fund cannot fully set out advantages and disadvantages for the current proposals, at a high-level these proposals can be seen positively with continued partnership working between pools and partner funds enabling further benefits to be achieved.

The Director of Corporate Resources, in consultation with the Chairman of the Local Pension Committee, have been delegated the responsibility to respond to this consultation. Part of the Fund's response will include recommendations that:

- Pools inherit the same fiduciary duty as administering authorities.
- Appropriate governance is in place to ensure the implementation of investment strategy by pools fits with the scheme requirements.

- Retaining investment advice through a shared investment advisor across partner funds, independent to the pool.
- Sufficient consideration is given to pools' resourcing capacity whilst onboarding all assets by 31 March 2026, whilst fulfilling proposals to undertake investment advice, implementation and consider local investing
- A broader definition of local investment to enable investment in appropriate assets that have the same risk and returns profile compared to globally diversified investments.
- New governance responsibilities are appropriate and proportionate to the outcome of the consultation.

These points will be set out alongside the assertion that the foremost priority of the Fund is to achieve appropriate risk adjusted investment returns in line with its fiduciary duty to employers and scheme members.

- 5) When investments are selected is any consideration given to the possible benefit of the investment directly to the employers supporting the Leicestershire Local Government Pension Fund and the Fund's Members?

Reply by the Chairman:

Any decisions related to asset allocation and manager selection are made with regard to the appropriate risk and return in line with the Fund's fiduciary duty. These investment decisions are delegated to investment managers whose focus is to meet their target return. Where investment opportunities exist within Leicestershire or the UK we would expect the managers would consider these opportunities, however fiduciary duty would still be the primary focus.

Consideration will be given to the outcome of the current consultation with regard to local investment and how to incorporate this in line with fiduciary duty.

- 6) I raised a question about stranded assets with particular respect to fossil fuel investments at the 2023 AGM. I am even more concerned about this now. Does the Fund have a strategy / strategies for transferring investments quickly?

Reply by the Chairman:

These are risks that are monitored through the Fund's Net Zero Climate Strategy and annual Climate Risk Management report. Asset allocation and investment manager selection are carefully considered, and thorough due diligence is carried out beforehand. The Fund moves in a measured way and does not make extreme moves in order to include or exclude specific sectors or become over reliant on individual sectors or asset classes.

In working towards the Fund's medium- and long-term net zero targets the Fund has committed to decreasing exposure to fossil fuels. This is supported through asset allocation decisions, for example to a Low Carbon Transition fund.

The Fund's Annual Responsible Investment (RI) Plan looks to enhance processes, management and monitoring of RI risks, alongside only appointing managers that integrate responsible investment into their decision-making processes.

LGPS Central as well as LAPFF (the Local Authority Pension Fund Forum) engage companies on issues such as stranded asset risk. These partners provide updates on these engagements as part of their quarterly reports and are included within the Pension Committee's quarterly Responsible Investment report.

In reference to specific decisions with respect to fossil fuel companies these day-to-day investment decisions are delegated to the Fund's specialist investment managers. These managers are required by the Fund to consider all material factors, including in relation to climate change. These expert managers decide whether to invest, continue to be invested or reduce their exposure to these companies. The Fund currently retains the right to replace managers when they cannot demonstrate application of their RI policy to investment decisions.

Ultimately as a 'universal investor' the Fund is diversified across investments which represent a slice of the global economy, meaning even total divestment from fossil fuel investments would not protect the Fund from climate risks, only remove its ability to engage with them, with ownership passing to less responsible investors. Therefore, it is vital the Fund continues to consider these issues broadly across the Net Zero Climate Strategy. To this end it is pleasing to highlight that the Fund has now achieved both interim primary targets for in scope investments since 2019 having:

- a. achieved its first interim target of reducing the weighted average carbon intensity (WACI) by 50% by 2030, with an actual reduction of 52.8%, meaning the Fund is less exposed to carbon price risk.
- b. achieved its second interim target of having reduced its financed emissions by 40%, with an actual reduction of the total carbon emissions the Fund is responsible for by 40.4%.
- c. invested 20% of the Fund to directly allocated climate-related investments such as forestry.