Meeting: **Local Pension Committee**

Date/Time: **Friday, 1 December 2023 at 9.30 am**

Location: **Sparkenhoe Committee Room, County Hall, Glenfield**

Contact: **Mrs Angie Smith (0116 305 2583).**

Email: **Angie.Smith@leics.gov.uk**

AGENDA

	Committee.	Corporate Resources	
10.	Responsible Investing Update.	Director of Corporate Resources	(Pages 67 - 86)
11.	Investment Advisor Objectives 2024.	Director of Corporate Resources	(Pages 87 - 96)
12.	Climate Risk Management Report 2023.	Director of Corporate Resources	(Pages 97 - 152)
13.	Date of next meeting. The date of the next meeting is scheduled for 26 January 2024, at 9.30am.		
14.	Any other items which the Chairman has decided to take as urgent.		
15.	Exclusion of the Press and Public. The public are likely to be excluded during consideration of the remaining items in accordance with Section 100(A)(4) of the Local Government Act 1972 (Exempt Information).		
16.	Supplementary Information - Climate Report Analysis.	Director of Corporate Resources	(Pages 153 - 190)
17.	Legal and General Investment Management (LGIM) Investment Update.	Director of Corporate Resources	(Pages 191 - 218)
18.	Leicestershire Summary Valuation - Hymans Robertson.	Director of Corporate Resources	(Pages 219 - 224)
19.	LGPS Central Quarterly Investment Report.	Fund Manager	(Pages 225 - 328)
	Growth		
20.	LGPSC PE Primary	Fund Manager	(Pages 329 - 360)
21.	Adams Street Partners	Fund Manager	(Pages 361 - 480)
22.	Aspect Diversified	Fund Manager	(Pages 481 - 488)
23.	Legal and General Investment Manager September 2023.	Fund Manager	(Pages 489 - 518)
24.	Pictet.	Fund Manager	(Pages 519 - 538)
25.	Ruffer Quarterly Report.	Fund Manager	(Pages 539 - 578)
26.	ABRDN Capital Q1 and Q2 Reports	Fund Manager	(Pages 579 -

TO:

<u>Leicestershire County Council</u>

Mr. T. Barkley CC (Chairman)
Mr. D. Grimley CC
Mr. P. King CC
Mr. D. Bill CC MBE
Mrs. A. Wright CC

<u>Leicester City Council</u>

Cllr. A. Clarke
Cllr. M. March

<u>District Council Representatives</u>

Cllr. M. Cartwright
Cllr. R. Denney

<u>University Representative</u>

Mr. Z. Limbada

Scheme Member Representatives

Mr. N. Booth
Mr. C. Pitt

Leicestershire County Council

Minutes of a meeting of the Local Pension Committee held at County Hall, Glenfield on Friday, 8 September 2023.

PRESENT:

Leicestershire County Council

Mr. T. Barkley CC (Chairman)
Mr. D. Harrison CC
Mr. P. King CC

District Council Representative

Cllr. Martin Cartwright
Cllr. Roy Denney

University Representative

Mr. Zubair Limbada

Scheme Member Representatives

Mr. N. Booth
Mr. C. Pitt

Independent Advisers and Managers

DTZ International

Mr. Sam Brice
Ms. Andrea White

39. Minutes.

The minutes of the meeting held on 16 June 2023 were taken as read, confirmed and signed.

40. Question Time.

The Chief Executive reported that no questions had been received under Standing Order 34.

41. Questions asked by members under Standing Order 7(3) and 7(5).

The Chief Executive reported that no questions had been received under Standing Order 7(3) and 7(5).

42. To advise of any other items which the Chairman has decided to take as urgent elsewhere on the agenda.

There were no urgent items for consideration.

43. Declarations of interest in respect of items on the agenda.

The Chairman invited members who wished to do so to declare any interest in respect of items on the agenda for the meeting.

Councillor Denney declared an Other Registrable Interest during consideration of agenda item 12: Community Admission Bodies – Voluntary Action Leicester and Bradgate Park Trust as he was a member on the Charnwood Forest Steering Group and Charnwood Forest Board, as were Voluntary Action Leicester and Bradgate Park Trust, and that he would abstain from the decision to be made at the meeting.

Councillor Cartwright declared an Other Registrable Interest during consideration of agenda item 12: Community Admission Bodies – Voluntary Action Leicester and Bradgate Park Trust as he was a member on the Charnwood Forest Steering Group and Charnwood Forest Board, as were Voluntary Action Leicester and Bradgate Park Trust, and that he would abstain from the decision to be made at the meeting.

44. Change to the Order of Business

The Chairman sought and obtained the consent of the Committee to vary the order of business from that set out on the agenda for the meeting.

45. Annual Report of the Local Pension Board.

The Committee considered the Annual Report of the Local Pension Board for 2022/2023. A copy of the report marked 'Agenda Item 7' is filed with these minutes.

The Chairman of the Local Pension Committee read out a statement on behalf of the Chairman of the Local Pension Board, Mrs. R. Page CC.

RESOLVED:

That the Annual Report of the Local Pension Board for 2022/23 be noted.

46. Pension Fund Annual Report and Accounts 2022/23.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to seek approval of the Annual Report and Accounts of the Pension Fund for the financial year 2022/23. A copy of the report marked 'Agenda Item 8' is filed with these minutes.

RESOLVED:

That:

a. The Annual Report and Accounts of the Pension Fund for the financial year 2022/23 be approved subject to External Audit;

b. It be noted that the Corporate Governance Committee would receive the External Audit of the 2022/23 Leicestershire County Council Statement of Accounts, Annual Governance Statement and Pension Fund Accounts.

47. Pooling Consultation: Next Steps on Investment and LGPS Central Meetings Update.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to inform the Committee of a consultation paper issued by the Department for Levelling Up, Housing and Communities (DLUHC) on 11 July 2023, titled 'Next Steps on Investment', to seek the Committee's views on the proposed response, and to seek its approval for the Director of Corporate Resources to be authorised to finalise and submit the consultation response on behalf of the Fund by the required deadline of 2 October 2023. The report also provided the Committee with an update regarding LGPS Central's Joint Committee, Annual General Meeting, and other relevant matters. A copy of the report marked 'Agenda Item 9' is filed with these minutes.

Arising from discussion, the following points arose:

i. Members supported the proposed response to the Consultation and commented that such centrally prescribed asset allocation decisions should be opposed. The Committee agreed that it had a fiduciary duty to its scheme members and that local pension fund decisions should be made locally. A Member commented that the proposals appeared to provide no benefits for the Fund but would introduce less local control and increase risk and costs.

ii. The Director confirmed that LGPS Central was aligned with the Fund in its view regarding the proposals.

iii. A Member queried in terms of passive funds, if it was the Government's proposal that the pool should pay transaction fees to transfer assets to a higher cost regime, and if therefore the assets should be classified as already pooled to prevent such additional costs arising. It was explained that the Seven Shires agreement in place was a low-cost arrangement, and to move these funds would result in substantial costs, both in transaction fees and by exposing the Fund to some added risks.

iv. It was noted that whilst the Government had suggested there would be efficiencies through pooling, it was not known what these would be or what the scale of such efficiencies might be. The Director confirmed that the Government had not provided any data or evidence to support the suggestion and further clarity could not therefore be provided on this point.

v. It was noted that the Fund had 21% of assets invested in the UK which could go up to 25% with the undrawn commitment. Essentially it may be assumed the Fund had already therefore met the Government's proposal in relation to levelling up..

vi. The Director confirmed work would continue with colleagues at LGPS Central to align and strengthen the consultation response. The consultation results would be brought back to a future meeting of the Local Pension Committee as appropriate.

vii. In response to a Member's question, officers confirmed that the investments in the UK were very wide, and in terms of levelling up investments would more than likely meet each of the Government's 12 medium-term levelling up missions, such as living standards, education and health.

RESOLVED:

a. That the Director of Corporate Resources, following consultation with the Chairman of the Local Pension Committee, be authorised to prepare the detailed response to the Government consultation titled ‘Next Steps on Investment’ on behalf of the Fund, taking account of the comments now made by the Committee, and to submit this to the Government by the deadline of 2 October 2023;

b. That the update provided regarding LGPS Central’s Joint Committee, Annual General Meeting, and other relevant matters be noted.

48. DTZ International (DTZ) - UK Property Update.

The Committee considered a report of the Director of Corporate Resources which provided information on the Leicestershire Pension Fund (Fund) direct property investments and the performance of the UK direct property fund and market outlook. A copy of the report marked ‘Agenda Item 6’ is filed with these minutes.

The Chairman welcomed to the meeting Mr Sam Brice and Ms. Andrea White from DTZ International (DTZ) who supplemented the report with a presentation which is also filed with these minutes.

Arising from the report and presentation the following points arose:

i. It was noted that whilst the Fund had allocated money to DTZ, no purchases had been made to date due to limited available investment products. However, DTZ stated it had upcoming opportunities and had taken the approach to contact other landlords directly to see if they were looking to down weight their real estate exposure.

ii. A Member asked if there was a danger that asset values would be inflated with more money chasing fewer opportunities, and if so, how it affected investment returns. DTZ explained that, although there were less products, there were also fewer buyers, mainly due to higher inflation and consequential impacts on the economy over the past 12 months. Some investors were waiting for the economy to stabilise before investing. However, DTZ explained that during Quarter 4, the market had gone through a period of repricing, which had made the market more attractive to investors, with resilient sector (Industrial and Retail) prices having held steady with no significant increases. It was further anticipated that there would be some capital appreciation over the next four years in those sectors.

iii. A Member questioned if additional costs to reach net zero in the property market by 2040 had been taken into account when acquiring property. DTZ confirmed that reaching Net Zero was a key focus both in terms of acquisitions and also with assets already held within the wider business. Members noted that DTZ had undertaken Net Zero audits across the portfolio to identify what costs would be incurred to transition an asset to Net Zero. It was further noted that there were Asset Improvement Plans which incorporated a range of different aspects, including ESG (Environmental, Social and Governance) and Net Zero to ensure DTZ were taking appropriate actions. DTZ confirmed it also had robust processes to ensure correct pricing when acquiring assets, and that assets were reviewed on an annual basis to forecast returns.

iv. Members were informed that the biggest area affected in terms of change in its structure was the office market. Forecast charts did reflect a fall in the value of the market, reflecting a lower tenant base, and increased costs in building improvements to meet modern ESG standards. Tenants would also go through various phases of different business models, and the key would be to focus on assets that were flexible enough to meet a tenant's changing occupational requirements.

v. A Member referred to the funds allocated but not yet committed in the sector and, with falling capital values, questioned the correct timing of the purchase of assets in the current market. DTZ acknowledged it was always very difficult to time the market. They were positive with the resilient sectors but were cautious to price assets on their own merits, looking long-term over the five-year period to deliver returns.

RESOLVED:

That the report and presentation from DTZ International on Leicestershire Pension Fund direct property investments and the performance of the UK direct property funding and market outlook be noted.

(Mr Sam Brice and Ms. Andrea White left the meeting at this point).

49. Summary Valuation of Pension Fund Investments.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to provide an update on the investment markets and how individual asset classes were performing focussed on listed equity and a summary valuation of the Fund's investments as of 30 June 2023. The report further provided an update on progress with respect to the listed equity changes as approved at the 19 April 2023 meeting of the Investment Sub-Committee. A copy of the file marked 'Agenda Item 10' is filed with these minutes.

Arising from discussion the following points arose:

i. In response to a query from a Member about uncalled commitments, it was confirmed that interest earned on money allocated but which sat in the Fund as it had not yet been drawn down, would go into the Fund. Members noted that just under 10% (£500million) was held as a cash balance, with £500billion invested in asset classes.

ii. A Member queried whether dealing instructions were in place for investments managed by LGPS Central to realign with the strategic asset allocation (SAA). It was noted that the LGIM had instructions in place, but LGPS Central required instructions to be placed. An example given was, if global equity had a target weight of 12%, but moved to 11% or 13%, it would be rebalanced accordingly through manual instruction, and this was done when there was a quarterly valuation of the whole Fund.

iii. A Member queried if the company Portfolio Evaluation (an independent collator and checker of manager performance information) had now closed. It was reported that plans were in place to transition to a new service provider.

RESOLVED:

That the report on the Summary Valuation of Pension Find Investments be noted.

50. Risk Management and Internal Controls.

The Committee considered a report of the Director of Corporate Resources which provided information on any changed relating to the risk management and internal controls of the Pension Fund, as stipulated in the Pension Regulator's Code of Practice. A copy of the file marked 'Agenda Item 11' is filed with these minutes.

Councillor Cartwright as a new Member on the Committee queried what response had been provided in relation to a motion passed by Hinckley and Bosworth Borough Council (HBBC) on 22 February 2023 regarding the divestment of the Fund from fossil fuels. Officers confirmed that the matter had been raised at Local Pension Committee meetings, and a letter of response provided by the Chairman. Officers undertook to provide Councillor Cartwright with a copy of the Chairman's letter for information.

The Chairman commented that responsibility for the LGPS pension fund rested with this Committee, which had agreed a New Zero Climate Strategy following consultation with all members of the Fund. The Chairman further commented that the report on Responsible Investment showed how much work was being undertaken on the matter.

RESOLVED:

a. That the report on Risk Management and Internal Controls be noted;

b. That the revised risk register be approved.

51. Community Admission Bodies - Voluntary Action Leicester and Bradgate Park Trust.

The Committee considered a report of the Director of Corporate Resources which sought approval from the Committee on the proposed transfer of Voluntary Action Leicester (VAL) pension fund assets and liabilities to Leicestershire County Council, and Bradgate Park Trust (BPT) pension fund assets and liabilities equally to Leicestershire County Council and Leicester City Council, prior to a report to be taken to Cabinet for Leicestershire County Council Employer approval on 15 September 2023. The report had been taken to the Fund's Pension Board on 2 August 2023, and the Board supported the proposal. A copy of the file marked 'Agenda Item 12' is filed with these minutes.

The Director highlighted a potential conflict of interest arising from his employment for the County Council and his work on behalf of the Fund, but confirmed that the interests of both parties were aligned in this instance and there were therefore no issues to report.

A Member welcomed the added security the proposal would provide for the Fund but also noted it would be a positive step for both VAL and BPT.

RESOLVED:

a. That the transfer of Voluntary Action Leicestershire pension fund assets and liabilities to the County Council be approved;

b. That the transfer of Bradgate Park Trust pension fund assets and liabilities equally to the County Council and Leicester City Council be approved.

52. Responsible Investing Update.

The Committee considered a report of the Director of Corporate Resources which provided an update on progress versus the Responsible Investment (RI) Plan 2023, and provided an update on the Fund's quarterly voting report and stewardship activities.

A Member commented that where the Fund had holdings in companies there was opportunity to influence on climate related matters, which would not be possible if the Fund divested and another less responsible investor invested. While there was still opportunity to work with these companies it was important the Fund pursued the matter, recognising the Committee's primary duty was its fiduciary duty to pensioners.

RESOLVED:

That the Responsible Investing Update report be noted.

53. Action Agreed by Investment Sub-Committee.

The Committee considered a report of the Director of Corporate Resources which provided details on decisions agreed by the Investment Sub-Committee at is meeting held on 26 July 2023. A copy of the report marked 'Agenda Item 13' is filed with these minutes.

RESOLVED:

That the report on the decisions agreed by the Investment Sub-Committee at its meeting on 26 July 2023 be noted.

54. Date of next meeting.

The date of the next meeting was scheduled for Friday 1 December 29023, at 9.30am.

55. Exclusion of the Press and Public.

RESOLVED:

That under Section 100(A) of the Local Government Act 1972 the public be excluded from the meeting for the remaining items of business on the grounds that they involve the likely disclosure of exempt information as defined in Part 1 of Schedule 12(A) of the Act.

56. LGPS Central Quarterly Investment Report

The Committee considered an exempt report by LGPS Central. A copy of the report marked 'Agenda Item 18' is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

57. Adams Street PE Q1 2023

The Committee considered an exempt report by Adams Street. A copy of the report marked 'Agenda Item 19' is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

58. Aspect Diversified Fund Quarterly Performance Report June 2023

The Committee considered an exempt report by Aspect Diversified Fund. A copy of the report marked 'Agenda Item 20' is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

59. LGIM Investment Report

The Committee considered an exempt report by LGIM. A copy of the report marked 'Agenda Item 21' is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

60. Pictet Quarterly Report

The Committee considered an exempt report by Pictet. A copy of the report marked 'Agenda Item 22' is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

61. Ruffer Quarterly Report

The Committee considered an exempt report by Ruffer. A copy of the report marked 'Agenda Item 23' is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

62. AVPUT

The Committee considered an exempt report by AVPUT. A copy of the report marked 'Agenda Item 24' is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

63. 2023 06 IFM GIF Quarterly Investor Report vf - UK LP

The Committee considered an exempt report by IFM. A copy of the report marked 'Agenda Item 25' is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

64. LGPSC Credit Partnership

The Committee considered an exempt report by LGPSC Credit Partnership. A copy of the report marked 'Agenda Item 26' is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

65. Partners Group

The Committee considered an exempt report by Partners Group. A copy of the report marked 'Agenda Item 27' is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

66. CRF

The Committee considered an exempt report by CRF. A copy of the report marked 'Agenda Item 28' is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

67. JP Morgan Quarterly Report

The Committee considered an exempt report by JP Morgan. A copy of the report marked 'Agenda Item 29' is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

68. LaSalle Quarter 1 2023

The Committee considered an exempt report by Lasalle. A copy of the report marked 'Agenda Item 30' is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

69. LGPSC Core/Core Plus

The Committee considered an exempt report by LGPS. A copy of the report marked 'Agenda Item 31' is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

70. M&G DOF Quarter 2 2023

The Committee considered an exempt report by M&G. A copy of the report marked 'Agenda Item 32' is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

71. Stafford Timberland Quarterly Report

The Committee considered an exempt report by Stafford Timberland. A copy of the report marked 'Agenda Item 33' is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

72. Aegon

The Committee considered an exempt report by Aegon. A copy of the report marked 'Agenda Item 34' is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

9.40am to 11.32am CHAIRMAN
08 September 2023

Leicestershire County Council

LOCAL PENSION COMMITTEE - 1 DECEMBER 2023

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

FUNDING POSITION UPDATE

Purpose of the Report

1. The purpose of the report is to inform the Local Pension Committee about the Fund's estimated Funding Position as at 30 September 2023.

Background

2. Leicestershire Local Government Pension Scheme is required to complete a Pension Fund Valuation every three years. The most recent valuation took place on 31 March 2022, setting the employer contribution rates for the period 1 April 2023 to 31 March 2026.

3. At the earlier 31 March 2019 valuation, the Fund was 89% funded. At the 31 March 2022 valuation the Fund was 105% funded, meaning there was a surplus of assets over liabilities at the time of the valuation, and marks a significant improvement in the overall funding level. This was primarily driven by strong investment returns over the period.

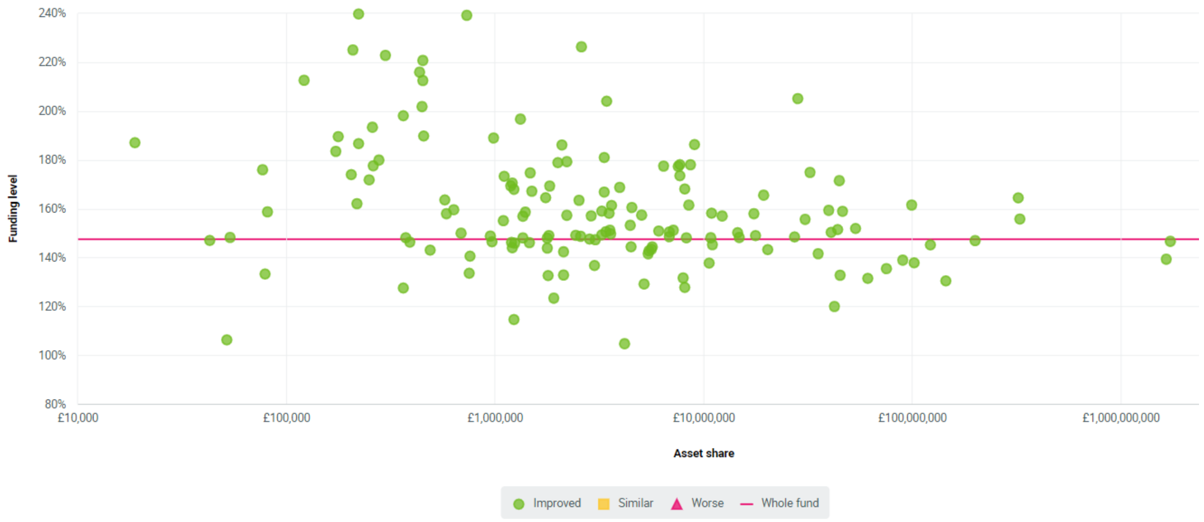
4. The next Fund valuation is on 31 March 2025. However, Fund Officers requested the Fund's Actuary Hymans Robertson, provide a mid-valuation funding position to assess progress since the last valuation, and to provide a guide on the likely outcome at the 2025 valuation.

5. It is important to note that any funding update (including the formal valuation) is only a snapshot in time. The funding level is therefore extremely sensitive to the choice of assumptions and market movements, in particular the expected future investment return assumption.

6. Actual benefit payments in the future will be in respect of both service accrued up to today ("past service") and service that will be accrued in the future ("future service"). The funding position is only in respect of past service benefits.

7. The mid-valuation funding position as at 30 September 2023 shows an increase in overall funding level to 149% funded (see Section 1.1 of the Appendix).

8. Funding levels are calculated separately for each employer, and it is expected that the majority of employers will experience a similar improvement in funding level since 31 March 2022 with the majority of employers now expected to be fully funded. The chart below shows the funding levels at 30 September 2023 for individual employers.



Change in funding level between last valuation and 30 Sep 2023

9. The mid-valuation exercise is not as thorough as the full valuation exercise (for example, no detailed pension data has been provided by the Fund or full calculations completed by the Actuary) hence there is potential for changes to the results to allow for actual membership experience (or any changes in assumptions) by 2025.

10. There is also potential for the funding level to materially change by 31 March 2025 depending on changes in investment markets (assets) and economic projections (liabilities).

<u>Key Funding Measures</u>

11. The Fund Actuary, Hymans Robertson, has provided a document, an Update on Funding Position as at 30 September 2023. This is attached as an Appendix to this report.

12. Rather than duplicate much detail from this document, this report concentrates on the key changes since the 2022 valuation.

13. Since the 2022 valuation, the key funding measures estimated to have changed after allowing for market conditions to 30 September 2023 are:

- Past service funding position has improved from 105% to 149%
- Expected future returns have risen from 4.4% pa to 6.6% pa
- Required future return (to be fully funded) has increased from 4.2% pa to 4.3% pa.

- Likelihood of the Fund achieving the required return has increased from 78% to 92%.

These measures are explained in greater detail below.

14. **Past Service Funding Position**. The past service funding position as at 30 September 2023 has improved since the formal funding valuation as at 31 March 2022 from 105% to 149% funded – see the Appendix for details. The value of assets held by the Fund is broadly the same as in 2022. However, the improvement in funding has been driven by a significant change in investment outlook (as noted below).

15. **Investment outlook**. The economic environment has changed significantly since 31 March 2022 formal funding valuation – in particular the rise in future expected returns.

    At the 2022 formal funding valuation, the fund assumed a future expected return of 4.4% pa based on a 75% likelihood of achieving these returns. Future investment returns, at this same level of prudence (75% likelihood of being achieved), are now expected to be 6.6% pa.

16. **Required return assumption (% pa) for funding level to be 100% and associated likelihood of success**. At the 2022 valuation, future investment returns of 4.2% pa were required to be 100% funded. There was estimated to be a 78% likelihood of achieving these required returns.

    The mid-valuation update at September 2023 shows future investment returns of 4.3% pa are now required to be 100% funded. However, the likelihood of the Fund's assets achieving this level of required return is now 92%.

    Therefore, the Fund is now more likely to have sufficient assets to meet earned benefit payments than at the previous valuation.

<u>Investment Risk</u>

17. The past service position represents a snapshot of the funding level on a specific day on a given set of assumptions. The liabilities are extremely sensitive to the choice of assumptions and market movements, in particular the expected future investment return assumption.

18. The discount rate used to calculate the liabilities as at 30 September 2023 is markedly higher than at 31 March 2022, as noted in the Appendix (Section 3.4). The higher discount rate reflects higher expected future investment returns, which has been largely driven by an increase in interest rates since 2022. In isolation, this serves to place a much lower value on the past service liabilities calculated at 30 September 2023.

19. If expected future returns were assumed to be lower, the value placed on liabilities would increase and the funding level would reduce. The actuary

estimates that 1% pa lower assumed return (discount rate) would reduce the funding level by around 20%.

20. While the strong funding position is good news for the Fund, it is important to remember that this position is only in respect of past service benefits and investment markets (and inflation) remain volatile.

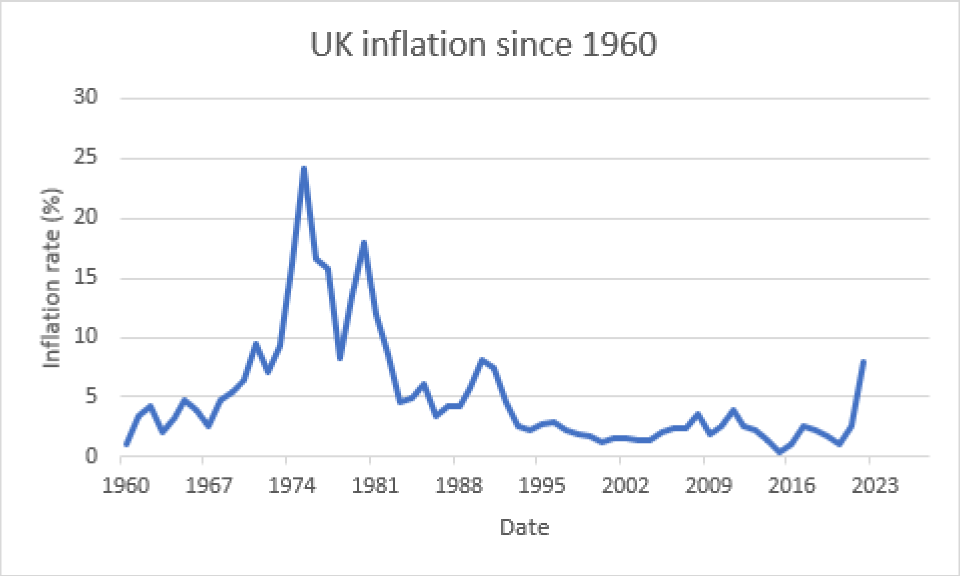
Inflation Risk

21. Actual realised inflation since the 2022 valuation has been higher than assumed. The updated funding position allows for the 10.1% increase to pensions in April 2023. The pension increase order in April 2024 is expected to be 6.7% (based on September 2023 CPI) which will serve to reduce the funding level by around 4%.

22. Short-term inflation remains high however, the pension increase assumption over the longer-term, has fallen from 2.9% pa in 2022 to 2.5% pa (as noted in the Appendix), which has improved the funding position.

23. The assumption for future pension increases is that this will tend towards the Bank of England CPI target of 2.0% per annum over the longer-term. To recognise increased levels of uncertainty around future inflation, the Fund currently allows for an additional 0.2% pa margin above the “best estimate" long term inflation assumption, as inflation protection.

24. Current expectations are that higher short-term inflation will continue to fall. However, if inflation persisted at higher levels this would reduce the funding position (all else being equal). Historically there have been prolonged periods of higher inflation (as shown in the chart below), which demonstrates why inflation is a key risk for the Fund to monitor.



25. In the event that future inflation was materially higher than the current long-term assumption of 2.5% pa this would increase liabilities and reduce the

funding level. For example, the Actuary estimates that an increase to 3.5% pa would reduce the funding position by around 20%.

26. Member benefit payments are directly linked to inflation and so significant higher inflation has a direct impact on the cashflows paid out each year by the Fund. Despite the high short-term increases to pensions, the Fund remains in a strong positive cashflow position (where contribution income exceeds benefits). The Fund will continue to monitor cashflow risk closely over the inter-valuation period and at the next valuation.

Indicative Impact on Future Employer Contribution Rates

27. Employer rates are split into two, primary and secondary rates.

    - The Primary rate covers the cost of future benefit accrual.
    - The Secondary rate covers the cost of benefits already accrued.

    Hymans indicate the cost of future benefit accrual has reduced since 31 March 2022, which is likely to reduce the cost of the Primary rate. This is mainly due to the increase in future expected returns as noted above. This, coupled with the improved past service position will have a positive impact. The improved past service position will reduce the cost of the Secondary rate for benefits that have already been accrued.

28. It is difficult to predict with any certainty the overall impact on the employer rates at the current time. However, the current improved funding position and improved future investment outlook suggest contribution rate reductions may be possible for employers at the 2025 valuation.

29. Employers are grouped into separate categories and those presenting a greater risk to the Fund, are assessed further. The fund is likely to maintain the same funding approach, as outlined in the funding strategy statement, when assessing employer contribution rates as part of the 2025 formal funding valuation.

30. The mid-valuation exercise is designed as a check for Officers to assess funding level progress. It also supports forward planning of investment and funding strategy. The results as of 30 September 2023 indicate there is no immediate action required by the Fund. However, officers have begun discussions with the Fund Actuary to plan ahead for the 2025 valuation.

31. At the 2025 valuation, the Fund will seek to balance longer-term security and stability with employer affordability while also considering the possible impact of pertinent risks, such as inflation and climate risks.

32. Officers and the Fund actuary are considering the best use of funding levers:

    - Maintaining a funding cushion to protect against market volatility and funding uncertainties.
    - Provide contribution reductions to employers where appropriate.

- Increase prudence to provide security against future risks that may be harder to quantify (for example, climate risks).
- Reduce investment risk where appropriate.

The Fund will seek to maintain the existing framework as outlined below.

Employer Contribution Rate Reductions

33. During the 2022 valuation exercise, Officers consulted with the employers on the Fund’s Funding Strategy Statement (FSS). This included setting a framework around employer contribution rate reductions.

34. Where an employer has a past service funding surplus, as calculated by the Fund actuary on the appropriate funding basis, a reduction in contribution rate may be permitted by the administering authority.

35. The following framework is included in the Fund’s February 2023 FSS, as a guide.

Employer Funding Level	**Total contribution rate**
Less than 100% funded	Employer pays a contribution rate to increase their funding level
Between 100% and 110% funded	Employer pays a contribution rate to continue to build up their funding level to between 110% and 120%
Between 110% and 120% funded	Employer pays a contribution rate to maintain their funding level between 110% and 120%
Greater than 120% funded	Employer is allowed to benefit from a contribution rate reduction, to gradually reduce their funding level down to 120%, where applicable

36. Hymans’ calculations indicate an improving funding position for the majority of employers. This is likely to result in more employers being greater than 120% funded at the 2025 valuation.

37. Officers are keen to point out that when the Fund was in deficit, the Fund did not increase employer rates significantly. Instead, rates were stepped gradually to reduce the deficit. As the funding position continues to improve, Officers do not want to make significant reductions to employer rates. Instead, Officers plan to gradually reduce rates down where applicable.

38. Officers consider this a fair approach which was approved at the 2022 valuation and will remain in place for the 2025 valuation.

Timeline for the 31 March 2025 Valuation

39. The following table provides a guide to the estimated timeline for the 31 March 2025 valuation, when Officers intend to split the employers into two

groups. This is simply designed to assist administration. It allows the Pension Section to deal with one group of employers first, then move onto all the other employers. Group one is the stabilised employers, and these tend to be the larger tax raising employers, for example, Leicestershire County Council, Leicester City, the Borough and District Councils, Police and Fire. Group two are all the other employers.

Date	**Topic**	**Action or Awareness**
December 2023	Mid-valuation funding update	Committee
September 2024	Provide Hymans with stabilised employer data	Pension Section
September/October 2024	Calculate indicative stabilised employer rates	Hymans
November 2024	Agree principles for the 2025 assumptions.	Committee
March 2025	Results of the stabilised employer modelling	Committee
April 2025	Provide the stabilised employers with their indictive rates. 1 April 2026 to 31 March 2029	Pension Section/Stabilised employers
June 2025	Agree final valuation assumptions.	Committee
August 2025	Provide Hymans with all Fund data	Pension Section
July/September 2025	Review selected employer’s financial health	Pension Section
September 2025	Calculate Fund results	Hymans
September/October 2025	Whole Fund valuation results	Committee/Board
October/November 2025	Provide the other employers with their indicative rates. 1 April 2026 to 31 March 2029	Pension Section/Fund employers
December 2025	Changes to Fund Funding Strategy Statement and Investment Strategy Statement	Pension Section/Fund employers
February 2026	Funding Strategy Statement and Investment Strategy Statement	Committee/Board

March 2026	Final valuation report produced with final employer rates	Hymans
April 2026 to March 2029	Employer rates implemented	Pension Section/Fund employers

Recommendation

40. Members of the Committee are asked to note the report.

Equality Implications

There are no equality implication arising from the recommendations in this report.

Human Rights Implications

There are no human rights implications arising from this report.

Appendix

Update on Funding Position as at 30 September 2023

Officers to Contact

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Leicestershire County Council Pension Fund

Funding update report at 30 September 2023

This report is addressed to the Administering Authority of the Leicestershire County Council Pension Fund. This document should be read in conjunction with the fund's current Funding Strategy Statement.

The purpose of this report is to provide the funding position of the Leicestershire County Council Pension Fund as at 30 September 2023 and show how it has changed since the previous valuation at 31 March 2022. This report has not been prepared for use for any other purpose and should not be so used. The report should not be disclosed to any third party except as required by law or regulatory obligation or with our prior written consent. Hymans Robertson LLP accept no liability where the report is used by or disclosed to a third party unless such liability has been expressly accepted in writing. Where permitted, the report may only be released or otherwise disclosed in a complete form which fully discloses the advice and the basis on which it is given.

The figures presented in this report are prepared only for the purposes of providing an illustrative funding position and have no validity in other circumstances. In particular, they are not designed to meet regulatory requirements for valuations.

This report also contains the data and assumptions underlying the results and the reliances and limitations which apply to them.

1 Results

1.1 Funding position update

The table below shows the estimated funding position at 31 March 2022 and 30 September 2023.

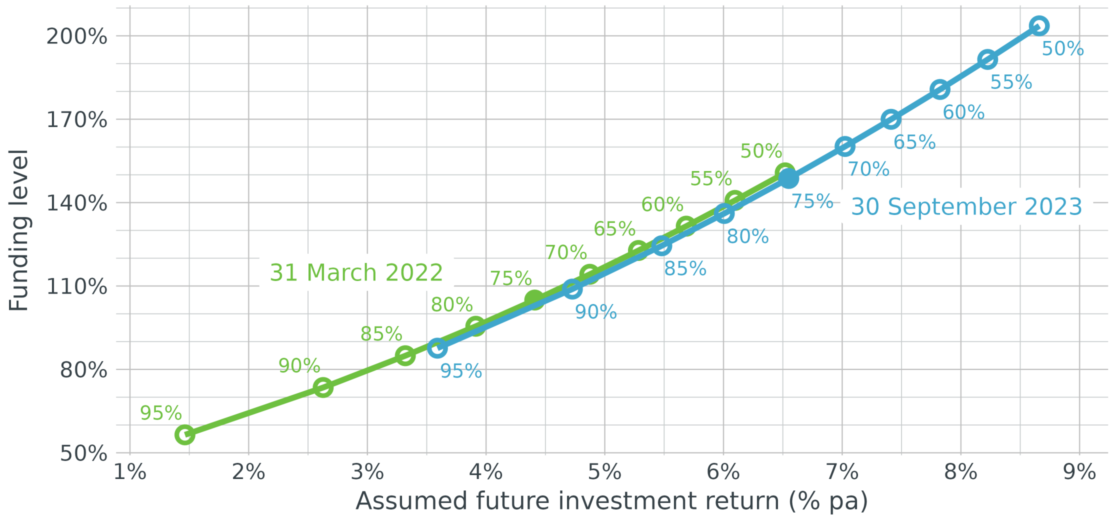
Please note that the asset value at 30 September 2023 shown in this report may differ to the actual asset value at that date because it is an estimate based on estimated cashflows (see section 3.2). However, the estimated value is consistent with the liabilities and therefore gives a more reliable estimate of the funding position than the actual asset value at the same date.

The table also shows what assumed investment return would be required at each date for the deficit to be exactly zero, along with the likelihood of the investment strategy achieving this return. An increase in this likelihood corresponds to an improvement in the funding position.

Monetary amounts in £bn	Ongoing basis	
	31 March 2022	30 September 2023
Assets	5.79	6.03
Liabilities		
– Active members	2.13	1.52
– Deferred pensioners	1.08	0.70
– Pensioners	2.30	1.84
Total liabilities	5.51	4.05
Surplus/(deficit)	0.28	1.97
Funding level	105%	149%
Required return assumption (% pa) for funding level to be 100%	4.2%	4.3%
Likelihood of assets achieving this return	78%	92%

1.2 Funding level range chart

The chart below shows how the funding level varies with the assumed rate of future investment returns, comparing the position at 31 March 2022 with the updated position at 30 September 2023 . The percentages next to each point show the likelihood of the investment strategy achieving that return (for further details see section 3.4). The solid coloured point indicates the assumed future investment return and funding level on the Ongoing basis.



1.3 Funding level progression

The chart below shows the estimated funding level (ratio of assets to liabilities) over time between 31 March 2022 and 30 September 2023. It allows for changes in market conditions and other factors described in Appendix A. If the fund has moved to a different basis since 31 March 2022 this may give rise to step changes in the funding level on the date of the change.

2 Next steps

2.1 Understanding the results

The results at 30 September 2023 in this report are estimates based on rolling forward the fund's funding position from 31 March 2022. You should understand the methodology and limitations of this approach described in appendices A and B.

Decisions should not be based solely on these results and your Hymans Robertson LLP consultant should be contacted to discuss any appropriate action before any is taken. Please also bear in mind that the information is estimated and consider other factors beyond the funding level or surplus/deficit. These could include, but are not limited to, changes to investment strategy, membership profile and covenant strength (where relevant).

Please get in touch with your usual Hymans Robertson contact if you wish to discuss the results in this report further.

3 Data and assumptions

3.1 Membership data

The membership data underlying the figures in this report was supplied by the fund for the purpose of the valuation at 31 March 2022 and is summarised below:

31 March 2022	Number	Average age	Accrued benefit (£k pa)	Payroll (£k pa)
Active members	37,228	52.4	130,520	731,068
Deferred pensioners	39,712	51.3	62,026	
Pensioners and dependants	31,523	68.6	143,602	

The membership is assumed to evolve over time in line with the demographic assumptions described in the Funding Strategy Statement. Please see Appendix A for details of the rollforward methodology which includes the estimated changes in membership data which have been allowed for.

3.2 Cashflows since the valuation at 31 March 2022

We have allowed for the following cashflows in estimating the assets and liabilities at 30 September 2023. Cashflows are assumed to be paid daily. Contributions are based on the estimated payroll, certified employer contributions (including any lump sum contributions) and the average employee contribution rate at 31 March 2022. Benefits paid are projections based on the membership at 31 March 2022.

Estimated cashflows (£k)	31 March 2022 to 30 September 2023
Employer contributions	373,567
Employee contributions	72,607
Benefits paid	257,020
Transfers in/(out)	0

3.3 Investment returns since the valuation at 31 March 2022

Investment returns are based on actual returns where available and index returns otherwise.

Investment strategy	Actual/index	From	To	Return
Whole fund	Actual	1 April 2022	30 September 2023	0.79%

The total investment return for the whole period is 0.79%.

3.4 Financial assumptions

The financial assumptions used to calculate the liabilities are detailed below. For further details please see the Funding Strategy Statement.

Assumption	31 March 2022	30 September 2023
Funding basis	Ongoing	Ongoing
Discount rate methodology	Expected returns on the Leicestershire Pension Fund strategy over 20 years with a 75% likelihood	Expected returns on the Leicestershire Pension Fund strategy over 20 years with a 75% likelihood
Discount rate (% pa)	4.4%	6.6%
Pension increase methodology	Expected CPI inflation over 20 years with a 50% likelihood plus a margin of 0.2% pa	Expected CPI inflation over 20 years with a 50% likelihood plus a margin of 0.2% pa
Pension increases (% pa)	2.9%	2.5%

Salary increases are assumed to be 0.5% pa above pension increases, plus an additional promotional salary scale.

3.5 Demographic assumptions

Demographic assumptions are set out in the Funding Strategy Statement. All demographic assumptions, including longevity assumptions, are the same as at the most recent valuation at 31 March 2022.

Life expectancies from age 65, based on the fund's membership data at 31 March 2022, are as follows. Non-pensioners are assumed to be aged 45 at that date.

	Ongoing basis	
Life expectancy from age 65 (years)	**Male**	**Female**
Pensioners	21.6	24.4
Non-pensioners	22.3	25.8

Appendix A - Technical information

A.1 Funding update methodology

The last formal valuation of the fund was carried out as at 31 March 2022. The results in this report are based on projecting the results of this valuation forward to 30 September 2023 using approximate methods. The rollforward allows for

- estimated cashflows over the period as described in section 3.2;
- investment returns over the period (estimated where appropriate) as described in section 3.3;
- changes in financial assumptions as described in section 3.4;
- estimated additional benefit accrual.

The CARE, deferred and pensioner liabilities at 30 September 2023 include a total adjustment of 7.0% to reflect the difference between actual September CPI inflation values (up to 30 September 2022) and the assumption made at 31 March 2022. The adjustment for each year's actual inflation is applied from 31 October that year, cumulative with prior years' adjustments, which may lead to step changes in the funding level progression chart.

In preparing the updated funding position at 30 September 2023 no allowance has been made for the effect of changes in the membership profile since 31 March 2022. The principal reason for this is that insufficient information is available to allow me to make any such adjustment. Significant membership movements, or any material difference between estimated inputs and actual ones, may affect the reliability of the results.The fund should consider whether any such factors mean that the rollforward approach may not be appropriate.

No allowance has been made for any early retirements or bulk transfers since 31 March 2022. There is also no allowance for any changes to Local Government Pension Scheme (LGPS) benefits except where noted in the formal valuation report or Funding Strategy Statement.

A.2 Sensitivity of results to assumptions

The results are particularly sensitive to the real discount rate assumption (the discount rate net of pension increases) and the assumptions made for future longevity.

If the real discount rate used to value the accrued liabilities was lower then the value placed on those liabilities would increase. For example, if the real discount rate at 30 September 2023 was 1.0% pa lower then the liabilities on the Ongoing basis at that date would increase by 19.4%.

In addition, the results are sensitive to unexpected changes in the rate of future longevity improvements. If life expectancies improve at a faster rate than allowed for in the assumptions then, again, a higher value would be placed on the liabilities. An increase in life expectancy of 1 year would increase the accrued liabilities by around 3-5%.

Appendix B - Reliances and limitations

The last formal valuation of the fund was carried out as at 31 March 2022 and these calculations rely upon the results of that valuation. The reliances and limitations that applied to that valuation apply equally to these results. The results of the valuation have been projected forward using approximate methods. The margin of error in these approximate methods increases as time goes by. The method may not be appropriate if there have been significant data changes since the previous formal valuation (for example redundancy exercises, significant unreduced early retirements, ill health retirements and bulk transfers). The methodology assumes that actual experience since the valuation at 31 March 2022 has been in line with our expectations.

The data used in this exercise is summarised in section 3. Data provided for the purposes of the formal valuation at 31 March 2022 was checked at the time for reasonableness and consistency with other sources. Data provided since then (eg actual investment returns) has been used as-is. The data is the responsibility of the Administering Authority and the results rely on the data.

The results in this schedule are based on calculations run on 17 November 2023 using the data set out in section 3. Any other factors coming to light after this report was prepared have not been allowed for and could affect the results. If any data has materially changed since 17 November 2023 the results could be materially different if they were recalculated.

Some financial assumptions may be based on projections from our Economic Scenario Service (ESS) model which is only calibrated at each monthend. Results between monthends use the latest available calibration, adjusted in line with the movement in market conditions. This adjustment is approximate and there may be step changes at monthend dates when a new ESS calibration is factored in.

The methodology underlying these calculations mean that the results should be treated as indicative only. The nature of the fund's investments means that the surplus or deficit identified in this report can vary significantly over short periods of time. This means that the results set out should not be taken as being applicable at any date other than the date shown.

As with all modelling, the results are dependent on the model itself, the calibration of the underlying model and the various approximations and estimations used. These processes involve an element of subjectivity and may be material depending on the context. No inferences should be drawn from these results other than those confirmed separately in writing by a consultant of Hymans Robertson LLP.

Decisions should not be based solely on these results and your Hymans Robertson LLP consultant should be contacted to discuss any appropriate action before any is taken. Hymans Robertson LLP accepts no liability if any decisions are based solely on these results or if any action is taken based solely on such results.

This report complies with the relevant Technical Actuarial Standards.

Agenda Item 7

Leicestershire County Council

LOCAL PENSION COMMITTEE – 01 DECEMBER 2023

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

SUMMARY VALUATION OF PENSION FUND INVESTMENTS

Purpose of Report

1. The purpose of this report is to provide the Local Pension Committee with an update on the investment markets and how individual asset classes are performing focusing on listed equity.

2. The report also provides an update on progress with respect to the listed equity changes, as approved by the Investment Sub-Committee on 19 April 2023, and to the scope for the Fund's investment advisor's strategic asset allocation (SAA) review which will be presented to the Committee for approval in January 2024.

Markets Performance and Outlook

3. A summary of global asset class performance over various time frames as at quarter end 30 September 2023 is shown below. No assets are now showing double digit returns over 20 years with gold dropping to 9.8% per annum (annualised this quarter), sterling high yield debt dropping out the quarter ending 30 June 2023, and property the quarter ending 31 March 2023.

	3 months*	One year	Three years	Five years	Ten years	Twenty years
GLOBAL EQUITIES	-3.1%	21.6%	7.7%	7.0%	8.1%	8.1%
PRIVATE EQUITY	9.5%	19.2%	15.6%	9.9%	11.4%	NA
PROPERTY	-8.4%	-1.6%	2.8%	2.8%	6.1%	7.9%
INFRASTRUCTURE	-7.3%	6.9%	7.3%	4.0%	5.1%	7.4%
HIGH YIELD	3.7%	15.4%	2.1%	2.8%	4.9%	9.7%
PRIVATE DEBT	1.4%	4.0%	0.8%	-0.6%	-0.2%	0.0%
UK GILTS	-0.8%	-3.0%	-12.2%	-4.2%	0.2%	2.8%
UK INDEX-LINKED	-5.3%	-13.5%	-14.3%	-5.4%	1.0%	4.0%
GOLD	0.2%	1.9%	0.9%	10.6%	6.2%	9.8%

Note: Private Market asset classes will typically display lower volatility compared to their listed index proxies.

Portfolio changes in the quarter ended

4. The year 2022 was a busy year for calls and reallocations to the SAA based on commitments made in 2021 and 2022. However, 2023 has been far quieter so far with respect to the volume of reallocations and calls. During the quarter up to 30 September the following changes were completed:

   a. The first phase of the listed equity changes agreed by the Investment Sub Committee (ISC) on 19 April 2023 was completed resulting in the reduction to the LGPS Central climate multi factor fund holdings for circa £220million. This reduction was scheduled to align with another partner fund who was adding to the same fund, and as such a very low-cost switch of units enabled both Funds to avoid trading costs. The resulting cash was added to the Fund's cash balances.

   b. The first reductions to the Fund's targeted return holdings commenced. Holdings at two managers were reduced to equal monetary amounts and will be divested in total over the coming months. The initial reduction totalled £48.5million which was added to the Fund's cash balances.

Outstanding commitments

5. Capital calls from other commitments were concluded as and when they were received. At the time of writing the value of outstanding commitments is significant at nearly £0.6billion and illustrates the approvals made by the Committee to align the Fund with the strategic asset allocation (SAA). The majority of the outstanding commitments is to a variety of LGPS Central (Central) investment products which include private debt, infrastructure, private equity and UK property.

6. There are significant commitments waiting to be signed once the relevant product subscription documents are available. At present these total circa £350million with £280million approved for Central 2023 private credit vintages.

Market backdrop

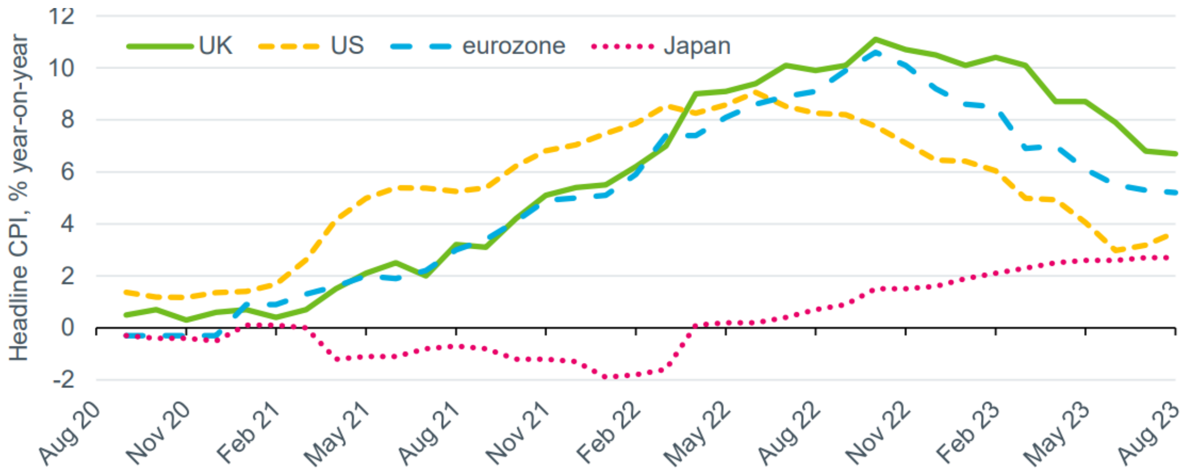
7. Equity markets have endured a difficult 18 months including the slowing down of global trade, the war in Ukraine, energy shortages, inflation increases in developed nations and a rapid increase of interest rates in many countries. Global growth continues to defy downbeat expectations, where headline inflation seems to be finally falling in developed markets but core inflation (usually removing food and fuel) remains above most central bank targets. A fuller capital markets update, provided by Hymans Robertson is appended to this report.

8. Global growth in 2023 has been subdued, even by post-Global Financial Crisis (GFC) standards, but more resilient than expected. Consumer spending exceeded expectations, particularly in the US; fiscal support dulled the impact of higher energy prices on European consumers; and China emerged from its zero-Covid restrictions earlier than hoped.

9. Inflation has generally stayed on a downward trend, but the recent sharp rise in oil prices led to an uptick in year-on-year US CPI inflation in August (see chart below). Declines in energy prices have been a key contributor to the reduction in headline inflation over the last year, and so any reversal could slow the downtrend. Central banks might choose to 'look through' the immediate impact of a temporary, supply

driven increase in energy prices. However, the risk of second-round effects, alongside sticky core inflation and tight labour markets, are reasons why central banks may proceed cautiously with rate cuts.

Inflation remains elevated whilst trending lower through 2023



10. Hymans believe the tone of central bank comments at recent meetings, where rates have been held and market pricing suggest that policy rates are at or close to peaking, that subsequent cuts will be gradual. This will limit the potential boost to growth from looser monetary policy in 2024 and 2025.

11. Hymans do not believe growth will collapse but expect it to fall to a very lacklustre pace in 2024, followed by a modest recovery in 2025. While consensus forecasts for global GDP growth in 2023 have risen to 2.4% from 1.6% at the start of the year, 2024 global GDP forecasts have fallen to 2.1% from 2.5%, and Hymans believe a poorer outcome is very possible.

12. Hymans view on gilts has improved given the weak real growth outlook and expected declines in inflation. In the presence of an independent central bank, and in the absence of catalysts that augur higher long-term real growth, Hymans think longer-term nominal, and, to a slightly lesser extent real, yields are reasonably attractive relative to fair value.

13. From a credit perspective Hymans believe that, with weaker corporate earnings and higher borrowing costs starting to make their mark on debt affordability measures (debt as a proportion of earnings is generally rising, while earnings as a multiple of interest payments is falling), the fundamental outlook for credit is challenging. They conclude, on balance retaining a preference for higher quality credit over speculative-grade.

14. Hymans believe 2023 has outperformed the downbeat forecasts made at the start of the year, but its pace has been subdued and they think it's likely to slow further. With weak growth and rising borrowing costs providing a tough outlook for corporate earnings, the fundamental outlook for equity and credit markets is challenging. They therefore maintain defensive positioning, preferring 'safe' assets (sovereign bonds, cash and high-quality credit) over 'risk' assets such as equity, speculative-grade credit and property over the nearer term.

15. The focus on a global recession, either a 'soft landing' or a 'hard landing' makes constant news with participants making a case for either, backed by which ever evidence supports that claim. For the Fund, which is open to new members and

liabilities extending far into the future, taking an always invested (not timing the market) position is important. The Fund, from a listed equity perspective is highly diversified. It is exposed to many geographies and every major sector.

16. It is well known that a major source of investment returns is asset allocation. The rebalancing of the Fund to the target SAA is therefore of importance and where appropriate and in line with the rebalancing policy, efforts are made to rebalance. The current Legal and General Investment Management (LGIM) regional investments rebalance automatically via instructions in place with the investment manager. The investments managed by LGPS Central require dealing instructions to be placed in order to realign with the SAA.

17. It is one of the reasons that the January Local Pension Committee meeting has been used primarily for presenting the revised SAA for the coming year. The usual process has commenced with the Fund's investment advisor and officers for the Fund. The scope agreed for the 2024 review is included later within this paper.

Cash at quarter end

18. At quarter end the cash held by the Fund totalled £328million, with an additional £38million cash held as collateral with Aegon for the currency hedge. The increase in cash is due to the cash released from the reduction in listed equity per the 2023 SAA and explained earlier. Taken together the £366m is 6.3% of total fund assets.

19. Given the significant uncalled commitments the Fund has, holding some cash is preferable over having to divest at short notice. Most managers give the Fund five working days to satisfy calls made on commitments. Given the rates of return on cash have increased significantly over 2023 holding cash isn't the drag on returns it once was. At present the cash held by the Fund earns in excess of 5%. A cash holdings forecast was presented to the ISC on 11 October 2023.

20. It is worth noting that the collateral held for the currency hedge moves in accordance with the level of hedging and performance by Aegon. When the Pound strengthens versus hedged currencies the amount of collateral will increase, and conversely when the pound weakens as it had during the quarter ending September 2022 (when it reached 1.05 to the US Dollar) the amount of collateral reduces, and the Fund may be asked to provide additional cash collateral to maintain the hedges.

21. The Fund is cash flow positive as a consequence of paying less in pension benefits than it receives from member and employer contributions. This provides the Fund with flexibility in making investment changes without always having to divest and incur costs, but also means regular investments are required to avoid cash building up. The investments made will be to align to the approved SAA.

22. The cash level is higher than it has been for a number of years. A forecast was taken to the last ISC meeting which shows a reduction in cash to the end of March 2024. This forecast is reliant on a number of factors including conclusion of the 2023 SAA which included a number of proposed changes that the investment advisor is finalising their thoughts on given the change in the mandate for the LGPS Central MAC product. The final decision on this investment will be incorporated into the SAA 2024 refresh.

Overall Investment Performance

23. A comprehensive performance analysis over the quarter, year, and three-year period to 30 September 2023 is now conducted by Hymans Robertson who collate information directly from managers and calculate performance, which provides an independent check of valuations and allows greater reporting flexibility. The valuation summary is included with the managers reports within the exempt part of today's agenda. This service was previously provided for by Portfolio Evaluation who have since decided to close the business. Hymans have taken over the service having acquired the historical records.

24. It is important to note that the valuations produced can be different to those provided by managers or included in the Statement of Accounts. For example, timing differences or use of different accounting methodologies. The differences are not expected to be material in the context of the messages being conveyed by this report.

25. Summarised returns for the whole Fund versus benchmark are shown below:

	Quarter	1 yr	3 yr pa	5yr pa
Total Fund	0.0%	+4.8%	+7.1%	+5.4%
vs benchmark	-0.4%	-1.1%	+1.5%	+0.2%

26. The Fund has experienced flat returns over the quarter which is lower than the benchmark return by 0.4%. The Fund tends not to focus on short timeframe returns which can be more volatile and instead looks towards the longer one, three and five-year returns as a measure of performance versus the benchmark.

27. It is important to note that investment returns can be negative and for a protracted period, and chances of negative returns over shorter periods of time are considerably higher than over longer periods of time. As such the Fund takes a longer-term view of returns which is supported by the objectives of the annual SAA exercise. The exercise seeks to understand the risks and opportunities to the Fund over a longer period and as such the portfolio has a diverse mix of assets grouped into one of three buckets named, growth, income and protection.

28. The one-year underperformance versus the benchmark of -1.1% is mainly driven by the growth and income asset groups. The year to the end of September 2023 was marked by a sharp derating of risk assets as developed global central bank interest rates were raised. As a result, some risk assets which are included within both growth and income asset groups underperformed their benchmarks. As interest rate rise expectations reduce, market commentators expect downward pressure on risk assets to subside.

29. Over a one-year period, the largest underperformance versus the benchmark has arisen from the private equity (PE) holdings, -15.5%. Given the benchmark PE is measured against is a listed broad world index, the lag which PE valuations suffer from is now being fully experienced whereas the listed markets will have suffered these repricing's during the second half of 2022 and early 2023. Over a longer timeframe of three and five years the annualised return is 19.4% pa and 16.1% pa respectively, both of which are comfortably ahead of the benchmark.

30. Valuations for the underlying private equity investments lag those of public listed markets given they are not priced daily like the listed markets. Some underlying holdings will be valued twice a year and are based on a variety of factors such other comparable company sales and performance metrics rather than the price the market attributes to a company.

Listed equity update

31. On 11 October the ISC received an update on the listed equity transition which it approved in April 2023 . This summarised:

   a. the decision taken to re organise the listed equity holdings and reduce the total Fund weight to 37.5%;
   b. the appointment of a transition advisor;
   c. and described a four-phase plan to reorganise and reduce the listed equity weight to 37.5% of total Fund assets.

32. As previously stated within this paper, phase one of this plan was completed in September and £220million was received by the Fund. At the time of writing phase two, which is the reorganisation of the Legal and General investment manager (LGIM) passive holdings, is planned to complete during mid-November once relevant advice from the investment advisor, new benchmarks and control ranges and contracts (including management fees) are agreed. A verbal update will be given during the meeting on the completion of this phase.

33. In line with the update given to the ISC on 11 October 2023 the final phases are forecasted to be completed by the end of the current financial year but are subject to a number of dependencies as highlighted within the paper.

34. A summary of the Fund's listed equity holdings at 30 September 2023 is shown below alongside the changes that have occurred, are planned to complete in November 2023 and those that are yet to be completed.

	Passive or active	AUM 30.09.23 £m	% of total portfolio %	% of listed equity %	Target % SAA 2023	Adjustments made to 30.09.23 £m	Adjustments planned since Qtr ended £m	Adjustments left to plan £m	Estimated final position £m
LGIM UK equity index Fund and UK core equity index fund	Passive	169	2.9%	7.2%	0%		Reorganise		
LGIM 7 FTSE 100 single stocks	Passive	25	0.4%	1.1%	0%		Reorganise		
LGIM North America Equity index fund	Passive	350	6.1%	14.9%	0%		Reorganise		
LGIM Europe (ex UK) equity index fund	Passive	150	2.6%	6.4%	0%		Reorganise		
LGIM Japan Equity index Fund	Passive	75	1.3%	3.2%	0%		Reorganise		
Japan) developed equity index fund	Passive	65	1.1%	2.8%	0%		Reorganise		
LGIM World Emerging markets equity index fund	Passive	96	1.7%	4.1%	0%		Reorganise		
LGIM UK Equity Fund	Passive	0	0.0%	0.0%	2.00%		115		115
LGIM All World Equity Fund	Passive	0	0.0%	0.0%	8.00%		617	-155	462
LGIM Low Carbon Transition Fund	Semi active	0	0.0%	0.0%	3.50%		202		202
LGPS Central Active Global Equity Multi Manager Fund	Active	542	9.4%	23.1%	12%			150	692
Emerging Markets Multi Manager Fund	Active	177	3.1%	7.6%	0%			-177	0
LGPS Central Climate Balanced Multi Factor Fund	Semi active	698	12.1%	29.7%	12%	-220			698
Total		**2348**	**40.7%**	**100.0%**					**2169**
Total LGIM products		**931**	**16.1%**	**39.6%**					**779**
Total Central products		**1417**	**24.6%**	**60.4%**					**1390**

35. Once the LGIM reorganisation is complete in November the Fund will still be overweight to listed equities, the final reduction in weight towards the target weight of 37.5% of total Fund assets will occur as part of the Central reorganisation.

36. The listed equity changes have progressed in a controlled manner with the final listed equity changes yet to be planned with Central. The transition advisor is in talks with officers and LGPS Central regarding the final changes. It is currently planned to complete all changes before the end of the financial year. The changes will enable the Fund to meet its overall listed equity target of 37.5% of total Fund assets.

SAA 2024 investment advisor scope

37. In keeping with the usual timetable, the 2024 SAA will be presented to this Committee at its meeting in January.

38. Officers commence the process in the last calendar quarter commencing with identification and agreement of a scope. The 2024 SAA review will incorporate the following:

    a. Market developments during 2023
    b. Review of the 2023 SAA objectives
    c. Net zero considerations given the Fund's approved interim and longer-term targets
    d. Review of the high-level strategy to ensure it remains appropriate
    e. Reminder of the composition of each asset class including performance to ensure the investment structure of the Fund remains appropriate
    f. Overall allocation and composition of the protection assets portfolio with consideration of alternative assets
    g. High yield debt (including multi asset credit) appropriateness taking into account the market developments
    h. Review of investment mandate and asset group benchmarks

2023 Investment plans and actual weighting versus 2023 SAA

39. The Fund's 2023 Strategic Asset Allocation (SAA) was approved by the Committee in January 2023 which included a number of changes as summarised in the table below, alongside the actual position as of 30 September 2023, bearing in mind that changes to move towards the 2023 SAA are in progress. The last column in the table shows approximate commitments outstanding at the time of writing.

40. The listed equity changes were agreed by the ISC on 19 April 2023. Progress is detailed earlier in this paper. The targeted return changes to a 5% target were also agreed at the same meeting of the ISC. Changes are in progress with the first divestments from mandates in July 2023 with further divestments having taken place during October 2023 and November 2023. The first investments to the new targeted return manager, Fulcrum was made in October 2023 with an aim to gradually build this position to the target weight of 2% of total Fund assets.

41. The private equity commitments are comprised of the commitments outstanding for the two LGPS Central vintages and the most recent Adam Street Partners (ASP) vintages. The older ASP vintages are returning capital and as such the current outstanding commitments are in place in order to maintain the 7.5% target weight. An additional circa £80million was approved at the meeting of the ISC on 11 October 2023 taking into account future cash inflows as older vintages return capital.

Subscription documents for the circa £80million have not yet been completed and monies would take a number of years to be fully called.

42. The emerging market debt and global credit allocation was agreed at the 20 January 2023 meeting of the Local Pension Committee. Officers are working with LGPS Central on the development of the global credit product (multi asset credit or MAC) which is undergoing changes to the mandate. Once these are finalised and if Hymans Roberston are supportive, changes can be made to align to the target.

Asset Group	Asset Class	2022 SAA	2023 SAA	Change from 2022 SAA	30.9.23 Actual weighting	Vs 2023 SAA	Changes / commitments to be called £m (GBP)
Growth	Listed equities	42.00% (40%-44%)	37.50%	- 4.5%	40.7%	+3.2%	Reduction commenced. Agreed changes, transition advisor appointed
Growth	Private equity	5.75%	7.5%	+ 1.75%	7.1%	-0.4%	£60m + £80m commitments approved at Oct 2023 ISC
Growth	Targeted return	7.50%	5.00%	- 2.5%	6.8%	+1.6%	Reduction commenced July 2023
Income	Infrastructure (incl. timber)	9.75%	12.50%	+ 2.75%	10.7%	-1.8%	£160m
Income	Property	10.00%	10.00%		7.2%	-2.8%	£120m
Income	Emerging market debt & Global credit – liquid sub inv grade markets	6.50%	9.00%	+ 2.5%	5.6%	-3.4%	Agreed changes, awaiting investment advisor SAA 2024 to finalise
Income	Global credit – private debt (inc M&G/CRC)	10.50%	10.50%		8.2%	-2.4%	Awaiting outcome of asset class review in 2024 SAA, £250m commitments and £280m approved to commit
Protection	Inflation-linked bonds	4.50%	4.50%		3.8%	-0.7%	
Protection	Investment grade credit	3.00%	2.75%	-0.25%	3.5%	+0.75%	
Protection	Currency hedge	0.50%	0.75%	+0.25%	0.7%	-0.05%	
Protection	Cash / cash equivalent	0.00%	0.00%		5.7%	+5.7%	Awaiting to be called from outstanding commitments

43. In summary the net effect of the 2022 to 2023 SAA changes approved is an increase to the allocation to the income asset group (+5.25%) whilst equally reducing the allocation to the growth asset group.

44. The current position at asset group level shows that the Fund is overweight to growth assets however this overweight has been reducing and underweight to income assets and largely in line with protection assets versus the 2023 SAA.

45. The underweight to income assets which, on face value looks large, is in the process of being resolved with commitments made over the last 18 months to various managers which are in the process of being called. As these commitments are called officers will first use cash and then divest from overweight positions.

46. A schedule of work was agreed with Hymans at the start of the year to facilitate the changes in a similar way to 2022. Proposals were considered with officers in advance of presenting these to the ISC in 2023. All reviews were concluded by Hymans and presented to the ISC.

   a. A listed equity asset group review – presented to April 2023 ISC
   b. A targeted return review – presented to April 2023 ISC
   c. A protection assets review – presented to July 2023 ISC

Leicestershire Pension Fund Conflict of Interest Policy

47. Whilst not a conflict of interest, it is worth noting that the County Council also invests funds with four managers with whom the Leicestershire County Council Pension Fund invests, namely Partners Group, JP Morgan, DTZ investors and Christofferson Robb and Company (CRC). Decisions on the County Council's investments were made after the Fund had made its own commitments.

Recommendation

48. The Local Pension Committee is asked to note the report.

Environmental Implications

49. The Leicestershire LGPS has developed a Net Zero Climate Strategy (NZCS) for the Fund. This outlines the high-level approach the Fund is taking to its view on Climate Risk. This will align with the Fund's Responsible Investment approach as set out in the Principles for Responsible Investment. The Fund is committed to supporting a fair and just transition to net-zero. There are no changes to this approach as a result of this paper.

Equality Implications

50. There are no direct implications arising from the recommendations in this report. The Fund incorporates financially material Environmental, Social and Governance ("ESG") factors into investment processes. This has relevance both before and after the investment decision and is a core part of the Fund's fiduciary duty. The Fund will not appoint any manager unless they can show evidence that responsible investment considerations are an integral part of their decision-making processes. This is further supported by the Fund's approach to stewardship and voting through voting, and its approach to engagement in support of a fair and just transition to net zero. There are no changes to this approach as a result of this paper.

Human Rights Implications

51. There are no direct implications arising from the recommendations in this report. The Fund incorporates financially material Environmental, Social and Governance ("ESG") factors into investment processes. This has relevance both before and after the investment decision and is a core part of the Fund's fiduciary duty. The Fund will not appoint any manager unless they can show evidence that responsible investment considerations are an integral part of their decision-making processes. This is further supported by the Fund's approach to stewardship and voting through voting, and its approach to engagement in support of a fair and just transition to net zero. There are no changes to this approach as a result of this paper.

Appendix

Hymans Robertson, Capital Markets update Autumn 2023

Background Papers

52. Local Pension Committee 20 January 2023, Overview of the Current Asset Strategy and Proposed 2023 Asset Strategy (Minute Item 98)
http://cexmodgov01/ieListDocuments.aspx?CId=740&MId=7201&Ver=4
53. Investment Sub Committee 11 October 2023, Listed Equity Transition Update (Agenda item 7)
https://politics.leics.gov.uk/documents/s179001/Equity%20transition%20update.pdf

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HYMANS ROBERTSON

Capital Markets Update

Autumn 2023

Global growth continues to defy prior downbeat expectations, but survey data suggest that activity weakened towards the end of Q3. Though headline inflation has generally fallen, core inflation remains stubbornly above central bank targets.

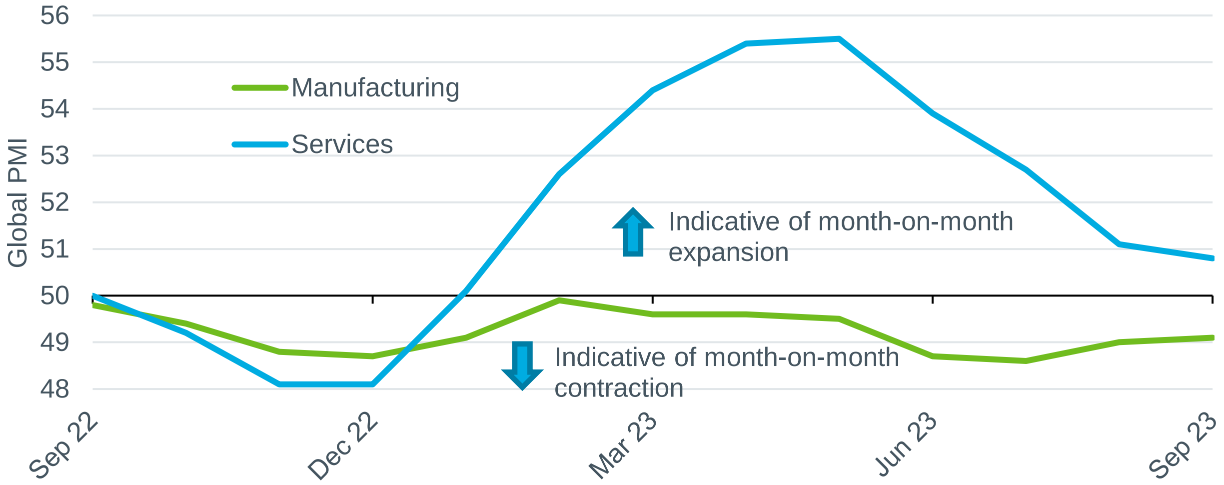
Global equity markets lost ground in Q3 and long-term sovereign bond yields rose, as markets anticipated a longer period of tighter central bank policy. Despite the weakening growth outlook, oil prices rose sharply on fears of a global supply shortfall.

Global themes

Global growth in 2023 has been subdued, even by post-Global Financial Crisis (GFC) standards, but more resilient than expected. Consumer spending exceeded expectations, particularly in the US; fiscal support dulled the impact of higher energy prices on European consumers; and China emerged from its zero-Covid restrictions earlier than hoped.

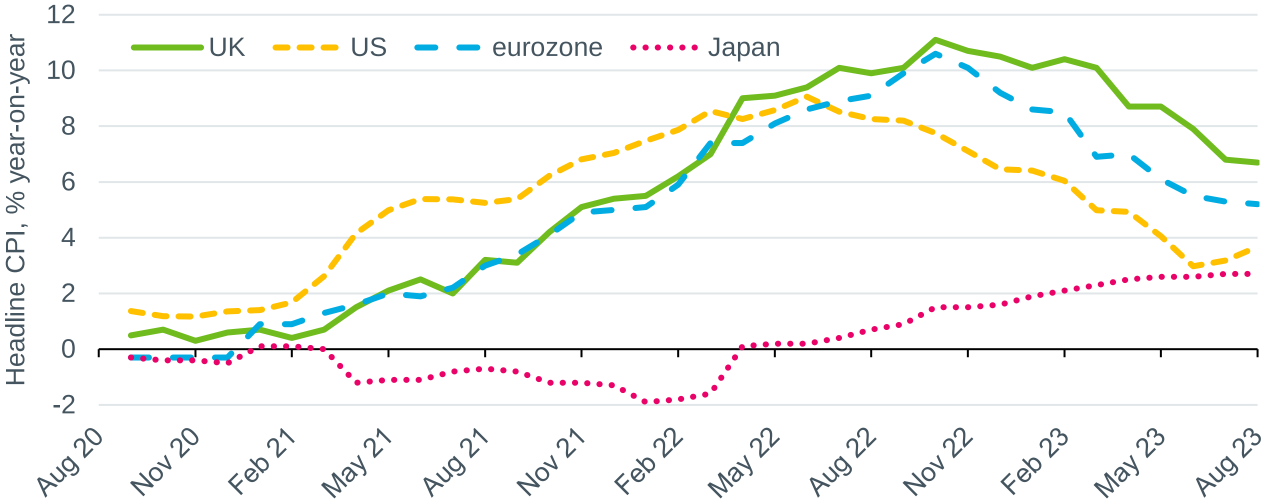
That said, purchasing managers' indices (PMIs) indicated that global growth eased throughout Q3 (Chart 1), as services activity 'caught down' with the contracting manufacturing sector. Consumer spending in developed economies has come under pressure as savings built up during the pandemic have been used, the delayed impact of interest-rate rises on disposable incomes grows, and the positive impulse from fiscal support wanes. As the Chinese post-reopening recovery faltered, the authorities unveiled modest economic stimulus measures, but the troubled property sector is weighing on consumer sentiment. Meanwhile, concerns about leverage limit the scope for debt-fuelled investment to support growth. Against this backdrop, we think growth is likely to slow further, due to the momentum of these factors.

Chart 1: PMI data indicate that global growth slowed in Q3, as the services-led recovery lost steam



Inflation has generally stayed on a downward trend, but the recent sharp rise in oil prices led to an uptick in year-on-year US CPI inflation in August (Chart 2). Declines in energy prices have been a key contributor to the reduction in headline inflation over the last year, and so any reversal could slow the downtrend. Central banks might choose to ‘look through’ the immediate impact of a temporary, supply-driven increase in energy prices. However, the risk of second-round effects, alongside sticky core inflation and tight labour markets, are reasons why central banks may proceed cautiously with rate cuts.

Chart 2: Inflation has generally continued to trend downwards but remains elevated



The US Federal Reserve and the Bank of England both raised rates by 0.25% pa, to 5.5% pa and 5.25% pa, respectively, in Q3. The Bank of England surprised markets by leaving rates unchanged in September. The European Central Bank raised its deposit rate twice, to 4.0% pa, but its cumulative tightening is still less than in the US and UK. Both the tone of central bank comments and market pricing suggest that policy rates are at or close to peaking, but subsequent cuts will be gradual. This will limit the potential boost to growth from looser monetary policy in 2024 and 2025.

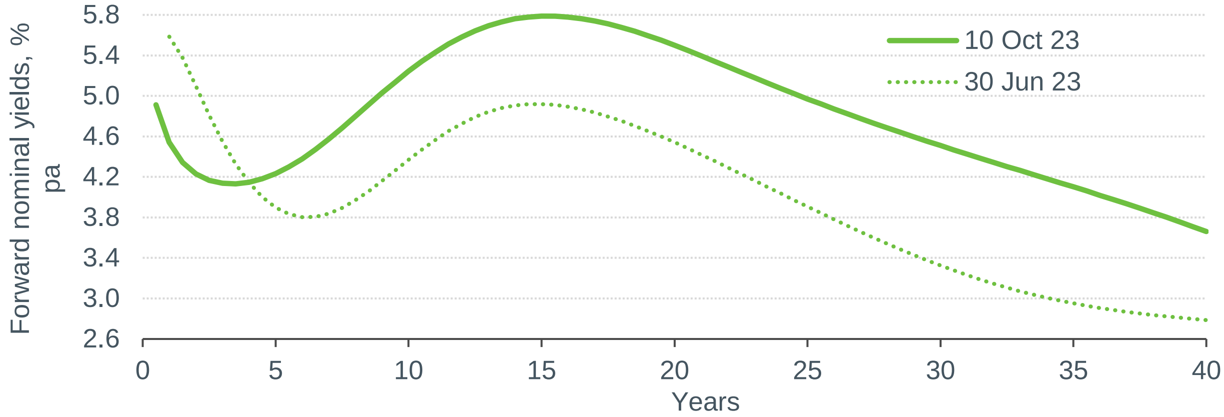
Against this backdrop, we do not expect growth to collapse, but expect it to fall to a very lacklustre pace in 2024, followed by a modest recovery in 2025. While consensus forecasts for global GDP growth in 2023 have risen to 2.4% from 1.6% at the start of the year, 2024 global GDP forecasts have fallen to 2.1% from 2.5%, and we think a poorer outcome is very possible.

Government bonds

UK gilt yields fell at shorter terms, while long-term yields rose sharply. This is consistent with expectations that rates may peak at a lower level than previously expected, but stay there for longer. It also likely reflects a fragile technical backdrop of heavy global sovereign bond issuance. Indeed, given the weak real growth outlook and expected declines in inflation, we think the fundamental outlook for gilts has improved. In the presence of an independent central bank, and in the absence of catalysts that augur higher long-term real growth, we think longer-term nominal, and, to a slightly lesser extent, real, yields are reasonably attractive relative to fair value.

HYMANS ROBERTSON

Chart 3: Inflation will be sticky and rate cuts gradual, but forward nominal rates have risen too far

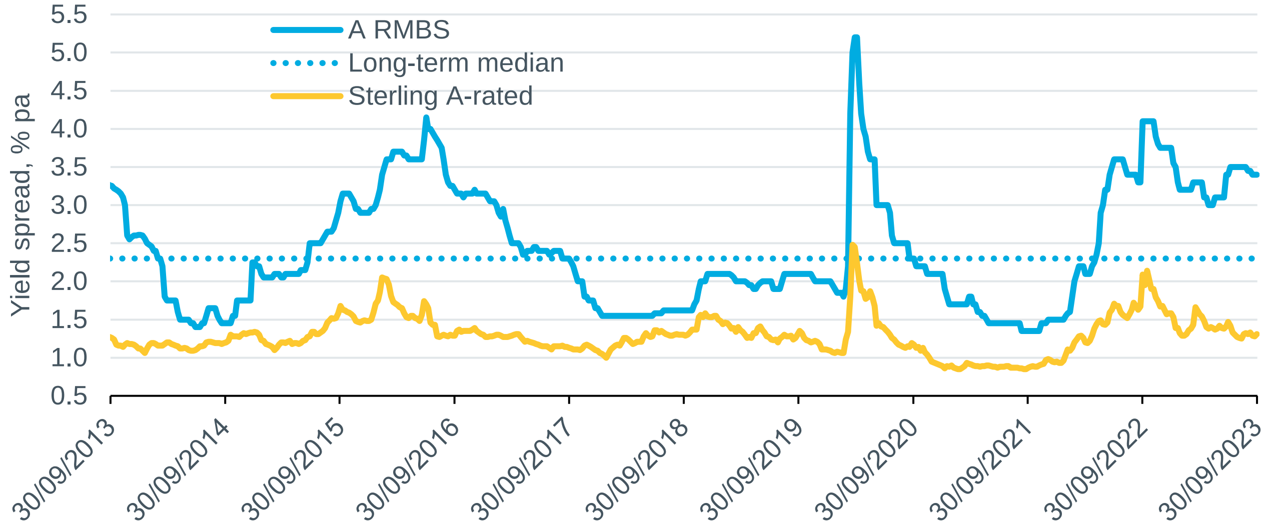


We have little issue with the near-term path of interest rates implied by the market, but we do not think interest rates will remain as high for as long as suggested by forward nominal yields (Chart 3). Given our belief that central banks will ultimately use the tools at their disposal to return inflation towards target, we also expect long-term implied inflation to fall. We think a decline in longer-term implied inflation is more likely to be driven by a fall in nominal yields than a rise in real yields.

Credit

With weaker corporate earnings and higher borrowing costs starting to make their mark on debt affordability measures – debt as a proportion of earnings is generally rising, while earnings as a multiple of interest payments is falling – the fundamental outlook for credit is challenging. However, expectations that growth slows but does not collapse, set against decent absolute levels for the aforementioned debt metrics, means that while defaults have risen long-term average levels, they are only expected to rise a little further, and default forecasts have been revised lower in recent months.

Chart 4: ABS spreads look attractive relative to their own history and equivalent corporate credit

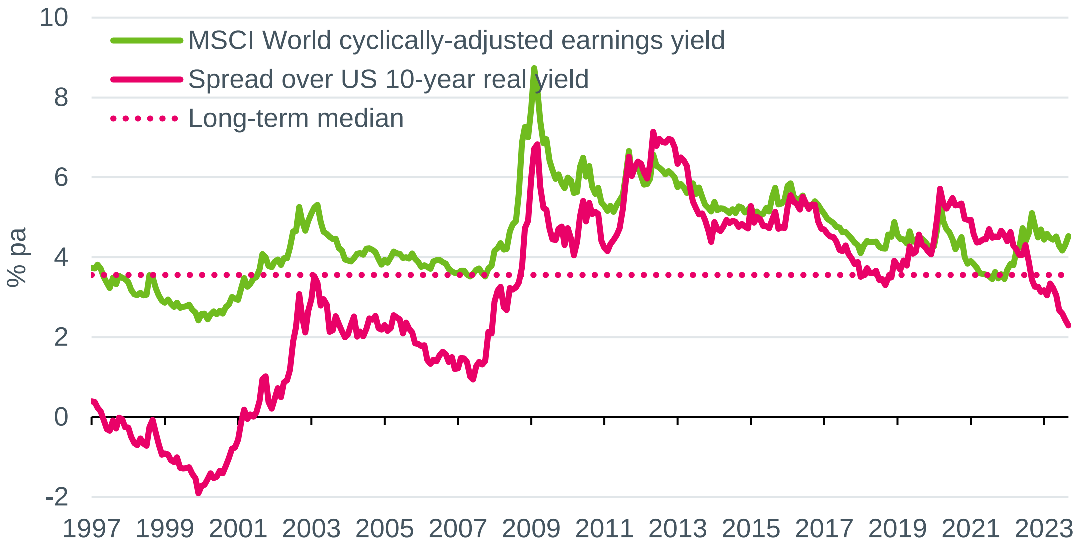


Credit spreads are close to long-term median levels in both investment- and speculative-grade markets and, given the weak outlook and balance of risks, we retain a preference for higher-quality credit. Given our view that near-term interest rates are largely fairly priced, we are agnostic between short-dated fixed and floating-rate exposure. However, better relative value (Chart 4) suggests a preference for asset-backed securities (ABS) over investment-grade corporate credit in short-dated bond mandates. Investment-grade credit markets offer attractive yields, but this is largely a reflection of attractive underlying sovereign bond yields.

Equities

The FTSE All World Total Return Index fell 2.1% in local currency terms in Q3, as sovereign bond yields rose and survey data indicated an easing in economic activity. Amid the subdued, albeit better-than-expected, growth environment, forecasts for full-year equity earnings growth in 2023 have fallen from around 3% at the start of the year to 0% by the end of Q3. Over the same period, equivalent forecasts for 2024 and 2025 have actually seen slight upwards revisions, with full-year earnings growth a little above 11% expected in each of the next two calendar years. Slowing global activity is reducing corporate pricing power at the same time as borrowing costs are rising, creating a tough outlook for corporate earnings. Against this backdrop, these global equity earnings forecasts look vulnerable to potential disappointment.

Chart 5: The ‘equity risk premium’ looks stretched

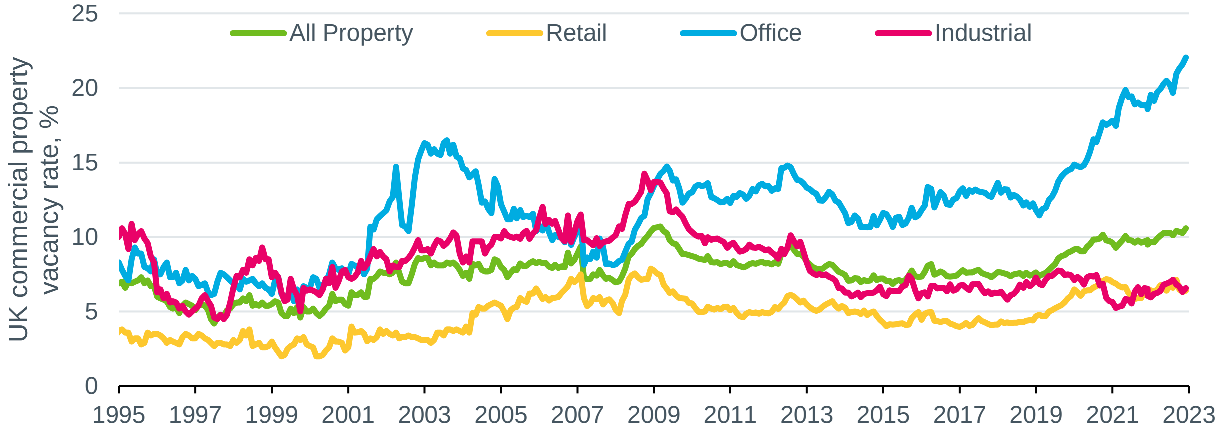


Cyclically adjusted global equity valuations, which are in line with long-term averages, look reasonable in absolute terms. However, valuations look stretched relative to ‘safe’ assets, with the equity risk premium, proxied by the MSCI World cyclically adjusted earning yield less 10-year US real treasury yields, as low as it has been since the GFC and well below historic averages (Chart 5). Valuation pressures would be eased by a decline in real yields. While we think that is quite likely, we expect the impact to be limited as we do not anticipate yields to return to the very low levels experienced in the post-GFC era. A background of declining yields is, in any case, likely to be associated with pressure on earnings.

Property

Our caution that a stabilisation in capital values in Q2 reflected a lack of transaction activity rather than a fundamental improvement has proved well founded. Though capital values in the industrial sector have now risen for seven consecutive months, continued declines in the office and retail sectors led to a modest 0.2% fall in the MSCI UK Monthly Property Total Return Index in Q3. On a 12-month basis, capital values are down around 14%, 23%, and 20% in the retail, office, and industrial sectors, respectively.

Chart 6: Record-high vacancy rates in the office sector highlight ongoing fundamental challenges



Property yields have risen significantly from a low in late 2022, but remain below long-term average levels. As with equities, valuations relative to safe assets are stretched – as expensive they have been since the GFC. This feels like scant reward given a challenging fundamental outlook. Real rental growth is rising as inflation declines, but is still negative. The modest improvement in sentiment highlighted in the previous UK Commercial Property Market Survey by the Royal Institute of Chartered Surveyors has also reversed more recently: the latest survey showed renewed falls in occupier demand and rent expectations as availability across industrials and office continued to rise. Highlighting the ongoing impact of the seismic shifts in post-pandemic working patterns, office vacancy rates hit a record-high of 22% in August (Chart 6). This is compounded by ongoing technical weakness as there's a substantial amount of selling pressure in the market, with thin transaction activity and some pooled funds deferring redemptions till 2024.

Conclusion

Global growth in 2023 has outperformed the downbeat forecasts made at the start of the year, but its pace has been subdued and we think it's likely to slow further. Weak growth and rising borrowing costs make for a tough outlook for corporate earnings, so the fundamental outlook for equity and credit markets is challenging. We maintain our defensive positioning, preferring 'safe' assets – sovereign bonds, cash and high-quality credit – over 'risk' assets – equity, speculative-grade credit and property.

Inflation is likely to be sticky, and we expect central banks to proceed cautiously, but long-term forward nominal yields now look very high. At these levels, a return to our assessment of fair value would provide significant capital appreciation, in addition to income. Investment-grade credit looks better value than speculative-grade credit, but with spreads close to long-term medians, the attractions largely reflect decent underlying sovereign bond yields.

A challenging, and arguably still-deteriorating economic outlook puts pressure on equity earnings and UK commercial property rents. In absolute terms, global equity valuations are neutral and UK property valuations are still a little stretched. Both look expensive relative to 'safe' assets, and so any future reduction in real yields might provide only limited relief.

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LOCAL PENSION COMMITTEE – 1 DECEMBER 2023

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

RISK MANAGEMENT AND INTERNAL CONTROLS AND PENSION FUND BUDGET MONITORING UPDATE

Purpose of the Report

1. The purpose of this report is to inform the Local Pension Committee of any changes relating to the risk management and internal controls of the Pension Fund, as stipulated in the Pension Regulator's Code of Practice.

2. To update the Committee regarding the Pension Fund's budget for 2023/24.

Policy Framework and Previous Decisions

3. The Local Pension Committee's Terms of Reference sets out that its principal aim is to consider pension matters with a view to safeguarding the interests of all Pension Fund members. This includes the specific responsibility to monitor overall performance of the pension funds in the delivery of services and financial performance, and to consider all matters in respect of the pension funds including:

   - ensuring an appropriate risk management strategy and risk management procedures are in place;
   - ensuring appraisal of the control environment and framework of internal controls in respect of the Fund to provide reasonable assurance of effective and efficient operations and compliance with laws and regulations.

Background

4. The Pension Regulator's (TPR) code of practice on governance and administration of public service pension schemes requires that administrators need to record, and members be kept aware of, risk management and internal controls. The code states this should be a standing item on each Local Pension Board and Local Pension Committee agenda.

5. In order to comply with the code, the risk register and an update on supporting activity is included on each agenda for this Committee.

6. To demonstrate good governance, the Pension Fund's Budget was presented to and supported by the Local Pension Board on 8 February 2023. It was presented to the Local Pension Committee on 3 March 2023 where it was approved.

7. The 2023/24 Budget is designed to ensure the Pension Section is adequately resourced to continue to provide the level of service required by scheme members and Fund employers over the next financial year.

Risk Register

5. The 18 risks on the Risk Register are split into six different risk areas. The risk areas are:

    - Investment
    - Liability
    - Employer
    - Governance
    - Operational
    - Regulatory

6. Risks are viewed by impact and likelihood and the two numbers multiplied to provide the **current risk score**. Officers then include future actions and additional controls, and the impacts and likelihoods are then rescored. These numbers are multiplied to provide the **residual risk score**.

7. The current and residual risk scores are tracked on a traffic light system red (high), amber (medium), green (low).

8. There have been no changes to the risk scores since the Register was last presented to this Committee on 8 September 2023. However, wording has been updated on regulatory risk 17, to reflect that the McCloud regulations regarding how LGPS Funds are to action certain pension processes came into effect from 1 October 2023..

9. To meet Fund Governance best practise, the risk register has been shared with Internal Audit, who have considered the register and are satisfied with the current position.

10. The risk register is attached at Appendix A and the Risk Scoring Matrix and Criteria at Appendix B.

Regulatory Risk

Risk 17 – The resolution of the McCloud remedy.

11. The Regulations were laid on the 8 September 2023 and came into effect on 1 October 2023. The legislation requires Fund Officers to review and calculate in scope member's pension benefits, backdated to April 2014, when the LGPS commenced the career average revalued earnings scheme.

12. Final system changes are being developed by the system provider, which will require testing, and communications are being developed. Internal Audit will commence an audit on the first phase of McCloud implementation in the final quarter of 2023/24.

13. Fund Officers are adopting a phased approach starting with new in scope retirements and leavers. Phase two requires a review of existing in scope pension benefits with revision and payment of any arrears, as necessary.

14. Quarterly updates on the implementation of McCloud to the Pension Board and Committee will continue.

Pension Fund Budget

15. Is it important to note the Pension Fund budget is independent of the Council's budget and its finances are managed separately. The Director of Corporate Resources, as the Fund's designated senior officer, has reviewed the Pension Fund budget independently considering the full need of the service. Whilst the Good Governance project has not been finalised, Phase 3 of the report includes the following proposal:

    - *That each administering authority must ensure their Committee is included in the business planning process. Both the Committee and LGPS (Local Government Pension Scheme) senior officer must be satisfied with the resource and budget allocated to the deliver the LGPS service over the next financial year.*

16. The 2023/24 LGPS Central (Central) budget was agreed by shareholders at the General Meeting held on 28 February 2023. The total budget was £15.15million with the budgeted allocation for the Leicestershire County Council Pension Fund of £1.84m.

17. The latest update for the Fund's share of Central's costs is £1.85m, based on actuals up to 30 June 2023. A significant change from the budgeted number for the full year is not anticipated. Central are currently working up the business plan and budget for the 2024/25 financial year which will be presented to officers in Q4 of 2023 and is scheduled to be presented to shareholders on 27 February 2024.

18. A table showing the current budget and forecasted costs for the Pension Fund including internal staffing, IT, actuarial and support costs is shown below which, in total, are in line with the budget for 2023/24. An updated budget and business plan for 2024/25 will be developed and presented to the Local Pension Committee for approval on 8 March 2024.

Budget Heading	2023/24 Budget	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
	£'000s	£'000s	£'000s	£'000s
Investment Management Expenses (split into three areas)				
○ Management	25,792	25,792	27,518	29,339
○ Transaction	6,642	6,642	7,087	7,556
○ Performance	10,500	10,500	11,000	11,500
Sub Total	**42,934**	**42,934**	**45,605**	**48,394**
LGPS Central costs (Governance, operator running costs, product development)	1842	1850	1974	2073
Staffing	1,551	1,551	1,605	1,662
IT costs	520	520	530	540
Actuarial costs	150	150	150	400
Support Services / other	630	630	650	670
Total	**47,627**	**47,635**	**50,514**	**53,739**
% of assets under management	**0.81%**	**0.81%**	**0.81%**	**0.80%**
Average assets under management in year	**5,872,500**	**5,872,500**	**6,265,488**	**6,680,089**

19. **Recommendation**

The Local Pension Committee is asked to:

(a) Approve the revised risk register;

(b) Note the current budget and forecasted costs for the Pension Fund budget for 2023/24

Equality Implications

20. There are no direct implications arising from the recommendations in this report. The Fund incorporates financially material Environmental, Social and Governance ("ESG") factors into investment processes. This has relevance both before and after the investment decision and is a core part of the Fund's fiduciary duty. The Fund will not appoint any manager unless they can show evidence that responsible investment considerations are an integral part of their decision-making processes. This is further supported by the Fund's approach to stewardship and voting through voting, and its approach to engagement in support of a fair and just transition to net zero. There are no changes to this approach as a result of this paper.

Human Rights Implications

There are no human rights implications arising from this report.

Background Papers

3 March 2023 Local Pension Committee Minute Item 112 – Pension Fund Business Plan and Budget 2023/24

Appendix

Appendix A – Risk Register
Appendix B – Risk Scoring Matrix and Criteria

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Leicestershire County Council Pension Fund : Risk Register

Appendix A

All risks owned by the Director of Corporate Resources

Risk no	Category	Risk	Causes (s)	Consequences	List of current controls	Impact	Likelihood	Current Risk Score	Risk Response	Further Actions / Additional Controls	Residual Impact	Residual Likelihood	Residual Risk Score	Residual Risk Change since June 2023	Action owner
1	Investments	**Market investment returns are consistently poor, and this causes significant upward pressure onto employer contribution rates**	Poor market returns most probably caused by poor economic conditions and/ or shocks e.g. CV19, global recessions	Significant financial impact on employing bodies due to the need for large increases in employer contribution rates	Ensuring that strategic asset allocation is considered at least annually, and that the medium-term outlook for different asset classes is included as part of the consideration	5	2	10	Treat	Making sure that the investment strategy is sufficiently flexible to take account of opportunities and risks that arise but is still based on a reasonable medium-term assessment of future returns. Last reviewed January 2023.	4	2	8	–	Investments - SFA
2	Investments	**Market returns are acceptable, but the performance achieved by the Fund is below reasonable expectations**	Poor performance of individual managers including LGPS Central, poor asset allocation policy or costs of transition of assets to LGPS Central is higher than expected	Opportunity cost in terms of lost investment returns, which is possible even if actual returns are higher than those allowed for within the actuarial valuation. Lower returns will ultimately lead to higher employer contribution rates than would otherwise have been the case	Ensuring that the causes of underperformance are understood and acted on where appropriate. Shareholders' Forum, Joint Committee and Practitioners' Advisory Forum will provide significant influence in the event of issues arising. Appraisal of each LGPS Central investment product before a commitment to transition is made.	3	3	9	Treat	After careful consideration, take decisive action where this is deemed appropriate. It should be recognised that some managers have a style-bias and that poorer relative performance will occur. Decisions regarding manager divestment to consider multiple factors including performance versus mandate and reason for original inclusion and realignment of risk based on revised investment strategy. The set-up of LGPS Central is likely to be the most difficult phase. The Fund will continue to monitor how the company and products delivered evolve. Programme of LGPS Central internal audit activity, which has been designed in collaboration with the audit functions of the partner funds. Each transition's approach is independently assessed with views from 8 partners sought.	3	2	6	–	Investments - SFA
3	Investments	**Failure to take account of ALL risks to future investment returns within the setting of asset allocation policy and/or the appointment of investment managers**	Some assets classes or individual investments perform poorly as a result of incorrect assessment of all risks inherent within the investment. These risks may include, but are not limited to the risk of global economic slowdown and geopolitical uncertainty and failure to consider Environmental, Social and Governance factors effectively.	Opportunity cost within investment returns, and potential for actual returns to be low. This will lead to higher employer contribution rates than would otherwise have been necessary.	Ensuring that all factors that may impact onto investment returns are taken into account when setting the annual strategic asset allocation. Only appointing investment managers that integrate responsible investment (RI) into their processes.Utilisation of dedicated RI team at LGPS Central and preparation of an annual RI plan. The Fund is also member of the Local Authority Pension Fund Forum (LAPFF) and supports their work on shareholder engagement which is focused on promoting the highest standards of corporate governance and corporate responsibility. The Committee has approved a Net Zero Climate Strategy to take into account the risk and opportunities related to climate change. Climate Risk Report and Climate Stewardship Report. The Fund also produces an annual report as part of the Taskforce on Climate-related Financial Disclosures.	3	4	12	Treat	Responsible investment aims to incorporate environmental (including Climate change), social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns. Annual refresh of the Fund's asset allocation allows an up to date view of risks to be incorporated and avoids significant short term changes to the allocation. This can take into account geopolitical uncertainty, the impact of climate change on the portfolio including risk from stranded assets. Asset allocation policy allows for variances from target asset allocation to take advantage of opportunities and negates the need to trade regularly where investments under and over perform in a short period of time. LGPS Central are in the process of developing an ESG report for the Fund which can be used to monitor the Fund's portfolio exposure, and support engagement with underlying companies	3	3	9	–	Investments - SFA

4	**Investments**	**Risk to Fund assets and liabilities arising from climate change**	The impact on global markets and investment assets from the transition to a low carbon economy, and/or the failure to achieve an orderly transition in line with the Paris agreement.	Failure of meeting return expectations due to risks, or missed investment opportunities, related to the transition to a low carbon economy, and/or the failure to achieve an orderly transition. Resulting in increased employer contributions costs. Some asset classes, and carbon intensive sectors may be overexposed to transition risks, and/or the risk of stranded assets	Net Zero Climate Strategy, targeting by 2050 with an ambition for sooner. Climate metrics, including decarbonisation targets monitored annually through the Climate Risk Report, and reporting under TCFD recommendations. Supporting real world emissions reduction with partners (LAPFF, and LGPS Central) as part of the Fund's Climate Stwarship Plan. Consideration of clmiate change in investment decisions including investment in climate solutions and funds titled towards clmiate factors. Climate scenario analysis is undertaken biennially on impact to Fund assets. The Funding Strategy Statement's resilience to climate risk was also tested through the 2022 triennial valuation	**3**	**4**	**12**	**Treat**	Annual refresh of the Fund's asset allocation allows for an up to date view of climate risks and opportunities to be incorporated and avoids significant short term changes to the allocation. This will take into account the Fund's latest Climate Risk report. Increased asset coverage for climate metric reporting. Increased engagement with investment managers and underlying companies through Net Zero Climate Strategy and further collaboration. Expected regulatory change on climate monitoring	**3**	**3**	**9**		Investments - SFA
5	**Liability**	**Assets held by the Fund are ultimately insufficient to pay benefits due to individual members**	Ineffective setting of employer contribution rates over many consecutive actuarial valuations	Significant financial impact on scheme employers due to the need for large increases in employer contribution rates.	Input into actuarial valuation, including ensuring that actuarial assumptions are reasonable and the manner in which employer contribution rates are set does not bring imprudent future financial risk Early engagement with the Fund's higher risk employers to assess their overall financial position. Ongoing review of Community Admission Bodies (CABs)	5	2	10	Treat	Actuarial assumptions need to include an element of prudence, and Officers need to understand the long-term impact and risks involved with taking short-term views to artificially manage employer contribution rates. The 2022 valuation assessed the contribution rates with a view to calculating monetary contributions alongside employer percentages of salaries where appropriate. Regular review of market conditions and dialogue with the schemes biggest employers with respect to the direction of future rates. GAD Section 13 comparisons. Funding Strategy Statement approach is to target funding level of 110%.	4	2	8		Pensions Manager
6	**Employer**	**If the pensions fund fails to receive accurate and timely data from employers, scheme members pension benefits could be incorrect or late. This inlcudes data at year end.**	A continuing increase in Fund employers is causing administrative pressure in the Pension Section. This is in terms of receiving accurate and timely data from these new employers who have little or no pension knowledge and employers that change payroll systems so require new reporting processes	Late or inaccurate pension benefits to scheme members Reputation Increased appeals Greater administrative time being spent on individual calculations failure to meet statutory year-end requirements.	Training provided for new employers alongside guidance notes for all employers. Communication and administration policy Year-end specifications provided Employers are monthly posting Inform the Local Pension Board quarterly regarding admin KPIs and customer feedback.	3	2	6	Treat	Continued development of wider bulk calculations. Implemented automation of certain member benefits using monthly data posted from employers. Pensions to develop a monthly tracker for employer postings	3	1	3		Pension Manager
7	**Employer**	**If contribution bandings and contributions are not applied correctly, the Fund could receive lower contributions than expected**	Errors by Fund employers payroll systems when setting the changes	Lower contributions than expected. Incorrect actuarial calculations made by the Fund. Possibly higher employer contributions set than necessary	Pension Section provides employers with the annual bandings each year. Pension Section provides employers with contributions rates (full and 50/50) Internal audit check both areas annually and report their findings to the Pensions Manager Finance reconcile monthly contributions to payroll schedule	**3**	**2**	**6**	**Treat**	Pension Officers check sample cases Pension Officers to report major failings to internal audit before the annual audit process Major failings to be reported to the Pensions Board	**3**	**1**	**3**		Pensions Manager
8	**Employer**	**Employer and employee contributions are not paid accurately and on time**	Error on the part of the scheme employer	Potentially reportable to The Pensions Regulator as late payment is a breach of The Pensions Act.	Receipt of contributions is monitored, and late payments are chased quickly. Communication with large commercial employers with a view to early view of funding issues. Internal Audit review on an annual basis and report findings to the Pensions Manager	**2**	**3**	**6**	**Tolerate**	Late payers will be reminded of their legal responsibilities.	**2**	**3**	**6**		Pensions Manager

9	**Governance**	**If the Funds In House AVC provider (The Prudential) does not meet its service delivery requirements the Pension Fund is late in making payment of benefits to scheme members**	Prudential implemented a new administration system in November 2020	Failure to meet key performance target for making payments of retirement benefits to members Complaints Reputational damage Members may cease paying AVCs	Reported it to the Chair of the Pension Boards and Senior Officers Reported to the LGA and other Funds Discussed with the Prudential Prudential attended a meeting with the Local Pension Board with improvement plan agreed	**3**	**3**	9	**Treat**	Prudential continue to engage with Fund Officers positively to quickly resolve issues National meetings with LGPS Funds and the Prudential continue to develop improvements. A national Framework is being scoped to enable Funds to review and select AVC providers. Leicestershire LGPS will be a founder member of the framework.	**3**	**1**	3		Pensions Manager
10	**Governance**	**Sub-funds of individual employers are not monitored to ensure that there is the correct balance between risks to the Fund and fair treatment of the employer**	Changing financial position of both sub-fund and the employer	Significant financial impact on employing bodies due to need for large increases in employer contribution rates. Risk to the Fund of insolvency of an individual employer. This will ultimately increase the deficit of all other employers.	Ensuring, as far as possible, that the financial position of each employer is understood. On-going dialogue with them to ensure that the correct balance between risks and fair treatment continues.	5	2	10	Treat	Dialogue with the employers, particularly in the lead up to the setting of new employer contribution rates. Include employer risk profiling as part of the Funding Strategy Statement update. To allow better targeting of default risks Investigate arrangements to de-risk funding arrangements for individual employers. Ensure that the implications of the independent, non-public sector status, of further education, sixth form colleges, and the autonomous, non-public sector status of higher education corporations is fully accounted for in the Funding Strategy	**4**	**2**	8		Pensions Manager
11	**Governance**	**Investment decisions are made without having sufficient expertise to properly assess the risks and potential returns**	The combination of knowledge at Committee, Officer and Consultant level is not sufficiently high	Poor decisions likely to lead to low returns, which will require higher employer contribution rates	Continuing focus on ensuring that there is sufficient expertise to be able to make thoughtfully considered investment decisions. Improved training at Committee. Additional experience at LGPS Central added who make investment decisions on behalf of the Fund.	**3**	**3**	9	**Treat**	On-going process of updating and improving the knowledge of everybody involved in the decision-making process	**2**	**2**	4		Investments - SFA
12	**Operational**	**If the Pension Fund fails to hold all pensioner data correctly, including Guaranteed Minimum Pension (GMP) data, individual member's annual Pensions Increase results could be wrong.**	From 2018 the pensions section has had responsibility for GMPs creating the need to ensure that this is accounted for in the pensions increases	Overpaying pensions (i.e. for GMP cases pension increases are lower) Reputation	Checking of HMRC GMP data to identify any discrepancies. Internal Audit run an annual Pensions Increase result test and provide an annual report of findings Officers run the HMRC GMP check on a case by case basis and input the results into member records at retirement	**3**	**2**	6	**Treat**	Ongoing monitoring on a case by case basis	**2**	**1**	2		Pensions Manager
13	**Operational**	**If the Pensions Section fails to meet the information/cyber security and governance requirements, then there may be a breach of the statutory obligations.**	Pensions database now hosted outside of LCC. Employer data submitted through online portal. Member data accessible through member self-service portal (MSS). Data held on third party reporting tool (DART). Greater awareness of information rights by service users.	Diminished public trust in ability of Council to provide services. Loss of confidential information compromising service user safety. Damage to LCC reputation. Financial penalties.	Regular LCC Penetration testing and enhanced IT health checks in place. LCC have achieved Public Sector Network (PSN) compliance. New firewall in place providing two layers of security protection in line with PSN best practice. Contractual arrangements in place with system provider regarding insurance. Work with LCC ICT and Aquila Heywood (software suppliers) to establish processes to reduce risk, e.g. can Aquila Heywood demonstrate that they are carrying out regular penetration testing and other related processes take place. Developed a new Cyber risk policy	5	2	10	Treat	Liaise with Audit to establish if any further processes can be put in place in line with best practice. Good governance project and the expected TPR new code of practice to include internal audit reviews of both areas. Report the findings to the Board.	5	1	5		Pensions Manager

14	Operational	**If immediate payments are not applied correctly, or there is human error in calculating a pension, scheme members pensions or the one off payments could be wrong**	Human error when setting up immediate payments or calculating a pension System failures Over or under payments Unable to meet weekly deadlines	Reputation Complaints/appeals Time resource used to resolve issues Members one off payments, not paid, paid late, paid incorrectly Officers re-engineered the retirement process using member self service (MSS) which speeds up process and reduces risk New immediate payments bank account checks system Use of insights report to identify discrepancies between administration and payroll sides of the system Funds over and under payment policy	Task management used within pensions administration Segragation of duties, benefits checked and authorised by different Officers Training provided to new staff Figures are provided to the member so they can see the value and check these are correct	4	1	4	Tolerate	Monitor the structure of the Pension Section to resource the area sufficiently Ongoing officer training notes Continued develop the workflow tasks	4	1	4	▬	Pensions Manager
15	Operational	**If transfer out checks are not completed fully there may be bad advice challenges against the Fund** **There are some challenges being lodged from Claims Management Companies on historic transfers out**	Increasing demand for transfers out from members Increased transfer out activity from Companies interested in tempting people to transfer out their pension benefits Increased complexity on how the receiving schemes are set up Increased challenges on historic transfers	Reputation Financial consequence from 'bad advice' claims brought against the Fund IDRP appeals (possible compensation payments) Increased administration time and cost	The Pensions Regualtor (TPR) checks Follow LGA guidance Queries escalated to Team Manager then Pensions Manager Legislative checks enable the Fund to withold a transfer in certain circumstances. Signed up to The Pension Regulator's national pledge "To Combat Pension Scams"	2	3	6	Tolerate	Escalation process to Internal Legal Colleagues to check IFA, Company set up, alleged scam activity Further escalation process to external Legal Colleagues National change requires checks on the receiving scheme's arrangements Internal audit review of both transfers in and out of the Fund.	**3**	**2**	6	▬	Pension Manager
16	Operational	**Failure to identify the death of a pensioner causing an overpayment, or potential fraud or other financial irregularity**	Late or no notification of a deceased pensioner. Fraudulent attempts to continue to claim a pension	Overpayments or financial loss Legal cases claiming money back Reputational damage	Tracing service provides monthly UK registered deaths Life certificates for overseas pensioners Defined process governing bank account changes Moved to 6 monthly checks, (from one check every 2 years) National Fraud mortality screening for overseas pensioners	3	**1**	**3**	Tolerate	Targeted review of status for pensioners where the Fund does not hold the current address e.g. care of County Hall or Solicitors	3	1	3	▬	Pensions Manager
17	Regulatory	**The resolution of the McCloud case and 2016 Cost Cap challenge could increase administration significantly resulting in difficulties providing the ongoing pensions administration service**	The Regulations were laid on the 8 September 2023 and became active on the 1 October 2023. The legislation requires Fund Officers to review and calculate in scope member's pension benefits, backdated to April 2014 when the LGPS commenced the career average revalued earnings scheme. The Unions challenge on the 2016 cost cap, could result in possible benefit recalculations if the challenge is successful	Increasing administration Revision of previous benefits Additional communications Complaints/appeals Increased costs	Guidance from LGA, Hymans, Treasury Employer bulletin to employers making them aware of the current situation on McCloud Team set up in the Pension Section to deal with McCloud casework. Quarterly updates to the Board.	3	3	9	Treat	Final system changes are being developed by the system provider. These require testing. Internal Audit will commence an audit on the first phase of McCloud implementation in the final quarter of 2023/24. Fund Officers are adopting a phased approach starting with new in scope retirements and leavers. Phase two will require a review of existing in scope pension benefits with revision and payment of any arrears, as necessary.	2	2	4	▬	Pensions Manager
18	Regulatory	**The implication of the national dashboard project could increase administration resulting in difficulties providing the ongoing pensions administration service**	National decision to implement pension dashboards thereby enabling people to view all their pension benefits via one single dashboard	Increased administration Data cleaning exercise on member records Increased system costs Additional communications	Initial data cleaning started Contract made with the system provider on building the data link	3	3	9	Treat	Work with LCC's internal IT Team Security checked on the required link to allow the access to secure member pension data GDPR requirements Quarterly updates to the Board	3	2	6	▬	Pensions Manager

Appendix B: Risk Scoring Matrix

Impact					
5 Very High/Critical	5	10	15	20	25
4 Major	4	8	12	16	20
3 Moderate	3	6	9	12	15
2 Minor	2	4	6	8	10
1 Negligible	1	2	3	4	5
	1	**2**	3	4	5
	Very Rare/Unlikely	Unlikely	Possible/Likely	Probable/Likely	Almost certain

Likelihood of risk occurring over lifetime of objective (i.e. 12 mths)

Residual Risk Score Change since last meeting indicator

Risk Increase
No Change
Risk Decrease

Impact Risk Scoring Criteria

Scale	Description	Departmental Service Plan	Internal Operations	People	Reputation
1	Negligible	Little impact to objectives in service plan	Limited disruption to operations and service quality satisfactory	Minor injuries	Public concern restricted to local complaints
2	Minor	Minor impact to service as objectives in service plan are not met	Short term disruption to operations resulting in a minor adverse impact on partnerships and minimal reduction in service quality.	Minor Injury to those in the Council's care	Minor adverse local / public / media attention and complaints
3	Moderate	Considerable fall in service as objectives in service plan are not met	Sustained moderate level disruption to operations / Relevant partnership relationships strained / Service quality not satisfactory	Potential for minor physical injuries / Stressful experience	Adverse local media public attention
4	Major	Major impact to services as objectives in service plan are not met.	Serious disruption to operations with relationships in major partnerships affected / Service quality not acceptable with adverse impact on front line services. Significant disruption of core activities. Key targets missed.	Exposure to dangerous conditions creating potential for serious physical or mental harm	Serious negative regional criticism, with some national coverage
5	Very High/Critical	Significant fall/failure in service as objectives in service plan are not met	Long term serious interruption to operations / Major partnerships under threat / Service quality not acceptable with impact on front line services	Exposure to dangerous conditions leading to potential loss of life or permanent physical/mental damage. Life threatening or multiple serious injuries	Prolonged regional and national condemnation, with serious damage to the reputation of the organisation i.e. front-page headlines, TV. Possible criminal, or high profile, civil action against the Council/Fund, members or officers

Likelihood of risk occurring over lifetime of objective (i.e. 12 mths) Risk Scoring Criteria

Rating Scale	Likelihood	Example of Loss/Event Frequency	Probability %
1	Very rare/unlikely	EXCEPTIONAL event. This will probably never happen/recur.	<20%
2	Unlikely	Event NOT EXPECTED. Do not expect it to happen/recur, but it is possible it may do so.	20-40%
3	Possible	LITTLE LIKELIHOOD of event occurring. It might happen or recur occasionally.	40-60%
4	Probable /Likely	Event is MORE THAN LIKELY to occur. Will probably happen/recur, but it is not a persisting issue.	60-80%
5	Almost Certain	Reasonable to expect that the event WILL undoubtedly happen/recur, possibly frequently.	>80%

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Leicestershire County Council

LOCAL PENSION COMMITTEE – 1 DECEMBER 2023

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

ACTION AGREED BY THE INVESTMENT SUB COMMITTEE

Purpose of Report

1. The purpose of this report is to provide the Local Pension Committee with details of decisions taken by the Investment Subcommittee (ISC) at its meeting held on 11 October 2023.

Policy Framework and Previous Decisions

2. The Leicestershire Pension Fund (the Fund) has a requirement to maintain investments in asset classes close to the Fund's Strategic Asset Allocation (SAA) as existing investments are returned.

3. At the January 2023 Local Pension Committee meeting, the 2023 SAA was approved. The new SAA and changes from the 2022 SAA are best described in the table below.

Asset Group	Asset Class	2022 SAA	2023 SAA	Change from 2022 SAA
Growth	Listed equities	42.00% (40% - 44%)	37.50%	- 4.5%
Growth	Private equity (PE)	5.75%	7.50%	+ 1.75%
Growth	Targeted return	7.50%	5.00%	- 2.5%
Income	Infrastructure (incl. timber)	9.75%	12.50%	+ 2.75%
Income	Property	10.00%	10.00%	
Income	Emerging market debt & Global credit – liquid sub inv grade markets	6.50%	9.00%	+ 2.5%

Asset Group	Asset Class	2022 SAA	2023 SAA	Change from 2022 SAA
Income	Global credit – private debt (inc M&G/CRC)	10.50%	10.50%	
Protection	Inflation-linked bonds	4.50%	4.50%	
Protection	Investment grade credit	3.00%	2.75%	-0.25%
Protection	Currency hedge	0.50%	0.75%	+0.25%
Protection	Cash / cash equivalent	0.00%	0.00%	

4. A schedule of work was agreed with Hymans Robertson (the Fund's investment advisor) post the January 2023 Local Pension Committee (LPC) meeting to facilitate the changes to the SAA in a similar way to what was done in 2022 with proposals considered with officers in advance of presenting these to the Investment Sub-Committee at its meetings (ISC) in 2023. All of the following reviews for 2023 have now been completed by Hymans:

    a. A listed equity asset group review
    b. A targeted return review
    c. A protection assets review

5. The first two reviews were presented to the ISC in April 2023 and subsequently reported to the LPC in June. The protection assets review was presented to the ISC in July 2023 ISC and thereafter reported to the LPC on 8 September 2023.

Private Equity proposal

6. A proposal was taken to the ISC at its meeting on 11 October 2023 to commit c£80million to the private equity asset class in 2023/24 and £80million in 2024/25.

7. Hymans conducted a cashflow forecasting exercise with forecasts provided by the Fund's largest private equity manager, Adams Street Partners, which formed the basis of the multi-year commitment proposal.

8. A Hymans Robertson suitability review was conducted which proposed the commitment be split between two products for the 2023/24 commitment.
    It was recommended that general cash balances fund the below which will be called over a number of years:

    a. £40million (GBP) be committed to the LGPS Central PE 2023 vintage
    b. $50million (USD) be committed to the ASP Global Funds 2024 vintage

9. As part of the review a two-year recommendation was proposed and a combined £80million was approved to be committed to PE in 2024/25 with the split by PE Fund to be decided based on the geography, lifestyle origination channel framework, as described in the ISC paper on 11 October 2023, and with consultation with the Fund's investment advisor.

10. Similar to the reviews undertaken from property, infrastructure, and private credit over the last couple of years, officers agreed a framework to which future commitments to PE could be made and which would provide the Fund with a balanced portfolio of PE exposure. The target allocations are shown within the table below.

Segment		**Target Allocation, %**
Geography	North America	30-60%
	Europe	20-40%
	Asia Pacific	10-30%
	Emerging Markets	0-10%
Lifestage	Venture	10-30%
	Growth	10-30%
	Buy-out	40-70%
	Special Situations	0-10%
Origination channel	Primary funds	40-60%
	Secondaries	10-30%
	Co-Investments	15-25%

Cash management strategy (CMS) proposal

11. As a result of having a larger than usual cash holding it was deemed appropriate to formalise the CMS for the Fund. This Strategy was approved by the ISC at its meeting on 11 October 2023. It will be reviewed annually in line with other policies the Fund has.

12. The rationale for the CMS was detailed within the report which is included in the list of background papers further below). However, in summary, the allowable investments and their limits are best described within the table below.

Investment	Level of security	Maximum period	Maximum sum invested
Money Market Funds: Low Volatility and constant NAV(2) Triple A rated fund	At least as high as acceptable credit rated banks.	Same day redemptions and subscriptions	£250m (max £50m in each MMF) Minimum use of two MMFs(1) with each MMF having a minimum size of £3bn GBP
Term deposits with credit-rated institutions with maturities up to 1 year (including both ring-fenced and non ring-fenced banks)	Varied acceptable credit ratings, but high security	1 year	£250m(2)
Term deposits with overseas banks domiciled within a single country	Varied acceptable credit ratings, but high security	1 year	£100m(3)
Certificates of Deposit with credit rated institutions with maturities of up to 1 year	Varied acceptable credit ratings, but high security	1 year	£250m
Term deposits with the Debt Management Office	UK Government backed	1 year	£500m
UK Government Treasury Bills	UK Government backed	1 year – held to maturity	£500m
Term Deposits with UK Local Authorities up to 1 year	LA’s do not have credit ratings, but high security	1 year	£50m

[1] Limits can be extended higher temporarily by the Director of Corporate Resources and will need to be reported to the next meeting of the Local Pension Committee.

[2]Funds will be invested in constant or low volatility NAV MMFs. Constant NAV MMFs where the capital value of a unit will always be maintained at £1. These funds have to maintain at least 99.5% of their assets in government backed assets. Low volatility NAV MMFs are those where the MMFs are permitted to maintain the unit price at £1 as long as the net asset value does not deviate by more than 0.20% from this level.

[3]Limits per counterparty as advised by the treasury advisor will be used up to a total for all term deposits of £350m

Recommendation

13. The Local Pension Committee is asked to note the report.

Environmental Implications

14. The Fund has developed a Net Zero Climate Strategy (NZCS). This outlines the high-level approach the Fund is taking to its view on climate risk. This will align with the Fund's Responsible Investment approach as set out in the Investment Strategy Statement. The Fund is committed to supporting a fair and just transition to net-zero. There are no changes to this approach as a result of this paper.

15. The Fund will look to engage with investment managers to ensure they are taking appropriate action on capital allocation and engaging with underlying issuers to achieve real-world emissions reductions. It is recognised the Fund may also need to consider if further changes need to be made to the protection portfolio to support decarbonisation.

Equality Implications

16. There are no direct implications arising from the recommendations in this report. The Fund incorporates financially material Environmental, Social and Governance ("ESG") factors into investment processes. This has relevance both before and after the investment decision and is a core part of the Fund's fiduciary duty. The Fund will not appoint any manager unless they can show evidence that responsible investment considerations are an integral part of their decision-making processes. This is further supported by the Fund's approach to stewardship and voting through voting, and its approach to engagement in support of a fair and just transition to net zero. There are no changes to this approach as a result of this paper.

Human Rights implications

17. There are no direct implications arising from the recommendations in this report. The Fund incorporates financially material Environmental, Social and Governance ("ESG") factors into investment processes. This has relevance both before and after the investment decision and is a core part of the Fund's fiduciary duty. The Fund will not appoint any manager unless they can show evidence that responsible investment considerations are an integral part of their decision-making processes. This is further supported by the Fund's approach to

stewardship and voting through voting, and its approach to engagement in support of a fair and just transition to net zero. There are no changes to this approach as a result of this paper.

Background Papers

20 January 2023 – Local Pension Committee – Minute 98, Overview of the Current Asset Strategy and Proposed 2023 Asset Strategy
11 October 2023 – Investment Sub-Committee – Agenda Item 9, Recommended Investment to Private Equity Products
11 October 2023 – Investment Sub-Committee – Agenda Item 8, Cash Forecast to Year End 23/24 and Cash Management Strategy

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Leicestershire County Council

LOCAL PENSION COMMITTEE – 1 DECEMBER 2023

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

RESPONSIBLE INVESTING UPDATE

Purpose of the Report

1. The purpose of this report is to:

   a. update the Committee on progress versus the Responsible Investment (RI) Plan 2023 (Appendix A);

   b. update the Committee on the Fund's quarterly voting report (Appendix B) and stewardship activities;

   c. set out a high-level overview of the Fund's investment managers net zero approach.

Policy Framework and Previous Decisions

2. Responsible investment factors have long been a consideration for the Leicestershire County Council Pension Fund having satisfied itself that potential investment managers take account of responsible investment (RI) as part of their decision-making processes before they are considered for appointment.

3. This is enshrined in the Fund's Investment Strategy Statement last approved by the Committee on 3 March 2023, as well as the approach to climate related risk and opportunities within the Net Zero Climate Strategy also approved 3 March 2023.

4. The Fund is supported by LGPS Central's Responsible Investment and Engagement Framework which sets out its approach to responsible investment on behalf of the eight pooled funds. The framework supports the Fund broadening its stewardship activities.

Background

5. The term 'responsible investment' refers to the integration of financially material Environmental, Social and Governance ("ESG") factors into investment processes. It has relevance both before and after the investment decision and is a core part of the Fund's fiduciary duty. It is distinct from 'ethical investment', which is an approach in which the moral persuasions of

an organisation take primacy over its investment.

6. Engaging companies on ESG issues can create value for those businesses and the Fund as an investor by encouraging better risk management and more sustainable practices, which therefore should generate sustainable investment returns.

Responsible Investment (RI) Plan 2023 Progress

7. The Local Pension Committee approved the RI Plan in January 2023. The Plan was developed following discussion with LGPS Central's in-house RI team. The Fund has a continual focus on raising RI standards. Progress made to date on the 2023 RI Plan is set out in Appendix A.

8. Highlights include continued discussions with investment managers, as outlined in more detail below, and continued work alongside LGPS Central on their approach to stewardship.

9. Officers will begin looking forward to a 2024 Responsible Investment plan to continue to enhance the Fund and the Committee's view of RI matters, in line with any relevant recommendations from the Climate Risk Management report produced by LGPS Central elsewhere on today's agenda and any best practice.

Net Zero Climate Strategy Implementation Progress

10. Alongside the Fund's Net Zero Climate Strategy (NZCS) an implementation plan was agreed which set out:

    a. Strategic Actions
    b. Actions linked to NZCS Targets, and approach to investment decisions
    c. Actions related to Stewardship, Engagement and Divestment

11. Key to many of these actions is gaining a better understanding of existing managers' approach to monitoring climate risk, their own targets towards net zero if they have them, and the challenges they are facing. Managers have responded to our questions on these issues and this has proved helpful in understanding the differences in approach taken by each manager, different asset class issues and wider industry challenges.

12. Investment managers will have different views on potential risks and opportunities, and returns from individual assets, which supports the Fund's diverse portfolio in ensuring when one area of the portfolio does badly, it will be supported elsewhere.

13. The Fund has 19 investment managers outside of LGPS Central and as of 31 March 2023 this accounted for £3.3bn of Fund assets. There is evidence that investment managers are already taking these issues into account which is a positive step and is supportive of the Fund's long-term net zero ambition. A snapshot of just some managers commitments are set out below:

- 12 investment managers are members of the Net Zero Asset Manager Initiative, a group of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050, or sooner, and to supporting investing aligned with net zero emissions by 2050 or sooner.

- 10 investment managers have firm level operational net zero commitments. Two additional managers have already achieved carbon neutrality from their operations having utilised mitigation strategies and/or offset projects.

- 10 investment managers have some form of long, or medium-term target (or both) which apply to the Fund's investments as at March 2023. In some cases, these targets may only apply to specific investments or asset classes they hold due to challenges they report from ownership structures, or their ability to influence underlying investments, or ability to set targets on certain asset classes.

- Of the managers that have no current targets related to the Fund's investments, the Investment Sub-Committee (ISC) has already made a decision to disinvest from two due to other investment factors and the remainder fall under the following categories.
    - Looking to set out a climate plan during 2023/4;
    - Focusing on data collection before target setting, such as awaiting scope 3 data, or engaging third parties on how to measure their carbon footprint given the intangible nature of the investment.
    - Passively held investments.

14. The majority of these managers cover private markets and face significant data issues and does not mean they are not managing climate risk.

15. It is positive to see that many of the Fund's external managers have set net zero ambitions and have already begun measuring the impact of their portfolios, given these portfolios do not include climate factors as a mandate requirement. Officers will monitor data provided by managers and engage with them on progress made, even where these asset classes remain out of scope of the Fund's annual climate report produced by LGPS Central. This is supportive of the Fund's long-term net zero ambition.

16. For managers that have not set targets the Fund will need to monitor their progress in managing climate risk and encourage target setting. The Fund will also engage with managers that have set targets to ensure they are actively working towards these targets. This will be undertaken with future iterations of the annual manager questionnaire and follow up discussions.

17. Some managers have already began reporting climate data to the Fund. While these asset classes may be out of scope for inclusion with the climate report currently, this can enable the Fund to monitor progress on a manager-by-manager basis. Speaking with managers it is clear reporting is still at a

relatively early level and there is significant variation in the style, metrics used and content of reporting produced by investment managers across asset classes. This is especially true within private markets which are lagging more generally across the industry. There is also a clear geographic divide of data provision with managers noting that the UK and Europe can be considered far more advanced with regards to requirements for company climate reporting than the US for example, which feeds into manager reporting.

18. Over time it is expected data provision will improve, particularly driven by regulatory requirements on investments and on underlying companies to report specific metrics.

19. In relation to managers' views on fossil fuel companies' active managers naturally take different views. The majority are not invested in fossil fuel companies, either due to them not being within their investable universe, or not part of their strategy. Where managers may invest, some have revenue thresholds which restrict assets too heavily reliant on certain fossil fuels. Others, while not implementing exclusionary policies instead ensure any 'controversial' areas include additional scrutiny on the investment cases. The Fund will continue to work with managers to understand their approaches and how it fits with the Fund's approach to climate risk, and how managers engage with these companies. The Fund continues to monitor its exposure to fossil fuel reserves where this can be accurately measured by the Fund's data provider as part of the annual climate report. The Fund looks to continue to manage this exposure down in line with the Fund's NZCS fossil fuel reserves target, while engaging with these companies.

20. LGPS Central hold the remainder of scheme assets through investment managers (circa £2.5billion) which the Fund will look to increase investment in, in line with pooling ambitions. LGPS Central published their net zero approach, currently focusing on targets relating to listed equity, corporate bonds, sovereign debt and private markets by 2050 setting out a five-stage implementation plan. Short term actions include:

- For equities and corporate bonds: Central will be undertaking net zero analysis twice a year and cover assessments at all levels, both asset class and fund level. They will also send annual net zero questions to be discussed during biannual net zero meetings starting in 2024. Central will scrutinise their past carbon performance, expectations for future carbon performance, engagement outcomes and voting decisions.

- Sovereign and Private Markets: Collecting data from private market managers, and collating net zero commitments.

- LGPS Central are in the process of allocating net zero targets and a strategy for operational emissions, with a plan to publish in 2024.

21. A high-level snapshot of the Fund's overall position in relation to net zero, and data provision as of March 2023 is set out below.

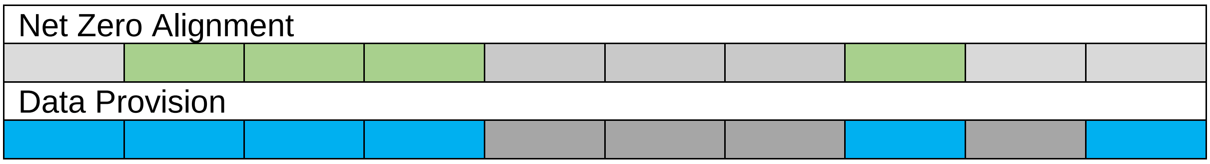
22. This is an officer view, and while we may consider a mandate currently aligning, or covered by an overarching manager net zero target, it will be vital for progress to be monitored on a manager-by-manager basis. As previously highlighted the vast majority of these investments have been held by the Fund for a significant time, and these mandates have not been built with net zero in mind. It is promising that despite these factors managers have set net zero targets where possible and have begun reporting metrics where possible. Where targets have not been set, this does not mean they are not considering climate issues and the Fund will continue to engage with them.

23. As set out in the NZCS the Fund will look where possible to review and develop investment mandates to increase alignment with the Fund's net zero ambitions, where this is also in line with the Fund's fiduciary duty.

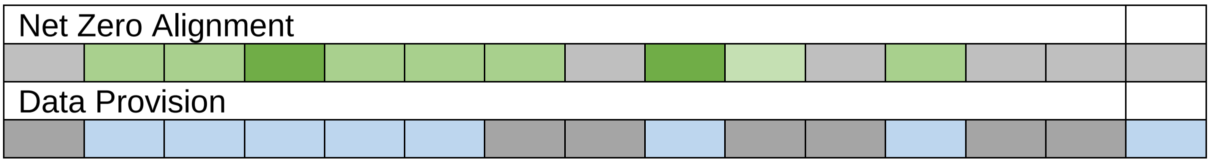
Net Zero		Data Provision	
Aligning to net zero.		Data included within CRR	
Covered by manager/LGPS Central net zero ambition. Progress to be monitored on alignment to net zero.		Manager providing some data which the Fund can monitor.	
Not target applicable. Further work needs to be undertaken.		Further work to be undertaken on engaging with manager on data	

24. Each block within the snapshot generally represents a mandate across both LGPS Central and existing managers. The Fund holds a number of mandates with investment managers of which vintages remain very similar. These have been grouped where relevant.

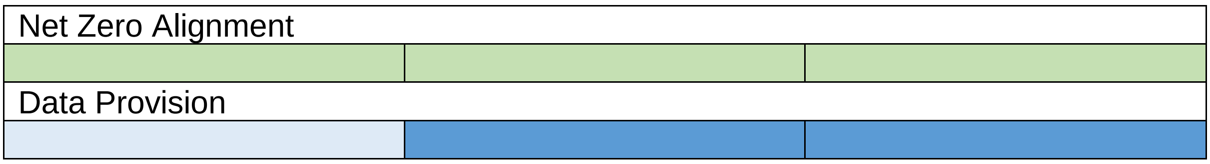
Growth



Income



Protection



25. As highlighted previously the majority of mandates where further work needs to be undertaken relate to private markets investments due to issues prevalent across private markets relating to data scarcity and how they are able to consider net zero in the context of their portfolios.

26. While many assets remain out of scope for the Fund's annual climate reporting. It is not to say other areas of the portfolio are not integrating sustainability or climate related factors and supportive of the Fund's overall ambition to become net zero by 2050, with an ambition for sooner. Some highlights are set out below.

- LaSalle the Fund's property manager has estimated the portfolio will achieve net zero by 2043 based on underlying asset net zero commitments.

- Partners, the Fund's private debt investment manager, introduced Sustainability Linked Loans. These are standard loan instruments which incentivize sustainability through a set of pre-agreed Key Performance Indicators (KPIs) related to environmental, social and governance factors. Given lenders often have far less impact than equity owners, it offers a key engagement channel to incentivise positive behaviour.

- Stafford Capital, the Fund's timberland manager, provides a net negative emissions profile. As well as their comprehensive approach to ESG, Stafford place a high emphasis on forest certification, an independent third-party evaluation of the management of a particular forest against a certain standard. Stafford report that 97% of their portfolio is certified, with the remainder constituted of largely young timberland assets that are planned to be certified within the near future.

Voting and Engagement

27. Appendix B sets out the Fund's voting report from July to October 2023.

28. This incorporates circa 43% of the Fund's assets (LGIM passive funds, LGPS Central Climate balanced fund, global emerging markets fund and the global active equity fund). A brief breakdown is set out below:

- The Fund made voting recommendations at 826 meetings (8,052 resolutions)
- At 471 meetings the Fund opposed one or more resolutions.
- The Fund voted with management by exception at 4 meetings and supported management on all resolutions at the remaining 350 meetings.
- The majority of votes where the Fund voted against management were related to board structure (40%). These votes include issues such as overboarding, diversity, and inadequate management of climate risk.

29. Some highlights from engagement activity from partners are set out below.

LGPS Central Stewardship Report – April-June Stewardship Report]

30. LGPS Central is the pooling company of the Fund. It is a strong supporter of responsible investment through the Responsible Investment and Engagement Framework. Central's latest Stewardship Report sets out progress of ongoing and new engagements which relate to the four Stewardship Themes: climate change, plastic, fair tax payment and tax transparency, and human rights risk. This quarter the engagement set comprised 460 companies, with engagement activity on 1578 issues and objectives. Against 553 specific objectives there was achievement of some or all on 149 specific objectives.

Engagement	Action	Outcome
Marathon Oil Corp	Responsible Tax engagement. For the company to public a responsible taxation policy inline with the Global Reporting Initiative (GRI) Tax Fairness Standard, and disclose itemised payment to government the national. State and local levels.	The company suggested that it would publish a responsible policy in line with the GRI standard and disclose itemised payments.

Legal and General Investment Management – ESG Impact report Q3

31. Legal and General Investment Management (LGIM) manage the majority of the Fund's passive equity which accounts for 15.9% of the Fund. LGIM's latest ESG impact report highlights some key activity in the Investment Stewardship team.

32. The latest ESG impact report highlights continued engagement on LGIM's Climate Impact Pledge, the work addressing the issue of income inequality and poverty and engagement with stock exchanges in Asia. One highlight is set out below.

Company	**Theme**	**Action**	**Outcome**
Heidelberg Cement	Climate	Engagement with the management team to discuss progress and economic validity of the company's planned carbon capture and storage projects in relation to the economic and external viability factors and demand expectations for 'carbon free' cement.	To continue to engage with the company and other competitors in the cement industry on decarbonisation targets and trajectory. For the company the economics of carbon capture and storage will only become economical with either an increase in the carbon price, or if customers are willing to pay a premium for carbon free cement.

Local Authority Pension Fund Forum – July to September 2023

33. The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), which acts to promote the highest standards of corporate governance to

protect the long-term value of local authority pension fund assets. The latest report features an overview of engagement with global insurers on approaches to decarbonisation and natural resources, the ‘Say on Climate’ initiative, Mining and Human Rights and meetings with water companies.

34. LAPFF highlighted a number of engagements related to climate change and financial institutions, including writing to 13 global insurers on their approaches to decarbonisation and natural resources. LAPPF received responses from four companies so far, however flagged that US companies tend to be less willing to engage in a meaningful way than companies in many other markets, including the UK and Australia. LAPFF will continue to send letters and set up meetings over the course of the year.

Topic	**Action**	**Outcome**
Water Companies and Sewage Pollution	Chair of LAPFF met with the Chair of Severn Trent, and other water companies.	Severn Trent were ahead of targets on reducing overflows. Discussions over longer-term plans and targets and capital investment and how Severn Trent was addressing climate change, including through capturing emissions from the sewage treatment process. LAPFF continue to engage with companies on their progress and plans.

Other Developments

Taskforce for Nature Related Financial Disclosures

35. In September 2023 the Taskforce on Nature-related Financial Disclosures launched its final recommendations. This framework is intended to help companies disclose the risks, opportunities, dependencies and impacts of their activities on nature.

36. Like with climate risks, nature poses a financial and fiduciary risk if not managed well by underling companies and investment managers, which can link into three risk areas similar to climate:

- Physical Risk
- Systematic Risk
- Transition Risk (including legal liability)

37. This area will also pose opportunities for investment like climate change, and the Fund already has investments which may provide favourable nature related benefits through its forestry portfolio.

38. Officers will continue work with LGPS Central’s RI Team to ultimately provide data to the Fund through a Sustainability Report and look to integrate relevant questions with additions to the Fund’s annual manager questionnaire.

Recommendation

39. It is recommended that the Local Pension Committee note the report.

Background papers

3 March 2023 Local Pension Committee: **Pension Fund Valuation - Consultation Results, Final Assumptions and Results**
3 March 2023 Local Pension Committee: **Outcome of Consultation on Net Zero Climate Strategy and Responsible Investing Update**

Equality Implications

40. There are no direct implications arising from the recommendations in this report. The Fund incorporates financially material Environmental, Social and Governance ("ESG") factors into investment processes. This has relevance both before and after the investment decision and is a core part of the Fund's fiduciary duty

Human Rights Implications

41. There are no direct implications arising from the recommendations in this report. The Fund incorporates financially material Environmental, Social and Governance ("ESG") factors into investment processes. This has relevance both before and after the investment decision and is a core part of the Fund's fiduciary duty

Appendices

Appendix A: RI Plan Update
Appendix B: Quarterly voting report

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RESPONSIBLE INVESTMENT PLAN 2023

Financial Quarter	Date (where applicable)	Title	Description – Progress made as of November 2023.
Q4	20 January 2023	RI Plan	Communication and publication of the Fund's 2023 RI Plan Approved by the Local Pension Committee.
	3 March 2023	Manager Presentation	Presentation from Partners Group. As part of Manager report to Committee overview of approach to Environment, Social and Governance factors (ESG)in relation to Partners management of private credit assets on the Fund's behalf.
	3 March 2023	Net Zero Climate Strategy (NZCS)	Consideration of outcome of consultation and seeking approval for final Strategy Net Zero Climate Strategy and Implementation Plan was approved by the Local Pension Committee. This was communicated to scheme members through the Member Self Service website, as well as part of the web page on Investments, Responsible Investment and Climate Change.
	9 March 2023	LGPS Central RI Summit	All Members have been invited to attend LGPS Central Responsible Investment Summit. A day of sessions comprised: Session 1: Climate Change and Human Rights Panel Session 2: Greenwashing: Developments and Implications for 2023 Options for breakout sessions: Investing in China, Sustainable Investing, Why Biodiversity is Important to Investors Session 4: Interview with Barclays, the Climate Transition and Net Zero in the Banking Sector Options for breakout sessions: Energy Markets and the Transition, Renewable Energy, Investing in Carbon Capture and Hydrogen

			Session 6: Net Zero in Asset Alternatives Session 7: LGPS Central's Net Zero Strategy
		Manager Climate Snapshot as 31 March	The Fund will request climate related information from all investment managers to understand how they are monitoring/managing climate risk. This will be used to drive discussions on matters related to the NZCS with Investment Managers throughout the year. Information has been requested and received which is being used to support discussions on the Fund's climate reporting and how Managers align with the Fund's ambitions, this will need to be monitored to ensure where Managers are aligned with its net zero ambitions, that their investment strategy supports this.
Q1	16 June 2023	Taskforce on Climate-Related Financial Disclosures (TCFD) Report	Public report of the Fund's approach to climate risk, set out in alignment with the recommendations of the TCFD, updates in relation to NZCS, Climate Risk Report and stewardship reporting where applicable. This is subject to review in line with the Climate Risk Report and work with LGPS Central on streamlining and simplification and expected government guidance following their consultation late 2022. Discussions on the Fund's next Climate Risk Report have begun with LGPS Central, with the aim of increasing asset coverage in line with the Net Zero Climate Strategy's implementation plan and how this can be presented to the Committee at the 1 December 2023 meeting. Central will provided a brief update of a mock dashboard at the June meeting.
	16 June 2023	Manager Presentation	Manager TBC. As part of Manager report to Committee overview of approach to ESG. Stafford Capital presented to the Committee on their approach to timberland and ESG related issues, including biodiversity. Committee also received an early update on the ESG tool from LGPS Central.
Q2	8 September 2023	Manager Presentation	Property, DTZ. As part of the Manager presentation to Committee members received an overview of ESG in real estate, and detail on ESG objective for the LGPS Central Sub Fund of implementing and managing ESG risks, capturing

			opportunities, the plan for Net Zero target of 2040 and to comply with all environmental legislation.
		Administration and Communication Strategy	Review further to any change's resultant from NZCS engagement. In progress.
		Responsible Investment &Engagement 101 Training	LGPS Central to provide two-hour training session on responsible investment and engagement in advance of November Climate Risk Report. Training followed the September Committee meeting, covering: - Responsible Investment and Financial Outcomes - The importance of stewardship, how we engage, successful engagement and Voting Season 2023 - RI Issues – Net Zero, Climate Issues and reporting, Taskforce for Nature and Financial Disclosures
		Investment Advisor Objectives	Review in line with Competition and Market Authority requirements. To be presented to December committee with integration of the Fund's Net Zero and RI considerations.
Q3	1 December	Climate Risk Report	LGPS Central are holding discussions with partner funds about future reporting. The Fund will ensure it is reviewed in light of reporting on NZCS and seek to expand data coverage. To be presented to December committee.
	1 December	Manager Presentation.	LGIM, Low Carbon Equities. As part of Manager report to Committee overview of approach to ESG.
		Strategic Asset Allocation Review	To take into account climate risk as per NZCS and Climate Risk Report. Officers have shared the Fund's climate data with Hymans, and will discuss this integration into the SAA given the general good performance in relation to NZCS targets, and how to progress the Fund's objectives.
	TBC	Pension Fund AGM	Presentation as part of Pension Fund Annual General Meeting.
Q4	January 2024	Strategic Asset Allocation Committee	Consider recommendations from Climate Risk Report and Net Zero Climate Strategy

RI Plan	2024 Plan.

Ongoing Activities throughout the year

- Quarterly reports to the Local Pension Committee on voting, engagement, and stewardship activities of LGPS Central, LGIM and the Local Authority Pension Fund Forum, and developments on responsible investment matters.
- Implementation and further inclusion of actions positively correlated with broader Net Zero Climate Strategy through LGPS Central and other external managers to ensure the climate transition and physical risks are identified and managed through stewardship and/or asset allocation activities. Especially in regard to active equity portfolios. LGPS Central are reporting RI matters undertaken in monitoring active equity portfolios.
- Review the listed equity portfolio with the investment advisor taking into account the Net Zero Climate Strategy. Agreed and discussed at April Investment Subcommittee, including allocation to new LGIM Low Carbon Transition fund. Further steps are needed to appoint a transition advisor to formalise the timeline and strategy agreed.
- Work with appointed managers to understand how they are assessing, monitoring, and mitigating key transition and physical risks within material sectors. Officers have now met with a number of key Managers to understand their processes with managing climate risk, a highlight of managers coverage and key challenges are set out in the December RI Update.
- Working with LGPS Central to continue to develop climate reporting. As part of the development of the Climate Risk Report this process is ongoing, alongside integration of sustainability and ESG reporting more generally.
- Continue to engage companies highlighted in Climate Stewardship Report via our engagement partners including LGPS Central on companies and engagements selected. LGPS Central are in the process of reviewing their approach to Stewardship which the Fund and partner funds are engaging with.
- Exploration of potential codes/bodies (e.g., Stewardship Code 2020, Principles for Responsible Investment) for application. Preparation for reporting against the Stewardship Code in early 2024 has begun. Given the expected review of the Stewardship Code, it may be prudent to delay this until a revised code is published which it is hoped will be more outcome and action orientated.

The following RI Activities have also been undertaken:

- Communication of Local Authority Pension Fund Forum Voting Alerts to the Fund’s equity managers.
- Discussion with investment managers on the extent of metrics available for reporting to the Fund and level of known or estimated data and the challenges of specific asset classes with reporting.

- The Pension Fund website has been updated with an overview of responsible investment and Climate Change considerations for the Pension Fund https://leicsmss.pensiondetails.co.uk/home/scheme-member/lgps/investments/
- Review of the LGPS Central RI&E Framework and Voting Principles for 2023
- Oversight of best practice, policy papers, and news relating to RI. Including expected upcoming consultations on the LGPS, global attitudes towards RI and ESG, proposals on reporting on the Taskforce for Nature Related Financial Disclosures, and its social counterpart, and the Pensions Regulator TCFD review.
- Local Authority Pension Fund Forum presented to the Local Pension Committee and Local Pension Board on 13 June as part of Joint Training.
- Updated Pension Fund Annual Report to include RI and NZCS in a bitesize chunk.
- The Fund will look to take into account, and work with Hymans on their recommendations and views on reporting requirements for the Fund’s protection portfolio following the July ISC. The Fund will await guidance on issues related to measurement of climate impact of its hedge.
- The Fund is exploring how it can improve communication with scheme members and employers in easily digestible formats in relation to climate change and the impact on the Fund, this communication is expected to be published following the Fund’s AGM.

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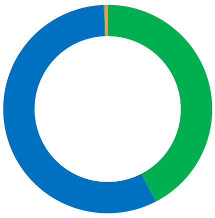
Leicestershire County Council Pension Fund

Voting Report, Q3 2023 (Jul-Oct 2023)

Over the last quarter we voted at **826** meetings (**8,052** resolutions). At **471** meetings we opposed one or more resolutions. We abstained at **1** meeting. We voted with management by exception on **4** meetings. We supported management on all resolutions at the remaining **350** meetings.

Global

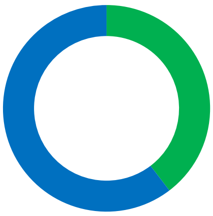
We voted at 826 meetings (8052 resolutions) over the last quarter.



Meetings in Favour 42%
Meetings Against 57%

Developed Asia

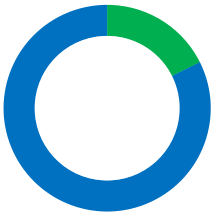
We voted at 53 meetings (395 resolutions) over the last quarter.



Meetings in Favour 40%
Meetings Against 60%

Australia and New Zealand

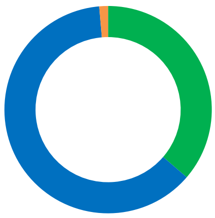
We voted at 17 meetings (77 resolutions) over the last quarter.



Meetings in Favour 18%
Meetings Against 82%

Emerging and Frontier Markets

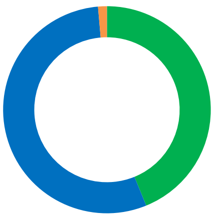
We voted at 454 meetings (3406 resolutions) over the last quarter.



Meetings in Favour 37%
Meetings Against 63%
Meetings with Management by Exception 1%

Europe Ex-UK

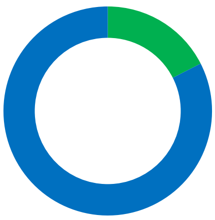
We voted at 73 meetings (849 resolutions) over the last quarter.



Meetings in Favour 44%
Meetings Against 55%
Meetings with Management by Exception 1%

North America

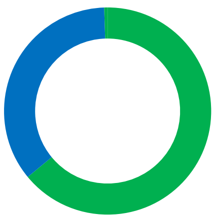
We voted at 40 meetings (482 resolutions) over the last quarter.



Meetings in Favour 18%
Meetings Against 82%

United Kingdom

We voted at 189 meetings (2843 resolutions) over the last quarter.

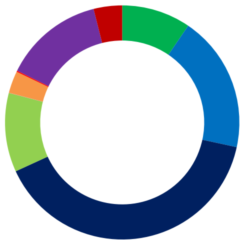


Meetings in Favour 64%
Meetings Against 35%

The Issues on which we voted against management or abstaining on resolutions are shown below.

Global

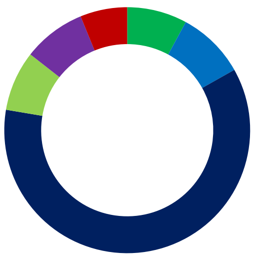
We voted against or abstained on 4399 resolutions over the last quarter.



- Amend Articles 10%
- Audit + Accounts 19%
- Board Structure 40%
- Capital Structure + Dividends 11%
- Other 3%
- Remuneration 14%
- Shareholder Resolution 4%

Developed Asia

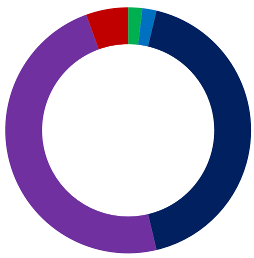
We voted against or abstained on 291 resolutions over the last quarter.



- Amend Articles 8%
- Audit + Accounts 9%
- Board Structure 61%
- Capital Structure + Dividends 8%
- Remuneration 8%
- Shareholder Resolution 6%

Australia and New Zealand

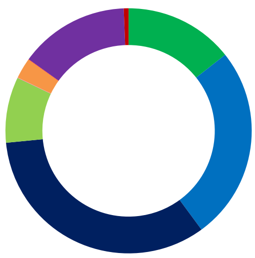
We voted against or abstained on 54 resolutions over the last quarter.



- Amend Articles 2%
- Audit + Accounts 2%
- Board Structure 43%
- Remuneration 48%
- Shareholder Resolution 6%

Emerging and Frontier Markets

We voted against or abstained on 2237 resolutions over the last quarter.



- Amend Articles 14%
- Audit + Accounts 26%
- Board Structure 34%
- Capital Structure + Dividends 9%
- Other 3%
- Remuneration 14%
- Shareholder Resolution 1%

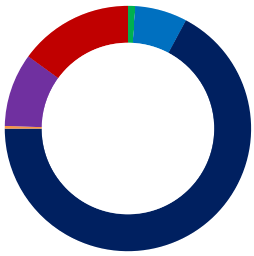
Europe Ex-UK

We voted against or abstained on 502 resolutions over the last quarter.

- Amend Articles 9%
- Audit + Accounts 14%
- Board Structure 36%
- Capital Structure + Dividends 13%
- Other 5%
- Remuneration 15%
- Shareholder Resolution 8%

North America

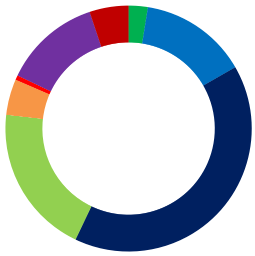
We voted against or abstained on 320 resolutions over the last quarter.



- Audit + Accounts 7%
- Board Structure 67%
- Remuneration 10%
- Shareholder Resolution 15%

United Kingdom

We voted against or abstained on 995 resolutions over the last quarter.



- Amend Articles 3%
- Audit + Accounts 14%
- Board Structure 40%
- Capital Structure + Dividends 20%
- Other 5%
- Poison pill/ Anti-Takeover Device 1%
- Remuneration 13%
- Shareholder Resolution 5%

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Leicestershire County Council

LOCAL PENSION COMMITTEE – 1 DECEMBER 2023

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

INVESTMENT ADVISOR OBJECTIVES 2024

Purpose of Report

1. The purpose of this report is to provide the Local Pension Committee with the details regarding the proposed 2024 investment advisor objectives for Hymans Robertson, the Fund's investment advisor.

Policy Framework and Previous Decisions

2. The Investment Consultancy and Fiduciary Management Market Investigation Order 2019 requires pension scheme trustees to set strategic objectives for their investment consultants before they enter into a contract or continue to receive services from them.

3. The Fund has set and agreed objectives over the past few years for Hymans Robertson and submitted to the Competition and Markets Authority (CMA) during the first week in January.

2024 investment advisor objectives

4. Hymans Robertson have reviewed prior year performance. The CMA order only requires trustees to confirm that they have complied with the requirements over the last 12 months and had objectives in place. However, reviewing performance against the objectives that the Fund has set is part of ongoing good governance.

5. Inclusion of the Fund's Net Zero Climate Strategy and approach to responsible investment is to be reflected within decision making and governance.

6. The full list of objectives and last years' objectives review is included within the appendix to this report.

Recommendation

7. The Local Pension Committee is asked to approve the investment advisor objectives for 2024.

Environmental Implications

8. The Fund has developed a Net Zero Climate Strategy (NZCS). This outlines the high-level approach the Fund is taking to its view on climate risk. This will align with the Fund's Responsible Investment approach as set out in the Investment Strategy Statement. The Fund is committed to supporting a fair and just transition to net-zero. There are no changes to this approach as a result of this paper.

Equality Implications

9. There are no direct implications arising from the recommendations in this report. The Fund incorporates financially material Environmental, Social and Governance ("ESG") factors into investment processes. This has relevance both before and after the investment decision and is a core part of the Fund's fiduciary duty. The Fund will not appoint any manager unless they can show evidence that responsible investment considerations are an integral part of their decision-making processes. This is further supported by the Fund's approach to stewardship and voting through voting, and its approach to engagement in support of a fair and just transition to net zero. There are no changes to this approach as a result of this paper.

Human Rights implication

10. There are no direct implications arising from the recommendations in this report. The Fund incorporates financially material Environmental, Social and Governance ("ESG") factors into investment processes. This has relevance both before and after the investment decision and is a core part of the Fund's fiduciary duty. The Fund will not appoint any manager unless they can show evidence that responsible investment considerations are an integral part of their decision-making processes. This is further supported by the Fund's approach to stewardship and voting through voting, and its approach to engagement in support of a fair and just transition to net zero. There are no changes to this approach as a result of this paper.

Appendix

2024 Hymans Robertson investment advisor objectives

Background Papers

None

Officers to Contact

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CMA objectives for investment consultants

Addressee

This paper is addressed to the Officers of the Leicestershire County Council Pension Fund ("the Fund"). The purpose of this paper is to set out the next steps in the requirement to set objectives and assess Hymans Robertson, as investment consultant to the Fund, against the objectives following the publication of the Competition and Markets Authority ("CMA") final order, relating to their review of investment consulting and fiduciary management markets.

This paper should not be disclosed to any third parties without our prior written permission. We accept no liability to any third party relying on the advice or recommendations in this paper.

Background and scope

In June 2019, the CMA published its final order following a review of the investment consulting and fiduciary management markets. The order made it a regulatory requirement for pension scheme trustees (including pension committees within the LGPS) to set objectives for their investment consultants.

We have summarised the key points below:

- Since 10 December 2019 pension scheme **trustees must set strategic objectives for their investment consultants** before they enter into a contract or continue to receive services from them. The Fund has set and agreed objectives for Hymans Robertson, which are set out in Appendix 1.
- Pension scheme **trustees must submit 'compliance statements'** stating that they have complied with the above requirement. This statement covers the period from 10 December 2022 to 9 December 2023, so it will need to be sent **after 10 December 2023, but before 7 January 2024**. We note this date falls on a Sunday next year so you may want to complete this work by Friday 5 January 2024.
- The format of the compliance statement is a short statement which is stipulated in the CMA order, please see Appendix 2 for details. A scanned copy of a signed statement will need to be submitted by email to this address: RemediesMonitoringTeam@cma.gov.uk.
- Department for Work and Pensions ("DWP") has now brought forward secondary legislation to enact the CMA requirements for private sector pension schemes. Under the new legislation, responsibility for monitoring compliance will transition to The Pensions Regulator ("TPR"). During the transition period, the requirement to submit compliance statements to the CMA has been dropped. The Department for Levelling-up, Homes and Communities ("DLUHC") is expected to bring forward similar legislation for the LGPS. At this stage, it is not clear whether or not LGPS funds are still required to submit compliance statements. For now, we assume the requirement stands.
- The CMA order only requires trustees to confirm that they have complied with the requirements over the last 12 months and had objectives in place. However, reviewing our performance against the objectives that the Fund has set is part of ongoing good governance. This is in line with guidance from TPR which suggests performance is monitored annually, with a detailed review every three years. Further, we note that the recent DLUHC consultation proposes to extend this requirement to cover LGPS funds under future regulations. We have evaluated our performance against current objectives in Appendix 1.
- TPR also suggests checking that objectives are still appropriate at least every three years. We have proposed amendments to the current objectives in Appendix 3.

Assessing performance against objectives

As noted above, we are assuming that, by 7 January 2024 the Fund must have submitted a compliance statement to the CMA confirming compliance with Part 7 of the CMA, by setting strategic objectives for their investment consultant. However, there is not an obligation to have assessed your consultant's performance against these objectives by that date.

Next steps for the Fund

- Report compliance relative to the CMA's requirements to the CMA by 7 January 2024 – see Appendix 2;
- Finalise the assessment of performance against current objectives;
- Confirm the proposed objectives for the coming year.

Prepared by: -

Philip Pearson, Senior Investment Consultant
Abhishek Srivastav, Senior Investment Consultant

For and on behalf of Hymans Robertson LLP

November 2023

General Risk Warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets.

Exchange rates may also affect the value of an overseas investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

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Appendix 1: Current objectives

Leicestershire County Council Pension Fund Objectives	Investment Consultant Objectives	Performance Evaluation 2023
Strategic Ensure members' benefits are met as they fall due. Support a long-term funding approach that is consistent with a stable and affordable contribution approach from the employers. The implications of required returns of this funding objective will be reassessed at each actuarial valuation. The current strategic return target is between 3-4% per annum in excess of CPI. Reduce the deficit recovery period for the Fund.	Advise on a suitable investment strategy and amendments to the strategy reflecting changes in market conditions, to deliver the required real return to maintain a long-term steady state of full funding going forward. Deliver an investment approach that supports meeting the Fund's cashflow, and likely evolution, and minimises the risk of forced disinvestment. Ensure the approach involves suitable diversification, a level of complexity consistent with the Fund's governance capacity and focuses on predictable returns. Deliver strategic advice with an expected range of outcomes that captures the downside risk tolerance preferences of the Committee.	We undertook an extensive annual review of investment strategy, following the 2022 valuation, which aimed to maintain the target expected return, whilst improving diversification and prospective risk adjusted returns, in order to support an affordable funding and contribution strategy. Cashflow needs were not critical, however, our analysis showed some further diversification into income assets could deliver an improvement in funding outcomes, albeit we didn't conduct further asset-liability modelling and instead focused on portfolio efficiency. Our proposed recommendations covered listed equities, private equity, targeted return, infrastructure, emerging market debt, multi-asset credit, investment grade credit, cash and the currency hedging program, subject to additional due diligence, in certain cases. In each asset class, we reconfirmed the investment case through to potential mandate construction options (active vs. passive, regional vs. global implementation, pooling options, responsible investment considerations amongst others). We also reviewed the potential for additional diversification, balancing the benefits of reduced downside risk with the cost of managing additional complexity, acknowledging the aim of portfolio simplification. As the Fund continues in the development of its climate strategy, we also provided a progress report as well as

		the expected impact from some of our recommendations, where possible, and suitable implementation vehicles.
Implementation Ensure the Fund's investment approach is aligned with the objectives of pooling and associated guidance. Ensure cost efficient implementation of the Fund's investment strategy. Ensure an orderly transition to LGPS Central (where applicable).	Advise on the cost efficient implementation of the Fund's investment strategy. Advise on the use of solutions provided by LGPS Central as a vehicle for implementing the agreed investment strategy, and where appropriate help in the specification of LGPS Central solutions to meet the Fund's needs.	On the asset classes where we recommended deeper reviews, such as targeted return and listed equities, fee implications and pooling were covered in detail. We advised on the use of LGPS Central solutions in each of the asset classes, and provided constructive challenge to the specification in certain cases such as in targeted return, private debt and private equity. This included advice on concentration limits and their relevance, in the context of pooling, with a view to minimising the governance burden on the Fund.
Governance Ensure the Fund's approach reflects relevant regulatory and legislative requirements. Develop the Committee's Responsible Investment policy and ensure this is reflected in ongoing governance and decision making processes. Ensure the Fund's investment objectives are supported by an effective governance framework.	Ensure our advice complies with relevant pensions' regulations, legislation and supporting guidance. Ensure our advice reflects the Committee's own policies and beliefs, including those in relation to Responsible Investment and climate risk, with such considerations reflected in investment recommendations and the Strategic Asset Allocation (SAA) where appropriate. Advise on the actions the Fund should undertake to deliver its Net Zero goals and other Responsible Investment objectives and priorities. Provide relevant and timely advice.	Our advice complied with current regulations and guidance and, where possible, anticipated future requirements. We ensured that all advice included consideration of responsible investment issues and was consistent with the Fund's other policies and beliefs. We advised on the rebalancing policy, which we had previously flagged, and responsible investment goals were considered when reviewing implementation options. Timeliness of advice and deliverables improved during the year, by incorporating previous learnings such as earlier project milestones, but there is always room for further improvements, for example by agreeing executive summary working papers, which are more concise.

Appendix 2 – CMA compliance statements – the details

Background

- The Investment Consultancy and Fiduciary Management Market Investigation Order 2019 requires pension scheme trustees to set strategic objectives for their investment consultants before they enter into a contract or continue to receive services from them.
- Part 7 of the Order sets out this requirement. Specifically, stating:

  "Pension Scheme Trustees must not enter into a contract with an Investment Consultancy Provider for the provision of Investment Consultancy Services or continue to obtain Investment Consultancy Services from an Investment Consultancy Provider unless the Pension Scheme Trustees have set Strategic Objectives for the Investment Consultancy Provider."

- Pension scheme trustees must submit statements to confirm that they have complied with the above requirement.
- **Completing the statement below and submitting it to the CMA between 10 December 2023 and 7 January 2024 will fulfil the requirement to report back to the CMA.**
- We have drafted the compliance statements for the Fund on the following page. A scanned copy of a signed statement should be submitted by email to this address: RemediesMonitoringTeam@cma.gov.uk.

Leicestershire County Council Pension Fund

Investment Consultancy and Fiduciary Management Market Investigation Remedy Compliance Statement for the Leicestershire County Council Pension Fund

I, ………………………….., confirm on behalf of the Leicestershire County Council Pension Fund that during the period commencing on 10 December 2022 and ending on 9 December 2023, the Leicestershire County Council Pension Fund has complied with Part 7 of the Investment Consultancy and Fiduciary Management Market Investigation Order 2019.

Additional Compliance Reporting

(a) this Compliance Statement has been prepared in accordance with the requirements of the Order; and

(b) for the period to which the Compliance Statement relates, the Leicestershire County Council Pension Fund has complied in all material aspects with the requirements of the Order and reasonably expect to continue to do so.

For and on behalf of the Leicestershire County Council Pension Fund

Signature: ....

Name: ....

Title: ....

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Appendix 3: Proposed objectives

Leicestershire County Council Pension Fund Objectives	Investment consultant objectives 2024
Strategic Ensure members' benefits are met as they fall due. Support a long-term funding approach that is consistent with a stable and affordable contribution approach from the employers. The implications of required returns of this funding objective will be reassessed at each actuarial valuation. The current strategic return target is between 3-4% per annum in excess of CPI. Reduce the deficit recovery period for the Fund. Consider the Net Zero Climate Strategy in strategic decisions.	Advise on a suitable investment strategy and amendments to the strategy reflecting changes in market conditions, impacting the required real return and likelihood thereof, to maintain a long-term steady state of full funding going forward. Deliver an investment approach that supports meeting the Fund's cashflow needs, and likely evolution, and minimises the risk of forced disinvestment. Ensure the approach involves suitable diversification, a level of complexity consistent with the Fund's governance capacity and focuses on predictable returns. Deliver strategic advice with an expected range of outcomes that captures the downside risk tolerance preferences of the Committee and considers the Net Zero ambitions. This includes a review of protection assets and potential alternative protection assets.
Implementation Ensure the Fund's investment approach is aligned with the objectives of pooling and associated guidance. Ensure cost efficient implementation of the Fund's investment strategy. Ensure an orderly transition to LGPS Central (where applicable).	Advise on the cost-efficient implementation of the Fund's investment strategy, with a focus on delivering recommendations outstanding from the 2023 SAA review. Proposing benchmark amendments to the reporting of investment performance. Advise on the use of solutions provided by LGPS Central as a vehicle for implementing the agreed investment strategy, to support the regulatory direction of travel on pooling whilst also expressing our views on preferred solutions, and where appropriate help in the specification of LGPS Central solutions to meet the Fund's needs. Ensure investment decisions take into account the potential for regulatory change and developments. Reviewing and developing investment mandates to increase alignment with the NZCS. Including development of a climate-aware investment strategy, and climate solutions investments, where possible.
Governance Ensure the Fund's approach reflects relevant regulatory and legislative requirements.	Ensure our advice complies with relevant pensions' regulations, legislation and supporting guidance.

Ensuring the Fund's Net Zero Climate Strategy and approach to responsible investment is reflected in ongoing governance and decision making processes. Ensure the Fund's investment objectives are supported by an effective governance framework.	Ensure our advice reflects the Committee's own policies and beliefs, including those in relation to Responsible Investment and climate risk, with such considerations reflected in investment recommendations and the Strategic Asset Allocation (SAA) where appropriate. Advise on the actions the Fund should undertake to deliver its Net Zero goals and other Responsible Investment objectives and priorities by both reporting on progress, where a baseline has been established, or doing so once baseline information is available, in areas such as listed credit and private markets, thereby expanding the coverage of the overall portfolio. Provide relevant and timely advice.

Leicestershire County Council

LOCAL PENSION COMMITTEE – 1 DECEMEBER 2023

DIRECTOR OF CORPORATE RESORUCES

CLIMATE RISK MANAGEMENT REPORT 2023

Purpose of the Report

1. The purpose of this report is to provide the Local Pension Committee with background information on Leicestershire County Council's Pension Fund (the Fund) 2023 Climate Risk Management Report (formerly known as the Climate Risk Report), and progress toward net zero targets.

2. A PowerPoint presentation will be delivered at the meeting by representatives from LGPS Central, a copy of the Leicestershire County Council Climate Risk Management Report is attached as the appendix to the report.

Policy Framework and Previous Decisions

3. Climate change factors have been considered by the Fund for a number of years. This was enshrined in the Fund's Investment Strategy Statement last approved by the Committee on 3 March 2023, as well as the approach to climate related risk and opportunities within the Net Zero Climate Strategy, also approved 3 March 2023. Climate considerations have also been built into the Fund's Investment Strategy Statement and Funding Strategy Statement.

Background

4. The Fund has produced a climate report annually since 2020, formerly known as the Climate Risk Report. Through a combination of bottom-up and top-down analysis, the report has been designed to give the Fund a view of the climate risk held throughout its entire asset portfolio, accompanied by proposed actions the Fund could take to manage and reduce that risk. This allows the Fund to analyse progress against the baseline of data from previous reports, reassess the Fund's exposure to climate-related risks and opportunities, and identify further means for the Fund to manage its material risks.

Climate Report Analysis 2023

5. A copy of Leicestershire Pension Fund's Climate Risk Management Report is attached as the appendix to the report. LGPS Central will deliver a PowerPoint presentation to cover the key points in the report at the meeting.

6. The report is structured to align with the four pillars of the Taskforce on Climate-Related Financial Disclosures (TCFD) and facilitates public disclosure against this framework: Governance, Strategy, Risk Management, and Metrics and Targets.

7. The report is split into two distinct sections, Section 1: Climate Analysis which for the first time compares the Fund's current approach set out within its various documents and strategies to that of what may be required as part of the outcome of Government's TCFD consultation, and what is considered best practice across the financial sector, alongside recommendations for the Fund. Section 2 sets out the Fund's climate metrics.

Progress Against the Fund's Net Zero Climate Strategy

8. The data set out within the climate metrics section is at 31 March 2023. Progress according to the Net Zero Climate Strategy targets is set out at a high level below. These all contribute to the Fund's high-level target primary target of net zero by 2050, with an ambition for sooner.

9. Progress against the two other primary interim targets and the remaining secondary targets is highlighted below. At a high-level the Fund is on track to achieve its targets, especially in regard to achieving 50% carbon intensity reduction by 2030. However, it is important to note that the Fund's performance against these metrics is unlikely to be linear due to the nature of the markets, and the influence of asset allocation year on year on the Fund's underlying figures.

10. In some cases, the Fund's baseline data as of 31 December 2019 has been restated within the report due to improved data available through LGPS Central's data provider. Any targets will be compared against the most up to date data available. More information on restated values are set out within page 32 of the Appendix.

Interim Primary Target	2019 (restated)	2023
40% absolute carbon emissions reduction for the Equity Portfolio by 2030 (tco2e).	196k tco2e	158k tco2e

11. This interim target is calculated using an attribution factor and a company's scope 1 and 2 emissions. The attribution factor is determined by the Fund's outstanding amount in a company, and the value of the financed company. This measures the absolute ton of scope 1 and 2 emissions for which the Fund is responsible.

12. The 19.4% reduction is between 2019 and 2023, and has been achieved despite a 19.8% increase in assets undermanagement over the same time period.

Interim Primary Target	2019 (restated)	2023
50% carbon intensity reduction by 2030 for the Equity Portfolio (tCO2e/$m)	164.4	102.0

13. This interim target is calculated by dividing a company's scope 1 and 2 emissions by their million dollars in sales, for each portfolio company and calculating the weighted average by portfolio weight. This acts as a proxy for carbon price. Were a global carbon price to be introduced in the form of a carbon tax this would be more

financially detrimental to carbon intensive companies, than to carbon efficient companies.

14. This measure has decreased by 38%. This is largely led by a decline in asset allocation by active managers in hard-to-abate sectors such as energy and materials, as well as a backdrop of declining carbon intensities of companies within these sectors, partially driven by revenue growth outstripping emissions growth. As the Appendix shows these metrics both progress well in relation to Fund targets, they are also outperforming reference indices (A benchmark of 209.8), with all actively managed portfolios having lower carbon metrics compared to their market index.

Secondary Target	2019 (restated)	2023
Reduce exposure to fossil fuel reserves within the Equity Portfolio	5.7%	5.2%

15. This metric includes any company that own fossil fuel reserves, thermal coal reserves or utilities deriving more than 30% of their energy mix from coal power. The Fund considers this a measure of its exposure to the risk of stranded assets. However, this does not account for the amount of revenue a company generates from fossil fuel activities. This may mean this includes companies who in reality may not bear as much stranded asset risk, as those that generate a high proportion of revenue from fossil fuels. The Fund's exposure is also below the reference benchmark portfolio of 7.7%.

16. Given the relatively basic form of this metric since 2022 Central have also provided another measure to work around limitations of the above metric based on fossil fuel revenue which identifies the maximum percentage of revenue, either reported or estimated, derived from conventional oil and gas, unconventional oil and gas as well as thermal coal. These values by companies are summed and weighted by the portfolio weights to produce a weighted exposure. For the first time the Fund can report a 2019 baseline for this measure of 2.3%, this has reduced to 1.9% in 2023. It is worth noting this measurement estimates where reported values are not available and may overestimate exposure.

Secondary Target	2019 (restated)	2023
Increase exposure to climate solutions within the Equity Portfolio	36.6%	39.4%

17. This metric shows the weight of the Fund's equity portfolio in companies whose productions include climate solutions such as alternative energy, energy efficiency, green buildings, pollution prevention and sustainable water. It is worth noting that this metric is compiled from a wide range of the data providers data points and there is no universal standard definitive list for climate solutions.

18. When considering this metric by revenue, as in paragraph 15, we can see an increase from 4.3% to 5.4%. This allows for a comparison of the portfolio exposure to clean technology adjusted according to a proportion of the underlying companies

size. This measure is also using maximised estimated where data is not available, meaning there is a potential to overestimate exposure.

Secondary Target	**2019**	**2023**
Increase Asset Coverage	45%	47%

19. The current data able to be analysed as part of the Appendix is 47% of the Fund's assets under management. While additional underlying funds have been included in this year's climate report, data coverage has remained limited. LGPS Central's next focus will be to improve data availability for fixed income and adding sovereign emissions data which will further improve these measures.

Secondary Targets	**2023**
90% of the Fund's assets under management in material sectors are classified as achieving Net Zero, aligned or aligning by 2030.	68.3%
90% of the Fund's financed emissions have net zero targets, alignment pathway or subject to engagement by 2030.	80.7%

20. These targets provide the Fund with a forward-looking measure to understand the extent to which the underlying portfolio is aligning to net zero. The Fund's Net Zero Climate Strategy set out the intention to work with LGPS Central to set alignment targets.

- For the material sectors target we can consider sectors such as mining, metals and construction which are largely the highest impact companies especially.
- For the financed emissions target this will support the former target, as well as drive increased engagement with companies.

21. A company is considered at least aligning to the Paris Agreement by LGPS Central at this stage if:
    a. The company scores above median in the Low Carbon Transition Score, and it meets one of the following criteria:
    b. The company has a science based target **or** the company has an implied temperature rise rating of 2degrees or lower.

22. This metric is set out in more detail on pages 26 and 27 of the appendix. The Fund will be able to monitor progress against these targets in future years, as well as looking at how the Fund can consider

23. The last of the Fund's secondary targets relate to Leicestershire County Council and LGPS Central becoming net zero operationally by 2030. Leicestershire County Council has set a net zero 2030 operational target. LGPS Central are looking to set an operational target during 2024.

24. Evidently the Fund's portfolio appears to moving in the right direction in line with what was set out within the Net Zero Climate Strategy not only in relation to progress against the Fund's baseline, but in comparison to reference indexes. The

Fund will continue to monitor and report on progress against these targets, with a view to the review of the Net Zero Climate Strategy due in 2026.

25. These metrics are not the Fund's only method of monitoring climate risk and opportunity as set out in more detail within the appendix. This includes metrics expected to be required from the Department for Levelling Up, Housing and Communities (DLUHC) and other metrics available to LGPS Central which provide the Fund with a deeper assessment of climate risk and opportunity.

26. Some highlights from each asset class analysis are set out below:

<u>Listed Equity (£2.5bn AUM)</u>

a. Data availability remains high for listed equity, however the majority of data is company reported data. LGPS Central are looking to enhance the approach to data validation process to reflect the real quality of data that is used.

b. Carbon metrics for equities have consistently outperform the reference indices. All actively managed portfolios have lower carbon metrics compared to the reference index. This may suggest that delegated managers are managing climate risk exposure in their respective portfolios.

c. Cement producers CRH, Holcim, Cemex and Huaxin were negative contributors to the Fund's relative financed emissions due to their relative overweight positions. However, these have had an overall positive effect on financed emissions, as investment managers selected these names against worst relative emitters in the Materials sectors.

d. Relative to reference indices the Fund's equities portfolios have lower exposure to fossil fuels, thermal coal and coal power generation.

e. 69.5% of financed emissions within equity is in one or more climate engagement plan by the Fund and its engagement partners and providers. However, currently only four out of eight of the Fund's climate stewardship focus list companies are in the top 10 of contributors of emissions, which the Fund may need to review with LGPS Central.

<u>Fixed Income (£521m AUM)</u>

f. Data availability within fixed income continues to lag equties. The fixed income section analyses £201m of £521 assets in scope. Financed emissions for fixed income increased in 2022 due to the addtion of a fund into the model. Any consideration of the metrics should be considered with data weaknesses in mind. .
g. Weighted average carbon intensity within fixed income has decreased year on year, alongside a significant increase in exposure to financials and decrease in exposure to energy.
h. Within fixed income only 43.8% of financed emissions is currently under one or more engagement programme. This recognises difficulties within the asset class facing engagers. This is also exacerbated by high portfolio

turnover as engagers cannot commit to long-term engagement plan with a single issuer. This will need to be an area of focus with partners.

Recommendations and Considerations of the Climate Risk Analysis

27. For the first time the report sets out expected climate reporting requirements from Department for Levelling Up Housing and Communities, subject to the outcome of the consultation undertaken in late 2022. LGPS Central have also produced a disclosure maturity map, and industry best practice and recommendations where the Fund, working with LGPS Central can improve future iterations of the Fund's Taskforce for Climate related Financial Disclosure (TCFD) reporting, which the Fund has voluntarily been reporting on since 2020. This is set out on pages 8 to 19 of the appendix.

28. This analysis has focused on pension schemes and financial institutions outside of the LGPS given the Fund can likely be considered in advanced stages compared to many LGPS peers due to its early adoption, and consideration of guidance from the Department for Work and Pensions in relation to occupational schemes. From this analysis there are a number of recommendations we can look to implement in the coming year, as set out below.

Section	**Considerations / Recommendations**
Governance	• Disclosure of participation in responsible investment/climate working group(s). • Additional detail on training program to Pension and Investment committee included in TCFD.
Strategy	• Integrate climate scenario analysis of both the Fund's funding and investment. • Disclosure of choice of scenario within scenario analysis. • Consider further integration of climate considerations with Funding Strategy Statement. • Work with appointed managers to understand how key transition and physical risks are assessed within high impact sectors.
Risk Management	• Continue to review current risk management processes including the list of companies within the Climate Stewardship Plan
Metrics and Targets	• Additional information regarding the choice of metrics, use cases and drawbacks. • Inclusion of engagement statistics in TCFD. • Additional metrics to meet DLUHC requirements shall be included in the next iteration of the Fund's TCFD report.

Next Steps

29. As well as continuing progress against the Fund's Net Zero Climate Strategy. The Fund will begin preparation for the next Climate Risk Analysis. The Fund looks to utilise climate scenario analysis biennially and will explore with LGPS Central how it can integrate this analysis of both funding and investments.

30. The Fund will continue to work with LGPS Central as part of their review of stewardship activities in how this can support the Fund with net zero ambitions. Given only four of eight climate stewardship companies remain in the Fund's top emitters, the Fund will work with LGPS Central to monitor this trend, and review if required.

31. Working with LGPS Central and external managers the Fund will look to continue ongoing monitoring of underlying managers, especially in relation to their engagement with top contributors within their portfolios.

32. For January 2024, the Fund will integrate these actions into the Responsible Investment Plan for 2024 alongside the recommendations within paragraph 27, subject to approval by Committee. The Climate Report Analysis has also been shared with the Fund's external Investment Advisor and will be taken into account as part of the Fund's Strategic Asset Allocation review.

33. The Fund will communicate high-level results from this report recognising the interest of scheme members in climate related matters.

Supplementary Information

34. An exempt paper is included elsewhere on the agenda which includes information regarding the underlying mandate climate metrics which cannot be included for public consideration due to the contract between the data provider and LGPS Central.

Recommendation

It is recommended that:

a) The Climate Risk Analysis be noted.
b) That the recommended actions and considerations set out in paragraph 28 be approved for inclusion within the Fund's Responsible Investment Plan 2024.

Equality Implications

35. There are no direct implications arising from the recommendations in this report. The Fund incorporates financially material Environmental, Social and Governance ("ESG") factors into investment processes. This has relevance both before and after the investment decision and is a core part of the Fund's fiduciary duty

Human Rights Implications

36. There are no direct implications arising from the recommendations in this report. The Fund incorporates financially material Environmental, Social and Governance ("ESG") factors into investment processes. This has relevance both before and after the investment decision and is a core part of the Fund's fiduciary duty

Appendix

Climate Report Analysis 2023

Background Papers

3 March 2023 Local Pension Committee: **Outcome of Consultation on Net Zero Climate Strategy and Responsible Investing Update**

Officers to Contact

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Ms C Tuohy, Responsible Investment Analyst
Tel: 0116 305 5483 Email: Cat.Tuohy@leics.gov.uk

FOR PROFESSIONAL CLIENTS ONLY

LEICESTERSHIRE COUNTY COUNCIL PENSION FUND

Climate Risk Management Report

FOURTH EDITION • DECEMBER 2023 • PUBLIC

PREPARED BY LGPS CENTRAL LIMITED

LGPS Central Limited

About the Report

This report represents the fourth edition of the Leicestershire County Council Pension Fund's ("The Fund" or "LPF") review of its approach towards climate-related risks and opportunities. Previous iterations were titled Climate Risk Report. However, the name of the report is changed in this iteration to avoid confusion with the Department for Levelling Up, Housing and Communities' (DLUHC) climate-related disclosure requirement, which it dubbed *Climate Risk Report*. This report follows previous iterations delivered in October 2020, September 2021 and November 2022.

Section 1 of the report assesses the Fund's climate risk management framework and disclosure practices. It aims to evaluate the Fund's alignment with DLUHC recommendations on climate-related risk management. Additionally, it examines the Fund's maturity in handling these risks within its investment portfolio.

This analysis references LPF's 2022 Climate-Related Disclosure report and public policy documents such as the 2022/2023 Annual Report, and the Fund's Investment and Funding Strategy Statements. Emphasising compliance; the Fund's Climate-Related Disclosure report meets Task Force on Climate-Related Financial Disclosures (TCFD) guidelines, satisfying DLUHC's proposed annual Climate Risk Report requirement. Recommendations from prior Climate Risk Management Report are included for continuity where relevant.

Section 2 of the report explores the Fund's climate metrics more extensively, notably highlighted within its Climate-Related Disclosure report. This section is specifically devoted to conducting a thorough analysis of the Fund's carbon footprint indicators. Serving as a comprehensive information hub, it illuminates the Fund's various initiatives geared towards improving its carbon footprinting activities.


Rural Leicestershire from the sky

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Executive Summary

Climate Analysis

Summary of Recommendations and Considerations:

Governance

- Disclosure of participation in responsible investment/climate working group(s).
- Additional detail on the training program delivered to the Pensions and Investment committees should be included in TCFD report.

Strategy

- Integrate funding and investment climate scenario analysis.
- Provide an explanation of the choice of scenarios within the scenario analysis report.
- Consider the further integration of climate considerations into the Fund's Funding Strategy Statement.
- Work with appointed managers to understand how key transition and physical risks are assessed within high impact sectors.

Risk Management

- Continue to review current risk management processes including the list of companies within the Climate Stewardship Plan.

Metrics & Targets

- Include additional information regarding the choice of metrics, such as use cases and drawbacks.
- Include engagement statistics in TCFD report.
- Additional metrics to meet DLUHC requirements should be included in the next iteration of the Fund's TCFD report.

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Executive Summary *(continued)*

Climate Metrics

Total Equities Financed Emissions:

158,353 tCO_2e

↓ 19.4% vs 2019

↓ 32.6% vs reference index

Total Equities Weighted Average Carbon Intensity (WACI):

102.0 tCO_2e/$M Revenue

↓ 38.0% vs 2019

↓ 62.1% vs reference index

Total Equities exposure to fossil fuel reserves:

5.2%

↓ 16 bps vs 2019

Total Equities exposure to climate solutions:

39.4%

↑ 16 bps vs 2019

68.3%

of AUM in material sectors are considered to be aligning/aligned to the Paris Agreement.

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Contents

Front Cover: A folly in the heart of Rutland, Leicestershire
Images (Clockwise): Farmland in Leicestershire
Woodland in the grounds of Bradgate Park. Leicestershire
Old John Tower in Bradgate Park, Leicestershire

Introduction

The Fund has published annual TCFD reports voluntarily since October 2020, well ahead of the upcoming mandate by DLUHC that requires Local Government Pension Scheme administering authorities to identify, assess and manage climate-related risks in line with the TCFD recommendations.

In our evaluation, we have undertaken several key steps to assess the Fund's preparedness for potential regulatory requirements:

Step 1

We scrutinised the consultation document released by DLUHC on 1 September 2022, using it as a valuable reference for our analysis. While awaiting the final decision from DLUHC, we leveraged the information within the consultation to inform our assessment.

Step 2

Employing the TCFD Maturity Map as a foundational framework, we evaluated the Fund's existing climate reporting. This assessment aims to identify opportunities for the Fund to enhance its reporting, progressing towards a leading position. The TCFD Maturity Map categorises disclosure items into three levels: Limited, Moderate, and Full disclosure, guiding organisations in providing comprehensive responses.

Step 3

To gain broader insights, we reviewed TCFD reports published by diverse organisations within the Financial Services industry. This review encompasses both asset owners and asset managers, allowing us to gauge industry best practices and actions taken to achieve 'Full disclosure' status within the TCFD Maturity Map. We use these actions as benchmarks to measure the Fund's progress.

Step 4

We conducted an in-depth analysis of the Fund's public disclosures, scrutinizing its approach to identifying, assessing, and managing climate-related risks and opportunities. We also reviewed the Fund's TCFD to analyse its disclosure.

Step 5

Based on this assessment, we offer recommendations and considerations to guide the Fund in advancing its climate-related management and reporting. This ensures it remains well-prepared to meet potential regulatory requirements and aligns with industry best practices.

Step 6

Finally, we also reviewed TCFD reports published by various organisations across the Financial Services industry,[1] encompassing asset owners and asset managers to gauge how our peers manage climate-related risks. We seek to find examples of actions undertaken to meet the 'Full disclosure' category in the TCFD Maturity Map. We consider these actions as industry best practices and measure the Fund's progress against these.

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[1] We reviewed TCFD reports from 12 organisations which include abrdn, Baillie Gifford, Schroders, Robeco, RLAM, LGIM, Liontrust, Scottish Widows, Railpen, Nest, USS and the Church of England Pension Board. These reports can be found in the organisations' websites.

Introduction *(continued)*

This report adheres to the structure of the TCFD, with each section analysed according to the framework outlined above. Throughout this analysis, we identify best practices that often go beyond the scope of the DLUHC requirements. It's essential to note that some other pension schemes and financial institutions are already ahead in implementing climate-related practices due to varying regulatory frameworks. While we recognise that the Fund may be considered ahead of the curve compared to other LGPS schemes, the primary aim of this report is to drive further progress and improvement.

LPF is a Local Government Pension Scheme (LGPS), which unlike other pension schemes is a public service Pension Scheme. Investment Decisions are made locally by administrating authorities in accordance with legal principles (fiduciary duties and public law principles) and LGPS legislation. LGPS regulations are set nationally under the Public Service Pensions Act 2013 by the Secretary of State for Levelling-Up and, Housing and Communities.

This analysis provides outputs that the Fund should consider implementing in its climate related risk procedures and/or disclosures.

Rutland Water Reservoir

Section 1

Climate Analysis Report

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A canal boat moored on a quiet stretch of the Grand Union Canal near Foxton in Leicestershire

Governance

Proposed DLUHC Requirements

Administering Authorities ("AA") will be expected to establish and maintain, on an ongoing basis, oversight of climate related risks and opportunities. They must also maintain a process or processes by which they can satisfy themselves that officers and advisors are assessing and managing climate-related risks and opportunities.

Disclosure Maturity Map

GOVERNANCE DISCLOSURE

LIMITED DISCLOSURE	MODERATE DISCLOSURE	FULL DISCLOSURE
• The board's oversight of climate-related risks and opportunities. • Management's role in assessing and managing climate-related risks and opportunities. • A published policy or commitment statement on climate change.	• A statement on how the board is actively considering climate-related risks and opportunities on a regular basis. • Measures to increase board knowledge on climate-related risks and opportunities such as compulsory training or use of an expert advisory board. • A named individual or committee responsible for climate change at board level. • Clear consideration of physical, transition and liability risks. • Commitment to reducing or avoiding impact on, and of, climate change, with short, medium and long term targets.	• Capacity and competence of the board to respond to climate-related risks and opportunities effectively. • Climate-related risks and opportunities are integrated into standard board agendas. • Full and clear consideration of physical, transition and liability risks over short-, medium- and long-term time horizons. • Financial incentives for executives on progress towards achieving short-, medium- and long-term climate targets.

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Governance *(continued)*

Industry Best Practices

Several asset managers such as abrdn, Royal London and Schroders included website links to specific sections of their annual report in the TCFD. The annual report contains the profiles of these asset managers' board of directors, including their competency in environmental, social and governance (ESG) issues such as climate. This signposting practice enhances accessibility and facilitates the reader's navigation of relevant information.

Most financial institutions either have a specific board-level sustainability committee or discuss climate-related risks at the board's audit and risk committee. Liontrust also named a specific Non-Executive Director responsible for all ESG matters. Whilst not compulsory, establishing a dedicated board committee for climate-related matters provides expertise, accountability, strategic alignment, transparency, risk mitigation, opportunity identification, regulatory compliance, stakeholder engagement, and a long-term perspective. This proactive approach ensures organisations effectively address climate challenges and opportunities while fulfilling their responsibilities to stakeholders and society.

To demonstrate how climate-related risks are integrated into board agendas on a regular basis, Scottish Widows summarised topics discussed, and key decisions made on climate matters throughout the year. Including examples and case studies in a report enhances reader engagement by providing real-world, practical illustrations that make complex concepts more accessible and relatable. It adds credibility, inspires, and fosters problem-solving, making the content more informative and actionable for the audience.

Financial institutions that are listed on the stock exchange are required to disclose their Key Management Personnel's (KMP) remuneration. There are various examples of the climate-related metrics that these institutions use to measure KMP's performance for remuneration purposes. Most include climate-related metrics in their long-term incentive plans, but Royal London include ESG metrics in both short- and long-term incentive plans.

LPF Current Disclosures and Practices

LPF's latest TCFD report details the Fund's organisational structure as well as the roles and responsibilities of the Local Pension Board and Local Pension Committee, including overall responsibility for the oversight and management of risks and opportunities related to climate change and the Local Pension Board.

This disclosure demonstrates accountability and transparency within the organisational structure. The Annual Pension Fund Report 2022/23 provides additional information on the responsibility and roles of the committee and board as well as detailing the individual members of the Local Pension Committee. Committee members' profiles are also provided on the Fund's website. LPF's TCFD report discusses the ongoing training received by the Committee.

The Fund's TCFD report discloses the utilisation of external advisors, including the advisors' responsibilities and how their role contributes to the overall governance of the Fund. The responsibilities of advisors include supporting the development of the Committees' policies, such as those in relation to responsible investment and climate risk. This disclosure demonstrates how governance is supported by external advisers.

The Fund has included climate considerations in the Fund's Investment Strategy Statement and Funding Strategy Statement, demonstrating a commitment to the integration of climate considerations in the Fund's policies. The Fund has also published a Responsible Investment Plan for 2023 and Net Zero Climate Strategy.

Summarised discussions on key climate matters are incorporated throughout the Fund's TCFD report. These discussions recognise how climate matters will impact the Fund and demonstrate LPF's commitment to address key climate considerations.

Considerations and Recommendations

While LPF supports the continuous improvement of Committee member knowledge, including ongoing training sessions on responsible investment, the Fund could consider providing a greater level of detail, such as the topics covered, the frequency of training and the provider of the training.

While LPF provide details on Committee members, the Fund could consider detailing the relevant climate credentials of the members, including the training sessions attended.

The Fund may benefit from disclosing participation and discussions held at climate/responsible investment working groups in collaboration with other funds within the pool. These disclosures would demonstrate the Fund's collaborative approach to managing climate risk.

Strategy

Proposed DLUHC Requirements

AAs will be expected to identify climate-related risks and opportunities on an ongoing basis and assess their impact on their funding and investment strategies.

AAs will be required to carry out two sets of scenario analysis. This must involve an assessment of their investment and funding strategies. One scenario must be Paris-aligned (meaning it assumes a 1.5 to 2 degree temperature rise above pre-industrial levels) and one scenario will be at the choice of the AA. Scenario analysis must be conducted at least once in each valuation period.

Disclosure Maturity Map

	LIMITED DISCLOSURE	MODERATE DISCLOSURE	FULL DISCLOSURE
STRATEGY DISCLOSURE	• Operational greenhouse gas ("GHG") emission reductions.	• Climate-related risks and opportunities the organisation has identified over the short-, medium- and long-term. • The impact of climate related risks and opportunities on the organisation's businesses, strategy and financial planning. • Involvement in domestic and international efforts to mitigate climate change.	• The potential impact of different climate scenarios, including a 4°C, a 2°C and a 1.5°C scenario, on the organisation's businesses, strategy and financial planning. • The organisation's internal carbon pricing strategy. • Vocal advocacy for action on climate change and collaboration with peers and other stakeholders to achieve change.

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Strategy *(continued)*

Industry Best Practices

USS's climate scenario analysis discussed the impact of climate change on both its investment and funding strategies. The rationale behind the chosen scenarios and time horizons were clearly described. Further, USS also illustrated how climate change impacts their defined contribution members' investments returns. While we understand that scenario analysis remains an evolving tool, it still provides a valuable insight into how climate change could impact investment returns under different scenarios. As this tool is still evolving, it is important to demonstrate an understanding and provide a justification of the parameters surrounding the analysis, including the scenarios chosen and time horizons, which should be clearly defined.

Partnerships, initiatives and collaborations were discussed in plenty of detail in Scottish Widows' TCFD report. They also produced a case study of a collaborative engagement on the topic of deforestation. Collaborative engagement allows funds to pool their influence as to drive change in the industry, it is considered industry best practice to not only collaborate in these initiatives, but to also demonstrate the impact derived from these collaborative engagements through case studies.

LPF Current Disclosures and Practices

The Fund highlights their approach to climate change in their TCFD report, Investment Strategy Statement and Pension Fund Annual Report. The Fund has also published a responsible investment plan and Net Zero Climate Strategy.

The Fund's TCFD report and Net Zero Climate Strategy outline the Fund's approach to stewardship and engagement, detailing the various levels of escalation available. Both the TCFD report and Annual Pension Fund Report detail the Fund's stewardship partners. Overall, the Fund has effectively communicated how engagement is integrated into its investment approach.

Within the Fund's Net Zero Strategy and TCFD Report, there's an inclusion of climate scenario analysis, disclosing the estimated climate impact expected under different scenarios over time. This analysis defines the scenarios and offers examples of short, medium, and long-term risks and opportunities, identifying the likely impacted asset classes. Additionally, the Fund acknowledges the challenges of climate scenario analysis while emphasizing its valuable insights. These disclosures showcase the Fund's understanding of scenario analysis and the potential impacts of climate risks on the portfolio.

Considerations and Recommendations

Although the Fund has demonstrated a robust comprehension of scenario analysis and outlined the chosen scenarios, it could further enhance its disclosure by incorporating additional detail. Specifically, there's an opportunity to include explicit explanations of the rationale behind the selection of these scenarios and clearer definitions of the timeframes involved.

The Fund has disclosed their approach to engagement. The Fund should also consider providing engagement case studies to provide credibility to the Fund's engagement approach.

The Fund should continue to commission Climate Scenario Analysis as recommended by DLUHC, with an awareness that the content of this analysis will develop in line with industry best practice. These should include an analysis of the impact of climate change on funding strategies as well as investments.

LPF should work with its appointed fund managers to understand how they are assessing, monitoring, and mitigating key transition and physical risks within the high-impact sectors, particularly in Oil & Gas where the Fund has an overweight position relative to Global indices. Regional exposures should be kept under review.

Risk Management

Proposed DLUHC Requirements

AAs will be expected to establish and maintain a process to identify and manage climate-related risks and opportunities related to their assets. They will have to integrate this process into their overall risk management process.

Disclosure Maturity Map

RISK MANAGEMENT DISCLOSURE	LIMITED DISCLOSURE	MODERATE DISCLOSURE	FULL DISCLOSURE
	• Acknowledgement of the need to assess and respond to climate-related risks.	• The organisation's processes for identifying and assessing climate-related risks. • The organisation's processes for managing climate-related risks.	• How processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.

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Risk Management *(continued)*

Industry Best Practices

Schroders' risk management section clearly outlines how climate risk fits in its three lines of defence model, the risk owners at each line, and how its oversight structure works – from business unit to its board audit and risk committee. Schroders also details its actions to identify, assess and manage climate-related risks. Inclusion of these details provides accountability and transparency with regard to risk management and demonstrates the Funds' ability to identify and mitigate climate risks through appropriate practices.

Abrdn included a table that maps its existing climate tools against asset classes to give a view of the applicability of tools for various investments strategies. Again, demonstrating the Fund's industry best practices to identify and mitigate climate risks.

LPF Current Disclosures and Practices

The Fund's TCFD report discloses the various sources utilised to identify climate risks, including annual Climate Risk reporting, which contains a suite of climate metrics, as well as the biennial climate scenario analysis. These risks can be identified by the Committee, Board, Officers, Investment Managers and the Fund's advisors. These disclosures demonstrate LPF's appropriate practices for identifying climate related risks.

In terms of mitigation, risks are prioritised by the level of perceived threat. These risks are managed internally through the asset allocation and stewardship activities. As the Fund is primarily externally managed, the identification and mitigation of climate related risks is also the responsibility of the individual fund managers. The extent to which fund managers integrate climate-related risks into the investment process is a key factor in the Fund's overall exposure to climate risk.

Fund managers are monitored on a regular basis while new potential managers are required to demonstrate their ability to integrate climate considerations into investment decisions. This information is disclosed in the Fund's TCFD report and demonstrates the Fund's approach to managing climate related risks.

The Net Zero Climate Strategy provides additional details regarding the Fund's climate-related risk identification and mitigation practices. The Report also provides case studies to demonstrate how the Fund has identified and mitigated exposure to climate related risks. This exhibits credible evidence of climate risks being identified and mitigated.

Alongside the Fund's portfolio related climate targets, Leicestershire County Council, as the Administering Authority of LPF has committed to Net Zero Operations by 2030.

Considerations and Recommendations

Continue to review current risk management processes including the list of companies within the Climate Stewardship Plan and Net Zero strategy to ensure emerging and existing climate risks are identified and managed accordingly.

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Metrics and Targets

Proposed DLUHC Requirements

AAs will be expected to report on metrics as defined in supporting guidance. The proposed metrics are set out below.

- Metric 1 will be an absolute emissions metric. Under this metric, AAs must, as far as able, report Scope 1, 2 and 3 greenhouse gas (GHG) emissions.
- Metric 2 will be an emissions intensity metric. We propose that all AAs should report the Carbon Footprint of their assets as far as they are able to. Selecting an alternative emissions intensity metric such as Weighted Average Carbon Intensity (WACI) will be permitted, but AAs will be asked to explain their reasoning for doing so in their Climate Risk Report.
- Metric 3 will be the Data Quality metric. Under the Data Quality metric, AAs will report the proportion the value of its assets for which its total reported emissions were Verified, Reported, Estimated or Unavailable.
- Metric 4 will be the Paris Alignment Metric. Under the Paris Alignment Metric, AAs will report the percentage of the value of their assets for which there is a public net zero commitment by 2050 or sooner.

Metrics must be measured and disclosed annually.

AAs will be expected to set a target in relation to one metric, chosen by the AA. The target will not be binding. Progress against the target must be assessed once a year, and the target revised if appropriate. The chosen metric may be one of the four mandatory metrics listed above, or any other climate related metric recommended by the TCFD.

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Metrics and Targets *(continued)*

Disclosure Maturity Map

METRICS AND TARGETS DISCLOSURE

LIMITED DISCLOSURE	MODERATE DISCLOSURE	FULL DISCLOSURE
• Scope 1 and Scope 2 GHG emissions.	• Scope 1, Scope 2 and, if appropriate, Scope 3 GHG emissions, and the related risks. • Measurement methodologies for these are clearly defined and in line with recognised guidance. • The organisation's quantified targets to reduce GHG emissions in relative or absolute terms (Scopes 1, 2 and/or 3) and performance against these.	• The metrics used to assess climate-related risks and opportunities in line with strategy and risk management process. • The targets used to manage climate-related risks and opportunities, including use of science-based targets, and performance against these targets. • Assurance of reported GHG emissions under International Standard on Assurance Engagements (ISAE) 3410, Assurance Engagements on GHG Statements.

Metrics and Targets *(continued)*

Industry Best Practices

USS discussed its data sourcing and methodology in great detail, including its data limitations. The report also included a reviewed of the Fund's climate performance against its net zero target pathway. Disclosing information regarding the metrics, data limitations, and how metrics should be interpreted demonstrates an understanding of the data and provides credibility to the findings derived from the data. This information also means data can be easily interpreted by the reader.

Schroders outlined its annual emissions recalculation process, emphasising data that is restated. Acknowledging the evolving nature of emissions data, Schroders recognises the necessity of data restatements to maintain accuracy of their reported metrics. Disclosing these restatements enhances transparency and clarifies differences between reports.

Abrdn included an independent assurance statement that provides limited assurance of its selected sustainability performance indicators for inclusion in the sustainability disclosures. This additional step gives reported metrics additional credibility and reliability.

LPF Current Disclosures and Practices

The Fund's TCFD report recognises the flaws in climate data, in terms of data quality and availability. The TCFD report also discusses the additional metrics measuring exposure to clean tech and fossil fuels via attributable revenue. The Fund highlights the flaws in the exposure metric which were previously relied on. In the Appendix to the report, the Fund provides definitions of the climate metrics utilised. Identifying these flaws and providing the definition of these metrics demonstrates a strong understanding of the climate metrics.

The TCFD report provides a comparison of the climate metrics with the baseline and benchmark figures. A brief analysis of the changes identified is also provided.

LPF's Net Zero Climate Strategy outlines the Fund's climate targets and ambitions which complements the TCFD report.

The Fund's Climate Risk Report details the definitions, use case and limitations of the climate risk metrics, demonstrating a strong understanding of the metrics and provided ease of interpretation for the reader, improving the overall credibility of the report.

Considerations and Recommendations

Future iterations of the TCFD report should include the four metrics required by DLUHC. The Fund will continue to report on the metrics that it has historically tracked.

While the TCFD report includes definitions of the metrics used and identifies flaws in some of the climate metrics, the Fund should consider providing additional information on the metrics used, including use cases and limitations. This information will assist the reader in interpreting the metrics, adding value to the report. However, we note that these details are included in the Fund's latest Climate Risk Report, signposting to this report could also be considered.

While the Fund provides voting statistics within the Net Zero Climate Strategy, the Fund could consider including engagement statistics within the TCFD report.

Other Requirements / Recommendations

Proposed DLUHC Requirements

Section	DLUHC Requirement	LGPS Central Proposals
Disclosure	AAs will be expected to publish an annual Climate Risk Report. This may be a standalone report, or a section in the AA's annual report. The deadline for publishing the Climate Risk Report will be 1 December, as for the AA's Annual Report, with the first Climate Risk Report due in December 2024.	The Fund has been complying with this recommendation since the publication of its first climate report in 2020. We propose that scheme members are informed that the Climate Risk Report is available in an appropriate way.
Scheme Climate Report	DLUHC proposes that the Scheme Advisory Board (SAB) should prepare an annual Scheme Climate Report including a link to each individual AA's Climate Risk Report (or a note that none has been published) and aggregate figures for the four mandatory metrics.	This exists in the consultation, and could have implications for the Fund's carbon risk analyses going forwards. While this is more relevant for the SAB than the Fund in particular, we feel it is important for the Fund to remain aware of any developments in this area as it may have implications for the Fund's future carbon reporting.
Proper advice	DLUHC proposes to require that each AA take proper advice when making decisions relating to climate-related risks and opportunities and when receiving metrics and scenario analysis.	Although this section requires no concrete action at this time, we deemed that it was worth flagging to ensure the Fund remains aware of potential future developments. The Fund may wish to conduct a review of its provision of advice to ensure that its metrics and scenario analyses remain 'proper', as per the DLUHC requirements.

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Conclusion

The Fund's Overall Readiness / Maturity

Based on its current processes and disclosures, we consider that the Fund is well positioned to meet DLUHC's potential requirements on climate change governance and disclosures. The items in the table would push the Fund towards full compliance and/or industry best practice.

We consider that, on average the Fund is providing a Moderate level of disclosure. Based on our analysis, no single peer is able to achieve leader status across all areas. The Fund has the potential to move towards leader status in several areas. Strategy and Risk Management are the areas where the Fund comes closest.

Please note, some considerations / recommendations may be carried forward from the previous climate risk report.

Summary of Considerations / Recommendations

Section	Considerations / Recommendations
Governance	– Disclosure of participation in responsible investment/climate working group(s). – Additional detail on the training program delivered to the Pensions and Investment committees should be included in TCFD report.
Strategy	– Integrate funding and investment climate scenario analysis. – Provide an explanation of the choice of scenario's within the scenario analysis report. – Consider the further integration of climate considerations into the Fund's Funding Strategy Statement. – Work with appointed managers to understand how key transition and physical risks are assessed within high impact sectors.
Risk Management	– Continue to review current risk management processes including the list of companies within the Climate Stewardship Plan.
Metrics and Targets	– Include additional information regarding the choice of metrics, such as use cases and drawbacks. – Include engagement statistics in TCFD report. – Additional metrics to meet DLUHC requirements should be included in the next iteration of the Fund's TCFD report.

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Section 2

Climate Metrics

FYE 31 March 2023

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Deer spotted in the Leicestershire countryside

Climate Metrics

Scope of Analysis

The following Climate Risk Metrics provide a bottom-up analysis which aims to:

Observe climate transition risks and opportunities within the portfolio.

Identify company engagement opportunities.

Support manager monitoring of climate risk management.

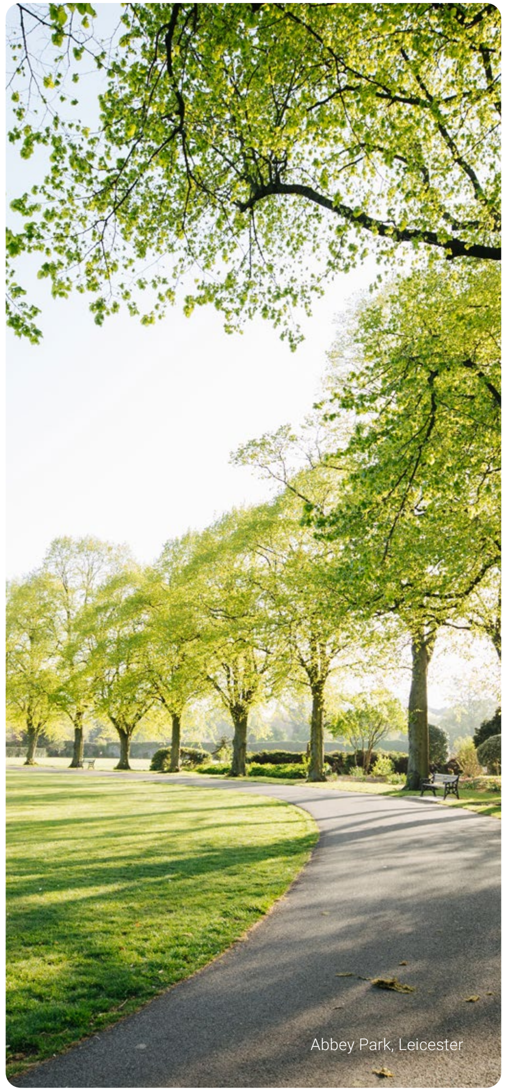
The scope of analysis includes public market investments, as reported by the Fund as of 31 March 2023. This includes holdings in listed equity, fixed income and absolute return funds. The omission of unlisted asset classes at this time is due to insufficient data availability.

LGPS Central has calculated carbon footprint metrics for Leicestershire Pension Fund since 2019. The analysis scope has expanded over time as the Fund effected asset allocation decisions during this period. This report summarises the evolution of the Fund's carbon footprint up to 31 March 2023.

As of 31 March 2023, the AUM in scope of this report totalled approximately £2.7bn. We included investments totalling £3.3b in our climate model. However, four portfolios were found to have limited data coverage. They are the two absolute return funds, an emerging markets debt fund and a multi asset credit fund.

Aggregating carbon footprint metrics offers a comprehensive view of emissions resulting from investments. However, insufficient data at the portfolio level can distort an organisation's overall carbon footprint. Typically, investors engage with the highest emitters for emissions disclosure, leading to more available data from these companies compared to lower-emitting ones. Consequently, when data availability is limited, there's a higher chance that the data will be skewed towards high emitters.

LGPS Central usually adopts a 60% data availability threshold for aggregating portfolios into the Fund's emissions. Therefore, in this instance, we have excluded the four portfolios with low coverage. Ongoing efforts are in place to enhance data availability for future assessments.

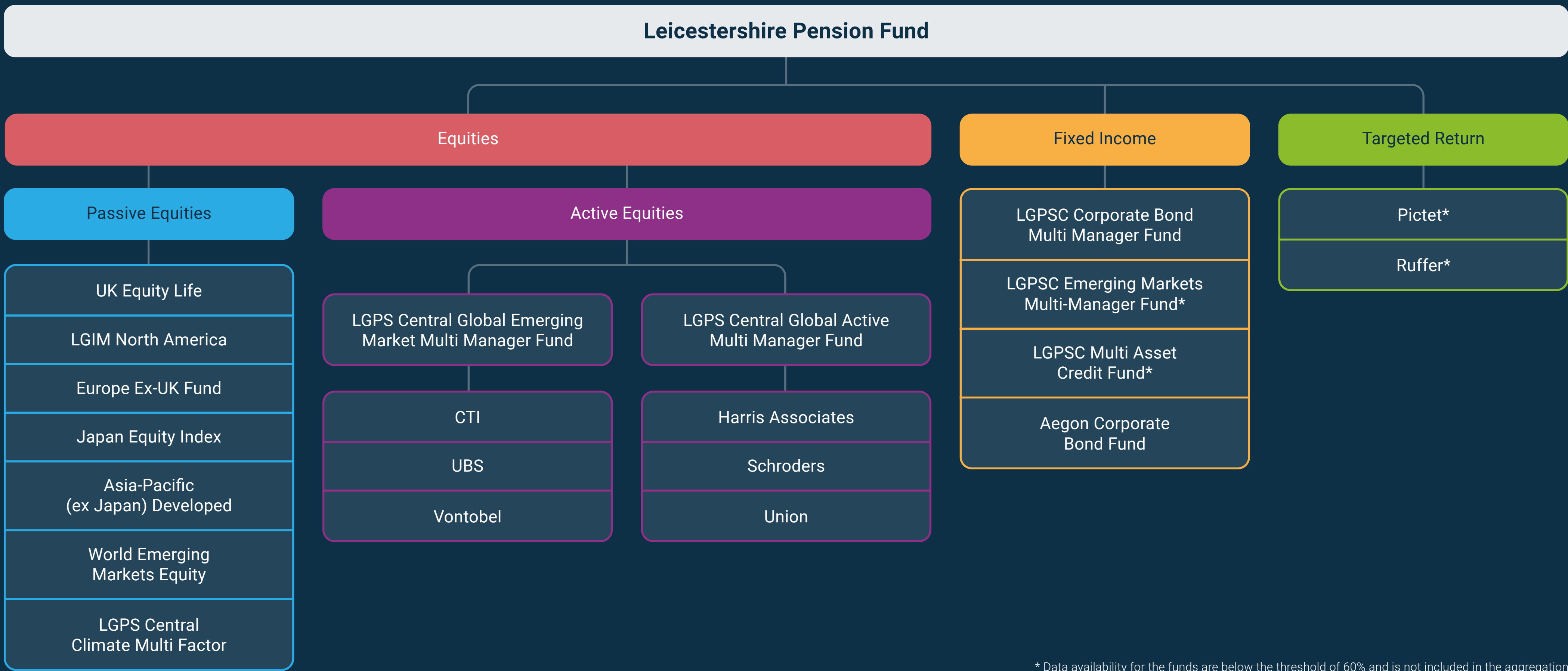


Abbey Park, Leicester

Climate Metrics *(continued)*

The funds are depicted in the chart below.

FIGURE 1: BREAKDOWN OF FUNDS INCLUDED IN THE ANALYSIS



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* Data availability for the funds are below the threshold of 60% and is not included in the aggregation

Climate Metrics *(continued)*

Selection of Carbon Footprint Metrics

The analysis is based on a dataset provided by MSCI ESG Research LLC (MSCI).[2] We utilised data that was downloaded from MSCI on 1st September 2023. The table on pages 43-47 a provides a definition of the carbon metrics utilised.

Carbon footprint metrics were selected to comply with the results of Department for Levelling Up, Housing & Communities' consultation,[3] which was published in September 2022. That document sets out an expectation that AAs report on four proposed metrics:

- **Absolute emissions metric** – financed emissions.
- **Emissions intensity metric** – normalised financed emissions and weighted average carbon intensity (WACI).
- **Data quality metric.**
- **Paris alignment metric.**

Leicester Town Hall

[2] Certain information @ 2023 MSCI ESG Research LLC. Reproduced by permission. Attention is drawn to Section 8.0 Important Information.

[3] https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-governance-and-reporting-of-climate-change-risks/local-government-pension-scheme-england-and-wales-governance-and-reporting-of-climate-change-risks

Climate Metrics *(continued)*

On top of the headline DLUHC-proposed metrics, we also calculate several other metrics as listed in the definition table. We consider that carbon footprint metrics provides a narrow lens through which to asses climate risk, the provision of additional metrics – including fossil fuel exposure, clean tech exposure, and carbon risk management – provides both a deeper and broader assessment of climate risk and opportunity. Further detail of these metrics can be found on pages 43-47.

The analysis looks at the headline metrics first, before delving into asset class assessments.

The Headline Metrics

Carbon Footprint Metrics

Metrics	Financed Emissions	Normalised Financed Emissions	Weighted Average Carbon Intensity (WACI)
Absolute / Intensity	Absolute	Intensity	Intensity
Definition	Financed emissions calculates the absolute tonnes of CO2 equivalent for which an investor is responsible for.	This metric measures the Financed Emissions for every $1 million of market value.	WACI measures a portfolio's exposure to carbon-intensive companies.
Question answered	What is my portfolio's total carbon footprint?	What is my portfolio's normalised carbon footprint per million USD invested?	What is my portfolio's exposure to carbon-intensive companies?
Unit	tCO2e	tCO2e / $m invested	tCO2e / $m sales
Comparability	No; does not take size into account	Yes; adjusts for portfolio size	Yes
Data needs	Medium • Notional amount invested • Carbon emissions of issuer • EVIC[4] or Total Equity + Total Debt *(Sovereign: PPP-Adjusted GDP)*	Medium • Notional amount invested • Total portfolio AUM • Carbon emissions of issuer • EVIC or Total Equity + Total Debt *(Sovereign: PPP-Adjusted GDP)*	Low • Portfolio weights • Carbon emissions of issuer • Sales of issuer *(Sovereign: Nominal GDP)*

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[4] EVIC refers to enterprise value including cash.

Climate Metrics *(continued)*

Data Quality Metric

This metrics provide a scale reflecting data quality, with values ranging from 1 to 5; with 1 being highest quality. See detailed explanation below.

This system provides transparency around the accuracy of the information provided. The source of the score is MSCI.

Certain 5%-10% error margin in estimations	Score 1	Audited GHG emissions data or actual primary energy data
	Score 2	Non-audited GHG emissions data or other primary data
	Score 3	Averaged data that is peer/sub-sector specific
	Score 4	Proxy data on the basis of region or country
Uncertain 40%-50% error margin in estimations	Score 5	Estimated data with very limited support

Source: The Global Carbon Accounting Standard for the Financial Industry: Draft version for public consultation (August 2020), Partnership for Carbon Accounting Financials (2020).


Wilton Park in Melton Mowbray, Leicestershire

Climate Metrics *(continued)*

Paris Alignment Metric

A company will be considered to be Aligning to Paris Agreement pathways by LGPS Central if:

The Company score above **Median** in Low Carbon Transition score.

\+ and it meets **one** of the following criteria: +

The Company has a science-based target

or

The Company has an implied temperature rise rating of 2.0°C or lower.

Low Carbon Transition Score

Score from 0 (worst) to 10 (best) measuring companies' exposure to and management of risks and opportunities related to the low carbon transition. Source of rating: MSCI. Score of more than 5 (median) required to be considered at least Aligning.

and

Science-Based Target

Issuer commits to a medium- and long-term net zero target that is considered science-based; i.e. in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement.

or

Implied Temperature Rise

Implied temperature rise (in the year 2100 or later), if the whole economy had the same over-/undershoot level of greenhouse gas emissions as the issuer. Below 2°C is required to be considered at least Aligning.

River Eye, Leicestershire

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Climate Metrics *(continued)*

MSCI Low Carbon Transition Risk Assessment[5]

MSCI ESG Research's Low Carbon Transition Risk[6] assessment is designed to identify potential leaders and laggards by holistically measuring companies' exposure to and management of risks and opportunities related to the low carbon transition.

The final output of this assessment is two company-level factors as described below:

1) Low Carbon Transition Category:

This factor groups companies in five categories that highlight the predominant risks and opportunities they are most likely to face in the transition.

2) Low Carbon Transition Score:

This score is based on a multi-dimensional risks and opportunities assessment and considers both primary and secondary risks a company faces. It is industry agnostic and represents an absolute assessment of a company's position vis-à-vis the transition.

[5] Source: MSCI Climate Change Indexes Methodology, pp17-18

[6] For more details on MSCI Climate Change Metrics, please refer to https://www.msci.com/climate-change-solutions

Calculation methodology

The LCT Categories and Scores are determined by a combination of each company's current risk exposure and its efforts to manage the risks and opportunities presented by the low carbon transition. The 3-step process followed by MSCI ESG Research is explained below.

Step 1

The first step towards measuring the Low Carbon Transition Risk Exposure for a company is the computation of its Carbon Intensity profile – which is informed by its Product Carbon Intensity, Operational Carbon Intensity and Total Carbon Intensity.

Step 2

MSCI assess a company's management of risks and opportunities presented by the low carbon transition. This assessment is based on policies and commitments to mitigate transition risk, governance structures, risk management programs and initiatives, targets and performance, and involvement in any controversies.

Step 3

Low Carbon Transition Risk Exposure Category and Score that was calculated in Step 1 are adjusted for the strength of management efforts calculated in Step 2. Following this adjustment, Low Carbon Transition Risk Exposure Score of companies with top or second quartile risk management improves and some top and second quartile companies may move up one category.

Climate Metrics *(continued)*

Scope 3 Emissions

Scope 3 emissions refers to the emissions released indirectly through business activities. More specifically, Scope 3 represents the emissions released through the value chain of the company, both upstream and downstream, emissions which are not otherwise captured in scope 1 and 2. This would include the emissions produced by a company's supplier for a given product, or the emissions released by a customer through the consumption of a product supplied by the company.

Due to the nature of this measurement, for many industries and assets the associated scope 3 emissions of the company will often be significantly greater than those of the scope 1 and 2. When aggregated at portfolio level, scope 3 emissions will also be subject to double counting, a term which refers to aggregating an observation multiple times, despite being a single observation. Double counting will often occur due to overlapping value chains, a simple example of this can be explained through the use of a vehicle with an internal combustion engine. In such an instance, scope 3 emissions will be associated with both the provider of fuel for the vehicle, as well as the vehicle manufacturer as well. Double counting will also occur across scope 1 and 2, to 3, as one companies scope 1 and 2 emissions, will often be another company's scope 3.

Despite the flaws within this metric, a company's scope 3 emissions are important to account for, as without this metric many companies' emissions would be significantly understated.


Leicester Cathedral

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Climate Metrics *(continued)*

Headline Metrics	LPF FY2023	
Absolute emissions metric: – Financed emissions	Equities:	– Scope 1 and 2: 158,353 tCO2e – Scope 3: 1,911,409 tCO2e
	Fixed Income:	– Scope 1 and 2: 26,418 tCO2e – Scope 3: 205,522 tCO2e
Emissions intensity metric: – Normalised financed emissions – Weighted Average Carbon Intensity (WACI)	Equities:	Normalised Financed Emissions – Scope 1 and 2: 52.8 tCO2e/$M Invested – Scope 3: 638.0 tCO2e/$M Invested WACI – Scope 1 and 2: 102.0 tCO2e/$M Revenue
	Fixed Income:	Normalised Financed Emissions – Scope 1 and 2: 87.5 tCO2e/$M Invested – Scope 3: 682.0 tCO2e/$M Invested WACI – Scope 1 and 2 (excluding sovereign): 145.2 tCO2e/$M Revenue
Data quality metric: – Data availability – MSCI data quality metric	Equities:	– Data availability: 97.0% *of AUM with data coverage for financed emissions calculation* – Data quality: 2.1 *(Weighted Average of available data quality)*
	Fixed Income:	– Data availability: 52.8% *of AUM with data coverage for financed emissions calculation* – Data quality: 2.2 *(Weighted Average of available data quality)*
Paris Alignment metric: Combination of – MSCI Low Carbon Transition Score – Science-Based Target – MSCI Implied Temperature Rating	Equities:	– LCT Score: 39.5% *of financed emissions has above median score* – SBT: 39.8% *of financed emissions are covered by a science-based target* – ITR: 25.1% *of financed emissions has an implied temperature of 2°C or below*
	Fixed Income:	– LCT Score: 35.5% *of financed emissions has above median score* – SBT: 45.6% *of financed emissions are covered by a science-based target* – ITR: 30.1% *of financed emissions has an implied temperature of 2°C or below*

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Climate Metrics *(continued)*

The Fund's Progress Against its Climate Targets

Leicestershire Pension Fund's Net Zero Climate Strategy was approved by the Local Pension Committee on 3 March 2023 and was subsequently published. The table below summarises the Fund's climate targets and the progress that the Fund has made to-date against its baseline. The Fund has set 31 December 2019 as its baseline.

Primary Targets

Target	Progress as of 31 March 2023		
Net Zero by 2050.	See below.		
40% reduction in absolute carbon emissions for the Equity portfolio by 2030.	Financed emissions have decreased by **19.4%**.		
		2019 (restated)	2023
	Financed Emissions	196,573 tCO2e	158,353 tCO2e
50% reduction in carbon intensity of the Equity portfolio by 2030.	Weighted Average Carbon Intensity has declined by **38.0%**.		
		2019 (restated)	2023
	WACI	164.4 tCO2e/$mn Sales	102.0 tCO2e/$mn Sale

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Climate Metrics *(continued)*

Secondary Targets

<table>
<tr><th>Target</th><th>Progress as of 31 March 2023</th></tr>
<tr><td>Reduce exposure to fossil fuel reserves within the Equity portfolio.</td><td>Exposure to fossil fuel reserves reduced by 64bps.
Share of revenue from fossil fuel reduced by 47bps.
<table>
<tr><th></th><th>2019 (restated)</th><th>2023</th></tr>
<tr><td>Fossil fuel reserves</td><td>5.7%</td><td>5.2%</td></tr>
<tr><td>Fossil fuel revenue</td><td>2.3%</td><td>1.9%</td></tr>
</table></td></tr>
<tr><td>Increase exposure to climate solutions within the Equity portfolio.</td><td>Exposure to climate solutions increased by 16bps.
Share of revenue from climate solutions increased by 83bps.
<table>
<tr><th></th><th>2019 (restated)</th><th>2023</th></tr>
<tr><td>Climate Solutions exposure</td><td>36.6%</td><td>39.4%</td></tr>
<tr><td>Climate Solutions revenue</td><td>4.3%</td><td>5.4%</td></tr>
</table></td></tr>
<tr><td>90% of AUM in material sectors classified as Aligned or Aligning by 2030.</td><td>68.3% of AUM in material sectors are at least Aligning.
– AUM in material sectors: £2.3bn
– AUM at least Aligning: £1.6bn</td></tr>
<tr><td>90% of financed emissions classified as Aligned or Aligning / subject to engagement by 2030.</td><td>80.7% of financed emissions at least Aligning or in an engagement programme.
– 21.6% of financed emissions at least Aligning
– 69.5% of financed emissions in engagement</td></tr>
<tr><td>90% asset coverage by 2030.</td><td>Current asset coverage by this report is approximately 47% of Fund AUM.</td></tr>
<tr><td>Leicestershire County Council and LGPS Central Net Zero operations by 2030.</td><td>Leicestershire County Council have reported it is on track to achieve Operational Net Zero by 2030.
LGPS Central has set out its intention to set an Operational Net Zero Plan during 2024.</td></tr>
</table>

Climate Metrics *(continued)*

Our Approach to Climate Data

Climate data remains a developing area, with governments, data providers, and companies constantly updating and refreshing methodologies. The data available to us through MSCI will often be subject to retrospective amendments as estimated data is replaced by reported data, estimations are recalculated for greater accuracy, and as data coverage increases. Our metrics are calculated using methodologies that are utilised by Partnership for Carbon Accounting Financials (PCAF) and MSCI.

We recalculate our emissions on an annual basis and will restate previously reported GHG data to utilise the most up-to-date values. Where possible, we will also match our holding period with the period in which emissions at the underlying issuer occurred. As such there are multiple data that are restated between values provided in previous reports and the values contained in this report.

A summary of restated values are as follows:

	Previously Reported			Restated Reported		
Equities	2020	2021	2022	2020	2021	2022
Weighted Average Carbon Intensity	160.20	120.20	117.80	164.40	111.80	103.30
Weight in Fossil Fuel Reserves	8.6%	6.3%	6.8%	5.7%	4.4%	6.1%
Weight in Thermal Coal Reserves	2.9%	2.7%	2.5%	2.4%	2.2%	2.6%
Weight in Coal Power*	1.4%	0.9%	1.2%	0.1%	0.0%	0.0%
Weight in Clean Technology	34.2%	38.8%	38.2%	36.6%	39.1%	38.9%

* New methodology screens companies with >30% of share from coal power generation.

Equities

FIGURE 2: EQUITIES CLIMATE DASHBOARD

Equities	Multiple	Multiple	$3,089,227,454	Blended	Q1 2023
Asset Class	Fund Classification	Fund Manager	NAV	Reference Index	Period

		Carbon Footprint Metrics			Data Availability	
		Portfolio	Reference	Previous Year	Portfolio	Reference
Total Financed Emissions	Scope 1+2	158,353	208,454	163,215	97.0%	98.7%
tCO2e	Scope 3	1,911,409	1,697,091	1,700,104	97.0%	98.5%
Normalised Financed Emissions	Scope 1+2	52.8	85.4	50.1		
tCO2e/$M Invested	Scope 3	638.0	695.3	523.0		
Weighted Average Carbon Intensity	Exclude Sovereign	102.0	165.3	103.3	97.0%	98.7%
tCO2e/$M Revenue	Include Sovereign	102.0	165.3	103.3	97.0%	98.7%

Top 10 Emissions Contributors

Issuer	PF Weight	Ref Weight	% Financed Emission		% WACI		Scope 1+2	Scope 3	Engagement	Focus	Data	LCT	ITR	SBT
SHELL PLC	0.8%	0.8%	7.5%	1	2.9%	3	137.7M	1,174.0M	Yes	Yes	2	2.9	2.5	No
EXXON MOBIL CORPORATION	0.3%	0.6%	1.5%	8	1.0%	14	116.0M	825.0M	Yes	Yes	2	2.5	2.9	No
RIO TINTO PLC	0.3%	0.3%	1.4%	9	1.6%	9	30.3M	583.9M	Yes	Yes	2	5.5	5.9	No
LINDE PUBLIC LIMITED COMPANY	0.3%	0.2%	1.1%	12	3.4%	1	37.7M	43.8M	Yes	No	2	5.0	7.1	Yes
CRH PUBLIC LIMITED COMPANY	0.3%	0.2%	4.0%	3	2.5%	5	33.8M	22.4M	Yes	Yes	2	4.9	1.8	Yes
STEEL DYNAMICS, INC.	0.2%	0.0%	1.9%	5	0.9%	17	9.5M	11.0M	Yes	No	2	5.6	2.6	No
Holcim AG	0.1%	0.0%	4.4%	2	3.3%	2	83.0M	30.9M	Yes	No	2	4.2	2.3	Yes
CEMEX, S.A.B. de C.V.	0.1%	0.0%	3.3%	4	2.0%	6	39.3M	14.8M	Yes	No	2	4.0	1.9	Yes
CF INDUSTRIES HOLDINGS, INC.	0.1%	0.0%	1.2%	11	1.2%	11	17.8M	39.0M	Yes	No	2	4.7	10.0	No
Huaxin Cement Co., Ltd.	0.0%	0.0%	1.6%	6	1.6%	8	36.0M	3.5M	No	No	2	1.4	8.3	No

Recommendations / Observations

- Total Equities' carbon footprint metrics remained relatively stable YoY. Increased portfolio weights in **Cemex** and **CRH Public**, drove an increase in climate metrics, which was mitigated by a significant decrease in exposure to **Berkshire Hathaway**, as well as decreased portfolio weights associated with **Glencore** and **Archer-Daniels**.
- Total equities carbon footprint metrics continued to outperform the benchmark, predominantly attributable to underweight exposures to materials, energy and utilities.

Worst YoY Contributors	Stewardship Focus
CEMEX, S.A.B. de C.V.	No
CRH PUBLIC LIMITED COMPANY	Yes
VALERO ENERGY CORPORATION	No

High Impact Sectors / Climate Solutions Exposures (Portfolio vs Benchmark)

Fossil Fuel Exposure	Fossil Fuel Revenue	Thermal Coal Exposure	Coal Power Exposure	Cleantech Exposure	Cleantech Revenue
5.2% | 7.7%	1.9% | 3.6%	1.8% | 2.7%	0.0% | 0.1%	39.4% | 39.0%	5.4% | 5.4%

Portfolio Alignment & Engagement

Engagement	Data Quality	LCT	ITR	SBT	Alignment
69.5%	2.1	39.5%	25.1%	39.8%	21.6%

Equities *(continued)*

We analysed 9 funds totalling approximately £2.5 bn ($3.1 bn) in NAV as of 31 March 2023.

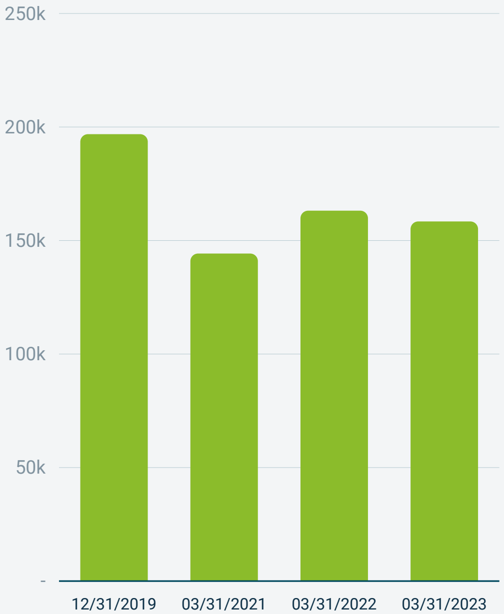
Since 2019, the major movement of AUM was in 2020 when LPF switched out of LGIM RAFI funds into the LGPS Central Climate Multi Factor Fund. AUM in scope has grown marginally from £2.1bn ($2.8 bn) to £2.5bn ($3.1 bn), partially driven by the switch (subscription value was higher than redemptions) as well as market movements.

Carbon footprint of each fund is measured up to a market index in which it is predominantly invested. The table below summarises the reference indices that we utilised.

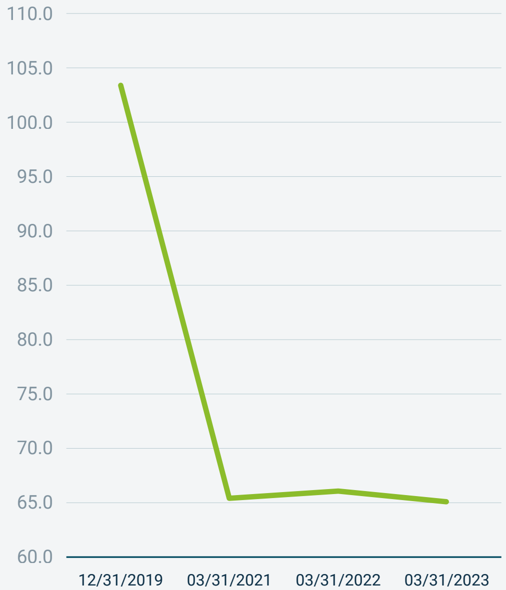
Investment Universe (Most Predominant)	Reference Index
UK Equities	FTSE UK All Share Index
Developed Markets	FTSE All-World Index
Emerging Markets	FTSE Emerging Index

Carbon Footprint Metrics

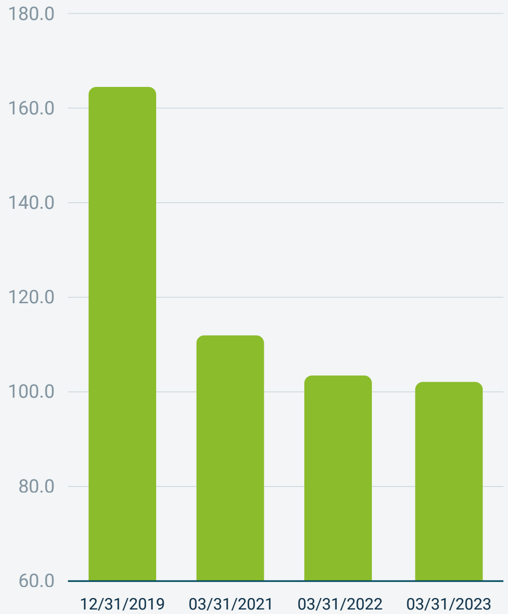
Equities: Financed Emissions Over Time



Equities: Normalised Financed Emissions Over Time



Equities: WACI Over Time



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Equities *(continued)*

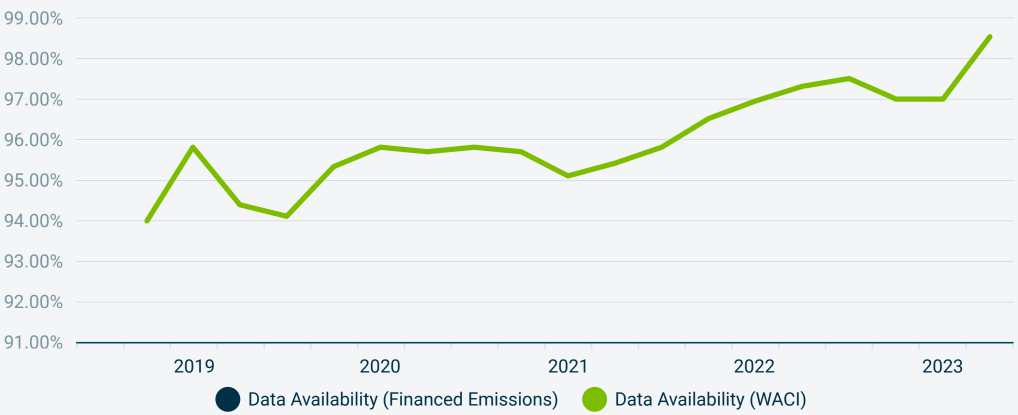
Since 2019, financed emissions has declined by 19.4% despite a 19.8% increase in AUM in scope. As a result, financed emissions normalised by AUM has declined by 36.9% in the same period. Financed emissions dipped in 2020 and 2021 – attributable to the slowdown in economic activity due to the COVID-19 pandemic – and has since rebounded. AUM increased by a similar proportion which led to the normalised financed emissions curve staying relatively flat since 2021.

Exposure to carbon intensive companies within the Equities asset class declined since 2019, This is evidenced by WACI, which declined by 38.0%. Allocation to hard-to-abate sectors gradually declined during the period. For example, weight in Energy and Materials sectors dropped by 120bps and 88bps since 2019, respectively. This is happening against a backdrop of declining carbon intensities of companies within high emitting sectors, partially driven by revenue growth that outstrips emissions growth.

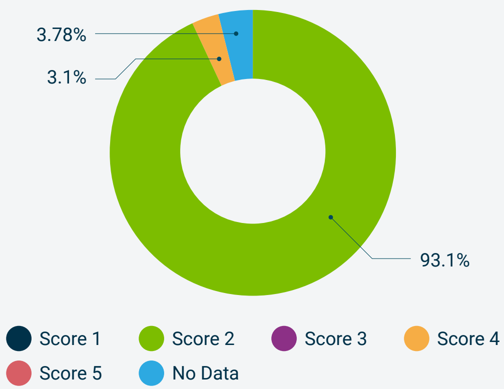
Nonetheless, carbon metrics for equities have consistently outperformed the reference indices. All actively managed portfolios have lower carbon metrics compared to their market index. This suggests that delegated managers are managing climate risk exposure in their respective portfolios.

Data

Equities: Data Availability Over Time



Equities: Breakdown of Data Quality Score (March 2023)



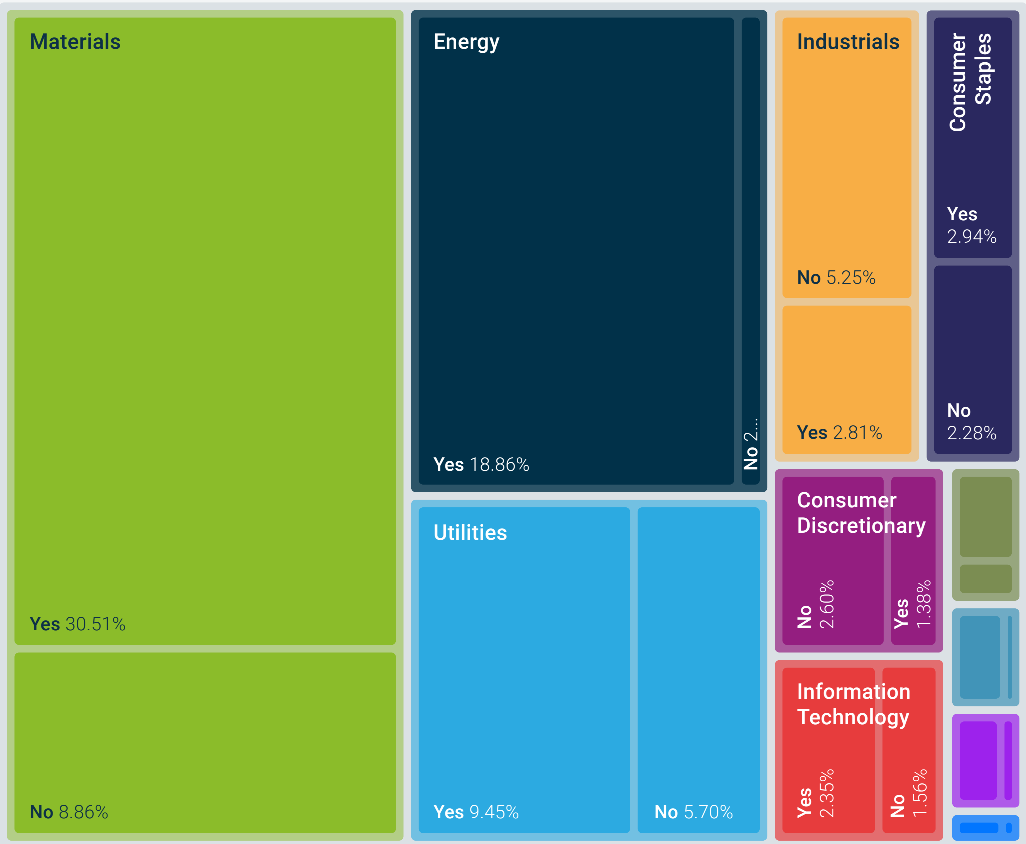
Data availability for equities has been consistently high since we started carbon footprinting. Going forward, our focus is to improve upon the quality of data that is used to calculate the carbon footprint metrics. As at the time of writing, majority (93.1%) of data used, apportioned by NAV, is from company reported data (score of 2). To get a higher score, the company reported data has to be independently verified. In reality, a large amount of the data that we use is already independenty verfied. However, right now we do not have a method to validate these audited status.

Equities *(continued)*

Sources of Emissions

The graph below illustrates the distribution of emissions within the Fund's portfolio by sector and indicates whether these emissions are addressed through engagement activities.

Financed Emission (Scope 1+2) by GICS Sector and Climate Engagement



Health Care
Yes 0.39% **No** 0.79%

Communication Services
No 0.78% **Yes** 0.12%

Financials
Yes 0.64% **No** 0.25%

Real Estate
No 0.22% **Yes** 0.04%

As mentioned above, allocation (as a percentage of NAV) to hard-to-abate sectors, namely Energy and Materials has declined since 2019. However, the share of emissions from these two sectors combined increased during the period. This is due to other sectors reducing emissions at a faster rate – most notably Utilities. Nonetheless, absolute emissions from the hardest-to-abate sectors (Energy, Materials, Utilities and Industrials) all declined since 2019. As a result, overall financed emissions decreased, despite NAV rising during the period. This caused the Fund's carbon intensity, as measured by normalised financed emissions, to decline significantly.

Several sectors contribute the lion share of emissions. This high level of concentration theoretically helps with engagement efforts. Overall, 69.5% of financed emissions from equity holding is in one or more climate engagement plan by the Fund and its engagement partners/providers. It is worth noting that only 4 out of the 8 companies in the climate stewardship focus list are in the top 10 of contributors of emissions. We will monitor this trend and suggest reviews, if required.

Relative to reference indices, LPF's equities portfolios have lower exposure to fossil fuels, thermal coal and coal power generation. This can be attributed to a underweight exposure to the Energy sector.

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Equities *(continued)*

Highest Emitting Issuers

The equity portfolios' top contributor to financed emissions was **Shell**, which contributes 7.5% of total equities financed emissions. Shell does have a climate target of reducing scope 1 and 2 emissions by 50% by 2030, from a 2016 baseline, and net zero emissions by 2050. Relative to this target, Shell has decreased its scope 1 and 2 emissions by 20.4% since the baseline year, and has also reported that is has achieved its short-term 2021 and 2022 targets. Shell remains a focus of stewardship efforts.

Cement producers **CRH**, **Holcim**, **Cemex** and **Huaxin** were negative contributors to relative financed emissions due to overweight positions. However, these selections had a positive overall effect on financed emissions, as managers selected these names against worst relative emitters in the Materials sector such as Anhui Conch, Ultratech and CNBM.

CRH, a supplier of construction materials has been one of the top contributors (year-on-year) to the portfolio's financed emissions as exposure to the company increased. The company has established a 2030 target which has been validated by the SBTi. The target refers to a 30% reduction in absolute emissions by 2030 from a base year of 2021. The company has so far reduced scope 1 and 2 emissions by 6.1% (from 2021 to 2022). Prior to this the company's scope 1 and 2 emissions more than doubled during a 10-year period (2012 to 2022) driven by M&A activities.

Linde has been a driving factor in the Fund's equities' financed emissions for several years. Linde is a German chemical company, which is significantly more carbon intensive compared to the industry average (with a WACI 45.8% greater than the industry average). The company's scope 1 and 2 emissions have also more than doubled over a 10-year period. However, the Company's carbon intensity has decreased by 58.5% from a peak in 2016. The company's production processes are energy intensive and use natural gas in most instances accounting for 70% of the company's scope 1 emissions in 2021 according to the company. The company has announced it's 2035 absolute emissions target which has been approved by the SBTi (not all targets have been approved, only 2035 target). This target relates to a 35% reduction in scope 1 and 2 emissions against a 2021 baseline. The company has also announced a target to be net zero by 2050. We are closely monitoring industrial gas producers' net zero target setting due to the over-reliance on carbon sequestration and alternative feedstocks. Nevertheless, we are mindful of the sector's role in the transition.

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Fixed Income

FIGURE 3: FIXED INCOME CLIMATE DASHBOARD

Fixed Income	Fixed Income Global	Multiple	$248,873,956	Blended	Q1 2023
Asset Class	Fund Classification	Fund Manager	NAV	Reference Index	Period

		Carbon Footprint Metrics			Data Availability	
		Portfolio	Reference	Previous Year	Portfolio	Reference
Total Financed Emissions	Scope 1+2	9,391	11,739	9,501	71.8%	77.6%
tCO2e	Scope 3	107,983	88,417	56,197	71.5%	77.2%
Normalised Financed Emissions	Scope 1+2	53.1	58.3	54.1		
tCO2e/$M Invested	Scope 3	612.5	439.3	320.2		
Weighted Average Carbon Intensity	Exclude Sovereign	145.2	183.6	145.0	82.9%	96.1%
tCO2e/$M Revenue	Include Sovereign	146.9	183.9	145.5	87.0%	96.1%

Top 10 Emissions Contributors

Issuer	PF Weight	Ref Weight	% Financed Emission		% WACI		Scope 1+2	Scope 3	Engagement	Focus	Data	LCT	ITR	SBT
THE SOUTHERN COMPANY	0.6%	0.1%	9.6%	2	15.3%	1	82.6M	34.8M	Yes	No	2	3.1	3.7	No
ENEL Finance International N.V.	0.5%	0.6%	4.3%	5	2.1%	7	55.9M	69.2M	No	No	2	6.1	1.4	Yes
ENGIE SA	0.5%	0.3%	4.1%	7	1.0%	17	30.6M	297.3M	Yes	No	2	3.4	2.0	Yes
INTERCONTINENTAL HOTELS GROUP PLC	0.3%	0.1%	1.7%	15	1.8%	8	2.5M	3.5M	No	No	2	5.3	4.9	Yes
CLECO CORPORATE HOLDINGS LLC	0.3%	0.0%	14.7%	1	9.7%	2	9.2M	3.7M	No	No	4			No
WEC ENERGY GROUP, INC.	0.3%	0.0%	3.2%	9	4.8%	3	21.8M	29.0M	Yes	No	2	2.7	3.5	No
CRH AMERICA, INC.	0.2%	0.0%	5.3%	4	1.7%	11	33.8M	22.4M	No	No	2	4.9	1.8	Yes
DUKE ENERGY CORPORATION	0.2%	0.1%	2.7%	12	4.6%	4	78.0M	26.5M	Yes	No	2	4.0	2.6	No
RWE Aktiengesellschaft	0.1%	0.0%	6.5%	3	2.6%	5	89.6M	23.0M	Yes	No	2	4.5	6.6	Yes
Holcim Sterling Finance (Netherlands) B.V.	0.1%	0.0%	4.2%	6	1.6%	12	83.0M	30.9M	No	No	2	4.2	2.3	Yes

Recommendations / Observations

- Lower financed emissions relative to the benchmark is driven by underweight allocations in materials and energy. Stock selection in utilities has mitigated this carbon footprint outperformance.
- The portfolio holds allocations in sovereign bonds, unlike the benchmark which has zero sovereign exposure. As a result the normalised financed emissions and WACI may be skewed relative to the benchmark. Skewness typically works against the fund with lower coverage. However, this is not the case for this portfolio's WACI.

Worst YoY Contributors	Stewardship Focus
CRH AMERICA, INC.	No
ELECTRICITE DE FRANCE SA	No
EnBW International Finance B.V.	No

High Impact Sectors / Climate Solutions Exposures (Portfolio vs Benchmark)

Exposure	Portfolio	Benchmark
Fossil Fuel Exposure	4.3%	6.4%
Fossil Fuel Revenue	1.2%	2.1%
Thermal Coal Exposure	1.4%	1.4%
Coal Power Exposure	0.0%	0.3%
Cleantech Exposure	22.6%	28.9%
Cleantech Revenue	3.7%	4.6%

Portfolio Alignment & Engagement

Engagement	Data Quality	LCT	ITR	SBT	Alignment
43.8%	2.2	30.0%	44.2%	51.9%	28.3%

Fixed Income *(continued)*

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Our initial analysis covers four funds with approximately £521.4mn ($644.6mn) in NAV.

However, two of the funds have limited data coverage. These are the emerging market debt fund and a multi asset credit fund. As mentioned above, the threshold of 60% data coverage applies in these cases. For the purpose of data reliability, these portfolios have been removed from this analysis, including data presented on page 38, Fixed Income (Data Availability > 60%).

The remaining two funds that meet our criteria for inclusion total £201.3mn ($248.9mn) in NAV. We have calculated carbon footprint metrics for LGPS Central Corporate Bond Fund since 2021, and Aegon Corporate Bond Fund since 2022. There were additional subscriptions into the LGSPSC fund in subsequent years.

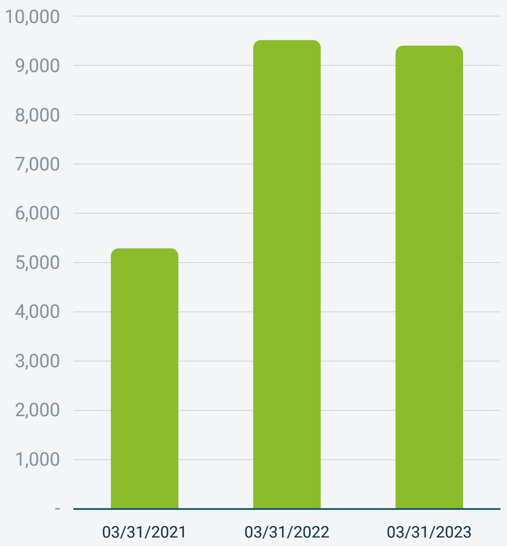
The reference indices we use to measure the funds' relative performances are as follows:

Fund	Reference Index
Aegon Corporate Bond Fund	ICE BofA Global Corporate Index
LGPS Central Corporate Bond Fund	50% Sterling Non-Gilt Index + 50% ICE BofA Global Corporate Index

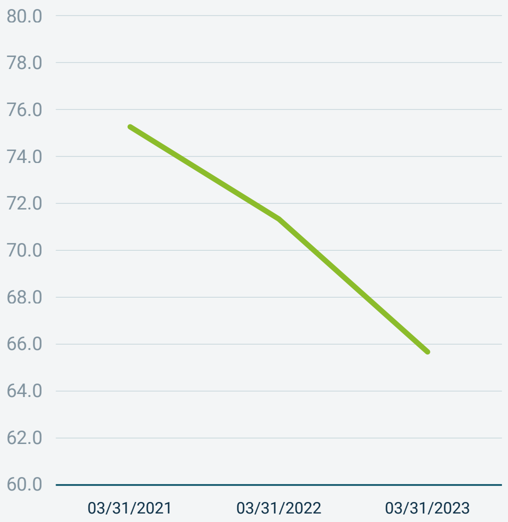
The Fund's Fixed Income portfolio's (despite having lower data availability) outperform their reference indices. The accuracy of any comparison with reference indices is likely to be affected by discrepancies in data availability between the funds and the indices. However, it is worth noting that lower data availability usually results in higher normalised financed emissions and WACI (see above).

Carbon Footprint Metrics

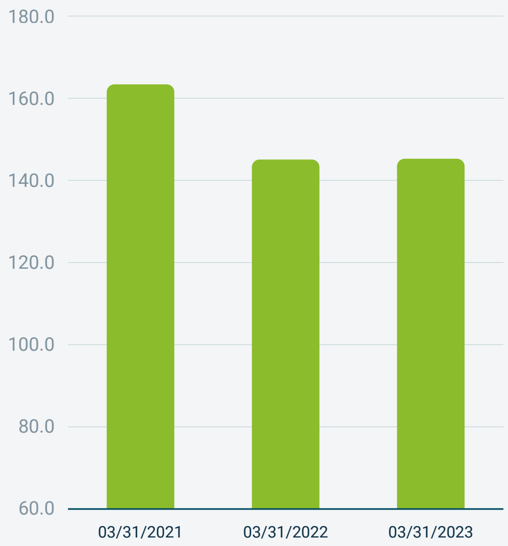
Fixed Income: Financed Emissions Over Time



Fixed Income: Normalised Financed Emissions Over Time



Fixed Income: WACI Over Time



Fixed Income *(continued)*

Financed emissions increased dramatically in 2022 due to the addition of the Aegon fund into the model. AUM growth slightly outpaced financed emissions, leading to normalised financed emissions declining by 12.8%. Portfolio weight shifted significantly towards Financials, and to a smaller quantum towards the Utilities sector. From a normalised and weighted average basis, the small increase in the weight into Utilities substantially offset the shift away from other sectors into Financials.

Fixed Income's exposure to carbon intensive companies also declined slightly since 2021, This is evidenced by WACI, which declined by 11.1%. The sector allocation shift described above is one of the main causes of this overall reduction, tempered slightly by the increase in Utilities. Interestingly, the high emitting sectors' overall decline seen in the equities analysis did not filter through to fixed income. Average carbon intensities in Utilities, Energy and Materials sectors within the fixed income universe actually increased during the period. This suggests that the two asset classes are exposed to different issuers and highlights the importance of the shift in weight into Financials.

Nonetheless, carbon metrics for equities significantly outperform the reference indices. All actively managed portfolios have lower carbon metrics compared to their market index. This suggests that delegated managers are managing climate risk exposure in their respective portfolios.

Data availability for fixed income is relatively low compared to those of its equities counterpart. It is worth noting that significant strides have been made since we started carbon footprinting in 2021. In terms of quality of data, where available, the majority of the data used are reported data.

Going forward, our immediate focus on fixed income is:

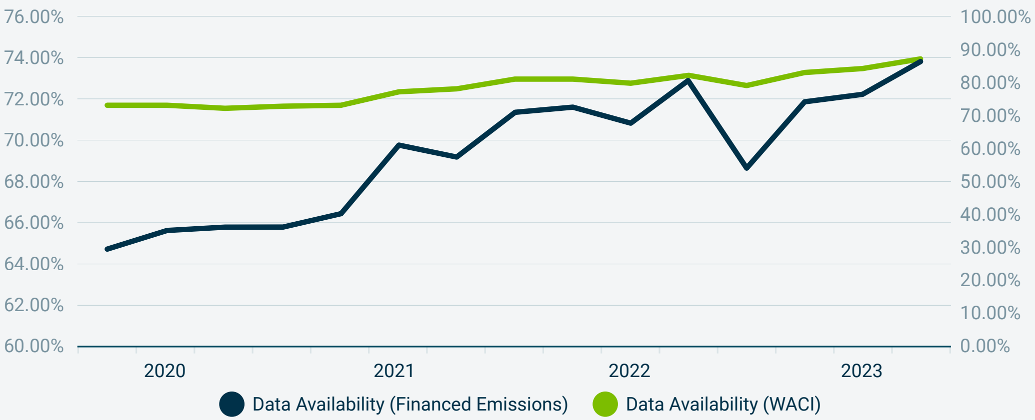
i) Adding sovereign emissions data into the calculation. This will significantly improve data coverage for emerging market debt funds. (NB: We are currently developing a methodology to calculate emissions from sovereign issuers in our model).

ii) Increasing coverage of EVIC data, especially for non-listed issuers. This will improve our financed emissions data coverage.

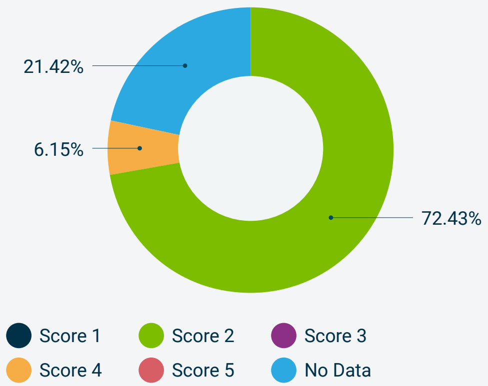
iii) Mapping securities to their parent issuer.

Data

Fixed Income: Data Availability Over Time



Fixed Income: Breakdown of Data Quality Score (March 2023)



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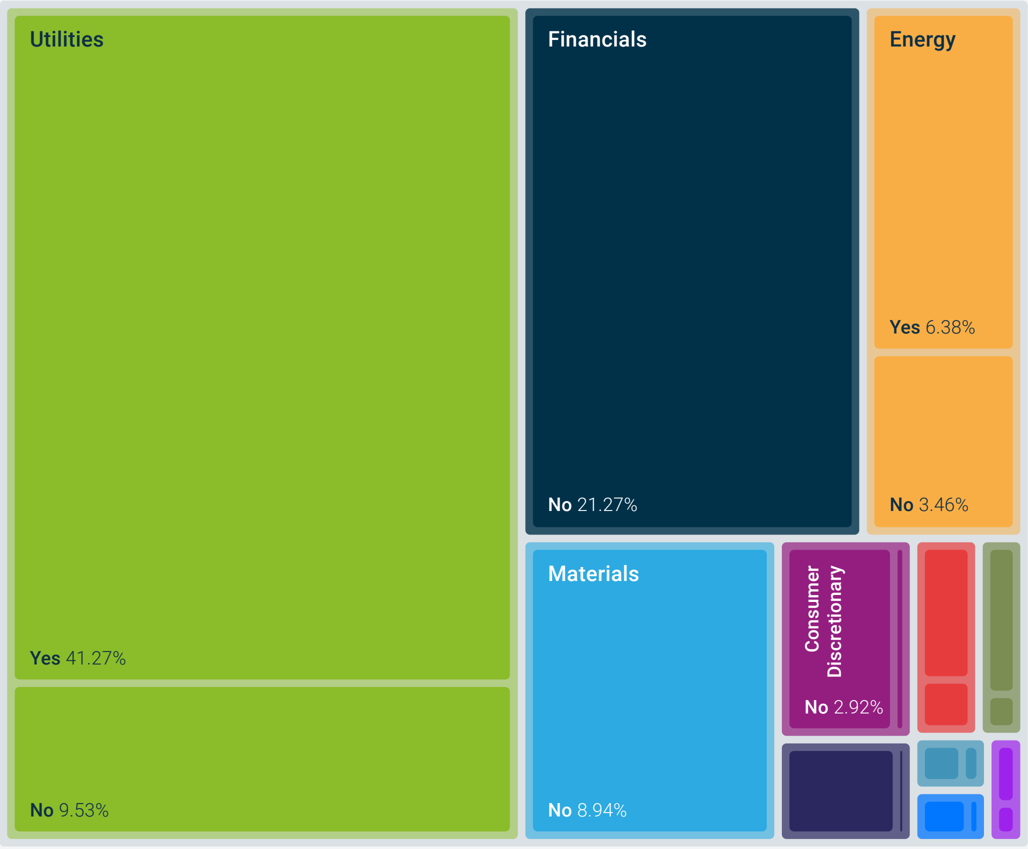
Fixed Income *(continued)*

Sources of Emissions

The graph below illustrates the distribution of emissions within the Fund's portfolio by sector and indicates whether these emissions are addressed through engagement activities.

Financed Emission (Scope 1+2) by GICS Sector and Climate Engagement



As mentioned above, sector allocation has shifted significantly towards Financials, but share of emissions has moved towards Utilities. The average carbon intensity of the companies in the high emitting sectors has also increased, suggesting the issuers that the funds lend to are less carbon efficient. Nonetheless, relative to reference indices, all funds are still outperforming.

However, progress is required to increase the engagement coverage across the asset class. Only 43.8% of financed emissions are currently under one or more engagement program. Considering the geographical focus of the funds in scope, this figure needs improvement. This also reflects the challenges facing engagers relating to the asset class. There is a lack of desire for companies to engage with their debtholders. High portfolio turnover exacerbates the problem as engagers cannot commit to a long-term engagement plan with a single issuer. Nevertheless, the expectation placed upon delegated managers is to perform ESG integration and stewardship. It is imperative that this metric improve over time as we believe that engagement can lead to improvements in carbon performance.

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Fixed Income *(continued)*

Highest Emitting Issuers

Cleco Corporate Holdings, a public utility holding company is fixed income's top emitter with 14.7% of financed emissions and 9.7% of WACI. Unfortunately, the issuer is not covered by MSCI (for LCT and ITR scores). The issuer's private company status (it is owned by private equity firms) makes it difficult to analyse and engage with. LGPSC is communicating with the underlying manager on how they plan to engage with the company.

One of the fixed Income portfolios' top contributors to financed emissions is **Enel**, which contributes 4.3% of financed emissions. Enel is generally seen as a leader in low carbon transition amongst its Utilities peers, demonstrated by the companies ITR of 1.4, LCT of 6.1 and SBT, we therefore consider Enel to be at least aligning to the Paris Agreement. It has an ambitious plan to be net zero by 2040 by switching its generation capacity to renewables (85% by 2030, 100% by 2040).

CRH, a supplier of construction materials has been one of the top contributors (year-on-year) to the portfolio's financed emissions as exposure to the company increased. While the company has established a 2030 target which has been validated by the SBTi. The target refers to a 30% reduction in absolute emissions by 2030 from a base year of 2021. The company has so far reduced scope 1 and 2 emissions by 6.1% (from 2021 to 2022). Prior to this the company's scope 1 and 2 emissions increased by over 2x over a 10-year period (2012 to 2022) driven by M&A activities.

Definition of Carbon Metrics

TABLE 1: DEFINITION OF CARBON METRICS USED[7]

Carbon Risk Metric	Unit	Definition	Use Case	Limitations
Scope 1 Emissions	tCO2e (Tons of CO2 equivalent)	These are the Greenhouse Gas (GHG) emissions that a company is directly responsible for.	The emissions generated through the company's direct operations, such as fuel combustion, company vehicles, etc.	These metrics must be considered together to gain a full understanding of a company's carbon profile. They do not consider a company's size and they do not capture the impact of the company's business model on the climate. Scope 3 emissions can also be counted multiple times by companies at different stages of the same supply chain.
Scope 2 Emissions	tCO2e	GHG emissions that a company causes indirectly through its operations.	The emissions generated through the energy purchased by the company during its operations, such as energy consumption used to heat buildings.	
Scope 3 Emissions	tCO2e	All indirect GHG emissions resulting from the company's wider business practice.	Capturing emissions up and down the company's supply chain, including the emissions produced by customers' consumption of its products.	
Financed Emissions	tCO2e	Is calculated by multiplying an attribution factor by a company's scope 1 and 2 emissions. The attribution factor is the ratio between an investor's outstanding amount in a company and the value of the financed company.	Measures the absolute tons of (scope 1 and 2) CO_2 emissions for which an investor is responsible.	Limited usefulness for benchmarking and comparison to other portfolios due to the link to portfolio size (benchmarks are assumed to have equal AUM to the respective portfolio to overcome this challenge). Attribution factor (EVIC).

[7] Further information can be found at this link: Carbon Footprinting 101 - A Practical Guide to Understanding and Applying Carbon Metrics - MSCI

Definition of Carbon Metrics *(continued)*

Carbon Risk Metric	Unit	Definition	Use Case	Limitations
Normalised Financed Emissions	tCO2e/$m Invested	Financed Emissions are apportioned by the portfolio's AUM as to provide a measure of carbon intensity.	This measure converts the absolute measure of Financed Emissions into a relative measure of carbon intensity, creating greater ease when benchmarking and comparing to other portfolios.	This measure will complement Financed Emissions, as alone it cannot provide an absolute measure of portfolio emissions.
Weighted Average Carbon Intensity (WACI)	tCO2e/$m revenue	Is calculated by working out the carbon intensity (Scope 1+2 Emissions / $M sales) for each portfolio company and calculating the weighted average by portfolio weight.	A proxy for carbon price risk. Were a global carbon price to be introduced in the form of a carbon tax, this would (ceteris paribus) be more financially detrimental to carbon intensive companies than to carbon efficient companies.	This metric includes scope 1 and 2 emissions but not scope 3 emissions. This means that for some companies the assessment of their carbon footprint could be considered an 'understatement'.
Exposure to Fossil Fuel Reserves	%	The weight of a portfolio invested in companies that (i) own fossil fuel reserves (ii) thermal coal reserves (iii) utilities deriving more than 30% of their energy mix from coal power.	A higher exposure to fossil fuel reserves is an indicator of higher exposure to stranded asset risk.	It does not consider the amount of revenue a company generates from fossil fuel activities. Consequently, diversified businesses (e.g. those that own a range of underlying companies, one of which owns reserves) would be included when calculating this metric. In reality, these companies may not bear as much stranded asset risk as companies that do generate a high proportion of revenue from fossil fuels.

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Definition of Carbon Metrics *(continued)*

Carbon Risk Metric	Unit	Definition	Use Case	Limitations
Exposure to Fossil Fuel Reserves by Revenue	%	This identifies the maximum percentage of revenue either reported or estimated derived from conventional oil and gas, unconventional oil and gas, as well as thermal coal. These values by companies are summed and weighted by the portfolio weights to produce a weighted exposure.	This has been included to overcome the limitations of the metric of Exposure to Fossil Fuel Reserves, which includes all companies which have any exposure regardless of how small.	This measurement uses maximised estimates where reported values are not available. Therefore, there is a potential to overestimate exposure.
Exposure to Clean Technology	%	The weight of a portfolio invested in companies whose products and services include clean technology (Alternative Energy, Energy Efficiency, Green Buildings, Pollution Prevention, and Sustainable Water). The final figure comes from the percentage of each company's revenue derived from clean technology.	Provides an assessment of climate-related opportunities so that an organisation can review its preparedness for anticipated shifts in demand.	While MSCI has been used for this report due to its wide range of listed companies and data points, there is no universal standard or definitive list of green revenues. This is due to the inherent difficulty in compiling a complete and exhaustive list of technologies relevant for a lower-carbon economy.
Exposure to Clean Technology by Revenue	%	This identifies the maximum percentage of revenue, either reported or estimated, derived from companies involved in clean technology (see above).	Allows for a comparison of company's exposure to clean technology, adjusted according to a proportion of that company's size.	This measurement uses maximised estimates where reported values are not available. Therefore, there is potential to overestimate exposure.
Engagement	%	Is calculated by the proportion of financed emissions which are accounted for under an engagement program either directly, in partnership and/or through stewardship provider.	This allows us to understand how much of the portfolio's financed emissions are accounted for under engagement programs.	This figure does not demonstrate the degree of progress made with the portfolio company as a result of the engagement. This will also include engagement on issues outside of environmental topics.

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Definition of Carbon Metrics *(continued)*

Carbon Risk Metric	Unit	Definition	Use Case	Limitations
Data Quality	Numerical (1-5)	This metric is represented as a score between 1 and 5, with 1 representing the highest quality of reported emissions. A score of 1 would represent independently verified emissions data, whereas a higher score may represent estimated emissions based on sector averages.	Understanding data quality provides an insight into the accuracy of other climate metrics.	Simple quantification of the quality of data, does not provide in-depth understanding of data availability/reliability.
Low Carbon Transition	Numerical (1-10)	Low Carbon Transition scores are assigned from 1 to 10. For this metric the proportion of financed emissions associated with a portfolio with a manager score above 5 is aggregated.	This assesses how well a company manages risk and opportunities related to the low carbon transition. Apportioning by financed emissions places a greater weight on companies where emissions are more substantial.	While this considers the ability of a company's management to incorporate low carbon transition risks and opportunities, it is not an overall indicator of the company's low carbon transition performance.
Implied Temperature Rise (ITR)	%	This introduces the concept of a carbon budget, how much the world can emit such that global temperatures do not exceed 2 degrees Celsius. Implied temperature rise considers if the entire economy had the same over/undershoot of (scope 1, 2 and 3) their respective carbon budgets as the respective portfolio company, what would be the temperature rise during 2100 from preindustrial levels. The portfolio's Implied Temperature Rise aggregates the portion of financed emissions associated with portfolio companies with an Implied Temperature Rise of 2 degrees Celsius or less.	Implied temperature rise is an intuitive, forward-looking metric, expressed in degrees Celsius, designed to show the temperature alignment of companies, portfolios and funds with global temperature goals.	Implied temperature rise is heavily reliant on the model's parameters and assumptions.

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Definition of Carbon Metrics *(continued)*

Carbon Risk Metric	Unit	Definition	Use Case	Limitations
Science-Based Targets	%	This is calculated as the proportion of financed emissions which are accounted for by a portfolio company with science-based climate target.	Provides an insight into the proportion of companies which have implemented science-based targets. Apportioning by financed emissions places a greater weight on companies where emissions are more substantial.	This metric only measures the proportion of companies with official science-based targets which have been verified by an independent body. A company with robust and ambitious targets which have not been verified may be omitted.
Paris Alignment	%	This metric is constructed in-house. A company is considered to be aligned if they have a Low Carbon Transition score greater than 5, as well as either an ITR of 2 degrees Celsius or lower, or a science-based target.	This figure is designed to provide an insight into the overall Paris alignment of the portfolio. Apportioning by financed emissions places a greater weight on companies where emissions are more substantial.	The limitations of the figure will be carried over from the limitations of the underlying metrics. There is currently no consensus opinion on what it means for a company to be aligned.

LGPS Central Limited

Agenda Item 16

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Agenda Item 17

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Agenda Item 39

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