Meeting: **Local Pension Committee**

Date/Time: **Wednesday, 19 June 2024 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

Item		Report By	Marked
1.	Appointment of Chairman.		
2.	Appointment of Deputy Chairman.		
3.	Minutes of the meeting held on 8 March 2024.		(Pages 5 - 16)
4.	Question Time.		
5.	Questions asked by members under Standing Order 7(3) and 7(5).		
6.	To advise of any other items which the Chairman has decided to take as urgent elsewhere on the agenda.		
7.	Declarations of interest in respect of items on the agenda.		
8.	Risk Management and Internal Controls.	Director of Corporate Resources	(Pages 17 - 38)
9.	Responsible Investing Update.	Director of Corporate Resources	(Pages 39 - 90)
10.	McCloud Remedy Progress Report.	Director of Corporate Resources	(Pages 91 - 96)

11.	Summary Valuation of Pension Fund Investments.	Director of Corporate Resources	(Pages 97 - 116)
12.	Action Agreed by the Investment Sub-Committee.	Director of Corporate Resources	(Pages 117 - 122)
13.	Training Policy Review.	Director of Corporate Resources	(Pages 123 - 138)
14.	Investment Sub-Committee Membership.	Director of Corporate Resources	(Pages 139 - 140)
15.	LGPS Central Update.	Director of Corporate Resources	(Pages 141 - 170)
16.	LGPS Central - Infrastructure Presentation.	Director of Corporate Resources	(Pages 171 - 184)

17. Date of next meeting.

The next meeting is scheduled for 6 September 2024, at 9.30am.

18. Any other items which the Chairman has decided to take as urgent.

19. 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).

20.	Presentation on LCCPF and Infrastructure Investments	Director of Corporate Resources	
21.	LGPS Central Quarterly Report.	Fund Manager	(Pages 185 - 296)
	Growth		
22.	Ruffer.	Fund Manager	(Pages 297 - 336)
23.	Aberdeen SL Capital.	Fund Manager	(Pages 337 - 384)
24.	Adam Street Partners.	Fund Manager	(Pages 385 - 492)
25.	Catapult Ventures.	Fund Manager	(Pages 493 - 512)
26.	Fulcrum.	Fund Manager	(Pages 513 - 530)
27.	Legal and General Investment Managers.	Fund Manager	(Pages 531 - 560)
	Income		
28.	LGPS Central Limited.	Fund Manager	(Pages 561 - 620)
29.	Colliers Property Performance and Investment.	Fund Manager	(Pages 621 -

TO:

Leicestershire County Council

Mr. T. Barkley CC (Chairman)
Mr. D. Grimley CC
Mr. P. King CC
Mr. D. Bill CC MBE
Mrs. H. Fryer CC

Leicester City Council

Cllr. A. Clarke
Cllr. M. March

District Council Representatives

Cllr. M. Cartwright
Cllr. R. Denney

University Representative

Mr. J. Henry

Scheme Member Representatives

Mr. N. Booth
Mr. C. Pitt
Mr. V. Bechar

This page is intentionally left blank

Leicestershire County Council

Minutes of a meeting of the Local Pension Committee held at County Hall, Glenfield on Friday, 8 March 2024.

PRESENT:

Leicestershire County Council

Mr. T. Barkley CC (Chairman)
Mr. D. C. Bill MBE CC
Mr. D. J. Grimley CC
Mr. D. Harrison CC
Mr. P. King

Leicester City Council

Cllr. A. Clarke (online virtual)
Cllr. M. March

District Council Representative

Cllr. M. Cartwright
Cllr. R. Denney

Staff Representatives

Mr. N. Booth
Mr. C. Pitt

Independent Advisors in Attendance

Mr. Patrick O'Hara	LCPS Central
Mr. Sameed Afzal	LGPS Central
Ms. Ana Maria Harrison	Adam Street Partners
Mr. Ross Morrison	Adam Street Partners
Mr Yohan Hill	Adam Street Partners

121. Minutes.

The minutes of the meeting held on 26 January 2024 were taken as read, confirmed and signed.

122. Question Time.

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

123. 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).

124. Urgent Items.

There were no urgent items for consideration.

125. Declarations of interest.

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

There were no declarations were made.

126. Terms of Reference.

The Committee considered a joint report of the Director of Corporate Resources and the Director of Law and Governance, the purpose of which was to seek the Committee's approval of the revised Terms of Reference for the Local Pension Committee. A copy of the report marked 'Agenda Item 6' is filed with these minutes.

Arising from discussion, the following points were made:

i. A Member welcomed the changes to the revised document, but queried if a change should be made to allow Employee Representatives to have voting powers.

ii. A Member queried why changes had been made to the Terms of Reference at this point in time. The Head of Law reported they were due to a cyclical review of the document which required every three years.

RESOLVED:

That the revised Terms of Reference appended to the report be approved.

127. Pension Fund - Business Plan and Budget 2024/25.

The Committee considered a report of the Director of Corporate Resources the purpose of which was to seek the Committee's approval of the Pension Fund's Administration and Investment Business Plans, and the Pension Fund budget for 2024/25. A copy of the report marked 'Agenda Item 7' is filed with these minutes.

i. Members believed the speed of the action of the Authority in response to the McCloud Remedy was exemplary.

ii. Members welcomed the training initiative to hold in person sessions with Members of the Local Pension Committee and Local Pension Board.

RESOLVED:

(a) That the Pension Fund's Administration and Investment Plans attached to the report as Appendices A and B respectively, and Pension Fund budget for 2024-25 be approved.

(b) That Committee Members be requested to complete the Hymans on-line training Module 2 – Pension Governance sub section, LGPS oversight bodies (The Pensions Regulator).

(c) That the training plan for the year 2024/25 attached as Appendix C to the report be noted.

128. 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. The report also provided an update on progress in relation to the listed equity changes, as approved by the Investment Sub-Committee (ISC) on 19 April 2023 with an update on progress provided to the ISC in October 2023. A copy of the report marked 'Agenda Item 8' is filed with these minutes.

Arising from the discussion, the following points were made:

i. A Member queried if the £421million held in cash by the Fund was part of the general cash flow. The Director reported that this was as a result of steps being taken to move away from listed assets, namely moving listed assets into private assets. As part of this process the money would be held as cash for managers to buy private assets when something appropriate became available. Members noted that this cash balance was currently earning 5.35% in interest.

ii. A Member noted the level of cash held was above the strategic asset allocation (SAA) limit of 0.75% of total Fund assets and questioned what was being done to manage this. The Director reported that commitments had been made to private markets and it was expected the money would be called in due course over the next18 months, with most of it going to infrastructure private credit property and liquid multi-asset credit (MAC). It was further noted that the SAA was presented to the Committee annually and had always been in a position of being fully invested.

RESOLVED:

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

129. Risk Management and Internal Controls.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to advise 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, and to provide an update on the appointment of the Chief Executive Officer (CEO) for LGPS Central. A copy of the report marked 'Agenda Item 9' is filed with these minutes.

Arising from discussion, the following points were made:

i. Members asked if Mr. Richard Law-Deeks, new CEO for LGPS Central, would be attending any future meetings of the Local Pension Committee, to which the Director confirmed his appointment was subject to FCA approval but it was expected Mr. Law-Deeks would be attending the Committee meeting in June 2024.

ii. Members queried if the Autumn Statement put the Fund at any great risk as it had been included in the Risk Register. It was noted that when the report was produced, there was a requirement to have an investment in British equities, for which the Fund was already compliant.

RESOLVED:

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

130. <u>Pension Fund Policy Report.</u>

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to provide an annual update of the Pension Fund's current strategies and policies, and to seek approval of the revised policies appended to the report. A copy of the report marked 'Agenda Item 10' is files with these minutes.

Members agreed 'partial termination' requests from employers seeking to lock in a favourably low value of liabilities was not in the interests of members of the Fund or employers and questioned if partial termination was being driven by employers seeking to try to reduce revenue costs. Members further questioned if it had been recognised in the risk register that potentially an employer could state that they could not afford to increase contribution payments towards the fund, some of whom were already paying in excess of 30%. The Director explained that the identified risk of increased contribution rates following the next valuation was unrelated to partial termination requests, and that if an increase were required there would need to be a review of assumptions as part of the wider valuation exercise, and employers could then challenge the proposed increase. However, it was recognised that there needed to be a balance in the interests of long-term funding.

RESOLVED:

That the following revised policies appended to the report be approved:

Appendix A – Overpayment of Pensions Policy
Appendix B – Draft Administration and Communication Policy
Appendix C – Draft Administering Authority (Fund) Discretions Policy
Appendix D – Draft Cyber Policy
Appendix E – Fund Employer Risk Policy
Appendix F – Investment Strategy Statement

131. <u>Responsible Investing Update.</u>

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to provide the Committee with an update on progress versus the Responsible Investment (RI) Plan 2024, and the Fund's quarterly voting report and stewardship activities. A copy of the report marked 'Agenda Item 11' is filed with these minutes.

The Chairman welcomed to the meeting Mr. Patrick O'Hara and Mr. Sameed Afzal from LGPS Central, who supplemented the report with a presentation. A copy of the presentation slides is filed with these minutes.

Arising from discussion and questions, the following points were made:

i. Members questioned what levels of engagement took place with fund managers, and whether these were formal, recorded and minuted discussions available for viewing. LGPS Central advised that information was contained in stewardship reports, but meetings were often covered by the Chatham House Rule to encourage open discussion. Minutes or notes were not therefore made public, though the minutes of Annual General Meetings (AGMs) were.

ii. In response to a Member's question on the level of engagement, LGPS Central reported it had over 3,000 holdings, and that it voted at all AGMs. However, at the beginning of the year it undertook a prioritisation process for engagement which was risk based, with one criterion being how much of a holding LGPS Central had in the company in terms of the portfolio, resulting in around 50 priority engagements. Through partnership engagement on LGPS Central's behalf, such as EOS and Climate Action 100+, it was thought engagement would cover the first thousand holdings. It was further expected that managers across fixed income and active equities would have stewardship programmes, providing quarterly updates.

iii. Timescales for resolving issues identified varied. An example given was the use of slave labour which it would be expected would be resolved quickly by managers, whereas addressing climate change was harder but managers would still be expected to set targets that played out over time. LGPS Central reported that it was in the process of introducing reporting similar to climate risk monitoring, but focussed on other ESG risks, such as, pollution, modern slavery, and child labour, running portfolios through that methodology which would feed into engagement prioritisation with companies. LGPS Central's engagement tracker was used to gauge success and outcomes through a focussed approach with companies

iv. Members noted that it was difficult to bring a case on the grounds of climate performance as a court would have to accept this was an appropriate method for influencing company behaviour which would be difficult in the absence of being able to demonstrate a direct financial loss. However, there had been some success, for example, the Netherlands had influenced the strategy of Shell, and in the case of a Brazilian company whose shareholders brought a class action against BP as they were able to point to financial loss and share price.

v. Members were reassured that underlying managers with LGPS Central had decided to divest from some companies that did not meet ESG standards of its sustainability mandates, despite engagement. An example of this being a company with a good sustainability story through successful energy efficient air conditioning units, but which also had an arm of business that was producing weapons.

vi. Members noted that before investing in external managers a deep dive would be undertaken on their ESG credentials for assurance. LGPS Central reported that a company would only be divested from when the risk to the investment had become unacceptable, and at the suggestion of Members, going public before doing so would be a useful engagement tool, whilst not delving into the realms of politics or fiduciary responsibility. It was noted that during any consideration to divest, conversations would be had with the fund manager and investment directors internally on publicity.

vii. In response to a question on voting at AGMs, LGPS Central stated that a high level of dissent from shareholders would be around 25-30% which would usually attract media interest. For example, a vote on the CEO of Morgan Stanley had gained about 60-70% against a renumeration vote, showing shareholder concerns. It was added that some votes were not binding, as ultimately management of the company and delivery of strategy would be a matter for the chief operating officers.

viii. Members were pleased to hear that LGPS Central was a signatory to the Stewardship Code and Principles for Responsible Investment, having scored 5 stars out of 6 areas in its most recent report demonstrating commitment to responsible investment, noting that responsible investment teams across asset management businesses tended not to compete with each other but worked collaboratively.

ix. A Member questioned a statistic under climate change that the investment strategy over all was based on assumptions 1% to 10% of investments would be impacted by 2100 by climate change. Members were advised that some estimates stated 2% of global financial assets would be at risk of the impacts of climate change by 2100, but in the worst-case scenario could rise to 10% which would be a warming of four to five degrees as opposed to the aimed for 1.5 degree Paris aligned low carbon economy. It was noted a lot of investors were engaging with companies aligned to the goals of the Paris agreement, however, all companies were exposed to climate change. The figures related to the impact to global financial assets would be checked.

RESOLVED:

(a) That the progress versus the Responsible Investment (RI) Plan 2024 and the Fund's quarterly voting report attached as Appendices A and B respectively to the report be noted.

(b) That the presentation now delivered by LGPS Central and the slides attached as Appendix C to the report be noted and welcomed.

(c) That LGPS Central be requested to provide clarity on the estimated figures presented to the Committee regarding the percentage of global assets that would be at risk of the effects of climate change by 2100.

(d) That the Director of Corporate Resources be requested to consider how best to disseminate information contained in LGPS Central's presentation to Fund members for information.

132. <u>Adam Street Partners (ASP) - Private Equity Presentation.</u>

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to provide information to the Committee on the Leicestershire Pension Fund (Fund) private equity (PE) investments and the performance of the Fund's PE investments held with Adam Street Partners (ASP). A copy of the report marked 'Agenda Item 12' is filed with these minutes.

The Chairman welcomed Ms. Ana Maria Harrison, Mr. Ross Morrison and Mr Yohan Hill from ASP, who supplemented the report with a presentation. A copy of the presentation slides is filed with these minutes.

Arising from discussion the following points were made:

i. In 2017 APS had created a LGPS aggregation discount whereby it treated the Fund's plan the same as any other pool, and any LGPS investor could benefit from the aggregation discount regardless of what pool they were in. Members noted that analysis from pre-pooling and post-pooling showed a 37% discount.

ii. A Member commented that it was harder to see ESG tangible gains as reliance was placed on ASP to provide reassurance that such goals were being met. ASP agreed that transparency was a challenge in private markets, but that the position was improving with more information becoming available to provide reassurance that the investments were not in carbon intensive industries. More transparency was being provided around ESG through the process of annual surveys to gain more insight into the practice of target setting at manager level, with monitoring year on year and engaging if necessary with high risk managers. ASP also reported that issues such as human rights issues around modern-day slavery, child labour and controversial weapons, would be flagged during monitoring. Members requested that a breakdown of ESG risks considered by managers be provided outside the meeting, acknowledging the need for anonymity.

[Mr King and Mr. Bill left the meeting at 11.51am]

iii. In response to a Member's question on digital technology, ASP reported that there were mature and immature technology investments. Mature were proven businesses with profitable cash flows in a growing business. ASP also allocated a smaller amount of investment to new technologies (immature companies).

iv. A Member highlighted that performance over the long term had been excellent, but that this had been during a period of low interest rates and so t questioned with interest rates rising to a more normal level, what the position would be moving forward. It was explained that ASP operated a lower leverage high growth strategy, in that within private markets it could choose to invest in different stages or sizes of companies. It was noted that ASP's and the Fund's portfolio was disproportionately tilted towards the smaller side of the buyer market, therefore the requirement for leverage was on the lower side, with a lower burden of financial costs.

RESOLVED:

(a) That the report on Leicestershire Pension Fund (Fund) private equity (PE) investments, and the performance of the Fund's PE investments held with Adam Street Partners (ASP) be noted.

(b) That the presentation now provided by ASP and the slides appended to the report be noted and welcomed.

(c) That ASP be requested to provide further detailed survey information around environmental, social and governance (ESG) risks challenged by managers.

[Mr. Grimley and Councillor March left the meeting at 11.58am]

133. Date of next meeting.

RESOLVED:

That it be noted that the date of the next meeting would be 9 June 2024, at 9.30am.

134. 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.

135. Adam Street Partners Quarterly Report.

The Committee considered an exempt report of the Director of Corporate Resources. A copy of the report marked 'Agenda Item 17' 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.

Ms. Ana Maria Harrison, Mr. Ross Morrison and Mr Yohan Hill from ASP were present, and supplemented the report with a presentation, which is also filed with these minutes.

RESOLVED:

That the report and presentation delivered by Adam Street Partners (ASP) be noted.

[Ms. Ana Maria Harrison, Mr. Ross Morrison and Mr Yohan Hill left the meeting]

136. Supplementary Information - LGPS Central Stewardship Approach.

The Committee considered an exempt report of the Director of Corporate Resources. A copy of the report marked 'Agenda Item 17' 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 and presentation delivered by LGPS Central be noted.

137. LGPS Central Quarterly Investment Report.

The Chairman welcomed back to the meeting Mr. Patrick O'Hara and Mr. Sameed Afzal from LGPS Central, who delivered a presentation. A copy of the presentation slides is filed with these minutes.

RESOLVED:

That the presentation be noted.

[Mr. Patrick O'Hara and Mr. Sameed Afzal left the meeting]

138. Leicestershire Summary Valuation - Hymans Robertson.

The Committee considered an exempt report by Hymans Robertson. 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.

139. Ruffer Quarterly Report.

The Committee considered an exempt report by Ruffer. 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.

140. Aberdeen SL Capital.

The Committee considered an exempt report by Aberdeen SL Capital. 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.

141. Aspect Capital Quarterly Report.

The Committee considered an exempt report by Aspect Capital. 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.

142. Legal and General Investment Manager Quarterly Report.

The Committee considered an exempt report by Legal and General Investment Manager. 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.

143. LGPS Central PE Primary Partnership Quarterly Report.

The Committee considered an exempt report by LGPS Central. 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.

144. Pictet Asset Management Quarterly Report.

The Committee considered an exempt report by Pictet Asset Management. 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.

145. IFM Investors Quarterly Report.

The Committee considered an exempt report by IFM Investors. 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.

146. UK Active Value Property Unit Trust.

The Committee considered an exempt report by UK Active Value Property Unit Trust. 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.

147. Colliers Global Investors.

The Committee considered an exempt report by Colliers Global Investors. 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.

148. Christofferson Robb & Company.

The Committee considered an exempt report by Christofferson Robb & Company. 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.

149. Infracapital Greenfield Partners.

The Committee considered an exempt report by Infracapital Greenfield Partners. 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.

150. JP Morgan Quarterly Report.

The Committee considered an exempt report by JP Morgan. 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.

151. LaSalle Quarterly Report.

The Committee considered an exempt report by LaSalle. 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.

152. LGPS Central Core/Core Plus Infrastructure Partnership LP Quarterly Report.

The Committee considered an exempt report by LGPS Central. 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.

153. LGPS Central Credit Partnership.

The Committee considered an exempt report by LGPS Central. 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.

154. M&G Investments Quarterly Report.

The Committee considered an exempt report by M&G Investments. A copy of the report marked ‘Agenda Item 35’ 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.

155. Stafford Timberland Quarterly Report.

The Committee considered an exempt report by Stafford Timberland. A copy of the report marked ‘Agenda Item 36’ 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.

156. Aegon Asset Management Quarterly Report.

The Committee considered an exempt report by Aegon Asset Management. A copy of the report marked ‘Agenda Item 37’ 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.

9.30 am to 12.46pm CHAIRMAN
08 March 2024

Leicestershire County Council

LOCAL PENSION COMMITTEE – 19 JUNE 2024

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

RISK MANAGEMENT AND INTERNAL CONTROLS

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, as well as provide updates on:

    a. Information provided to the Local Pension Board on the internal audit arrangements for the Pension Fund, and outcomes of audits conducted during 2023-24 and outline the internal audit plan for 2024-25.
    b. Completion of the Fund's accounts external audit for 2022/23.

Policy Framework and Previous Decisions

2. 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.

3. 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:

- to ensure an appropriate risk management strategy and risk management procedures;
- 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.

Risk Register

6. There are 19 risks listed on the Register and these are split into six different risk areas. The risk areas are:

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

7. 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**.

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

9. The latest version of the Fund's risk register was approved by Committee on the 8 March 2024. There have been no changes to the risk scores since the 8 March 2024 meeting however there have been some minor changes which are highlighted below.

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

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

Revisions to the Risk Register

Changes to Risk Response Categorisation

12. In discussion with Internal Audit the following risks have been moved from 'Treat' to 'Tolerate' recognising the low residual risk level.

    - Risk 6: If the pensions fund fails to receive accurate and timely data from employers, scheme members pension benefits could be incorrect or late. This includes data at year end.
    - Risk 7: If contribution bandings and contributions are not applied correctly, the Fund could receive lower contributions than expected.

- Risk 12: If the Pension Fund fails to hold all pensioner data correctly, including Guaranteed Minimum Pension (GMP) data, individual members annual Pensions Increase results could be wrong.
- Risk 14: 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.

13. Additional wording has been set out in the current controls column to reflect an additional control relating to a type of bank account verification which has been expanded to include all pensions and transfer payments.

The Internal Audit Function

14. The Public Sector Internal Audit Standards (PSIAS), (revised in 2017), define internal audit as ‘An independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes’.

15. The PSIAS require that, after the closure of the audit year, the nominated Head of Internal Audit Service (for the County Council, the Head of Internal Audit & Assurance Service (HoIAS)), reports to those charged with governance (the Board), on work conducted during the year containing a summary of findings, recommendations and opinions. The PSIAS also require that at the beginning of the audit year, an annual plan of audits should be agreed with the Treasurer and noted by the Local Pension Board.

16. Most planned audits are ‘assurance’ type, which requires undertaking an objective examination of evidence to reach an independent opinion on whether risk is being mitigated. Other planned audits are ‘consulting’ type, which are primarily advisory and allow for guidance to be provided to management. These are intended to add value, for example, by commenting on the effectiveness of controls designed before implementing a new system. Unplanned ‘investigation’ type audits may also be required.

17. For each audit, Terms of Engagement are agreed with the Treasurer or his representative. After the audit, the Treasurer receives a report containing any findings and recommendations for control improvements and an ‘opinion’ on what level of assurance can be given that risks are being managed. There are four assurance levels: full; substantial; partial; and little. If any recommendations are graded high importance (HI) i.e., denoting either an absence of a key control or evidence that a key control is not being operated and as such the system is open to material risk exposure, this would normally mean that the opinion would be graded as only ‘partial’ assurance. HI recommendations would be reported to the Local Pensions Committee and would remain in that Committee’s domain until the HoIAS was satisfied that corrective action had been implemented. Additionally, because of the County Council’s statutory duty to administer the Fund, HI recommendations will continue to be tabled at meetings of the Corporate Governance Committee.

18. The Board may choose to ask the HoIAS to explain HI recommendations and especially any slippage beyond agreed dates in implementing actions.

Internal Audit Work Conducted during 2023-2024

19. Appendix C contains a summary of the work conducted by Leicestershire County Council Internal Audit Service (LCCIAS) during 2023-24. This was presented to the Local Pension Board on 17 April 2024. The assurance grading was overall positive.

20. All planned audits completed during the year resulted in a ‘substantial’ opinion with a small number of medium-term recommendations. Examples of some recommendations included the need to have formal written procedures outlining roles and responsibilities within the Pension Creation process, cover arrangements for key staff within the Investments Section to ensure business continuity, specifically in relation to inputting contributions received from external organisation, promptly onto the accounting system, and the need to complete spot checks at the start of the year when contribution bandings are most likely to change.

21. Three planned audits have been deferred into 2024-25, purely due to delayed developments nationally. However, one of the three was replaced with an alternative audit, covering Life Certificates (Overseas Pensioners). Final reports for all completed audits were shared with the Fund’s External Auditor in order to inform their audit risk assessment in preparation for their annual audit of the Fund’s accounts.

22. LCCIAS also co-ordinated the County Council’s requirements for the biennial National Fraud Initiative (NFI) counter fraud data matching exercise. This exercise identified four cases where pensions were continuing to be paid to deceased persons. For one case, the overpayment was recovered from the spouse’s pension. The remaining three cases, totalling around £4K, continue to be pursued by the Pension Service. The next biennial exercise is due to be undertaking during 2024/25 with reports available around January 2025.

23. In addition to the biennial NFI exercise, the Pensions Service has continued to subscribe to the six monthly NFI Mortality Screening Service (MSS), where pensions records are checked against DWP’s Deceased Persons database. Following the success of the first exercise in June 2022, which identified six cases where pensions were continuing to be paid to deceased persons, subsequent exercises, i.e., June and November 2023 were expanded to include all pension records. Previously, only overseas pensions data was submitted. An advantage of the MSS is that the Pension Section can become aware of deaths at an earlier stage in the process. This enables pensions to be suspended at an early point in time which can limit financial risk, for example, non-recovery of large debts.

24. The June 2023 exercise identified three cases where pensions were continuing to be paid to deceased persons. One case amounting to over £10K was recovered from the death grant. The remaining two cases, totalling around £2.6K continue to be pursued by the Pension Service.

25. The November 2023 exercise also identified three cases where payments had continued for deceased persons, totalling over £15K. However, a widow has been identified for the largest overpayment of £12.6K and the Pension Service are seeking to offset the overpayment from her entitlement.

26. Whilst the risk register is the responsibility of the Pensions Manager and is maintained and updated by him, Internal Audit continue to review and comment on any updates.

27. Regarding the internal audit arrangements for LGPS Central, ongoing collaborative work with partner fund internal auditors continues, with Leicestershire staff providing feedback as part of the wider Internal Audit Working Group (IAWG). The first four-year cycle of agreed internal audits have now been completed, i.e. 2018/19 to 2022/23 as part of this arrangement, and a revised four-year plan of audit work from 2023/24 to 2027/28 has been agreed, as outlined at Appendix D. The 2023/24 audits were assigned to colleagues at West Midlands (Governance), and Staffordshire County Council (Investments). Leicestershire are due to complete audit work during 2024/25, on behalf of the IAWG. The audit will be Governance focussed with further discussions to take place to agree the scope.

28. One of the roles of the IAWG is to review the AAF/0106 Control Report (Type 2). However, LGPS Central's External Auditors experienced some difficulties in producing the latest report on a timely basis, i.e. the year ending December 2022 was not available for review until January 2024 and was 'Qualified.' Due to the time taken in producing the AAF 0106 Control Report, LGPS Central consulted all partner funds internal auditors to discuss with their External Auditors and S151 Officers, the possibility of agreeing an alternative approach on a short-term basis. The alternative approach was a 'Type 1' report and an assurance stack.

    Note:
    Type 1 – Provides a report of procedures/controls an organisation has put in place at a point in time.
    Type 2 – Provides evidence of how an organisation operates its controls over a set period, for example, a year.

29. Based on this, Leicestershire requested a Type 2 report, as did other partner funds. However, Central have recently confirmed that after assessing all factors, including the late completion of the 2022 report, the desire to reset the scope of the report in certain areas to increase coverage and include further relevant controls, and move the reporting period in line with the year-end partner funds, the company's Audit Risk and Compliance Committee and Board have concluded that the right approach to adopt is to reset the process and have asked the Executive to:

- Commence work on a Type 1 AAF report as at 31 March 2024, which would be delivered in August 2024;
- Carry out pre-control and other work in support of an aim to commence work on a Type 2 AAF (for the period April 2024 – March 2025) in September 2024; and
- Continue to support partner funds with access to any other forms of assurance that are being performed in respect of the period to 31 March 2024 such as the results of relevant internal audit or compliance testing.

30. This will inevitably increase costs for individual partner funds as External Auditors will need to complete further testing, as mentioned earlier. This will be discussed with Grant Thornton LLP.

31. The table below shows planned against actual performance both in terms of number of audits and days allocated.

Overall performance against 2023-24 internal audit plan

	Audits	**Complete @ 31/3/24**	**Incomplete @ 31/3/24**	**Plan days**	**Actual days**	**Diff**
Planned	6	6	0	47	49	+2
Advisory	2	2	0	9	11	+2
Deferred	3	n/a	n/a	17	0	-17
Replacements	n/a	1	0	0	5	+5
Client management	1	1	0	8	11	+3
Total	**12**	**10**	**0**	**81**	**76**	**-5**

32. The total charge to the Fund for all internal audit work undertaken during 2023/24 was £29,807.

The Internal Audit Plan 2024-25

33. The Local Pension Board received a summary of audits planned during 2024-25. This is detailed in Appendix E. To compile the plan, the HoIAS held discussions with the Fund Treasurer and the Pensions Manager. Risk registers were also reviewed as part of the process. An assumption has been made that in their audit of the Fund's accounts, the External Auditors will continue to utilise LCCIAS's work in their audit risk assessment.

34. The final part of the plan is client management and includes the HoIAS duties of planning, reporting, and attending the Board.

35. The cost of the planned 87 days of internal audit work is charged to the administration costs of the Fund and is likely to be in the region of £34k. The Local Pension Board welcomed the report at its meeting on 17 April 2024.

External Audit

36. Grant Thornton LLP are the External Auditors for Leicestershire County Council and the Pension Fund. Leicestershire County Council's financial statements also comprise the Pension Fund Accounts for the Local Government Pension Scheme.

37. The external audit of the 2022/23 financial statements, comprising the accounts for the County Council, the Annual Governance Statement and the accounts for the Pension Fund, were recently completed and reported to the 20 May 2024 Corporate Governance Committee and approved by the Constitutional Committee on 25th May 2024. There were no delays encountered on the Pension Fund audit opinion.

38. The External Auditor has completed their work and no material adjustments were required to the accounts.

39. During the audit there was one non-material adjustment identified totalling £3.8m relating to the valuation of hard to value pooled assets, which was not available when the accounts needed to be prepared. For these assets, estimates have to be made as the valuations are not known for many months until after the year end date. The amount was not material overall and this was not adjusted for in the accounts. This was agreed with the External Auditor.

40. The proposed audit fees for the pension fund have been increased slightly from £36,793 to £38,193 due mainly to work required to review the Triennial pension fund valuation. A separate additional fee of £19,200 is made for work relating to the IAS19 accounting assurance letters undertaken by the Pension Fund's auditor on behalf of the main admitted bodies of the Fund. These charges are fully recharged to the respective admitted bodies.

Recommendation

The Local Pension Committee is asked to note the report and approve the revised Pension Fund risk register.

Equality Implications

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

Human Rights Implications

15. There are no human rights implications arising from this report.

Background Papers

17 April 2024 - Local Pension Board – Internal Audit Arrangements
https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=1122&MId=7546

24 May 2024 - Constitution Committee - Statement of Accounts, AnnualGovernance Statement and Pension Fund Accounts 2022/23
https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=150&MId=7788

Appendices

Appendix A – Risk Register
Appendix B – Risk Scoring Matrix and Criteria
Appendix C – IA Work Conducted 2023-24
Appendix D – Four-year cyclical programme
Appendix E – Pension Fund Plan 2024-25

Officers to Contact
Simone Hines, Assistant Director Finance, Strategic Property and Commissioning
Tel: 0116 305 7066 Email: Simone.Hines@leics.gov.uk

Ian Howe, Pensions Manager
Tel: 0116 305 6945 Email: Ian.Howe@leics.gov.uk

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 January 2024	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 2024.	**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

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 January 2024	Action owner
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 120%.	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 includes 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	Tolerate	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	Tolerate	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

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 January 2024	Action owner
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. Members undertake Training Needs Assesment and get issued individual training Plans. Members and Officers are urged to complete all modules of the Hymans Aspire Online Training. TheTraining Policy to be reviewed in 2024 together with Terms of Reference.	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	Tolerate	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

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 January 2024	Action owner
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 A type of bank account verification applied to all pensions and transfer payments.	**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 officers 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. Informal review of tracing service arrangements.	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	Ultimate outcome on both McCloud and the cost cap are currently unknown but likelihood is; 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. Internal Audit completed an audit on the first phase of McCloud implementation in the final quarter of 2023/24.	**3**	**3**	9	Treat	Final system changes have been loaded into the system. 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

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 January 2024	Action owner
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 Work with the Prudential regarding the transfer of AVC information	3	2	6		Pensions Manager
19	**Regulatory**	**Proposed changes to LGPS regulations and guidance requires changes to the Fund's investment, pooling and governance processes.**	National pressure to reform the LGPS, and/or direct investment decisions towards specific asset classes that may not completely correlate with the Fund's fiduciary duty.	Conflicting pressure on the Fund to make specific investments or investment transitions contrary to the Fund's investment approach. Some proposed changes may present additional management fees. Changes to the Fund's pooling approach and subsequent reduction in pools in the medium-term which may lead to administrative, legal and transition burdens and pressure on the Fund if not managed appropriately.	Response provided to the DLUHC consultation on 'Next Steps in Investing' alongside LGPS Central partners on challenges that may arise from proposed changes. Productive participation with LGPS Central at officer and Joint Committee level. Investment in pool products where possible and in line with the Fund's strategy as approved by it's investment advisor.	**3**	**4**	**12**	Tolerate	Officers to review all relevant guidance and/or regulation changes. Continue to work with the Fund's Investment Advisor and LGPS Central on progressing pooling. Continually monitor national position.	3	4	12		Investments - SFA

This page is intentionally left blank

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	Impact on the Environment
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	None or insignificant damage
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	Minor local impact
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	Moderate local impact
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	Major Local Impact
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	Major regional or national impact

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%

This page is intentionally left blank

Appendix C

Internal Audit Work Conducted in 2023 - 24

Audit Title	**Audit objective...to ensure…**	**Opinion**
Contribution Banding Changes[1]	Pension contribution banding changes for a sample of LCC employees have been accurately applied with effect from April 2023.	Substantial
Contribution Calculations[1]	Contributions to the Pension Fund have been correctly applied from April 2023 from the following: o Leicestershire County Council (LCC). o Other Employing Bodies, where LCC does/does not administer the payroll on their behalf.	Substantial
Pension Increase[1]	The validity and accuracy of the annual Pensions Increase is applied correctly and on time.	Substantial
Good Governance Project	Phase 2 - Recommendations from the Good Governance Project have been adequately addressed and implemented. **(This audit has been deferred into 2024/25)**	N/A
Pensions Dashboard Programme – Deferred. **Replacement Job:** Life Certificates (Overseas Pensioners)	Phase 1 - The programme is on track, in accordance with any prescribed timescales. A further phase will be planned towards the end of the programme. **Note: This job has been deferred into 2024/25, but replaced with:** The process with regard to overseas pensioners is administered effectively in order to gain assurances that overseas members to the Fund remain alive.	N/A Substantial
McCloud – Data Collection and Input	Phase 2 - Guidance received is followed in relation to any members affected by the judgement.	Substantial

Pension Creation[1]	Payments for new pensioners, including lump sum payments and death grants are valid and accurate.	Substantial
Investments	Adequate segregation of duties, and approvals are within the agreed limits, for payments made from the Pension Fund.	Substantial
Code of Practice	Requirements of the new Code of Practice have been adequately addressed. **(This audit has been deferred into 2024/25)**	N/A
LGPS Central Asset Pooling	Company Risks – Review of AAF Control Report, including annual planning and attend meetings of the Internal Audit Working Group (IAWG) with regards to the Local Government Pension Scheme (LGPS) Asset Pooling.	Ongoing
National Fraud Initiative (NFI)	Pension matches (normally continuing payments after death) are investigated and monitored.	Ongoing
Client management	To include: - • Research and any advice to the Fund's officers, including review of risk register updates. • Annual planning and reporting including attendance at the Local Pension Board. • External audit liaison.	Ongoing

[1] These audits will be used by the External Auditor (Grant Thornton UK LLP) to inform their audit risk assessment.

Appendix D

Cyclical Programme of Collective Internal Audit Work (2023 – 2027)

Partner Pension Fund IA Function/Collective IA Review	Staffordshire County Council	West Midlands	Shropshire County Council	Leicestershire County Council	Worcestershire County Council	Nottingham County Council	Cheshire West & Chester	Derbyshire County Council
2023/2024								
Governance	✗	✓	✗	✗	✗	✗	✗	✗
Investment	✓	✗	✗	✗	✗	✗	✗	✗
AAF/0106 Control Report	✓	✓	✓	✓	✓	✓	✓	✓
2024/2025								
Governance	✗	✗	✗	✓	✗	✗	✗	✗
Investment	✗	✗	✓	✗	✗	✗	✗	✗
AAF/0106 Control Report	✓	✓	✓	✓	✓	✓	✓	✓
2025/2026								
Governance	✗	✗	✗	✗	✗	✓	✗	✗
Investment	✗	✗	✗	✗	✓	✗	✗	✗

Cyclical Programme of Collective Internal Audit Work (2023 – 2027)

AAF/0106 Control Report and Feedback	✓	✓	✓	✓	✓	✓	✓	✓
2026/2027								
Governance	✗	✗	✗	✗	✗	✗	✓	✗
Investment	✗	✗	✗	✗	✗	✗	✗	✓
AAF/0106 Control Report	✓	✓	✓	✓	✓	✓	✓	✓

Appendix E

Internal Audit Plan 2024 - 25

Audit Title	Audit objective...to ensure…	Days
Contribution Banding Changes[1]	Pension contribution banding changes for a sample of LCC employees have been accurately applied with effect from April 2024.	6
Contribution Collections[1]	Contributions to the Pension Fund have been correctly applied from April 2024 from the following: o Leicestershire County Council (LCC). o Other Employing Bodies, where LCC does/does not administer the payroll on their behalf.	7
Pension Increase[1]	The validity and accuracy of the annual Pensions Increase is applied correctly and on time.	6
Pension Transfers[1]	Transfers in and out of the Local Government Pension Scheme (LGPS) are valid and accurate.	10
Good Governance Project	Phase 2 - Recommendations from the Good Governance Project have been adequately addressed and implemented.	6
Pensions Dashboard Programme	Phase 1 - The programme is on track, in accordance with any prescribed timescales. A further phase will be planned towards the end of the programme.	6
Code of Practice	Requirements of the new Code of Practice have been adequately addressed.	5
Investments	To be confirmed	12
Governance Risks (LGPS Central)	A review of Governance arrangements will be undertaken by Leicestershire in accordance with the Collaborative IA Partner Authority approach. The scope of the audit is to be agreed with the IAWG prior to the audit commencement (Q3)	12

LGPS Central (Investments)	Company Risks – Review of AAF Control Report, including annual planning and attend meetings of the Internal Audit Working Group (IAWG) with regards to the Local Government Pension Scheme (LGPS) Asset Pooling.	3
National Fraud Initiative (NFI)	Pension matches (normally continuing payments after death) are investigated and monitored.	6
Client management	To include: - • Research and any advice to the Fund's officers, including review of risk register updates. • Annual planning and reporting including attendance at the Local Pension Board. • External audit liaison.	8
Total days		**87**

[1] These audits will be used by the External Auditor (Grant Thornton UK LLP) to inform their audit risk assessment.

Agenda Item 9

Leicestershire County Council

LOCAL PENSION COMMITTEE – 19 JUNE 2024

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

RESPONSIBLE INVESTING UPDATE

Purpose of the Report

1. The purpose of this report is to provide the Local Pension Committee (LPC) with an update on:

   a. Progress versus the Responsible Investment (RI) Plan 2024 (Appendix A);
   b. The Fund's 2023 Taskforce for Climate-related Financial Disclosures report (Appendix B); and
   c. The Fund's quarterly voting report (Appendix C) and stewardship activities.

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, as well as the approach to climate related risk and opportunities within the Net Zero Climate Strategy, both approved by the LPC on 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. LGPS Central presented their revised Stewardship Strategy at the March 2024 Committee meeting.

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 2024 Progress

7. The LPC approved the RI Plan in January 2024. 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 2024 RI Plan is set out in Appendix A. An update has also been made to the Ongoing Activities throughout the year table to include target dates and further commentary.

Task Force on Climate Related Financial Disclosure

8. In 2022 the Government consulted on proposals to require Local Government Pension Scheme administering authorities to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) that is already a regulation for private pension schemes. In November 2022 the Local Pension Committee approved a response to the consultation which supported proposals and highlighted where further clarification and guidance may be needed for schemes.

9. The Fund has been reporting against TCFD since 2020, as it is an important mechanism for setting out to the Committee, scheme members and interested parties the work the Fund undertakes in assessing and managing climate-related risks and opportunities. Across the LGPS the Fund is only aware of around 25 out of 86 funds reporting in such a manner, and not necessarily to the extent or frequency that the Fund is.

10. The latest report as set out in Appendix B includes recommendations as part of the December 2023 Climate Risk Management Report and the Pension Regulator's review of private pension schemes publications. Some key changes are set out below:

- An executive summary and brief overview of progress the Fund has been undertaking since 2019, alongside next key milestones for the Fund.
- Approval of the Net Zero Climate Strategy, changes reflecting this strategic approach and the targets set have been included.

- Specific examples of how the Committee’s discussions have supported challenging investment managers, the Fund and LGPS Central on how climate risk is being considered.
- Engagement examples for key stewardship plan companies.
- Integration of LGPS Central’s recommendations in respect of the TCFD disclosure maturity map.

11. Despite considerable progress in improving how the Fund manages and monitors climate risk and opportunities, there are still areas for improvement, and areas will arise as part of best practice to be taken forward in future reporting cycles.

12. Of the recommendations set out within the Climate Risk Management Report presented to this Committee in December 2023, consideration continues with how the Fund can consider climate scenario analysis with integration of its investment assets and funding strategy together. The Fund is engaging with LGPS Central and the actuarial advisor, and consideration is being given to best practice in this area to consider application as part of the 2025 valuation to support it to balance longer-term security and stability by considering the impact of climate change among others. The Fund is also awaiting Government guidance how it is recommended Fund’s undertake climate scenario analysis as part of TCFD proposals.

13. In benchmarking the Fund against other schemes, the following table has been produced offering a snapshot of LGPS and some private pension schemes (Defined Contribution funds) where published data seems to use the same methodology. Despite this there are still caveats which may prevent like for like comparisons, such as different data providers, assumptions used and the date at which a snapshot has been taken among other factors. It is also important to note that climate risk cannot be distilled into one single metric, and these are only backwards looking measures.

14. The two most widely used measures that the Fund can compare are as follows:

    a. Weighted Average Carbon Intensity (WACI): a portfolio’s exposure to carbon intensive companies. A proxy for carbon price risk.
    b. Normalised Financed Emissions: the amount of emissions the Fund would be responsible for per million dollar of financing.

Fund	**Snapshot date**	**WACI (tco2e/$m revenue)**	**Normalised Financed Emissions (tco2e/$m invested)**
Leicestershire	March 2023	102	52.8
LGPS A	March 2023	153	

LGPS B	March 2022	100	
LGPS C	March 2023	119	61
LGPS D	March 2022	123	
LGPS E	March 2022	89.9	37.4
LGPS F	March 2023	104	
LGPS G	June 2022	118.7	
LGPS H	Dec 2023	77.6	34.2
LGPS I	2023	227.8	
LGPS J	Dec 2023	79.2	
DC A	April 2023	56.5	144.5
DC B	Dec 2023	198	

15. In considering LGPS H its metrics are a result of significant changes to their portfolio including investment in a Paris-aligned fund. This type of investment was considered by the Investment Subcommittee at is meeting in April 2023. The Fund instead agreed to invest in LGIM's Low Carbon Transition which reduces initial exposure to carbon-emitting assets by 70% compared to the market benchmark with further reduced exposure to carbon emissions over time, with the ultimate objective of aligning with net zero emissions globally by 2050, consistent with the goals of the Paris Agreement. This was considered most aligned to the Fund's Net Zero Climate Strategy in support of achieving the Fund's 2030 targets, supporting real-world emissions reductions through engagement and risk appetite.

16. The Fund should see improvements in its climate metrics as a result at the next climate snapshot as at 31st March 2024 to be presented to LPC on 29 November, the results of which will be considered as part of the next Strategic Asset Allocation review in January 2025.

Manager Questionnaires

17. Officers have sent out investment manager questionnaires to seek to continue and monitor investment managers' (outside of LGPS Central's responsibility) net zero targets, how they consider risks from high impact sectors, climate metrics reported, and engagement activities undertaken. The results will be reported to the 29 November Committee meeting alongside the Climate Risk Management report.

LGPS Central RI Summit

18. LGPS Central held their Responsible Investment Summit on 5th June 2024. As part of this a number of panels and discussions were held which allowed for questions and answers from participants. This included discussions on artificial intelligence, the state and outlook for the net zero transition, macro uncertainty, the evolution of climate scenario analysis, and what is effective stewardship. There are a number of takeaways for the Fund to consider as part of key actions being undertaken including.

- Development of climate scenario analysis, the challenges, advancements and future directions in providing decision useful information.
- How to be effective stewards and understand how fund managers and stewardship leads work together in supporting long-term value creation.
- The growing interest from regulation bodies on disclosure, labelling and anti-greenwashing guidance for investment managers.
- The review of the Stewardship Code and how it could be considered by the Fund in future.

Voting and Engagement

19. Appendix C sets out the Fund's voting report from January to March 2024. This incorporates circa 43% of the Fund's assets (LGIM's Global, UK and Low Carbon Transition fund, LGPS Central's Climate Multi Factor fund, Emerging Markets Active fund and the Global Equity Active fund). A brief breakdown is set out below:

- The Fund made voting recommendations at 947 meetings (9942 resolutions)
- At 583 meetings the Fund opposed one or more resolutions.
- The Fund voted with management by exception at two meetings and supported management on all resolutions at the remaining 364 meetings.
- The majority of votes where the Fund voted against management were related to board structure (48%). These votes include issues such as over boarding, diversity, and inadequate management of climate risk.

LGPS Central Stewardship Report - January to March 2024

20. LGPS Central is the pooling company of the Fund. It is a strong supporter of responsible investment through the Responsible Investment and Engagement Framework.

21. As presented to Committee in March 2024 LGPS Central have updated their Stewardship Strategy and objectives, the following progress has been made over the quarter against their objectives.

Theme	Companies Engaged With	Engagement Issues	Progress on specific Engagement Issues
Climate Change	212	322	34
Natural Capital	105	188	20
Sensitive/Topical Activities	1	1	0
Human Rights	321	526	117

	Theme	Engagement	Outcome

BHP	Climate Change (Just Transition)	Central met with BHP. Though BHP have committed to responsible closure of a mine in 2030 which was previously due to close in 2045, Central wanted reassurances about how they intend to meet this commitment. BHP had setup the Tomorrow, Together Initiative which aims to support BHP employees to identify a pathway post closure most appropriate for individual's circumstances. This included costs for re-training and re-deployment. However this had not been disclosed outside of the usual rehabilitation costs.	BHP Admitted they saw the point on public disclosures not including specific measures of the Tomorrow, Together Initiative. Central will continue to engage with them on the approach to the Just Transition.

Legal and General Investment Management – January to March 2024

22. Legal and General Investment Management (LGIM) manage the majority of the Fund's passive equity which accounts for 17% of the Fund. LGIM's latest ESG impact report highlights some key activity in the Investment Stewardship team.

23. The latest ESG impact report highlights the focus on nature, collaboration with companies in Asia, and key policy updates regarding diversity and human rights. One highlight is set out below:

Company	Theme	Action	Outcome
Nestle	Nutrition	LGIM have been engaging in support of the Share Action Health Markets Initiative. This encouraged companies to be more transparent around their nutrition strategy, demonstrate progress, and committing to disclose on these issues. LGIM met with Nestle many times on these matters.	Nestle committed to report on their global portfolio using the nutrient profiling system which was welcomed. Nestle also announced a new nutrition target, however LGIM do not believe this is ambitious enough. Reflecting concerns LGIM has escalated its actions and co-filed a shareholder resolution calling on the company to: Set key performance indicators regarding absolute and proportional sales for good and beverage according to their healthfulness.

			And provide a timebound target to increase the proportion of sales derived from healthier products

24. Additionally, LGIM have set baseline expectations as part of their Climate Impact Pledge 2024 by introducing absolute minimum standards for companies in emission-intensive sectors. LGIM analyse over 5000 companies across a range of metrics based on the TCFD framework. Where they fail to meet minimum standards they may vote against re-election of the chair of their board. They engage directly with over 100 companies they believe have the potential to be dial movers in their sectors, LGIM's view is if they change others may follow.

25. This year LGIM also made changes to their qualitative assessment and voting policy to put a spotlight on companies' methane emissions (which while shorter-lived in the atmosphere than carbon dioxide, is a more potent greenhouse gas) disclosure and the expectation that mining companies and electric utilities refrain from making new investments in thermal coal mining or power generation expansion.

Local Authority Pension Fund Forum – January to March 2024.

26. 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. Highlights of the latest report set out engagement with banks on climate change, including meetings with HSBC and Barclays. Updates on continued engagement with Drax Energy, water stewardship engagements with UK water companies, mining and human rights, and human rights risk in the luxury goods sector are provided.

Topic	Action	Outcome
Barclays	Continued engagement with Barclays.	Barclays updated its climate change statement that went some way in addressing concerns and takes account of the International Energy Agency net zero scenario. Share Action as a result withdrew its shareholder resolution which likely would have attracted significant support from shareholders. LAPFF continues to encourage further actions on stronger restrictions on lending to the fossil fuel sector, proper disclosure and analysis of transition plans and robust commitments to financing the energy transition.

Ruffer – January to March 2024

27. Forming a small proportion of the Fund's portfolio, Ruffer invest in a handful of equities on behalf of the Fund within the targeted return portfolio. Their approach to engagement includes looking at developing an understanding of whether specific issues were industry-wide issues or specific to a company, and continuing work to support the market infrastructure which is needed to help managers make more informed investment decisions.

Topic	Action	Outcome
BP	Sustainability reporting requesting additional reporting on low carbon or transition growth and financial reporting by business segment for greater transparency.	BP's Chief Financial Officer (CFO) recognised a number of shareholders are asking for greater insight and re-segmented financial reporting to strip the low carbon or transition growth engines away from the traditional oil segment. As part of Ruffer's next meeting with the company, they plan to clarify some of the points raised by the CFO: the possibility of revised segment reporting; the key performance indicators for measuring the speed and trajectory of the energy transition; the broad topic of capital allocation; and asking how shareholders can gain comfort that the board and management are deploying capital in the best interests of the company.

Hymans Robertson

28. Hymans Robertson, the Fund's Investment Advisor published, a new responsible investment mission statement in April 2024. This sets out their three core pillars of activity, each which reflects an outcome they are working towards:

a. Achieving net zero – helping clients understand what net zero means for them and how they can take meaningful action to align with this ambition.
b. Being better stewards – helping clients create approaches to stewardship that reflect the resource they're able to commit.
c. Creating positive impact – helping clients better understand how they can have impact, allocate capital, and exercise stewardship to create positive real-world outcomes, all while continuing to meet their fiduciary responsibilities.

Recommendation

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

Background papers

None.

Equality Implications

30. 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

31. 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
Appendix C: TCFD Report

Officers to Contact

Declan Keegan, Director of Corporate Resources
Tel: 0116 305 7668 Email: Declan.Keegan@leics.gov.uk

Simone Hines, Assistant Director Finance, Strategic Property and Commissioning
Tel: 0116 305 7066 Email: Simone.Hines@leics.gov.uk

Bhulesh Kachra, Senior Finance Analyst - Investments
Tel: 0116 305 1449 Email: Bhulesh.Kachra@leics.gov.uk

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

This page is intentionally left blank

Appendix A

RESPONSIBLE INVESTMENT PLAN 2024

Financial Quarter	Date (where applicable)	Title	Description/Update as at 30 May 2024
Q4	26 January 2024	RI Plan	Communication and publication of the Fund's 2024 RI Plan + LGPS Central RI Stewardship
	26 January 2024	Strategic Asset Allocation	Consideration of the Fund's Net Zero Climate Strategy within the asset allocation.
		Local Pension Board Report	Update to Local Pension Board on progress against the Fund's net zero targets.
		Website Refresh	Updated pension website on the Fund's RI approach.
	8 March 2024	Manager Presentation	Adams Street - As part of Manager report to Committee overview of approach to Environment, Social and Governance factors (ESG). Information circulated to Committee following meeting expanding on risk factors and engagement approach. Stewardship presentation from LGPS Central on updated themes and engagement outcomes.
	March 2024	Policy Review	Incorporation of RI matters into relevant policies up for review.
	5 June 2024	LGPS RI Day	Agenda circulated to Committee members.
		Manager RI Snapshot as 31 March	The Fund will request climate and other RI related information from all investment managers to understand how they are monitoring/managing climate risk, and availability of climate data, and approach to stewardship. This will be used to drive discussions on matters related to the NZCS with Investment Managers throughout the year.
Q1	June 2024	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, NZCS, Climate Risk Management Report and stewardship reporting.

	June 2024	Manager Presentation	LGPS Central Infrastructure As part of Manager report to Committee overview of approach to ESG.
Q2	September 2024	Manager Presentation	Manager TBC. As part of Manager report to Committee overview of approach to ESG.
		Training	LGPS Central to provide training session on responsible investment/climate matters and engagement in advance of November Climate Risk Report
Q3	29 November	Climate Risk Report	The Fund will engage with LGPS Central and partner funds on future reporting and increase monitoring to sovereign bonds taking into account guidance from the Assessing Sovereign Climate-Related Opportunities and Risks initiative. The Fund will ensure it is reviewed in light of reporting on NZCS and seek to expand data coverage, and the possibility of expanding targets to corporate bonds and other available asset classes.
	29 November	Manager Presentation.	Manager TBC. As part of Manager report to Committee overview of approach to ESG.
	4/5/6th December	LAPFF Conference	Agenda to be shared once available.
		Strategic Asset Allocation Review	To take into account Climate risk as per NZCS and Climate Risk Management Report.
	TBC	Pension Fund AGM	Presentation as part of Pension Fund Annual General Meeting progress on NZCS and RI matters.
Q4	January 2025	Strategic Asset Allocation Committee	Consider recommendations from Climate Risk Report and Net Zero Climate Strategy
		RI Plan	2025 Plan.

<u>Ongoing Activities throughout the year</u>

Date (where applicable)	Title	Commentary as at end of May 2024

5 June	• LGPS Central will be hosting their Annual RI Day with topics of interest to members, this date will be circulated to Committee once confirmed. • 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 with themes of interest to the Committee.	Highlights of session set out within cover paper. Members can contact officers for more detail if they were unable to attend. Updates provided to Members on queries/concerns raised during meetings. Including exposure to Aerospace and Defence, ASP ESG risks, figures on GDP at risk, and comparative climate performance.
May & July ISC, SAA, Triennial Valuation	• 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.	Discussion as part of scoping of ISC Investment decisions reporting on infrastructure, protection assets, and early triennial valuation discussions. Following January Committee, some Committee Members have fed back or met with officers on the current Climate Risk Management Report and what would be beneficial in future reporting for November reporting. Officers are happy to continue this process throughout the year.
May 2024	• Work with appointed managers to understand how they are assessing, monitoring, and mitigating key transition and physical risks within material sectors. With a focus on high impact sector and previous disclosures. • RI Working Group with LGPS Central and Partner Funds. Including Working with LGPS Central to continue to develop climate reporting more broadly, and look at improvements to fixed income.	Managers have been given until end of June to report on their strategy, targets and climate metrics relevant to the Fund where available. As well as engagement examples and further detail on how they manage risks across high impact sectors, for example. This will be reported in December alongside the Climate Risk Management Report. Meetings are held quarterly (January and April so far), meetings have been set up to discuss the Climate Risk Management Report.

• Explore use of climate scenario analysis with a look to integrate funding and investment analysis in line with Climate Risk Management recommendation.	Early discussions held exploring the different approaches in recognition of limitations of approaches available for the Fund with consideration of recent reporting on climate scenario analysis. To be considered for 2025 Triennial Valuation.
• Continue to engage companies highlighted in Climate Stewardship Report via our engagement partners including LGPS Central on companies and engagements selected. Look to encourage escalation where needed.	Voting alerts circulated to relevant investment managers.
• Following expected review of the Stewardship Code 2020, review whether the Fund should apply, subject to value being evidenced.	Participation in a Stewardship Code reporting working group. Work progressing on any potential gaps for the Fund in recognition of best practice even if Stewardship Code reporting not deemed necesscary.
• Continue review of best practice with regards to the Fund's asset classes and climate reporting, and international industry standards.	Consideration of other LGPS funds best practice, reporting and progress. View of The Pensions Regulator TCFD guidance. Consideration of IIGCC revising their NZIF Framework. Initial benchmarking of the Fund presented in June cover paper.

Leicestershire County Council PENSION FUND

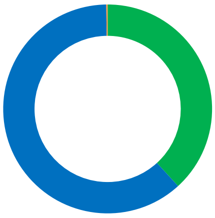
Leicestershire County Council Pension Fund

Voting Report, Q1 2023 (Jan-Mar 2024)

Over the last quarter we voted at **947** meetings (**9,943** resolutions). At **583** meetings we opposed one or more resolutions. We abstained at **zero** meetings. We voted with management by exception at **two** meetings. We supported management on all resolutions at the remaining **364** meetings.

Global

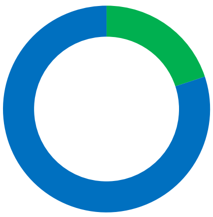
We voted at 947 meetings (9943 resolutions) over the last quarter.



Meetings in Favour 38%
Meetings Against 62%

Developed Asia

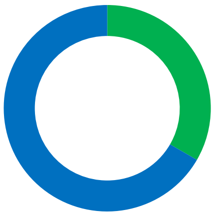
We voted at 256 meetings (2260 resolutions) over the last quarter.



Meetings in Favour 20%
Meetings Against 80%

Australia and New Zealand

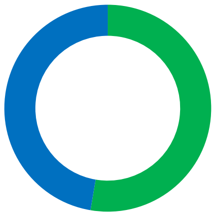
We voted at 3 meetings (16 resolutions) over the last quarter.



Meetings in Favour 33%
Meetings Against 67%

Emerging and Frontier Markets

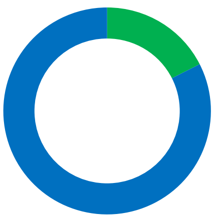
We voted at 393 meetings (2876 resolutions) over the last quarter.



Meetings in Favour 53%
Meetings Against 47%

Europe Ex-UK

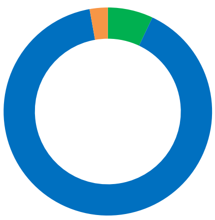
We voted at 114 meetings (2658 resolutions) over the last quarter.



Meetings in Favour 18%
Meetings Against 82%

North America

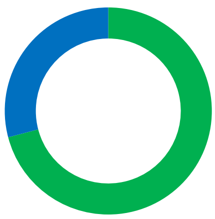
We voted at 71 meetings (928 resolutions) over the last quarter.



Meetings in Favour 7%
Meetings Against 90%
Meetings with Management by Exception 3%

United Kingdom

We voted at 110 meetings (1205 resolutions) over the last quarter.

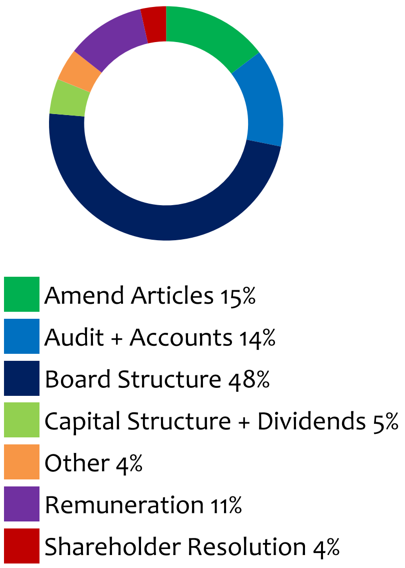


Meetings in Favour 71%
Meetings Against 29%

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

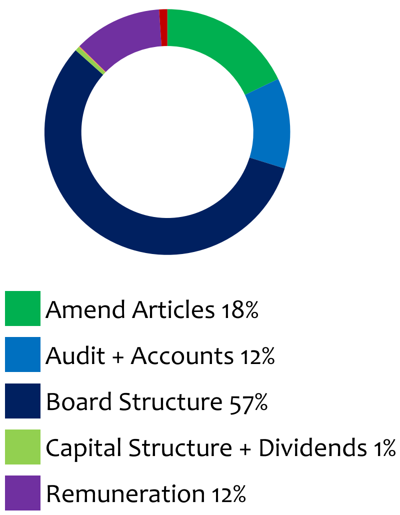
Global

We voted against or abstained on 6248 resolutions over the last quarter.



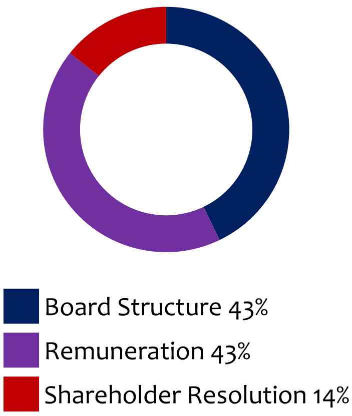
Developed Asia

We voted against or abstained on 1671 resolutions over the last quarter.



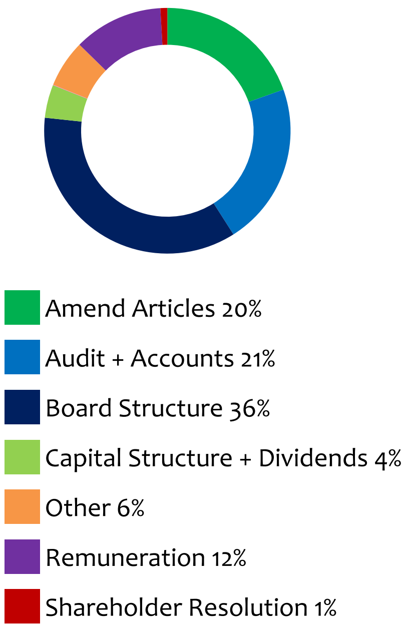
Australia and New Zealand

We voted against or abstained on 7 resolutions over the last quarter.



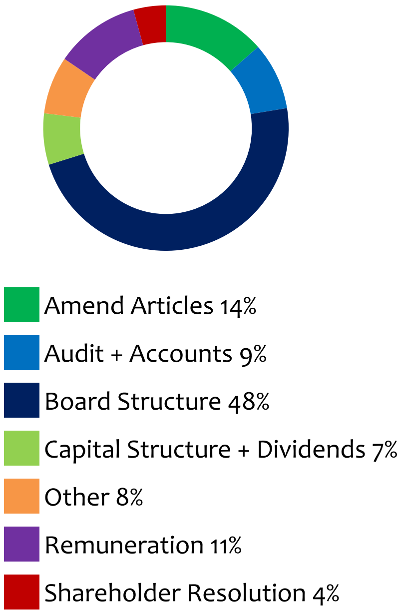
Emerging and Frontier Markets

We voted against or abstained on 1764 resolutions over the last quarter.



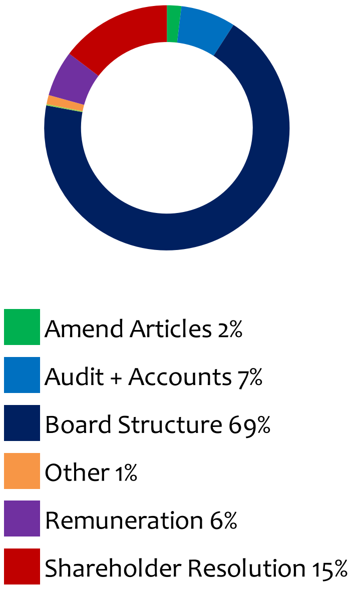
Europe Ex-UK

We voted against or abstained on 1777 resolutions over the last quarter.



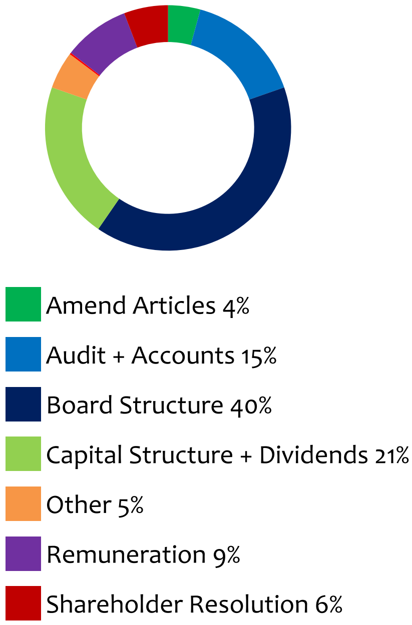
North America

We voted against or abstained on 580 resolutions over the last quarter.



United Kingdom

We voted against or abstained on 449 resolutions over the last quarter.



This page is intentionally left blank

Leicestershire County Council
PENSION
FUND

CLIMATE-RELATED FINANCIAL DISCLOSURES 2023

TCFD
TASK FORCE ON
CLIMATE–RELATED
FINANCIAL
DISCLOSURES

Executive Summary

This report sets out Leicestershire County Council Pension Fund's (the Fund) approach to climate-related risks and opportunities. Climate change is already causing widespread impacts on people and infrastructure, affecting scheme members, employers, and the local communities they support. With scientists predicting that extreme events are becoming more common and severe it is important that the Fund manages climate risks and opportunities to its investments and liabilities.

The Fund manages £6 billion in assets (as of 31 December 2023) on behalf of over 200 employers and over 100,000 scheme members. Management of climate risk and opportunities is just one way of managing the scheme so it can continue to pay pension benefits to our retirees and their dependants.

This report sets out voluntary reporting in line with Taskforce for Climate Related Financial Disclosures (TCFD) recommendations. Within this report you can find examples and case studies that put into perspective the work we do in managing climate risks and opportunities.

Governance

The Local Pension Committee (the Committee) has overall responsibility for all issues relevant to the Fund, including regular engagement on the oversight and management of risks and opportunities related to climate change.

Fund Officers, Advisors, and Investment Managers support the Committee in development and delivery of the Fund's Net Zero Climate Strategy, investment decisions and stewardship activities.

Strategy

Climate risk and opportunities have impacted the Fund's approach to investment decision making. The Fund's Net Zero Climate Strategy defines the key climate related risks and opportunities across the Fund and how it is managed. This has led to over £1billion in climate related investments and a focus on real-world impact.

Risk Management

Climate change risk is embedded within day-to-day risk management processes and investment decisions. Committee considers the Fund risk register and stewardship activities on a quarterly basis and climate risk metrics on at least an annual basis. This supports identification of risks and supports decision making in management of them.

Metrics and Targets

The Fund reports progress annually against its nine targets, including to become net zero by 2050, with an ambition for sooner. As of 31st March 2023, the Fund is on track against each metric for its equity portfolio where baseline data as of 31st December 2019 is available.

Net Zero Climate Strategy Equity Targets	On Track
50% reduction in carbon intensity by 2030	✓
40% reduction in absolute carbon emissions by 2030	✓
Reduced exposure to fossil fuel reserves	✓
Increased exposure to climate solutions	✓
90% of material sector companies aligned or aligning by 2030	*Reported for the first time 2023*
90% of financed emissions aligned, aligning or subject to an engagement by 2030	

Introduction to the Taskforce for Climate-Related Financial Disclosures Reporting

The Taskforce for Climate-Related Financial Disclosures (TCFD) helps companies, asset managers, asset owners, banks and insurance companies, and their investors understand their financial exposure to climate risk against four key areas. In the context of Leicestershire County Council Pension Fund (the Fund) this means:

1. Governance: How the Fund, the Local Pension Committee and senior management are assessing managing and monitoring climate-related risks and opportunities.

2. Strategy: Actual and potential impacts of climate-related risks and opportunities on the Fund's strategy and financial planning where such information is material.

3. Risk Management: The process for identifying, assessing, and managing climate-related risks, and how these are integrated into the Fund's overall risk management processes.

4. Metrics and Targets: The metrics and targets the Fund uses to assess and manage relevant climate-related risks and opportunities.

It is expected that TCFD reporting will at some point become mandatory for LGPS funds. This report is the Fund's fourth climate-related disclosure report. It describes the way in which climate-related risks are currently managed within the Fund, building on the Climate Risk Management Report presented in December 2023 and measuring against its Net Zero Climate Strategy which was approved March 2023.

Figure 1: TCFD Disclosure Pillars

As a Fund, we are long-term investors and are diversified across asset classes, regions, and sectors, making us "universal owners." It is in our interest that the market is able to effectively price climate-related risks and that policymakers are able to address market failure. We believe TCFD-aligned disclosure from asset owners, asset managers, and corporates, is in the best interest of you, our beneficiaries.

In writing this report the Fund has taken note of the Pension Regulators guidance and review of climate-related disclosures by occupational schemes, recommendations from LGPS Central and best practice across the LGPS and financial sector.[1]

This report meets the requirements of TCFD reporting and includes case studies and examples that put in perspective and illustrate the work we do.

[1] https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/review-of-climate-related-disclosures

A snapshot of our journey so far, and beyond…

- 2019: Climate data baseline measured
- 2020: First Climate Risk Report
- 2021: £800m invested in a Climate Multi Factor Fund
- 2021: Development of the Net Zero Climate Strategy
- 2022: Consultation with Scheme Members and Employers on the proposed targets and strategy
- 2023: In March Committee approved its first Net Zero Climate Strategy
- 2023: December reported a 36% Equity Portfolio Reduction and progress against all net zero targets...
- and acheivement of over £1billion invested in climate related investment solutions including forestry and renewables.
- 2024: Increase asset class coverage for climate data
- 2026 Net Zero Climate Strategy review
- 2030: 50% reduction in carbon intensity of our equity portfolio
- Net zero by 2050, with an ambition for sooner

Governance

The Committee's oversight of climate-related risks and opportunities.

The Fund is administered by Leicestershire County Council which has delegated its functions to the Local Pension Committee (the Committee). The Committee holds overall responsibility for all issues relevant to the Fund, including the oversight and management of risks and opportunities related to climate change. This responsibility is set out within the Fund's Investment Strategy Statement:

> *"Climate change presents a material risk to financial markets. The Fund supports a transition to a low carbon economy, in line with its ambitions to become Net Zero by 2050, or sooner. The Fund will consider the impact of climate change in both its asset allocation and individual investment decisions".*

The Committee receives regular reporting on climate related issues integrated into responsible investing reports. This supports ongoing training on Responsible Investment (RI) and climate related risks and opportunities. Highlights from 2023 are summarised below.

2023	Committee Activities Snapshot
20 Jan	• Committee set out the importance to LGPS Central of a result driven climate strategy, highlighting the need for escalation actions. • The Responsible Investment Plan 2023 approved, with a focus on managing climate-related risks. • Investment Advisors reviewed the Fund's draft Net Zero Climate Strategy during the Strategic Asset Allocation review.
3 Mar	• Approval of the Fund's first Net Zero Climate Strategy, following engagement and consultation with Committee, the Local Pension Board scheme members and employers. • The Fund's Investment Manager Partners Group presented on the Multi Asset Credit portfolio including sustainability linked loans and environmental, social and governance (ESG) factors. • Members called for greater stranded asset risk recognition, which was included within the Fund's Risk Register.
16 Jun	• The Fund's Investment Manager Stafford Capital presented on sustainable forestry. A number of questions were fielded on the use of land, carbon credits, shipping emissions, natural biodiversity and risks to forestry. • LGPS Central provided training on Climate Risk Reporting and ESG tools.
8 Sep	• The Fund's Investment Manager DTZ discussed their approach to ESG. Questions were raised on additional costs to reach net zero in the property market in line with DTZ's targets. Members were assured by their approach to asset improvement plans and pricing.
1 Dec	• Discussion on the merits of a fossil free fund was held. It was agreed it would be considered as part of the January 2024 Strategic Asset Allocation Review. • The Climate Risk Management Report included a high-level view of LGPS Central's Net Zero Strategy, and progress against the Fund's net zero targets. Committee challenged officers to present more information on stewardship activities in future reporting. • Committee received and continued to engage with external representations received on climate matters.

The Committee is supported by Hymans Robertson whose objectives are set out in the Fund's Investment Advisor Objectives. Hymans look to support the Committee's own policies and beliefs, including those in relation to responsible investment and climate risk. These considerations are included within investment recommendations and the Strategic Asset Allocation where appropriate.

The roles and responsibilities of other bodies related to the management of the Pension Fund are outlined below:

Local Pension Board

Oversight in ensuring the effective and efficient governance and administration of the Fund, including securing compliance with LGPS Regulations and any other legislation relating to the governance and administration of the Scheme. The Board received the draft Net Zero Climate Strategy before it was considered by the Local Pension Committee for approval. Board comments were fed in as part of the consultation process.

The Investment Subcommittee

The Subcommittee supports the Committee by making decisions in line with the Strategic Asset Allocation and Investment Strategy Statement. When making any investment decisions there is always careful regard to ESG factors.

The Subcommittee is also supported by Hymans Robertson. As part of the recommended equity review in 2023 Subcommittee agreed to transition £200m to a Low Carbon Transition Fund alongside the existing investment in the Climate Multi Factor Fund.

LGPS Central

LGPS Central is a Financial Conduct Authority regulated investment pooling company with its own governance structure in which the Fund seeks to integrate its own governance arrangements. The Fund has dual relationships as both shareholder and client. Central regularly consider responsible investment factors as set out in the Responsible Investment and Engagement Framework. Central engage with partner funds through a quarterly Responsible Investment (RI) Working Group.

As well as support the Fund through preparation of the annual Climate Risk Report and other RI matters. LGPS Central announced their Net Zero Strategy in October 2023. Central's own TCFD reporting can be found here.

Training

The Fund supports the continuous improvement of knowledge and skills appropriate for governing bodies in line with the Chartered Institute of Public Finance and Accountancy's LGPS Knowledge and Skills 2021.This is supported by:

- Induction training: All newly appointed Committee members receive training on responsible investment and climate matters from Fund officers.

- Training in September 2023 on Responsible Investment and Engagement, including climate risk monitoring and climate metrics from LGPS Central.

- Fund officers showcased the net zero strategy as part of the December AGM with scheme members and employers.

- Online Aspire Training which includes briefing on TCFD and climate matters for members provided by Hymans Robertson.

The Fund undertakes annual training needs assessment of Committee members. In respect of climate factors members reported that they were either fully conversant or reasonably familiar for the Fund's management of climate risk and opportunities within 2023.

More detail on the Fund's training approach and records are set out within the Fund's Annual Report.

Officers, Advisors and Investment Managers role in assessing and managing climate-related risks and opportunities.

Fund Officers

The scheme of delegations sets out the responsibility of the Director of Corporate Resources (S151 officer) and the day-to-day responsibility for management of the Fund and climate related risks.

Management maintains a risk register that is presented quarterly to the Local Pension Board and Committee as well as progresses agreed actions between meetings and liaising with various parties.

Some highlights of work undertaken in assessing and managing climate related risks and opportunities relate to:

- Gathered and considered scheme member and employer feedback on draft net zero targets and strategy.
- Advanced the 2023 RI Plan.
- Monitored investment managers consideration of climate matters.
- Communicated to scheme members on net zero and climate matters.
- Participation in quarterly Responsible Investment Working Group with LGPS Central and partner funds. Over 2023 these meetings provided exposure to expert guest speakers on new and emerging ESG topics, updates on RI integration and engagement practices within equity funds from Central and EOS their stewardship partner. This provided a collaborative approach to engaging with Central and partner funds supporting a progressive approach to RI integration.
- Attendance at the Local Authority Pension Fund Forum meetings and conferences.

Investment Advisor

The Fund's investment advisor Hymans Robertson are responsible for supporting the Committee's policies and beliefs, including those in relation to responsible investment and climate risk. These considerations are included within investment recommendations and the Strategic Asset Allocation where appropriate.

The Committee has set objectives for its Investment Advisor and reassesses them on an annual basis in line with the regulatory requirements set by the Competition and Markets Authority. These were reviewed and approved by Committee in December 2023 which strengthened the strategic objectives of the Fund in relation to its Net Zero Climate Strategy and ensured its approach to responsible investment is reflected in advice provided.

Performance against objectives was also reported reflecting Hymans's support of the development of the climate strategy, and consideration of net zero as part of investment recommendations where possible.

Actuarial Advisor

The Fund's actuarial advisor Hymans Robertson included analysis on the potential impact of climate related risks on the Fund's assumptions as part of the March 2022 valuation, to help assess the potential impact of the Fund's funding position in line with the Government Actuary's Department (GAD) Section 13 recommendations. A mid-point valuation was reported in December 2023 to Committee. It was noted ahead of the 2025 valuation the Fund would look at balancing longer-term security and stability with employer affordability while considering the impact of risks such as inflation and climate change and look at where it may be prudent to provide security against future risks that may be more difficult to quantify.

Investment Managers and LGPS Central

As an externally managed Fund, the implementation of much of the management of climate-related risk is delegated onwards to portfolio managers. External portfolio managers are monitored on a regular basis by Fund officers and the Committee. As set out above LGPS Central also conduct extensive assessment and reporting of responsible investment factors in line with the Responsible Investment and Engagement Framework and report under the TCFD Framework. The Committee monitor their activities with the support of officers on a regular basis. As set out above RI reports are received quarterly, alongside presentations from managers and consideration of the Fund's risk register.

On the appointment of any new manager the RI capabilities are assessed by the Fund's investment advisor or LGPS Central to determine if that managers approach is aligned with the Fund. Once appointed the Fund monitors all managers regularly, and they are assessed and invited to Committee on an alternating basis.

Strategy

Climate-related risks and opportunities to the Pension Fund over the short, medium, and long term.

As set out in the Investment Strategy Statement the Pension Fund holds investments in various asset classes, which includes the world's biggest companies, in sectors including manufacturing, technology and transport. Climate change presents a systematic risk where the climate actions, or inaction, of companies can positively or negatively affect another company as well as the overall economy.

The magnitude and speed required to limit global temperature increase to 1.5C leads to climate-related risks and opportunities for the Fund as an investor. These risks can be divided into two categories, transitional risk from moving to a low-carbon economy, and physical risk that will occur as the natural world is affected. As a long-term institutional investor, the Fund is particularly exposed to these risks due to its investment horizon and diversified international portfolio.

In order to make informed decisions the Fund must manage these risks alongside the other financial environmental, social and governance considerations. The Fund looks to manage climate risk to preserve value in the portfolio and capitalise on investment opportunities. In doing this the Fund looks to understand how climate-related risks and opportunities are likely to impact the Fund's future financial position as reflected in its income statement, cash flow statement and balance sheet. This is set out in more detail within the Fund's Net Zero Climate Strategy.

In the short-term transition risks tend to dominate, while over longer time frames physical risk is expected to be the key driver of climate impact. These impacts and the opportunities they currently offer vary as set out below.

Table 1: Climate-related risks and opportunities over short, medium and long term.

	Short & Medium Term (5 to 15 years)	Long Term (+40 years)
Risks	Carbon prices Technological change Changing consumer preferences. Taxation Stock selection Geopolitical shocks Policy change	Resource scarcity Extreme weather events Sea level rise Geopolitical shocks
Opportunities	Government subsidies and tax breaks for transition technologies Engagement to support the transition. Ability to influence. Resource efficiency Technological change	Engagement to support transition Improvements to long-term health Resource efficiency Training and upskilling New Markets
Asset Class	Listed equities Growth assets Energy-intensive industry Oil-dependent sovereign issuers Carbon-intensive corporate issuers Currencies	Infrastructure Property Agriculture Commodities Private Assets Insurance

Table 2: Climate risk considerations by asset class

Exposure to:	Transition risk	Physical risk	Climate opportunities
Gilts (Protection)	Low: financing the transition may require more borrowing from the UK government, but we would expect some of this to be priced into markets already.	Low: there would be no direct impact, although serious damage to e.g. infrastructure may lead to additional borrowing being required, possibly pushing down gilt prices to some extent.	Low: green gilts available, although limited ability to influence government through gilts purchase. Opportunity to engage on climate risks/opportunities through ASCOR project.
Investment Grade Credit (Protection)	Medium: companies who do not prepare adequately for the transition may suffer more than others, albeit the risks are less than with owning the equity due to position in the capital structure, fixed (often short to medium term) lending terms and re-pricing in of risks upon reinvestment (companies not aligned or aligning to the transition risk facing increased cost of capital/borrowing costs).	Medium: possible direct impact in terms of disruption to business operations (e.g. through supply chains); companies in certain sectors or geographies may be more exposed. Bonds of a company expected to suffer less than equity.	Medium: green bonds (use of proceeds to fund projects that have positive environmental and/or climate benefits) and Sustainability Linked Bonds (linked to climate KPIs) offer some ability for investors to gain exposure to decarbonisation opportunities and/or influence companies. Opportunity to influence/engage for positive environmental outcomes at point of reissuance.
Infrastructure / Property (Income)	Medium: property which does not meet evolving standards may find itself obsolete, although we would expect most managers are preparing for this. Some assets in this class may see improvements in value e.g. renewable energy infrastructure.	Medium: possibility of direct damage to assets depending on geographical location, though may be mitigated through insurance / avoiding assets in areas exposed to the worst physical impacts.	High: ability to participate in the low carbon transition e.g. through building renewable infrastructure, retrofitting existing properties to highest standards etc.
Global Equities (Growth)	High: companies who do not prepare adequately for the transition may suffer greater falls than others, though some may already be reflected in the current share price.	High: possible direct impact in terms of disruption to business operations (e.g. through supply chains); companies in certain sectors or geographies may be more exposed. Equity of a company expected to suffer more than bonds.	High: high scope for investment in climate opportunities. Ability to engage where investing for impact or in private markets.

In relation to pension liabilities, these can be affected by climate change through factors such as interest rates, inflation, and mortality rates. Interest rates and inflation are driven by climate change policy impacts on countries' economic growth, energy mix, and so on. Life expectancy is also important; it has improved in recent decades thanks to better access to medicine, and healthier lifestyles, but the future trajectory might change depending on climate change.

On the one hand, temperature swings, heatwaves, or poor air quality could materially increase mortality rates; on the other hand, if the climate catastrophe is avoided, then mortality rates could continue to fall. These risks are monitored through qualitative and quantitative analysis of the Fund.

What is the impact of climate-related risks and opportunities on the Fund, its strategy, and financial planning.

Recognition of climate-related risks and opportunities have been impacting decisions the Committee has made for a number of years. In building on the Fund's approach extensive consultation and engagement was undertaken with scheme members, employers, investment managers and the Committee and Board on proposed net zero targets and strategy. The Fund's Net Zero Climate Strategy (NZCS) was formally approved in March 2023. The NZCS sets out how the Fund considers climate-related risks and opportunities as part of its targets, decision making and stewardship activities, and the point at which it considers divestment appropriate.

Given the Fund is diversified across asset classes, regions, and sectors, it is recognised that climate risk is systemic and is unlikely to be eliminated through diversification alone. While the Fund has considered divestment from carbon intensive sectors, it would do little to impact real world carbon emissions alone, and thus not protect the Fund's 'universal' portfolio. Instead, the Fund expects managers to view climate risk as a material factor, and all else being equal managers should choose a company better aligned to decarbonisation within high emitting sectors.

Where Investment Managers refuse to engage, do not provide credible evidence or reasoning if they are failing financially on ESG factors the Fund has the power to replace an investment manager.

In managing impacts to the Fund Committee agreed to invest in climate aware solutions, these have included:

- £800m in a climate multi-factor fund since 2021. This tilts away from companies that are carbon intensive or own fossil fuel reserves and tilts towards companies that generate green revenues.

- A decision to invest in a Low Carbon Transition fund which aims to reduce carbon intensity by 70% relative to the starting universe, while delivering further decarbonisation year on year.

- £55 million committed to solar power with battery systems, both as part of the decarbonisation of the energy system, and as part of demand from data centres.

- £55 million committed to global sustainably managed timberland 65% of which is invested in planting new forests, 15% reforestation and 20% improved forest management. This will provide a source of sustainable low carbon timberland materials and generates verified carbon offsets. Further to the £132m forestry portfolio.

Even with managers that do not have net zero aims within their mandate it is clear many are taking the impact of climate-related risks and opportunities into account as part of day-to-day decision making. For context, the Fund has 19 investment managers outside of LGPS Central and as of 31 March 2023 this accounted for £3.3bn of Fund assets.

- 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.

- 10 investment managers have firm level operational net zero commitments. Two additional 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 of 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.

- The active equity portfolios have lower carbon metrics compare to their market index, suggesting that they are managing climate risk exposure in their respective portfolios.

The Fund will continue to monitor its managers and how this may further impact strategic and financial planning for the Fund. This sits alongside annual consideration of the Climate Risk Management Report, the findings of which help inform and support development of the Fund's identification of short, medium- and long-term risks and opportunities from climate change.

The Fund then considers these factors through the annual review of the Strategic Asset Allocation which feed into investment decision making throughout the year. These decisions consider mitigating risk and potential opportunities alongside appropriate financial considerations.

In light of the risk and opportunities the Fund recognises it is important that it use its power to exert positive influence via stewardship activity. The Fund is supported in this approach by Federated Hermes EOS via LGPS Central, that provide engagement and voting services together with active reporting. As well as Legal and General Investment Management (LGIM) that hold a sizeable proportion of the Fund's assets on a passive basis, with a robust approach to incorporating climate change factors in its voting decisions. This is discussed in more detail elsewhere in this report.

Where the Fund recognises a need to escalate actions taken, for example a failure of a manager to integrate climate factors effectively the Fund may consider reducing or eliminating the allocation in line with its Stewardship, Engagement and Divestment approach.

Resilience of the Fund's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

As part of monitoring climate risk and opportunities the Fund has undertaken two separate modelling exercises on its Strategic Asset Allocation and on its funding strategy as part of the triennial valuation exercise. A high-level summary of these exercises can be found below.

Strategic Asset Allocation Analysis

Analysis of the Fund's Strategic Asset Allocation and actual asset allocation as of 31 March 2022[2] was carried out by Mercer working with Ortec Finance for LGPS Central as part of the Funds 2022 Climate Risk Report. This approach was chosen to help the Fund understand the extent to which the Fund's risk and return characteristics could come to be affected by a set of climate scenarios, including an estimation of the annual climate-related impact on returns. All asset classes are included in this analysis.

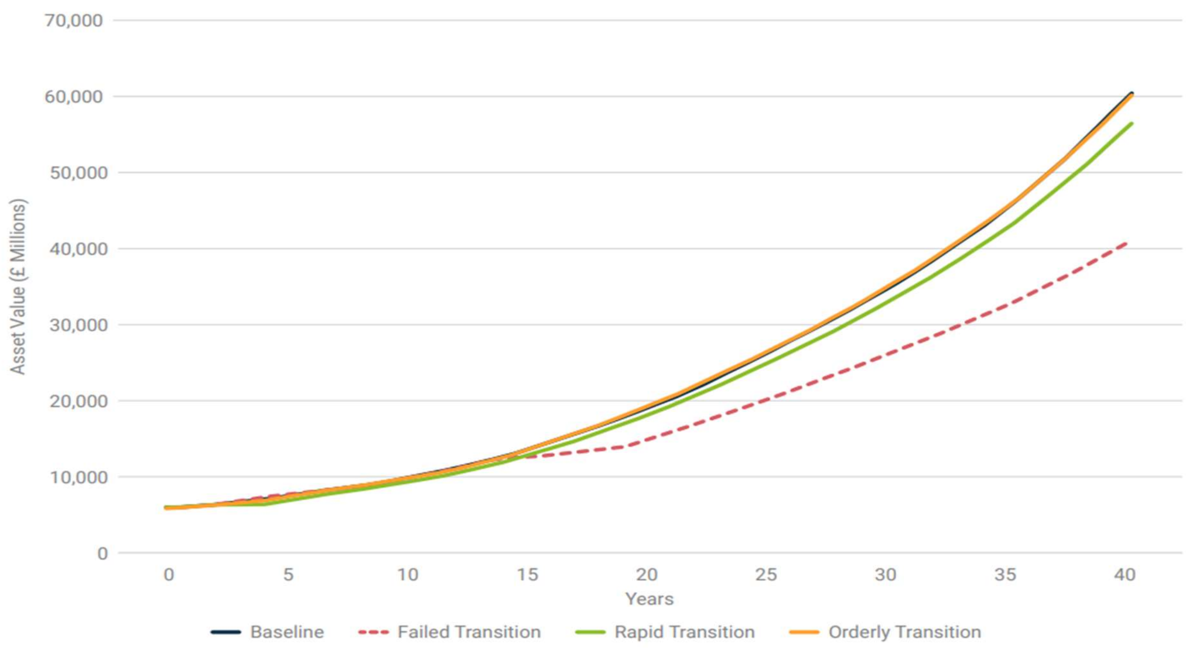
Mercer's climate scenarios were constructed to explore three climate scenarios (Rapid Transition, Orderly Transition and Failed Transition) and were constructed to explore a range of plausible futures over 5 to 40 years, rather than exploring tail risks, reflecting different climate change policy ambitions that result in varying emission pathways. Mercer's analysis considers two risk factors: transition risk and physical risk.

Rapid Transition: average temperature increase of 1.5°C by 2100 in line with the Paris Agreement.

Orderly Transition: average temperature increase of 1.6°C by 2100.

Failed Transition: average temperature increase above 4°C by 2100.

Figure 2 - Cumulative Return Projections by Climate Change Scenario Current Asset Allocation



[2] 2022 Leicestershire County Council Pension Fund Climate Risk Report

The climate scenario analysis forecasts the estimated climate related impact on returns, and does not take account of any other factors which may have an impact on investment returns including economic and market conditions; political and geopolitical events; monetary policy conditions, etc. It is also important to note that the asset allocation required to capture the upside under one scenario, may have a negative impact under an alternative scenario. In summary key findings were:

A successful transition is an imperative: Over the medium- to long-term for nearly all investors a successful transition leads to enhanced projected returns when compared to scenarios associated with higher temperature outcomes due to lower physical damages.

Sustainable allocations protect against transition risk, growth assets are highly vulnerable to physical risks: Given the Fund has a large allocation of growth assets, which are generally more exposed to transition and physical risks the analysis highlighted increased allocations to sustainable equity would provide additional protection from transition and physical risks in the event of a rapid transition.

Monitor sector and regional exposures: Differences in return impact are most visible at an industry sector level, with significant divergence between scenarios. Oil and Gas, Fossil Fuel Based Utilities and Renewables are most impacted by the transition.

The portfolio is overweight to UK equities which are less impacted under different scenarios than most other regions. The portfolio is also overweight to Developed Asia (excluding Japan) and China, which are both exposed to physical risk under a failed transition.

Investors should be aware of future pricing shocks: As markets react to latest information as a result of changing physical and policy/transition risks, investors will be vulnerable to rapid repricing shocks.

As part of the analysis the Fund recognises translating Climate Scenario Analysis into an investment strategy is a challenge because there is a wide range of plausible climate scenarios; the probability of any given scenario is hard to determine, and the best performing sectors and asset classes in an orderly scenario tend to be the worst performers in a failed transition and vice versa. Despite the challenges, the Fund believes in seeking out the best available climate-related research to make its portfolio as robust as possible.

Since undertaking the analysis and as part of a review of listed equity in April 2023 the Investment Subcommittee agreed to reduce the 42% of total assets being held in listed equity assets to 37.5% and added exposure to a Low Carbon Transition fund and divested from an emerging market multi manager fund.

The Fund continues to monitor its exposure to fossil fuels and clean tech and supports this analysis through bottom-up emissions analysis and further alignment metrics to better understand the transition capacity of the portfolio.

A review of the Fund's protection assets will be considered in 2024/25 with consideration of climate risks and opportunities.

Resilience of the Fund's Funding Strategy

As part of the 31 March 2022 triennial valuation the Fund's Actuary undertook sensitivity and risk analysis in order to consider the resilience of the Fund's funding strategy to future potential climate change outcomes. [3] This considered climate risk in line with the Government Actuary Department's latest Section 13 review of the LGPS.

The Fund's Funding Strategy Statement was developed using asset-liability modelling and consideration of two main risk metrics:

- Likelihood of success – the chance of being fully funded in 20 years' time.
- Downside risk – the average worst 5% of funding levels in 20 years' time

The Fund has compared how these risk metrics change under each climate change scenario (against the Core model when setting the Strategy). These stress tests for the Fund are shown in Table 3.

It is worth noting that climate change risk is already implicitly built into the 'core' model used when setting the funding strategy.

While the risk metrics under certain scenarios are weaker, this is to be expected given that the scenarios are purposeful stress tests by Hymans, and all the scenarios are bad outcomes.

Even though the other scenarios are weaker, they are not materially so, and not enough to suggest that the funding strategy is unduly exposed to climate change risk. The Fund will continue to monitor this risk as more information emerges and climate modelling techniques evolve.[4]

Table 3 Impact on funding strategy of climate transition scenarios

Scenario	**Qualitative scenario descriptions**	**Likelihood of success**	**Downside risk funding level?**
Core		82%	56%
Green Revolution – High expectation of achieving <2C warming	Concerted policy action starting now. Public and private spending on green solutions. Improved disclosures encourage market prices to shift quicky. Transition risk in short term, physical risk in long term.	80%	50%
Delayed Transition – High expectation of achieving <2C warming	No significant action in short term, meaning the response must be stronger when it does happen. Shorter and sharper period of transition. Greater but delated transition risks but similar physical risks in long term.	80%	57%
Head in the Sand – Low/no expectation of achieving <2C warming	No or little policy action for many years. Growing fear over ultimate consequences leads to market uncertainty and price adjustments. Ineffective and piecemeal action increased uncertainty. Transition risks exceeded by physical risks.	81%	55%

[3] LCCPF Triennial Valuation Report 2022

Limitations

These analyses have been considered with their limitations in mind. Clearly modelling climate change involves understanding and estimating future physical climate risk impacts; transitional costs; and how macro-financial variables are affected. The uncertainty in any climate change scenario analysis in part comes from the uncertainty in existing climate models. In particular, a number of known shortcomings are listed below:

• Tipping points

• Speed of realising climate impacts

• Geographical spread of impacts

• Potential future climate policies

Next Steps

The Fund recognises there are a number of ongoing industry initiatives aimed at improving climate scenario analysis. The Fund will explore how it can integrate funding and investment climate scenario analysis to provide the best overall view of climate risks to the Fund.

The Fund will continue to work with LGPS Central and the actuarial and investment advisors during 2024 and 2025 to consider qualitative and quantitative considerations of climate risk within investment decisions and future valuations.

Risk Management

How the Fund identifies and assesses climate change-related risks.

The Fund has an active risk management programme in place which addresses areas such as investment, liability, employer, governance, operational and regulatory risks. Risks are viewed by impact and likelihood which provides a current risk score. This is then considered alongside future actions and additional controls and then rescored which provides a residual risk score.

In managing risk, officers consider the risk register on a rolling basis with quarterly meetings, the results of these discussions are fed into Board and Committee on a quarterly basis.

As well as the strategic level the Fund seeks to identify and assesses climate-related risks at the total Fund level and the individual asset level.

The Fund's annual Climate Risk Management Reports include a combination of both top-down and bottom-up analyses. The Fund recognises that the tools and techniques for assessing climate-related risks in investment portfolios are an imperfect but evolving discipline. The Fund aims to use the latest available information to assess climate-related threats to investment performance.

Climate related risks can be identified and assessed by various parties including the Committee, Board, officers, investment managers or the Fund's advisors. This includes the following:

- Annual climate risk report and climate scenario analysis.
- Consideration as part of the Strategic Asset Allocation review and positioning in relation to climate risk, including geographical and sector exposure.
- Impact on funding through the triennial valuation by the Fund's Actuary.
- Selection of specialist assets or investment managers. The Fund's investment advisor provides information and their view on each manager ESG capabilities. Each

manager is also asked to provide information regarding their own ESG risk management processes as part of the selection process.

- Investment mandates and investments: As a primarily externally managed pension fund, the identification and assessment of climate-related risks is also the responsibility of individual fund managers appointed by the Fund. Existing fund managers are monitored on a regular basis through mechanisms previously discussed.

Discussions throughout 2023 included:

- Members called for greater stranded asset risk recognition, which was subsequently included as part of the risk register review. This risk is monitored through the Fund's fossil fuel reserve measures and managed through its target to reduce exposure. Further discussion was held in December 2023, following which it was agreed to ask Hymans Robertson to consider a fossil free alternative fund as part of the 2024 Strategic Asset Review.
- Consideration given to concern over age-related discrimination and the possibility of litigation. This was considered by Leicestershire County Council's Head of Law. While it is recognised there are European Court cases over intergenerational inequality, it is yet to be formally recognised in human rights legislation. The Fund would monitor any future developments and any UK cases brought.
- The Committee also sought assurance that the climate reporting tool provided by LGPS Central would show high-carbon emitting companies that were not pivoting to renewables as quickly as they should be posed a long-term risk for the Fund from an environmental perspective. Central recognised these concerns and would focus on a company's operational emissions as well as additional metrics that provided a comprehensive view of transition and business risk. This would be supported through engagement and stewardship activities as set out below.

How the Fund manages climate-related risk

The prioritisation of risks is determined based on the level of perceived threat to the Fund. These risks can be managed twofold through asset allocation, as discussed elsewhere, and stewardship of underlying companies.

Stewardship activities are an important aspect of the Fund's approach to managing climate risk. The Fund expects all investment managers to manage material risks, including climate change, and the Fund believes that climate risk management can be meaningfully improved through focussed stewardship activities by investors. The Fund also has a number of Stewardship Partners.

The Fund supports the engagement objectives of the Climate Action 100+ initiative, viz. that companies: adopt the appropriate governance structures to effectively manage climate risk; decarbonise in line with the Paris Agreement and disclose effectively using the TCFD recommendations. Either through its own membership or through LGPS Central's membership, the Fund has several engagement partners that engage investee companies on climate risk.

Table 4 The Fund's Partners

Organisation	Remit
LGPS Central Limited	The Fund is a 1/8th owner of LGPS Central. Climate change is one of LGPS Central's stewardship themes, with quarterly progress reporting available on the website. The Responsible Investment Team at LGPS Central engages companies on the Fund's behalf, including via the Climate Action 100+ initiative.
Federated Hermes	EOS at Federated Hermes is engaged by LGPS Central to expand the scope of the engagement programme, especially to reach non-UK companies.
Local Authority Pension Fund Forum	The Fund is a long-standing member of the Local Authority Pension Fund Forum (LAPFF). LAPFF conducts engagements with companies on behalf of local authority pension funds. LAPFF reports quarterly which can be found here.

Shareholder voting is an important part of climate stewardship. The Committee has delegated the exercise of voting rights to the investment manager(s) on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. The instruction of shareholder voting opportunities is an important part of responsible investment.

The Fund delegates responsibility for voting to LGPS Central and the Fund's directly appointed investment managers. For Fund assets managed by the former, votes are cast in accordance with LGPS Central's Voting Principles, to which the Fund contributes during the annual review process.

Legal and General Investment Management (LGIM) currently manage a sizeable proportion of the Fund's assets on a passive basis. The votes in respect of these assets are cast by LGIM. LGIM has a robust approach to incorporating climate change factors in its voting decisions, including on specific climate-related shareholder resolutions.

Over 2023 75,596 votes were cast on our behalf at 6241 meetings. At 4148 of these meetings, we opposed one or more resolutions. The Committee receives the results of engagement and voting activities on a quarterly basis, via voting reports and quarterly LAPFF, LGIM and LGPS Central updates.

In order to support real-world carbon emissions, the Fund supports a stewardship approach with multiple strands. For example, LGPS Central pursue a stewardship strategy of engagement; engagement with companies, sector-level engagement, industry standard setting, and policy engagement. With the Fund's long-term investment horizon, it is important to take a whole-of-market outlook. LGPS Central actively engages both fossil fuel producers and companies on the demand side. As well as banks that provide finance and in collaboration with other investors, and the accountants who audit companies' accounts.

The Fund and LGPS Central views this approach as a viable and impactful way of managing climate risk within its portfolio.

Alongside LGPS Central's direct engagements, they also have several partners that also engage investee companies on climate risk.

Based on its Climate Risk Report, the Fund has developed a Climate Stewardship Plan which, alongside the widescale engagement activity undertaken by LGPS Central, EOS at Federated Hermes, and LAPFF, includes targeted engagement with eight investee companies of particular significance to the Fund's portfolio. The Fund believes that all companies should align their business activities with the Paris Agreement on climate change.

Table 4 Companies included in the Climate Stewardship Plan

Company	Sector
Anhui Conch Cement	Cement
BP	Energy
Cemex	Cement
Glencore	Materials
Holcim	Cement
NextEra	Utilities
Shell	Energy
Taiwan Semiconductor Manufacturing Company	Info Tech
CRH	Materials
Linde PLC	Energy

Over 2023 some examples of engagements with our Stewardship Plan Companies by LGPS Central are set out below. These engagements are based Central's expectations on companies to set clear, reasonable, and measurable climate action targets aligned with the Paris Agreement.

Central also compare those targets with the company's industry peers, as well as Paris-aligned sector pathways, and engage with the company in case of any major deviations.

The Fund also works with LGPS Central throughout the year in order to understand how key transition and physical risks are assessed. LGPS Central analyse and manage climate risk in underlying managers, metrics are monitored as part as the annual Climate Risk Management Report. The Fund has also queried its investment managers strategy and tools in meeting climate targets and decarbonisation and approach to investments in companies that have fossil fuel reserves.

Some examples of engagements are set out below.

BP

ENGAGEMENT: In 2023 BP pared back its industry-leading commitment to cut its oil and gas output by 40% by 2030, compared with 2019 levels. Following this revision to BP's climate targets, Central co-signed a letter in Q1 2023 and attended a follow up call with the company voicing our concerns with the rollback of its climate targets. Central escalated their concerns by publicising the intention to vote against the chair of BP due to the revision of climate targets in articles published by the Financial Times, Responsible Investor, and ESG Investor.

OUTCOMES: Central attended a call alongside other investors to discuss the company's capital expenditure alignment with net zero and low carbon energy solutions. BP provided a summary of recent planned future capital expenditure in transition growth engines (bioenergy, convenience, EV charging, hydrogen and renewables and power) reaching $6 - 8bn in 2025 and are aiming to reach $7 - 9bn in 2030. In 2022, group capital expenditure was $16.3bn, of which $4.9bn was attributed to low carbon energy solutions. The investor group has sent an email in request for further clarification on how these elements are aligned with BP's 2030 target and longer-term aim of net zero.

Glencore

ENGAGEMENT: Central engaged with the Head of Sustainable Development at Glencore in March 2023 requesting to see a comparison between Glencore's short/medium term decarbonisation. LGPS Central co-signed a letter outlining their "red flags'' and the assurances we needed regarding the Company's climate transition efforts in advance of the 2023 AGM.

In March 2023, a 1:1 meeting between LGPS Central and the Head of Sustainable Development was scheduled. Central expressed a desire for Glencore to disclose short and medium-term decarbonisation targets and to set a specific 2030 target. Following some turnover within the CA100+ group Central wrote to the company in October 2023 to reconnect with the firm and set out several elements of its draft Climate Transition Plan the investor group would like to discuss in advance of the 2024 AGM. In addition to the engagement conducted via CA100+, Central also sent a letter to the company requesting they set 1.5C Science-Based emission reduction targets through the CDP.

OUTCOME: Central are continuing to build bilateral dialogue with the Company to encourage them to present a strong revised climate transition plan in 2024 that addresses the concerns. Central also look forward to the firm's response regarding the Science-based targets letter.

Shell

ENGAGEMENT: Following Shell's 2023 AGM Central wrote to the Chair outlining their rationale for those resolutions where Central dissented from management. Central voted against the election of the CEO and re-election of the Chairs of Remuneration Committee, Audit Committee, Safety, Environment and Sustainability Committee, and Nomination Committee due to the mismanagement of climate-related risks. Central voted against the Shell Energy Transition Progress due to concerns over the lack of an absolute Scope 3 target and the heavy reliance on carbon capture and storage and carbon offsets in the transition plan. Central also supported a shareholder resolution requesting the company align its existing 2030 reduction target covering the greenhouse gas emissions of the use of its energy products with the goal of the Paris Agreement. Following their letter to the Chair, Central engaged with the VP ESG Investor Relations and Senior Investor Relations Officer in December 2023. Central discussed various elements of the Climate Transition Plan including, carbon capture, capital expenditure on renewable energy solutions, Scope 3 emissions, and oil production.

OUTCOME: Central very much appreciate Shell's desire to have a meaningful and open dialogue with its shareholders. Overall emission reduction targets remain under discussion. Central expect upcoming targets to likely focus on oil production. Central also requested to provide feedback on the draft transition update in advance of the 2024 AGM.

What is the process for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.

The Fund identifies, reports against, and manages the risk through:

- Regular reviews of the risk register prior to quarterly consideration by the Local Pension Committee and Local Pension Board
- The summary of risks noted in the Funding Strategy Statement and Investment Strategy Statement

Both 'mainstream' risks and climate-related risks are discussed by the Local Pension Committee. While specific macro-economic risks are not usually included in isolation, the Fund has recognised climate risk within its Risk Register.

Hymans Robertson consider the Fund's Climate Risk Report as part of the Strategic Asset Allocation. As part of that review, it was recommended the Fund review its listed equity due to a number of factors which included responsible investment and climate change factors. This was completed in April 2023 and the transition of assets will continue over 2024.

Metrics and Targets

Net Zero Climate Strategy "*Action is required immediately, and we commit to achieve Net Zero by 2050, with an ambition for sooner, in line with the Paris Agreement. This will be achieved by driving down emissions and investing in solutions that directly contribute to, and financially benefit from the transition to a Net Zero future. We believe this approach is a realistic, action orientated strategy that will achieve the required rate of decarbonisation of the assets we hold".*

Disclosure of metrics used to assess climate-related risks and opportunities in line with our Strategy and Risk Management processes.

The Fund has been monitoring climate metrics since December 2019, the latest metrics are disclosed within the December 2023 Climate Risk Management Report. This represents 47% of the Fund's total assets. The Fund publically reports on asset class level analysis, while Committee receive an additional exempt paper providing mandate level analysis.

Currently the analysis is limited to listed equity and a proportion of the Fund's fixed income portfolio. The poor availability of data in asset classes other than listed equities prevents a more complete analysis at this time, however as part of the Fund's Net Zero Climate Strategy Implementation Plan the Fund has a timeline of increasing asset coverage to 90% by 2030. The timeline for this is set out in Table 5.

In December 2023 Committee considered the Climate Risk Management Report and how it could be used by the Fund to direct action. From this Committee set out the importance of escalating action against companies that fail to engage with regards to decarbonisation and net zero. Recognising that ultimatley where companies are not transparent it could impact confidence in companies, resulting in those companies no longer being attractive for investment.

Arising from the discussion it was agreed more information would be provided on the outcome of collaborative engagement in future reporting cycles.

A summary of the key metrics, use case and limitations of metrics used by the Fund within the Climate Risk Management Report are apprended. The Fund recognises there is no one perfect metric and instead it is important to have a range of backward and forward looking metrics, It is hoped through regular monitoring the Fund can support climate risk management, and ensure it is supporting real world carbon emissions.

For example, these metrics aid the Fund in assessing the potential climate-related risks to which the Fund is exposed, and identifying areas for further risk management, including company engagement and fund manager monitoring. The Fund additionally monitors stewardship data for underlying companies.

The poor availability of data in asset classes other than listed equities and some areas of fixed income prevents a more complete analysis at the present time. Notwithstanding the lack of carbon metrics in respect of these other asset classes (i.e., Infrastructure; Property, Sovereign Bonds, Private Equity, etc).The Fund notes that several of these asset classes are naturally tilted towards lower carbon industries (e.g., Infrastructure and Private Equity) or supported by national net zero commitments (e.g., Sovereign Bonds), albeit similar to other assets, they are not immune to climate risk, particularly those with a growth tilt. The Fund's timberland holdings are also likely to be negative carbon emitters.

The Fund is working with managers to better understand any asset class limitations and alongside LGPS Central has developed a timeline to improve data and is looking at including private markets and sovereign bonds as part of the next iteration of the Climate Risk Report.

Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

In line with the proposed DLUHC requirements the Fund discloses the metrics as set out in Table 6 for its measurable portfolio. Further metrics are included within the Fund's Climate Risk Management Report and the following section. This data is on 31st March 2023. The plan for remaining asset classes is set out within Table 5.

This data is updated on an annual basis. Further information is available within the Fund's Climate Risk Report 2023, which included recommendations at a total fund level and portfolio level.

Table 5 Asset Class coverage plan

Asset Class	Action	Year	% 31 March 2023
Listed Equity	Included within report	2020	45%
Corporate Bonds	Mapping of intensity metrics.	2023	8%
Sovereign Bonds	Mapping of intensity metrics.	2023	
Corporate Bonds	Include within report	2024	
Sovereign Bonds	Include within report	2024	
Private Equity	Include within report	2025	8%
Legacy Private Equity	Work on the Fund's legacy assets outside of LGPS Central.	TBC	
Real Estate	Include within report subject to first set of data available.	2025	7.3%

Remaining Asset Classes: The Fund will look to target other asset classes as data becomes available. Currently the IIGCC have not developed frameworks for the remaining asset classes such as Infrastructure (including timber), multi asset credit, targeted return, and private debt.

Table 6 Extract from 2023 Climate Risk Report climate metrics for listed equity and fixed income

	Use and Limitations	Equities	Fixed Income
NAV in scope		£2.5bn	£200m
Financed Emissions (Scope 1+2) tco2e	Measure of absolute tons of emissions for which the Fund is responsible by scope. Limited in its usefulness for benchmarking due to	158,353	26,418
Financed Emissions (Scope 3) tco2e		1,911,409	205,522
Data Availability (Financed Emissions Scope 1+2)	The percentage of underlying assets with data. Where data availability is limited in fixed income there is a higher chance that the data will be skewed towards high emitters.	97.0%	71.8%
Normalised financed emissions scope 1+2 (tco2e/$m invested)	Covering absolute financed emissions into a relative measure to allow benchmarking and comparison with other portfolios.	53.8	53.1
Normalised financed emissions scope 3 (tco2e/$m invested)		638	612.5
Weighted Carbon Intensity scope 1+2 (tco2e/$m revenue)	A proxy for carbon price risk. This does not yet include scope 3 so could be considered to be an understatement.	102	145.2
MSCI Data Quality (1-5, 1 represents the highest quality of data)	This provides an insight into the data quality of other metrics. An aggregation of data quality scores. Does not provide more detailed understanding of data availability or reliability.	2.1	2.2
MSCI Low Carbon Transition Score	This assesses how well a company manages risk and opportunities related to the low carbon transition. This represents the % of financed emissions with above a median score (1 to 5, with 1 being highest quality).	39.5%	30%
Science Based Target	Provides an insight into the % of financed emissions covered by official science-based targets. A company with robust and ambitious targets, which have not been verified are omitted.	39.8%	51.9%
MSCI Implied Temperature Rating	A forward looking metric, designed to show the % of financed emissions with an implied temperature rating of 2C of below. This metric is heavily reliant on the model's parameters and assumptions.	25.1%	44.2%
Paris Alignment	This is a combination of the previous three metrics, designed by LGPS Central to give an insight into the overall Paris alignment of the portfolio. To be considered aligned the company must score above median in LCT and have either a SBT or an ITR rating of 2C or lower.	21.6%	28.3%

Targets used by the Fund to manage climate-related risks and opportunities and performance against targets.

In March 2023, the Local Pension Committee agreed a Net Zero Climate Strategy (NZCS). This set out 9 targets made up of three primary targets and six secondary targets. This followed an extensive engagement and consultation process which culminated in 1700 responses. At a high level 70% of respondents supported net zero by 2050, with an ambition for sooner. The outcome of the engagement exercises was presented to the November 2022 and March 2023 Local Pension Committee meetings.

The targets were based on the Institutional Investors Group for Climate Change Net Zero Investor Framework and included other top-down and bottom-up targets, recognising the Fund cannot support the Paris Agreement by only shifting its investments away from carbon intensive sectors. The Fund must support carbon intensive company's transition and driving real-world carbon reductions, alongside investment in climate solutions.

The data set out below is 31 March 2023. Progress according to the NZCS targets is set out at a high level below as of 31 March 2023 against a 31st December baseline and is data available through MSCI. LGPS Central metrics are calculated using methodologies that are utilised by Partnership for Carbon Accounting Financials (PCAF) and MSCI.

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 is set out within page 32 of the Climate Risk Management Report.

These targets all contribute to the Fund's high-level target primary target of net zero by 2050, with an ambition for sooner. Each target is important as no single metric can supply a perfect picture as set out by the appendix of use case and limitations for the different metrics the Fund can currently measure., 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.

40% absolute carbon emissions reduction for the Equity Portfolio by 2030 (tco2e).

2019 (restated)	2023	Progress
196k	158k	✓

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 and allows us to measure real world carbon reductions associated with our investments.

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 which all else being equal would otherwise result in emissions also increasing. This is as a result of absolute emissions from the hardest to abate sectors (energy, materials, utilities and industrials) declining since 2019.

50% carbon intensity reduction by 2030 for the Equity Portfolio (tCO2e/$m)

2019 (restated)	2023	On Track
164.4	102.0	✓

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.

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.

This also outperforms the reference benchmark (209.7 tco2e/$m), with all actively managed portfolios having lower carbon metrics compared to their market index. This is largely attributed to underweight exposure to materials, energy and utilities.

Reduce exposure to fossil fuel reserves within the Equity Portfolio

2019 (restated)	2023	On Track
5.7%	5.2%	✓

This metric includes any company that own fossil fuel reserves. 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%.

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.

Increase exposure to climate solutions within the Equity Portfolio

2019 (restated)	2023	On Track
36.6%	39.4%	✓

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.

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.

In practice the Fund has been investing in low-carbon solutions such as low carbon indexes. This is alongside investments not yet captured in the Fund's climate metrics such as sustainable forestry, sustainability linked bonds and investments in renewables through infrastructure and others,

Increase Asset Coverage to 90% by 2030

2019	2023	On Track
45%	47%	✔

The current data able to be analysed as part of the Climate Risk Management report 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. This is in line with the schedule for further asset class integration set out elsewhere.

Forward Looking Alignment Metrics

	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%

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.

The Fund will be able to check progress against these targets in future years, as well as looking at how the Fund can consider appropriate targets.

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 operational target. LGPS Central are looking to set an operational target during 2024.

The Fund's portfolio is decarbonising 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's investment advisor considered progress achieved as part of the Strategic Asset Allocation review and believes the Fund is on track to achieve its targets and did not recommend any strategic changes as a result. Hymans did recommend the following which was supported by Committee and would be undertaken over 2024.

1) Strengthen engagement with underlying managers appointed directly by the Fund.
2) Encourage managers to improve stewardship reporting to provide greater insights on actions taken and outcomes achieves.

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.

Appendix 1

TCFD Recommendations for Asset Owners (source: TCFD)

Governance

Recommended Disclosure (a) Describe the board's oversight of climate-related risks and opportunities.

Recommended Disclosure (b) Describe management's role in assessing and managing climate-related risks and opportunities.

Strategy

Recommended Disclosure (a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.

Recommended Disclosure (b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.

Recommended Disclosure (c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

Risk Management

Recommended Disclosure (a) Describe the organisation's processes for identifying and assessing climate-related risks.

Recommended Disclosure (b) Describe the organisation's processes for managing climate-related risks.

Recommended Disclosure (c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.

Metrics and Targets

Recommended Disclosure (a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

Recommended Disclosure (b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

Recommended Disclosure (c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

Appendix 2: Glossary

Climate Solutions: Defined as set out within the MSCI, companies whose products and services that may include alternative energy, energy efficiency, green buildings, sustainable water and pollution prevention.

Decarbonisation: The process by which the Pension Fund will look to encourage countries companies and other entities aim to achieve zero fossil carbon existence. Typically refers to a reduction of the carbon emissions associated with electricity, industry, and transport.

Fossil Fuel Reserves The weight of the Pension Fund’s portfolio invested in companies that own fossil fuel reserves. Greenhouse gases Atmospheric gas emitted from all activities that involve burning of fossil fuels. These accumulate in the atmosphere and trap heat from the Earth’s surface, increasing warming (known as the greenhouse effect)

Investment Manager: An organisation to whom the responsibility for the day-to-day management of some of the scheme’s assets is delegated. The Investment Manager acts on the basis of the mandate, as agreed with them and their client (Leicestershire Pension Fund). The mandate may contain performance targets by reference to a benchmark.

MSCI: A global provider of investment analysis tools, ESG and climate related data and product.

Paris Agreement: The Paris Agreement is a legally binding international treaty on climate change. Its goal is to limit global warming to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels.

Physical Risk: The financial risks and opportunities associated with the anticipated increase in frequency and severity of extreme weather events and other phenomena, including storms, flooding, sea level rise and changing seasonal extremities.

Responsible Investment: The integration of financially material environmental, social and corporate governance (“ESG”) factors into investment processes both before and after the investment decision.

Physical Risk The financial risks and opportunities associated with the anticipated increase in frequency and severity of extreme weather events and other phenomena, including storms, flooding, sea level rise and changing seasonal extremities.

Scope Emissions Carbon emissions refers to the amount of carbon dioxide equivalent emissions that are released into the atmosphere. For the purpose of measurement, they are divided into 3 types:

Scope 1 Greenhouse Gas Emissions Direct emissions from owner or sources controlled by the owner, for example, from burning fuel in a fleet of vehicles.

Scope 2 Greenhouse Gas Emissions Indirect emissions when the energy a company purchases and uses is produced. For example, the generation of electricity would fall into this category.

Scope 3 Greenhouse Gas Emissions Indirect emissions that are not controlled by the institution but occur as a result of that institutions activities. Examples include commuting, waste disposal and embodied emissions from extraction.

Stewardship The promotion of the long-term success of companies in such a way that the ultimate providers of capital also prosper, using techniques including engagement and voting.

Taskforce for Climate Financial Disclosures (TCFD) Guidance produced by The Financial Stability Board (FSB) is an international body that monitors and makes recommendations about the global financial system to improve and increase reporting of climate-related financial information.

tCO2e: Unit representing the amount of greenhouse gases emitted during a given period. Measured in tonnes of carbon dioxide equivalent. Paris Agreement the Paris Agreement is a legally binding international treaty on climate change. Its goal is to limit global warming to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels.

Transition Risk The financial risks and opportunities associated with the anticipated transition to a lower carbon economy. This can include technological progress, shifts in subsidies and taxes, and changes to consumer preferences or market sentiment. Voting The act of casting the votes bestowed upon an investor, usually in virtue of the investor’s ownership of ordinary shares in publicly listed companies.

Voting: the act of casting the votes bestowed upon an investor, usually in virtue of the investor’s ownership of ordinary shares in publicly listed companies.

Appendix 3: Key metrics used are set out below:

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 generate 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 (Enterprise Value including Cash (EVIC))
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'.

Carbon Risk Metric	Unit	Definition	Use Case	Limitations
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.
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.

Carbon Risk Metric	Unit	Definition	Use Case	Limitations
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.
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 views 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.

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.

Appendix 4: Important Information

The following notices relate to information from the Climate Risk Report 2023 by LGPS Central-based on a product licensed by MSCI ESG Research LLC. This report confers no suggestion or representation of any affiliation, endorsement, or sponsorship between LGPS Central and MSCI ESG Research LLC. Additionally:

Although LGPS Central's information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the "ESG Parties"), obtain information (the "Information") from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness, of any data herein and expressly disclaim all express or implied warranties, including those of merchantability and fitness for a particular purpose. The Information may only be used for your internal use, may not be reproduced, or re-disseminated in any form and may not be used as a basis for, or a component of, any financial instruments or products or indices. Further, none of the Information can in and of itself be used to determine which securities to buy or sell or when to buy or sell them. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein, or any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

LGPS CENTRAL DISCLAIMER:
This Climate Risk Report 2023 has been produced by LGPS Central Limited and is intended solely for information purposes. Any opinions, forecasts or estimates herein constitute a judgement, as at the date of this report, that is subject to change without notice. It does not constitute an offer or an invitation by or on behalf of LGPS Central Limited to any person to buy or sell any security. Any reference to past performance is not a guide to the future. The information and analysis contained in this publication has been compiled or arrived at from sources believed to be reliable, but LGPS Central Limited does not make any representation as to their accuracy or completeness and does not accept any liability from loss arising from the use thereof. The opinions and conclusions expressed in this document are solely those of the author. This document may not be produced, either in whole or part, without the written permission of LGPS Central Limited. All information is prepared as of 31st December 2022. LGPS Central Limited is authorised and regulated by the Financial Conduct Authority. Registered in England. Registered No: 10425159. Registered Office: 1st Floor i9, Wolverhampton Interchange, Wolverhampton, WV1 1LD.

Leicestershire County Council

LOCAL PENSION COMMITTEE – 19 JUNE 2024

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

MCCLOUD REMEDY PROGRESS REPORT

Purpose of the Report

1. The purpose of this report is to provide the Local Pension Committee an update on progress in respect of the implementation of the McCloud remedy for Leicestershire County Council Pension Fund.

Background

2. On 8 September 2023, the Department for Levelling Up, Housing and Communities (DLUHC) laid The Local Government Pension Scheme (Amendment) (No.3) Regulations 2023. The regulations implemented the McCloud remedy and changed the existing 'underpin' to ensure it works effectively and consistently for qualifying scheme members. The regulations took effect from 1st October 2023 but will be backdated to 1st April 2014. Numerous actions will be required to fully implement the remedy.

Implemented Changes

3. Officers have made changes to 'Business as Usual' (BAU) casework processes to implement the remedy, which took effect in November 2023. Areas mainly affected by this are retirements and deaths, plus estimates and deferred benefits.

4. There are other areas of BAU casework where the remedy has had an impact, including transfers of pension rights in or out of the Fund. Guidance detailing how these are calculated for members 'in-scope' is now available, but systems have not yet been updated. Whilst developments are planned, nothing has yet been firmly scheduled and it is unlikely that any changes will be made until at least summer. Calculations will need to be processed manually until then.

5. Cases are now taking longer to complete, which is impacting on Key Performance Indicators. The main reasons for this are:

   - Additional steps are now required for the processing of cases where a member is deemed in-scope for re-assessment under the remedy;

- Officers regularly encounter cases where initial calculations indicate additional benefits are due but when the historic data is checked it requires adjustment and the calculation needs to be re-processed;

- There have been a number of minor issues with Altair's calculations of McCloud remedy data (generally linked to underpin calculations) in some circumstances which require workarounds to allow the cases to be completed. Some of these issues have been fixed but others remain, for example there are scenarios where a member is not in-scope but the system thinks that it is. These have been reported and will be cleared in future system releases;

- The extra complexity means cases are taking longer to calculate and check.

Impact on Key Performance Indicators

6. The appendix shows the Key Performance Indicators (KPIs) since January 2023 that relate to:

   - Retirement Options
   - Retirement Payments
   - Death Benefits and Payments

7. The target for the three areas is for most of the casework to be completed and issued within 10 working days. Specifically:

   - Retirement Options: 92% of cases
   - Retirement Payments: 95% of cases
   - Death Benefits and Payments: 90% of cases

8. The figures show the impact that the McCloud remedy has had since the legislation went live in October 2023.

9. These three areas are all the responsibility of the Pension Section's Payments and Tax team.

10. The initial impact was on retirement options as all retirements were assessed to establish whether cases were in-scope as part of the new process. In October Officers began testing McCloud system outputs, which started to cause a fall in KPIs. The functionality was then added to the live service in November 2023 and the impact on options continued.

11. The impact on pension payments and death benefits was not instant. Pension payments had already been assessed at the option stage and most death cases processed initially were not in-scope as they retired prior to the remedy period (April 2014 to November 2022), but as an increasing amount of resource was

spent on retirement options, less resource was spent on other areas, causing an indirect impact on payments and deaths. Additionally, more death cases have been identified as in-scope, which is gradually increasing the amount of time required to process those cases.

12. To date, there have been 32 cases, out of 1,003 cases established as in-scope where pension benefits have increased as a result of McCloud. These cases are mainly deferred benefits and the increases are provisional until the member claims their pension.

Outstanding Areas

13. The position in respect of the outstanding areas of work related to the implementation of the McCloud remedy is shown below:

Changes to contractual hours between April 2014 and March 2022	Ongoing. Data has been received from most employers and the remaining updates to records are expected to be completed by 31 December 2024.
Non-active members 'in-scope'	Once the updates to contractual hours have been completed, reports will be used to identify scheme members who left between April 2014 and November 2023 and are entitled to an underpin (additional pension) under the remedy. Where re-calculations of pension benefits are required many will need to be processed manually.
Active Members 'in-scope'	Records of active members must be updated with underpin data before Annual Benefit Statements are processed in August 2025.
Excess Teacher Service	Teachers Pensions will contact their employers throughout 2024, liaise with them to identify affected members and verify details of their service before data is sent to Funds for action. East Midlands employers are scheduled to be contacted in June 2024. Any teacher found to have excess service, will have this included as a new Local Government Pension Scheme benefit. This will require the Pension Section to liaise with the employer and Teacher, and to set up a correct pension record. If the Teacher then wants to transfer this pension back into the Teachers Scheme, the Pension Section will calculate this and organise payment.

14. Approval has been granted to add support at Pension Officer level, following a recent retirement and a colleague's reduction in hours. It is likely Pension Officers will be recruited internally from existing Pension Assistants and a further exercise to replace those staff will be conducted immediately after this is concluded.

15. Officers are also reviewing the position on overtime to help mitigate the current work pressures. This will bring the immediate benefit of an increase in experienced resource which would be preferable to recruiting and training additional temporary staff.

16. The Pension Section continues to have two temporary full time Pension Assistants working on McCloud and two Pension Apprentices will be recruited to assist in other areas of work. The Pensions Manager continues to monitor the implementation and impact of McCloud, and the required resource.

Recommendation

17. It is recommended that the Committee notes all areas of the report.

Equality and Human Rights Implications

18. None

Appendix

19. Key Performance Indicators since January 2023

Officers to Contact

20. Ian Howe

Pensions Manager

Telephone: (0116) 305 6945

Email: Ian.Howe@leics.gov.uk

Simone Hines

Assistant Director of Strategic Finance and Property

Telephone: (0116) 305 7066

Email: Simone.Hines@leics.gov.uk

Appendix: Pension Key Performance Indicators linked to Pension Calculations January 2023 to April 2024

Business Process Perspective	Target	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24
Retirement Benefits notified to members within 10 working days of paperwork received	92%	96%	95%	96%	94%	95%	92%	92%	94%	93%	87%	80%	81%	87%	78%	80%	77%
Pension payments made within 10 working days of receiving election	95%	96%	98%	99%	98%	92%	91%	98%	93%	97%	96%	93%	96%	85%	91%	96%	85%
Death benefits/payments sent to dependant within 10 working days of notification	90%	93%	90%	85%	78%	76%	82%	89%	89%	89%	88%	88%	89%	90%	74%	58%	74%

November 2023: McCloud functionality switched on.

This page is intentionally left blank

Agenda Item 11

Leicestershire County Council

LOCAL PENSION COMMITTEE – 19 JUNE 2024

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 (LPC) with an update on the investment markets and how individual asset classes are performing.

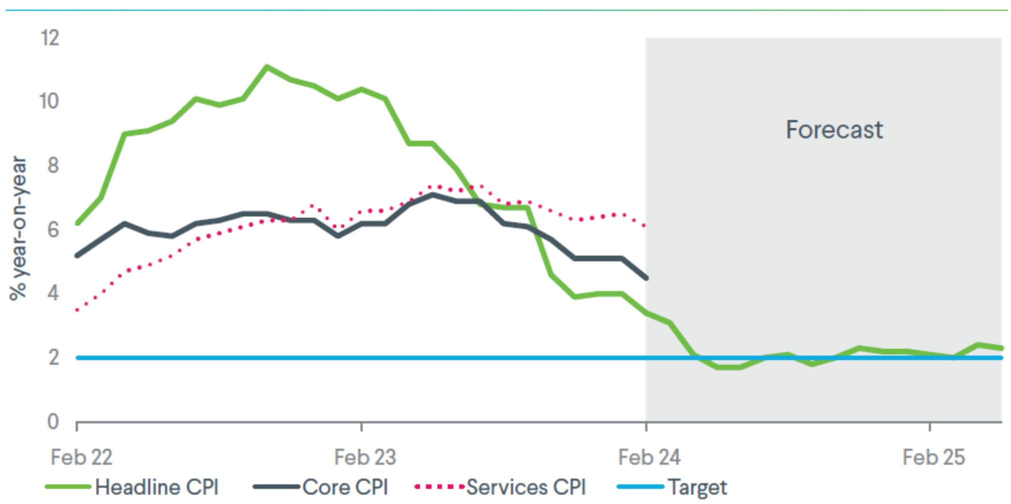
2. The report also provides an update on progress with respect to the listed equity changes, as approved by the Investment Sub-Committee (ISC) on 19 April 2023. An update on progress was provided to the meeting of the ISC on 11 October 2023 and to the LPC on 8 March 2024.

Markets Performance and Outlook

3. The first quarter of 2024 was the strongest for global equity since 2019 (+8.2%). LGPS Central (along with most other commentators) note that the future trajectory of global interest rates remain of paramount importance for investors. Given many portfolios, including the Fund's own, contain a material weight to listed equity, all other things being equal (which they rarely are) prospects of lowering rates would be a tailwind to equities as was demonstrated by the 2024 quarter one rally.

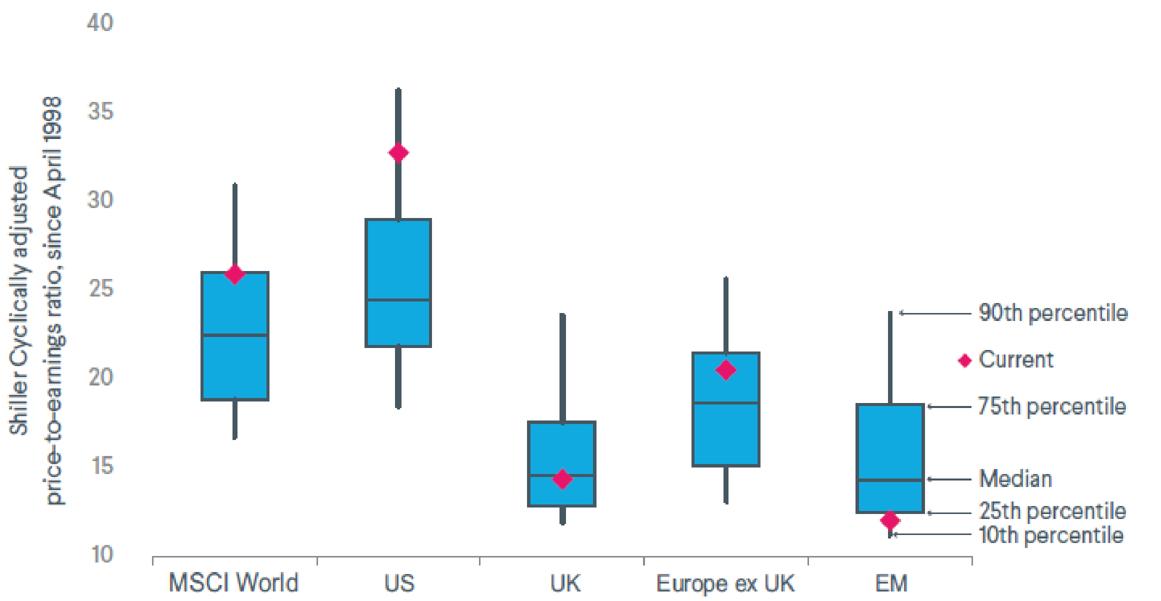
4. Inflation, however, has proved to be stickier than expected and as such the number of interest rate cuts in 2024 has decreased significantly during the first quarter of 2024. With that backdrop it is somewhat surprising that listed equity has performed so well. Hymans believe whilst UK headline CPI is falling, underlying price pressures may give central bankers the opportunity to pause before cutting rates. A similar experience with US inflation was witnessed where inflation was above expectations early in the year through January and February.

UK CPI Feb 2022 to Feb 2025

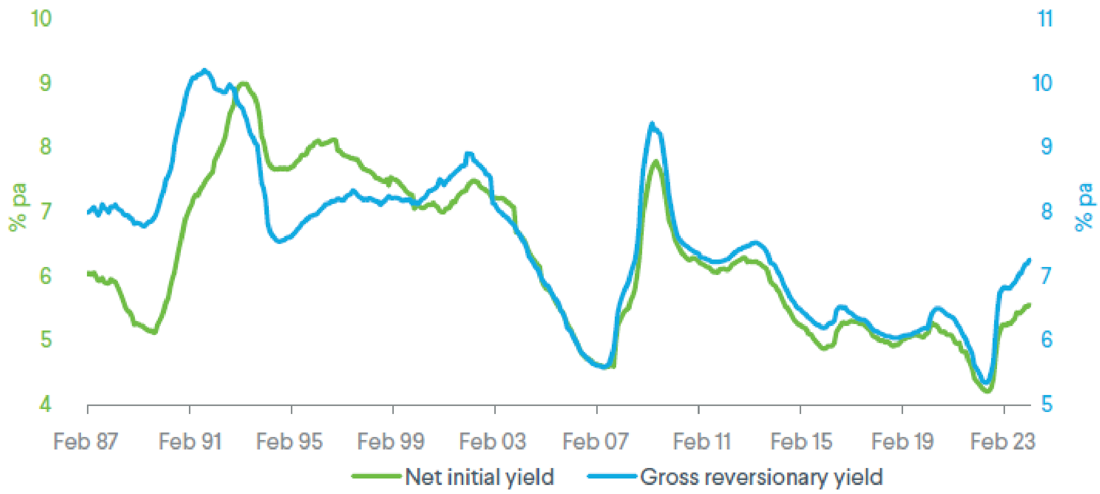


5. Whilst inflation data has proved to be less optimistic through the first quarter of 2024, 2024 growth data as defined by GDP (gross domestic product) has been revised upwards, for example US GDP was revised from 1.4% in January to 2.2% in March. At the same time global growth forecasts for 2024 have been revised upwards to 2.4%.

6. Hymans believe that global equity valuations look elevated in some regions. However, opportunities do remain notably within emerging markets, where the adjusted price earnings ratio (a measure of how expensive or cheap the price of an equity share is when compared to the 'earnings' for that one share) is favourable. The UK also shows 'fair 'valuations below for companies and is slightly below the median valuation when comparing to data since 1998. Note that much of the MSCI (Morgan Stanley Capital International) world apparent high adjusted price earnings owes a lot to US valuations. The US market is over 65% of the MSCI world index. It must be understood that price earnings valuations is just one of many metrics that can be used to value a company and long periods of out performance or underperformance is common.



7. Hymans include a property section within their report (appended to this report) and state a range of indicators hinting at signs of improvement for the UK commercial property sector. The Fund has a target 10% allocation to property in total but together the underperformance in comparison to other assets and an approved strategy to transition to a more global property exposure the Fund is underweight whilst monies are being invested to realign the exposure. The graph below shows the UK commercial property net initial yield (NIY) and revisionary yields (based on estimated rental values when leases are renegotiated) and show NIY at the highest they have been for nearly 10 years.



8. A summary of global asset class performance over various time frames as at quarter end 31 March 2024 is shown below. Gold is the only asset class with returns over 10% pa over the last 20 years having dipped below 10% (9.8%) for the quarter ending 30 September 2023. Performance of gold going forward on the 20-year timeframe will become more difficult given its increase in price during the period from 2004 and 2008 when it doubled in price from around $400 / ounce to over $900 by March 2008.

	3 MONTHS*	ONE YEAR	THREE YEARS	FIVE YEARS	TEN YEARS	TWENTY YEARS
GLOBAL EQUITIES	8.2%	23.7%	7.5%	11.2%	9.3%	8.2%
PRIVATE EQUITY	7.3%	38.2%	13.7%	15.0%	13.2%	NA
PROPERTY	-1.3%	7.9%	2.4%	4.0%	7.0%	7.6%
INFRASTRUCTURE	1.4%	4.1%	5.4%	4.8%	5.1%	7.2%
HIGH YIELD	2.8%	14.7%	2.7%	4.5%	5.1%	9.6%
PRIVATE DEBT	0.5%	3.6%	-0.3%	0.0%	-0.2%	-0.1%
UK GILTS	-1.8%	-0.5%	-7.9%	-4.0%	0.7%	3.1%
UK INDEX-LINKED	-2.2%	-5.6%	-10.5%	-5.6%	1.5%	4.1%
GOLD	9.0%	10.6%	12.5%	12.4%	8.6%	10.7%

Note: Private Market asset classes will typically display lower volatility compared to their listed index proxies.
Source: Bloomberg Note: listed proxies have been used for Infrastructure, Property, Private Debt and Private Equity

9. The figure below is taken from the previous Hymans capital markets summary but is useful to include again to remind us of the range of equity investment outcomes when the markets have a similar price earnings ratio. The figure shows that when equities have had a similar ratio (around 24) then the future 10-year return per annum has been between 5% and 12% per annum. The Fund and its advisor take into account information such as this when developing the strategy, whilst noting the Fund is a long-term investor, is cashflow positive and is able to ‘ride out’ long drawdowns in equity markets without having to divest assets to pay pensions and lump sum benefits. The Fund currently has a target allocation to listed equity of 37.5% with an additional 7.5% to private equity. The allocation to listed equity has been lowered over the years as the strategy has evolved and added exposure to private markets such as infrastructure.

Source: Datastream

10. The Fund, which is open to new members and with liabilities extending far into the future, taking an always invested (not timing the market) position is important. The Fund is, from a listed equity perspective, highly diversified. It is exposed to many geographies and every major sector via the three Legal and General passive funds and the three funds invested via Central, which in total are now valued at nearly £2.7bn or 43% of total Fund assets.

11. It is well known that a major source of investment returns is asset allocation. The rebalancing of the Fund to the target strategic asset allocation (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.

12. It should be noted that the Fund's assets have grown considerably over the past few years as a combination of being cashflow positive and positive investment returns in line with expectations. The markets over the past three and five year periods have been supportive. However poorer periods of performance can occur and can last for many years.

<u>Portfolio changes in the quarter ended March 2024</u>

13. The main changes during the January to March 2024 are shown below. All changes listed below were in cash.

Aspect (targeted return)	January 2024	Final redemption of units, c£51m in cash
Pictet (targeted return)	January 2024	Final redemption of units, c£55m in cash
Fulcrum (targeted return)	March 2024	£30m investment
Central Direct Property fund	February 2024	c£21m called
Central infrastructure core/core plus fund	February 2024	c£17m called
Central multi asset credit (MAC) fund	February and March 2024	Added £120m combined over 2 months

14. The final redemptions for both the Pictet and Aspect mandates occurred during January 2024. This closes out the position from these two mandates in line with the decision taken by the Investment Sub-Committee (ISC) at its meeting in July 2023. The result is a net reduction of one manager from the total portfolio as Fulcrum was added as a new mandate in 2023.

15. The net effect on cash quarter on quarter has been a small reduction from £421m to £386m.

Listed equity reorganisation update

16. On 11 October 2023 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; and
    c. Described a four-phase plan to reorganise and reduce the listed equity weight to 37.5% of total Fund assets.

17. Phase one of this plan was completed in September 2023 and £220million was received by the Fund when the LGPS Central climate multi-factor fund holding was reduced to the target weight of 12% of total Fund assets.

18. Phase two, which was the reorganisation of the LGIM passive holdings, was completed in mid-November 2023 which collapsed the LGIM geographic holdings and single stock holdings into three funds.

19. Phases three and four which are the divestment of the Central Emerging Market Fund and investment into the LGPS Central Global Equity fund are being planned to coincide with the appointment of a fourth manager to the Central Global Equity fund which has now been concluded and Central are in the process of planning the reorganisation of holdings with the four managers. The transition advisor is in talks with officers, the Fund's investment advisor and LGPS Central regarding the final changes.

20. The Fund currently aims to divest from the Central emerging equity fund at around the same time as investing into the LGPS Central global equity fund in order to minimise the cash being held by the Fund. The table below shows the progression of the listed equity transition to date and the adjustments left to complete.

21. The final part of the reorganisation of the listed equity portfolio will come from reducing the listed equity weight down to 37.5% of total fund assets (currently 42.7%) which will be completed in stages, taking into account the cash the Fund already holds, future timing of calls, advice from the Fund's investment advisor and the Fund's rebalancing policy.

	Passive or active	AUM 30.09.23 £m	% of total portfolio %	AUM 31.3.24 £m	% of total portfolio %	Target % SAA 2024	Target weight £m	Adjustments left to plan £m
LGIM UK equity index Fund and UK core equity index fund	Passive	169	2.9%	0	0.0%	0%		
LGIM 7 FTSE 100 single stocks	Passive	25	0.4%	0	0.0%	0%		
LGIM North America Equity index fund	Passive	350	6.1%	0	0.0%	0%		
LGIM Europe (ex UK) equity index fund	Passive	150	2.6%	0	0.0%	0%		
LGIM Japan Equity index Fund	Passive	75	1.3%	0	0.0%	0%		
LGIM Asia Pacific (ex Japan) developed equity index fund	Passive	65	1.1%	0	0.0%	0%		
LGIM World Emerging markets equity index fund	Passive	96	1.7%	0	0.0%	0%		
LGIM UK Equity Fund	Passive	0	0.0%	129	2.0%	2.0%		
LGIM All World Equity Fund	Passive	0	0.0%	702	11.1%	8.0%	505	197
LGIM Low Carbon Transition Fund	Semi active	0	0.0%	232	3.7%	3.5%		
LGPS Central Active Global Equity Multi Manager Fund	Active	542	9.4%	636	10.1%	12.0%	758	-122
Emerging Markets Multi Manager Fund	Active	177	3.1%	185	2.9%	0.0%	0	185
LGPS Central Climate Balanced Multi Factor Fund	Semi active	698	12.1%	812	12.8%	12.0%	758	54
Total		**2348**	**40.7%**	**2695**	**42.7%**	**37.5%**		**313**
Total LGIM products		**931**	**16.1%**	**1063**	**16.8%**	**13.5%**		**197**
Total Central products		**1417**	**24.6%**	**1632**	**25.8%**	**24.0%**		**116**

Cash holdings and outstanding commitments

22. The level of cash held by the Fund is higher than the SAA limit of 0.75% of total Fund assets. This, alongside a cash flow is presented to the ISC each quarter. At the quarter end the Fund held £386m (£421m last quarter) in cash and an additional £51m (£48m last quarter) with Aegon as collateral in order to support the currency hedge. Taken together this represents 6.9% (7.7% last quarter) of total Fund assets.

23. The additional cash is a result from the SAA recommendations in 2022 and 2023 which prompted a switch from liquid assets, mainly listed equity and targeted return into illiquid assets within the income asset group. These illiquid assets take time for money to be invested (called) by the underlying managers. The managed reduction in liquid assets has continued, however the Fund is still overweight to these asset classes. The final alignment to the 2024 SAA target weight of 42.5% to listed equity and targeted return assets is planned to complete during 2024/25. Completing this alignment would add further cash whilst commitments are awaiting to be called and at present the Fund has ample cash to meet those existing commitments.

24. The Fund has made relevant commitments to the underlying mangers which are in the process of being called and at the time writing there are commitments totalling c£600m awaiting to be called. In addition, the Fund has approval to commit a further c£360m in 2024 across private equity and private debt asset classes. Officers are in regular contact with LGPS Central to ascertain a likely launch date for the private credit vintages. Since the last update a key hire has been added to the Central team and work is progressing on finalising the private credit 2024 mandates for senior secured credit and real asset sleeves where the Fund already has existing approvals from 2023.

25. Over the financial year 2023/24 the cash has been held in a mixture of money market funds (MMFs) and fixed deposits. Given the higher cash holdings a cash management strategy was presented to the October 2023 meeting of the ISC which formalised the limits and types of institutions the Fund can use. The majority of the cash is currently held in three of the available types, money market funds (MMFs), term deposits and certificates of deposit. The final two having maximum terms of one year.

26. At the time of the Committee meeting the Fund is expected to have cash holdings of around £420m. The Fund, at the time of writing has £325m invested in fixed term deposits with a weighted average interest rate of 5.24% (was 5.35% at the last update) with an average term to maturity of 3.8 months.

27. A cashflow forecast for the Fund estimates that cash should reduce gradually over the calendar year towards £200m. Much of the reduction in cash will result from a planned investment to take place over the calendar year to the LGPS Central multi asset credit (MAC) fund where an additional £180m is planned to be invested on top of the £120m added so far in 2024. The target weight for this asset class is 9% of total Fund assets and the amount to invest will be adjusted through the year as new valuations are received.

28. Other changes to align to the 2024 SAA are shown in the table below. The ‘commitments / investments approved’ will be called over a number of years whilst the 2024/25 cashflow column shows expected movements over 2024/25. In summary the Fund is overweight cash and growth assets and underweight income assets. Although significant commitments have been made to income asset classes, they will take time to be fully called.

Growth	31/3/24 £m	2024 SAA	31/3/24 Actual weight %	Difference, actual to 2024 SAA	£m to target weight	Commitments / investments approved	2024/25: other cashflow / divests	Diff to target weight post changes £m	% diff to SAA
Listed Equity - Active and Passive	2,697	37.50%	42.7%	5.2%	328		-347	-19	-0.3%
Targeted Return Funds	299	5.00%	4.7%	-0.3%	-17			-17	-0.3%
Private Equity	414	7.50%	6.6%	-0.9%	-60	173	-80	33	0.5%

Income	31/3/24 £m	2024 SAA	31/3/24 Actual weight %	Difference, actual to 2024 SAA	£m to target weight	Commitments / investments approved	2024/25: other cashflow / divests	Diff to target weight post changes £m	% diff to SAA
Infrastructure	628	12.50%	9.9%	-2.6%	-162	140	-20	-42	-0.7%
Global credit - private debt / CRC	525	10.50%	8.3%	-2.2%	-138	194	-85	-29	-0.5%
Property	452	10.00%	7.2%	-2.8%	-180	133	-4	-51	-0.8%
Global Credit - liquid MAC	348	9.00%	5.5%	-3.5%	-221	180		-41	-0.6%
Emerging market debt	63	0.00%	1.0%	1.0%	63		-63	0	0.0%

Protection	31/3/24 £m	2024 SAA	31/3/24 Actual weight %	Difference, actual to 2024 SAA	£m to target weight	Commitments / investments approved	2024/25: other cashflow / divests	Diff to target weight post changes £m	% diff to SAA
Inflation linked bonds	235	3.50%	3.72%	0.2%	14		-16	-2	0.0%
Investment grade (IG) credit	159	3.50%	2.52%	-1.0%	-62		60	-2	0.0%
Short dated IG credit	60	0.25%	0.95%	0.7%	45		-45	0	0.0%
Active currency hedge collateral	51	0.75%	0.81%	0.1%	4			4	0.1%

Cash	386	0.00%	6.1%	6.1%	386				

Overall Investment Performance

29. Investment performance analysis over various time frames to the period quarter ending 31 March 2024 is conducted by Hymans Robertson who collate information directly from managers and calculate performance, which provides an independent check of valuations. The valuation summary is included with the managers reports within the exempt part of today's agenda.

30. 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.

31. A number of benchmarks to compare actual performance by mandate will be amended through the year by Hymans per the recommendations approved at the January meeting of the Local Pensions Committee. This is in order to better compare the investment risk versus the expected return. Officers have planned to complete the remaining changes over the next three reports. For this quarter the following changes were completed:

Fund	Previous benchmark	New benchmark
LGPS Central Climate Multi factor fund	FTSE AW Climate Bal Com Factor	FTSE All World
All private equity funds (Central, Adams Street, Abrdn)	FTSE AW index	FTSE AW + 3% pa
JP Morgan Infrastructure, IFM infrastructure and Stafford Timberland	SONIA (sterling overnight index average) 3 month +4%	8% pa

32. Summarised returns for the whole Fund versus benchmark are shown below excluding the effect of the hedging facility. This metric is being worked on by Hymans Robertson.

	Quarter	**1yr**	**3yr pa**	**5yr pa**
Total Fund	+3.9%	+8.9%	+6.6%	+7.0%
vs benchmark	-0.6%	-2.5%	+0.3%	+0.2%

33. 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.

34. The Fund experienced a positive return over the quarter of +3.9%, (+3.8% last quarter). The underperformance in the quarter is largely due to the underperformance of the private equity mandate (-10.2% for the quarter). Private equity valuations lag liquid public markets where prices are updated daily, whereas underlying companies within private equity portfolios may update pricing twice a year with other companies valued based on sales and comparable public market equivalents. Over three and five-year periods, however, private equity returns have been in line with the new benchmark FTSE AW+3% pa benchmark. The Fund tends not to focus on short timeframe returns which can be more volatile and instead looks towards the longer three and five-year returns as a measure of performance versus the benchmark.

35. The one-year underperformance versus the benchmark of -2.5% is mainly driven by the growth and income asset groups. The change to the private equity benchmark (From FTSE AW to FTSE AW +3%) will make attainment of the benchmark more difficult but importantly will provide a better understanding of the required return. As interest rate rise expectations reduce, market commentators expect downward pressure on risk assets to subside.

36. The targeted return holdings have also lagged the benchmark return over one year by 3.4%. This is largely due to returns at Ruffer not matching the cash + 4% benchmark. The positive interest environment during 2023/24 has meant the benchmark for 2023/24 was a return of 9.1%. Over a longer timeframe targeted return has performed well, outperforming over both the three and five-year periods albeit with some volatility whilst the group of three mandates included Aspect which has now been fully divested.

37. The Fund has a long history of investing in private credit stretching back to 2014 when it invested in the 2014 vintage of the multi asset credit (MAC) series of funds from Partners group. The Fund has since invested in five further vintages from Partners group. Returns are expected to be in line with a cash plus 4% pa benchmark and all but the 2016 vintage has returned It has also invested in three private credit funds launched by LGPS Central more recently as the pool developed its product offering. A summary of the Partners Group and Central investments is shown below.

Partners Fund name	Amount committed / current NAV £m	Since inception net IRR % pa
MAC 2014 I	100 / 13	5.4%
MAC 2016 III	70 / 11	3.0%
MAC 2017 IV	120 / 28	4.8%
MAC V	100 / 78	6.3%
MAC VI	60 / 59	7.4%
MAC VII	19 / 11	n/a too early

LGPS Central Fund name	Amount Committed / current NAV £m	Since inception net IRR % pa*
Low return 2021	240 / 126	9.6%
High return 2021	60 / 32	7.3%
Real asset 2021	117 / 52	n/a, target 4.5%-6.0%

*at 31 Dec 2023 per investment manager reports

38. At present the Fund has £410m invested in private credit across these two managers, there is (at 31 March 2024) around £200m left to call from the three Central investments. The Fund is working with Central and other partner funds to launch new vintages of the low return and real asset products. If these were launched successfully the Fund has an existing approval to commit £180m to the low return product and £100m to the real asset (invests primarily in infrastructure and property debt) product.

39. The Funds protection asset investments span three products: investment grade credit, index linked bonds and short dated investment grade credit. Overall, this area of the portfolio is at the target weight. There is a rebalance due between index linked bonds and investment grade credit which is awaiting advice from Hymans with respect to timing. Officers will report back to the Local Pension Committee once this relatively small reduction to inflation linked bonds and addition to investment grade credit is complete.

40. In terms of performance over the three and five periods, this group of assets has marginally outperformed the benchmark by 1.1% and 0.5%pa respectively.

<u>Outcomes from the 2024 SAA</u>

41. The Fund's 2024 Strategic Asset Allocation (SAA) was approved by the Committee at the meeting held on 26 January 2024. Hymans Robertson presented at the meeting and summarised that since the last SAA (2023) there had been a material shift in the markets. Many asset classes having posted losses, nominal yields have risen across all maturities and there has been a material shift in the inflation curve, with expected inflation falling in shorter durations, but staying higher for longer.

42. As part of the annual SAA review, Hymans reviewed the funds current holdings and against the economic backdrop concluded that the current (2023) investment strategy remains appropriate taking into account the Fund's objectives and funding position.

43. The recommendations approved included a number of reviews to be carried out through the year which are planned to be presented to meetings of the Investment Sub-Committee (ISC) during May and July 2024. The two reviews are:

a. A protection assets review, which will consider amongst other things an increase to the protection assets weighting if the change may result in better risk adjusted returns. Hymans will also investigate if alternative asset classes could be included within the protection assets group. This review is now complete, Hymans concluded the current strategy should be retained with no clear need to make changes to the target weights of the existing protection assets and no clear rationale at this stage to add new asset classes to this group.

b. A review to maintain exposure to two asset classes which will be returning capital over the coming years, bank risk share investments and Timberland. This review will be presented to the July 2024 meeting of the ISC.

44. In addition, the Committee approved that the Director of Corporate Resources be authorised to make benchmark changes, with such changes to be delivered quarterly through the year, commencing at the June (2024) Local Pension Committee meeting. These changes are designed to better compare the Fund's underlying investments actual performance versus an appropriate target (the benchmark) so that a better appreciation of relative performance can be ascertained. As described earlier the first changes to benchmarks has commenced.

Leicestershire Pension Fund Conflict of Interest Policy

45. 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

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

Environmental Implications

47. 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

48. 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

49. 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

Local Pension Committee 26 January 2024, Overview of the Current Asset Strategy and Proposed 2024 Asset Strategy (Agenda item 6)
https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=740&MId=7538&Ver=4

Investment Sub Committee 11 October 2023, Listed Equity Transition Update (Agenda item 7)
https://politics.leics.gov.uk/documents/s179001/Equity%20transition%20update.pdf

Appendix

Hymans Robertson, Capital Markets update Spring 2024

Officers to Contact

Declan Keegan, Director of Corporate Resources
Tel: 0116 305 7668 Email: Declan.Keegan@leics.gov.uk

Simone Hines, Assistant Director Finance, Strategic Property and Commissioning
Tel: 0116 305 7066 Email: Simone.Hines@leics.gov.uk

Bhulesh Kachra, Senior Finance Analyst - Investments
Tel: 0116 305 1449 Email: Bhulesh.Kachra@leics.gov.uk

HYMANS ROBERTSON

Capital Markets Update

Spring 2024

Markets dramatically scaled back their expectations for the timing and size of interest-rate cuts in 2024. This was down to much stronger US growth than expected, improving global growth momentum and signs that the downtrend in inflation is slowing.

However, optimism about US and global growth, and enthusiasm for all things AI, more than offset any concerns about slower rate cuts. Equities recorded their best first quarter in five years and credit spreads fell, despite a significant rise in sovereign bond yields.

Global themes

Data released in the first quarter revealed a US economy still growing more quickly than previously envisaged – at an annualised quarterly pace of 3.4% in the final quarter of 2023 – amid ongoing resilience in consumer spending and an increase in non-residential business investment. Data in other major advanced economies have been weaker. The UK entered a technical recession at the end of last year, while the eurozone and Japanese economies flirted with one, but survey data suggest the worst may already be over in Europe. Flash composite purchasing managers' indices (PMIs) indicate that UK output rose at a solid pace for the fifth consecutive month in March, while the eurozone economy stabilised. At a global level, survey data suggest growth improved at the start of 2024, as the JP Morgan Global Composite PMI rose to an eight-month high in February (Chart 1).

Chart 1: The upturn in global economic activity gathered momentum in February

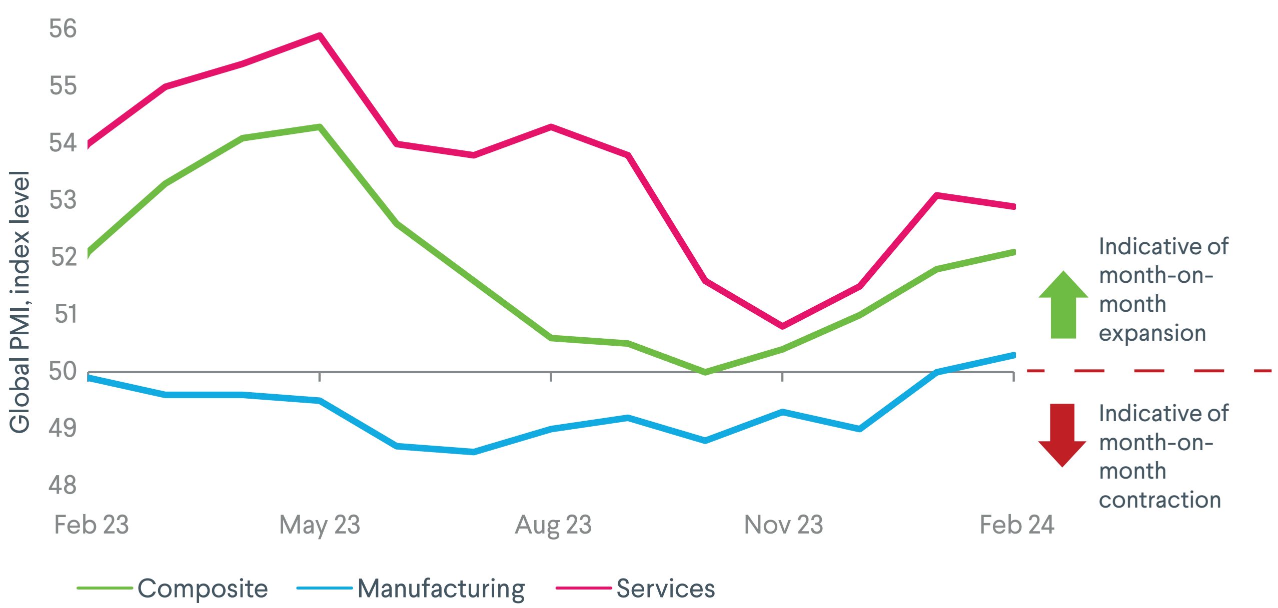


Chart 1: Bloomberg

Notably, Chinese manufacturing activity grew in March, for the first time in six months, amid optimism that policy stimulus focused on high-tech manufacturing might provide further support.

Backward-looking GDP data and coincident survey data pointed to an economy with much stronger momentum than previously anticipated: consensus forecasts for year-on-year US GDP growth in 2024 jumped from 1.4% in January to 2.2% in March. At the same time, global growth forecasts for 2024 have been revised up to 2.4%. While this would be a slowdown from the 2.6% expansion in 2023 and is slightly subdued, even by the standards of the 2010s, it would be consistent with a 'soft landing' for the global economy. That is, inflation would have come down alongside sharp increases in interest rates over 2022 and 2023, without tipping the major economies into severe recessions.

But while slowdown fears have eased, inflation remains a concern. Not only was US inflation above expectations in January and February, but survey data also highlight a reacceleration in output prices and prices charged in the manufacturing and services sectors. While the headline rate of inflation looks likely to cool in the months ahead, stubbornly sticky services and wage inflation highlight elevated underlying price pressures (Chart 2).

Chart 2: UK headline CPI is falling, but underlying price pressures may give central bankers pause for thought

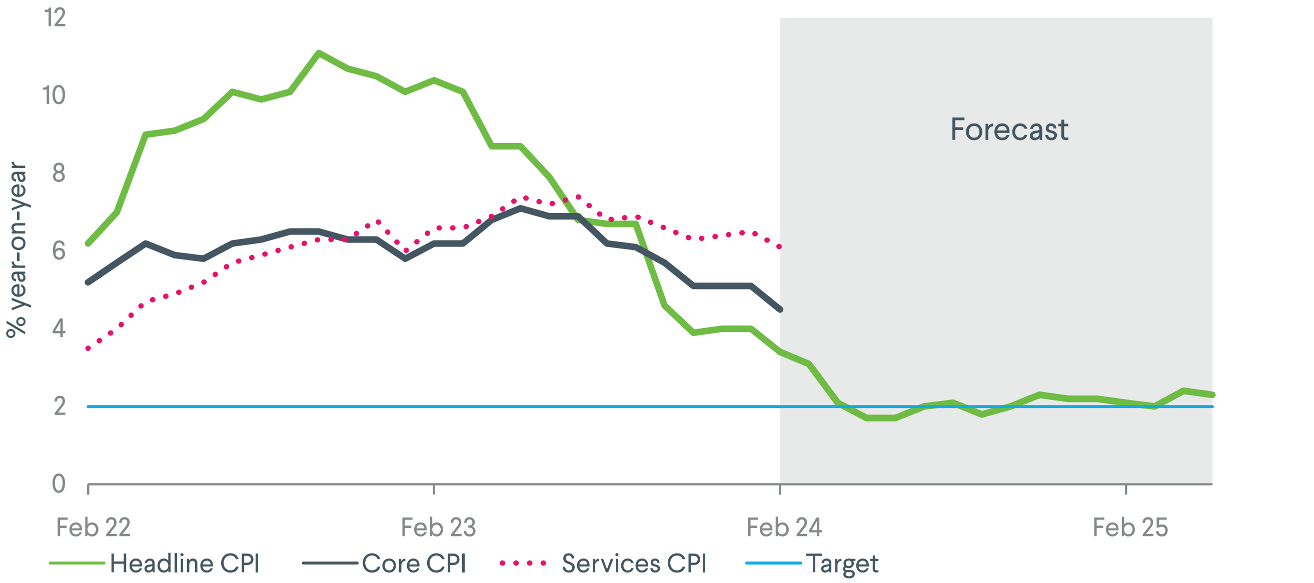


Chart 2: Datastream and Bloomberg

Therefore, while we still expect weaker headline inflation and, consequently, higher real interest rates to open the door for two or three interest-rate cuts by the major central banks in 2024, we think the balance of inflation risks weighs in favour of the banks doing less than markets currently anticipate.

Government bonds

Despite this, and short-term yields that look, at best, fairly valued, we still think longer-term nominal yields are attractive relative to long-term real growth and inflation forecasts (Chart 3). That is, we think the Bank of England (BoE) will ultimately reduce rates more than long-term forward nominal yields imply. We expect an eventual easing of currently negative technical headwinds (high net issuance and BoE asset sales) to lead to a decline in the additional yield investors require to invest in long-term bonds rather than rolling shorter-term debt.

Chart 3: UK forward nominal yields look attractive relative to potential long-term real growth and inflation

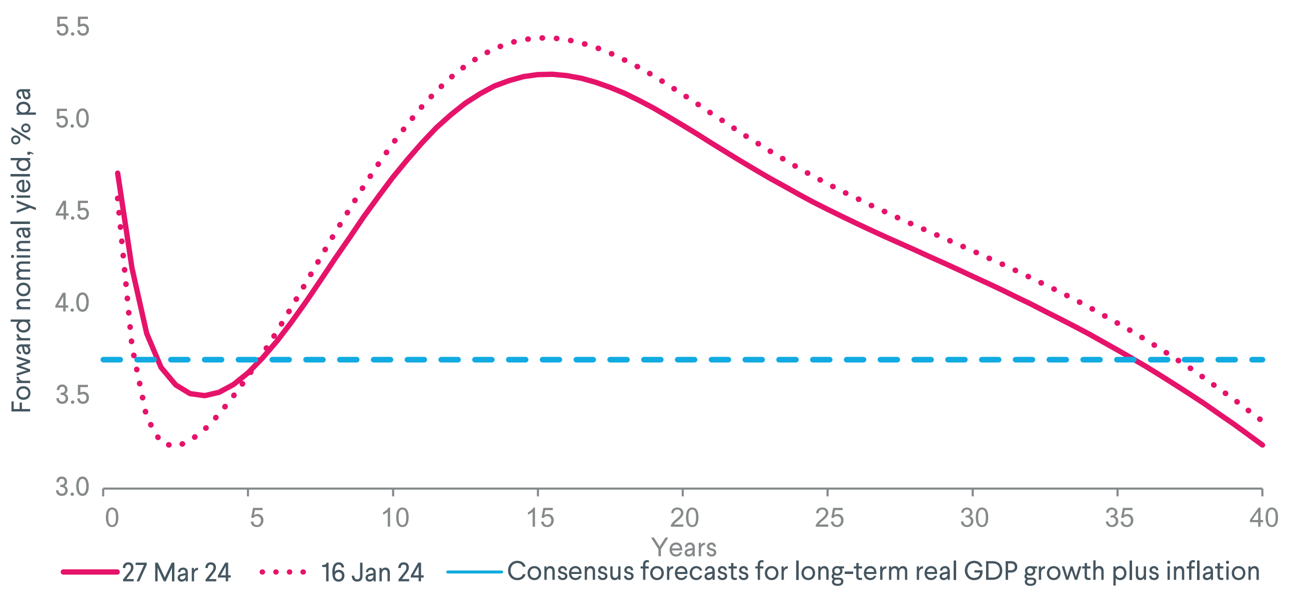


Chart 3: Bank of England and Consensus Economics

Following recent declines, we now think long-term real yields are broadly similar to our assessment of long-term fair value, which is set in line with long-term real growth forecasts minus an inflation risk premium (IRP). We assume a fair value for implied inflation according to consensus long-term forecast inflation of 2.2% pa, plus a term-dependent IRP, resulting in a 'neutral' implied-inflation rate of 2.7% pa. Given that implied inflation is somewhat above this assessment, buying inflation protection looks expensive on this measure. This is also true at shorter terms, even allowing for currently elevated levels of inflation and indexation to RPI, which is typically 1% pa higher than CPI, until 2030.

Credit

Corporate credit spreads fell further in the first quarter of 2024. This, in part, reflects improvements to the economic outlook. Moody's predicts the current 12-month speculative-grade default rate of 5.0% will mark this cycle's peak. With global growth expected to stabilise at only modestly lower levels in 2024, and the prospect of interest-rate cuts on the horizon, it forecasts that the default rate will decline to 3.5% by the end of the year. This is below long-term averages. However, strong institutional demand for corporate credit, which potentially says more about underlying yields than it does about the pricing of credit risk, has most likely played a part.

Chart 4: Speculative-grade bond spreads have rarely been below current levels

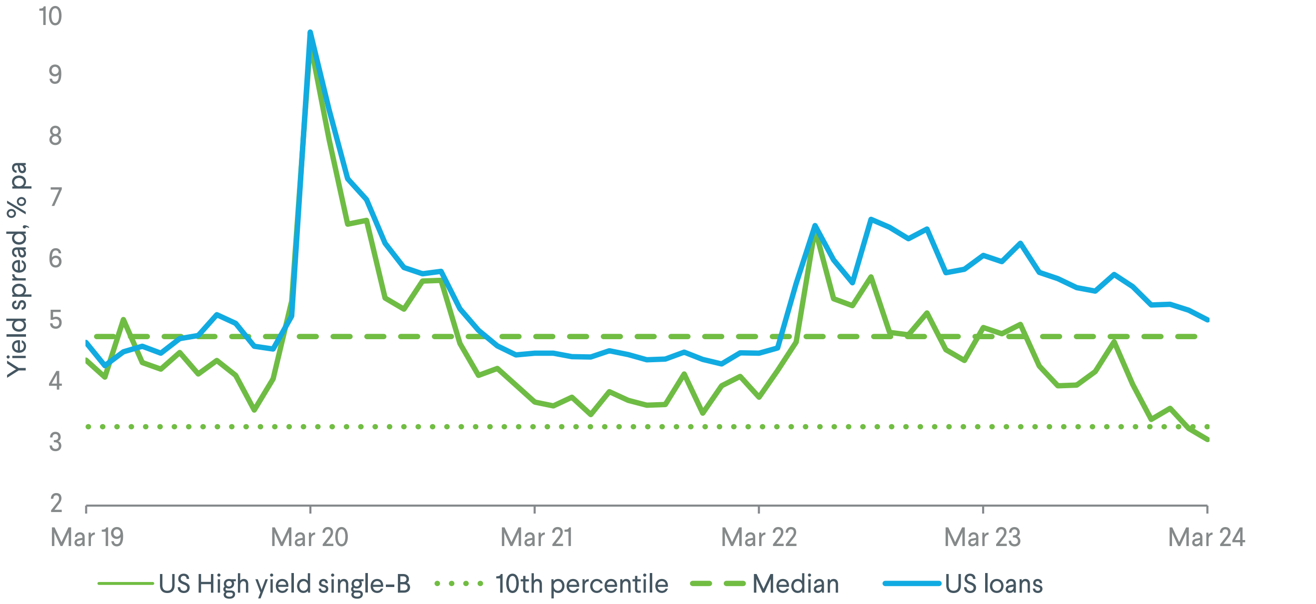


Chart 4: ICE Index Platform and Barings Investment Management

Of course, demand can keep spreads low for a while, and long-term investment-grade credit investors would still expect to harvest a reasonable premium over gilts. However, credit spreads are at levels that do not represent an attractive entry point, particularly in speculative-grade bond markets (Chart 4), where even long-term investors can still suffer material credit losses. Speculative-grade loan spreads, which are in line with long-term medians, offer better value relative to similarly rated bonds, and a more modest pace of interest-rate cuts points to a potentially attractive income-based return over the medium term. While default rates are currently higher and debt affordability metrics weaker in the traded-loan market, credit analysts note that private debt provides an alternative source to refinance debt, potentially reducing default risk in the traded-loan market.

Equities

Global equities recorded their best first quarter in five years, with the FTSE All World Total Return Index rising 9.5% in local-currency terms, as optimism about the US economy and AI enthusiasm offset expectations of slower rate cuts. Earnings per share (EPS) growth forecasts for the MSCI All-Country World Index have stabilised at around 9% and 13% for 2024 and 2025, respectively. EPS momentum, or the extent to which analysts' upgrades outnumber downgrades, has sharply improved since the beginning of 2024. A more favourable fundamental outlook to some extent justifies positive performance, but recent price moves leave cyclically adjusted global equity valuations looking stretched (Chart 5). This owes a lot to US valuations,

Chart 5: Global equity valuations look elevated, but regional dispersion persists

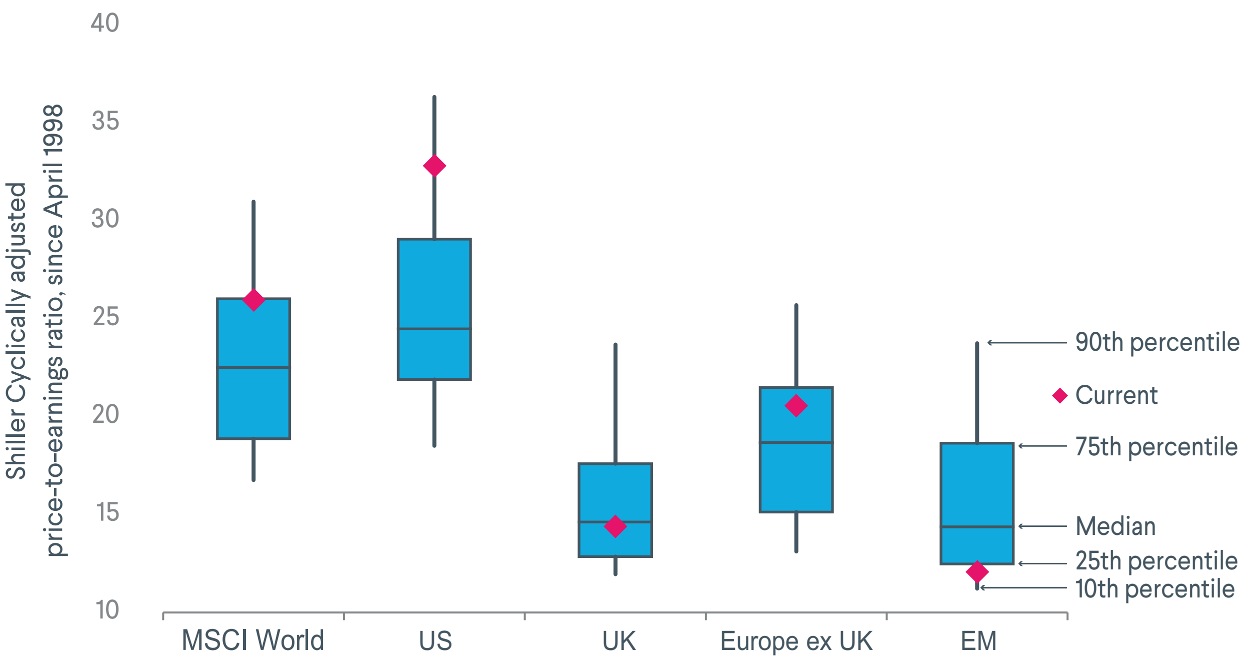


Chart 5: Datastream and Hymans Robertson

which are elevated, even relative to their usual premium. However, strong relative EPS growth and momentum suggest being underweight the US could be a costly strategy. The same measures indicate a degree of caution towards European and UK equities is still warranted, despite less demanding valuations. Past extremes in Japanese equity valuations mean comparison with their own history is less helpful, but they still trade at a modest discount to global benchmarks, despite continued outperformance.

Meanwhile, relative earnings growth forecasts, and revisions to those forecasts, remain supportive. We are becoming increasingly positive on emerging markets (EM), where relative economic and earnings growth forecasts look at odds with historically cheap valuations. The decline in EM profit margins over the past few years looks well advanced, and a potential recovery in the global manufacturing cycle bodes well for EM equities.

Property

A range of indicators hint at signs of improvement in the outlook for UK commercial property. While the latest Royal Institute of Chartered Surveyors survey highlights ongoing falls in occupier demand and rent expectations, and rising availability and inducements offered to tenants, all indicators were less negative than in the previous survey. At the same time, the pace of decline in the MSCI UK Monthly Property Capital Value Index, which is now almost 26% below its June 2022 peak, has slowed. Additionally, falling inflation, alongside decent nominal rental growth, means real rental growth returned to positive territory in February for the first time since January 2017.

Chart 6: Net initial yields are as high as they've been in almost 10 years

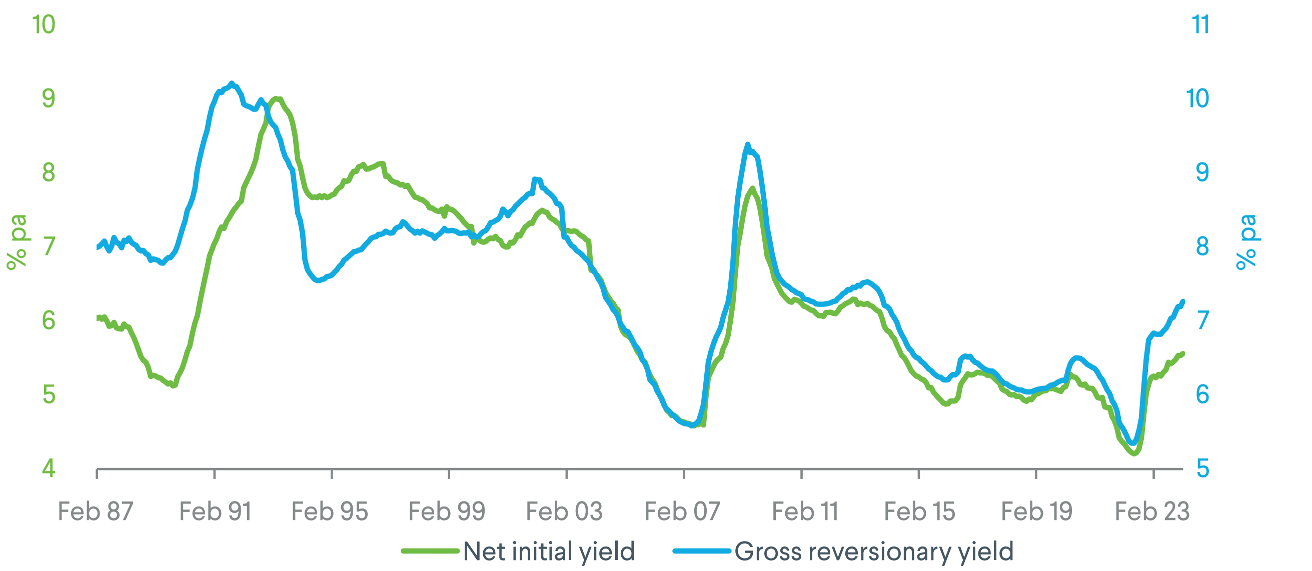


Chart 6: MSCI IPD Monthly

Net initial yields, based on current income, have risen to 5.6% pa, while gross reversionary yields, based on estimated rental value, have risen to 7.3% pa (Chart 6). Transaction yields, which sometimes include secondary-market discounts, have often been higher than those at index level, but some major valuation houses are suggesting that yields are stabilising across many sub-sectors. However, despite these tentative signs of improvement, the technical backdrop remains challenging, as many pooled UK property funds continue to face a substantial level of investor redemptions and need to sell assets while transaction volumes are relatively low.

Conclusion

Global growth momentum improved at the beginning of 2024, and there are tentative signs of a recovery in manufacturing activity, following the global industrial recession of the past 18 months. As a result, global growth is now expected to slow only modestly in 2024, and recession fears have rapidly receded. However, better activity data have been accompanied by a resurfacing of inflation fears, with markets now expecting two to three interest-rate cuts from the major central banks in 2024, down from six to seven at the start of the year.

The fundamental outlook for risk assets has improved, but our concerns are shifting towards valuations, which have baked in a lot of good news. Razor-thin credit spreads are supported by strong demand, but we think attractive yields are mostly a reflection of underlying sovereign bond yields, and credit risk premia look exceptionally low, particularly in fixed-rate bond markets. We do not suggest an imminent reversal of fortunes is likely, but global equity valuations point to a more subdued medium-term return outlook. There are also hints of stabilisation in the UK commercial property market. Valuations are no longer demanding, given the steep declines in capital values over the last couple of years. However, the technical backdrop is still challenging.

While short-term sovereign bond yields, at best, fairly reflect the likely extent of near-term rate cuts, and underlying inflation pressures suggest central banks might cut even less than expected, we still think longer-term bond yields are attractive. A more modest pace of interest-rate cuts would also extend the shelf life of cash, which offers a positive real yield to sit on the sidelines.

Additional notes

This communication has been compiled by Hymans Robertson LLP® (HR) as a general information summary and is based on its understanding of events as at the date of publication, which may be subject to change. It is not to be relied upon for investment or financial decisions and is not a substitute for professional advice (including for legal, investment or tax advice) on specific circumstances.

HR accepts no liability for errors or omissions or reliance on any statement or opinion. Where we have relied upon data provided by third parties, reasonable care has been taken to assess its accuracy; however, we provide no guarantee and accept no liability in respect of any errors made by any third party.

Chris Arcari
Head of Capital Markets
chris.arcari@hymans.co.uk
0141 566 7986

Hymans Robertson LLP is a limited liability partnership registered in England and Wales with registered number OC310282. Authorised and regulated by the Financial Conduct Authority and licensed by the Institute and Faculty of Actuaries for a range of investment business activities.

This page is intentionally left blank

Leicestershire County Council

LOCAL PENSION COMMITTEE – 19 JUNE 2024

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 (LPC) with details of decisions taken by the Investment Subcommittee (ISC) at its meeting held on 1 May 2024.

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 2024 LPC meeting, the 2024 SAA was approved. There were no changes from the previous year's 2023 strategic asset allocation. The new 2024 SAA and changes from the 2022 SAA are shown in the table below.

Asset Group	Asset Class	2022 SAA	2023 &2024 SAA	Change from 2022 SAA
Growth	Listed equities	42.00% (40%-44%)	37.50%	- 4.5%
Growth	Private equity	5.75%	7.5%	+ 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%
Income	Global credit – private debt (inc M&G/CRC)	10.50%	10.50%	
Prot	Inflation-linked bonds	4.50%	*3.5% changed from 4.50%	
Prot	Investment grade credit	3.00%	*3.75% changed from 2.75%	-0.25%
Prot	Currency hedge	0.50%	0.75%	+0.25%
Prot	Cash / cash equivalent	0.00%	0.00%	

*At the July 2023 meeting of the ISC a change was recommended and approved for inflation linked bonds and investment grade credit from the January 2023 SAA approval. The weights shown for these 2 asset classes represent the most up to target weights from the July 2023 ISC meeting approval

4. A schedule of work was agreed with Hymans Robertson (the Fund's investment advisor) at the January 2024 LPC meeting to facilitate the implementation of the SAA in a similar way to what was done in 2023 with proposals considered with officers in advance of presenting these to the ISC at its meetings:

    a. A protection assets review, which will consider amongst other things an increase to the protection assets weighting if the change may result in better risk adjusted returns. Hymans will also investigate if alternative asset classes could be included within the protection assets group.

    b. A review to maintain exposure to two asset classes which will be returning capital over the coming years, bank risk share investments and Timberland. This review will be presented to the July 2024 meeting of the ISC.

Protection assets recommendation

5. The protection assets review is now complete, the ISC were asked to note the report. Hymans concluded the current strategy should be retained with no clear need to make changes to the target weights of the existing protection assets and no clear rationale at this stage to add new asset classes to this group.

6. Hymans added, the results of the asset liability modelling (ALM) does not provide a compelling case for increasing the weighting to protection assets at the current time, however:

   - They note an increased allocation might improve probability of success and downside risk, but only marginally so;

   - They believe an increased allocation to protection assets would help in tail risk (the risk to investment returns from low probability events) scenarios, but they would not eliminate the risk of material deficits re-opening;

   - They believe maintaining a reasonable level of contributions and investment risk/return in order to maintain a healthy funding surplus is believed to be a better approach to mitigating tail risk;

   - An increased allocation to protection assets would also be more helpful in the event of sustained equity underperformance, but it is not recommended to tailor investment strategies to specific scenarios.

7. In summary, at present the current SAA for protection assets as described earlier in the paper applies until the next annual review.

Leicestershire Pension Fund Conflict of Interest Policy

8. 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

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

Environmental Implications

10. 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.

11. 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

12. 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

13. 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

Local Pension Committee 26 January 2024, Overview of the Current Asset Strategy and Proposed 2024 Asset Strategy (Agenda item 6)
https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=740&MId=7538&Ver=4

Investment Sub-Committee 1 May 2024, Review of the Leicestershire LPGS Protection assets portfolio (agenda item 7)
https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=919&MId=7534&Ver=4

Officers to Contact

Mr D Keegan, Director of Corporate Resources
Tel: 0116 305 7668 Email: Declan.Keegan@leics.gov.uk

Simone Hines, Assistant Director Finance, Strategic Property and Commissioning
Tel: 0116 305 7066 Email: Simone.Hines@leics.gov.uk

Mr B Kachra, Senior Finance Analyst - Investments
Tel: 0116 305 1449 Email: Bhuleh.Kachra@leics.gov.uk

This page is intentionally left blank

Leicestershire County Council

LOCAL PENSION COMMITTEE – 19 JUNE 2024

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

TRAINING POLICY REVIEW

Purpose of the Report

1. The purpose of this report is to seek the Local Pension Committee's (LPC) approval of the revised Training Policy.

Policy Framework and Previous Decisions

2. The LPC first agreed a Training Policy on 8 November 2019 in line with best practice at the time. The latest version of the Training Policy was approved by the LPC on 25 March 2022.

3. The Policy, and regular training, is required because of:

   - the distinction of fiduciary duty owed to the Fund, compared to members and officers' usual business.
   - the complexity of pension and investment issues.
   - inevitable changes in the membership due to the election cycles
   - the Fund being treated by investment managers as a professional client and requirement to comply with the Markets in Financial Instruments Directive (MiFID II).
   - the potential consequences of not administering the Fund in an appropriate manner.
   - responsible investing, net zero and how the Fund achieves this.

4. Training requirements are also reflected in the Terms of Reference of both the LPC and the Local Pension Board (LPB).

Background

5. Since the LPB formation there has been legislation which sets out that Board members have a personal responsibility to have an appropriate level of knowledge and understanding for the purposes of enabling them to exercise properly their functions as a member of the LPB.

6. As part of the 2023 consultation 'Next Steps on Investment' the Government proposed that each administering authority set a training policy for LPC members, and that the administering authority report regularly on training undertaken and whether this is in line with the training policy. The Fund has historically reported training undertaken by both LPC and LPB Members annually within the Fund's Annual Report as part of best practice, and as recommended by the Scheme Advisory Board's Good Governance review.

7. As identified by the Pension Regulator, good governance is essential for a pension scheme to be successful, with a clear link between good governance and good fund performance.

8. Hymans Robertson Aspire online training has been accessible to LPC and LPB Members for a number of years. During 2023 Hymans reviewed the offering and issued new refreshed modules which reset all members Aspire training records to zero as of September 2023. Members were encouraged to undertake these modules in light of the updated information and as part of the Fund's Training Policy.

9. In early 2024 the Pensions Regulator published a new General Code of Practice (the code) for governing bodies of pension schemes to assist them in meeting their legal obligations and in ensuring their scheme is well governed. It is intended that a full report on compliance and next steps will be brought to the next round of LPB and LPC meetings (July and September respectively). Having considered the revised Training Policy against the new code officers view is that it will be compliant.

<u>Training Policy Review</u>

10. A review of the Training Policy has been undertaken having regard to Government legislation, other relevant guidance and having considered the terms of reference of other similar funds, as well as expectations for future requirements on the LPC and best practice.

11. Officers have also considered the views of the LPC and LPB as part of previous reports summarising the training needs analysis in early 2024, as well as the Board's comments on the draft Training Policy as provided at its meeting on 17th April 2024. Key points raised are addressed below:

    - It was vital that any initial communication or documentation with potential representatives and interested parties set forth expectations and time commitments expected. Officers will review documentation and communications it circulates to ensure it is reflective of the bodies terms of reference and, subject to approval, the Training Policy.

    - Interest was expressed in the possibility of opening up the in-person sessions to a hybrid format. Unfortunately, given technical issues that arose as part of the initial trial, it was felt it would be more reliable to maintain it as an in-person session. Where Members were unable to attend, they could instead watch the modules at their own schedule and could break them down into smaller chunks if needed. Officers will keep the approach under review.

12. Officers are aware of the pressures on members and do not want to set unreasonable standards which create difficulties for members serving on the LPC or LPB. Individuals are not expected to become technical experts, and levels of knowledge will vary depending on experience. It is also acknowledged that some have been members of the LPC or LPB for a number of years and so have, over time, built up good knowledge and experience. However, ultimately both need to demonstrate that it possesses the expertise, experience and knowledge required to be capable of serving on the LPC or LPB, with the LPC needing to satisfy those providing investment services that it also possesses those requirements to be capable of making its own investment decisions, understands the risks involved, and undertakes training as required as an accepted way to provide such assurance.

13. While the main features of the original Training Policy have been retained, such as the objectives, areas of training and differing methods of training, the revised Training Policy, attached as Appendix A to this report, offers far more detail and clarity on expectations of members and officers and how success can be measured against the Policy.

14. The Committee's attention is specifically drawn to the following key changes:

    1. Differentiation between training expectations on the LPB, LPC and Fund officers.
    2. Set requirements to complete the online Hymans Learning within 6 months of appointment, or upon any revision of the modules and criteria that the Fund can report on a successful Training Policy as part of the Annual Report.
    3. Flexibility of training to suit members and how these online modules can be completed.
    4. That the Chairman of both the LPB and LPC be kept updated on members' progress against the Training Policy.

Next Steps

15. Having taken on board comments from LPC and LPB members and in recognition of the varying approaches to training and the need for flexibility, a Training Plan of in-person sessions was put in place following a trial after the February LPB meeting. The first in-person session took place on 8 April 2024 with 10 members attending alongside Fund officers and this was followed by discussions on the training modules. Members that were unable to attend were reminded of modules that needed to be completed before the end of April. The second session took place on 31st May 2024. Following discussions with the Chairman and members future sessions have been shortened and amended as set out in a revised Training Plan for 2024 attached as Appendix B.

16. This year's training plan supports upcoming agenda items for the year ahead. If members do not wish to, or are unavailable to attend, in line with the revised Training Policy they are required to complete the relevant modules online by the relevant month end.

17. A record of completion of all training, including Hymans on-line training, undertaken by LPC and LPB members is included within the Fund's Annual Report. Essentially training progress will be shown as a snapshot of the position as at 31 March each year. The relevant Chairman will be kept updated on matters.

18. Officers will consider how information is shared with prospective members prior to commencement of their duties in line with the new policy subject to approval.

Recommendations

19. It is recommended that the proposed changes to the Training Policy be approved.

Equality Implications

20. None.

Human Rights Implications

21. None

Legal Implications

22. The Director of Law and Governance has been consulted on this report.

23. Under MiFID II (Markets in Financial Instruments Directive) local and public authorities must satisfy a qualitative test that allows them to be treated as a professional investor with the capacity to make investment decisions. This test requires the Local Pension Committee to satisfy those providing investment services that it possesses the expertise, experience and knowledge required to be capable of making its own investment decisions and understanding the risks involved.

24. The LPC's Terms of Reference sets out that members must demonstrate to the Administering Authority their capacity to attend and prepare for meetings or to participate in required training in order to reach the required standard in line with MiFID II and the Fund's Terms of Reference. It is for the Scheme Manager (the Administering Authority) to be satisfied that those appointed have the appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of the LPC.

25. In line with these duties under their role, LPC members are required to be able to demonstrate their knowledge and understanding and to refresh and keep their knowledge up to date on anything that would fall within the remit of their role. A written record of all relevant training and development (whether internal or external) undertaken by LPC members should be maintained. All members will undertake an annual personal training needs analysis and regularly review their skills, competencies, and knowledge to identify gaps or weaknesses as well as the mandatory training that the Scheme Manager considers is required to ensure the LPB and LPC operates as effectively as possible. All information in relation to training and development of all members shall be made available to the LPC and LPB as part of the Review Process.

26. It is important that members are trained appropriately so that decisions are made from a sound knowledge base thereby minimising the risk of any legal challenge.

Background Papers

Local Pension Board – 7 February 2024 – Training Needs Self-Assessment
https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=1122&MId=7545
Local Pension Committee – 26 January 2024 - Training Needs Self-Assessment
https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=740&MId=7538
Local Pension Committee – 25 March 2022 – Training Policy
https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=740&MId=6758&Ver=4

Appendices

Appendix A: Revised Training Policy
Appendix B: Training Plan 2024

Officers to Contact

Declan Keegan, Director of Corporate Resources
Tel: 0116 305 7668 Email: Declan.Keegan@leics.gov.uk

Simone Hines, Assistant Director Finance, Strategic Property and Commissioning
Tel: 0116 305 7066 Email: Simone.Hines@leics.gov.uk

Bhulesh Kachra, Senior Finance Analyst - Investments
Tel: 0116 305 1449 Email: Bhulesh.Kachra@leics.gov.uk

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

This page is intentionally left blank

APPENDIX A

LEICESTERSHIRE COUNTY COUNCIL PENSION FUND TRAINING POLICY

Introduction

1. This policy demonstrates to stakeholders the Local Pension Committee's (Committee), the Local Pension Board's (Board), and Officers' recognition of the importance of knowledge and understanding of pension issues in the effective management of the Leicestershire Pension Fund ('the Fund').

2. This policy, and regular training, is deemed necessary due to:

    - the distinction of fiduciary duty owed to the Fund, compared to members and officers usual business.
    - the complexity of pension and investment issues.
    - inevitable changes in the membership due to the election cycles.
    - the Fund being treated by investment managers as a professional client and requirement to comply with the Markets in Financial Instruments Directive II
    - the potential consequences of not administering the Fund in an appropriate manner.
    - Responsible investing, net zero and how the Fund achieves this.

3. In addition, the Terms of Reference for the Committee and Board state that members 'must demonstrate to the Administering Authority their capacity to attend and prepare for meetings or to participate in required training.'

4. This policy complies with the Pensions Act 2004 248A and knowledge and understanding requirements set out within the Pension Regulators Code of Practice 2024. Though legislation and the Pensions Regulator only place these explicit requirements on the Board, this policy applies to all members and substitute members of the Committee, Board, and officers involved in the management of the Fund.

Core Knowledge Areas

5. The Fund adopts the principles contained within the Chartered Institute of Public Finance and Accounting (CIPFA) published guidance on Pensions Knowledge and Skills in 2021.

6. The guidance identifies eight core areas where appropriate knowledge and skills should be achieved and maintained:
    a. Pensions legislation and guidance
    b. Pensions governance
    c. Funding strategy and actuarial methods
    d. Pensions administration and communications

e. Pensions financial strategy, management, accounting, reporting and audit standards
f. Investment strategy, asset allocation, pooling, performance, and risk management
g. Financial markets and products
h. Pension services procurement, contact management and relationship management.

The Fund maintains a detailed list of topics within each area which Committee and Board members are assessed upon annually. This is set out within the Appendix to this Policy.

Local Pension Committee and Local Pension Board Requirements

7. For the Committee and Board, members are not expected to become technical experts, and levels of knowledge will vary depending on experience and time served. Ultimately the aim is that the breadth of knowledge and understanding achieved should be sufficient to allow members to understand fully any advice they are given, to challenge that advice if it seems sensible to do so and to enter fully into all decision-making processes.

8. As set out in the Pensions Act 2013 Board members have a personal responsibility to have an appropriate level of knowledge and understanding for the purposes of enabling them to exercise properly their function in assisting the Administering Authority in ensuring the effective and efficient governance and administration of the LGPS. In practice this means Board members must be conversant with the role of the scheme, and any document recording policy about the administration of the scheme.

9. Board members also have a role in supporting the Administering Authority in securing compliance with LGPS Regulations, other legislation, and the requirements of the Pensions Regulator, and must therefore have knowledge and understanding of the law relating to pensions and such other matters as may be prescribed, such as areas set out within the Pension Board Terms of Reference.

10. The Committee also have a collective responsibility to have appropriate knowledge and understanding to satisfy the Markets in Financial Instruments Directive II. It is further understood that it is the policy direction that Committee members have the same individual responsibility for knowledge and understanding as the Board. This plan reflects best practice and expected future requirements at this time.

11. The depth of understanding required will vary depending upon the issues expected to be faced by the Fund and whether the individual is involved with the Pension Committee or the Pension Board. For example financial markets and investment strategy will be most relevant to Committee members and Pension’s administration matters most relevant to Board members.

i. On Appointment

12. Upon appointment to Board or Committee (including substitutes), members must:

    - o be provided with an information pack providing key documents and strategies related to the Committee or Board.
    - o undertake induction training with officers before taking up their role.
    - o be provided access to LGPS Online Learning Academy which contains LGPS specific learning modules which reflect the eight core knowledge areas set out above and complete recommended modules as set out by Officers.

ii. Ongoing Commitment to Training

13. An assessment of the training needs of the members of Committee and Pension Board and relevant officers will be undertaken annually to inform the programme of training, and will be reported to Committee and Board. In line with this individual training plans will be developed.

14. Training Needs Analysis will allow officers to provide training plans depending on level of experience. A rolling Training Plan will be developed, which will take into account individual training needs, topical issues, such as when decisions are required in relation to complex issues, or in new areas not previously considered, as well as general awareness.

15. Training will be provided in a variety of ways, using methods including:

    - In-house training sessions provided by officers or external providers, either before, during or after meetings.
    - Group training sessions, including group Hymans LGPS Online Learning Academy (LOLA) sessions.
    - Individual completion of the on-demand Hymans LOLA modules.
    - External training opportunities through conferences, webinars and seminars such as those organised by the Local Government Association and LGPS Central.
    - Circulation of reading material, including Committee and Board report and minutes.
    - The Fund's Information Pack which contains relevant Fund policies and documents.

16. At a minimum, within 6 months of appointment, or a refresh of e-learning, all members are expected to complete all LOLA modules within the Training Plan. Requirements of timescales of completion in year are reported annually. The Fund recognises different training styles of members and therefore provides for flexibility in approaches taken to completion.

17. Board and Committee members have expressed a preference for joint training sessions with officers using the LOLA. This is reflected in the training plan but if members are not able to attend these sessions, then individual completion of the modules will be required.

iii. Other External Training Opportunities

18. A number of external training opportunities take place across the year. Further information will be provided to Committee members when opportunities become available, as well as any other suitable events. Further details of these will be circulated by officers and will be paid for by the Pension Fund.

Fund Officer Requirements

19. It is important that Officers in the Fund have the necessary skills and knowledge to carry out the tasks of managing the Fund's investments and administering the payment of benefits.

20. The knowledge and skills required of staff are set out in their job descriptions, including any formal qualifications required for the role. The Officers should be familiar with the requirements of the CIPFA Code of Practice on Knowledge and Skills and should have knowledge of the six areas of the framework.

21. Alongside access to the Hymans LOLA system, officers will attend relevant training events and seminars during the year to ensure they remain up to date with latest requirements. In addition, officers are also required to keep up to date with relevant issues affecting the pension fund.

Cost

22. Where there is a cost involved in providing the training this will be met directly by the Fund.

Key Risks

23. The key risks to the delivery of this policy are outlined below. The Chairmen of the Committee and Board, with the assistance of Fund Officers, will monitor these and other key risks and consider how to respond to them.

- Changes to Board or Committee membership.
- Poor attendance and/or lack of engagement at training and/or formal meetings by members and/or officers resulting in a poor standard of decision making, administration and/or monitoring.
- Insufficient resources being available to deliver or arrange the required training.
- The quality of advice or training provided not being of an acceptable standard.

- The requirements placed on members create difficulties for them.

Monitoring and Reporting

24. To identify whether the objectives of the Policy are being met, fund officers will maintain a training log to record training attended by members and officers. Members must notify officers of any training they have completed outside of the Fund, in order that the log be kept up to date.

25. Members who attend external events will be required to report back to the Committee/Board (as relevant) to share their knowledge with other members.

26. Reporting against this policy will be presented to the Fund Committee and Pension Board as part of the Fund Annual Report and Accounts. This will report successful completion of training using the following criteria, as well as training undertaken during the year:

    a. Completion of mandatory induction training.
    b. Completion of the LOLA modules mandatory training within six months of appointment.
    c. Fulfilment of the Committee and/or Board's respective Terms of Reference.
    d. Compliance with all applicable legislation and regulation.

27. The Chair of the Local Pension Board and Committee will be kept updated on Members progress against the policy.

28. Failure to complete the required training is in breach of the Training Policy and Terms of References. Membership of the Committee or Board may be terminated prior to the end of the term of office if they are no longer able to demonstrate they have the capacity to attend and prepare for meetings, or participate in the required training.

29. Officers involved in the management and administration of the Fund are set annual objectives which will include an element of professional development. These objectives are monitored as part of each individual's annual appraisal.

Approved by the

Appendix

Areas of Knowledge and Understanding for the Fund.

Pension Legislation – Board and Committee

1. General pensions legislative framework in the UK, for example defined benefit, defined contribution, tax treatment and auto-enrolment.
2. The roles and powers of the UK Government in relation to the LGPS
3. The main features of the LGPS legislation relating to benefits, administration and investment.

Pension Governance – Board and Committee

4. The role of Leicestershire County Council as administering authority in relation to the LGPS in relation to the Fund
5. The role of the Scheme Advisor Board and the Pensions Regulator, Pensions Advisory Service and Pensions Ombudsman to the workings of the LGPS
6. Awareness of the Pension Regulator's Code of Practice for public sector pension schemes
7. The role of the Local Pension Committee
8. The role of the Local Pension Board
9. The roles and statutory responsibilities of the Administering Authority S151 officer
10. Potential conflicts of interest, how they are identified and managed.

Pensions financial strategy, management, accounting reporting and audit standards – Board and Committee

11. Requirements on the Fund in relation to accounting legislation and the Fund's Annual Accounts.
12. Audit Regulations and legislative requirements relating to internal controls and external audit for the Pension Fund.

Pension Administration and Communications – Board and Committee

13. The Administration and Communication Strategy and how the service is delivered and communicated to the Fund's members and employers.
14. An understanding of how Fund breaches in law are reported
15. Understanding of Fund policies relating to member data, record keeping, internal dispute procedures, cyber risk and contributions.
16. LGPS discretions and how employers' discretionary polices impact on the Fund.
17. Tax treatment of pensions, retirement lump sums annual allowance and lifetime allowance

18. The Fund’s Additional Voluntary Contribution arrangements and choice of investments offered to members
19. Statutory deadlines and key performance indicators of the Pension Fund.

Pension Services Procurement and Relationship Management – Board and Committee

20. An understanding the background of public procurement and the roles of key decision makers and organisations in relation to pensions administration (ie. Actuarial services, Investment Advisors, AVC providers)
21. Supplier risk management. (ie. procurement procedure, risk assessments, what to look for when selecting an investment manager).
22. An understanding of how the Fund monitors and manages outsourced providers (software providers, tracing agencies)

Investment Strategy, asset allocation, pooling performance and risk management - Committee

23. How pension fund management risks are monitored and managed.
24. The role of the Fund’s investments in paying future pension payments.
25. Awareness of the Fund's Investment Strategy Statement
26. Key aspects of Investment Manager Monitoring
27. The Fund's approach to responsible investment and engagement, and stewardship activities undertaken by fund managers and other partners.
28. The Fund's approach to climate risk and opportunities.
29. Investment pooling and the role of LGPS Central.

Financial Markets and Products Knowledge - Committee

30. The risk and return characteristics of the main asset classes and their role in long-term pension fund investing, including different investment vehicles available (ie. segregated or pooled, acti...
31. Understanding of the primary importance of the Fund’s Strategic Asset Allocation (at every January Committee).
32. Awareness of the limits placed by regulation on the investment activities of the Fund (ie. fiduciary duty, ESG, and Fund discretions).

Funding strategy, actuarial methods, standards and practice – Board and Committee

33. The actuarial valuation process, including development of the funding strategy statement.
34. Key assumptions in the actuarial valuation
35. The types of employer eligible to join the Fund
36. The importance of the employer covenant
37. How employers’ contribution rates are set
38. Where an employer leaves the Fund, how the promised pensions liabilities are paid for.
39. How employer outsourcings and bulk transfers are dealt with.

Appendix B: Training Plan 2024

Dates for in-person participation in Hymans Modules, where Members are unable to attend, they are expected to complete the modules at times to suit them, and complete by the end of the month of the in person modules.

These will be supported by officers and will include presentations from officers where necessary.

Date	Modules	Time
8 April 2024	Module 3: AVC (11m), Policies and Procedure (20m) Module 5: Procurement (11m) Current Issues, climate change, McCloud and dashboards.	2hr
31 May 2024	Module 2: Governance A presentation from the Head of Law on governance and fiduciary duty and other areas. Module 8: Actuarial Training (first two videos) Module 4: Accounting and Audit	3hr
17 September	• Module 1: Introduction to the LGPS • Continuation of Module 8 Actuarial methods, standards and practices – remaining two videos on Technical and Employers. • Module 7: Financial Markets and Products • Current Issues Modules	2hr
1 November 2024	Module 6: Investments New TCFD Module	2hr

This training does not replace the normal training that is completed as part of, and following, Committee and Board meetings. External training opportunities will also be presented to members where applicable.

This page is intentionally left blank

Leicestershire County Council

LOCAL PENSION COMMITTEE: 16 JUNE 2024

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

INVESTMENT SUB-COMMITTEE MEMBERSHIP

Purpose of report

1. The purpose of this report is to inform the Local Pension Committee (LPC) of the membership of the Investment Sub-Committee (ISC) for the period ending May 2025.

Background

2. As administering authority, Leicestershire County Council has responsibility for managing the Pension Fund. In order that it can fulfil this responsibility effectively, the LPC (previously known as the Pension Fund Management Board) has been given responsibility for all decisions in respect of the Fund.

3. In May 2010 the County Council approved the formation of the ISC in order to assist the Pension Fund Management Board (now the LPC) in pro-actively managing the Fund's assets. The increasing complexity of the Fund's investment structure had the impact that the LPC found it increasingly difficult to act in a suitably pro-active manner within the confines of five meetings per annum.

4. The ISC meets when required on months where there are no LPC meetings. It has significant delegated powers to make decisions on behalf of the LPC. Its role is to consider action that is in-line with the strategic benchmark agreed by the LPC and to take a pro-active approach to the Fund's investments.

5. The ISC looks to deal with 'tactical' issues associated with implanting the strategy, such as investment manager appointments and the timing of asset allocation changes. Where required the ISC will also invite current Investment Managers in to review their strategy and performance.

Membership

6. Membership of the ISC is drawn from members of the LPC. The ISC will continue to consist of six voting members plus a non-voting scheme member representative. The Membership will comprise:

   - Three County Councillors based on the proportional representation of the Council.
     Mr. T. Barkley CC
     Mr. D. Grimley CC
     Mr. D. Bill CC

- One member representing Leicester City Council
- One member representing the District Councils
- The member representing De Montfort/Loughborough Universities
- One scheme member representative (non-voting) – The scheme member representatives undertake the role on a rotating basis.

Future Meeting Dates

7. Below is a list of provisional meeting dates for the ISC up until the end of 2025, all to be held on a Wednesday. If there is no business to be transacted the meeting will be cancelled.

- 24 July 2024
- 2 October 2024
- 11 December 2024
- 30 April 2025
- 25 July 2025
- 1 October 2025
- 10 December 2025

Recommendation

8. It is recommended that the Local Pension Committee notes the report.

Equality Implications

9. There are no direct Equality implications arising from the recommendations in this report.

Human Right Implications

10. There are no direct Human Rights implications arising from the recommendations in this report.

Officer(s) to Contact

Declan Keegan – Director of Corporate Resources
telephone (0116) 305 7688

LOCAL PENSION COMMITTEE – 19 JUNE 2024

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

LGPS CENTRAL UPDATE

Purpose of the Report

1. The purpose of the report is to provide the Local Pension Committee (LPC) with an update on the Leicestershire Pension Fund's (the Fund) investments with LGPS Central ("Central"). A presentation (attached as an appendix) will also be given by Central detailing:

    a. Pooling landscape
    b. People update
    c. Central investments products and the Fund's investments
    d. Responsible Investment overview
    e. Performance of public and private market investments

Background

2. The Government instigated the 'pooling' of pension funds in 2015 with the publication of criteria and guidance on pooling of Local Government Pension Scheme (LGPS) assets. Administering authorities formed their own groups and eight asset pools were formed, which are now all operational. The scale of each pool gives significant buying power in the investment market, that would not normally be accessible to funds.

3. LGPS Central (Central), an investment management company jointly owned by eight midlands based Local Government Pension Scheme funds to deliver investment pooling, started operating on 1st April 2018.

4. The Fund is a stakeholder from two different perspectives:

    - A co-owner of the company (shareholder); and
    - As a recipient of investment services.

5. The Fund has invested in a number of Central products which as of 31 March 2024 were valued at £2.5bn (£2.2bn at 31 March 2023). The Fund also has a further c£1.1bn in collectively procured, pooled low-cost passive funds with Legal and General.

6. As of 31 March 2024 the following had been invested by Central on behalf of the Fund:

Asset Class	Public/ private	Fund	LCCPF Invested
Passive Global Equity	Public	All World Equity Climate Multi Factor Fund	£812m
Active Global Equity	Public	Emerging Markets Equity Active Multi Manager Fund	£185m
Active Global Equity	Public	Global Equity Active Multi Manager Fund	£636m
Active Global Fixed Income	Public	Investment Grade Corporate Bond Multi Manager Fund	£159m
Active Global Fixed Income	Public	Global Active Emerging Market Bond Multi Manager Fund	£63m
Active Global Fixed Income	Public	Global Active Multi Asset Credit (MAC) Fund	£348m
Private Equity	Private	Private Equity Fund	£12m
Private Credit	Private	Low Return 2021	£126m
Private Credit	Private	High Return 2021	£32m
Private Credit	Private	Real assets	£52m
Infrastructure	Private	Infra Core/Core+	£60m

7. The above numbers do not include outstanding commitments to private market investments that are yet to be called by Central and as such the absolute value of pooled assets will increase over time, all other things being equal.

8. Local management of investments will continue for closed-ended funds, and where Central do not have a suitable product to transition into. For example, where an investment manager is appointed to fulfil a specific purpose via a fund that is set up to run for a specified period of time. These investments will be managed locally until the capital is repaid.

Leicestershire Pension Fund Conflict of Interest Policy

9. Whilst not a conflict of interest, it is worth noting that the County Council also invests funds with JP Morgan which the Leicestershire County Council Pension Fund invests with. The County Council’s investments were made following due diligence Hymans Robertson had provided the Fund.

Recommendation

10. The Local Pension Committee is asked to note the report and presentation.

Environmental Implications

11. 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

12. 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

13. 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

None.

Officers to Contact

Mr D Keegan, Director of Corporate Resources
Tel:0116 305 7668 Email: Declan.Keegan@leics.gov.uk

Simone Hines, Assistant Director Finance, Strategic Property and Commissioning
Tel: 0116 305 7066 Email: Simone.Hines@leics.gov.uk

Mr B Kachra, Senior Finance Analyst - Investments
Tel: 0116 305 1449 Email: Bhulesh.Kachra@leics.gov.uk

This page is intentionally left blank

LGPS Central Limited

Leicestershire County Council Pension Fund

LGPS CENTRAL LIMITED UPDATE

Leicestershire County Council PENSION FUND

19 June 2024

Agenda

LGPS Central Limited

LGPS CENTRAL LIMITED UPDATE

- Introduction
- Our People
- Investment Overview and Performance
- Closing Comments

In collaboration with our Partner Funds…

CHESHIRE PENSION FUND

Derbyshire Pension Fund

Leicestershire County Council PENSION FUND

NOTTINGHAMSHIRE PENSION FUND

Shropshire County Pension Fund

Staffordshire Pension Fund
Local Government Pension Scheme

West Midlands Pension Fund

Worcestershire Pension Fund

LGPS Central Limited

Introduction

Evolving Landscape

LGPS Central Limited

LGC
LOCAL GOVERNMENT CHRONICLE

General election delay is desperate and irresponsible
SARAH CALKIN EDITOR

INVESTMENT

Phil Triggs: Ministers need to give LGPS funds incentives to merge

13 MAY 2024 | BY PHIL TRIGGS

Room 151
Local Government Treasury, Pensions & Strategic Finance

151 LATEST
WHAT'S NEW?
.ambeth's exceptional financ
.ay 16, 2024
Councils struggle to meet soc
May 15, 2024

MUNICIPAL MISSIONS MANIFESTO | TREASURY | TECHNICAL | FUNDING | LGPS | DEVELOPMENT | 151 NEWS

Government in talks with industry on LGPS fund mergers

BY MONA DOHLE IN LGPS — 20 MAY, 2024

PENSIONSAge
The leading pensions magazine

HOME | ABOUT | SIGN UP | CONTACT | VIDEOS | BLOG | JOBS | DIGITAL EDITIONS | PENSIC

EVENTS | ROUNDTABLES | EUROPEAN PENSIONS | PODCASTS

LATEST NEWS Pension literacy campaign launched after research reveals schooling gaps

Industry appreciates 'continuity' in Labour's Plan for Financial Services

By Jack Gray 1/2/24

LAPF Investments

High-level strategy and implementation

COMMENT

Written By: Eric Lambert
Actuary and Independent Investment Adviser

Eric Lambert, Actuary and Independent Investment Adviser, discusses the fundamental question of the difference between strategy and implementation and shows how the current dispute about whether pools or funds should be the decision-makers could and should be decided.

148

The Challenge

LGPS Central Limited

We need to:

Offer you the right products and services

Build your confidence in our investment performance and service delivery

Demonstrate value for money

Maximising The Benefits of Pooling For Clients

LGPS Central Limited

Initial aims

- Benefits of scale
- Better governance
- Reduce cost
- Capacity & capability

Progress

- 33% assets
- FCA regulation
- £77m 'banked'
- £4bn committed

Company ambitions

- 100% assets
- Strategic business partners
- £328m forecast
- Full suite of funds & services

LGPS Central Limited

Our People

People Strategy Update

EVOLVING OUR CULTURE – REFRESHING OUR VALUES

People Strategy Update

SHAPED AROUND FOUR KEY PRINCIPLES

Building a winning team and culture that attracts people to join and inspires them to stay and do their best work

Structuring and leading a workforce with the capabilities and characteristics to deliver our future success

Creating an environment that allows for organisational, personal and professional growth

Building a reward and recognition model that is relevant to the needs and motivations of a diverse and modern workforce

Investment Overview

The Journey so Far

PRODUCT DEVELOPMENT: LEICESTERSHIRE'S POOLING PROGRESS

2018 — 3 Funds Launched
- UK Passive Equity
- Global Equity Dividend Growth Factor Fund
- Global Ex-UK Passive Equity Fund

2019 — 5 Funds Launched
- **PE Primary Partnership 2018 LP**
- PE Co-Investments Partnership 2018 LP
- **Global Equity Active Multi Manager Fund**
- **Emerging Markets Equity Active Multi Manager Fund**
- **All World Climate Multi Factor Fund**

2020 — 2 Funds Launched
- **Global Active Investment Grade Corporate Bond Multi Manager Fund**
- **Global Active Emerging Market Bond Multi Manager Fund**

2021 — 11 Funds Launched
- Global Multi Factor Equity Index Fund
- **Global Multi-Asset Credit Multi Manager Fund**
- **LGPS Central PE Primary Partnership 2021 LP**
- LGPS Central PE Co-Investments Partnership 2021 LP
- **Credit Partnership I LP**
- **Credit Partnership II LP**
- Credit Partnership III LP
- **Credit Partnership IV LP**
- Value Add / Opportunistic Infrastructure Partnership LP
- **Core / Core Plus Infrastructure Partnership LP**
- LGPS Central Infrastructure Single Asset Partnership LP

2022 — 3 Funds Launched
- Global Sustainable Equity Active Funds (Broad, Thematic, Targeted)

2023 — 1 Fund Launched
- **Direct Property Fund**

1 Fund Closed
- Global Equity Dividend Growth Factor Fund

2024 — 2 Funds Launched
- **LGPS Central PE Primary Partnership 2023 LP**
- LGPS Central Residential Indirect Property Partnership

5 Funds in Development / Review
- Credit Partnerships (Direct Lending, Real Asset)
- Buy and Maintain Credit
- Global Investment Grade Credit
- Small Cap Equity

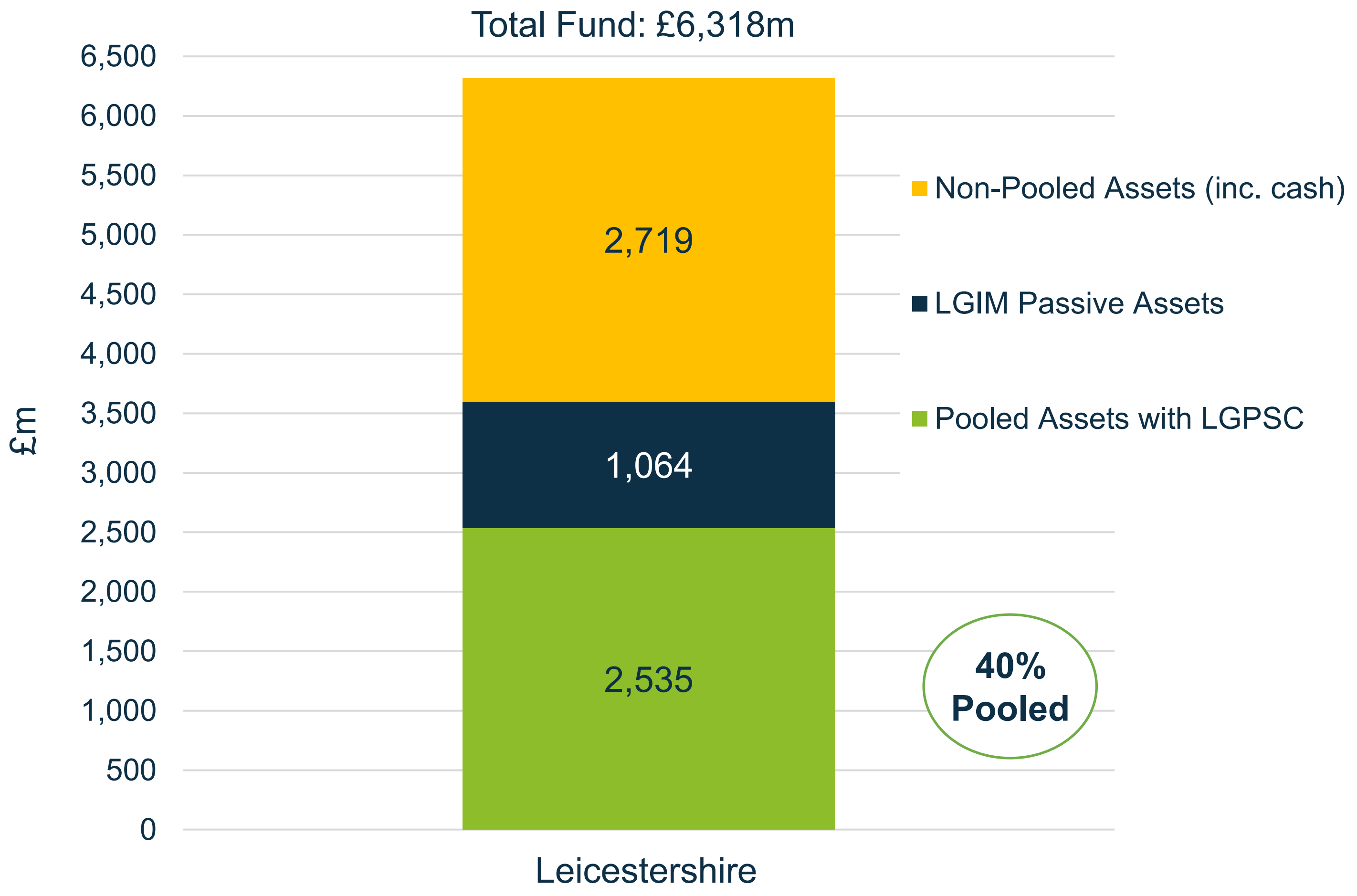
BROAD SUITE OF POOLED INVESTMENT FUNDS TO MEET PARTNER FUND OBJECTIVES
- 4 Passive Equity Funds
- 5 Active Equity Funds
- 3 Active Fixed Income Funds
- 1 Direct Property Fund
- 1 Indirect Property Fund
- 5 Private Equity Limited Partnerships
- 4 Private Credit Limited Partnerships
- 3 Infrastructure Limited Partnerships

Green denotes Leicestershire's investments / commitments.

Leicestershire Progress On Pooling

LGPS Central Limited

LEICESTERSHIRE TOTAL FUND ASSETS: 31 MARCH 2024



Outstanding commitment to LGPSC: £358m

Existing Approvals to LGPSC not yet committed
Private Credit: £280m
Private Equity 2023: c£40m

Anticipated percentage pooled: 43% with uncalled commitments

Percentage with LGIM passives procured in collaboration with other local authorities prior to pooling: 17%

Source: Leicestershire County Pension Fund based on Net Asset Values at 31 March 2024

Leicestershire Investment Overview

31 March 2024: Public Markets	Inception Date	Date Leicestershire First Invested	Total Fund NAV	Leicestershire NAV	Leicestershire % of Fund	Performance % Since First Investment	Benchmark / Target Performance % Since First Investment
Global Equity Active Multi Manager Fund	March 2019	March 2019	£3,701.1m	£636.3m	17%	13.64%	12.46% / 13.96%
Emerging Markets Equity Active Multi Manager Fund	July 2019	July 2019	£493.4m	£184.7m	37%	-0.03%	2.69% / 4.69%
Global Active Emerging Market Bond Multi Manager Fund	Dec 2020	Dec 2020	£579.4m	£63.2m	11%	-1.91%	-3.49% / -2.49%
Global Active Investment Grade Corporate Bond MM Fund	March 2020	April 2020	£2,031.2m	£159.2m	8%	-0.64%	-1.01% / -0.21%
Global Active Multi-Asset Credit Multi Manager Fund (MAC)	April 2021	April 2021	£1,016.3m	£349.5m	34%	-0.36%	2.76% / 6.76%
All World Equity Climate Multi Factor Fund – Passive Fund	October 2019	Dec 2020	£5,037.5m	£811.6m	16%	11.13%	10.91% / N.A.

31 December 2023: Private Markets	Inception Date	PF commitments	Sub-committed	Leicestershire Commitment (% LP)	Drawn	Performance (IRR)	Benchmark % / Target %
LGPS Central Credit Partnership I LP	October 2021	£305m	£277.5m	£60m (20%)	60%	7.3%	12-14% net
LGPS Central Credit Partnership II LP	July 2021	£1,165m	£1,152m	£240m (21%)	55%	9.8%	6%-8% net
LGPS Central Credit Partnership IV LP	June 2022	£587m	£558m	£117m (20%)	48%	0.5%	4.5%-6% net
LGPS Central PE Primary Partnership 2018 LP	January 2019	£150m	£150m	£10m (7%)	81%	13.4%	8.2%/12.2%
LGPS Central PE Primary Partnership 2021 LP	September 2021	£365m	£365m	£30m (8%)	11%	No meaningful data given immaturity	
LGPS Central PE Primary Partnership 2023 LP	January 2024	£275m	£79m	£40m (15%)	nil	No meaningful data given immaturity	
LGPS Central Core / Core Plus Infrastructure Partnership LP	June 2021	£829m	£689m	£135m (16%)	58%	1.4%	3.5% above CPI
Direct Property	April 2023	£128m	-	£118m (92%)	-	-	-

Total Investment in LGPSC: £2,954.5m (based on commitments)

Active Funds: Red – Performance below benchmark, Amber – Performance in line / above benchmark, below target Green – performance in line / above target
Passive Funds: Green – within tolerance range, Red – outside tolerance range

LGPS Central Product Development

LGPS Central Limited

FOCUS ON FURTHER PRIVATE MARKET VINTAGES/OPPORTUNITIES

Buy and Maintain Credit

Investment case in progress

Launch expected Q2 2024

Private credit

2024 vintages in progress

Launch expected Q3 2024

Infrastructure

Opportunities available throughout the year

Leicestershire actively in discussion on these funds and contributing towards development

Responsible Investment Integrated Status

LGPS Central Limited

Selection

RI&E is integrated into all three stages of manager selection. For public markets this usually includes: Selection Questionnaire (SQ), Request for Proposal (RfP) and Manager Meetings

Appointment

RI&E is featured in the legal documentations (IMA, LPA, side letters, etc)

Monitoring

RI&E of the managers is monitored on a regular basis

Responsible Investment Integrated Status

ESG Integration

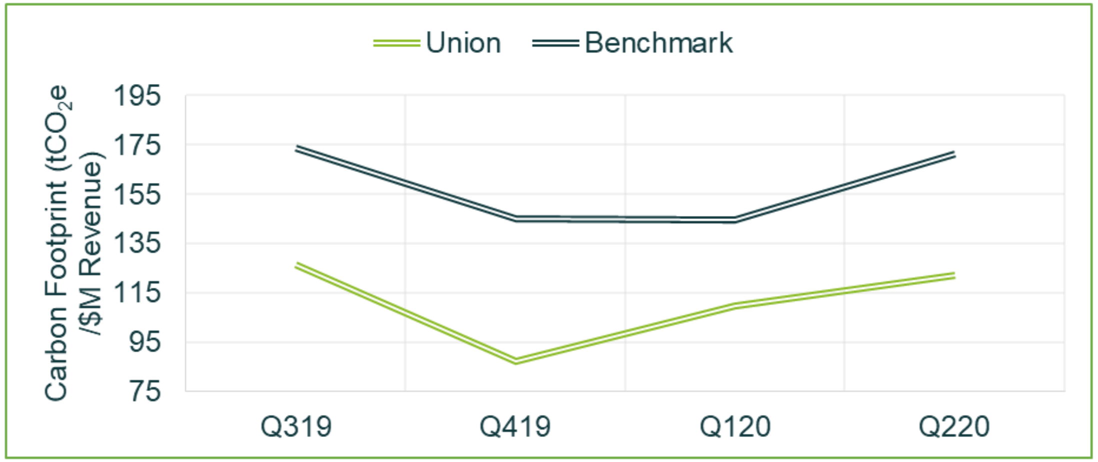
Harris Associates ESG Investment Thesis for Glencore

Environmental
- Glencore remains active in fossil fuel production (20%) however Harris Associates believe the remaining 80% of their value lies in businesses that present environmentally positive opportunities

Social
- To mitigate their social impact in the Democratic Republic of Congo, Glencore has improved safety at their mines and implemented strong community programs

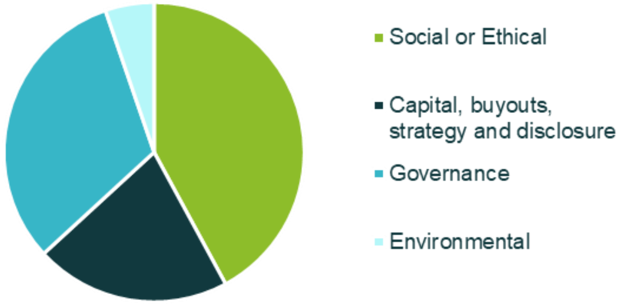
Governance
- Over a 4-year time span, Harris Associates conducted 16 engagements with Glencore and have conviction in the company's leadership

Climate Risk



Stewardship

Schroders: 19 Engagements in Q2 2020



160

Responsible Investment Integrated Status

LGPS Central Limited

SELECTION PROCESS

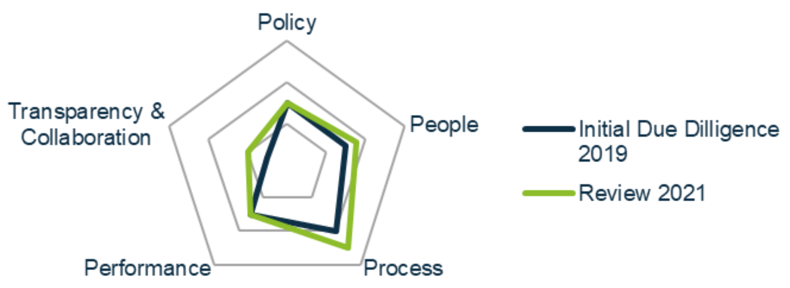
- 5-pillar Framework for RI Integration
  - Policy
  - People
  - Process
  - Performance
  - Transparency & Collaboration
- Considered as part of Investment Committee approval process
- Risk-based approach to due diligence
- Average score calculated to provide comparisons and enhance understanding
- RI Assessment discussed at Investment Committee

Pillar	Scoring system
Policy	No evidence = 0 Basic policy = 1 Good policy = 2 Best practice = 3
People	No evidence = 0 Minimal resource = 1 Good resource = 2 Clear integration = 3 Best practice = 4
Process	No evidence = 0 Limited evidence = 1-2 Integrated process = 3-4 Best practice = 5
Performance	No evidence = 0 Limited evidence = 1-2 Some robust examples = 3-4 Best practice = 5
Transparency, & Collaboration	No evidence = 0 Reporting = 1 Reporting & collaboration = 2 Best practice = 3

Responsible Investment Integrated Status

1. Annual Reviews

- Assessed against 5 core areas: Policy, People, Process, Performance, Transparency & Disclosure



2. Co-investment KPIs

- RI&E KPIs collection from each co-investment on an annual basis
- Includes both a set of general (applicable to all co-invests) and company specific (based on financial materiality)

3. ESG Data Convergence Project

GHG Emissions

Renewable Energy

Board Diversity

Work-related injuries

Net new hires

Employee engagement

Responsible Investment Integrated Status

STEWARDSHIP; TRANSPARENCY & DISCLOSURE

- Stewardship
  - RI monitoring undertaken as part of monitoring process, or where risks are flagged
  - Traffic lights system (to be implemented)

- Transparency & Disclosure
  - RI included in regular internal reporting
  - External reporting provided annually

Priorities for 2024

LGPS Central Limited

Continue to work closely with clients to better understand their investment strategies and risk appetite

Continue to review and evolve our manager selection processes to ensure we can continue to offer our clients best in class solutions to meet investment needs

Continue to build the LGPSC pool and meet the long-term ambitions of becoming strategic partners, offering a full suite of products and services with responsible investment incorporated throughout

Appendix: LGPS Central Performance

Private Markets Overview

BROAD COVERAGE OF OPPORTUNITIES ACROSS FOUR ASSET CLASSES

Asset Class Coverage

- Private Markets covers Private Equity, Private Debt, Infrastructure and Property. To date, 12 strategies have been launched.
- New vintage launched for Private Equity (Q1 2024), Indirect Residential Property (Q1 2024) and to be launched for Private Credit (Q3 2024).
- Infrastructure funds are open-ended allowing capital to be committed as required across four strategies
- UK Direct Property, has recently been launched (Q4 2023) with legacy property portfolios being considered for transition

Opportunities and Threats

- Investor appetite for Infrastructure and Private Debt continues, driven by mega themes (e.g. energy transition and drive to net zero) and macro economical factors (e.g. higher interest rates)
- Increased focus on acquiring assets at the right price as many funds are sitting on dry powder
- Continued opportunity in Private Debt due to the market dislocation as banks continue to retrench
- Enhanced returns through floating rate loan structures benefiting from interest rate increases are expected to reduce as inflation reduces and central banks reduce interest rates

Public Markets Performance

LGPS Central Limited

Annualised Performance to 31 March 2024	Inception Date	1 Year Performance			Rolling Three-Year Performance			Since Inception Performance		
		Fund (% p.a.)	B'mark (% p.a.)	Tracking Error	Fund (% p.a.)	B'mark (% p.a.)	Tracking Error	Fund (% p.a.)*	B'mark (% p.a.)	Tracking Error
Passive ACS Funds										
UK Passive Equity Fund	April 2018	8.69	8.43		7.98	8.05		5.54	5.66	
Global Ex-UK Passive Equity Fund	April 2018	17.75	17.51		9.21	8.97		10.32	10.32	
All World Equity Climate Multi Factor Fund*	Oct 2019	18.95	18.66		11.16	10.96		11.72	11.53	
Global Low Carbon Multi Factor Fund	Jan 2021	17.08	16.78		9.81	9.52		9.99	9.74	
Annualised Performance to 31 March 2024	**Inception Date**	**Fund (% p.a.)**	**B'mark (% p.a.)**	**Target (%p.a.)**	**Fund (% p.a.)**	**B'mark (% p.a.)**	**Target (% p.a.)**	**Fund (% p.a.)**	**B'mark (% p.a.)**	**Target (% p.a.)**
Active ACS Funds										
Global Equity Active Multi Manager Fund*	March 2019	22.26	20.98	22.48	11.87	10.58	12.08	13.64	12.46	13.96
Emerging Markets Equity Active MM Fund*	July 2019	1.73	6.20	8.20	-4.83	-0.43	1.57	-0.03	2.69	4.69
Global Sustainable Equity Active Thematic Fund	May 2022	19.52	20.98	22.98	-	-	-	10.84	11.55	13.55
Global Sustainable Equity Active Broad Fund	May 2022	21.59	20.98	22.48	-	-	-	12.83	11.55	13.05
Global Sustainable Equity Active Targeted Fund	May 2022	3.89	20.98	22.98	-	-	-	3.85	11.55	13.55
Global Active Investment Grade Corporate Bond MM Fund*	March 2020	8.55	6.29	7.09	-2.82	-2.72	-1.92	1.37	1.07	1.87
Global Active Emerging Market Bond MM Fund*	Dec 2020	12.39	10.36	11.36	-0.70	-2.41	-1.41	-1.91	-3.49	-2.49
Global Active Multi Asset Credit MM Fund*	April 2021	6.68	5.23	9.23	-	-	-	-0.36	2.76	6.76

Passive Funds: Red – Tracking error outside of tolerance range, Green – Tracking error within tolerance range
Active Funds: Red – Performance below benchmark, Amber – Performance in line / above benchmark, below target, Green – performance in line / above target
*Leicestershire County Council Pension Fund invested

Source: LGPS Central / Northern Trust. Figures subject to rounding

Private Markets Performance

Performance Since Inception to 31 December 2023	Inception Date	PF commitments	Sub-committed	Drawn	Performance	Benchmark %	Target %
Private Equity							
LGPS Central PE Primary Partnership 2018 LP*	Jan 2019	£150m	£150m	£122m	13.4%	**8.2%**	**12.2%**
LGPS Central PE Co-Investments Partnership 2018 LP	Jan 2019	£107m	£105m	£101m	31.7%	**7.5%**	**11.5%**
LGPS Central PE Primary Partnership 2021 LP*	Sept 2021	£365m	£365m	£42m	No meaningful data given immaturity		
LGPS Central PE Co-Investments Partnership 2021 LP	Sept 2021	£140m	£139m	£127m	14.9%	**2.3%**	**6.3%**
LGPS Central PE Primary Partnership 2023 LP*	Jan 2024	£275m	£79m	nil	No meaningful data given immaturity		
Private Credit							
LGPS Central Credit Partnership I LP*	Oct 2021	£305m	£277.5m (91.0%)	60.3%	7.3% IRR		12-14% net
LGPS Central Credit Partnership II LP*	July 2021	£1,165m	£1,152m (98.9%)	55.4%	9.8% IRR		6-8% net
LGPS Central Credit Partnership III LP	Nov 2022	£440m	£440m (100.0%)	25.5%	3.7% IRR		138-185bp above ref rate
LGPS Central Credit Partnership IV LP*	June 2022	£587m	£558m (95.1%)	48.0%	0.5% IRR		4.5-6% net
Infrastructure							
LGPS Central Core/Core Plus Infrastructure Partnership LP*	June 2021	£829m	£689m (83.1%)	57.9%	1.4% IRR	3.5% above CPI	
LGPS Central Value Add/Opportunistic Infrastructure Partnership LP	April 2021	£197m	£158.9m (80.6%)	22.0%	0.5% IRR	5% above CPI	
Single Asset Infrastructure Partnership LP	Feb 2022	£205m	£205m (100%)	100%	7.8% IRR	8% - 12% TWR	
Co-Investment Infrastructure Partnership LP	Feb 2022	Commitments yet to be made					

*Leicestershire County Council Pension Fund invested

DISCLAIMER:

LGPS Central Disclaimer

IMPORTANT INFORMATION

This document has been produced by LGPS Central Limited and is intended solely for information purposes. Any opinions, forecasts or estimates herein constitute a judgement, as at the date of this report, that is subject to change without notice. It does not constitute an offer or an invitation by or on behalf of LGPS Central Limited to any person to buy or sell any security. Any reference to past performance is not a guide to the future.

The information and analysis contained in this publication have been compiled or arrived at from sources believed to be reliable but LGPS Central Limited does not make any representation as to their accuracy or completeness and does not accept any liability from loss arising from the use thereof. The opinions and conclusions expressed in this document are solely those of the author.

This document may not be produced, either in whole or part, without the written permission of LGPS Central Limited.

Share Class and Benchmark performance displayed in GBP.

Performance is shown on a Net Asset Value (Nav) basis, with gross income reinvested where applicable.

All information is prepared as **of 10 June 2024**

This document is intended for **PROFESSIONAL CLIENTS** only.

“One Central team, working in partnership to invest with purpose and deliver superior returns”

Leicestershire County Council

LOCAL PENSION COMMITTEE – 19 JUNE 2024

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

LGPS CENTRAL – INFRASTRUCTURE PRESENTATION

Purpose of the Report

1. The purpose of this report is to provide the Local Pension Committee (LPC) with information on the Leicestershire Pension Fund (Fund) infrastructure investments with LGPS Central (Central).

2. Appended to the report is a PowerPoint presentation which will be delivered at the meeting by representatives from Central.

Background

3. The Fund has an infrastructure allocation currently managed by seven managers. As at 31 March 2024 the Fund's total infrastructure investments were valued at £628m, or 9.9% of total Fund assets. The Fund has a target weighting to PE set at 12.5% of total Fund assets and is therefore underweight to this asset class or c£160m. Outstanding commitments to this asset class total c£140m across a number of managers.

4. The Fund has invested in both open ended and closed ended investment products. Closed ended products have a limited life and will return capital to investors over time and therefore capital will need to be redeployed in order to maintain exposure. Liquidity is usually limited and depending on the demand for the particular fund would usually only be available on the secondary market.

5. The table below illustrates the total value of the Fund's infrastructure investments.

Fund	Value 31 March 2024	% of total infra	Open ended / closed ended
LGPS Core/core plus	60m	10%	Open
JPM infrastructure investment fund	164m	26%	Open
IFM global infrastructure fund	160m	26%	Open
Stafford infrastructure timberland – 3 vintages	124m	20%	Closed
Stafford carbon offset opportunity fund (COOF)	0m	0%	Closed
KKR – infra funds II and III	49m	8%	Closed
Infracapital infrastructure fund	32m	5%	Closed

Fund	Value 31 March 2024	% of total infra	Open ended / closed ended
Quinbrook Net Zero Power Fund	39m	6%	Closed

6. The Fund, as a part owner of LGPS Central (Central), has an aim to transition investments to cost effective and relevant products at Central as and when they are made available.

7. Central have completed the development of an infrastructure fund in 2021. The July 2021 meeting of the Investment Sub-Committee (ISC) approved a £70m investment to the core/core plus LGPS infrastructure fund. The Fund has subsequently added to the commitment to this product with additional commitments. The total commitment to the Central core/core plus investment product is now £135m with the most recent commitment of £35m approved at the meeting of the ISC in April 2023.

8. The Central infrastructure presentation will cover the following:

   a. Market backdrop (infrastructure)
   b. Overview and performance of the Central fund's core/core plus strategy
   c. Underlying investments made by the strategy

<u>Leicestershire Pension Fund Conflict of Interest Policy</u>

9. Whilst not a conflict of interest, it is worth noting that the County Council also invests funds with JP Morgan which the Leicestershire County Council Pension Fund invests with. The County Council's investments were made following due diligence Hymans Robertson had provided the Fund.

<u>Recommendation</u>

10. The Local Pension Committee is asked to note the report and presentation.

<u>Environmental Implications</u>

11. The LCCPF has agreed 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 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.

<u>Equality Implications</u>

12. There are no direct implications arising from the recommendations in this report. The Fund incorporates financially material 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

13. There are no direct implications arising from the recommendations in this report. The Fund incorporates financially material 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

LGPS Central – Presentation

Background Papers

None

Officers to Contact

Mr D Keegan, Director of Corporate Resources
Tel:0116 305 7668 Email: Declan.Keegan@leics.gov.uk

Simone Hines, Assistant Director Finance, Strategic Property and Commissioning
Tel: 0116 305 7066 Email: Simone.Hines@leics.gov.uk

Mr B Kachra, Senior Finance Analyst - Investments
Tel: 0116 305 1449 Email: Bhulesh.Kachra@leics.gov.uk

This page is intentionally left blank

CONFIDENTIAL

LGPS Central Limited

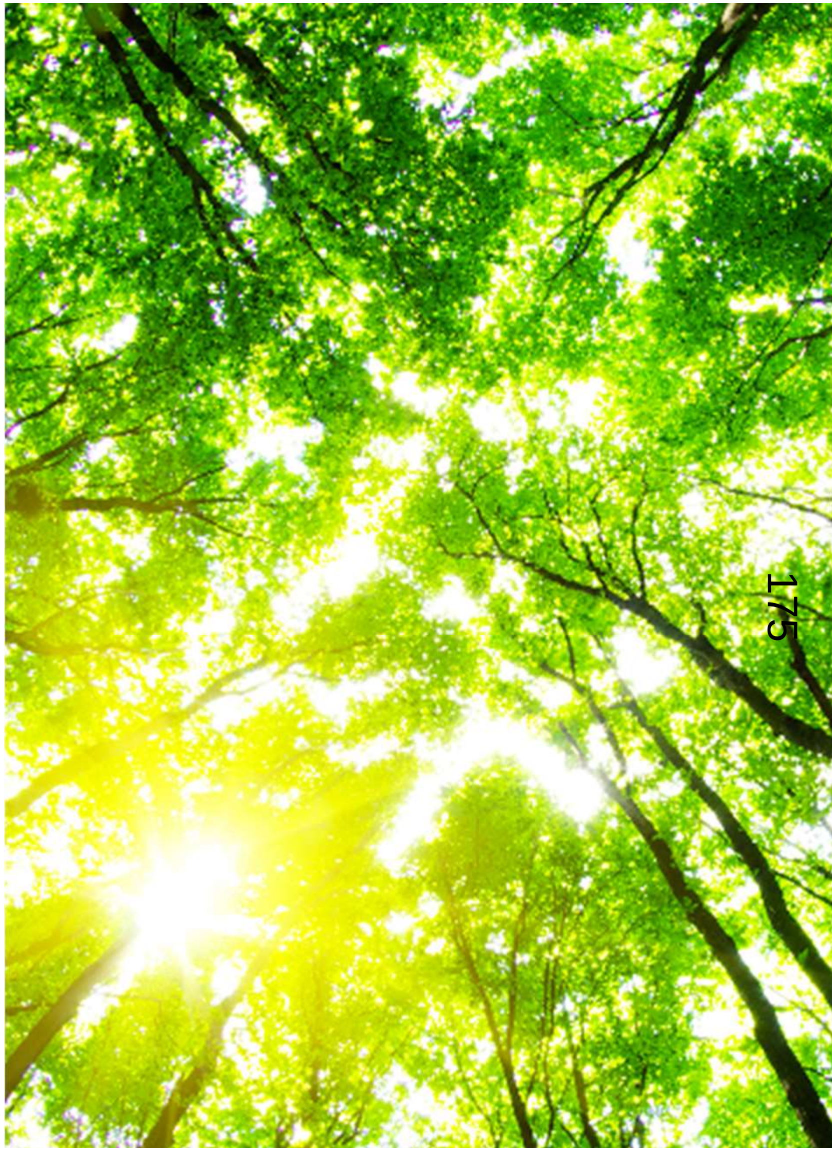
Infrastructure

Leicestershire Committee Meeting

NADEEM HUSSAIN

Head of Private Markets

19th June 2024



CONFIDENTIAL

Market Backdrop

LGPS Central Limited

INFRASTRUCTURE

- 2023 was the hardest year on record for infrastructure fundraising (*PEI Feb 2024*).
- Interest rate hikes and high inflation affected infrastructure during 2023 and are likely to be the factors that have the greatest impact on performance through 2024.
- Increased consolidation among infrastructure managers with some large acquisitions taking place e.g. Blackrock acquiring Global Infrastructure Partners.
- Energy and digital infrastructure continue to be the sectors attracting the most investor attention, however transport is poised to make a comeback now that the market has stabilised, post Covid.
- 49% of the world's population will be heading to the polls in 2024 increasing the likelihood of regulatory changes.
- Overall, infrastructure asset valuations have held up well.

CONFIDENTIAL

Core/Core Plus Overview

Partner Fund	Commitment (as of 31/03/24)
Cheshire	£80m
Nottinghamshire	£125m
Leicestershire	£135m
Shropshire	£68.5m
Staffordshire	£120m
WMPF	£300m
TOTAL	**£828.5m**

- Additional commitment made to Macquarie Green Energy Climate Opportunities fund in Q1 2024

The Year in Review		
	As of Dec 2022	**As of Dec 2023**
Number of Sub Commitments	7	7
Fund Size	£723.5m	£828.5m
Sub Committed	94%	83%
Drawn	35%	57.9%
Net IRR	6.7%	1.4%

CONFIDENTIAL

LGPS Central Funds Overview

LGPS Central Limited

Fund	Launched	Commitments (31/12/23)	NAV as of 31/12/23	Sub-committed (31/03/24)	Drawn (31/03/24)	Underlying Assets (31/12/23)	Performance to 31 December 2023	Benchmark Since Inception[1]	Target Since inception
Core/Core Plus	April 2021	£828.5m	£392.0m	97%	63%	71 via 8 investments	1.4%	6.5%	10.0%
Single Asset (JPM IIF)	Feb 2022	£205.0m	£122.9m	100%	100%[2]	20	7.8%	n/a	8 – 12% TWR

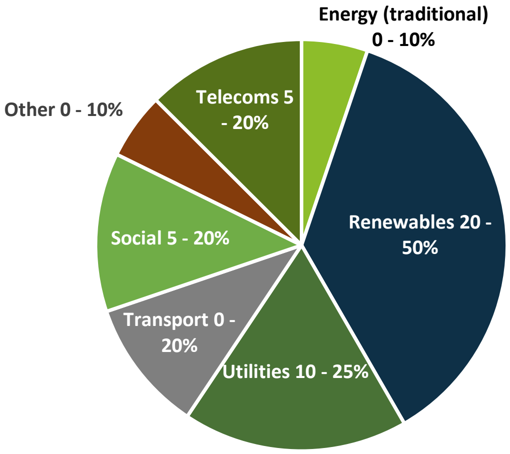
- Performance in the early years of the Infrastructure Funds is expected to be volatile due to timings of drawdowns, J-curve and impact of smaller numbers.
- Underlying Funds are performing as expected.
- Currency movements have had a negative effect on the overall performance of the core/core plus fund.
- LGPSC make use of hedging vehicles when they become available and are economically viable.

Note: 1. From 16/12/2021 for Core/Core Plus Sleeve 2. Fully drawn in January 2023 followed by Secondary Transaction in December 2023

CONFIDENTIAL

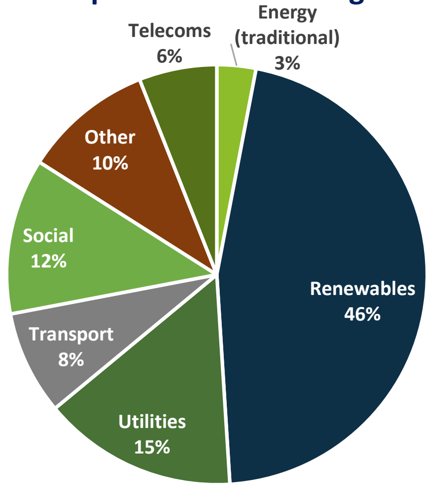
Core/Core Plus Sector Overview

2023 Target Sector Exposure



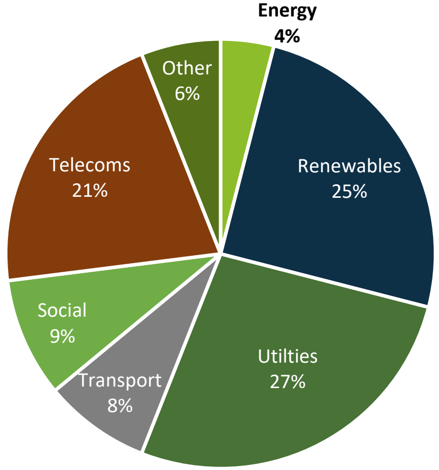
- Chart shows target sector ranges for the Core/Core Plus Sleeve

Forecast Sector Exposure with Existing Investments



- Based on Manager portfolio expectations

Sector Exposure as of 31/12/23

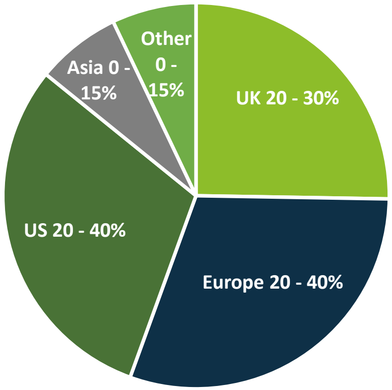


- Based on capital drawn down
- High current exposure to utilities due to transmission assets

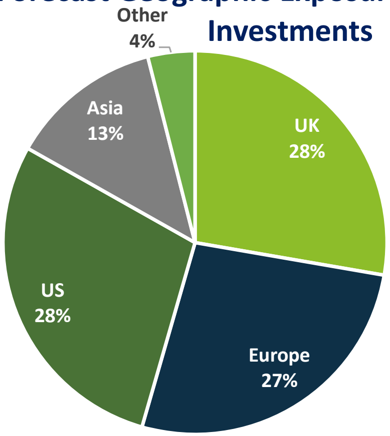
Source: LGPS Central, Manager Reports

Core/Core Plus Geographic Overview

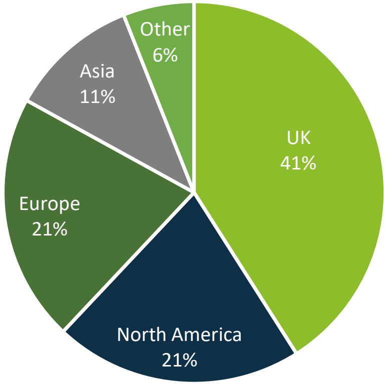
Target Geographic Exposure



Forecast Geographic Exposure with Existing Investments



Geographical Exposure as of 31/12/23



- Chart shows target geographical ranges for the Core/Core Plus Sleeve

- Based on Manager portfolio expectations

- Based on capital drawn down
- Significant drawdown from Equitix has led to large current exposure to UK assets

Source: LGPS Central, Manager Reports

CONFIDENTIAL

Renewables and Energy Transition Focus

LGPS Central Limited

Key Focus Area

- Targeting upto 50% of the portfolio in this sub-sector.
- Current dedicated managers in this space are listed below but also getting exposure through other diversified infrastructure funds.

	NextEnergy UK ESG	IFM Net Zero Fund	Macquarie Green Energy & Climate Opportunities
Focus area	UK renewables, specifically solar and co-located battery storage	Global infrastructure assets that accelerate the net zero transition	Focused on sustainable assets that contribute towards the acceleration of global energy transition, initially across solar, onshore wind, offshore wind and other evolved technologies
Amount committed	£50m	£100m	£100m
Targeted return	8-10% net IRR	8-10% net IRR	10%-12% net IRR and a 3-5% cash yield

CONFIDENTIAL

Responsible Investment Integrated Status

LGPS Central Limited

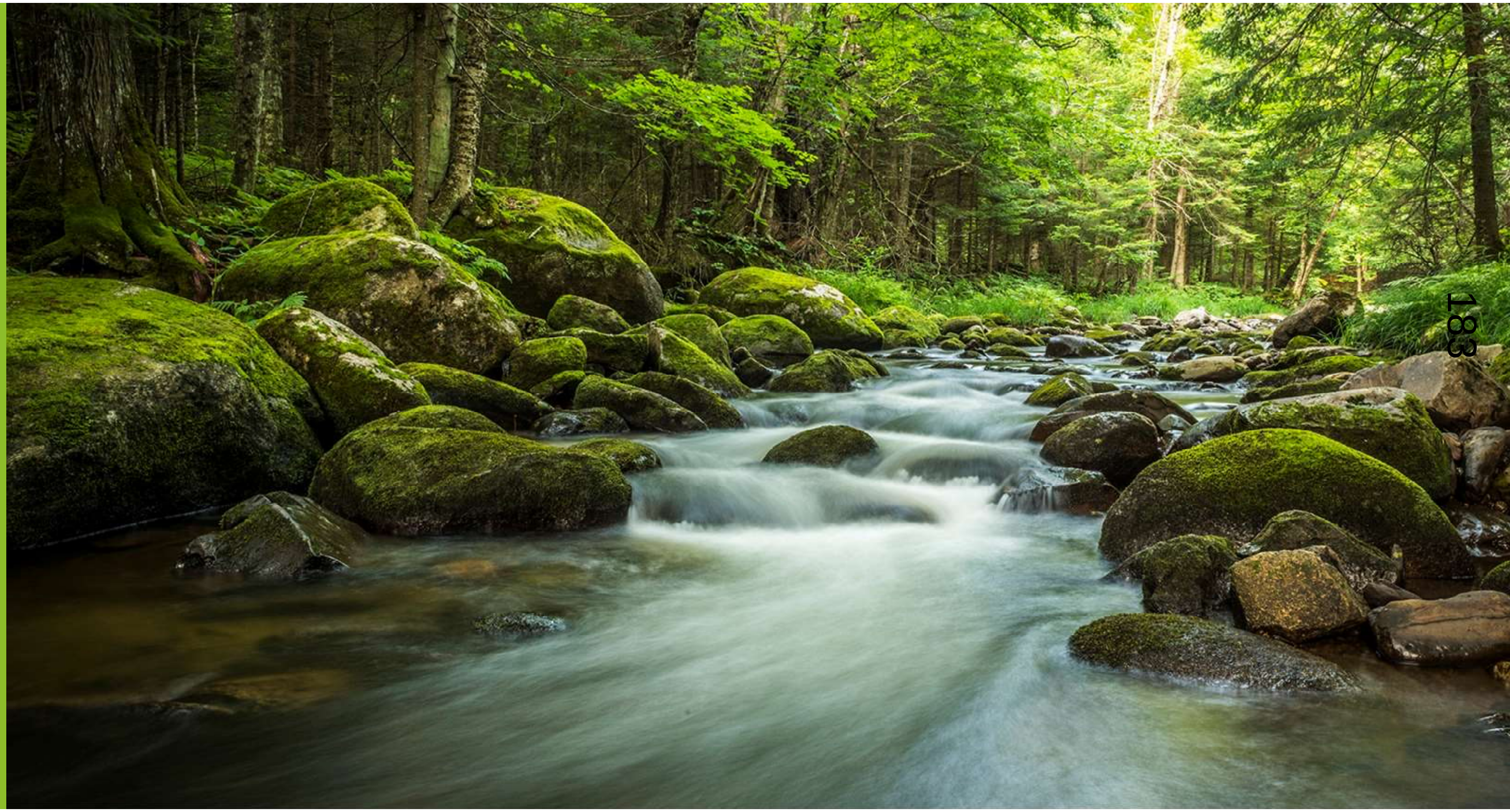
Importance

- **Independent** review of RI factors brings coherent and disciplined approach to investing.
- RI is integral to initial due diligence and ongoing monitoring.
- Infrastructure assets directly contribute to sustainable themes and relative to other Private Markets is mature in RI.
- Important for assets which are designed to bring long-term societal benefits.
- Social and governance factors are becoming key considerations, not just environmental aspects (which can be more easily achieved).
- Can be value enhancing when done correctly.

CONFIDENTIAL

LGPS Central Limited

"One Central team, working in partnership to invest with purpose and deliver superior returns"



This page is intentionally left blank

Agenda Item 21

By virtue of paragraph(s) 3, 10 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

Agenda Item 22

By virtue of paragraph(s) 3, 10 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3, 10 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3, 10 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3, 10 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3, 10 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3, 10 of Part 1 of Schedule 12A of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3, 10 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3, 10 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

Document is Restricted

This page is intentionally left blank

Agenda Item 31

By virtue of paragraph(s) 3, 10 of Part 1 of Schedule 12A of the Local Government Act 1972.

Document is Restricted

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3, 10 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3, 10 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

Agenda Item 37

By virtue of paragraph(s) 3, 10 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3, 10 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank