Leicestershire County Council

Meeting: **Local Pension Committee**

Date/Time: **Friday, 31 January 2025 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.	Minutes of the meeting held on 29 November 2024.		(Pages 3 - 14)
2.	Question Time.		
3.	Questions asked by members under Standing Order 7(3) and 7(5).		
4.	To advise of any other items which the Chairman has decided to take as urgent elsewhere on the agenda.		
5.	Declarations of interest in respect of items on the agenda.		
6.	Fit for the Future Consultation Response.	Director of Corporate Resources	(Pages 15 - 34)
7.	Overview of the Current Asset Strategy and Proposed 2025 Asset Strategy	Director of Corporate Resources	(Pages 35 - 112)
8.	Draft Responsible Investment Plan 2025.	Director of Corporate Resources	(Pages 113 - 126)
9.	Pension Fund Training Needs Self Assessment.	Director of Corporate Resources	(Pages 127 - 136)

10. Date of next meeting.

    The date of the next meeting is scheduled for 14 March 2025 at 9.30am.

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

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. G. Whittle
One Vacancy

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

Minutes of a meeting of the Local Pension Committee held at County Hall, Glenfield on Friday, 29 November 2024.

PRESENT

Leicestershire County Council
Mr. T. Barkley CC (in the Chair)
Mr. D. C. Bill MBE CC
Mrs. H. Fryer CC
Mr. D. J. Grimley CC
Mr. P. King CC

Leicester City Council
Cllr. G. Whittle

District Council Representative
Cllr. R. Denney

University Representative
Mr. J. Henry

Employee Representative
Mr. N. Booth

Independent Advisors in Attendance

Mr. Sameed Afzal	LGPS Central
Mr. Alex Galbraith	LGPS Central
Mr. Basyar Saleh	LGPS Central

90. Minutes.

The minutes of the meeting held on 6 September were taken as read, confirmed and signed.

91. Question Time.

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

92. 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).

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

There were no urgent items for consideration.

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

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

No declarations were made.

95. 2025 Valuation Principles.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to seek the Committee's approval of the funding principles for the Leicestershire County Council Pension Fund (the Fund) 31 March 2025 valuation. A copy of the report marked 'Agenda Item 6' is filed with these minutes.

The Chair welcomed Mr. Tom Hoare from Hymans Robertson to the meeting.

Arising from discussion, the following points were made:

i. The proposal to increase the prudence level within the future investment return assumption to 80% was supported. A Member queried if the same position was being taken by members of the pool and across the country generally. Hymans reported that the regulatory requirement was for pension funds to set prudent assumptions to ensure member benefits were protected. This was a subjective assessment for each fund, but looking at what other funds were doing was a useful guide. Historically most funds had sat somewhere between 70-75% but there had been a gradual increase in response to improved funding positions, improving market conditions but also increasing market volatility, and increased uncertainty for the future. Most funds were placed at around 75% at the last valuation, but early indications suggested the majority of funds would make the jump to an 80% prudence level at the current valuation.

ii. A Member questioned in terms of the 120% employer funding level, if it would doubly ensure an increasing level of prudence. Hymans responded that it was a different way of rationalising prudence. Employers were not expected to be more than 100% funded, but the 120% was more of a target level to manage future volatility and a cushion against other things harder to predict, for example climate risk, which was more of an uncertainty than a risk and harder to quantify.

iii. It was noted that if the target employer funding level was 100%, the Fund would systematically always be underfunded, which put individual employers in an uncomfortable position. For example, if an employer left the scheme, other employers would have to pick up the deficit, so having a 120% target provided a layer of prudence which helped with good management of the Fund, and took the risk off individual employers.

iv. A Member queried that, when discussing stabilised employers which were the main principal councils, what impact the 120% prudence level had on those employing bodies that were not currently in surplus with the Fund, and if this affected their ability to reduce their deficit, or if they would be asked to pay more in contributions for a lower return. Hymans responded that it was critical for the Fund to strike a balance between protecting the Fund and protecting the employers. There were challenges being faced by stabilised employers on affordability and budgets, but it was reported they were all now in a surplus position (sufficiently well-funded). Information on contributions would be provided at the Committee meeting in March 2025, when the results of a Hymans contribution modelling exercise would be available. The report would also contain information on quantitative factors as well as qualitative factors around affordability and fairness.

RESOLVED:

That the following principles for use in the 2025 valuation be approved:

(i) To maintain the current stabilised approach for the employers deemed lower risk;
(ii) To maintain the higher funding level target (of 120%) introduced at the 2022 valuation;
(iii) To increase prudence level to 80%.

96. Mansion House Proposals.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was inform the Committee of a consultation paper issued by the Ministry of Housing, Communities and Local Government titled “Local Government Pension Scheme (LGPS): Fit for the Future” and which sought the Committee’s views on the key themes and approval for the Director of Corporate Resources to be authorised to respond to the consultation by the required deadline of 16 January 2025. A copy of the report marked ‘Agenda Item 7’ is filed with these minutes.

Arising from discussion, the following points were made:

i. Primary legislation would be needed in order for the Government to implement proposals in relation to the LGPS, and administering authorities would have to comply with any legislation. Members raised concerns that the Fund might not get the same levels of returns if directed to invest in a specific way.

ii. Members suggested that, following consultation, the Fund and LGPS Central move forward in a positive way to begin to implement the proposals put forward by the Government prior to any legislation being passed, subject to the primary focus being the protection of the Fund to ensure future payments to scheme members. The Director of Corporate Resources reported that the sentiment was that pooling was inevitable, and the Fund had embraced pooling, so the Government’s proposals were not as onerous as they would be for other authorities. However, a balance needed to be struck between the responsibilities the Committee would still hold and the relinquishing of power to Government, noting it would be hard to get consensus from the authorities across the pool because mindsets were different.

iii. Members suggested that one concern that should be raised in response to the consultation was the returns on investment on areas such as housing and green energy, and that the feedback should include the need for checks and balances on all investments of whatever type to ensure that project budgets did not run out of control and become an investment problem. The Director suggested that the response could be strengthened to add that it would be important for investment returns to be commensurate with what could be received from elsewhere, and that it needed should be investment management led rather than politically led.

iv. Members queried what would happen to legacy assets owned, such as property, farms, etc. and if the Fund would be affected by Stamp Duty Land Tax (SDLT). The Director reported that it was not yet known what had been agreed with HMRC. It was noted that there were ways to pool property directly without having to sell and rebuy, and that officers were working on the Fund's direct property portfolio to enable it to be pooled with LGPS Central.

v. Members commented with concern that the proposals would mean administering authorities would be left with the responsibility of managing the Fund but with less control, and requested that this be fed back as part of the consultation process.

RESOLVED:

(a) That the government consultation titled 'Local Government Pension Scheme – Fit for the Future' be noted.

(b) That the Director of Corporate Resources, in consultation with the Chairman of the Local Pension Committee, be authorised to prepare the detailed response to the consultation on behalf of the Fund taking account of the comments now made by the Committee, and to submit this to Government by the deadline of 16 January 2025.

97. 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 investment markets and how individual asset classes were performing. The report also provided an update on action taken by the Investment Sub-Committee (ISC) at its meeting on 2 October 2024 with respect to an investment recommendation in sub-investment grade debt and sought approval for a proposal to commit £25million to a timberland investment. A copy of the report marked 'Agenda Item 8' is filed with these minutes.

Arising from discussion, the following points were made:

i. It was noted that the Fund had only a small number of Legal and General Investment Managers (LGIM) and LGPS investments in the Chinese economy, and that there was lower exposure than in past years with some mandates having been removed over time.

ii. Members queried the potential for a depression of value if investors took money out of Western Asset Management (WAM). It was noted that the Fund had £400million invested in very liquid credit, and it was therefore unlikely to be affected, although planned investments had been halted whilst an internal investigation took place following allegations of potential violations of securities laws.

iii. Members noted that the report had been written before the Chancellors budget announcement, and the finances in the report reflected that. It was reported that on UK growth in general, the Fund did not have a huge exposure to liquid equity in the UK and had become a more global fund over time. The Government wanted Funds to invest in the UK, but it would require due diligence and consideration from partners to ensure that the Fund was protected for its beneficiaries.

iv. Members asked that, given the weighting to overseas investments, information on investments in BRICS countries be provided to Members.

RESOLVED:

(a) That the update provided regarding investment markets, how individual asset classes are performing and action taken by the Investment Sub-Committee (ISC) at its meeting on 2 October 2024 be noted.

(b) That the recommended £25million commitment to the Stafford infrastructure continuation fund (SITCON) be approved.

(c) That the Director of Corporate Resources be requested to provide information to Members on investments in BRICS countries.

98. Investment Advisor Objectives 2025.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to provide details regarding the proposed 2025 investment advisor objectives for Hymans Robertson, the Fund's investment advisor. A copy of the report marked 'Agenda Item 9' is filed with these minutes.

RESOLVED:

That the investment advisor objectives for 2025 as detailed in the appendix to the report be noted.

99. Risk Management and Internal Controls.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to provide information on any changes relating to the risk management and internal controls of the Pension Fund, as stipulated in the Pension Regulator's Code of Practice. A copy of the report marked 'Agenda Item 10' is filed with these minutes.

RESOLVED:

(a) That the Risk Management and Internal Controls report be noted.

(b) That the revised Pension Fund Risk Register attached as Appendix A to the report be approved.

100. Climate Risk Management Report 2024 and Responsible Investment Update.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to set out how Leicestershire County Council's Pension Fund (the Fund) had achieved its first two major milestones with reductions in carbon intensity and financed emissions in achieving its 2030 interim targets for the equity portfolio. The report also presented the Fund's 2024 Climate Risk Management Report as (Appendix A) and recommended changes to the Climate Stewardship Plan and the primary measures related to climate solutions and fossil fuel reserves monitoring.

Further, the report provided an update on progress verses the Responsible Investment Plan 2024 (Appendix B), quarterly voting report (Appendix C) and stewardship activities and a high-level overview of the Fund's investment managers net zero approaches. A copy of the report marked 'Agenda Item 11' is filed with these minutes.

The Chairman welcomed Mr. Sameed Afza, Mr. Basyar Saleh and Mr. Alex Galbraith from LGPS Central to the meeting. They provided a presentation as part of this item. A copy of the presentation slides is filed with these minutes.

Arising from discussion, the following points were made:

i. Members asked about the impact of President Elect Trump's intention to withdraw from the Paris agreement. Members were reassured that when previously elected President Trump's views and withdrawal from the agreement had minimal impact to how other countries in the world viewed climate change and that it was unlikely that the world would reverse its course. It was further noted there would still be opportunities to invest in the US and elsewhere, and it was LGPS Central's job as an investor to identify, assess and manage any risk, whether environmental, social, governance (ESG), or financial factors within its investments.

ii. In response to a Member's question, it was confirmed the Fund had some exposure in terms of listed equities to fossil fuel companies. It was explained that the LGPS Central's Climate Stewardship Plan required a check on a company's contribution to finance emissions, upon which LGPS Central would focus on engaging with them to encourage a reduction in emissions, and also encourage companies to put more capital into ESG factors, for example, clean technology. Members were reassured that LGPS Central were engaging with companies to drive them forward to reduced emissions.

RESOLVED:

a) That the Climate Risk Management Report, progress verses the Responsible Investment Plan 2024, quarterly voting report, stewardship activities and high-level overview of the Fund's investment managers net zero approaches be noted.

b) That the proposed changes to the Climate Stewardship Plan companies as set out in paragraph 35 to 36 of the report be approved.

c) That the proposed to changes to the primary focus of the climate solutions and fossil fuel measures to 'by revenue' within future reporting, as set out in paragraphs 17 to 19, in recognition of the rudimentary nature of the metrics as set out in the NZCS be approved.

d) That the appropriate metrics as part of the review of the Net Zero Climate Strategy throughout 2025 and 2026 be noted.

101. Date of next meeting.

RESOLVED:

That it be noted that the date of the next meeting would be 31 January 2025.

102. 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.

103. Climate Risk Management Report - Exempt Information.

The Committee considered an exempt report of the Director of Corporate Resources, the purpose of which was to provide the Local Pension Committee with supplementary information to the public Climate Risk Management Report 2024 relating to fund-by-fund climate metric analysis and Climate Stewardship Plan company details. A copy of the report marked ‘Agenda Item 15’ 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.

104. LGPS Central Quarterly Investment Report - 30 September 2024.

The Committee considered an exempt report by LGPS Central. A copy of the report marked ‘Agenda Item 16’ 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.

105. Leicestershire Total Fund Summary Q3.

The Committee considered an exempt report by Hymans Robertson. 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 Schedule 12(A) of the Local Government Act 1972.

REESOLVED:

That the report be noted.

106. Ruffer.

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

RESOLVED:

That the report be noted.

107. Adams Street Partners.

The Committee considered an exempt report by Adams Street Partners. 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.

108. <u>LGPS Central PE Primary Partnership.</u>

The Committee considered an exempt report by LGPS Central PE Primary Partnership. 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.

109. <u>Fulcrum Diversified Core Absolute Return.</u>

The Committee considered an exempt report by Fulcrum Diversified Core Absolute Return. 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.

110. <u>Legal and General Investment Manager.</u>

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

111. <u>Patria SOF III.</u>

The Committee considered an exempt report by Patria SOF III. 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.

112. <u>KKR Global Infrastructure Investors.</u>

The Committee considered an exempt report by KKR Global Infrastructure Investors. 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.

113. <u>Christofferson Robb & Company.</u>

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

114. <u>IFM Global Infrastructure.</u>

The Committee considered an exempt report by IFM Global Infrastructure. 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.

115. <u>Infracapital Greenfield Partners LP.</u>

The Committee considered an exempt report by Infracapital Greenhill Partners LP. 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.

116. <u>LaSalle Leicestershire County Council Pension Fund.</u>

The Committee considered an exempt report by LaSalle Leicestershire County Council Pension Fund. 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.

117. JP Morgan Asset Manager Infrastructure Investments Fund.

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

RESOLVED:

That the report be noted.

118. LGPS Central.

The Committee considered an exempt report by LGPS Central. 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.

119. M&G Investments.

The Committee considered an exempt report by M&G Investments. 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.

120. Partners Group.

The Committee considered an exempt report by Partners Group. 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.

121. Quinbrook Infrastructure Partners.

The Committee considered an exempt report by Quinbrook Infrastructure Partners. 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.

122. <u>Stafford Timberland.</u>

The Committee considered an exempt report by Stafford Timberland. 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.

123. <u>Aegon Asset Management.</u>

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

9.30 to 11.58am CHAIRMAN
29 November 2024

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Leicestershire County Council

LOCAL PENSION COMMITTEE – 31 JANUARY 2025

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

FIT FOR THE FUTURE CONSULTATION RESPONSE

Purpose of the Report

1. The purpose of this report is to outline to the Local Pension Committee (LPC) the Fund's appended response to the consultation paper issued by the Ministry of Housing, Communities and Local Government titled "Local Government Pension Scheme (LGPS): Fit for the future" following the Committee's views on 29 November 2024.

Policy Framework and Previous Decisions

2. On the 20 July 2024 the Chancellor launched Phase One of the Pensions Review. The government then issued a call for evidence on the 4 September which closed on the 25 September. Leicestershire County Council Pension Fund's (the Fund) response to this is attached. The government published the findings of Phase One of the Review on the 14 November which are available online: https://www.gov.uk/government/publications/pensions-investment-review-interim-report

3. On the 14 November the Chancellor announced the fit for the future consultation on significant proposals related to the LGPS. Given timescales a high-level report was taken to the 29 November LPC meeting where delegation was given to the Director of Corporate Resources in consultation with the Chairman of the LPC to respond ahead of the 16 January 2025 deadline.

Background

4. The focus of the Pensions Review for the LGPS was to look at how tackling fragmentation and inefficiency of funds can unlock the investment potential of the scheme.

Consultation response

5. The Fund's response is appended. As set out previously to the Committee, at a high level these proposals can be seen positively, in that they look to further existing ambitions and the progress achieved to date through pooling. However, the response also reiterates the importance of achieving appropriate risk

adjusted investment returns in line with its fiduciary duty to employers and scheme members.

6. The response was drafted having regard to the comments previously made by the Committee and also discussions with LGPS Central Limited (Central) and partner funds, and consideration of the potential impacts and consequences of the proposals. The response looks to suggest how these potential concerns could be resolved, and how largely they can be managed through close working with the pool and partner funds, and processes developing over time. This response was agreed by the Director of Corporate Resources in consultation with the Chairman of the LPC in line with the delegation given at LPC on the 29 November 2024.

7. All partner funds and Central have individually responded to the consultation. As was to be expected the responses are a mix of commonalities and differences that reflect each respondent's priorities and experience of pooling.

Next Steps

8. LGPS administering authorities and asset pools have to submit proposals on how they will implement the proposals to Government by 1 March 2025. The Fund is working with Central and partner funds on these proposals through a series of workshops ahead of the Central Shareholder Forum meeting due to be held in February 2025.

9. It is not yet clear what the Government intends to put in place in terms of primary legislation, secondary legislation or guidance. It is expected that any primary legislation required to implement outcomes of the consultation will be included in the upcoming Pension Schemes Bill to be introduced in 2025. Officers will provide updates to the Committee and Board as required.

10. Recognising the increasing role of Central as stewards of the Fund’s pooled assets, initial consideration has been given to how the Committee should continue to have appropriate oversight of Central and underlying investments. Going forwards Central have been invited to all meetings from June onwards. This will include attendance by the Chief Executive Officer, and rotation of the Head of Public Markets and Head of Private Markets, as well as regularly scheduled attendance for other matters, such as part of the Climate Risk Management Reports in November.

Resource Implications

11. It is noted that while pooling has delivered substantial benefits so far, progress has been slower than originally envisaged. The Government has strongly indicated that it will take further action if needed to accelerate the transfer of assets and responsibilities to pools.

12. Officers will address potential resourcing considerations and changes to the operation of the Pension Committee and Board as part of the consultation outcomes.

Recommendation

13. The Committee is recommended to note the report and the response to the "Local Government Pension Scheme (LGPS): Fit for the future consultation as set out in the Appendix to this report.

Equality Implications

14. The Government had undertaken an initial equality impact assessment and do not believe the proposals affect any particular groups with protected characteristics adversely as there will be no change to member contributions or benefits as a result. The Government states there may be an indirect benefit to protected groups who live in disadvantaged areas which benefit from local investments.

Human Rights Implications

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

Environmental Implications

16. The Fund has agreed a Net Zero Climate Strategy (NZCS). This outlines the high-level approach the Fund is taking to its view on Climate Risk. The consultation proposes that funds retain responsibility for setting a high-level investment strategy including environmental, social and governance matters and responsible investment. It is likely the Fund will need to continue to work closely with Central and Partner Funds on these matters.

Appendix

Fit for the Future response.

Background Papers

1 December 2023 – Local Pension Committee – Pooling Consultation: Next Steps on Investment and LGPS Central Meetings Update

24 May 2021 – Local Pension Board – Good Governance Phase 3 – Progress Report

Officers to Contact

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LGF Pensions Team
Ministry of Housing, Communities and Local Government
2nd Floor, Fry Building
2 Marsham Street
London
SW1P 4DF

Sent via email to: LGPensions@communities.gov.uk

Dear LGF Pensions Team

I write on behalf of the Leicestershire County Council Pension Fund (the Fund) in response to the 'Fit for the Future' consultation.

The Fund acts on behalf of c.200 employers and over 100,000 members, and we are an equal one-eight shareholder of the LGPS Central limited pool ("the pool" or "pool"). Since inception of our Pool the Fund has been supportive of pooling and recognises the benefits it has already achieved.

We further understand that changes are required to support the evolution of pooling, and we support governments ambitions on these. However, we believe there are checks and balances needed to support successful implementation which will result in positive outcomes aligned with both the Fund's fiduciary duty and government ambitions, some of these we believe are best left to Accountable Authorities (AAs) and Pool Companies. Key to our response relates to the following points:

- **Minimum standards:** Through the minimum standards it is vital that it is expressly set out that AAs fiduciary duties are extended to Pool companies as their primary duty.

- **AAs role**: AAs should continue to set high-level investment objectives, and strategic asset allocations (SAAs) where AAs view it as important to fulfil their responsibilities. AAs should have the remit to include considerations such as risk appetite, active versus passive, high-level geographic exposure (including legacy UK overweight) and responsible investment considerations.

- **Legacy assets**: We believe it is most appropriate that pool companies and AAs work together to develop a framework for legacy asset management to transition assets wherever possible ahead of the deadline. This is supported by pools being

Corporate Resources

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Declan Keegan, Director of Corporate Resources

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able to invest through existing mandates and external managers, as well as manage existing legacy funds through segregated and discretionary mandates.

- **Advice:** Pool companies should not be mandated to provide 'principal' advice in the short-term for SAA considerations. These are services that should develop over-time, however there are options that may be better placed to support pooling in the meantime.

- **Local Investment:** Local investment considerations can be supported by governmental bodies such as the National Wealth Fund creating investable opportunities, to help with current risk concerns. AAs and pools should consider the best options for how local investment is undertaken, whether that be as a pool, in collaboration and the scale of those investments.

We believe that these are key considerations but that ultimately it will be for asset pool companies and their AAs to work together to set high-level of standards for how implementation of these proposals are enacted.

Yours faithfully,

Declan Keegan
Director of Corporate Resources
Leicestershire County Council

Mr Thomas Barkley CC
Chairman of the Local Pension Committee

Corporate Resources

Leicestershire County Council, County Hall, Glenfield, Leicestershire LE3 8RB
Email: resources@leics.gov.uk

Declan Keegan, Director of Corporate Resources

www.leicestershire.gov.uk

Question 1: Do you agree that all pools should be required to meet the minimum standards of pooling set out above?

Yes, subject to an additional requirement related to extension of fiduciary duty to pools, alongside other considerations. In summary we believe minimum standards could be implemented as follows:

1. It is expressly set out that pool companies hold the same fiduciary duty as AAs (Q3).
2. AAs delegate implementation of investment strategies to pools, subject to mandatory collaboration and dialogue with partner funds. This is necessary to fulfil the Fund's fiduciary duty (Q2 & Q3) and retain accountability to employers and scheme members. To further support this consideration should be given to how investment advice is provided as discussed in Q5.
3. Pools being FCA regulated.
4. AAs transferring legacy assets to the management of the pool as far as is cost effective and efficient, with the ability for partner funds and pools to set an appropriate framework for this (Q8 & 9).

However, while minimum standards are set for pooling it is vital pools are held to the highest standards, to this end it is vital that AAs are able to hold pools accountable in a worst-case scenario without putting partner funds, as shareholders, at risk, as discussed in Q3, as well as protect the interests of employers and ultimately taxpayers. We believe these are considerations and standards best left to partner funds and pools to agree, as discussed elsewhere.

Question 2: **Do you agree that the investment strategy set by the administering authority should include high-level investment objectives, and optionally, a high-level strategic asset allocation, with all implementation activity delegated to the pool?**

Yes, subject to clear guidance to the extent AAs can set high-level investment objectives and strategic asset allocation to ensure consistency for pools in implementation. This supports AAs continued position as being responsible for balancing the cost to employers, the risk to achieve investment returns and the target funding level. We believe this should be implemented as follows:

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- **Investment Approach**: AAs should be able to set high level allocation in relation to active, semi-passive and passive management for assets where AAs have strongly held beliefs relating to passive management providing better value. There is a risk that pools, as asset manager, believe they can outperform the market, when in reality only around 10% of active funds outperform passive markets over longer time frames.

- **Risk appetite**: Recognising there are large variety of risks within asset classes, AAs should be able to set they want average risk within each asset class. e.g., 10% exposure to Infrastructure and want X% volatility or Y% allocated to greenfield development, this can be agreed as part of SAA considerations.

- **Geographic exposure** is another way AAs can manage risk and limit overexposure. This needs careful guidance to ensure AAs are not too specific, and that it is broad enough not to create issues in development of mandates for the Pool. However, this feels important where AAs have strong views such as overexposure to the UK market or emerging markets.

- **Responsible Investment considerations**, some AAs have more stringent net zero targets, recognise value in aligning approaches through pools however recognise funds do have some differences in their targets and how they look to achieve net zero. For example, LCCPF have specific allocations to forestry and net zero infrastructure. These clear objectives should be retained.

While we believe SAA decision-making should remain with AAs, AAs will be required to work with pools on these matters in development of these considerations. Just as with the implementation of a SAA, pools must continue to engage with AAs and support open communication. To this end it is important AAs are consulted prior to assets being sold, however we believe it should be for pools and partner funds to agree appropriate governance structures for this process.

In the short to medium term, given time needed to develop appropriate mandates for investment, and deploy capital for implementation of strategies, pools should be allowed to invest in non-pooled products. This will prevent unnecessary cash holdings or inertia, while in the process of developing mandates, or where external management would be of greater benefit due to expertise and resourcing for example, rather than development of rushed, potentially sub-standard mandates.

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Question 3: Do you agree that an investment strategy on this basis would be sufficient to meet the administering authority's fiduciary duty?

Yes, subject to AAs fiduciary duty being extended to the asset pools as part of minimum standards. As well as by requiring appropriate checks and balances with AAs to ensure SAA implementation fits with different scheme requirements, and how additional costs may be managed or addressed.

This will help address a key concern with how AAs are able to hold pools accountable, as assets will flow to pools regardless of their performance which presents difficulty for AAs as fiduciary stewards. Given AAs own the pooling companies, traditional commercial sanctions would be less effective, as compensation would ultimately come from the AAs themselves. It is crucial for the government to consider mechanisms that promote effective pooling while ensuring that risk taking remains within acceptable bounds, as any shortfall will ultimately impact the employers within the scheme.

It is our view that government do not necessarily need to prescribe in these areas, other than the minimum standard for pools, but it will be for partner funds and pools to establish high standards for government to reflect pools new roles and ensure pools can be held to account rather than resorting to more extreme actions such as voting against director re-election for example.

Question 4: What are your views on the proposed template for strategic asset allocation in the investment strategy statement?

This is largely the approach LCCPF already takes, however believe scope should also be allowed to account for areas highlighted within Q2.

- Where AAs believe it adds value SAA should allow for passive, semi-passive and active allocation, and broad geographic allocations or limits.

- Risk levels: Recognising there are large variety of risks within asset classes, AAs should be able to set they want average risk within each asset class, this could be through another column within the template. This is also relevant as part of Q15.

- Pools and AAs should be allowed discretion to agree changes to the template to support clear and efficient administration.

Question 5: Do you agree that the pool should provide investment advice on the investment strategies of its partner AAs? Do you see that further advice or input would be necessary to be able to consider advice provided by the pool – if so, what form do you envisage this taking?

The Fund agrees that it is appropriate for pools to provide principal advice on investment manager selection, however, believe that this creates unnecessary risks when also providing principal advice on SAAs with all other new responsibilities for pools at this early stage.

Providing principal advice on SAAs represents a significant shift from existing processes and may introduce a potential conflict which may lead to implementation of sub-optimal strategies. For example, conflicts may arise if ease of strategy for the pooling company is considered over individual needs of AAs. Having similar strategies for all AAs could also lead to concentration risk if the strategy ultimately underperforms targets.

It is recognised that models related to fiduciary management are able to manage these conflicts, however pools do not face the same rigorous competition and automatically will retain assets regardless of investments performance.

Instead, it may be appropriate for AAs to retain external principal advice in the short to medium term, while pools develop appropriate oversight and governance teams and processes. Throughout this it is vital that AAs can appropriately judge and set performance targets and identify and challenge if they believe objectives are favorably structured of if the performance hurdles set too low.

One solution may be to consider opportunities in the short-term for AAs within a pool to procure a joint investment advisor. This might allow for independence, expertise, and knowledge of the market, together with a more unified approach to investment, and resource efficiencies, while being able to hold pools to account in support of AAs fiduciary duty. Throughout this process would engage with the pool on its investment strategy prior to any approval. Advisors will then be able to be retained to support monitoring of implementation of the strategy.

If the proposal is adopted it is essential that AAs are given the ability to undertake independent review of the approach being taken, with the ability to act upon concerns.

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Question 6: Do you agree that all pools should be established as investment management companies authorised by the FCA, and authorised to provide relevant advice?

Yes, given LGPS Central is already set up in this way we have no disagreement with this.

Question 7: **Do you agree that administering authorities should be required to transfer all listed assets into pooled vehicles managed by their pool company?**

Yes. This is the simplest approach, subject to references to 'pooled vehicles' also allowing use of discretionary and segregated mandates through pools where appropriate and not requiring pooled ACSs being setup.

Question 8: Do you agree that administering authorities should be required to transfer legacy illiquid investments to the management of the pool?

Yes, to an extent, in recognition of economies of scale, resourcing and considering value for money implications.

It should be for AAs and pools to develop a framework or approach to any transfer recognising among AAs there are extensive legacy assets. It is questionable whether the resource required for management of legacy illiquid investments, versus other areas of focus such as development of new investment mandates and requiring all funds to be reinvested through the pools going forward is cost effective.

It is also worth highlighting some of these legacy assets are sub-scale. Pools and partner funds should be able to 'draw the line'; however, this will also need to manage any conflict where pools may wish to pick and choose which assets they would prefer to take on.

Performance and management costs of legacy assets that the pooling company does not want to incorporate into future mandates should remain attributed to the originating Fund.

Question 9: **What capacity and expertise would the pools need to develop to take on management of legacy assets of the partner funds and when could this be delivered?**

We believe these considerations are best left to pools and partner funds given requirements as part of annual business planning. There will be assets that can easily be transferred given common investment managers and funds, however given the number of legacy assets across AAs careful consideration will need to be given to this part. These considerations will need to include capacity and resourcing for the pools, which may not be as cost effective as funds managing legacy assets down over time, as well as who will be responsible for any transition costs.

It is recognised this approach makes it a lot easier for the pools to build products with discretion on implementing the SAA, and visibility of returning capital. Any potential conflicts related to pool's discretion to dispose of an investment early, which may result in additional costs for a fund need to be carefully managed. These potential conflicts could be managed with an appropriate framework agreed by pools and partner funds.

Question 10: **Do you have views on the indicative timeline for implementation with pools adopting the proposed characteristics and pooling being complete by March 2026?**

This will be a challenging timescale. However, we recognise it is a continuation of existing intentions. It is important that decisions made under time pressure do not result in sub-optimal and costly decisions due to the significant increase in requirements placed upon pools.

To date while the Fund has looked to invest through Central wherever possible, time needed to create appropriate mandates and deploy capital has left the Fund with significant cash holdings. This could be resolved through pools being able to invest with external managers non-pooled products to avoid unnecessary cash holdings, while in the process of developing mandates, or where external management would be of greater benefit due to expertise and resourcing for example.

As set out in Q7 allowing pools to take on assets as part of a discretionary or segregated mandate will support governments intended timeline.

Question 11: **What scope is there to increase collaboration between pools, including the sharing of specialisms or specific local expertise? Are there any barriers to such collaboration?**

We strongly support collaboration which may have a number of benefits including building on pool strengths, enabling even bigger economies of scale in appropriate assets, and supporting investment across niche investments.

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We believe this support for collaboration should also be extended to bodies like the National Wealth Fund. As discussed in relation to local investment in Q13 and Q 14 which will further avoid competition across the pools and support access to expertise.

Question 12: **What potential is there for collaboration between partner funds in the same pool on issues such as administration and training? Are there other areas where greater collaboration could be beneficial?**

There is a lot of good practice taking place not only across partner funds, but across the wider LGPS landscape. This is through a LGPS Central Chairs meeting, administration meetings and wider at LGPS fund officer groups and initiatives such as the Norfolk Framework.

Further collaboration on training can be supported through establishing requirements suggested through Q24 which will allow for a more consistent approach across AAs.

Question 13: **What are your views on the appropriate definition of 'local investment' for reporting purposes?**

The Fund would welcome a broad UK-wide definition, to maximise the potential to identify investable opportunities. There should be clear guidance on how pools report this, for example we believe that there is value in reporting on UK based companies and non-UK based companies that have operations within the UK.

We believe a broad UK-wide definition is supportive of achieving a variety of successful outcomes by allowing pools to consider investments at scale, alongside collaborate with other pools and organisations such as the National Wealth Fund.

A broad UK-wide definition would also be better aligned with best practice government highlight from Canadian pension schemes investments within Canada. It is not evident that more specific area investment would have any more successful outcomes more broadly. While certain AAs have clearly had success in their own approach to local investment these are at a smaller scale than would likely be manageable by a pool from a resource consideration, especially to the extent the consultation raises benefits of scale. These should all be considerations that partner funds and pools agree as part of an agreed framework.

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Question 14: **Do you agree that administering authorities should work with their Combined Authority, Mayoral Combined Authority, Combined County Authority, Corporate Joint Committee or with local authorities in areas where these do not exist, to identify suitable local investment opportunities, and to have regard to local growth plans and local growth priorities in setting their investment strategy? How would you envisage your pool would seek to achieve this?**

As above the Fund would welcome a broader definition so as not to limit or concentrate investment risks, while also providing scale for Government's ambitions and collaboration.

Given AAs must maintain focus on fiduciary duty, it is our view that investment managers and the pool will invest in best opportunities which may or may not be considered 'local'. Government can support the approach to this through development of pipeline projects and through the National Wealth Fund. Similar to Canada's Venture Capital Catalyst Initiative, providing funding to leverage more private capital, as well as providing enticing terms for institutional investors broadly.

This broader definition would further avoid unintended concentration risk within the local area. For example, if areas face economic downturn this could result in double cost pressures on local councils, through their own need to support the local area, let alone through higher contributions if investments underperform.

If Government are minded to continue proposals related to working with local authorities it is vital the AAs and pools roles are clearly defined to prevent challenges in relation to misalignment between local economic and growth priorities across respective authorities, and to recognise the LGPS is a long-term investor and should not be subject to challenges from any political upheaval or changes to local authority priorities.

There is a risk that without clear boundaries these proposals overexpose the Fund to potential political risks, alongside capacity constraints. An approach along these lines should be limited and be dependent on a framework agreed by pools and partner funds in relation to scale and to ensure any decisions are not unduly motivated by considerations over that of financial returns.

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Question 15: **Do you agree that administering authorities should set out their objectives on local investment, including a target range in their investment strategy statement?**

Is it unclear how this question fits alongside the strategic asset allocation table, if AAs set a target should this be an asset in its own right, or should AAs set sub-targets within the existing asset classes to cover any expected targets.

If AAs are mandated to set objectives, AAs should also be able to set out if it wishes to limit or prohibit exposure to certain high-risk asset types within the UK.

Question 16: **Do you agree that pools should be required to develop the capability to carry out due diligence on local investment opportunities and to manage such investments?**

No, as with any other investment implementation decisions, pools in partnership with partner funds should be left to decide what is the appropriate approach to use in line with cost benefit analysis. It is recognised there are a number of options available which may depend on the approach agreed:

- Pools resource their own capacity, there may be limits with regard to scale in terms of not being able to invest in smaller scale investments, like some AAs have already developed.
- Collaboration between pools.
- Leveraging existing national models such as the National Wealth Fund
- Use of external regional managers for a new local specific fund which may already have experience and be closer to assets.
- Non-local specific funds where opportunities are considered by existing or new investment managers.

Question 17: **Do you agree that administering authorities should report on their local investments and their impact in their annual reports? What should be included in this reporting?**

No, this is an additional burden that does not align with the purpose of the LGPS.

Government needs to be clear for what purpose they see annual reports. If it is to communicate more broadly with scheme members and local taxpayers, there may be alternative solutions better placed to more easily communicate these areas of interest. Key considerations need to be that any communication does not confuse the purpose of the Fund:

- Given pools are making implementation decisions they should be the ones to publish reporting on local investments. This should be split into specific pool area reporting, as well as broader UK wide investment. AAs should be able to utilise and link to this within their own reporting.
- Requirements for reporting should be kept to a minimum, be consistent and set out clear metrics and guidance for all reporting to prevent unfair comparisons across AAs and pools.

Question 18: **Do you agree with the overall approach to governance, which builds on the SAB's Good Governance recommendations?**

Broadly. However, these recommendations were recommended at a time of existing arrangements in relation to AAs and their Pension Committees investment decision making. It is important that how they are implemented reflects Government's final proposals and any reduction in responsibilities envisaged for AAs.

Vitally for AAs will be how final proposals help shape how AAs hold pools to account, this will continue to develop to ensure pools are held to the highest standards.

Question 19: **Do you agree that administering authorities should be required to prepare and publish a governance and training strategy, including a conflict of interest policy?**

Yes. Guidance would be welcomed to promote consistency between funds, this should reflect new roles and responsibilities of Committee's and AAs arising from implemented proposals.

Given shifting responsibilities to pools, they should also be required to also publish relevant policies in support of transparency for scheme members.

Question 20: **Do you agree with the proposals regarding the appointment of a senior LGPS officer?**

Yes. However, it is important that these requirements match the responsibilities and capabilities of fund involvement – in that they can hold pools to account and are able to manage risks in line with the Fund's fiduciary duty.

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Requirements should not be overly prescriptive as to who holds the position. As a result of the Government's proposals resource requirements at AAs will change making flexibility vital.

Question 21: **Do you agree that administering authorities should be required to prepare and publish an administration strategy?**

Yes.

Question 22: **Do you agree with the proposal to change the way in which strategies on governance and training, funding, administration and investments are published**?

Yes. In addition, we believe all funds should set out a designated area of their Fund website to publish specific documents to aid with accessibility.

Question 23: Do you agree with the proposals regarding biennial independent governance reviews? What are your views on the format and assessment criteria?

Yes. However, every three years would be more appropriate to avoid conflicting with other key pieces of work such as triennial valuations and other ongoing pressures such as dashboards and McCloud. Where AAs have received a good bill of health this should be extended in length, and vice versa.

Having more standardised guidance, such as the Code of Practice, subject to any LGPS specifics, will help with these areas given fund specific differentiation.

We also believe there may be potential for a transparent independent governance review that could be standardised across pools to provide further assurance to partner funds and other stakeholders, this is important given the high standards that should come with pooling. This may come out of wider pool to pool and partner fund collaboration.

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Question 24: Do you agree with the proposal to require pension committee members to have appropriate knowledge and understanding?

Yes. Requirements will need to be suitable to the responsibilities of Committee.

We believe this may be achieved through members being required to undertake induction training prior to appointment. It will be vital specific requirements align to responsibilities with a focus away from specific investment or mandate knowledge to being able to provide sufficient pool oversight.

Any requirements should promote avenues for training in a variety of methods, including as part of pension committee meetings, following meetings, outside of meetings from internal and external officers through the pool, online and in-person. Actions should be summarised in AAs annual reports.

Given proposals related to local investment it is important any requirements reiterate the appropriate fiduciary duty and political neutrality of their responsibilities, unlike other council committees.

It is further important given changes as a result of election cycles, that focus is given to Committee knowledge as a group, not only on an individual basis.

Question 25: **Do you agree with the proposal to require AAs to set out in their governance and training strategy how they will ensure that the new requirements on knowledge and understanding are met?**

We agree. The Fund already places a high priority on ensuring training is provided to all Committee members, including induction training, therefore it is easy to support the proposal.

Question 26: **What are your views on whether to require administering authorities to appoint an independent person as adviser or member of the pension committee, or other ways to achieve the aim?**

This should be an option that is available to individual funds, but not mandated. We have used independent advisors historically to supplement Committee knowledge and support improvements. The nature of what works best cannot be determined in advance.

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Question 27: **Do you agree that pool company boards should include one or two shareholder representatives?**

While not strictly opposed to this proposal we believe it poses challenges and conflicts which may be better managed through alternative processes. This may be best left for agreement of partner funds on the best governance approach for each independent pool structure, rather than any prescribed approach.

Alternative options partner funds may want to consider include allowing for an independent non-executive appointment and/or allowing one or more shareholders the ability to act as observers on the board. While an observer would not have voting rights through appropriate governance processes and the shareholders ability to vote for directors in future would provide further oversight and trust.

Question 28: **What are your views on the best way to ensure that members' views and interests are taken into account by the pools?**

Retaining AAs role for communication with members' and communicating their views to pools will remain vital.

Given pools enhanced position it is vital they retain the transparency with reporting that AAs have under local government transparency regulations, as well as public meetings which allow for questions and answers.

It is clear on many issues there are varying member views, and understanding of the LGPS. AAs should act as conduits where possible, for example we have previously engaged and consulted with scheme members and employers in relation to our specific net zero targets. Awaited guidance from the SAB on the extent to which member views on issues like ESG can be considered as part of decision making may strengthen this area.

Question 29: Do you agree that pools should report consistently and with greater transparency including on performance and costs? What metrics do you think would be beneficial to include in this reporting?

Yes. It is important that AAs receive clear reporting on investment performance, climate metrics, investment, performance and management costs and other metrics. Common indicators that we believe pools should report publicly and consistently against include:

- Value for money benchmarking, against other investment managers and across varying asset classes, not only pre-pooling figures.
- Performance of individual investment funds, against benchmark and target, since inception and on a rolling basis over 12 months, 3 years, and 5 years. Overall, cost of service in basis points per £bn invested.
- A common scorecard across all FCA pools which relate to governance, investment, and operational matters.
- Climate metrics. Government should provide guidance following on from the previous TCFD consultation to promote consistency and transparency.

We believe that these indicators will support greater transparency and AAs own reporting requirement enabling streamlining for reporting.

Question 30: **Do you consider that there are any particular groups with protected characteristics who would either benefit or be disadvantaged by any of the proposals? If so, please provide relevant data or evidence.**

We are not aware of any elements of the proposals that could impact protected groups.

Leicestershire County Council

LOCAL PENSION COMMITTEE – 31 JANUARY 2025

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

OVERVIEW OF THE CURRENT ASSET STRATEGY AND PROPOSED 2025 ASSET STRATEGY

Purpose of the Report

1. The purpose of this report is to inform the Local Pension Committee (LPC) of the outcome of the annual review of the Leicestershire Pension Fund's (the Fund) strategic investment allocation and structure. A paper written by the Fund's investment advisor Hymans Robertson (Hymans) supports this section and is appended to this paper.

2. The report also provides guidance regarding the Fund's investment strategy in respect to the ongoing fit for the future (pooling) consultation.

3. Representatives from Hymans will present at the meeting which will include details of the proposed investments strategy and review of the current portfolio holdings.

Background

4. The nature of the Fund's liabilities is long-term. The strategic investment benchmark is structured to reflect the nature of liabilities by focusing on the need for long-term returns and a degree of inflation-linked returns. Market fluctuations will cause the Fund's actual asset allocation to vary from the agreed strategic asset allocation (SAA). Investments within private market asset classes will create further variation as capital is added to new products and returned from existing products where the timing of capital flows is uncertain. The strategic benchmark, which is set each year, should therefore be considered an 'anchor' around which the actual asset allocation is managed.

5. The Fund has improved its funding level over successive actuarial valuations with the last valuation as at 31 March 2022 showing a funding level of 105% (every pound of liabilities was supported by £1.05 of investment assets). The equivalent funding level as at 2016 and 2019 was 76% and 89% respectively.

6. The LPC Meeting held on 6 September 2024 had a mid-valuation funding level update performed by the Fund's actuary. This was not a full Fund valuation but more a guide of where funding levels might be were the valuation to be carried out as at 30 June 2024. The funding level was guided at being around 150%.

7. The actuary urged caution given the Fund holds a similar amount of money to pay each pound of pension as they did at the 2022 valuation date. The improvement in funding level has largely been driven by an improved investment outlook due to a sharp rise in global interest rates (leading to higher expected future returns across all

asset classes), which has more than offset the high inflationary pressures. It is important to note at this point, however, that future investment returns are not guaranteed within the backdrop of higher interest rates.

8. The Fund is invested in funds administered by various investments managers, one of which is LGPS Central (Central), a private company jointly owned by the Fund and seven other pension fund administering authorities. By pooling investment, Central aims to reduce costs, provide additional manager monitoring and improve responsible investment outcomes and investment returns to the ultimate benefit of Fund employers and members.

9. Central's product offer continues to develop, and this year's strategy review has been undertaken with this in mind like previous years. In particular this year the proposed investment strategy takes into account the anticipated pooling changes as described within the Government's fit for the future consultation which the Fund has responded to and is contained on today's agenda.

10. Dialogue continues with Central and other partner funds on a regular basis to ensure that Central's offer meets the goals of the Fund. Pooling of Fund assets has resulted in Central becoming the single largest investment manager the Fund invests with. The Fund has made good progress regarding an orderly transition to Central products to date. As at the 30 September 2024 the Fund was valued at £6.5billion with £2.6billion (40% of the total assets) within Central investment funds. The Fund also holds £1.1bn (or 17% of the total assets) with Legal and General Investment Management (LGIM) passive equity funds which were collectively procured by seven administering authorities at favourable management costs. Taken together around 57% of the total Fund is pooled.

11. In addition, the Fund has made significant commitments to Central private market investment products which will be called over the coming years. This will naturally add to the amount which is classed as pooled. The value as at the last update at the November Local Pension Committee meeting was £760million in uncalled commitments to LGPS Central investment products.

12. Any decision on the appropriate investment allocation is naturally difficult and will hinge on a trade-off between expected risk and return. Whilst historic measures for risk and return can be informative about how different asset classes are correlated to each other, they give no guarantee that these historic links will persist, and as a result an 'optimal' asset mix does not exist.

13. 2022 was a reminder of this as previously held beliefs were proven not to be the case as both bonds and equities sold off sharply whilst global interest rates were increased. This does not detract from the desirability to agree a strategic asset allocation benchmark that makes intuitive sense in terms of the risks being taken to achieve a required return in line with the Fund's required rate of return as calculated by the Fund's actuary.

14. The Fund is about to reach its 31 March 2025 actuarial valuation point. The expected improvement in funding level will prompt a fuller review of the Fund's investment strategy which will involve a fuller review of the expected return from the investment strategy over the medium term. This fuller review will start during the last quarter of 2025 and is scheduled to be presented to the Local Pension Committee in January 2026.

Summary of last years (Jan 2024) asset strategy proposals and progress made

15. No changes to asset allocations were proposed by the Fund's investment advisor at the January 2024 Local Pension Committee meeting. However, a number of asset class reviews were recommended, the outcomes of which are summarised below.

16. Protection assets review – this review was presented to the 1 May 2024 meeting of the Investment Sub-Committee (ISC) and covered four mandates that form the Fund's protection assets per the table below.

Protection asset	Manager	2024 Target allocation
Index linked bonds (ILB)	Aegon	3.5%
Short dated corporate bonds	Aegon	0.5%
Investment grade bond fund	LGPS Central	3.25%
Active currency hedge	Aegon	0.75%

The scope of the review included the following:

i. Why invest in protection assets?
ii. Should the allocation to protection assets be increased?
iii. What level of protection assets best supports the aim of maintaining stable, lower contribution rates over time?
iv. Is there a case for introducing alternative protection assets?
v. What is the optimal combination of new / existing protection assets?
vi. How should any increase in protection assets be funded?
vii. How would an increase in protection assets impact on the Fund's aims of achieving Net Zero ("NZ") and/or other Environmental, Social and Governance ("ESG") considerations?

17. In order to satisfy the scope, Hymans carried out asset liability modelling (ALM) to assess the impact of changes in protection assets on funding outcomes. The aim of the review is to understand if increasing the allocation to protection assets could increase the likelihood of remaining fully funded over the long term whilst reducing the downside risk over the shorter term.

18. Hymans concluded that the results of the ALM do 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 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 they believe 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 they do not recommend tailoring investment strategies to specific scenarios.

19. A review to maintain exposure to asset classes that would be returning capital through 2024, bank risk share (or bank capital relief) and timberland.

    a. The Fund has a target allocation of 2.5% of total fund assets to timberland (or 20% of the total infrastructure allocation). The review was presented to the 24 July 2024 meeting of the ISC where it was concluded that the Fund supports the current timberland manager's (Stafford Capital Partners) proposal to create a continuation fund in order to avoid selling timberland assets from existing investments in closed ended funds which would then return capital to investors.

    b. This proposal was supported by existing investors within their Stafford infrastructure five, six and seven vintages. The Fund is an investor in all three vintages and creation of a continuation fund was deemed an appropriate way of maintaining an allocation to this part of the Fund's overall infrastructure allocation.

    c. The bank risk share proposal was presented to the 2 October 2024 meeting of the ISC. This allocation forms part of the private credit allocation and has a target weight of 10% of the total 10.5% private credit allocation (or c1% of total fund assets).

    d. The Fund's existing allocation is within two vintages of Christofferson Robb and Company's investment products, credit relief fund 3 and credit relief fund 5 both of which are returning capital. Hymans considered two other managers in this space and proposed that it would be appropriate to continue to allocate to the current managers newest offering, credit relief fund 6 (CRF6) pending satisfactory legal due diligence.

<u>The 2025 investment strategy review</u>

20. The strategy review is appended to this paper and covers six areas as well as appendices with details regarding the economic backdrop this review is conducted under. The areas considered are:

    - Executive summary of the proposals for 2025 alongside the objective and funding position for the fund.

    - How pooling is progressing for the Fund and how ready the Fund is to accelerate pooling.

    - A high level review of asset classes, including deviations from the current 2024 target allocations and new 2025 target allocation by asset class.

    - Distinct section on private credit – noting that it has been three years since the original investment framework was presented and highlighting for discussion new areas of investment within private credit.

- Distinct section of tail risk protection, what it is and why the Fund could consider this protection and what types of protection are available.

- Net zero, summarising the Fund's performance to date and what else the Fund should consider given its 2030 and longer term objectives.

Executive Summary of Recommendations: 2025 Strategic Asset Allocation Strategy

21. The table below summarises the outcome of the review into a multi-year view. There are three changes being proposed from the SAA that has been in place during for 2023 and 2024. For context the SAA for 2022 is also included.

Asset Group	Asset Class	2022 SAA	2023 & 2024 SAA	2025 SAA	Change from 2024 SAA	30.9.24 Actual weighting	Actual vs 2025 SAA
Growth	Listed equities	42.0%	37.5%	41.0%	3.5%	41.7%	0.7%
Growth	Private equity	5.8%	7.5%	7.5%	0.0%	6.2%	-1.3%
Growth	Targeted return	7.5%	5.0%	5.0%	0.0%	5.0%	0.0%
	Sub Total	**55.3%**	**50.0%**	**53.5%**	**3.5%**	**52.9%**	**-0.6%**
Income	Infrastructure (incl. timber)	9.8%	12.5%	12.5%	0.0%	10.5%	-2.0%
Income	Property	10.0%	10.0%	7.5%	-2.5%	7.1%	-0.4%
Income	Global credit - public	6.5%	9.0%	9.0%	0.0%	7.5%	-1.5%
Income	Global credit - private	10.5%	10.5%	9.5%	-1.0%	6.5%	-3.0%
	Sub Total	**36.8%**	**42.0%**	**38.5%**	**-3.5%**	**31.6%**	**-6.9%**
Prot	Inflation-linked bonds	4.5%	3.5%	3.5%	0.0%	3.6%	0.1%
Prot	Investment grade credit	3.0%	3.8%	3.8%	0.0%	3.5%	-0.2%
Prot	Currency hedge	0.5%	0.8%	0.8%	0.0%	1.4%	0.6%
Prot	Cash / cash equivalent	0.0%	0.0%	0.0%	0.0%	7.0%	7.0%
Prot	Sub Total	**8.0%**	**8.0%**	**8.0%**	**0.0%**	**15.5%**	**7.5%**
	Total	**100.0%**	**100.0%**	**100.0%**	**0.0%**	**100.0%**	**0.0%**

Proposal one: listed equity

22. An increase to 41% of total fund assets is proposed for listed equity. The current target is 37.5% with a current allocation as at 30 September of 2024 of 41.7%. Hymans believe that this increase to 41% is supported by:

    - Hymans internal modelling supports a neutral view on equity therefore supportive of not selling and despite some risks to valuations feel on balance that moving the listed equity higher and moving the property target lower is correct for a number of reasons:

        i. Regular rebalancing to a strategic allocation is shown to provide the bulk of investment returns. Hymans believe that keeping the allocation to listed equity close to the current actual based on their neutral view and rebalancing is suitable rather than attempting to reduce an allocation to then possibly increase after the proposed tail risk protection review. If the outcome of the review is deemed suitable and approved by the ISC then a higher listed equity position could be justified given the downside protection afforded. Divesting to reach the 37.5% current target at this point to then possibly reweight higher seems unnecessary given the proximity of the review and the current cash position.

ii. As part of the tail risk protection review the listed equity weight can be reviewed and fed into the 2026 January strategic asset allocation review.

- Hymans note, an overweight in listed equity and cash can be considered broadly similar (in high level risk and return terms) to some of the classes the funds are earmarked for, such as MAC / private equity / infrastructure, at least in the very short-term. The Fund is underweight to these three asset classes currently and overall is likely to be so through 2025 as existing investments and commitments made are called by managers.

23. Listed equity has also been seen to provide good inflation protection because the shares represent ownership in companies that can potentially increase prices to customers in response to inflation. As prices are passed on earnings may rise which can lead to higher stock prices.

24. For completeness, Hymans propose that the following split between the five underlying listed equity holdings become the benchmark. The change being an increase in the benchmark position of the LGIM global equity fund. It is worth noting that whilst the Fund has been overweight to listed equity through 2024 the overweight was decided to be held within the same fund taking advice from Hymans. As a result there is no reallocation between funds given the closeness to the actual position thus avoiding unnecessary transaction costs.

Listed Equity	**2024 SAA**	**2025 SAA**
Central global equity	12.0%	12.0%
Central climate MFF	12.0%	12.0%
LGIM low carbon transition	3.5%	3.5%
LGIM global equity	8.0%	11.5%
LGIM UK equity	2.0%	2.0%
Total	**37.5%**	**41.0%**

Proposal two: Property

25. A reduction to the property allocation to 7.5% of total Funds assets is proposed from the current 10% target. The Fund has had an underweight position to property for a number of years. Initially this was due to waiting for LGPS Central to launch a direct UK property fund which was launched at the end of 2023 and the realignment of the Fund's indirect property holdings which are managed by LaSalle to a more global portfolio from a UK focused portfolio which was to be completed over a number of

years to avoid timing risk but also to avoid selling underlying fund positions in the secondary markets (at discounts) before they were due to return capital.

26. During 2023 when property values were under pressure the Fund was advised to defer closing of the underweight position. Whilst investments have been made to the Central UK direct property fund the underweight has persisted as property has not recovered in line with the rest of the portfolio.

27. The proposed reduction to 7.5% of total Fund assets and a property asset class review later in 2025 on how to shape the existing property portfolio is supported by Hymans for the following reasons:

- Hymans believe the outlook for this asset class remains challenging with some sectors under more pressure than others.

- Realigning the strategy to reduce the property weighting can be more costly, and in many cases takes considerably more time than realigning a listed equity portfolio. With the wider investment strategy review due to be presented in January 2026 taking into account the actuarial valuation and required rates of return keeping a flexible position in more liquid assets makes sense.

- In addition, the proximity of the tail risk review which if deemed suitable may require mean a higher than the current listed equity target is acceptable would mean another part of the Fund's portfolio would require a reduction. Given the current underweight position, which is close to the proposed target and relative view on the property sector it feels reasonable to hold rather than add at this time.

- The formalisation of the underweight position (reduction of 2.5% from the current target of 10%) coincides with the increase in the listed equity target of 3.5%. Hymans believe the medium term outlook for global equities is likely to provide a better risk adjusted investment outcome than a diversified global property portfolio.

- Positively, whilst property yields have improved these should be taken in context of the rising yields available, property yields now offer a low premium to 10-year government bonds and as such yields alone don't appear to offer a good reward when compared to government bonds. Investment volumes have also been lower than historical averages which together with pressure from redemptions from several UK property funds has meant deals are still being conducted at discounts to prevailing asset values which could provide further headwinds.

- The Fund's largest property manager, LaSalle who manage the indirect property holdings, has undergone reorganisation recently and as such it would be prudent to take stock and reassess the property strategy rather than add capital given the other points raised above.

<u>Proposal three: private credit</u>

28. The final one of the three proposals from Hymans is a small reduction to the private global credit allocation from a 10.5% allocation to 9.5%. The Fund is currently underweight to this asset class and as such will need to manage the sizing of new commitments made to this asset class. Existing commitments have been made and at the time of writing total over £400million. In addition, Hymans propose a review of the asset framework similar to the property review. Both frameworks were approved in 2022 given the proposed strategic allocation changes and time elapsed it makes sense for both to be reviewed in 2025 taking into account any new information regarding pooling.

29. The rationale for marginally reducing the target allocation is explained as follows:

- The current framework has allocations for strategies not currently available at Central, specifically, special situations and distressed debt which account for 15% of the total private credit allocation. Any new capital being allocated to managers outside of Central would therefore be non-pooled for up to 10 years depending on the strategy and mandate.

- If there is limited appetite for the higher risk and higher returning parts of private credit within the pools partner funds, a small reduction to this part of the private debt investable space could provide Central with more focus to manager selection and oversight, whilst returns adjusted for risk are maintained rather than build out positions in these higher risk, higher return areas that only a one or two partner funds may need. These smaller positions would still require the same rigour in manager selection and oversight than any other investments from relatively fixed resources at Central.

- The current higher rate environment will have placed additional repayment stresses on borrowers which although seem contained and within normal expectations could begin to rise if rates stay elevated. Although rates are expected to fall globally during 2025 there are numerous instances over recent history when expected rate changes fail to materialise. A slightly more cautious replacement of returning capital via a lower overall allocation and more cautious framework could be deemed to be prudent and will be investigated further during the private debt review.

Protection assets and tail risk protection

30. One of the recommendations from the 2024 SAA was to conduct a review into the Fund’s protection assets, the outcomes of which are described earlier within this report. One of the benefits of protection assets is to cushion the Fund from negative investment outcomes usually defined by pronounced equity market falls. These can be short lived such as 2020 (covid) or much longer such as the dot com bubble bursting in the early part of the century or the global financial crisis which started around 2008.

31. Hymans note that were such a downturn to occur in the coming years, much of the significant funding level improvement enjoyed over recent years could be undone if the downturn coincided over the time the funding level snapshot is taken. It is with this in mind the Fund may wish to investigate approaches that would dampen the effect of such an eventuality or if possible maintain a level of equity protection that allows for a higher allocation to listed equity.

32. Hymans as part of the 2025 SAA conclude around 80% of the Fund would be subject to a market shock aligning investments into equity like and credit like components, and while this is a simplification shows that a significant part of the portfolio could be exposed to longer term market drawdowns. Hymans do assume that the most common type of market shock involves:

- a significant fall in equity and corporate bond markets due to a slump in economic conditions;
- there is often a 'flight to quality' towards government bond investments, which can therefore increase in value;
- all of which may lead to a fall in the risk-free rate (government bond) rate and an increase in pension liabilities

To summarise, under this scenario, Fund asset values would be lower, however, liabilities as calculated every three years would be higher, with both parts of the equation when calculating funding levels moving in the unfavourable directions.

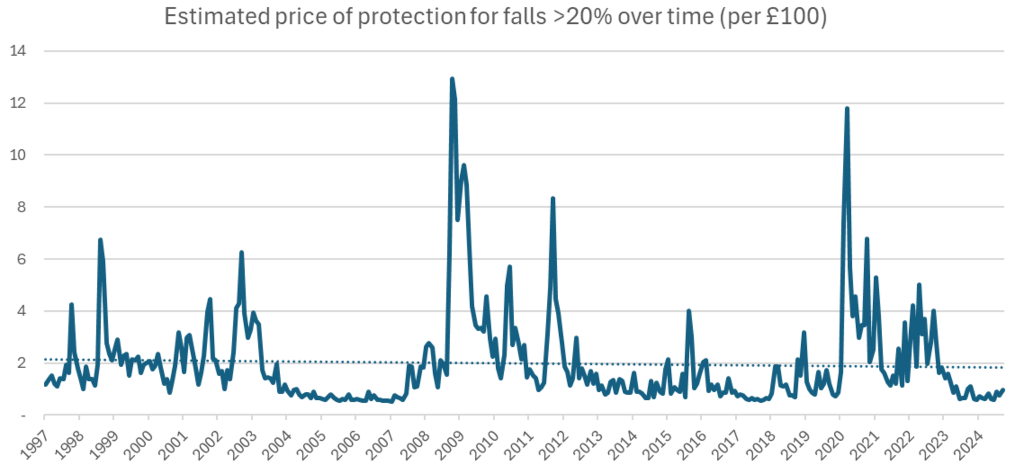
33. To put this into context, over the last 25 years the largest 12-month equity drawdown was 48% at February 2009. A drawdown of a similar size again would have a significant impact on the Fund and its employers if it persisted over a point when actuarial valuations take place.

34. Hymans also calculated the chances of employer rates being increased at the 2028 valuation point if an asset shock of various sizes was encountered. As expected, the greater the asset shock the greater the likelihood of an increase in employer rates at the 31 March 2028 valuation point. More details are included within the Hymans paper appended to this report.

35. Hymans outline within their slides four options to protect against tail risks. They comment on three out of the four, not providing additional detail regarding holding US government bonds given this is generally well understood. The detail provided on equity portfolio insurance, gold and volatility derivatives is contained within the appendix. They settle on providing additional information on equity portfolio insurance and propose that this is considered as part of the review proposed later in 2025.

36. In summary equity portfolio insurance is an investment that pays out when equities fall by more than a pre-determined amount, in exchange for a premium paid for by the Fund. Similar to a fire insurance policy, relatively small amounts can be paid for years without any 'return' and so there would be a 'drag' on total portfolio returns. In the event of a large fall, however, the 'insurance' would pay the Fund to mitigate against the falls it has suffered.

37. The premium paid to obtain the portfolio insurance is variable and based on market prices. If the insurance needs to be renewed at a point in time where there is higher market stresses, premiums are likely to be more expensive and therefore care needs to taken on how to govern the regular renewals of portfolio insurance. These are considerations that will form the scope of the review. The graph below shows the how the price of protection has performed since 1997.



LGPS Central view

38. Similarly to previous years, the SAA has been shared with Central for a high level review. No red flags have been raised with respect to the proposed changes to the strategic weights.

- Central noted that actual private market allocations will often vary considerably relative to target allocations and the key output from this review was to move the strategic allocation to more closely align with the current allocation.

- They also noted that the Fund has enjoyed relatively strong equity returns in recent years and the funding level appears to have improved as an important consideration when increasing the strategic allocation to equities.

- Furthermore, they noted that current yields on cash meant it was reasonable to hold an allocation (whilst commitments are being called) until a fuller strategy review which was planned this year alongside the valuation to be presented at the January 2026 meeting of the Local Pension Committee.

- Central also note that there are a number of reviews to take place through 2025 on property, private debt and tail risk protection. With the Government proposals for pools to provide investment advice in the future, they have asked to be involved in the planning of these reviews. It would seem reasonable, without knowing the outcome of the consultation to take up Central's offer to provide assistance so that further critical review has gone into providing any advice to the Fund.

Net Zero

39. Hymans note the Fund's good progress towards its net zero ambitions. They note the considerable restructuring of the holdings over recent years starting with the investment in the LGPS Central climate multi factor fund in 2020 before the Fund had a formal net zero climate strategy (NZCS). Other investments made to support the funds climate strategy ambitions include:

- $114m committed to the Quinbrook Net Zero Power Fund. A Fund that invests in solar power with battery systems, both as part of the decarbonisation of the energy system, and as part of demand from data centres.

- $67m committed to the Stafford Capital Carbon Offset Opportunity fund, in addition to its existing investment in timberland. This fund looks to invest in sustainably managed timberland globally, provide a source of sustainable low carbon timberland materials, generate verified carbon offsets. This is in addition to the £120m already invested in three timberland funds.

- £235m committed the LGPS Central Core/Core+ Infrastructure Partnership which invests in infrastructure funds across the core/core plus space. To date this partnership has made several such investments which include UK focussed solar and battery storage, as well as social, renewables, transport, and utilities assets.

- £200million invested in LGIM's low carbon transition (LCT) fund in November 2023 which has an objective to reduce carbon emissions intensity and align with the net zero pathway. The LCT fund has an initial 70% reduction in carbon intensity versus the benchmark and aims for a 7% reduction per annum in line with a Paris aligned strategy. The LCT fund also incorporates LGIM's climate impact pledge which commits LGIM to helping invested companies reach net zero by 2050.

40. They also note the achievement of the 2030 interim net zero target achievement which was communicated to the Local Pension Committee at the 29 November 2024 meeting. The two primary targets achieved were;

    - 40% reduction in equity financed emissions versus the 2019 baseline
    - 50% reduction in the weighted average carbon intensity (WACI) from the 2019 baseline

41. Hymans propose a number of considerations to improve the climate credentials for the Fund. Officers will take these ideas into consideration when planning for the next iteration of the net zero climate strategy (NZCS) which will be three years old in March 2026 and due for a review.

42. Officers will work with Central's responsible investing team before any new engagement with the LPC to understand the path Central would take to decarbonise portfolios given the Pool's increasing involvement in managing partner fund portfolios as proposed by the fit for the future consultation. A high level plan for the NZCS is planned to be presented to the LPC at its June 2025 meeting.

43. Further information regarding the responsible investment plan for 2025 is included within the responsible investing paper on today's agenda.

Leicestershire Pension Fund Conflict of Interest Policy

44. Whilst not a conflict of interest, it is worth noting that the County Council also invests funds with three managers which the Leicestershire County Council Pension Fund invests with, namely Partners Group, JP Morgan and Christofferson Robb and

Company (CRC). The County Council’s investments were made following due diligence Hymans Robertson had provided the Fund.

Recommendations

45. It is recommended that the Local Pension Committee:

    (a) approve the changes to the 2025 target SAA allocation as described at paragraph 21 of this report.

    (b) agree that the following three reviews be undertaken and presented to the ISC for consideration:

- A tail risk protection review scheduled for the end of 2025 with the scope to be defined in advance between officers and investment advisors and taking into account the outcome of the 2025 triennial valuation and required rates of future investment return.

- A review of two asset classes, property and private global credit with the aim to maintain exposure and take into account pooling consideration. The final scopes of both reviews to be agreed between officers and investment advisors.

Equality Implications

46. 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

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

Appendix

Appendix: Hymans Robertson, Strategic Asset Allocation review 2025

Background Papers

Local Pension Committee - 26 January 2024 – Annual Review of the Asset Strategy and Structure,
https://democracy.leics.gov.uk/documents/s180890/SAA%20Jan%202024%20public%20copy.pdf

Investment Sub-Committee – 1 May July 2024 item 29 – Protection assets review,
https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=919&MId=7534&Ver=4

Local Pension Committee - 29 November 2024 item 11 – Climate risk management report,
https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=740&MId=7662&Ver=4

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Leicestershire County Council Pension Fund

Annual Review of Investment Strategy and Structure

Richard Lunt, Senior Investment Consultant

January 2025

Background and contents

- The Fund undertakes an annual review of its investment strategy and structure. The aim is to identify opportunities to enhance long-term investment outcomes, assess market developments and review the Fund's portfolio. The recommendations shape the development agenda for the Fund in the year ahead.
- A review focused on the protection assets was completed in the first half of 2024, where it also reaffirmed that the current balance between growth, income, and protection assets remained appropriate at that point, as supported by our asset-liability modelling (ALM).
- In this paper we consider the current target allocations and existing investments, with the aim to identify any exceptions or areas of concern that require closer attention, without duplicating previous work. We have carried out a more detailed analysis of any flagged areas, as well as other key issues that may arise.
- Any proposals brought forward from this review and their implementation will be guided by the outcomes and progression of the "Fit for the future" consultation (see slide 3 for more details).

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Areas of focus and the impact of the ‘Fit for the future’ consultation

Recent developments and this advice

- The Government has published a consultation document containing significant proposed reforms to the operation of the LGPS, following the Chancellor’s Mansion House speech in November.
- The proposal, as drafted, envisaged 100% of the Fund's assets being transferred to LGPS Central (“the Pool”) by 31 March 2026. Clearly, this is very different to the current 'comply or explain' regime and there would be considerable implications for the investment approach were this to occur as currently drafted.
- The consultation document - titled 'Local Government Pension Scheme (England and Wales): Fit for the future’ ***(“the Ongoing Consultation”)*** - was published on 14 November 2024. Though the intended broad direction of travel from the Government is clear, they are consulting on the detail, with responses from interested parties to be submitted by 16 January 2025.
- The Officers of the Fund have requested that we prepare this advice as per the strategy scope already agreed (i.e. largely assuming business as usual) but acknowledging that the Ongoing Consultation is underway.
- The focus of this review is to ensure the Fund’s investment approach remains suitable, including making investment allocations that are in the right areas, are appropriately sized and that money is run by high quality and sufficiently resourced fund managers.
- We have recommended that implementation work arising from this review takes place in the second half of 2025 in order to allow the Government’s final position on pooling to be considered before any material new off-pool investments are made.

Pooling

- Identify solutions that could be realistically developed by the Pool or sourced from other pools to facilitate the pooling of additional assets.
- Provide a rationale for keeping certain assets outside the pooling structure (subject to the “Fit for the Future” consultation outcome).

Private Debt

- An update on market developments and the long-term outlook for returns.
- Consider the ongoing suitability of the current approach to private debt allocation.

Tail Risk Protection

- Consider plausible tail risk protection strategies and assess their suitability.
- Focus on mitigation to scenarios that could adversely impact contribution rates.

Net Zero

- Include the findings of LCC’s net zero review.
- Identifying actions which the Fund could take in order to increase the likelihood of achieving their targets.

Key Recommendations

It is recommended that the Local Pension Committee:

- Approve the **changes to the 2025 target SAA allocation** as described in this report.
- Agree that the following three reviews be undertaken and presented to the ISC for consideration:
    - A **tail risk protection review** scheduled for the second half of 2025 with the scope to be defined in advance between officers and investment advisors, and taking into account the outcome of the 2025 triennial valuation and required rates of future investment return.
    - A review of two asset classes, **property** and **private global credit** with the aim to maintain exposure and take into account pooling consideration. The final scopes of both reviews to be agreed between officers and investment advisors.

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Strategic Review: Executive Summary

Pooling

- **Good progress towards the 31 March 2025 'Comply or Explain' disclosure.**
- The Fund has made significant progress towards pooling, with 40% of the asset portfolio already invested via the pool, and a further 17% (Category 1) moving to a discretionary mandate with the pool.
- Around 26% of assets are not currently held within the Pool but considerations will be made to transition the assets across over the next few years (Category 2). These investments are typically illiquid and there is an intention to run-off the investment as quickly as practically possible while not incurring unacceptable transaction terms.
- The remaining balance of the Fund's assets (17%) do not have in place a plan to transfer to the pool (Category 3). These investments types are not available via the Pool, but we consider the holdings to be both complementary to the pool investments and an enhancement to the portfolio as a whole e.g. Venture Capital and private smaller company investment.
- If the Ongoing Consultation leads to all assets needing to be under pool discretion by March 2026, then Category 2 and 3 assets could likely be pooled via discretionary arrangements.

Asset Class Review

- **The Fund has not reached its target allocations in several areas. We suggest that this is remedied via adjustment to the target allocations coupled with reviews in 2025, to ensure the risk vs reward trade-off of the Fund is positioned as intended.**
- The Fund is c.5% overweight to listed equity, in part due to strong performance from this asset class. The strategic allocation to equities could be increased, subject to consideration of downside protection (see Tail Risk Protection below).
- The Fund is 3% underweight in property. This class has seen difficulties since the last review in 2022 (particularly as a consequence of UK gilt market challenges that year). We recommend the strategic weighting is reduced to closer to current weighting, and a review of the property portfolio takes place in 2025 to ensure the sub-allocations remain appropriate.
- There are significant cash holdings (around 5.5% of the portfolio) and, though some of the funds are earmarked for redeployment in private funds, we suggest that options to keep assets 'in market' are investigated.
- The LGPSC MAC fund is revisiting its manager line up over the next few months. We suggest a light touch review to confirm the new structure remains appropriate.

Private Debt

- **We recommend that the target allocation to private debt is modestly reduced, with the area revisited in 2025; the ISC having approved the current strategy in October 2022**
- The Pool are revisiting their fund offerings and it will not be possible to maintain the existing strategic allocation – nor the current level of target return – for the private debt class using the Pool's offerings alone.
- We recommend looking at the possibility of making further use of the Pool's latest private debt launches, including a high-level evaluation of their suitability.
- We recommend a review of the existing asset mix to enable the Pool's new funds to be used as far as possible, subject to consideration of the impact on the Fund's overall risk and return.

Tail Risk Protection

- **The Fund could consider mitigation against extreme market events.**
- The Fund's financial position has improved considerably over recent years, due to favourable market conditions within equity markets in particular.
- If conditions revert – and there have been numerous instances of markets falling by over 25% in recent decades – then some, or all, of the gains will be lost.
- We suggest that risk mitigation strategies are considered in 2025. Implementation of a tail risk strategy may also allow an increased strategic weighting to listed equity overall, subject to consideration of the impact on overall risk and return, and assuming some is used to fund the tail risk strategy itself.

Net Zero

- **We believe that the Fund is making excellent progress towards its Net Zero objectives.**
- The 2030 interim targets have already been achieved thanks to numerous transitions over recent years.
- Based on this the Fund is ahead of schedule in terms of meeting its Net Zero ambitions (ultimately by 2050).
- The listed equity allocations have been made via the Pool with supporting allocations elsewhere via third-party funds e.g. sustainable infrastructure and forestry.
- The Pool is providing additional detail of its engagement activities, which should be reviewed periodically by the Fund.

Strategic Review: Executive Summary

- Below we summarise our recommended changes to strategic allocation, together with comments.
- Our recommendations are supported by modelling work, as well as our current market views. The Proposed Target is expected to keep the risk and return profile of the investment approach broadly similar **at the overall portfolio level.** Equity allocations will also be revisited as part of the tail risk protection review.

Asset class	Current Allocation (%)	Current Target (%)	Proposed Target (%)	Comment on changes to strategic Target in 2025
Growth	54.0	50.0	53.5	
Listed equity	43.0	37.5	41.0 *	Increase so closer to current position (maintaining current sub-fund weightings for the time being) but subject to outcome of tail risk protection review (*).
Private equity	6.3	7.5	7.5	
Targeted return	4.7	5.0	5.0	
Income	31.6	42.0	38.5	
Infrastructure (inc timberland)	10.4	12.5	12.5	
Property	7.1	10.0	7.5	Reduce the strategic target to closer to current level. Consider strategic mix in the property review. No new commitments until review concluded.
Emerging market debt	0.0	-	-	
Global credit – public debt (sub-IG)	6.3	9.0	9.0	
Global credit - private debt (sub-IG)	7.9	10.5	9.5	Reduce headline strategic target modestly. Consider changes to strategic mix (including how to achieve the reduction) in the private debt review.
Protection	14.4	8.0	8.0	
Inflation-linked bonds	3.6	3.5	3.5	
Investment grade (IG) credit	3.4	3.75	3.75	
Currency hedge	0.9	0.75	0.75	
Cash	6.5	-	-	No change to target, but redeploy some of cash as part of review.
Total	100.0	100.0	100.0	

Source: "Leicestershire Total Fund Q2 2024 - Manager Summary" quarterly report

Strategic Review: Proposed actions

2025 timeline and actions

Q1 2025
- LGPS Central infrastructure ‘comfort check’ (before commitments)
- LGPS Central MAC review (light touch review, post-restructure)

Q2 2025
- Reinvestment of cash holdings
- Equity allocation (including Tail Risk investigations)
- Property allocation review

Q3 2025
- Private debt: structure and implementation review

Q4 2025
- Annual Strategic Asset Allocation review

Note: All reviews would explicitly consider the potential impact of the Ongoing Consultation.

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Objectives and Funding Position

The fund has two overall objectives:

- ✓ Stable and affordable contributions
- ✓ Sufficient funds to meet benefits as they fall due

The long-term investment strategy is reviewed annually, with the aim to maximise investment returns of the Fund whilst maintaining an acceptable level of risk.

The Committee recognises that:

- Diversification across investment classes with low correlation reduces volatility but over-diversification is both costly and adds little value.
- Environmental, social and governance (ESG) factors can enhance long term investment performance.

The table below shows a summary of how the funding level for the Fund has improved during the period from March 2022 to September 2024, as well as a number of important assumptions that underpin the Fund's investment strategy.

The improvement in position is considerable, but the position is volatile due to the informed risks being run. Any reversal in the conditions that have led to this improved position could lead to it deteriorating again, if no action is taken. We recommend that a review looking at equity tail risks takes place in 2025.

	Mar 2022	Sept 2023	Sept 2024
Funding level	105%	147%	149%
Surplus / (Deficit)	c.£0.28bn	c.£1.92bn	c.2.22bn
Discount rate p.a. *(expected returns over 20yr with 75% likelihood)*	4.4%	6.6%	6.3%

Source: Hymans

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Projected vs Required Return (asset class)

Projected 20-year return, median, % p.a.	As at 31 March 2021	As at 31 October 2022	As at 30 September 2023	As at 30 September 2024
Listed equities	5.90	7.80	8.40	8.20
Private equity	6.80	11.40	12.00	8.10
Targeted return	4.50	5.25	5.90	5.60
Infrastructure (incl. timber)	5.90	7.86	8.50	8.30
Property	4.20	6.41	7.00	6.80
Emerging market debt	3.70	5.39	6.70	5.80
Global credit – liquid sub inv grade markets	4.60	6.67	6.70	6.10
Global credit - private debt (inc M&G/CRC)	4.90	9.27	8.70	8.10
Inflation-linked bonds	-1.40	2.08	4.10	4.00
Investment grade credit	2.70	5.07	5.60	5.20
Cash	2.00	3.70	4.30	4.10
Fund Overall				**8.4% pa**
Required Return				**4.4% pa**

Source: Hymans

The significant difference between the required return and projected return can largely be explained by changes in modelling assumptions, as well as differences in levels of prudence.

Fund Overall (8.4% pa): the median projected return of the strategy. Based on our latest long-term asset assumptions (as at 30 September 2024), which have shifted significantly in recent years largely due to rising risk-free rate expectations. This shift highlights the inherent volatility in market assumptions.

Required Return (4.4% pa): set during the 2022 actuarial valuation process, reflecting asset class assumptions at that time, and assuming a greater level of prudence than the median expectation (i.e. 75% likelihood). It is expected that the required return will increase at the 2025 valuation, for the same reasons as set out above.

2024 Progress to date

The investment strategy and current balance between growth, income and protection were deemed to remain appropriate, supported by the asset-liability modelling (ALM) output. Most of the progress made over the year focused on ensuring the Fund is well-positioned to meet its target allocations across various asset classes.

Equities portfolio review

Asset transition completed (July 2024)

- Partial divestment from LGPS Central Climate MFF
- Reorganisation of LGIM equities
- Full divestment from LGPS Central Emerging Markets
- Investment into LGPS Central Global Equity

Infrastructure portfolio review (incl. timberland)

Commitments made or in progress

- £300m commitment to LGPSC Core/Core Plus fund*
- £90m commitment to LGPSC Value Add Fund*
- Roll of interests into Stafford Continuation Fund (timberland) approved

  £25m additional commitment to Continuation fund to be made

Higher yielding credit (incl. review RST portfolio)

Allocations agreed and in progress

- MAC allocation increase progressed (but temporarily paused)
- £40m commitment to CRC CRF VI Fund, **subject to satisfactory legal due diligence**

Review of the Fund's protection assets

Review completed

- Concluded no increase in protection assets at the time

  Concluded no case for alternative protection assets given the additional governance burden
- **Tail risk protection being considered at this review**

** Spread equally over 3 years, with years 2 and 3 subject to continued comfort with the Pool offering*

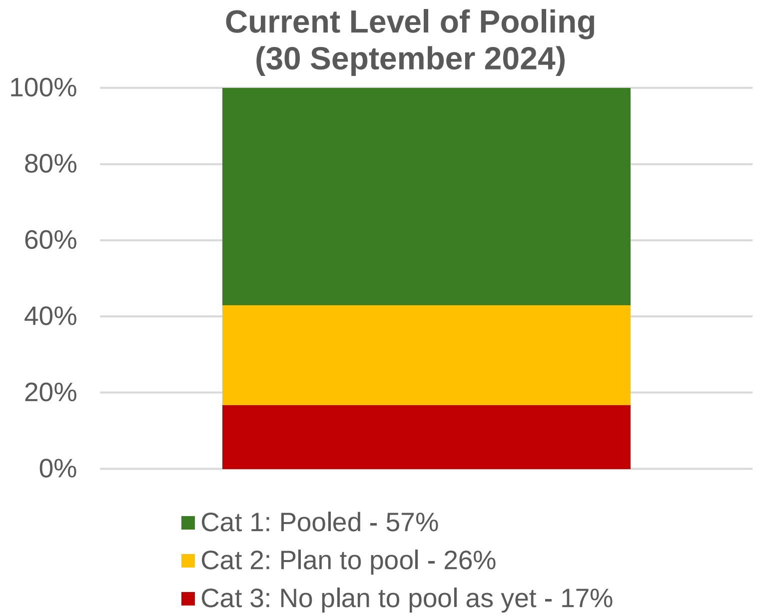
Pooling progress - summary

- There is a 31 March 2025 deadline for authorities to pool assets or explain why this hasn't taken place. The new UK government has confirmed the deadline stands. Broadly speaking, this boils down to splitting the Fund's assets into three distinct categories, as follows:

- **Category 1: Those already pooled (directly or via pool oversight):**
  Around 57% of assets are pooled, with 40% directly pooled with the Pool and an additional 17% managed under an LGPS master agreement with LGIM. These assets consist of listed equities, private equity (part), infrastructure, private debt, MAC, and investment-grade credit.

- **Category 2: Those not yet pooled (but with a plan to, post-March 2025):**
  Around 26% of assets are not currently pooled but could be in the coming years, but consideration can and will be made to achieve this over the next few years. Some of this plan may involve current closed-ended funds being allowed to mature (reinvesting the proceeds into pooled equivalents) and/or the potential transfer of more liquid investments into suitable options offered by the Pool.

- **Category 3: Those not pooled (with no plan to)**
  Around 17% of assets are not currently pooled and it is currently unclear how and when these might be pooled, as these mandates involve asset classes either not currently offered via the Pool, or illiquid in nature. These could be pooled via discretionary arrangements if needed.



We believe this represents a solid starting position for the Fund and demonstrates your strong desire and commitment to pooling assets and supporting the Pool. The Ongoing Consultation paper stated that across the Partner Funds used by the Pool, 45% was pooled (noting that this includes both discretionary and advisory agreements; the latter not counted as pooled under government proposals).

Further progress could be made. Assuming the Category 2 assets are pooled over time then the percentage of assets pooled is expected to increase significantly over the next 5 years. This progress would be made through a combination of allowing closed-ended mandates to wind down (with proceeds reinvested via the Pool), and exploration of pipeline products/gaining additional comfort in the Pool offerings.

We recommend that options for the Category 2 assets are explored over the next year. We also recommend the Fund engages with the Pool later in 2025 on the possibility of introducing some of these asset classes within the pool. Both of these recommendations are subject to the outcome of the Ongoing Consultation; should the consultation come into force as set out then Category 3 assets effectively become Category 2 assets as ways to pool them by March 2026 are explored.

Category 1: Those already pooled (57% of assets)

On the following pages we detail each of the Fund's existing mandates and use our judgment to split these between Category 1, 2 and 3. This is for discussion with Officers and Committee and may be subject to change based on several factors.

Asset class	Mandate	Valuation (£m)	% of Total Fund	Pooled?	March 2025 position
Listed equity	L&G Total Passive Equity Fund	1,102.7	17.0	Yes - LGPS master agreement	Comply
	LGPSC Global Eq Active Multi Mgr Fund	771.7	11.9		
	LGPSC AW Eq Climate Multi Factor Fund	835.3	12.9		
Private equity	LGPSC Private Equity Fund 2018 (L)	9.3	0.1		
	LGPSC Private Equity Fund 2021 (L)	6.9	0.1		
	LGPSC Private Equity Fund 2023 (L)	1.2	0.0		
Infrastructure	LGPSC Infra Core/Core+ (L)	104.3	1.6		
Property	LGPSC UK Direct Property Fund	49.0	0.8		
Private debt	LGPSC PD Low Return 2021 (L)	150.0	2.3		
	LGPSC PD High Return 2021 (L)	33.3	0.5		
	LGPSC PD Real Assets (L)	52.6	0.8		
Global credit – liquid sub inv grade	LGPSC Global Active MAC Fund	422.5	6.5		
Investment grade credit	LGPSC Investment Grade Credit Fund	166.3	2.6		
	Total	**3,705.1**	**57.0%**		

Source: "Leicestershire Total Fund Q3 2024 - Manager Summary" quarterly report

Of the Fund's current assets, c.57% are pooled across 13 mandates, reflecting strong progress made to-date by the Fund in support of pooling. We anticipate no further action being required in respect of the mandates listed above.

Category 2: Plan to pool post March 2025 (27% of assets)

Mandate	Mandate	Valuation (£m)	% Total Fund	Comment / possible 'mapping'	Pooling consideration	March 2025 position: All below are 'explain'
Private equity	UK Private Equity Fund – Catapult	0.9	0.0	*LGPSC have available a private equity offering.*	Within 5 years	*Mandates are closed-ended with liquidation difficult and costly. Expect to reallocate proceeds gradually as mandates mature.*
	Patria Capital Partners SOF III Feeder LP	21.5	0.3			
Infrastructure	JPMorgan Infrastructure Fund	166.4	2.6	*Fund has already committed to LGPSC Infra Core/Core+ fund but holds these as well-performing diversifiers.*	Within 10 years	*Mandates are well-established and performing well. Third-party infrastructure mandates allow the Fund to avoid over-reliance on the relatively new LGPSC Core fund. There may be trade costs associated with exit. However, ongoing allocation to funds will be considered and revisited once additional LGPSC commitments are in place.*
	IFM Global Infrastructure Fund	157.2	2.4			
	KKR Global Infrastructure Fund	42.4	0.7	*LGPSC offers a Value-Add/Opportunistic Infrastructure Fund, which the Fund is committing to.*	Within 10 years	*Mandate is closed-ended with liquidation difficult and costly. Expect to reallocate proceeds gradually as mandate matures.*
	Infracapital Infrastructure Fund	29.3	0.5		Within 2.5 years	*Assets will be realised by end of 2026, with proceeds expected to be reallocated to the pool.*
Property	Colliers Property	93.2	1.4	*LGPSC offers both direct and indirect property funds.*	Within 2 years	*Contains both direct and indirect property holdings. Assets are being moved under direct Pool control.*
	LaSalle Property Fund	267.0	4.1	*LGPSC offers both direct and indirect property funds.*	Within 5 years	*The Pool do not currently offer an overseas property mandate, but one was in the pipeline (pre-consultation) so this could be explored if the consultation does not go ahead as set out*
	Aegon Capital Property Funds	49.2	0.8	*LGPSC offers both direct and indirect property funds.*	Within 5 years	*Mandate is closed-ended with liquidation difficult and costly. Expect to reallocate proceeds gradually as mandate matures.*
Private debt	M&G DOF Fund	42.4	0.7	*The Pool are not currently planning to launch a "High Return" PD sleeve.*	Within 2.5 years	*Assets expected to be realised by the end of 2026, with plan for proceeds discussed in 2025.*
	Partners Group Private Debt Fund	147.9	2.3	*The Pool have a Direct Lending offering, which the Fund is committing to.*	tbc	*A diversifier for Central offering. Plan for private debt allocation to be discussed in 2025.*
Inflation-linked bonds	Aegon Index-Linked Fund	232.9	3.6	*The Pool is considering the launch of an index-linked fund in FY 24/25.*	Within 2 years	*The Pool do not currently offer this, but one was in the pipeline (pre-consultation) so this could be explored if the consultation does not go ahead as set out.*
Cash	Cash Fund	455.8	7.0	*Reinvestment plans to be considered in 2025.*	Within 2 years	*LGPSC currently do not offer any cash funds. Pooling cash assets would introduce unnecessary layers of complexity and governance without delivering significant benefits to the Fund.*
	Total Category 2	**1,706.1**	**26.3%**			

Source: "Leicestershire Total Fund Q3 2024 - Manager Summary" quarterly report

Category 3: No plan to pool as yet (16% of assets)

Mandate	Mandate	Valuation (£m)	% of Total Fund	March 2025 position: All below are 'explain'
Targeted return	Ruffer Fund	198.8	3.1	*LGPSC currently do not offer any targeted return funds. Targeted return funds offer unique capital preservation and steady return benefits; however, LGPSC has no even broadly comparable strategy. Collaborate with LGPSC regarding fund offerings.*
	Fulcrum Diversified Core Abs Ret Fund	127.7	2.0	
Private equity	O'seas Private Equity Fund - Adams Street (L)	361.6	5.6	*LGPSC offer private equity funds, but none comparable to Adams Street's strategy given its bias to Venture Capital and smaller companies, plus use of secondaries. Closed-end structure with a tailored overseas strategy. Whilst LGPSC offer private equity funds, they cannot replicate the focus or diversification benefits of Adams Street.*
Infrastructure	Stafford Timberland Fund (L)	128.5	2.0	*LGPSC currently do not offer any timberland funds. Timberland assets often serve dual purposes: generating returns and contributing to carbon sequestration or biodiversity goals; however, LGPSC has no comparable fund. Collaborate with LGPSC regarding fund offerings.*
	Quinbrook Net Zero Power Funds (inc Co-Inv)	54.7	0.8	*LGPSC offer infrastructure funds, which may include renewable energy projects, but they do not provide the same focused exposure to NZ power infrastructure or co-investment opportunities. The focus on NZ-aligned infrastructure involves bespoke projects that do not align with LGPSC's broader pooled infrastructure strategy. Pooling may dilute the Fund's targeted approach to climate solutions.*
Private debt	Christofferson Robb & Company (CRC) Funds	61.1	0.9	*LGPSC currently do not offer funds aligned with risk-sharing transaction (RST) or 'special situation debt' strategy. The fund's niche focus on RST requires specialised expertise that the Pool do not currently offer. CRC provides exposure to unique credit markets, serving as a diversifier within the Fund's 'special situation debt' allocation, which is not represented in LGPSC's broader credit mandates.*
Investment grade credit	Aegon Global Short Dated Climate Transition Fund	62.7	1.0	*LGPSC currently do not offer a short-dated bond fund with a climate transition focus. The Fund could consider distributing the holding across Corporate bond mandates available at Central; the specific climate focus would be lost in doing so but the holding is relatively modest. Collaborate with LGPSC regarding fund offerings.*
FX hedge	Aegon (formally Kames) Currency Hedge Fund	90.2	1.4	*LGPSC currently do not offer any currency hedging approach that can be applied on the overall portfolio level.*
	Total Category 3	**1,085.3**	**16.7%**	

Source: "Leicestershire Total Fund Q3 2024 - Manager Summary" quarterly report

Note: These categories reflect the framework prior to the Ongoing Consultation. If the Ongoing Consultation proceeds as planned, all Category 3 assets will likely require plans to be pooled via discretionary arrangements i.e. these effectively become Category 2 assets.

Asset class review: Actual vs Target

The table below sets out the Fund's investment strategy and actual asset allocation as at 30 June 2024.

Current versus strategic allocation

Asset class	Current Allocation (%)	Current Target (%)
Growth	54.0	50.0
Listed equity	43.0	37.5
Private equity	6.3	7.5
Targeted return	4.7	5.0
Income	31.6	42.0
Infrastructure (inc timberland)	10.4	12.5
Property	7.1	10.0
Emerging market debt	0.0	-
Global credit – public debt (sub-IG)	6.3	9.0
Global credit - private debt (sub-IG)	7.9	10.5
Protection	14.4	8.0
Inflation-linked bonds	3.6	3.5
Investment grade (IG) credit	3.4	3.75
Currency hedge	0.9	0.75
Cash	6.5	-
Total	100.0	100.0

Source: "Leicestershire Total Fund Q2 2024 - Manager Summary" quarterly report

Projected 20-year return, median p.a.	8.4%
1 year dispersion (volatility; relative to gilt-based liabilities)	11.3%

Note: Although the Fund's liabilities are not gilts-based, the volatility figure provides a general indication of how volatile the Fund's assets are relative to its liabilities.

- **Growth** assets (comprising of c.54% of the Fund's current allocation) are largely invested in listed equity, with small exposures to private equity and targeted return strategies.
- Strong asset class diversification though several investments in **Income** generating assets. The current allocation is, however, significantly underweight target due to:
  - Time lag between capital committed and assets drawn for infrastructure and public debt assets.
  - Property commitments deferring due to weak market outlook.
  - Existing private debt investments being realised, with agreed new commitments yet to be called.
- Small allocation to **Protection** assets. The Fund is overweight to cash, owing to cash reserves for income generating assets and realised investments. This position is expected to reduce over time as new commitments are made and funds draw down capital.

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Asset class / performance: exceptions analysis

No exception noted
Exception flagged

- We have conducted a high-level assessment of each asset class, with the results summarised below. For asset classes flagged with exceptions or issues, further details are provided in the next slides or sections.
- Exceptions in allocation indicate the asset class is either materially overweight or underweight to target.
- Performance-related exceptions point to concerns regarding the performance of specific funds or the asset class as a whole.

Asset Class	Allocation	Performance*	Comments	Recommended action
Listed equity			Performance remains in line with target but the Asset allocation is currently overweight.	**Review in 2025.** No immediate action i.e. maintain the overweight position as an adjustment to the Strategic Asset Allocation and complete a Tail Risk review in 2025 (Section 6).
Private equity			Underweight allocation and recent performance has lagged the benchmark.	**No immediate action required.** Review Private Equity strategy once the Ongoing Consultation has been completed but not before.
Targeted return			Underperformance of Ruffer relative to its cash plus benchmark over recent periods.	**No action required.** We have investigated the reasons for Ruffer's underperformance (later in Section 4) and recommend they are retained.
Infrastructure			Three of the seven managers have underperformed.	**No action required.** These include early-stage investments and others that are winding down but the allocations are proceeding as planned. Continue to monitor managers.
Timberland			Asset allocation and performance in line with target.	**No action required.** The allocation is proceeding satisfactorily.
Property			Underweight allocation relative to target.	**Review in 2025.** Review the property target allocation, restate the Strategic Asset Allocation target, and review managers (first review in 3 years).
Global credit: Public debt (sub-IG)			Underweight allocation and recent performance has lagged the benchmark.	**Review in 2025.** The allocation is underweight as the Pool is revisiting the manager line-up. We support a light touch review in 2025 to obtain comfort with the new approach.
Global credit: Private debt (sub-IG)			Underweight allocation relative to target.	**Review in 2025.** Covered in this review (Section 5).
Inflation-linked bonds			Asset allocation and performance in line with target.	**No action required.** Relatively modest allocation in line with target.
Investment grade (IG) credit			Asset allocation and performance in line with target.	**No action required.** Relatively modest allocation in line with target.
Currency hedge			Asset allocation and performance in line with target.	**No action required.** Operating in line with expectations.
Cash			High cash reserve	**Review in 2025.** Though some of the cash relates to commitments, a proportion can reasonably be invested, e.g. by reviewing options with existing funds or via the Pool.

** Performance typically considered over the last 1 to 3 years; where we have delved into performance in more detail later in this paper we consider longer time horizons, bearing in mind the long-term nature of many of these investments*

Asset class review: Proposed strategic allocation changes

Below we summarise our recommended changes to strategic allocation, together with rationale. Additional detail can also be found in this section.

Asset class	Current Allocation (%)	Current Target (%)	Proposed Target (%)
Growth	54.0	50.0	53.5
Listed equity	43.0	37.5	41.0 *
Private equity	6.3	7.5	7.5
Targeted return	4.7	5.0	5.0
Income	31.6	42.0	38.5
Infrastructure (inc timberland)	10.4	12.5	12.5
Property	7.1	10.0	7.5
Emerging market debt	0.0	-	-
Global credit – public debt (sub-IG)	6.3	9.0	9.0
Global credit - private debt (sub-IG)	7.9	10.5	9.5
Protection	14.4	8.0	8.0
Inflation-linked bonds	3.6	3.5	3.5
Investment grade (IG) credit	3.4	3.75	3.75
Currency hedge	0.9	0.75	0.75
Cash	6.5	-	-
Total	100.0	100.0	100.0
Statistics	**Current Allocation (%)**	**Current Target (%)**	**Proposed Target (%)**
Expected return **	8.1% p.a.	8.4% p.a.	8.4% p.a.
Risk **	11.2%	11.3%	11.6%

Recommendations: Strategic asset allocation

- We recommend that the target allocation to equity is increased and that the property and private debt allocations are reduced slightly.
- This recommendation is supported by the modelling analysis we have carried out as well as our views on markets, as explained below.
- The equity allocation would also be revisited as part of the Tail Risk review taking place later in 2025.
- **We are of the view that the risk and expected return of the revised Target allocation is appropriate i.e. based on analysis carried out in 2024 and updated risk numbers that we have prepared using our high-level risk and return model.**

- **Equity.** We support maintaining a modestly higher equity allocation that the current target, subject to exploration of tail risk protection options. This is supported by our modelling and our views of markets (see later material).
- **Property.** This as an asset class has struggled over recent years, particularly post-Covid (in sectors such as offices and retail) and since the gilt crisis of 2022. Closure of the underweight here has been deferred recently. We recommend that the target is reduced to closer to the current weighting. Further rationale for this is set out later.
- **Private debt** is an asset class which we retain conviction in. However, we see a case for modestly reducing the allocation to this class, likely within the higher risk / return sub-allocations. Again, further rationale is set out later.
- Overall, we expect these changes to leave risk and expected return levels similar to the current Target.

Source: "Leicestershire Total Fund Q2 2024 - Manager Summary" quarterly report
*** Expected return = Projected 20-year return, median. Risk = 1 year dispersion (volatility; relative to gilt-based liabilities)*

Equity and Cash overweights

Reasoning

- The Fund is currently overweight Listed Equities and Cash.
- Mainly due to justifiable delays in the implementation of strategic weightings elsewhere in the portfolio, such as slow deployment of commitments to illiquid investments and a pause in investment to the MAC fund.
- Secondary to this is the strong performance of listed equities, relative to other classes.
- **We are comfortable with the overweight positions to these asset classes at present.**
- Reasons for this position include:
  - Our modelling supports a higher equity weighting (explained in this Section).
  - In the short term, holding some of this in liquid assets such as listed equities and cash can be considered a suitable holding place for money waiting to be deployed in illiquid assets, as this could be called at short notice.
  - In the case of cash, rates of interest are considerably higher now following increases in base rates, therefore the Fund is now earning a reasonable level of short-term return on these holdings.
  - Further, a combination of listed equities and cash can be considered broadly similar (in high level risk and return terms) to some of the classes the funds are earmarked for, such as MAC / private equity / infrastructure, at least in the very short-term.

Liquid holding places

- Given the ongoing delays in implementation in some areas of the portfolio, together with the uncertainty around the consultation (which may lead to further delays in implementation of new ideas), we think it would be sensible to identify 'liquid holding places' for these assets i.e. liquid vehicles which offer similar risk and return characteristics to the assets in which they are waiting to be deployed.
- We would be able to identify liquid holding places which are also compatible with the consultation direction, i.e. through managers / funds which are considered pooled (the Pool products or through discretionary agreements).
- Examples include:
  - Listed equity fund equivalents for undrawn private equity commitments.
  - Liquid, floating rate credit funds for private debt commitments.
  - High yield bond funds for MAC commitments on hold.

Recommendation: Review equity / cash overweights in 2025

- We recommend that we carry out a short investigation into which asset classes we need liquid holding places for and recommend funds which would be suitable for that purpose.
- This should take place in conjunction with the Tail Risk review, which could make use of the equity overweight assets.

Equity: market views

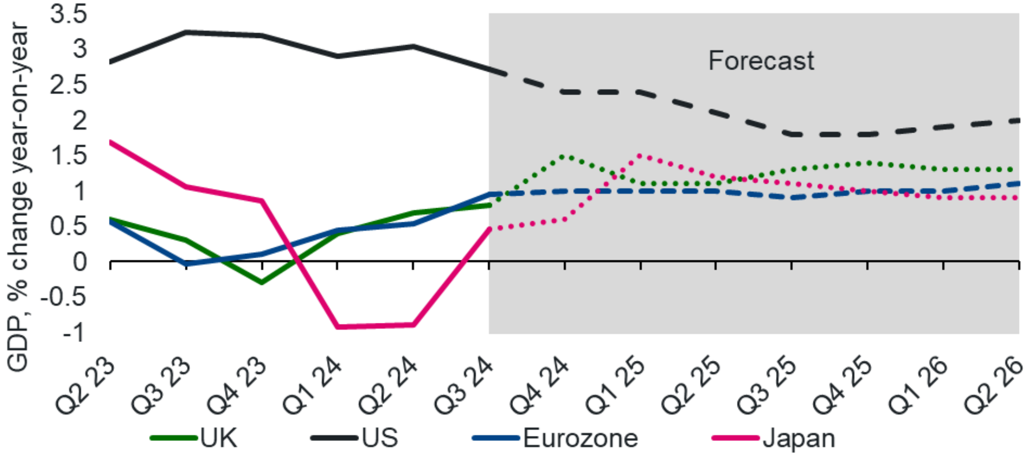
Economic background

- Global growth in 2024 surprised to the upside, with forecasts rising from 2.2% in January to 2.6% in December. To an extent, loose fiscal policy, particularly in the US, has offset tight monetary policy.
- Tax cuts and deregulation under President Trump may lend further support to US growth in the near term. And huge fiscal and monetary stimulus in China, as the economy battles chronically weak domestic demand and deflation concerns, potentially lends upside risk to near-term forecasts there, too.
- Global manufacturing weakness continues to weigh on the eurozone economy, which has faced dual threat of weak Chinese demand for exports alongside increased competition from low-cost imports due to excess production in China. Meanwhile, UK growth unexpectedly deteriorated in Q3 after a strong pace registered in H1 2024.

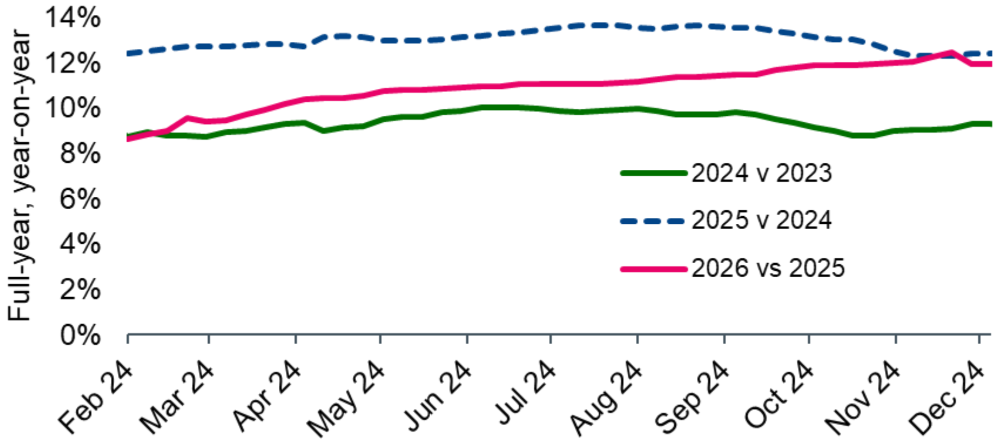
Fundamentals and technicals:

- MSCI ACWI full-year earnings growth forecasts for 2025 and 2026 stand at a robust 12% for both 2025 and 2026. Although the 2025 forecast has drifted down since September as positive sentiment around rate cuts moderated.
- Earnings momentum, or the extent to which upgrades outnumber downgrades, is negative but starting to improve, providing a tentative indication that downgrades are bottoming out.
- Option-implied equity volatility increased in December after hawkish commentary from the Federal Reserve but remains low relative to historical averages.

Global economic growth forecast to maintain a solid but unspectacular pace



MSCI ACWI Index - full-year forecast earnings growth remains intact



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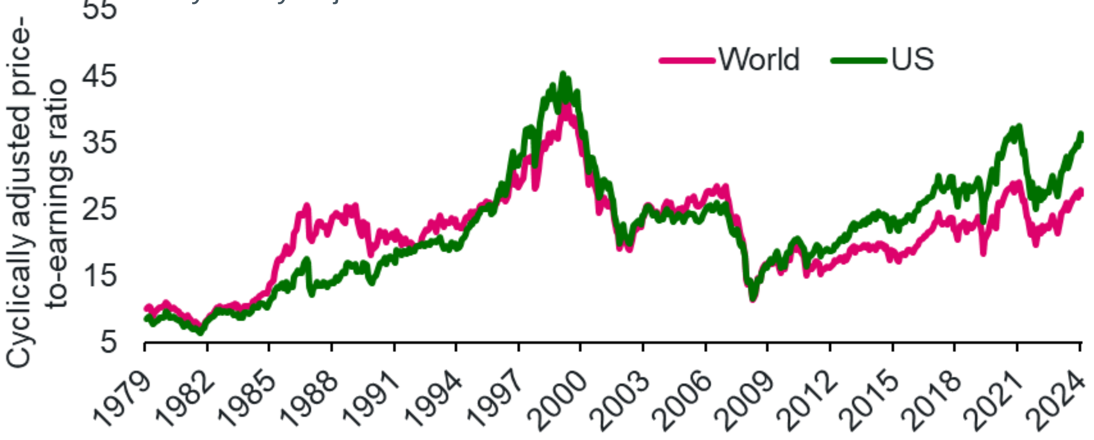
Equity: market views

Valuations:

- Global equities rose 1.3% in Q4, despite a selloff in December as investors cashed in on the strong equity rally seen in 2024. US equities continued to outperform following Trump's presidential victory, buoyed by expectations of tax cuts, reduced regulation and a more nationalist trade policy.
- A rise in stock prices since the beginning of the year has taken the global equity price-to-earnings ratio above long-term averages, while above-trend earnings mean cyclically-adjusted valuations are even higher.
- US outperformance in recent years, particularly that of the 'Magnificent Seven' tech stocks, means the concentration of global equity markets has increased: the US makes up almost 70% of global market capitalisation and, given the relatively narrow market leadership within the US, the top 10 stocks make up almost 40% of the S&P 500.

Cyclically adjusted valuations have increased to around 2020 levels



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Recommendations: Strategic asset allocation (Equity)

- We are relatively neutral on equity, despite some risks to valuations being acknowledged.
- The economic background is supportive of maintaining allocations, with global growth forecast expected to remain solid in the near term, and expected actions from US and Chinese governments potentially supportive of growth.
- This supports maintaining the current equity allocation and **re-stating the Strategic Asset Allocation target to current levels** in our view.
- However, as highlighted later in this paper, we are mindful of extreme equity downside risks given the levels of equity exposure and gains in funding position seen in the last 2-3 years. Re-stating the strategic allocation to equity is therefore **subject to further investigation of tail risk protection**, with a view to offsetting the additional risks associated with a higher equity allocation through such tail risk protection.
- Decisions relating to sub-allocations within equity will be considered as part of the recommended tail risk protection review, with the current (actual) weightings being retained for the time being. This will include regional considerations, and take into account the form of tail risk protection asset to be adopted.

Private Equity

Private Equity: Underweight to target

- The Fund's private equity allocation is 1.2% under target as it awaits over £180m in uncalled commitments (split between the Pool and Adams Street). Whilst these will help close the gap once drawn, there remains an ongoing need to continue committing to this asset class as capital is returned and the Fund's assets grow, as well as to ensure vintage year diversification.

Performance

- The Fund's private equity allocation has returned 15.3% since inception, slightly lagging the benchmark. However, performance over the past year was notably poor (the second-lowest-performing asset class in the portfolio), with all funds lagging the benchmark and Adams Street and LGPSC vintage 2021 performing particularly poorly in absolute terms.
- Given the inception dates of the funds, they would still be in the J-curve phase and hence lower performance may be expected at this stage. We would expect that the funds should start outperforming once they move into the distribution phase.

Is performance relative to benchmark of FTSE All World + 3% concerning?

- Most private equity funds target 3 - 4% above a global equity index, so FTSE All world +3% is more of a target rather than a benchmark. The funds will likely underperform this benchmark until the vintages mature. Particularly in light of strong recent performance in listed equity markets, which are driven by different factors including market sentiment towards areas such as AI.

Should the Fund maintain an allocation to private equity?

- Given recent performance, plus presently high interest rates which have driven up the returns potential for other asset classes such as bonds and direct lending, it is sensible to question the relative attractiveness of private equity – particularly given the illiquidity and relative risks being taken on.
- We believe that despite the challenges, the long-term potential for returns from primary funds is still intact.
- We favour managers who can maintain a disciplined investment process and are specialists in their areas - both of which should give them an advantage in being able to generate returns over the long-term. Manager selection remains the key to limiting downside risks.
- It is also sensible to continue allocating to the class (rather than for example missing a year). This is because it maintains vintage year diversification; it is also incredibly difficult to time allocations given the lags in market impacts coming through to returns.
- Further, we continue to believe that it is useful to obtain exposure to secondaries and co-investments, as a way of capturing opportunities as and when they arise. These exposures are available through Adams Street but not yet through the Pool; Adams Street is therefore a useful complementary offering to what is available through the pool for the time being.

Recommendation: No refinements to approach and reconsider post the Ongoing Consultation.

- We recommend that the Fund continues to maintain its allocation to private equity.
- A decision needs to be made as to where and when to make the next round of commitments; we recommend this decision is taken once the outcome of the consultation is known, as that will inform on what is possible.

Targeted Return (including Ruffer)

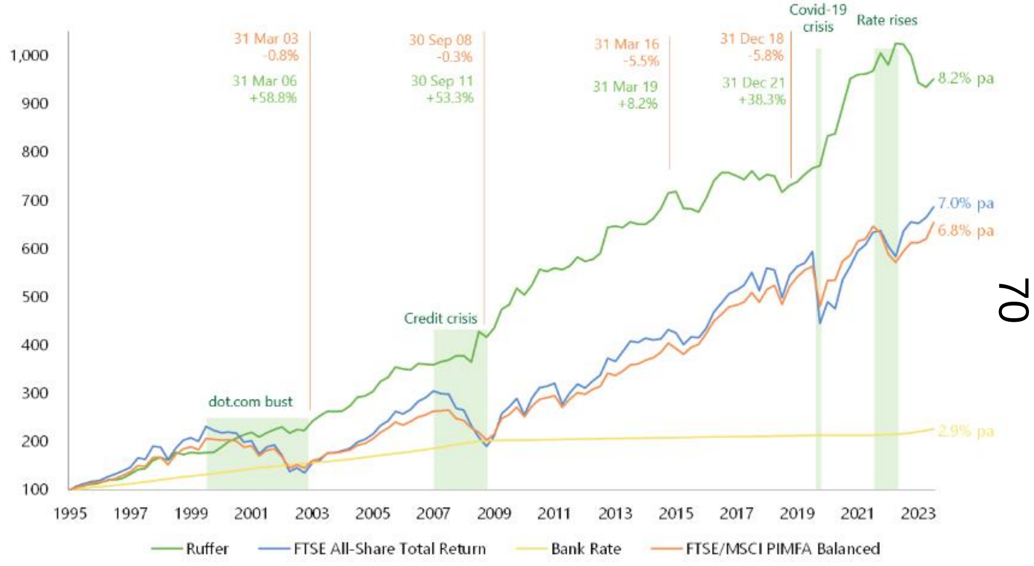
Overview:

- Over 2023 and the first half of 2024, the Fund made strategic adjustments to their portfolio by divesting from Pictet and Aspect funds, reallocating the proceeds into Ruffer and Fulcrum funds to meet the 5% target allocations. As at June 2024, the allocations are broadly in line with targets.

Ruffer:

- Ruffer has significantly underperformed relative to its cash plus benchmark over recent periods. Underperformance is largely down to its performance in 2023, when it failed to meet its objectives above.
- The fund entered the year cautiously, expecting a recession and tighter liquidity, but when neither materialised, its protective strategies ultimately weighed heavily on performance. Although some gains were made in growth assets such as equities, oil, and copper, they failed to offset the costs of these protections. Furthermore, given its cautious stance, the fund held minimal exposure to the large US tech stocks that drove much of the market rally, while its focus on China's post-pandemic reopening underperformed expectations. In summary, the growth side of the portfolio fell short of expectations and could not offset the cost of protection as it had in previous years.
- While Ruffer's performance in 2023 fell short of its objectives, if we take a step back and look at the long-term picture, the Ruffer Fund has a proven track record as a valuable diversifier within the portfolio. In particular, prior to its place in the portfolio it has a track record of holding up well in market downturns (see opposite), which is part of the rationale for holding.

Chart 1 – Ruffer's Performance During Major Market Crises



Source: Ruffer

Recommendation: No action for the time being

- Given the Fund's long-term investment horizon, the outcome of recent modelling work and the addition of Fulcrum (a complementary Targeted Return manager), we remain comfortable with Ruffer's role within the overall strategy.
- We recommend the next review for the Target Return portfolio (including Ruffer) takes place in 2026, 3 years after the last review (April 2023).

Global Credit: Public Debt

Underweight allocation

- Following the 2024 strategy review, the Committee agreed to increase the MAC allocation to achieve the target weight of 9%, funded by disinvestments from listed equities/targeted return and the LGPSC standalone Emerging Market Debt fund in a phased manner over 2024.
- This has been part-implemented, however the implementation has been paused temporarily while the Pool consider changes to the underlying fund manager line-up. As a result, the allocation to this asset class currently remains 2.7% below target.

Our Views

- Our view of MAC as an asset class has not diminished. We believe there is long-term appeal in the class, particularly in improving portfolio diversification and income potential. Continued use of the Pool product also demonstrates support of pooling.
- We recommend closely monitoring the fund's performance post-restructure to ensure it remains aligned with its objectives and adapts to evolving market conditions.

Tactical considerations

- From a more tactical perspective, we currently slightly favour equities over high-yield bonds (owing to presently low credit spreads) and as such, given the existing equity overweight, we would feel comfortable retaining the MAC underweight in the interim. We discussed the equity overweight earlier.

Performance

- The 3-year performance has been below benchmark, primarily driven by the sharp yield increase in 2022, which made the short-term cash target difficult to achieve. Given the structural risks inherent in the strategy - particularly its exposure to interest rate and spread duration - some level of underperformance was inevitable.
- Comparing the current underlying managers, Western Asset Management (WAM) has underperformed by more than Columbia Threadneedle (CTI). Both managers adopted a cautious stance, heavily investing in high-quality, low-yielding assets, which proved to be a drag on returns in a rising rate environment.

Recommendation: Continue current approach of pausing allocations subject to future review

- We are supportive of the decision to pause further investments, until the Pool reviews the managers used.
- We recommend that a light touch review is carried out in 2025 once the changes have been agreed, to ensure that they have not led to material changes in approach or risk / return profile of the fund. This can be carried out whilst implementation is ongoing at the Pool.

Infrastructure and Property

Infrastructure (incl. timberland)

Recap of Infrastructure Review

- In July 2024, the Fund undertook a review of its Infrastructure assets, concluding that the underweight should be closed in the following way:
    - A £300m commitment to the LGPSC Core / Core Plus Fund.
    - A £90m commitment to the LGPSC Value Add Fund.
    - Both of these to be phased in over 3 years and subject to satisfactory progress in several areas.
    - A smaller amount to be invested in timberland (later concluded that this should be a £25m additional commitment to Stafford's Continuation Fund).

Infrastructure Performance Outliers:

- **Infracapital:** Performance trailing benchmark since inception in 2017, following downward re-valuations of multiple holdings. As a result of a vote against continuation, the remaining assets are expected to be sold before end 2026.
- **LGPS Core/Core +:** Performance has been well below target over the short period since inception, though a CPI target has made for a tough comparator given recent high inflation and the fact the fund is still building its allocation.
- **Quinbrook**: Performance has been negative over the short period since inception. However, this is to be expected in the early years of value-add investments, which typically involve high upfront costs.

Recommendation: Maintain the current approach to infrastructure

- The recent review and new commitments will move the allocations towards targets with which we are comfortable.
- Overall, we remain content with the current managers and targets, including the comfort check (prior to further commitments) agreed as part of the 2024 infrastructure review.

Property

Underweight to Target:

- Following the last property review in 2022, the decision was made to:
    - Commit to the LGPSC Direct Property Fund.
    - Approve the appointment of LGPSC (DTZ) to manage the existing direct portfolio.
    - Retain LaSalle as indirect property manager.
- The Fund still has an underweight to property. At the 2023 SAA, we recommended deferring the closure of the underweight.

Is now the time to close the underweight?

- We have seen some improvement in several of the fundamental indicators for UK commercial property.
- However these improvements come off a particularly low base. Transaction volumes still remain low relative to recent history, and selling pressure remains. Further rationale can be found overleaf.

Recommendation:
Reduce the property weighting; review the sub-allocation in 2025

- Rather than continued deferment of closing the underweight, we recommend reducing the strategic weight to closer to the current weight, at 7.5%. formalising the current weighting of c7% as the strategic weight.
- It has been close to 3 years since the last property review, and the market has changed considerably over recent years. We recommend a review to consider the suitability of the sub-allocations and managers in place. This would take into account relative views of different parts of the property market (which are very divergent) as well as pooling requirements / availability of solutions via the Pool.

Property: market views

Fundamentals:

- We have seen some improvement in several of the fundamental indicators for UK commercial property. The latest Royal Institute of Chartered Surveyors survey, which provides a quarterly guide to trends in commercial property investment / occupier markets, highlights improvement in occupier demand, rent expectations, and capital value expectations.
- At the same time, real rental growth has now been positive for 7 months. While vacancies remain elevated, particularly in the office sector, some of this may reflect planned refurbishment works to improve environmental performance. Capital value declines have moderated, albeit these were particularly severe in the 2 years following the gilt crisis (September 2022).

Valuations:

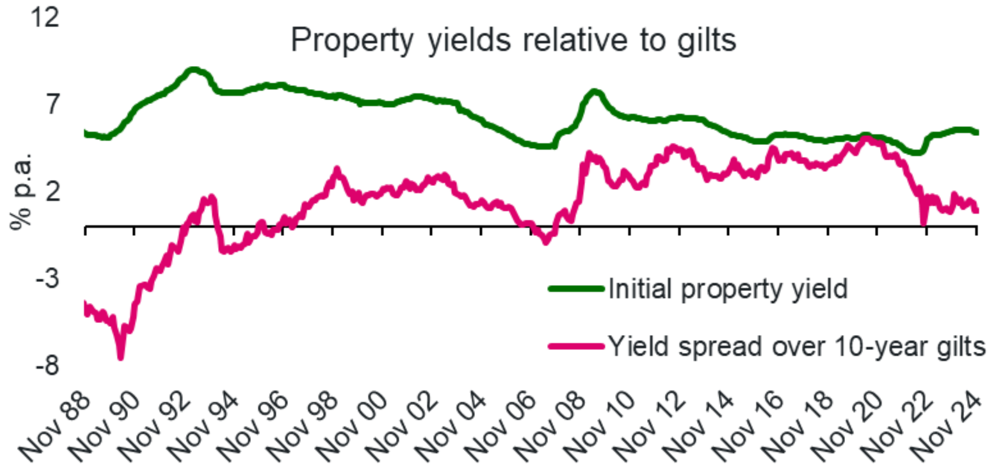
- Yields remain close to as high as they have been in 10-years. However, this should be taken in the context of the rising yield environment.
- Relative to UK equities, UK property's yield premium has returned to levels we would consider neutral. However, relative to gilts, the premium remains low (see chart top right opposite).

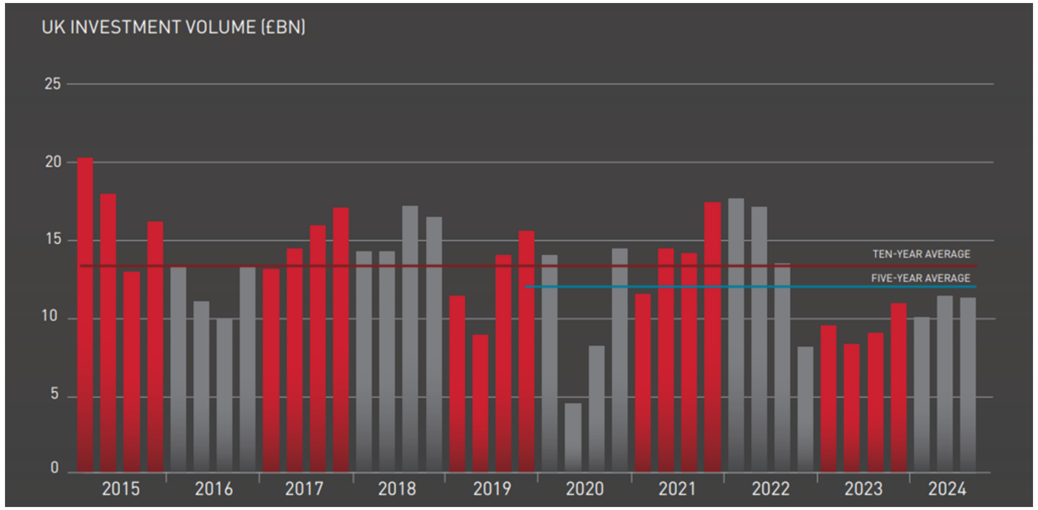
Technicals:

- The technical landscape has been challenging over the last 2 years. Investment volumes have been improving but remain below the 5- and 10-year averages (see chart bottom right opposite), both weighed down by the pandemic and the lack of activity over the last 2 years.
- Redemption pressure remains on several UK pooled funds, so selling pressure will continue into next year. The volume of secondary market transactions also remains low, albeit more deals are being negotiated and discounts are not as large.

Recommendations: Strategic asset allocation (Property)

- Whilst the property landscape has seen some improvement in recent months, in our view the outlook remains challenging, particularly in certain sectors.





Other areas

Private debt

Private debt

- The Fund's allocation to private debt remains underweight relative to its target.
- A review of the fund's RST component was completed over 2024, which is part of the broader private debt allocation, where a further £40m commitment to RST was agreed.
- Additional commitments are still required to address the remaining underweight within the private debt allocation.

Recommendation: Review in 2025

- **This topic is covered later in this paper.**
- We consider the appropriateness and suitability of private debt in the overall portfolio and look at current market opportunities.

Note: Asset class recommendations and the Ongoing Consultation

- Given the nature of the Ongoing Consultation, it is inappropriate to recommend that new allocations to off-pool investments are considered until the outcome of the consultation is known.
- The reviews recommended in this section would consider investment approaches (rather than specific funds) that may be beneficial to the Fund's approach to investment. The intention is that the material would be relevant and helpful in discussions with the Pool in the event that the Ongoing Consultation proposals remain similar to those proposed by the Government.

Private debt: Continued suitability and recommendations

Should the Fund maintain an allocation to private debt as an asset class?

Yes. This asset class allows the Fund to benefit from illiquidity premia and enhance credit portfolio returns. Also, the allocation provides diversification from the Fund's other investments, strong expected returns with an element of inflation protection through contractual floating rate cashflow income, as well as an illiquidity premium that is not captured with the remainder of the Fund's credit assets.

Is the sizing of the Fund's holdings appropriate?

Stubbornly high inflation has caused a higher-for-longer interest rate environment over recent years, meaning floating rate fixed income has seen an increase in returns. Also, inflation has started to ease throughout 2024, as the market re-adjusts to expectations of the timing of possible interest rate cuts. This is likely to boost transactional activity across private markets, where M&A has been muted. This cost easing effect should positively impact borrowers too.

We feel the prospects for the asset class therefore support a meaningful allocation. However we think there may be a case for reducing the strategic allocation to the higher risk/return elements of the allocation (which form a modest part of the overall private debt portfolio).

Are there new opportunities within private debt that can be considered?

There are new developments that are attractive, yes. Private debt as an asset class is benefitting from the reduced role for banks in the broader economy, meaning that this is a rich time for potentially attractive new opportunities. We provide an overview of recent market developments on the following pages, including detail of new (to the Fund) classes of private debt that we believe would enhance the Fund's private debt portfolio.

Importantly, however, it may be desirable to make use of the Pool's offering and forgo some of the opportunities detailed on the coming pages. Such an approach would be possible, potentially subject to some refinements to the overall allocation of the Fund (e.g. depending on what is available via the Pool going forward). We suggest that such an approach is investigated by the Fund in 2025.

Private debt: Recommendations

- The current strategic allocation to private debt contains sub-allocations to the following classes:
    - Senior corporate debt: 65%
    - Real asset-linked debt : 20%
    - Special situations debt: 10%
    - Distressed debt: 5%
- Though all the above classes are typically found in well diversified private debt portfolios, only the first two are currently available to invest in further via the Pool.
- Subject to extensions, the Fund will no longer have exposure to non-Pool private debt funds beyond 2030. This would reduce distressed debt and special situations debt allocations to close to zero.
- Further, the Pool is revisiting its approach to private debt more generally and currently has no plans to launch a new vintage of the High Return Private Debt Fund (in which the Fund currently invests), although this could change should sufficient partner fund demand materialise.
- **Whilst we support an allocation to private debt, we recommend modestly reducing the strategic allocation.** The strong funding position, and current lack of availability of higher returning private debt options via the Pool, lend argument to reducing the strategic allocation to these higher risk/return elements, whilst new opportunities within private debt warrant some consideration in order to enhance diversification of returns. However a review in 2025 (taking into account the latest position on the Ongoing Consultation and fund availability from the Pool) would determine the appropriate sub-allocations.
- Given the prevailing environment, the Fund could consider putting in place a sub-allocation that is wholly implementable via the Pool. Note it would be possible to include ranges within the target allocation, enabling some flexibility to take advantage of any attractive investment opportunities that arise. This could have risk and return implications, which would be considered in the 2025 review.
- **We propose a review of private debt sub-allocations takes place in 2025.**

Private Debt: Market Developments

- The sub-classes below are relevant to the Fund, given the current investment approach.

Direct corporate lending
(Current investment, available via the Pool)

- Macro uncertainty and wider market volatility contributed to the broadly syndicated loan (BSL) market shutting down over 2022/23, but the direct lending market was still open for new deals. Spreads widened significantly over 2023, partly due to constrained capital supply.
- Early 2024, the European BSL market showed signs of normalisation in issuance, in part due to the robust Collateralised Loan Obligation demand and expectations of rate cuts. Some deals previously done by direct lenders have been refinanced by the public market. This competition between the private and public market is felt mainly with upper mid-market and large-cap borrowers.
- Higher debt service burdens (incl. other higher costs relating to inflation, sometimes doubled with softer revenues) has impacted performance of more levered assets; there has been more differentiated performance of funds, although stress has not been as bad as previously thought.
- Margins have come down toward historical averages and we see leverage starting to tick back up on the assumption of lower rates in the future.

Infrastructure debt
(Current investment, available via the Pool)

- Infrastructure debt continues to benefit from high demand, particularly for cross-over or sub-investment grade rated assets. Assets pertaining to the energy transition remain in high demand.
- The higher interest rate environment has seen the asset class become a more compelling opportunity on a relative value basis, both in comparison to core infrastructure and other private debt (where infrastructure debt has traditionally lagged returns). Infrastructure assets have generally demonstrated resilient valuations, unlike property.

Real estate debt
(Current investment, available via the Pool)

- 2023 was a troubled year for transaction and financing volumes in the UK real estate market. Pricing, demand, and rents were polarised to specific sectors as well as those assets with attractive ESG credentials, a trend which has continued into 2024.
- Transactional activity (and valuation) may be positively impacted as interest rates come down and inflation settles. In the UK, whole loans are more attractive in terms of deployment opportunities and overall returns.

Opportunistic credit
(Current investment, not currently available via the Pool)

- Despite continued low corporate default rates relative to history, there are pockets of stress in the market. Challenges relate to cashflows where companies are paying floating rate debt and where companies are approaching refinancings.
- There is an increased opportunity for lenders to provide bespoke solutions for companies requiring liquidity or refinancing, although this is widely seen to result in 'creditor-on-creditor violence' causing losses for existing debt holders.

Regulatory Capital Relief
(Current investment, not currently available via the Pool)

- The RegCap market continues to be active, mostly in Europe but with increased issuance in the US. European banks are exploring more programmatic issuance with different collateral types.
- With the regulatory changes, the RegCap market has seen new entrants, particularly those transacting on a tactical basis and in the US, translating to tighter spreads in the more widely syndicated deals.

New Opportunities in Private Debt

- **Asset backed lending (ABL)** provides diversification to the corporate risk of a direct lending portfolio. ABL is financing secured on a pool of assets, very similar to publicly traded Asset Backed Securities (ABS). The debt is underwritten on the quality of the asset collateral rather than the earnings (EBITDA) of a corporate entity.
- Our researchers believe there are interesting opportunities across areas of ABL. We list examples below. Note none of these approaches are available via the Pool currently, although incorporating these classes into future vintages is something that could be explored with LGPSC.

Specialty finance

Fund financing

- Fund finance relates to GPs of private markets funds using extra finance ranging from leverage, subscription lines to NAV lending.
- Subscription line facilities are used to deploy capital or pay expenses without calling capital frequently from LPs. Secured by LP commitments. Banks are most common providers.
- NAV lending loans are secured on a strategy's underlying portfolio (i.e. the NAV). Typically have a low loan-to-value, and the lender has recourse to the underlying portfolio assets in the event of a default.
- Typically, NAV lending is used to accelerate distributions to LPs or invest after the investment period is over.

Royalties

- A royalty is ownership over a specific asset (e.g. intellectual property and patents), which receives cashflow when a third party uses the asset.
- May involve lending against a counterparty's royalties or buying royalties to receive the contractual cashflows directly.
- Present across a variety of sectors, e.g. pharmaceuticals or music.
  - Owning a music royalty entitles the holder to receive a percentage of the revenue generated each time a song is played.
  - Owning a pharmaceutical patent entitles the holder to receive a percentage of the revenue generated each time a drug is sold by a pharmaceutical company.

Working Capital Finance

- Working capital is necessary for businesses to operate day-to-day to meet ongoing expenses, such as inventory or salaries.
- Working capital can be constrained by unexpected expenses or delays in receiving payments from customers.
- Finance is available to support working capital needs, most often secured on invoices (receivables) or inventory.
- Lots of underlying types but typically bridging competing interests between buyer and seller – i.e. a buyer wants to pay as late as possible, and a seller wants to be paid as early as possible.

Assessment of Current Strategic Mix

Target allocation by market segment

Market segment	Target (%)	Range (%)	Current (%)
Senior corporate debt **(Available via LGPSC)**	65	40-90	67.2
Real asset-linked debt **(Available via LGPSC)**	20	10-30	10.7
Special situations debt **(Not Currently Available via LGPSC)**	10	0-20	12.9
Distressed debt **(Not Available via LGPSC)**	5	0-10	9.2

Target allocation by geographic region

Region	Target (%)	Range (%)
Europe	45	30-60
North America	45	30-60
Developed Asia & RoW	10	0-20

- The tables above show the target split across market segments and geographic regions we believe are most suitable for an LGPS fund. The Fund has a range of market segment exposure with the largest allocation to senior corporate debt.
- **It is not possible to allocate new money in the proportions set out in the table above using only investments offered by the Pool. We recommend that the possibility of adjusting the allocations above to be implementable via the Pool be considered in 2025.**

Private Debt – target allocation considerations

- As at 30 June 2024, the total estimated allocation to private debt was c.7.9% of the total Fund's assets - c.2.6% below target. Some commitments have already been made to address this:
    - c. £180m remains committed but undrawn – the majority of which (c.£163m) is within the LGPS Central 2021 Private Debt mandates. This is forecast to be drawn over the period to the end of 2028.
    - Fund has committed a further £280m across two new LGPS Central mandates - £180m to the new Central Direct Lending fund and £100m to the new Central Real Assets fund.
- If no further commitments are made beyond those stated above, the underweight position is expected to persist in the near term, as shown in the table below*:

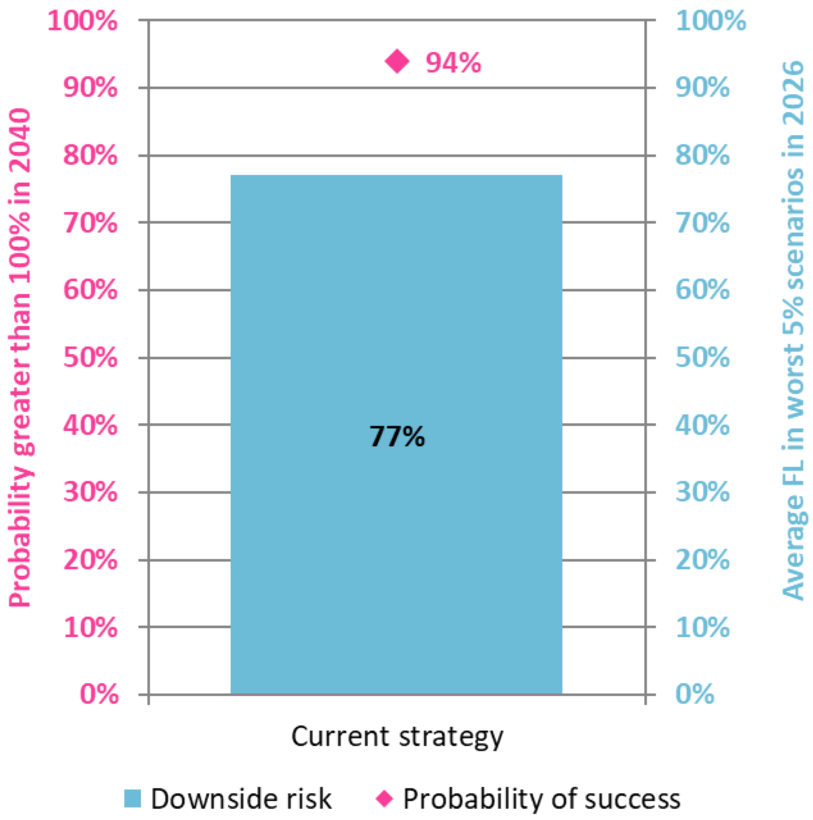
Year	2024 H2	2025	2026	2027
Capital drawn (1)	-	-192.1	-108.3	-82.7
Distribution (2)	56.2	126.0	98.6	93.9
Net CF to Fund (£m) (1+2)	56.2	-66.1	-9.8	11.2
Year-end PD Shortfall (£m)	224.6	158.5	148.7	159.9

- **We recommend that the target allocation to private debt is modestly reduced, to 9.5%.**
- **We recommend a review of the make-up of the private debt allocation takes place in 2025, considering the characteristics of the Pool private debt options (a high-level review of which should form part of the review).**
- **In particular, modifying the sub allocations to reduce target allocations to special situations and distressed debt could be considered, subject to consideration of impact on risk and return.**

** Note: these projections are based on cashflow forecasts from existing managers, with the Pool projections starting from 2025. Further drawdowns may occur before the end of 2024, which are not reflected in the table. It has been assumed that the £40m commitment to CRC will be drawn completely in 2025 and the £280m committed to the new Pool mandates will be drawn evenly over the next four years.*

Refresher: 2024 Protection Assets review

- Our Protection Assets review of April 2024* used our Asset-Liability Modelling (ALM) software to provide an updated view on:
  - Probability of Success (the chance of being more than fully funded in 2040).
  - Downside Risk (average of worst 5% of outcomes in 2026).
- **Key metric 1: Probability of success**
  - The results indicate that the current strategy gives the Fund a **c.94% chance of remaining fully funded in 2040**.
  - **This is a very strong position and materially above the 75% expectation set in 2022 (noting this may be revisited as part of the 2025 valuation).**
- **Key metric 2: Downside Risk**
  - The average of the worst 5% of scenarios suggests the **funding level could fall to c.77% in 2026 under an extreme downside scenario.**
  - The Fund is exposed to downside risk and volatility, and particularly so in the shorter term. **The Fund has made tremendous gains over recent years and there is a strong case to investigate methods to avoid the funding level falling to less than 100% in adverse conditions.**
- Our Protection Assets review did not give a compelling argument for investing more in traditional protection assets, e.g. bonds. **The review did however highlight that the Fund is particularly exposed to a sharp fall in the value of listed equity investments, due to the high proportion of equity and equity-like (i.e. economically sensitive) investments held relative to other more defensive classes, together with the tendency of the class to be highly volatile.**
- There are ways in which to better protect the Fund against downside equity risk, and we investigate these 'tail risk protection' options further here.

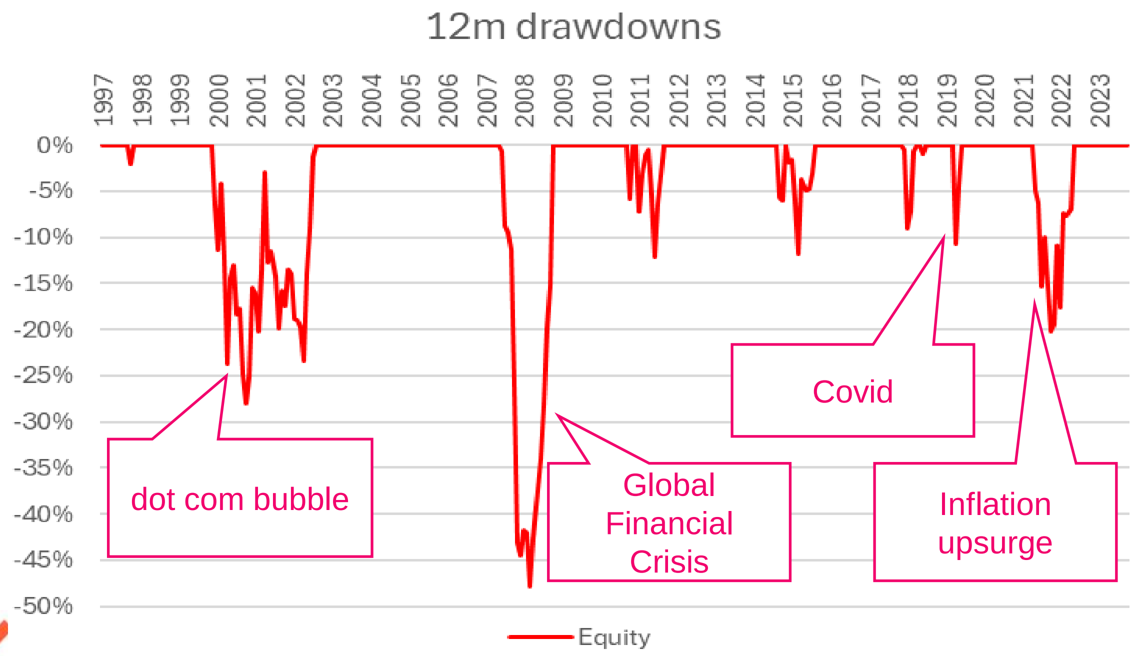


** Output repeated from our April 2024 Protection Assets review. Please see this paper for further information and additional detail on our modelling approach.*

Tail risks: Why consider market shocks?

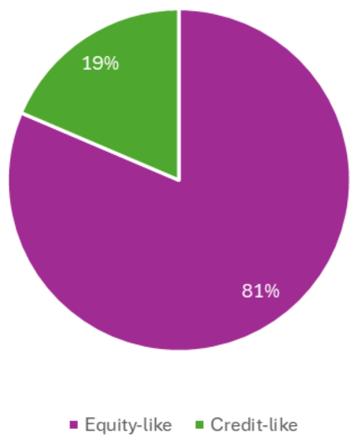
What defines a 'tail risk' event and how often do they occur?

- There is no single definition; it is dependent on the investor and their objectives. However, here we are considering particularly large falls in equity markets.
- Examples of sharp declines during extreme market stress are shown below. In some cases they are very short-lived (e.g. Covid) and in others it can take several years and there can be no certainty as to when market levels will return to previous levels.
- Were such a downturn to occur in the coming years, much of the significant funding level improvement enjoyed over recent years would be undone. The Fund may wish to investigate approaches that would dampen such an eventuality.



Analysis of the impact of a market shock (high-level, illustrative)

- For the purposes of this high-level analysis, we have simplified the portfolio into '**equity-like**' and '**credit-like**' components.
- We consider '**equity-like**' includes all the Growth investments, plus property, infrastructure and higher-risk private debt (special situations and distressed). The remainder is treated as '**credit-like**'.
- This is a significant simplification of the Fund's actual investment approach but we think this straightforward simplification may be helpful in illustrating how much of the portfolio may be exposed in a sharp economic downturn.



- We have determined that around 80% of the portfolio could be considered 'equity-like'.
- Whilst these exposures are well diversified, it does help to highlight that a material amount of the portfolio could suffer in a downturn.

HYMANS ROBERTSON

Tail risks: Why consider market shocks?

What size of shock could we see?

- Every market shock is different. However, the most common type of market shock involves a significant fall in equity and corporate bond markets due to a slump in economic conditions. Further, there is often a 'flight to quality' towards government bond investments, which leads to a fall in the risk-free rate (government bond) rate and an increase in liabilities. It's worth noting that this doesn't always happen, e.g. equities fell while the risk-free rate rose in 2022, due to the impact of strongly rising inflation over this period (Russia's invasion of Ukraine being a significant contributor to this owing to disruption on supply chains and sharp increases in commodities such as oil, gas and wheat).

- Nonetheless, for the purpose of this high-level analysis, we have derived the three deterministic 'shock' scenarios by below considering how key markets may act in such circumstances:

Scenario	Chance	Equities	Credit	Liabilities
Mild	1 in 4	-15%	-5%	+5%
Moderate	1 in 20	-22%	-7%	+7%
Extreme	1 in 100	-32%	-10%	+9%

- **We consider equity market shocks of between 15% and 35% to be of particular relevance to the Fund given major market drawdowns experienced over the last quarter of a century.**

- Note that the above scenarios build on the portfolio composition outlined on the last page. Also note that these subjective stress scenarios are broadly consistent with output from our ALM software run last year to gauge size and probability of shocks.

Impact on contribution rates

- We have considered the impact of different sizes of asset shock (in isolation) on the likelihood of needing to increase contribution rates by the 2028 valuation*.
- We have ignored the possibility of reductions in contributions resulting from the 2025 valuation, for simplicity.

Immediate asset shock:	Chance of needing to increase contributions at 2028 valuation*:
0%	3%
-10%	7%
-20%	16%
-30%	30%

- **In short, a market shock would increase the likelihood that contributions would need to be increased; the larger the shock the greater the chance that contributions would need to go up. This is to be expected but the above probabilities help to add some likelihoods to given drawdowns.**

- There is some subjectivity as to the probability of increasing contributions which would be of concern. In our view, an equity market fall of 20% or more might reasonably be considered problematic.

** Defined as the chance that the current contribution rate and investment strategy could lead to the funding criteria not being met, which is currently a 75% chance of being fully funded in 2040.*

Understanding Tail Risk

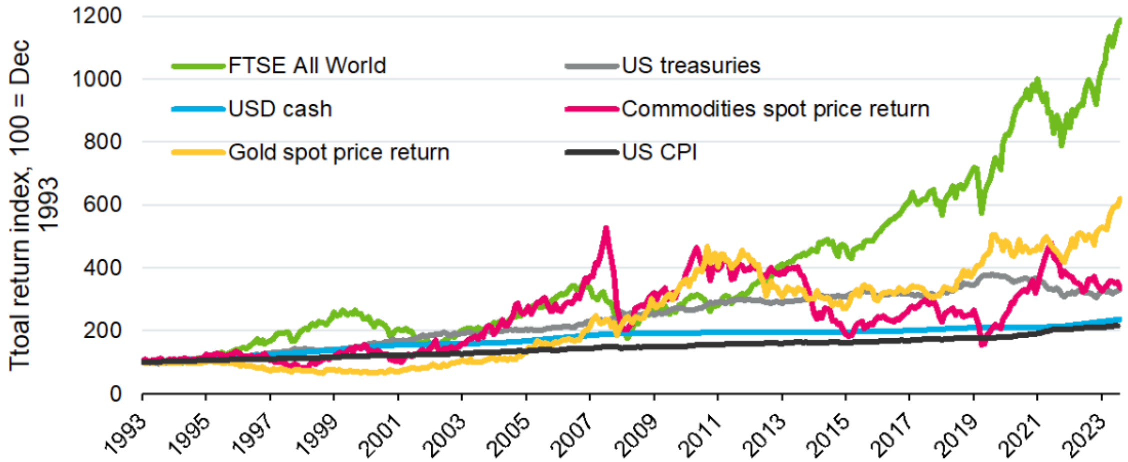
Downside protection: What options have we considered?

	Equity Portfolio Insurance	US Treasuries	Gold	Volatility derivatives
What is it?	Assets which pay out under pre-agreed conditions e.g. equity market falls of a given magnitude	Bonds issued by the US government	Exposure to movements in the price of a precious metal	Assets which move in line with an implied volatility index
How does it protect against tail risk?	Direct protection of the equity portfolio	'Safe haven' investment i.e. usually more demand in a market downturn Diversifier away from equities	'Safe haven' investment i.e. usually more demand in a market downturn Strong diversifier away from current assets	Index rises sharply during times of perceived market stress Often equity values fall when price volatility is high, but not always
Additional comments	More complex (makes use of derivatives) Used by numerous LGPS Funds currently, and historically **See coming slides for further detail**	Usually associated with a low long term expected return Doesn't always protect against equity falls **We do not provide further detail of this well understood class in this paper**	Uncommon amongst professional investors and the LGPS Doesn't always protect against equity falls. **See coming slides for further detail**	More complex (makes use of derivatives) We are not aware of historic use within the LGPS (although limited use in the private sector) **See coming slides for further detail**

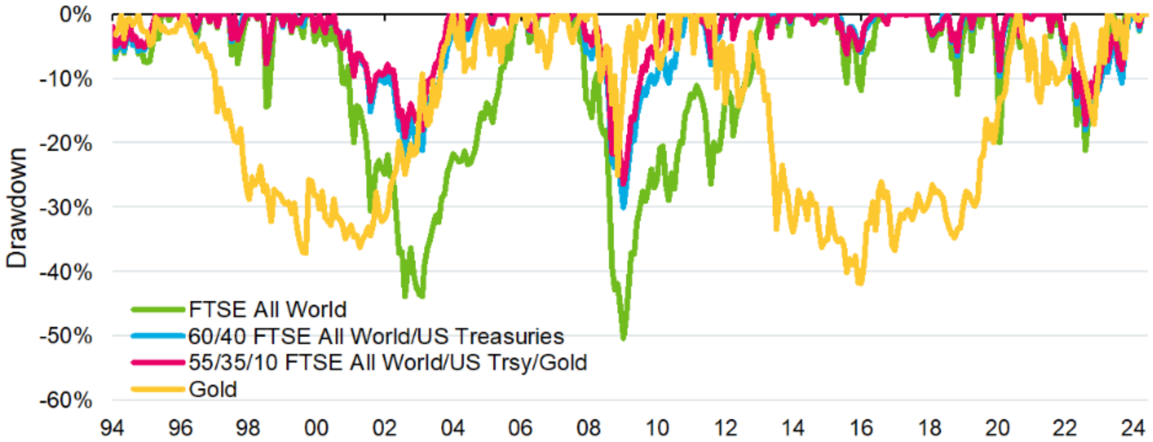
- Note that we have provided introductions and preliminary analysis including allocations to each of the above classes in this report. This is to help determine which (if any) approaches merit additional consideration in 2025 rather than explicit new class recommendations.

Introduction: Gold as a defensive asset class

Total returns December 1993 to July 2024



Gold drawdowns vs other investments and combinations



How could Gold help?

- Gold has scope to provide positive real returns, diversification, and liquidity as a complement to equities and bonds in a well-diversified long-term asset allocation.
- Given its scarcity value and diverse sources of demand, such as for jewellery, investment, central bank reserves, and technology components, gold can (but does not always) perform well in times of heightened economic and geopolitical uncertainty, while also providing long-term returns.
- However, gold provides no coupon or dividend, with returns determined solely by changes in the spot price and hence supply and demand for the asset. This means there is an opportunity cost, in the form of the return foregone on other assets, associated with investing in gold.

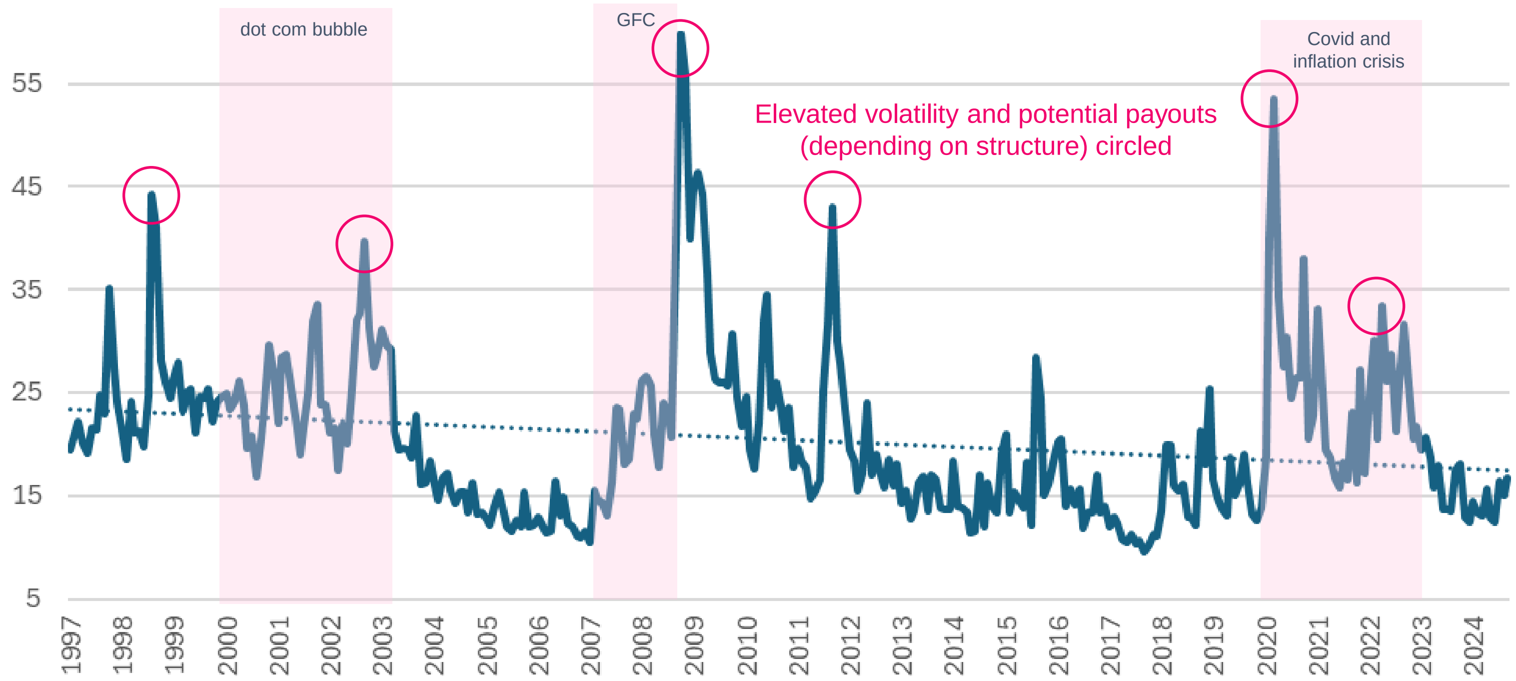
Is gold appropriate for the Fund?

- The class does have some defensive characteristics but has also experienced long periods of flat or negative performance, as shown in the charts on this page.
- **We have included this class to ensure that this potentially plausible option is investigated. However, our analysis suggests that the exposure to gold required to (attempt to) provide material protection against extreme market falls would be significant e.g. exposures of over £1.2bn to the class (i.e. >60% of equity portfolio)*.**
- **We recommend that exposure to gold as an asset class is discounted.**

** Based on historical backtesting over the period since 1997, in order to protect against >20% drawdowns over this period.*

Introduction: What are volatility derivatives?

Market volatility (VIX index)



What are volatility derivatives and how can they help?

- There are various different types of instruments that pay out when market implied volatility is elevated. This is related to the price at which downside protection via derivatives can be purchased.
- Spikes in implied volatility (and payoffs from such strategies) typically occur in times of market stress, and usually when markets are falling. As such, volatility derivative strategies can be used to attempt to protect against market falls, i.e. by receiving offsetting payments from contracts.
- One approach is a rolling program whereby so-called volatility futures are purchased on a rolling basis, e.g. monthly. Other types of approach are also available, e.g. volatility options.

Are volatility derivatives appropriate for the Fund?

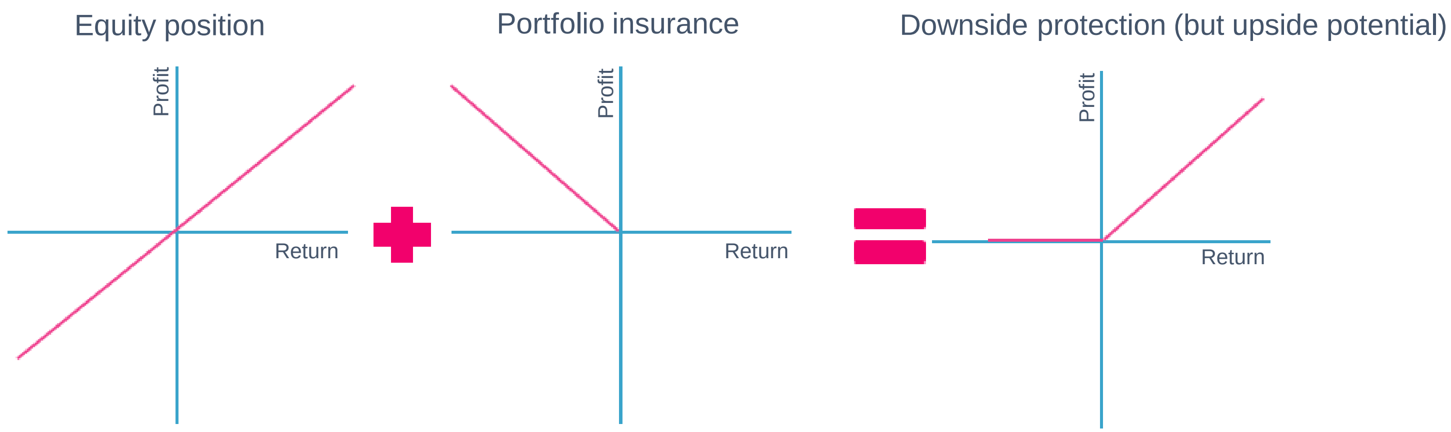
- We have investigated this class as it's one of the obvious ways to protect against downside risk.
- Such an approach is used in the fund management industry, sometimes by private pension schemes directly but we are not aware of its use within the LGPS.
- The strategy could be considered more difficult to understand and more complex to implement than some other approaches.
- **We have included this class to ensure that this potentially plausible option is investigated. However, we consider the potential benefits of the approach to not outweigh its downsides and complexities.**
- **We recommend that the volatility derivatives approach is discounted.**

Introduction: What is Equity Portfolio Insurance?

- Equity protection is a plausible strategy that has been adopted recently by several LGPS funds and has been used by numerous LGPS funds over recent times. We introduce the high-level features of the class here.

Portfolio Insurance:

- An investment that pays out when equities fall by more than a pre-determined amount, in exchange for a premium.
- When held with existing equity, portfolio insurance can serve to offset market losses.
- The cost of the premium needs to be considered (reduced return but protection against severe losses).



You hold equities, which can fall in value → Buy 'insurance' which pays out when equities fall → When combined, the 'insurance' offsets the falls in your equities

How do you obtain this insurance?

- Purchase derivative contracts and hold cash as collateral.
- Very large and liquid market.
- Derivatives very commonly used by pension schemes, investment funds.
- On-going premiums to cover the protection obtained.
- Much like house insurance, we suggest payment of a regular 'premium' e.g. annually (rather than e.g. capping returns).
- However, also like insurance, the premium can vary, so we suggest the cost is always considered before buying (e.g. annually).

Important note

- We provide initial information and high-level modelling calculations in this paper.
- This class of investment cannot be properly considered without suitable training and more detailed analysis and scenario testing.
- **We suggest this approach is considered as part of wider investigations into the overweight equity position in 2025 (and taking into account the developments of the Ongoing Consultation).**

How do the payoffs look from Equity Portfolio Insurance?

- Equity portfolio insurance operates with pre-defined payoffs, depending on how the relevant equity markets perform over the period.
- Here we show example payoffs for a simple structure by way of illustration, taken out over 1 year, and providing protection against equity falls of greater than 20% in exchange for a premium of 2.5% of amount of equity protected.

Equity performance	Portfolio Insurance payoff	Premium cost*	Overall performance	Relative performance (vs equities)
+40%	0%	-1.3%	+38.7%	**-1.3%**
+20%	0%	-1.3%	+18.7%	**-1.3%**
0%	0%	-1.3%	-1.3%	**-1.3%**
-20%	0%	-1.3%	-21.3%	**-1.3%**
-40%	+20%	-1.3%	-21.3%	**+18.7%**

- As can be seen, over a 1-year period this kind of structure would be expected to be a relatively modest drag on performance, unless we saw a large fall in equities over the year (which was sustained to maturity of the insurance). This is a desired characteristic, and again similar to the house insurance analogy used earlier.
- We also note that the payoffs are contractual and directly linked to equity performance, and are therefore certain in nature (unlike other types of tail risk protection we consider later).

Equity Portfolio Insurance is likely to be a relatively modest drag on portfolio performance, unless we see an extreme risk event, when it will pay out materially

** Using an indicative market price for such protection as at 30 November 2024, as supplied by an investment manager operating in this space. The actual premium would depend on market conditions at the date it is implemented.*

Longer-term performance: Equity + strategies

	Equities only	Equity + Portfolio insurance	Equity + 10Y US Treasuries	Equity + Gold	Equity + VIX futures
Proportion of equity portfolio moved to protection asset	-	1.5%*	10%	10%	10%
Whole period** outperformance vs equities p.a.	-	-0.2%	-0.2%	+0.1%	-1.6%
Whole period** volatility (monthly; annualised)	**15.7%**	13.4%	14.1%	14.5%	9.6%
Return / volatility	**0.51**	0.58	0.55	0.56	0.70
Largest 12m drawdown over whole period*	**-47.8% (Feb 2009)**	-36.6% (Feb 2009)	-42.2% (Oct 2022)	-43.5% (Feb 2009)	-32.0% (Feb 2009)

- Here we compare longer-term performance for such strategies, based on historic back-testing.
- **Note this approach is not ideal for Equity Portfolio Insurance as we recommend an informed ratification of the protection approach rather than systematically purchasing new insurance at any cost. The results are very sensitive to the assumptions used, and would be materially worse under certain alternative time periods.**
- We have capped the maximum proportion of the equity portfolio which is allocated to the US Treasuries, Gold and VIX futures strategy at 10%, as we expect allocations greater than that to be problematic.
- We also look to limit the Equity Portfolio Insurance premium we are willing to pay (to 2.5% of protection size, for protection against falls >20%) to reflect the fact that we would not wish to allocate material amounts of capital to protection strategies longer-term.
- Performance drag is satisfactory for all strategies except VIX futures. It is only marginally negative for Portfolio Insurance here, however we note this is highly sensitive to the assumptions made and the timeframes; in general we would expect a modest performance drag over longer periods.
- Overall volatility is reduced in all cases, materially so for VIX futures with the next best being Equity Portfolio Insurance.
- All reduce maximum drawdowns, albeit for US Treasuries and Gold this is relatively limited.
- Equity portfolio insurance doesn't reduce maximum drawdowns to 20%, as might be expected. This is because:
  - The full value of the protection is only received if a fall is sustained to maturity. The market value of the protection before maturity will reflect the possibility that markets could bounce back in the period left to maturity.
  - We have applied a cap to the price we are willing to pay for the protection.
  - There is a timing consideration, i.e. protection is rolled annually and when you buy it has an impact on when payoffs occur.

- *Capital is not allocated as such, so we state the average premium over the whole period. There is also the issue of collateral in certain situations which is not considered here but would be quantified in a 2025 review. For premium calculation we have used the VIX value as the implied volatility assumption; in practice the volatility implied in actual pricing is usually higher due to the 'volatility skew' effect which we have attempted to reflect by way of a loading to premiums of 0.5%.*
- ***Whole period is since Jan 1997 for all strategies except VIX futures, which are since March 2005, until Sept 2024. Note that equities is based on the FTSE All World Index ($), which returned 8.0% pa over this period.*

Key market drawdowns: Equity + strategies

Downside shock analysis: Discussion

- Earlier we identified that a material downturn in equity markets has the potential to harm the Fund's financial position. It is therefore useful to consider how such protection strategies would have performed during historic instances of such market shocks. Here we compare the performance of different strategies shown against specific sharp market downturns.
- For this particular analysis, we have assumed that protection against any falls (i.e. below 0% returns) is in place, to allow a fair comparison between strategy types over shorter time periods.
- This will lead to material premiums on the Equity Protection Insurance, but this is built into the returns shown. It is also built into the performance analysis on the previous page.
- US Treasuries and Gold have generally reacted positively to market downturns, however in both cases these strategies did not work in 2022. This demonstrates that these strategies are not certain to protect the Fund in a downturn.
- Equity Portfolio Insurance is harder to assess historically, due to needing to make assumptions about parameters such as timing of rolls, amount of protection put on, etc. Here we have assumed that the strategy is rolled annually at 31 March each year.
- However, in all cases (Covid withstanding, which was a very short-lived shock), the performance is better than the other strategies considered.
- Performance is not zero, however, as there is a need to pay the premium for protection.

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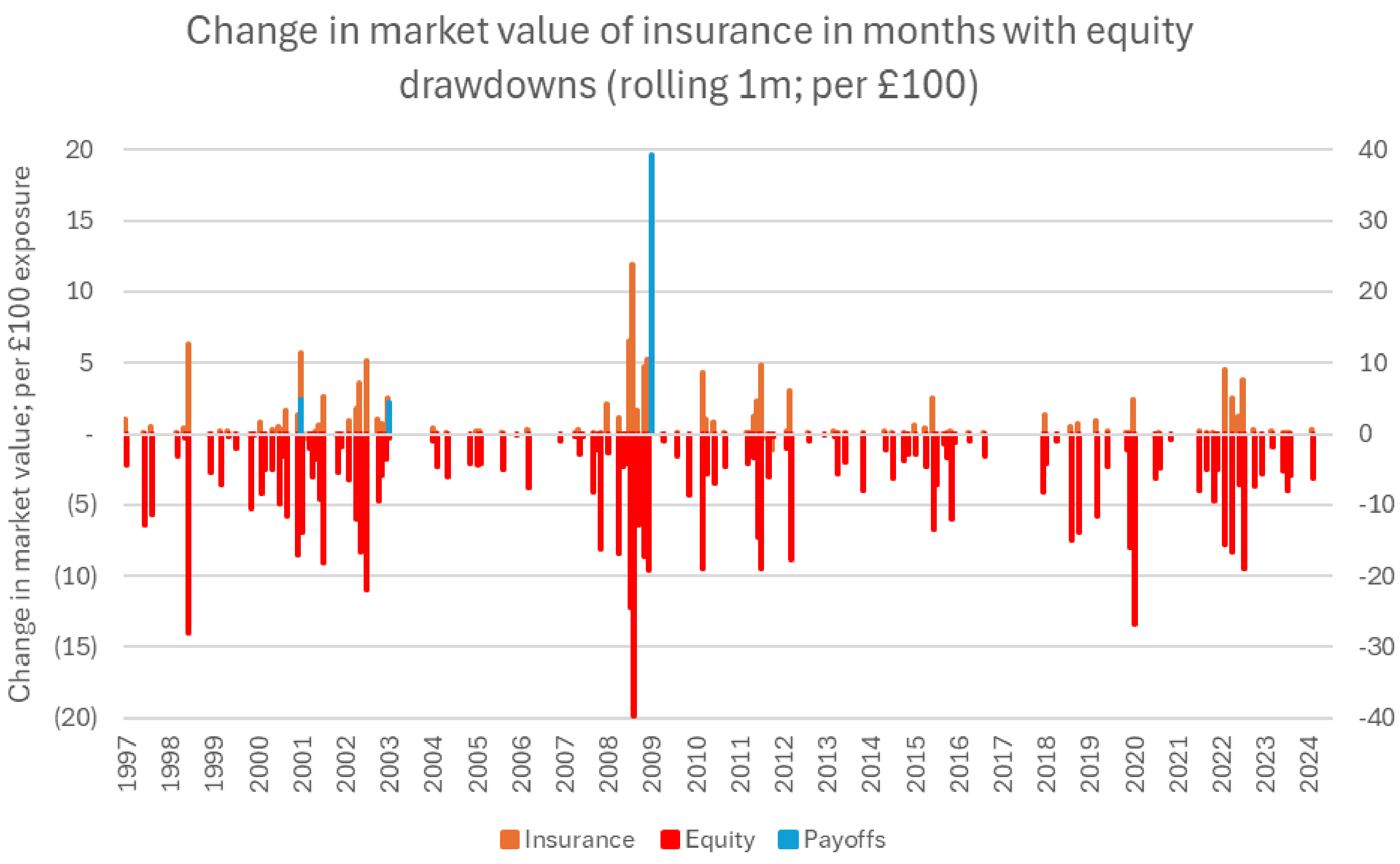
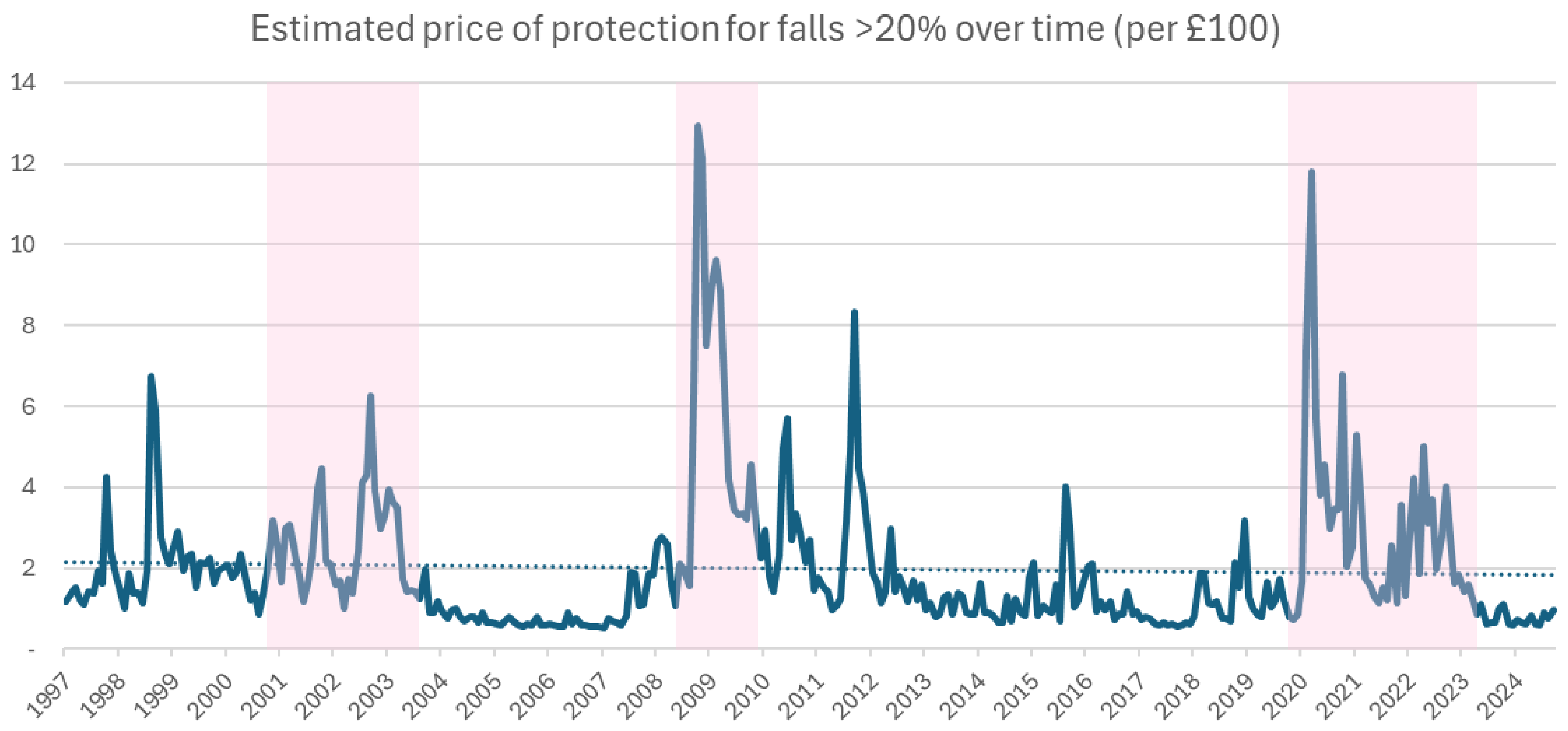
Equity Portfolio Insurance:
How the market value of protection reacts to equity falls



- Whilst payoffs are crystallised at maturity (e.g. at the end of a 1-year contract), the protection will have a daily market value.
- **This means that the value of the protection will increase whenever we see market downturns.**
- However, the size of the movement will likely not precisely match the equity movement, due to other factors (e.g. time to maturity, changes in implied volatility, etc.).
- Here we choose to look at movements for a strategy protecting against falls greater than 20% (meaning it will only react in a meaningful way when markets were falling more materially). As can be seen, the protection reacts immediately when markets are falling (though as expected not by the same amount due to the limited protection in place).
- The full extent of the protection only comes through if the fall is sustained to maturity*. This was seen in our example here during the dotcom bubble (twice), and the GFC.
- Shorter-lived equity shocks, such as Covid and Inflation upsurge, saw mark-to-market reactions from the protection, but ultimately no payout as markets rebounded relatively quickly.

** Note we have used a different scale for payoffs (RHS) to more easily see the Insurance bars (LHS)*

Equity Portfolio Insurance:
How the price of protection changes over time



- Pricing changes over time depending on market conditions…if the market is worried then protection becomes more expensive.
- The price you pay upon buying protection should therefore be an important consideration.
- Here we show the estimated* price of protection for falls beyond 20% in order to highlight points where the cost of protection was particularly high (and very likely prohibitively expensive).

** Prices have been derived using market implied volatility. We are aware that market pricing of downside protection can often imply higher volatility, however, this is suitable for the purpose of the high-level analysis in this paper.*

Tail Risk: Summary and Next Steps

- Material, sustained falls in equity markets would cause a problem for the Fund. It is therefore sensible to investigate whether these should be protected against, to at least some degree.
- However, protection should not simply be bought at any cost, particularly if the plan is to generate strong returns over the longer-term.
- **US Treasuries and Gold** have historically provided some level of protection against extreme market events. However, the value of capital required to provide meaningful protection would be unpalatable, given the associated performance drag. Also, the protection isn't certain, e.g. this didn't work in 2022. We discount these options.
- **VIX futures** provide meaningful protection for a lower capital allocation size. However, the performance drag (due to negative performance during calmer periods) is significant. Therefore, we also discount this option.
- We consider **Equity Portfolio Insurance** to be the most appealing solution in terms of efficiency. The relatively low capital allocation needed and ability to directly control performance drag (by not paying too high a price for protection) also helps the investment case.
- Its effectiveness of protection at maturity points cannot be questioned, and these can be aligned with valuation dates to solve the problem laid out at outset, i.e. untimely falls in markets leading to contribution increases. However, the market value in-between these points can give the illusion that the protection isn't working as well as intended.
- There are also governance considerations associated with adding equity portfolio insurance to the portfolio, e.g. frequency of rolling and an annual recalibration exercise.

Further notes and conclusions

- Our analysis of Equity Portfolio Insurance is very high level at this stage, with a large number of caveats and assumptions to the analysis presented.
- The approach looks like it merits some consideration. We are also aware of other LGPS Funds which run such strategies, as mentioned earlier.
- **We suggest that Equity Portfolio Insurance is investigated further in 2025.** This could include running an extension of our ALM software which shows the impact of implementing these on a forward-looking basis (although the scope of our work would be agreed at the next stage). Training could also be provided.
- We are cognisant of the Ongoing Consultation and therefore conversations with the Pool will be required to determine what is possible via the pool. However, if the Pool were unable to run the strategy a third-party manager would be needed.
- Such a review would also consider governance issues, including the governance benefits of a more automated solution relative to the potential benefits to outcomes of more regular monitoring and action. Ultimately any viable solution would need to be a simple, relatively low governance one.
- Given the risk reduction properties, exposure to Equity Portfolio Insurance could mean that the Fund is able to support a slightly higher strategic allocation to equities whilst decreasing (or not increasing) risk at the overall portfolio level. **We recommend that the current overweight to equities is formalised, but subject to the review recommended above.**

Progress to date

- **We are pleased to see the good progress the Fund has made towards its Net Zero ambitions.**
- There has been a considerable amount of work and portfolio restructure activity over recent years – both within the Pool and outside (e.g. forestry and sustainable infrastructure).

2020

Investment in All World Equity Climate Multi Factor Fund (passive equity).

2021

Investment in Aegon Global Short Dated Climate Transition Fund (fixed income).

2022

ESG integrated into the investment strategy, recognising it as a risk factor.

2023

First NZCS: Net Zero target date of 2050 (or sooner), climate metrics, and interim targets were agreed. Reporting progress is shown in the next slide.

Increased sustainable equity and infrastructure allocations, including commitment to Quinbrook NZPF (specialised in energy transition assets).

2024

2030 interim equity targets achieved.

Further commitments agreed to LGPSC Infrastructure fund (which has exposure to renewable energy) and Stafford's Timberland fund.

The Fund has made significant progress to date towards its Net Zero ambition

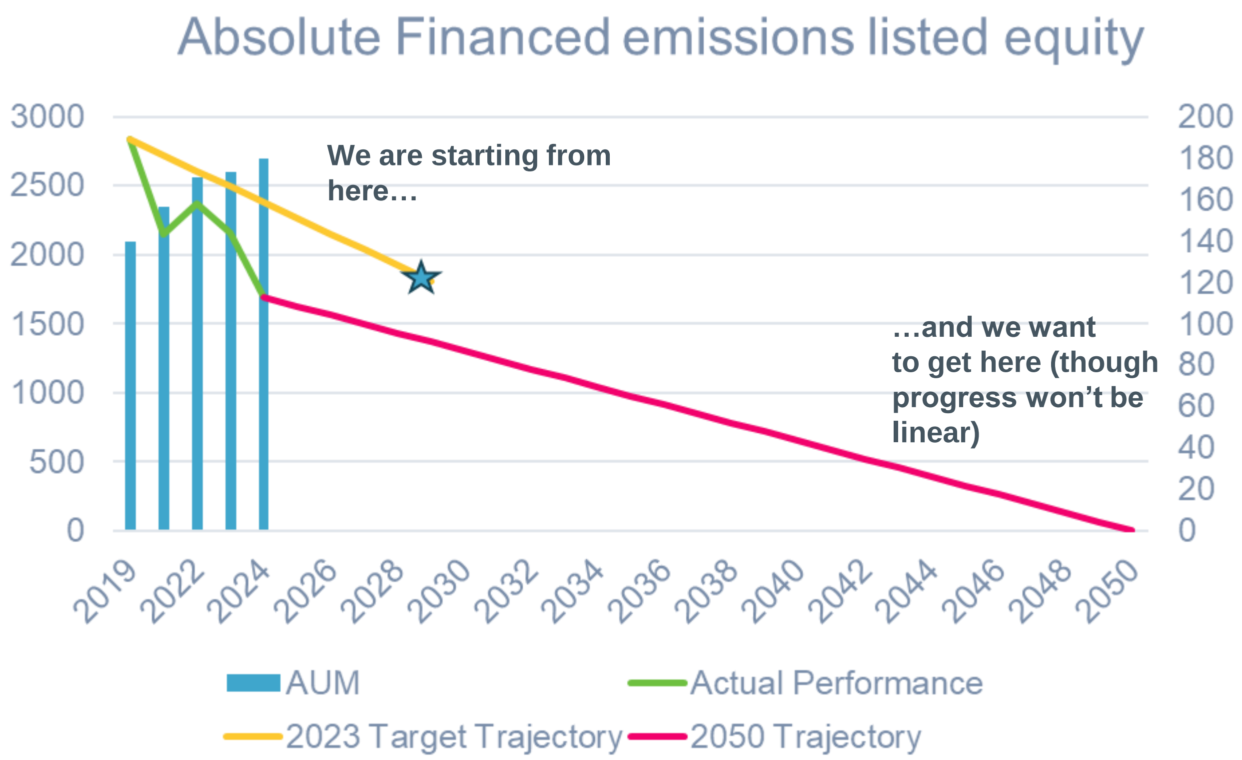
Net zero reporting: learnings to date

Subject	Insight
Primary Targets	**The Fund has met both interim 2030 targets for equity assets** ▪ Equity financed emissions: 112,811 tCO2e - ↓ 40.4% vs 2019 (target -40%). ▪ Equity weighted average carbon intensity: 76.7 tCO2e/$m sales - ↓ 52.8% vs 2019 (target -50%).
Allocation to Climate Solutions	**Over £1.2bn in climate related investments across equity, debt, infrastructure and forestry** ▪ Equity exposure to clean tech, apportioned by portfolio company revenue: 6.5% - ↑ 1.6 percentage points vs 2019. ▪ Off-Pool allocations have been made where the Pool did not have an offering.
Fossil Fuel	**Strong emphasis on active stewardship and direct engagement with companies** that are significant contributors to financed emissions, particularly within the fossil fuel sector. ▪ Equity exposure to fossil fuel reserves, apportioned by portfolio company revenue: 1.9% - ↓ 0.1 percentage points vs 2019.
Paris Alignment	• **64.2%** of the equity NAV in material sectors is considered aligned/aligning with the Paris Agreement. • **75.7%** of equity financed emissions are aligned/aligning or under engagement.
Fixed Income	• Significant improvement in data availability over recent years. • While there has been an increase in financed emissions (largely driven by significant expansion in the portfolio's NAV), this has been offset by a notable improvement in carbon efficiency, reflected in the decrease in weighted average carbon intensity (WACI).
Other Asset Classes	• 2024 reporting has expanded to cover the Fund's private market holdings managed by the Pool. • Initial assessment of climate risks for targeted return funds has been conducted, though data availability falls short of the 60% corporate data coverage threshold.

Source: 2024 climate risk report, prepared by LGPS Central.

The Fund is in a strong position. What are the possible next steps?

Achieving the 2050 NZ target: What can the Fund do?



Consider approaches that lead to a further reduction in more carbon intense assets?

Forward planning to ensure that carbon intense assets remain on a downward trajectory?

How can we be sure we are on the right path, and what do we do if we aren't?

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The Fund and Net Zero

- **The Fund is progressing well towards its target of achieving Net Zero by 2050 and made demonstrable progress in numerous other areas of responsible investment and good governance.**
- The Fund has committed to consider fossil fuel exposure when considering any new investment, with a view to limiting its impact. This policy was a factor in the decision to invest in the Low Carbon Transition Fund and influenced the decision to invest in the Quinbrook Infrastructure Partners Power Fund and the Stafford Capital forestry allocation.
- The Fund has invested over £1bn in assets that integrate environmental considerations since 2019, which is an impressive achievement in itself.
- Meeting both the 2030 targets that are in place is testament to the work put in to restructure the portfolio over recent years, and the numbers are significant:
  - **Equity Financed Emissions:** 40.4% lower than 2019.
  - **Equity Weighted Average Carbon Intensity:** 52.8% lower than 2019.
- The Committee is taking steps to hold managers to account and develop their own thinking. For instance:
  - **Manager meetings:** Sessions with (forestry manager) Stafford Capital and (property manager) DTZ over recent years, to ask questions about the approaches adopted.
  - **Training sessions:** For example, we also note that the Committee has received training from the Pool.
- The Fund has also ensured that engagement activity takes place to promotes its Net Zero ambitions, e.g. via voting that takes place via LGIM and the Pool's external stewardship provider. We note the practical examples of proactivity by the Pool in this area, e.g. via engagement with Shell on their Scope 3 emissions as well as changes to their Energy Transition Strategy, for which the Fund's representatives voted against Shell on a key resolution.

The Fund should consider investigating next steps in relation to the Net Zero journey, but we would expect the Officers to wait for the outcome of the Ongoing Consultation.

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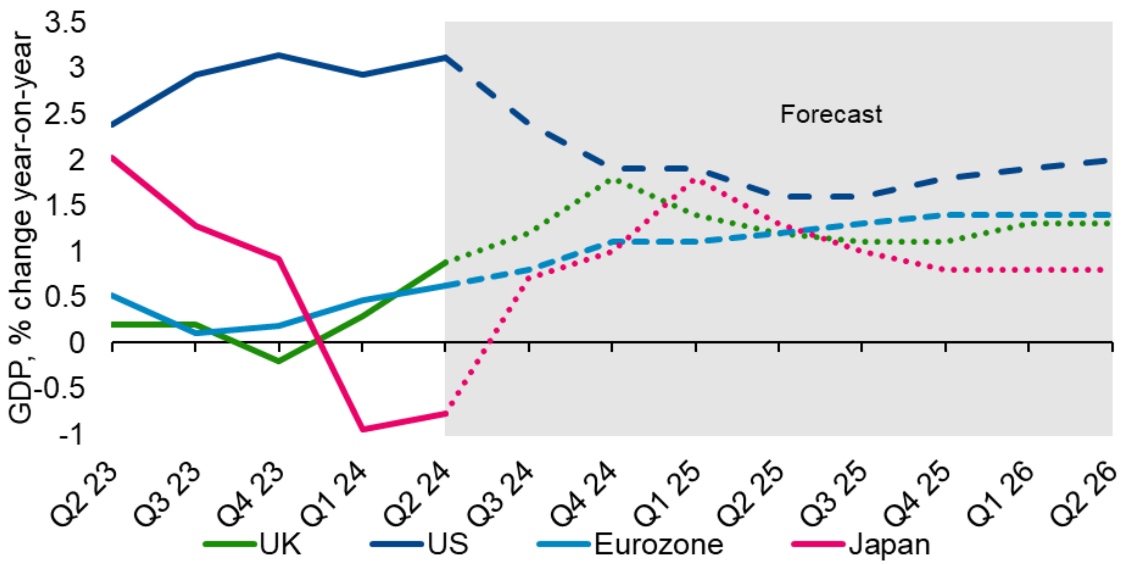
Appendices

Economic Background

Economic momentum is softening, but not cracking

- Bearish takes on recent economic news look overly gloomy.
- The US economy is slowing but still on track to expand at a solid pace.
- There is still scope for a modest recovery in Europe, while growth in emerging markets will likely remain broadly unchanged.
- Solid, but unspectacular, growth expected in near-term.

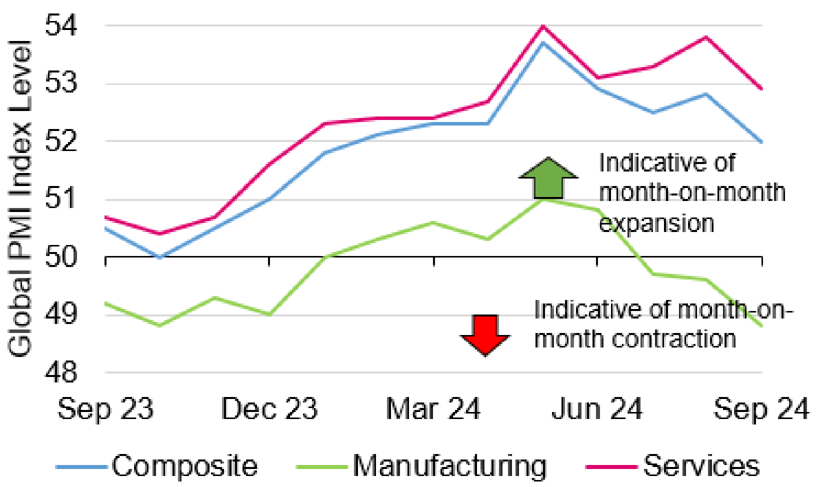


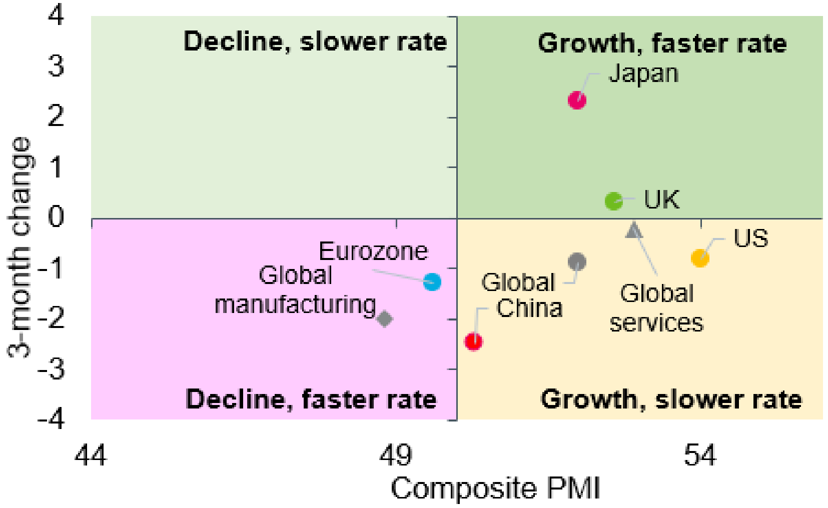
Forecasts point to trend-like growth

- Growing concerns the US might be entering recession look unfounded and recent data points to a more orderly and benign growth slowdown.
- Indeed, US Q2 GDP growth was stronger than anticipated and the rise in the unemployment rate has largely owed to job trend growth being insufficient to absorb the increase in labour supply, as opposed to being driven by widespread layoffs. The housing and manufacturing sectors remain weak spots but should benefit the most from lower interest rates.
- Survey data pointed to a modest reacceleration in eurozone growth mid-way through Q3, but this doesn't alter the underlying picture of sluggish growth trends. Stronger consumer spending will underpin solid UK GDP growth, but quarterly growth will likely slow from H1 2024's above-trend pace due to tight fiscal and monetary settings.
- Japanese economic momentum is expected to improve in H2 2024 and H1 2025, but Chinese growth is likely to remain subdued in the near-term as export strength fades while property sector weakness continues to weigh on private investment and consumer confidence. Following 2023's 2.7% expansion, Global GDP is forecast to rise 2.6% in 2024 and 2.5% in 2025.

Economic Background

Survey data tends to support forecasts of solid but unspectacular near-term global growth





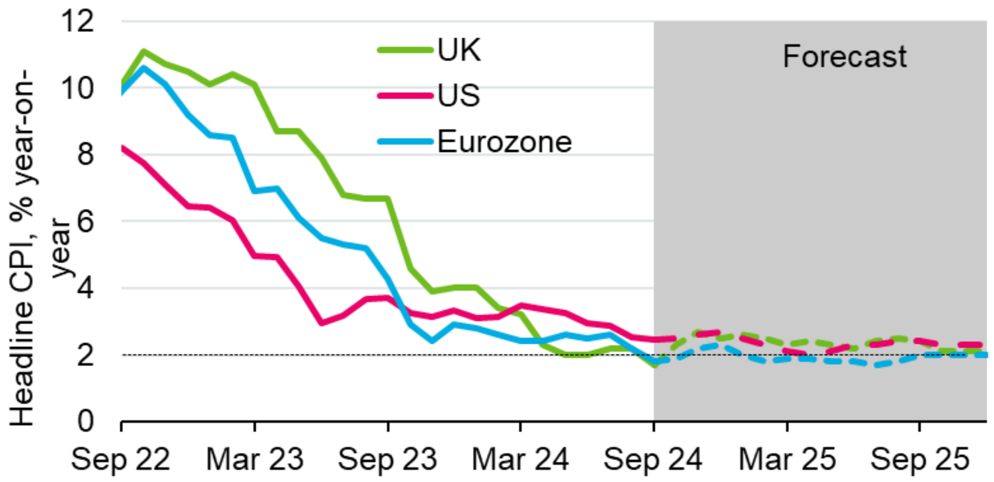
- JP Morgan's Global Composite Purchasing Manager's which aggregates activity across the global manufacturing and service sectors, slowed in September as services activity continued to grow at a solid, though slightly slower, pace and manufacturing output contracted month-on-month.
- The index is still indicative of solid global growth, but a broad-based loss of momentum across regions and sectors does raise some concerns.
- Service sector business activity rose for the 20th consecutive month in September, albeit at a slightly reduced pace, while manufacturing production decreased for the first time since December 2023 following a third successive month-on-month decrease in new orders.
- Marked divergence was also evident among the major economies in September. The US, Japan, UK and Brazil all expanded at solid rates, but the eurozone, Canada, Russia and mainland China showed signs of either contracting or stalling.
- September saw global employment stabilise, following a reduction in August, providing some relief against recent labour market worries.
- Input cost inflation, though still positive, eased to a three-month low in the weaker manufacturing sector in August, while they accelerated in the more labour-intensive service sector. In both sectors, business optimism eased to two-year lows amid signs of economic slowdown and rising geopolitical tensions.

Inflation

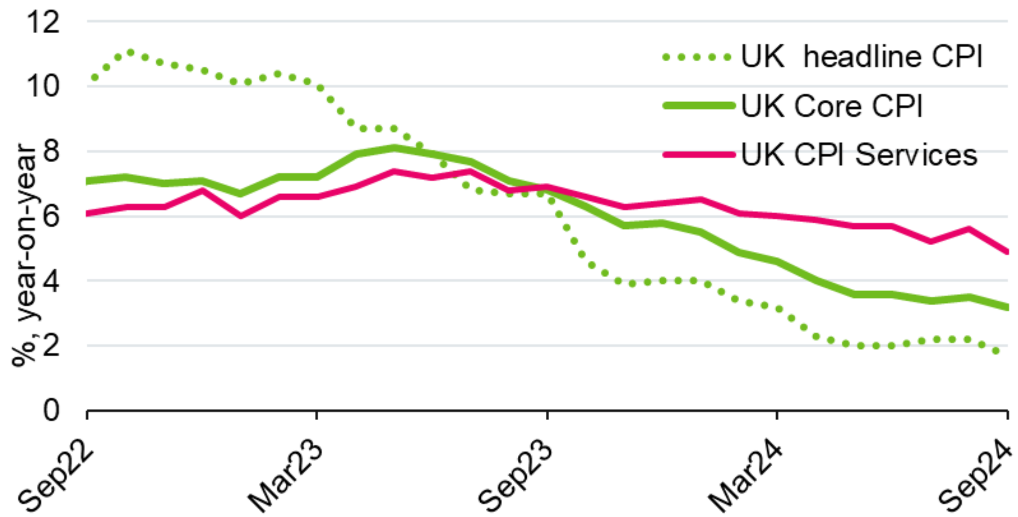
Inflation

- US headline CPI inflation eased to 2.4% year-on-year in September, while equivalent UK and eurozone inflation fell more than expected, to 1.7% and 1.8%, respectively.
- With services inflation slowing less sharply, core inflation has eased back more slowing, sitting at 3.3%, 3.2%, and 2.7%, in the US, UK, and eurozone.
- Some of the recent downwards contributors to UK headline inflation will rebound, but services inflation, at 4.9% year-on-year, has still massively undershot the MPC's forecast of 5.5% and consensus expectations of 5.2%.
- All told, while headline inflation is likely to rebound, recent UK data points to a slightly faster easing of underlying inflation pressures, albeit from elevated levels, than previously expected.
- While there are good reasons to think inflation may be more volatile than in the pre-pandemic era, we expect central banks to keep inflation close to target in the medium to long term.

Headline inflation has generally come in at, or below, expectations recently



However, some key measures of underlying inflation remain elevated



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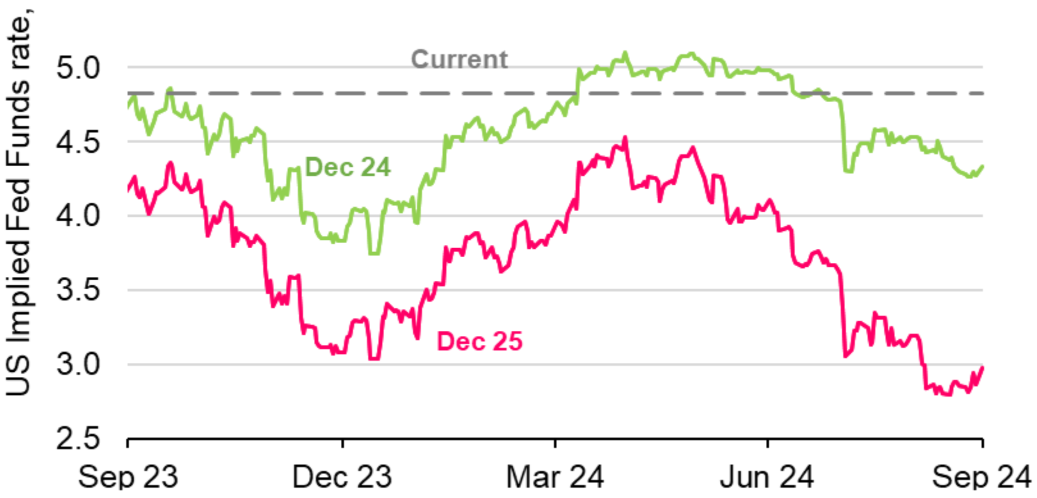
Interest Rates

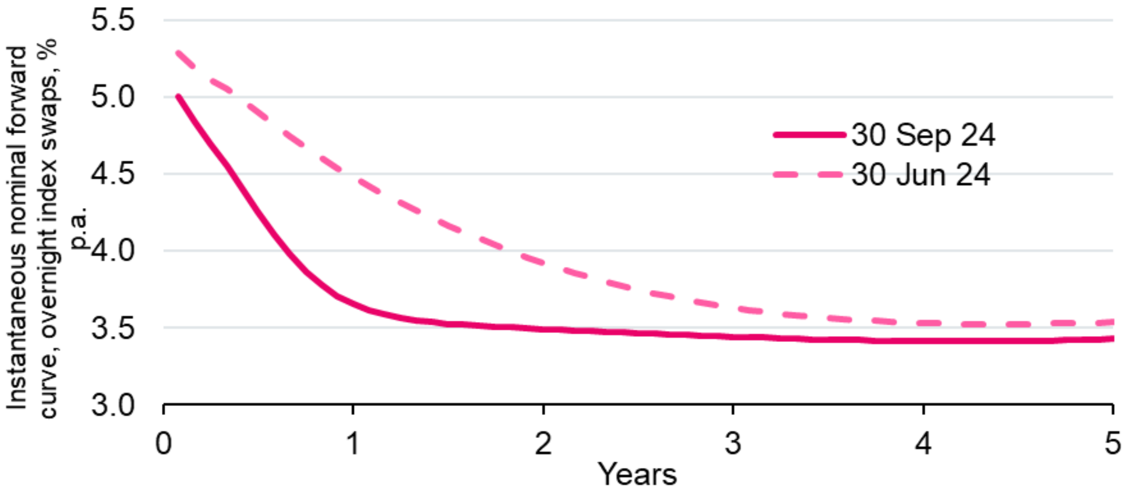
Interest rates

- The ECB cut rates for the second time in Q3, taking rates to 3.5% pa, while the BoE lowered interest rates 0.25% pa, to 5.0% pa. The Fed opted for a bumper 0.5% pa reduction, with their first cut of the cycle taking the Fed funds target range to 4.75 – 5.0% pa.
- As of September 30, markets were pricing an additional 50bps of cuts from the US Fed in 2024, followed by a further 135bps in 2025, reducing the US Fed Funds rate to 3.0% pa; implying a relatively aggressive pace of interest rate cuts.
- Given greater signs of stubbornness in underlying inflation, a slightly more gradual reduction in UK interest rates is expected: a further 30bps in 2024, followed by 120 bps of cuts in 2025.
- With GDP growth set to be solid but unspectacular and underlying inflation set to slow, we expect central banks to cut rates at a steady and sustained pace.
- Absent a more pronounced slowdown, the likely extent of near-term interest rate cuts looks at least fully priced.

Markets are already pricing significant interest rate cuts by the US Fed



The BoE is expected to ease at a slightly slower, but still steep, pace



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Listed Equity

The current equity portfolio is comprised of a mix between **passive market-cap, passive fundamental-weighted, and active** mandates. The portfolio is structured to have a broad mix of strategies and a balanced exposure, in order to enhance returns and reduce volatility, while generating alpha.

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Fund allocation

Manager & Fund	Active/ Passive	Above or Below Target allocation
L&G Total Passive Equity	Passive	3.5%
LGPSC Global Eq Active Multi Mgr Fund	Active	-2.0%
LGPSC EMM Eq Active Multi Mgr Fund	*Active*	*3.0%*
LGPSC AW Eq Climate Multi Factor Fund	Passive	1.0%
Total		**5.5%**

Fund performance

Manager & Fund	Current benchmark	1 Year (%)			3 Year (%)		
		PF	BM	ER	PF	BM	ER
L&G Total Passive Equity	Client Weighted Index	18.3			7.8		
LGPSC Global Eq Active Multi Mgr	FTSE All World Index	20.2			10		
LGPSC EMM Eq Active Multi Mgr	*FTSE All World Emerging Market Index*	*8.3*			*-4.8*		
LGPSC AW Eq Climate Multi Factor	FTSE All World Net	19.8			9.5		
Total	**Client Weighted Index**	**18.4**			**7.8**		

Please note, the restructuring of the listed equity portfolio was completed in July 2024, and the table above reflects the position as of 30 June 2024. The allocation should now be closer to target, particularly following the full divestment from the EMM Equity Fund, which was overweight in June, to top up the underweight Global Equity Fund.

PF= Portfolio Return, BM = Benchmark Return, ER = Excess Return. Source: Hymans Performance Reporting. Returns tabulated above are time-weighted period returns (quoted in sterling).

Private Equity

Private Equity allocation

Manager & Fund	Target Allocation	Actual Allocation	Above or Below Target
Oseas Private Equity - Adams Street (L)	7.5%	5.7%	--
LGPSC Private Equity 2018 (L)		0.1%	
LGPSC Private Equity 2021 (L)		0.1%	
Patria Capital Partners SOF III		0.4%	
Total	**7.5%**	**6.3%**	**1.2%**

Private Equity performance

Manager & Fund	Current benchmark	1 Year (%)			3 Year (%)		
		PF	BM	ER	PF	BM	ER
Oseas Private Equity - Adams Street (L)	FTSE All World Index +3%	-0.7			9.3		
LGPSC Private Equity 2018 (L)		7.0			12.6		
LGPSC Private Equity 2021 (L)		-11.9					
Patria Capital Partners SOF III		0.2			16.6		
Total	**FTSE All World Index +3%**	**-0.3**			**10.0**		

UK Private Equity Fund – Catapult is currently winding up, with a small residual (c.£1m) remaining, as such has been omitted from this review

PF= Portfolio Return, BM = Benchmark Return, ER = Excess Return. Source: Hymans Performance Reporting. Returns tabulated above are time-weighted period returns (quoted in sterling).

Targeted Return

Current Portfolio:

Manager & Fund	Target Allocation	Actual Allocation	Above or Below Target
Ruffer	3.0%	2.7%	0.3%
Fulcrum Diversified Core Abs Ret	2.0%	2.0%	0.0%
Total	**5.0%**	**4.7%**	**0.3%**

Performance:

Manager & Fund	Current benchmark	1 Year (%)			3 Year (%)			Since Inception (%)		
		PF	BM	ER	PF	BM	ER	PF	BM	ER
Ruffer	SONIA 3 M + 4%	0.8			0.5			5.0		
Fulcrum Diversified Core Abs Ret								10.1		
Total	**SONIA 3 M + 4%**	**4.2**	**9.4**	**-5.1**	**7.0**	**7.1**	**-0.1**	**5.7**	**5.4**	**0.3**

Ruffer Investment Objective: To deliver positive returns ahead of cash in all market conditions over any 12-month period, with an emphasis on capital preservation in times of market uncertainty.

PF= Portfolio Return, BM = Benchmark Return, ER = Excess Return. Source: Hymans Performance Reporting. Returns tabulated above are time-weighted period returns (quoted in sterling).

Infrastructure & Timberland

Current Portfolio:

Manager & Fund	Target Allocation	Actual Allocation	Above or Below Target
JPM Infra	12.5%	2.6%	-
IFM Global Infrastructure		2.5%	
KKR Global Infrastructure Funds I, II, III		0.8%	
Stafford Timber Funds VI, VII, VIII		1.9%	
Infracapital Infrastructure		0.5%	
LGPSC Infrastructure Core/Core Plus sleeve		1.3%	
Quinbrook Net Zero Power		0.4%	
Quinbrook Net Zero Power - Co-inv		0.4%	
Total	**12.5%**	**10.4%**	**-2.1%**

Performance:

Manager & Fund	Current benchmark	1 Year PF	1 Year BM	1 Year ER	3 Year PF	3 Year BM	3 Year ER
JPMorgan Infrastructure	Absolute Return +8%	8.1			10.3		
IFM Global Infrastructure	Absolute Return +8%	3.9			11.9		
KKR Global Infrastructure	SONIA 3 M + 4%	20.8			19.6		
Stafford Timberland	Absolute Return +8%	1.6			12.8		
Infracapital Infrastructure	Absolute Return +7.5%	-8.1			4.9		
LGPSC Infra Core/Core+	CPI +3.5%	4.1					
Quinbrook Net Zero Power	13% IRR	12.0					
Quinbrook Net Zero Power Co-Inv	13% IRR	20.9					
JPMorgan Infrastructure	**SONIA 3 M + 4%**	**5.7**			**12.1**		

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The Fund conducted a review of its infrastructure portfolio over 2024, which resulted in the decision to make additional commitments over the coming years to reach the target allocation.

PF= Portfolio Return, BM = Benchmark Return, ER = Excess Return. Source: Hymans Performance Reporting. Returns tabulated above are time-weighted period returns (quoted in sterling).

Property

Property offers a relatively stable income stream that is loosely inflation linked. Property also provides diversification with other growth and income assets. We believe that integrating RI effectively will improve investment performance. There is an increasing demand from tenants for more energy efficient space, with lower carbon emissions. Lower tenancy costs can often be translated into higher rents. Onsite renewables can lower costs and potentially bring in more income.

Current Portfolio:

Manager & Fund	Target Allocation	Actual Allocation	Above or Below Target
Colliers Direct Property	10.0%	1.4%	-
La Salle		4.1%	
Kames Capital I		0.2%	
Kames Capital II		0.6%	
LGPSC UK Direct		0.8%	
Total	10.0%	7.1%	-2.9%

Performance

Manager & Fund	Current benchmark	1 Year (%)			3 Year (%)		
		PF	BM	ER	PF	BM	ER
Colliers Direct	Matching Total Property fund return	-2.0			-0.1		
LaSalle		-0.2			1.0		
Kames Capital I		-0.8			1.3		
Kames Capital II		-0.7			-2.8		
LGPSC UK Direct							
Total	**Matching fund return**	**-2.3**	**-2.3**	**0.0**	**-0.1**	**-0.1**	**0.0**

Exception noted: The Fund's allocation to property is currently underweight relative to its target.

PF= Portfolio Return, BM = Benchmark Return, ER = Excess Return. Source: Hymans Performance Reporting. Returns tabulated above are time-weighted period returns (quoted in sterling).

Global Credit – Public Debt

Current Portfolio:

Manager & Fund	Target Allocation	Actual Allocation	Above or Below Target
LGPSC Global Active MAC	9.0%	6.3%	-2.7%
Total	**9.0%**	**6.3%**	**-2.7%**

Performance:

Manager & Fund	Current benchmark	1 Year (%)			3 Year (%)		
		PF	BM	ER	PF	BM	ER
LGPSC Global Active MAC	SONIA 3 M + 4%	7.1			-0.4		
Total	**SONIA 3 M + 4%**	**7.1**			**-0.4**		

The Fund's allocation to Public Debt is currently underweight relative to its target. The MAC fund has significantly underperformed relative to its cash plus benchmark

Global Credit - Private Debt

Current Portfolio:

Manager & Fund	Target Allocation	Actual Allocation	Above or Below Target
Christofferson Robb & Company - CRF3 (1 month L)	10.5%	0.1%	-
Christofferson Robb & Company - CRF5 (1 month L)		0.9%	
M&G DOF		0.7%	
Partners Group Private Debt		2.6%	
LGPSC PD Low Return 2021 (L)		2.1%	
LGPSC PD High Return 2021 (L)		0.5%	
LGPSC PD Real Assets (L)		0.8%	
Total	**10.5%**	**7.9%**	**-2.6%**

Performance:

Manager & Fund	Current benchmark	1 Year (%)			3 Year (%)		
		PF	BM	ER	PF	BM	ER
Christofferson Robb & Company - CRF3 (1 month L)	Absolute Return +7.5%	18.9	7.5	11.4	20.9	7.5	13.4
Christofferson Robb & Company - CRF5 (1 month L)	Absolute Return +8.5%	16.0	8.5	7.5			
M&G DOF	SONIA 3 Month + 4%	-7.9			-3.7		
Partners Group Private Debt	SONIA 3 Month + 4%	8.6			5.7		
LGPSC PD Low Return 2021 (L)	7% IRR	8.0	7.0	1.0			
LGPSC PD High Return 2021 (L)	13% IRR	8.4	13.0	-4.6			
LGPSC PD Real Assets (L)	Absolute Return +5%	27.3	5.0	22.4			
Total	**Client Weighted Index**	**9.1**	**9.2**	**0.0**	**6.3**	**7.5**	**-1.3**

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The Fund's allocation to private debt remains underweight relative to its target. A review of the fund's RST component was completed over 2024, which is part of the broader private debt allocation, where a further £40m commitment to RST was agreed. Additional commitments are still required to address the remaining underweight within the private debt allocation.

PF= Portfolio Return, BM = Benchmark Return, ER = Excess Return. Source: Hymans Performance Reporting. Returns tabulated above are time-weighted period returns (quoted in sterling).

Protection Assets

Current Portfolio:

Asset Class	Manager & Fund	Target Allocation	Actual Allocation	Above or Below Target
Inflation-linked bonds	Aegon Index-Linked	3.5%	3.6%	0.1%
Investment grade credit	Aegon Global Short Dated Climate Transition	0.5%	0.9%	0.4%
	LGPSC Investment Grade Credit	3.3%	2.5%	-0.8%
FX hedge	Aegon Currency Hedge	0.8%	0.9%	0.2%
Cash	Cash	0.0%	6.5%	6.5%
Total		**8.0%**	**14.4%**	**6.4%**

Performance:

Manager & Fund	Current benchmark	1 Year			3 Year		
		PF	BM	ER	PF	BM	ER
Aegon Index-Linked	FTSE All Stocks Index Linked Index	-0.3			-12		
Aegon Global Short Dated Climate Transition	SONIA 3 Month +1.25% (GBP)	7.7			1.5		
LGPSC Investment Grade Credit	LGPSC Corp Benchmark	10.4			-3.4		
Aegon Currency Hedge	SONIA 3 Month	17.6			-36		
Cash	SONIA 3 Month	4.5			2.5		

The Fund currently has some unused cash reserves. The 2024 protection review, we explored the potential of adding alternative protection assets to the portfolio. We've delved deeper by specifically focusing on tail risk protection strategies.

PF= Portfolio Return, BM = Benchmark Return, ER = Excess Return. Source: Hymans Performance Reporting. Returns tabulated above are time-weighted period returns (quoted in sterling).

Reliances and limitations

Addressee

This paper is addressed to the Local Pension Committee (“LPC”) of Leicestershire County Council Pension Fund (the “Fund”). This presentation should not be used for any other purpose. It should not be released or otherwise disclosed to any third party except as required by law or with our prior written consent, in which case it should be released in its entirety. We accept no liability to any third party unless we have expressly accepted such liability in writing.

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Risk warning

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

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

Notes on Our Modelling

General

All modelling is as at 30 September 2024.

All modelling considers impact on past service liabilities only i.e. no modelling around impact on future service contribution rates has been undertaken.

Probabilities / expected likelihoods of achieving asset returns over specified periods

The model used makes use of the Economic Scenario Service (ESS) that supports our more comprehensive Asset Liability Modelling (ALM). More information on the underlying assumptions in this modelling can be provided upon request. However, the techniques used are more approximate in nature.

For example, the calculations are based on the Fund's broader asset classes rather than specific stock selection.

The modelling only considers the spread of future asset return outcomes on liabilities. In the scenarios modelled, all other assumptions that may affect liabilities (such as inflation) are fixed and are in line with the actuary's best estimate assumptions.

Funding level estimates

The output of the model above is used to determine the asset return with a 75% likelihood of being achieved over a 20-year period, which is consistent with the approach taken for deriving the discount rate at the last full valuation in 2022.

Any funding levels quoted do not represent funding advice.

Risk and return statistics relative to gilt-based liabilities

The modelling above only considers the spread of asset return outcomes. This model enables us to consider how the liabilities may move relative to those asset returns, by considering a spread of asset returns above or below gilts.

The discount rate underlying the liabilities is derived in a different way (as described above), however a number of the asset return assumptions underlying these projections are linked to so-called 'risk free rates' of return, which are highly correlated with gilt yield expectations. This therefore provides a reasonable (albeit approximate) indication of the interaction of assets and liabilities.

Reliance and Limitations

Reliances and limitations

The actuarial profession introduced Technical Actuarial Standard (TAS) 100 with effect from 1 July 2017. As part of our internal compliance regime, Hymans Robertson has chosen to apply the principles of TAS100 in the delivery of investment advice. TAS100 applies to work where actuarial principles and/or techniques are central to the work and which involves the exercise of judgement.

The Fund’s asset allocation and performance as at 30 June 2024 has been sourced from Hymans Q2 Performance Monitoring Report.

In this report we have provided our estimate of expected asset class returns. The expected returns are based upon 20-year median returns derived from our proprietary economic scenario generator (ESS) asset model. As with all modelling, the results are dependent on the model itself, the calibration of the model and the various approximations and estimations used. These processes involve an element of subjectivity. This model uses probability distributions to project a range of possible outcomes for the future behaviour of asset returns and economic variables. Some of the parameters of the model are dependent on the current state of the financial markets and are updated to reflect metrics that can be measured in markets, such as yields, while other more subjective parameters do not change with different calibrations of the model

HYMANS ROBERTSON

Thank you

Leicestershire County Council

LOCAL PENSION COMMITTEE – 31 JANUARY 2025

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

DRAFT RESPONSIBLE INVESTMENT PLAN 2025

Purpose of the Report

1. The purpose of this report is to seek the Local Pension Committee's (LPC) approval of the Leicestershire Pension Fund's Responsible Investment (RI) Plan 2025 (Appendix A) to enable the Fund to further improve the management of responsible investment risks.

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. The first RI plan was approved at the January 2020 LPC meeting, with updated plans being presented and approved annually since. A progress update of the latest 2024 plan is attached as Appendix B.

3. Climate change factors have been considered by the Fund for a number of years. This was enshrined in the Fund's Investment Strategy Statement (ISS) and Net Zero Climate Strategy (NZCS), both approved on 3 March 2023. These climate considerations have also been built into other strategies and the Fund's risk register.

Background

4. The term 'responsible investment' refers to the integration of financially material environmental, social and corporate 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 considerations.

5. The Fund's approach to responsible investment (RI) matters have been incorporated into the ISS and all actions the Fund undertakes. These are considered in two key areas:

   - Sustainable Investment: considering the financial impact of ESG factors on its investments.

- Stewardship and Governance: acting as responsible and active investors/owners through considered voting of shares and engaging with investee company management as part of the investment process.

6. In November 2024 the Fund reported its latest progress against the NZCS. High-level progress against these targets is set out below which show where the Fund has exceeded initial expectations for its net zero journey, including achieving its two interim targets ahead of the 2030 deadline.

Responsible Investment Plan 2025

7. Officers have developed the Fund's 2025 RI plan in conjunction with LGPS Central's in-house RI team. The plan includes outputs and recommendations from the Fund's latest Climate Risk Report which was supported by the Local Pension Committee at its meeting on 29 November 2024.

8. The plan builds on the four previous iterations and improves on the approach and beliefs detailed in the Fund's ISS, NZCS and discussions held by the Committee throughout 2024, as well as any areas within the 2024 Plan not yet concluded.

9. As set out elsewhere on today's agenda the 'Fit for the Future' consultation sets out a number of proposals relating to new requirements for administrating authorities and pools. The proposals set out that Funds retain control over "environmental, social and governance (ESG) matters and responsible investment", however, it is likely this will need to be balanced with broader pooling and investment considerations.

10. The Fund, partner funds and the Pool will continue to work together on necessary developments throughout the year, including on RI. The Fund will work to ensure any future proposals look to enhance existing arrangements and the Fund's high-level strategic RI views as set out in paragraph 3, and the Fund's NZCS.

11. The draft RI plan for 2025 is attached at Appendix A. Some highlights are as follows:

    - Continuation of quarterly manager presentations to the Local Pension Committee that include manager/LGPS Central views, performance and ESG factors.

    - Continuation of the review of the Fund's investment managers' approaches to climate risk as at 31 March 2024 to understand changes since the last questionnaire, the data that is available, and include wider RI issues as relevant, such as, the managers' approaches to stewardship. This will help the Fund understand alignment with the Fund's NZCS, and shape engagement and discussions held with managers throughout the year.

    - High level NZCS review considerations as part of the June 2025 Committee meeting.

    - Climate Risk Management Report/Task Force on Climate Related Financial Disclosures reporting. To progress additional asset class targets where data is available.

- Climate considerations as part of the triennial valuation process.

- Details will be shared when LGPS Central have organised their stakeholder day and RI Summit

12. The Committee will continue to receive quarterly reports on stewardship, voting and engagement each quarter, including a deeper dive on key updates on Climate Stewardship Plan companies as part of Annual General Meeting season at its September 2025 meeting. Committee members are encouraged to highlight any areas of particular interest (for example, sector or type of engagement) if they would like more in-depth reporting on specific matters or themes.

Engagement and Stewardship

Local Authority Pension Fund Forum (LAPFF)

13. The Fund is a member of the LAPFF, alongside Central and the other partner funds. This is a collaborative shareholder engagement group with over £350billion in assets and accounts for most LGPS funds and pools.

14. The Forum publishes quarterly stewardship progress reports, as well as key voting alerts many of which are in relation to supporting climate lobbying and resolutions related to setting carbon emission targets. The activity of LAPFF is highlighted at each quarterly Committee meeting.

15. LAPFF engage with companies on behalf of LGPS funds, and while progress can seem slow, escalation is evidenced and supported through their collaboration with other asset owners and managers. Reports are produced quarterly on this progress and can be found on their website. The LAPFF 2024 annual report is available to read here:

    https://lapfforum.org/wp-content/uploads/2024/12/LAPFF_annual-report_2024.pdf

Further Opportunities for Collaboration

16. Historically, other than the LAPFF, the Fund has not become a direct signatory to certain key initiatives relating to RI as it has been comfortable that, as its investment managers and LGPS Central have always been signatories, the Fund is adhering to the broad principles by default. At this time, it is not considered that there is any value add to undertake anything further at this stage given breadth of Central's membership. Furthermore, many of these initiatives such as the Institutional Investors Group on Climate Change publicise frameworks which the Fund has followed in development of the NZCS, which the Fund can access without membership.

17. The Fund's strategy will be to continue to engage with its investee companies and other key stakeholders through its current partnerships, in order to protect and increase shareholder value by engaging on a range of financially material ESG investment factors. This engagement programme is implemented through partnerships including LAPFF, Equity Ownership Service (EOS) at Federated Hermes (via a contract held by LGPS Central Ltd, the Fund's investment pool

operator). LGIM also have a strong engagement programme which covers a proportion of the Fund's passive portfolio.

Recommendation

18. It is recommended that

a) The Local Pension Committee approves the Responsible Investment Plan 2025 attached as Appendix A to this report.

b) The Committee is also asked to provide feedback on any areas of interest.

Equality Implications

19. 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 it 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

20. There are no direct implications arising from the recommendations in this report. The Fund incorporates financially material Environmental, Social and Governance (ESG) factors into investment processes. This has relevance both before and after the investment decision and is a core part of the Fund's fiduciary duty. The Fund will not appoint any manager unless it 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 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.

Appendices

Appendix A: Draft 2025 Responsible Investment Plan
Appendix B: Progress against 2024 Responsible Investment Plan

Background Papers

Local Pension Committee – Friday 29 November 2024 – Climate risk Management Report and Responsible Investment Update,
https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=740&MId=7662&Ver=4

Local Pension Committee – Friday 26 January 2024 – Responsible Investment Plan 2024,
https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=740&MId=7538&Ver=4

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RESPONSIBLE INVESTMENT PLAN 2025

Qtr.	Date	Title	Description	Complete
Q4	31 January 2025	RI Plan	Communication and publication of the Fund's 2025 RI Plan	
		Strategic Asset Allocation	Consideration of the Fund's Net Zero Climate Strategy progress within the asset allocation.	
	5 February 2025	Local Pension Board Report	Update to the Local Pension Board on progress against the Fund's net zero targets and any RI matters.	
	28 March 2025	RI Report	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.	
		Manager Presentation	As part of DTZ (Property) report to Committee and provide an overview of the approach to ESG.	
	March/April/ May	Triennial Valuation	Review funding policies and employer risk management.	
		Newsletter	Second email newsletter to Fund Members on NZCS update and other Fund matters.	
		Manager RI Snapshot as 31 March	The Fund will request climate and other stewardship 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.	
	27 June 2025	Manager Presentation	As part of Manager report to Committee and provide an overview of the approach to ESG. LGPS Central	
		NZCS Review	High level NZCS considerations for review	
		RI Report	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.	

Q2	September 2025	Manager Presentation	As part of Manager (TBC) report to Committee and provide an overview of the approach to ESG.	
		RI Report	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. To include deeper dive on outcomes and key votes from the AGM season.	
	September/ October 2025	Triennial Valuation	Whole Fund valuation results, including climate risk modelling.	
Q3	29 November 2025	Training	LGPS Central to provide training session on responsible investment/climate matters and engagement in advance of November Climate Risk Report	
		Climate Risk Report	The Fund will engage with LGPS Central and partner funds on future reporting and increase monitoring for legacy mandates. 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.	
		Policy Review	Regular Fund policy review as needed for triennial valuation.	
		Manager Presentation.	Manager TBC. As part of Manager report to Committee overview of approach to ESG.	
		RI Report	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.	
	TBC	Pension Fund AGM	Presentation as part of Pension Fund Annual General Meeting progress on NZCS and RI matters.	
Q4	January 2026	Strategic Asset Allocation Committee	Consider recommendations from Climate Risk Report and Net Zero Climate Strategy	
	January 2026	RI Plan	2026 Plan.	

Ongoing Activities throughout the year or without date

Date (where applicable)	Title	Commentary
TBC 2025	LGPS Central are expecting to host an Annual RI Day/and or/ Stakeholder Day with topics of interest to members, this date will be circulated to Committee once confirmed.	
Investment Subcommittee throughout the year	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 following on from any relevant SAA decisions.	
Quarterly	RI Working Group with LGPS Central and Partner Funds. Including Working with LGPS Central to continue to develop climate reporting more broadly and on their work to engage companies highlighted in the Climate Stewardship Plan, and that LGPS Central are following their escalation framework.	
Mid-Year 2025	Following review of the Stewardship Code 2020, review whether the Fund should apply, subject to value being evidenced, and requirements on the Fund.	
Ad hoc	Continue review of best practice with regards to the Fund’s asset classes and climate reporting, and international industry standards.	
Pooling Discussions	Continue to work with Central and Partner Funds on the development of pooling in relation to responsible investment matters in light of the ‘Fit for the Future’ consultation.	

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Appendix B

RESPONSIBLE INVESTMENT PLAN 2024

Financial Quarter	**Date (where applicable)**	**Title**	**Description/Update as at end of October 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	Quinbrook: As part of Manager report to Committee overview of approach to ESG. Circulation of grid reform briefing.	✓
		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. Deferred given size of agenda.	Deferred.
	4/5/6th December	LAPFF Conference	Link to 2024 Annual Report.	No online option.
		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.	

Ongoing Activities throughout the year

Date (where applicable)	Title	Commentary as at end of November 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.	LGPS Central Press Release. Members can contact officers for more detail if they were unable to attend.
✓	• 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.	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 ✓	• 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 (July ISC), protection assets (May ISC), and early triennial valuation discussions (March 2025). 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.
November LPC ✓	• 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.	All managers have reported 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 November alongside the Climate Risk Management Report.

Quarterly ✓	• 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.	Meetings are held quarterly (January, April and July so far), meetings have also been set up to discuss the Climate Risk Management Report.
Triennial Valuation (2025/26)	• 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 and what role LGPS Central can contribute.
✓	• 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. Further detail set out in September RI paper.
	• 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 necessary. The progress of the review was published in July 2024.
	• 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 across the LGPS presented in June cover paper.

LOCAL PENSION COMMITTEE – 31 JANUARY 2025

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PENSION FUND TRAINING NEEDS SELF ASSESSMENT

Purpose of the Report

1. The purpose of this report is to:

   i. Provide the Local Pension Committee (LPC) with an update on Training Needs Self Assessments which have been undertaken;

   ii. Set out progress against the Fund's Training Policy and 2024 Training Plan.

Policy Framework and Previous Decisions

2. The Local Pension Committee 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 Committee on 19 June 2024.

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 the 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 Committee and the Local Pension Board, which state members 'must demonstrate to the Administering Authority their capacity to attend and prepare for meetings or to participate in required training.'

Background

5. Since the Local Pension Board's formation there has been legislation setting 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 Local Pension Board.

6. As part of its 2023 consultation 'Next Steps on Investment', the previous 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. Proposals that administering authorities should prepare and publish a governance and training strategy, including its approach to knowledge and training of committee members, are also set out within the current consultation "Fit for the Future", which closed on 16 January 2025, and are set out in full elsewhere on today's agenda. 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 in place for a number of years. Over 2023 Hymans reviewed its offering and issued new refreshed modules, which reset all members' Aspire training records at zero, as of September 2023. Members were asked 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. The Fund's Training Strategy and Plan aligns with this.

Training Needs Assessment

10. The Chartered Institute of Public Finance and Accounting (CIPFA) published guidance on Pensions Knowledge and Skills in 2021. The guidance identifies eight core areas where appropriate knowledge and skills should be achieved and maintained:

    - Pensions legislation and guidance
    - Pensions governance
    - Funding strategy and actuarial methods
    - Pensions administration and communications
    - Pensions financial strategy, management, accounting, reporting and audit standards
    - Investment strategy, asset allocation, pooling, performance, and risk management

- Financial markets and products
- Pension services procurement, contact management and relationship management

11. To best meet the training needs of Committee and Board Members, a training needs analysis was carried out at the end of 2024. The form consisted of 39 self-assessment questions against CIPFA's eight core areas.

12. As of 15 January 2025 eight out of 12 Committee and five out of six Board members have completed their assessments. The anonymised results are attached at Appendix A to this report. Any members that have not yet completed the training needs assessment are asked to do so as soon as possible, to support development of this year's training programme which will be brought alongside the Fund's budget and business plan.

13. The results of the questionnaire, together with the current priorities for the Fund are used to decide on the approach and topics of training offered, this can be on a collective and individual basis.

14. Members are also invited to provide any comments on the current training plan, and officers will look at how further collaboration can be utilised to support training.

<u>2024 Training Plan Completion</u>

15. As part of the revised Training Policy agreed in June 2024 a training plan was developed in line with Hymans' on-line Aspire training that Members should complete all modules within six months of approval of the policy, or their appointment. This followed engagement with Committee and Board members on the best approach to training, either with members completing the modules in their own time at home or attending sessions at County Hall, which would include question and answer sessions and be relevant to upcoming agenda items.

16. As of January 2024, for Members that have been appointed since the revised Training Policy, nine LPC members are compliant (out of 12) while 4 LPB members are compliant (out of 5). It is noted that while not completely compliant most have completed modules and/or attended meetings which also contain training material.

17. A record of completion of all training, including Hymans on-line training, undertaken by Committee and Board members is included within the Fund's Annual Report presented in September each year. Essentially, training progress will be shown as a snapshot of the position as at 31 March each year. Appendix B provides a summary of current progress against the Training Policy anonymised; however, this will be unredacted for the version that goes as part of the Annual Report.

Recommendations

18. It is recommended that:

    a) All members should complete the training needs assessment if not yet completed by 31 January 2025.

    b) Members not in current compliance with the Training Policy should commit to progressing completion of Hymans Aspire modules, noting that a record will be taken as at 31 March 2025 for the Fund's Annual report.

Background Papers

Local Pension Committee – 19 June 2024 – Revised Training Policy,
https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=740&MId=7540&Ver=4

Equality Implications

None.

Human Rights Implications

None

Legal Implications

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

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.

The Local Pension Committee's Terms of Reference sets out that members must demonstrate to the Administering Authority their capacity to attend and prepare for meetings and 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 Committee.

In line with these duties under their role, Committee 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 Committee 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 Board and Committee operates as effectively as possible. All information in relation to training and development of all members shall be made available to the Committee and Board as part of the Review Process.

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.

Appendices

Appendix A – Training Needs Assessment Anonymised
Appendix B – Current Training Progress Anonymised

Officers to Contact

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	LPC	LPC	LPC	LPC	LPC	LPC	LPC	LPC	LPC	LPC	LPC	LPC	LPC	LPB	LPB	LPB	LPB	LPB	LPB
Please enter your name (please note any results will be anonymised) and whether you are a Committee or Board member (or reserve).	1	2	3	4	5	6	7	8	9	Vacant	11	12	13	1	2	3	4	5	6
General pensions legislative framework in the UK, for example defined benefit, defined contribution, tax treatment and auto-enrolment.																			
The roles and powers of the UK Government in relation to the LGPS																			
The main features of the LGPS legislation relating to benefits, administration and investment.																			
The role of Leicestershire County Council as administering authority in relation to the LGPS in relation to the Fund																			
The role of the Scheme Advisor Board and the Pensions Regulator, Pensions Advisory Service and Pensions Ombudsman to the workings of the LGPS																			
Awareness of the Pension Regulator's Code of Practice for public sector pension schemes																			
The role of the Local Pension Committee																			
The role of the Local Pension Board																			
The roles and statutory responsibilities of the Administering Authority S151 officer																			
Potential conflicts of interest, how they are identified and managed.																			
Requirements on the Fund in relation to accounting legislation and the Fund's Annual Accounts.																			
Audit Regulations and legislative requirements relating to internal controls and external audit for the Pension Fund.																			
The Administration and Communication Strategy and how the service is delivered and communicated to the Fund's members and employers.																			
An understanding of how Fund breaches in law are reported																			
Understanding of Fund policies relating to member data, record keeping, internal dispute procedures, cyber risk and contributions.																			
LGPS discretions and how employers' discretionary polices impact on the Fund.																			
Tax treatment of pensions, retirement lump sums annual allowance and lifetime allowance																			
The Fund's Additional Voluntary Contribution arrangements and choice of investments offered to members																			
Statutory deadlines and key performance indicators of the Pension Fund.																			
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, AV...																			
Supplier risk management. (ie. procurement procedure, risk assessments, what to look for when selecting an investment manager).																			
An understanding of how the Fund monitors and manages outsourced providers (software providers, tracing agencies)																			
How pension fund management risks are monitored and managed.																			
The role of the Fund's investments in paying future pension payments.																			
Awareness of the Fund's Investment Strategy Statement																			
Key aspects of Investment Manager Monitoring																			
The Fund's approach to responsible investment and engagement, and stewardship activities undertaken by fund managers and other partners.																			
The Fund's approach to climate risk and opportunities.																			
Investment pooling and the role of LGPS Central.																			
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...																			
Understanding of the primary importance of the Fund's Strategic Asset Allocation (at every January Committee).																			
Awareness of the limits placed by regulation on the investment activities of the Fund (ie. fiduciary duty, ESG, and Fund discretions).																			
The actuarial valuation process, including development of the funding strategy statement.																			
Key assumptions in the actuarial valuation																			
The types of employer eligible to join the Fund																			
The importance of the employer covenant																			
How employers' contribution rates are set																			
Where an employer leaves the Fund, how the promised pensions liabilities are paid for.																			
How employer outsourcings and bulk transfers are dealt with?																			

Fully conversant

I am reasonably familiar, but additional training would be useful

Some but limited knowledge

No knowledge

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Appendix B Committee Training Progress as at 15 January

Hymans Modules completions (either in person or online)

	Compliant (Y/N)	1 - Committee Role and Pensions Legislation	2 - Pensions Governance	3 - Pensions Administration	4 - Pensions Accounting and Audit Standards	5 - Procurement and Relationship Management	6 - Investment Performance and Risk Management	7 - Financial Markets and Product Knowledge	8 - Actuarial methods, Standards and Practices
1	Y	C	C	C	C	C	C	C	C
2	N	C	E	C	E	C	C	C	C
3	Y	C	C	C	C	C	C	C	C
4	Y	C	C	C	C	C	C	C	C
5	Y	C	C	C	C	C	C	C	C
6	Y	C	C	C	C	C	C	C	C
7	Y	C	C	C	C	C	C	C	C
8	N	C	C	C	C	C	C	E	C
9	Y	C	C	C	C	C	C	C	C
10	Y	C	C	C	C	C	C	C	C
11	Y	C	C	C	C	C	C	C	C
12	N	E	E	E	E	E	E	E	E

C=Completed

E=Enrolled

Committee Training

	ISC – Protection Assets	LGPS Central RI Summit	LPC - LGPS Central Infrastructure, Asset class Training	ISC - Timberland	LPC – Valuation Training	ISC Meeting – Bank Risk Share	LPC – Climate Risk Management Report Presentation
	01/05/2024	05/06/2024	19/06/2024	24 July 2024	06/09/2024	02/10/2024	29/11/2024
1	Y	X	Y	Y	Y	Y	Y
2	Y	X	X	Y	Y	Y	Y
3	Y	X	X	Y	Y	X	Y
4	\	X	X	\	X	\	Y
5	\	X	Y	\	Y	\	Y
6	Y	X	X	Y	Y	X	Y
7	Z	X	Y	\	Y	\	X
8	\	X	Y	Y	X	\	Y
9	\	X	X	\	Y	Y	X
10	X	Y	Y	\	Y	\	X
11	\	\	\	\	Y	Y	Y
12	\	\	Y	X	Y	X	Y

\ - Not a member at the time, or not a member of the ISC.

Y – Attended

X – Apologies

Other Training over 2024/25

LGPS Fundamentals: A three-day training course that provides an overview of the Local Government Pension Scheme (LGPS) and covers current issues relating to the administration, investments and governance of the scheme.

Attended by: Mr Barkley, Mr Pitt and Cllr Whittle.