Meeting: **Local Pension Committee**

Date/Time: **Friday, 27 June 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**

Membership

Mr. V. Bechar	Cllr. G. Whittle
Mr. N. Booth	Mr. K. Crook CC
Cllr. M. Cartwright	Mr. M. Durrani CC
Cllr. R. Denney	Mr. D. J. Grimley CC
Mr. J. Henry	Mr. P. King CC
Mr. C. Pitt	Mr. B. Piper CC

AGENDA

Item		Report by
1.	Appointment of Chairman.	
2.	Appointment of Vice-Chairman.	
3.	Minutes of the meeting held on 14 March 2025.	(Pages 5 - 18)
4.	Question Time.	
5.	Questions asked by members under Standing Order 7(3) and 7(5).	
6.	To advise of any other items which the Chairman has decided to take as urgent elsewhere on the agenda.	
7.	Declarations of interest in respect of items on the agenda.	

8.	Pension Fund Valuation 2025 - Assumptions and Employer Risk.	Director of Corporate Resources	(Pages 19 - 50)
9.	McCloud Remedy Progress Report.	Director of Corporate Resources	(Pages 51 - 54)
10.	Additional Voluntary Contributions.	Director of Corporate Resources	(Pages 55 - 106)
11.	Valuation of Pension Fund Investments.	Director of Corporate Resources	(Pages 107 - 142)
12.	Fit for the Future and LGPS Central Update.	Director of Corporate Resources and Director of Law and Governance	(Pages 143 - 178)
13.	Responsible Investment Update.	Director of Corporate Resources	(Pages 179 - 202)
14.	Risk Management and Internal Controls.	Director of Corporate Resources	(Pages 203 - 214)

15. Dates of Future Meetings.

Future meetings of the Committee are scheduled to take place on the following dates:

26 September 2025
5 December 2025

Members are also asked to note that the Fund's Annual General Meeting will take place at 12 Noon on the following date, and will be open to all scheme members to attend:

15 December 2025.

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

17. Exclusion of the Press and Public.

The public are likely to be excluded during consideration of the remaining items in accordance with Section 100(A)(4) of the Local Government Act 1972 (Exempt Information).

18.	Leicestershire Total Fund Summary	Fund Manager	(Pages 215 -

			220)
19.	LGPS Central Quarterly Investment Report - Q1 March 2025	Fund Manager	(Pages 221 - 296)
	Growth		
20.	Ruffer Quarterly Report	Fund Manager	(Pages 297 - 416)
21.	Fulcrum Diversified Core Absolute Return Quarterly Report	Fund Manager	(Pages 417 - 434)
22.	Legal and General Investment Manager Quarterly Report	Fund Manager	(Pages 435 - 462)
23.	LGPS Central PE Primary Partnership 2018 LP Quarterly Report	Fund Manager	(Pages 463 - 466)
24.	LGPS Central PE Primary Partnership 2021 LP Quarterly Report	Fund Manager	(Pages 467 - 470)
25.	LGPS Central PE Primary Partnership 2023 LP Quarterly Report	Fund Manager	(Pages 471 - 474)
26.	Patria SOF Quarterly Report	Fund Manager	(Pages 475 - 522)
	Income		
27.	KKR Global Infrastructure Investors Fourth Quarterly Report	Fund Manager	(Pages 523 - 566)
28.	Saltgate UK AVPUT	Fund Manager	(Pages 567 - 570)
29.	Christofferson Robb & Company CRC Capital Release Fund Quarterly Report	Fund Manager	(Pages 571 - 608)
30.	IFM Global Infrastructure Quarterly Investor Report	Fund Manager	(Pages 609 - 672)
31.	Infracapital Greenfield Partners LP - Unaudited Valuation Statement	Fund Manager	(Pages 673 - 674)
32.	JP Morgan Asset Manager Infrastructure Investments Fund Quarterly Report	Fund Manager	(Pages 675 - 746)
33.	LaSalle Leicestershire County Council Pension Fund Quarterly Report	Fund Manager	(Pages 747 - 774)
34.	Savills Report and Valuation March 2025	Fund Manager	(Pages 775 - 790)
35.	LGPS Central Quarterly Reports	Fund Manager	(Pages 791 - 814)
36.	M&G Investments Debt Opportunities Quarterly Report	Fund Manager	(Pages 815 - 844)
37.	Partners Group Quarterly Reports	Fund Manager	(Pages 845 -

			932)
38.	Quinbrook Infrastructure Partners Net Zero Power Fund Quarterly Report	Fund Manager	(Pages 933 - 962)
39.	Stafford Timberland Quarterly Report	Fund Manager	(Pages 963 - 1098)
	Protection		
40.	Aegon Asset Management Quarterly Report	Fund Manager	(Pages 1099 - 1122)

Leicestershire County Council

Minutes of a meeting of the Local Pension Committee held at County Hall, Glenfield on Friday, 14 March 2025.

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. M. Cartwright

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

In attendance

DTZ International
Mr. Chris Cooper
Ms. Sarah Bell
Ms. Andrea White
Mr. Sam Brice
Ms. Jennifer Linacre (Online)

LGPS Central
Mr. Mike Hardwick

Vice-Chairman's Announcement

Prior to commencement of the meeting, the Vice-Chairman want to put on record the Committee's thanks to Mr. Tom Barkley, Chairman, who had announced he would not be standing again as County Councillor in the upcoming election. Mr. Barkley has been Chairman of the Local Pension Committee since June 2021, and had overseen significant growth of the Fund with an increase from £5.4billion to £6.6billion. He had provided strong advocacy for pooling, and a strong voice for shareholder interests and the Fund's fiduciary duty, including time as Chairman of the Joint Committee, and overseeing the Fund's first Net Zero Climate Strategy. All Members and Officers joined in thanking Mr. Barkley for his time on the Committee.

Members of the Committee also thanked Mr. David Bill who was also not standing in the upcoming election, and all other members for their work and time spent on the Committee.

134. Minutes.

The minutes of the meeting held on 31 January 2025 were taken as read, confirmed and signed.

135. Question Time.

The Chief Executive reported that no questions had been received under Standing Order 35.

136. 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).

137. Urgent items.

There were no urgent items for consideration.

138. Declarations of interest.

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

No declarations were made.

139. 2025 Fund Valuation - Results of the Stabilised Employer Modelling.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to seek approval of the results of the stabilised employer modelling, a consultation with the stabilised employers, and a mid-valuation cycle review in September 2027. A copy of the report marked ‘Agenda Item 6’ is filed with these minutes.

The Chairman welcomed Mr. Tom Hoare from Hymans Robertson (Hymans) to the meeting who was in attendance online. A presentation was provided 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. In response to a Members’ query, it was acknowledged that the 6% contribution reduction in terms of the risk of regret was applied uniformly across all contributions, and furthermore, the stabilised employers had been through a number of valuation cycles, and had the expectation and understanding of the requirement to underpay in bad times, and overpay in the good.

ii. In response to a question over the disparity between Blaby and Leicestershire County Council where the ‘risk of regret’ was a 22% and 11% respectively, it was explained that it was important to also look at the downside risk of a funding plan, and the new metric had resulted in the figures presented.

iii. It was explained that ‘risk of regret’ was the chance that remedial action would need to be taken at the next valuation, for example, if the contributions of an employer were to be reduced from 26% to 20%, and at the next valuation it was acknowledged that the decision to reduce the contribution had been wrong.

iv. Members noted that it was right to express caution around the current economic environment at home and geo-politics. It was further noted that it was a difficult period to project forward when looking at demographics after recently coming out of the pandemic, and life expectancy had been modelled specifically across Leicester, Leicestershire and Rutland. In terms of modelling halfway through the valuation the purpose was to provide guidance, not to change rates for a future valuation.

v. A Member questioned if the 6% reduction in contribution was applied across all authorities, if the’ risk of regret’ would reduce equally across all. It was noted that ‘risk of regret’ would not reduce equally as it was dependent on different factors affecting different employers.

vi. A Member drew attention to upcoming local government reorganisation and asked if predictions had been made based on there being a reduction in councils in a few years. Members were advised that results were modelled based on the current structure of the scheme, and if there were to be any change to the structure or boundary changes, a number of factors would be looked at, such as assets and liabilities, and rates remodelled from current to new. On an administrative side there would be a lot of work behind the schemes but statutorily pension entitlements would remain the same.

vii. In response to a Member’s question, Hymans Robertson undertook to circulate information on the value of the 6% reduction in year one at whole Fund level to Members following the meeting. It was noted that where the figure became relevant was on the cash flow side where the reduction would eat into the current next cash flow position, but it was noted that the Fund was in a very healthy net positive position with contributions coming in from employers covering pension payments. The Committee would need to revisit the position again in three to five years when payments would not be covered by employer contributions, with the possibility of switching investment units to bolster income.

viii. A Member queried how the ‘risk of regret’ number would change if the 120% funding changed. It was explained that if the funding buffer target was reduced to 100%, then the ‘risk of regret’ would also reduce as there would not be any need to hold as much money, and in three years’ time there would be a lower chance that reducing the contribution rates was a regret. Hymans was requested to share with Members following the meeting a few different scenarios of the modelling undertaken to help explain different 'risk of regret’ examples.

RESOLVED:

a. That the proposed changes to the stabilised employer contribution rates from 1 April 2026 to 31 March 2029, subject to there being no material changes, be approved.

b. That the consultation with the stabilised employers to discuss the proposed rates from 1 April 2026 to 31 March 2029 be approved.

c. That the mid-valuation cycle review in September 2027 be approved.

d. That Hymans be requested to circulate information on the value of the 6% reduction in year one at whole fund level to Members.

e. That Hymans be requested to provide examples of scenarios modelled to explain the term risk and regret.

Mr. Tom Hoare, Hymans Robertson, left the meeting at 10.15am.

140. Pension Fund Policy Report.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to present the annual update of the Pension Fund's current strategies and policies, covering any new policies that have been introduced or amendments that had been made. A copy of the report marked 'Agenda Item 7' is filed with these minutes.

RESOLVED:

That the revised policies as set out in the report be approved.

141. Pension Fund - Business Plan and Budget 2025/26.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to seek approval of the Pension Fund's Administration and Investment Business Plans, and the Pension Fund budget for 2025/26. The Committee also considered a Training Plan appended to the report. A copy of the report marked 'Agenda Item 8' is filed with these minutes.

Arising from discussion, the following points were made:

i. Members queried the increase in transaction costs which had risen by £6million compared to budget. It was explained that the budget for 2024/25 was set before the end of year outturn for the previous year, which had seen incurred costs in the nature of investments which had been chosen, for example, stamp duty when adding to the property fund, however, the investments had higher returns. The forecast for the current and future years now reflected those increased transaction costs.

ii. Members were advised that any new Members sitting on the Committee would undertake and induction prior to sitting as a Member of the Committee.

RESOLVED:

a) That the Pension Fund's Administration and Investment Business Plan and Pension Fund budget for 2025/26 be approved.

b) That the Training Plan for 2025 be noted.

c)

142. 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 9' is filed with these minutes.

A Member queried why Risk 12: Guaranteed Minimum Pension (GMP) data had been removed, an asked if it would have been prudent to keep it as a 'Green' risk under the RAG rating. It was explained that the reasoning for the risk's removal was following a national exercise which highlighted the importance to all funds of getting all GMP data from HMRC to ensure data was recorded, reconciled and either increases or decreases were all actioned. The exercise had been completed, and with anyone retiring that fell into the GMP category could be checked against the HMRC data, and had just become part of the retirement process rather than be considered a risk.

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.

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

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to provide information on the Leicestershire Pension Fund (Fund) direct property investments and the performance of the UK direct property fund and market outlook. A copy of the report market 'Agenda Item 10' is filed with these minutes.

The Chair welcomed Mr. Chris Cooper, Ms. Sarah Bell, Mr. Sam Brice, (Ms. Andrea White (Online) and Ms. Jennifer Linacre (Online) from DTZ International (DTZ) to the meeting for the agenda item. They provided a presentation as part of this item. A copy of the presentation slides is filed with these minutes.

The Chair also welcomed Mr. Mike Hardwick from LGPS Central for the agenda item.

Arising from discussion, the following points were made:

i. DTZ informed Members that there were four main risks in investing, namely, location, credit, obsolescence, and leasing. As investors, DTZ managed risks to minimise the impact of risk and to maximise returns. DTZ invested 85% of capital in the top six economic regions across the UK. In terms of economic output, the risk DTZ was most prepared to accept was leasing risk, where short term leases were taken into portfolios and relet on better terms.

ii. In response to a Member's question, DTZ viewed the East Midlands as one of the critical regions for investments. Historically focus would have been on retail warehousing, but more recently, light industrial and logistics had been the main focus for the benefit of the East Midlands region. When looking at investments, DTZ usually had a minimum 10-year hold period in mind, however, the length of time of the investment was dependant on the performance and profile of risk and returns that could change over time and therefore alter the view of the asset itself.

iii. It was noted that real estate looked at the mix of value in the land, the amount of value in the building, and value in the tenant lease. Purpose built buildings tended to have been tailored to one particular user, which brought its own risk whereby too much focus was on the quality of the tenant's credit rather than on a tenant's core business and should, therefore, be avoided.

iv. It was noted that in previous years, land and its value had been the most important factor in an investment, but focus had moved towards the value in a building and the credit it would yield, for example, with logistics as an asset class, there were now some highly mechanised buildings, and the nature of the asset class as an investment had changed from being a value investment to a growth investment and the risk parameter had shifted.

v. DTZ informed Members that when looking at economic outlook, whilst the year had ended positively for the commercial property market, it had not been matched by developments in the UK economy. Since the start of the year there had been weaker GDP growth, weaker business sentiment, increased geopolitical pressures under the Trump administration, increases in bond yields following a global bond market selloff, and market unease around the policies announced in the autumn budget.

vi. In terms of property prospects, DTZ advised that investments should be targeted towards alternative sectors such as the living sectors, primary health care and essential retail segments, namely, supermarkets and retail warehouses, plus industrial sectors. It was advised to avoid non-prime retail and non-prime offices, both of which were likely to be impacted by lower levels of demand, both in terms of investors and also occupiers over the forecast period. It was also advised to currently avoid care homes just because of the some of the increases in national insurance contributions and also the minimum wage which was likely to hit many operators in the short term. A Member had queried why the care sector had been picked out specifically and was informed that the risk could also be applied to the leisure industry which fitted the same dynamic.

vii. DTZ's ESG policy was focused on, at the point of acquisition, ensuring the right assets were purchased that could be transitioned in the future and that costs were built in. Tenant engagement was key to understanding tenants' usage of energy, water and waste production, and to help tenants reach their own ESG targets by making improvements to buildings.

viii. A Member noted that many industrial and retail warehousing buildings had space for photovoltaic (PV) panels and queried if it was an area DTZ would encourage and invest in. DTZ stated it did form a clear part of its ESG strategy and asset improvement plans, and acknowledged that those types of buildings lent themselves to PV installations, and that it was going through a process of looking at a number of assets within the portfolio, and specifically on the assets in Maidstone, to look at the feasibility of installing PV panels on roofs, either through landlord installation, and through tenants within the estate who had approached DTZ to install their own PV panels.

ix. A Member questioned if, with regards to the returns of offices in the City West End and Southeast, there were plans to change the relative weightings in those areas to something more long term. DTZ responded that the weightings reflected the relatively early stage of investment of the portfolio, and the longer term aspirations of the fund were to build a balanced portfolio that would be invested across the various sectors.

x. At the point of acquisition, a cash flow assessment of the asset was undertaken, which looked at current and future potential growth in income and current estimated rental values. DTZ had, on a number of occasions, outperformed performance targets and rents had been ahead of where assumed at acquisition on a number of assets.

xi. The existing portfolio showed correlation in some sectors that were both overweight and forecast to deliver positive returns, namely retail warehouses, and industrials in both the Southeast and rest of the UK. A sector that was overweight but forecast not to perform and expected to deliver negative returns was Southeast offices.

xii. In the round the portfolio was reasonably well placed at macro level with several sectors both overweight and forecast to perform well. The next stage would be to drill down into looking at individual properties and evaluate individual risk profiles within the portfolio, assessing each property against the four risk items.

xiii. A member questioned when porting large warehouses, if a high performing company driving profits deteriorated over time and moved into administration with returns minimal, if anything at all, how it impacted reporting. DTZ explained that credit risk was difficult to control directly in terms of the tenant’s own business, but there were a few tactics that you could be applied, for example to secure a guarantor for that group, secure a rental deposit which could be called upon if the tenant had not paid rent, or consider insurance products in the event of tenant default.

RESOLVED:

That the report DTZ Investors UK Property Update report and presentation be noted.

Mrs Fryer left the meeting at this point and did not return.

144. Summary Valuation of Pension Fund Investments.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to provide an update on the investment markets and how individual asset classes were performing. A copy of the report marked ‘Agenda Item 11’ is filed with these minutes.

Arising from the discussion the following points were made:

i. In response to a Member’s question, it was clarified that the Growth investment group was on target, however, the Income group was 7.5% behind target at around £500million, and was made up of infrastructure, private credit, property, and the multi asset credit (MAC) product.

ii. Commitments had been made to the infrastructure funds which was behind target by approximately £150million, and would take time to be fully called, as would the global private credit commitments made largely via LGPS Central. Property was almost on target, with DTZ having funds outstanding to purchase more property within the next few months. With the MAC product, managers were currently being changed which would be completed around June 2025.

iii. In terms of pooling, the Government had asked pools to submit their own plans on how they were going to deliver objectives, which was subsequently submitted on 28 February 2025, and formal feedback was awaited.

iv. In the LGPS Central plan that went to Government, there were a number of ways the Fund could be 100% pooled that did not involve selling assets and rebuying them, but would require due diligence to progress.

RESOLVED:

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

145. Responsible Investing Update.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to provide an update on progress versus the Responsible Investment (RI) Pla 2025, and the Fund's quarterly voting report and stewardship activities. A copy of the report marked 'Agenda Item 12' is filed with these minutes.

RESOLVED:

That the Responsible Investing Update report be noted.

146. Date of next meeting.

RESOLVED:

It was noted that the date of the next meeting of the Committee would be held on 27 June 2025.

147. 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.

148. Leicestershire Total Fund Summary Q4

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

RESOLVED:

That the report be noted.

149. LGPS Central Quarterly Investment Report - 31 December 2024

The Committee considered a report of LGPS Central. 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.

RESOLVED:

That the report be noted.

150. Ruffer Quarterly Report

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.

151. Adams Street Partners Quarterly Report

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.

152. Fulcrum Diversified Core Absolute Return Quarterly Report

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

153. Legal and General Investment Manager Quarterly Report

The Committee considered an exempt report by Legal and General Investment Manager. A copy of the report marked ‘Agenda Item 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.

154. LGPS Central PE Primary Reports

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

155. Patria SOF Quarterly Report

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.

156. KKR Global Infrastructure Investors Quarterly Report

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.

157. LGPS Central Direct Property Quarterly Report

The Committee considered an exempt report by LGPS Central Direct Property. 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.

158. Saltgate UK AVPUT

The Committee considered an exempt report by Saltgate UK AVPUT. 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.

159. Christofferson Robb & Company CRF Quarterly Report

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

160. IFM Global Infrastructure Quarterly Investor Report

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

161. Infracapital Greenfield Partners LP

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

162. JP Morgan Asset Manager Infrastructure Investments Fund Quarterly Report

The Committee considered an exempt report by JP Morgan Asset Manager. 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.

163. LaSalle Leicestershire County Council Pension Fund Quarterly Report

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

164. LGPS Central Credit Partnership Quarterly Report

The Committee considered an exempt report by LGPS Central Credit Partnership I LP. 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.

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

The Committee considered an exempt report by LGPS Central Core/Core Plus Infrastructure Partnership LP. 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.

166. M&G Investments Debt Opportunities Quarterly Report

The Committee considered an exempt report by M&G Investments Debt Opportunities Fund II. 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.

167. Partners Group Multi Asset Credit Monthly Report

The Committee considered a report of Partners Group. 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 Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

168. Stafford Timberland Quarterly Report

The Committee considered an exempt report by Stafford Timberland. A copy of the report marked ‘Agenda Item 36’ is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

169. Aegon Asset Management Quarterly Report

The Committee considered an exempt report by Aegon Asset Management. A copy of the report marked ‘Agenda Item 37’ is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

9.30am to 11.58am CHAIRMAN
14 March 2025

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Leicestershire County Council

LOCAL PENSION COMMITTEE

27 JUNE 2025

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PENSION FUND VALUATION 2025 – ASSUMPTIONS AND EMPLOYER RISK

Purpose of the Report

1. The purpose of this report is to request that the Committee approve the proposed assumptions and note employer risk, used in the Leicestershire Local Government Pension Scheme (LGPS) valuation.

Background

2. Every three years each LGPS administering authority has a statutory obligation to have an actuarial valuation (Valuation) of the pension scheme. The Leicestershire Pension Fund's (Fund) assets and liabilities are assessed using market conditions on the 31 March 2025 and the overall funding position calculated.

3. The main aim of the Valuation is to set contribution rates for each employer for a three-year period that commences one year after the valuation date (i.e. for the period 1 April 2026 to 31 March 2029). To set the contribution rates, the Fund Actuary Hymans Robertson, must take account of a number of factors, most of which are assumptions of what is likely to happen in the future. These assumptions do not impact the ultimate cost of paying benefits to members. Instead, they simply calculate the liability derived from these benefits, which in turn impacts the level of employer contributions payable.

4. There is a requirement within the LGPS Regulations that there is an element of prudence built into the actuarial assumptions and that the actuary sets contributions in line with these prudent assumptions, while maintaining contribution stability for employers where possible.

5. In practice, being prudent means that the Fund is retaining a 'buffer' against the many risks and sources of uncertainty within the funding of its LGPS benefits. This buffer helps to protect the Fund (and its members) in the event of adverse future experience, for example, if future returns from its investments are worse than expected.

6. The Fund builds in prudence to its assumptions via the discount rate. How it achieves this is covered in more detail in the following section.

Assumptions

7. The assumptions required for the valuation are;
    1. Discount rate
    2. CPI Inflation (benefit revaluation)
    3. Salary increases
    4. Longevity
    5. Others

Further details can be found in the Appendix at slide 5.

8. The discount rate (the investment return) and CPI inflation (benefit revaluation) generally have the greatest influence on employer contribution rates.

Discount Rate

9. Benefits accrued in the Fund will be payable for many years into the future. To compare their value against the Fund's assets, officers need to express this future value in today's money. This is achieved by discounting the future benefits payable.

10. When calculating employer contribution rates, the Actuary stress tests their resilience to 5,000 different economic environment scenarios. The discount rate needs to reflect the uncertainty demonstrated by the 5,000 scenarios, and in order to do this, the discount rate is determined by the Fund's required level of prudence.

11. The funding environment in which the Fund operates continues to be challenging. Whilst employer funding positions have improved since the previous valuation in 2022, financial markets have become more uncertain amid increasing geo-political risks, which may adversely affect future inflation and investment returns.

12. As a result of this extra uncertainty, increasing the prudence level from the 75% agreed for the 2022 valuation to 80% for the 2025 valuation was proposed to Pension Committee at the meeting on the 29 November 2024 with Officers keeping this under review for the coming months. All else being equal, this change means that the Fund will assume a lower investment return when setting funding plans (which helps to mitigate market risk, whilst accepting that there is still a 20% chance that actual returns will be lower than we assume at this prudence level).

13. Following the ongoing review since the 29 November 2024, Officers recommend increasing prudence to 80% at the 2025 valuation, for calculating funding levels and contribution rates, given the continuing uncertainty in financial markets.

14. 80% prudence was used for modelling the stabilised employer rates and should also be adopted for the remaining Fund employers.

15. By adopting an 80% prudence level, this generates a 6.0% pa discount rate for the Fund, which is effectively the assumption about future investment returns. This gives an estimated funding level of 146%, and an estimated 18.1% of pay as the primary contribution rate (the employer rate for new benefits).

16. Officers have discussed this with the Fund Actuary and are comfortable with a 6.0% discount rate and 80% prudence.

Further details can be found on slide 6 of Hymans' report at the Appendix.

CPI Inflation (benefit revaluation)

17. Members' pension benefits in the LGPS are linked to CPI. This is for pensions in payment and deferred, but also for the element of active members' pensions linked to the career average scheme.

18. The Actuary's 5,000 different economic environment scenarios include CPI inflation in the modelling.

19. At the 2022 valuation the Fund used a best estimate (median) CPI assumption of 2.7% pa plus an inflation risk premium of 0.2% pa, totalling 2.9% pa.

20. In the period since the last valuation, inflation was 10.1% in 2023 and 6.7% in 2024 but has continued to fall since 2024 with the general view inflation will trend towards the Bank of England's target of 2% pa in the longer term.

21. However, Officers remain cautious about future inflation levels, given the continuing economic uncertainty and recommend retaining the inflation risk premium of 0.2% pa. The 2025 modelling suggests that the best estimate (median) assumption of future CPI is now 2.3% pa; adding on the inflation risk premium gives a total of 2.5% pa for the 2025 valuation.

22. The stabilised employer rates have been stress tested against various levels of future CPI within the 5,000 modelling scenarios.

Salary increases

23. Salary increases are becoming less significant as more people have only career average benefits (CARE) service since April 2014. At the 2019 valuation 62% of active members had pre-April 2014 service, linked to final salary, this had dropped to 40% at 2022, and has dropped further to approximately 35% at 2025.

24. Officers recognise that increases to the national minimum wage and national living wage have put pressure on salary rates across the whole workforce. However, from a Fund perspective, the impact on liabilities is not material as these increases affect a relatively small number of members with lower earnings and lower levels of pension benefit. There is therefore no need to increase the assumption that is used for salary increases.

25. At the 2022 valuation, salary increase assumption was CPI of 2.9% per annum plus 0.5% pa plus a promotional element to account for people moving through the scale points within their pay grade, totalling 3.4%.

26. Officers recommend using the 2025 CPI assumption of 2.5% per annum plus 0.5% per annum, totalling 3.0% for the 2025 valuation.

27. Various levels of future salary growth within the 5,000 modelling scenarios have been used to stress test the stabilised employer rates.

    A summary of the proposed financial assumptions at the 2025 valuation, alongside those used at the 2022 valuation, is on slide 7 of the Appendix.

<u>Longevity</u>

28. The Leicestershire Pension Fund use Club Vita to assist with life expectancy. The Fund's membership data is used to assess life expectancy using demographics including where pensioners live (based on latest postcode), salary and pension. This allows Hymans Robertson to calculate the longevity likelihoods by member (and employer) area within the Leicestershire Fund and benchmark this to the national average.

29. Longevity assumptions are based upon two components:

    1. Baseline
    2. Future improvements

    Further details on slide 8 of the Appendix.

30. Baseline longevity assumption is an estimate of how long people are expected to live based on current levels of mortality.

31. Future improvements in longevity are uncertain, and there has been volatility in recent years, in particular COVID-19 and the ongoing longer-term uncertainty that remains linked to it.

32. There are many other uncertainties in relation to longevity; in isolation, the impact of changes to any one of the many factors that feed into the longevity assumption does not have a material impact on the Fund's overall liabilities or funding position.

33. Hymans have considered the various aspects that could impact on longevity and modelled three possible options that would affect the overall assumption, labelled as ‘low’, ‘default’ and ‘high’.

34. If longevity improvement is considered “low”, Fund liabilities could be expected to reduce by up to 3%. However, if it’s considered “high”, Fund liabilities could be expected to increase by up to 6%.

35. Officers considered the three options with the Actuary. Given the various scenarios and the longer-term uncertainty with aspects that impact on longevity, Officers recommend the Actuary’s default view for the 2025 valuation.

36. The ‘default’ assumption is designed to be a best estimate of future experience. It suggests there is some adaption to address climate change (but at a relatively slow pace), the level of deaths because of COVID-19 have stabilised with a slowdown of long COVID cases, a general reduction to NHS waiting times, and Government’s health and social care budget remains constant in real terms.

37. The Fund’s stabilised employer rates were calculated using the default option. For reference, stabilised employers are considered low risk (tax raising bodies such as larger Councils). A stabilised approach is applied to the setting of their contribution rates to provide protection from volatility between the three yearly valuation cycles. The approach allows rates to be “smoothed”, meaning more gradual stepped increases when in deficit, but equally, gradual stepped decreases when in surplus.

<u>Other assumptions</u>

38. There are several other demographic assumptions that are listed on page 9 of the Appendix.

These are:

- Withdrawals from the scheme (excluding ill health)
- Ill health retirements
- Death in service
- Promotional salary scale
- Members leaving dependants
- Age differences
- Commutation
- 50/50 scheme take up

These assumptions have been modelled using the Leicestershire Fund data and based on the Club Vita analysis.

Funding Strategy Statement and Investment Strategy Statement

39. The Fund is required to maintain two key governance documents.

40. The Funding Strategy Statement (FSS) sets out how the Fund plans to meet its long-term obligations to pay member benefits by collecting appropriate contributions from employers, using a prudent and transparent approach tailored to each employer's circumstances. It aligns closely to the Fund's investment strategy.

41. The Investment Strategy Statement (ISS) outlines the principles governing how the Fund invests to meet its long-term obligations. It covers the Fund's objectives, risk appetite, asset allocation strategy, and governance framework, ensuring alignment with regulatory requirements and its own funding strategy.

42. The key policy changes in the Fund's draft FSS will be reviewed by Officers and will be presented to Committee in September 2025.

43. The Fund will propose a consultation with employers on the FSS and ISS to commence in November 2025. To assist administration, this will commence at the same time employers receive their indicative employer rates.

44. The final FSS and ISS will be presented to Committee in early 2026.

Timeline

45. The valuation timeline is as follows;

Date	Topic	Stakeholder(s)
June 2025	Agree final valuation assumptions	**LPC – Current stage**
July 2025	Provide Hymans with all Fund data	Pension Section
August 2025	Calculate Fund results	Hymans
September 2025	Initial draft FSS and ISS changes, and request approval to consult with employers	LPC/LPB (Local Pension Board)
September/October 2025	Whole Fund valuation results	LPC/LPB
October/November 2025	Provide employers with their indicative rates. 1 April 2026 to 31 March 2029 and commence FSS and ISS consultation	Pension Section/Fund employers
November/December 2025	Changes to the FSS and ISS	Pension Section/Fund employers

Date	Topic	Stakeholder(s)
February 2026	Finalise FSS and ISS	LPC/LPB
March 2026	Final valuation report produced with final employer rates	Hymans
April 2026 to March 2029	Employer rates implemented	Pension Section/Fund employers

Employer Risk

46. Part of the valuation process requires Officers to consider employer risk. Officers and the Fund Actuary have assessed employers by group and provided a risk rating (high, medium, low). The table below provides a broad outline of the risk rating and considerations.

47. Officers are working with high risk rated employers to understand their individual employer pension risk pressures and to mitigate these for the Fund where possible.

48. Specifically, Officers are in ongoing dialogue with the university group to understand their longer-term objectives and financial position.

49. Officers are working with the fund actuary to manage an appropriate funding strategy for this group which balances employer affordability, and the increased risks posed to the fund. Officers may bring further information on pertinent outcomes to future committees.

Employer Group	Pension Risk Rating	Considerations
Stabilised employers – (Councils, Police, Fire)	Low	Tax raising bodies
Academies	Low	DFE pension guarantee
Further Education Bodies	Low/Medium	New DFE pension guarantee so risk level has reduced
Contractors	Low/Medium	Employer guarantor sits behind each contractor Usually, short term contract lengths
Town/Parish Councils	Medium	Small employers Resolution bodies so can decide to come out of the Fund
Community Bodies	Medium/High	Each employer considered individually Security in place Regularly assessed
Universities	High	No employer has DFE as guarantor

		Financial pressure in the University sector Ongoing work to identify and manage these risks

Recommendation

50. It is recommended that the Committee approves the valuation assumptions.

Assumption	**Approach for 2025 Valuation**
Discount Rate	Adopt an 80% prudence for calculating funding levels and contribution rates, equating to a 6.0% pa discount rate
CPI Inflation	Continue to use the modelled CPI best estimate assumption plus the inflation risk premium of 0.2% pa, totalling 2.5% pa
Salary Increases	Retain the 2022 salary increase assumption of 0.5% pa above CPI inflation. 2.5% pa plus 0.5% totalling 3.0% pa for 2025
Longevity	Use the Actuary's default assumption
Others	Assumptions have been modelled using the Leicestershire Fund data and based on the Club Vita analysis

51. It is recommended that Committee notes the valuation employer risk.

Equality and Human Rights Implications

52. 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

53. 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.

Appendices

Appendix – Hymans Robertson Assumptions Paper

Background Papers

2025 Valuation Principles Report – 29 November 2024

https://democracy.leics.gov.uk/documents/s186699/2025%20Valuation%20Principles%20Report.pdf

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This summary document has been prepared solely for the purpose of presenting the proposed 2025 valuation assumptions of the Leicestershire Pension Fund to the Administering Authority of the Fund, and to the Pensions Committee. It should not be used for any other purpose and third parties should not place reliance on these results. Full details of the advice which was prepared for fund officers supporting these decisions is contained in the report entitled Leicestershire Pension Fund – 2025 Valuation Assumptions Advice paper (dated 28 April 2025).

HYMANS ROBERTSON

Leicestershire Pension Fund

Actuarial valuation at 31 March 2025

Final assumptions and market volatility

Tom Hoare FFA
Richard Warden FFA

30 May 2025

Use the menu bar above to navigate to each section.

Contents

Addressee & Purpose

Addressee

This report has been requested by, and is addressed to, Leicestershire County Council in its capacity as Administering Authority to the Leicestershire Pension Fund ("the Fund").

Purpose

As part of the 2025 formal valuation, the Fund carried out a review of the actuarial assumptions used by the Fund for funding purposes in April 2025. The provisional set of assumptions were discussed with Fund officers on 28 April 2025.

The results of this review were documented within the report titled Leicestershire Pension Fund – 2025 Valuation Assumptions Advice paper, which should be read in conjunction with this paper.

The purpose of this paper is to provide an update on the provisionally agreed assumptions to reflect the decisions made and to allow for market conditions as at the valuation date of 31 March 2025.

Further, this paper also provides commentary on volatility experienced since the valuation date with markets reacting to proposed trade tariffs. Given the timing of the market disruption, i.e. immediately after the valuation date of 31 March 2025, this paper seeks to provide the Pensions Committee with assurance that the agreed assumptions remain appropriate.

We accept no liability to third parties and/or for any other purpose than above, unless expressly accepted in writing.

Final assumptions at 31 March 2025

Key decisions on assumptions

As part of the assumptions setting process, the following key decisions were provisionally agreed by Fund officers after a meeting on 28 April 2025 with the Fund actuary. The following pages summarise the proposed final assumptions that will be used for the 2025 formal valuation based on the key decisions made and market conditions as at the valuation date of 31 March 2025.

Assumption	Description of assumption	Key decision	Rationale
Financial assumptions			
Discount rate	Average annual rate of future investment return that will be earned on the Fund's assets.	Continue use of Hymans' ESS model. Increase the level of prudence in ongoing funding basis from 75% to 80%.	Higher prudence recognises increased uncertainty in the markets
CPI inflation **(Benefit increases and CARE revaluation)**	Average annual rate of future benefit increases and CARE revaluation (which are based on CPI inflation in the LGPS).	Continue use of Hymans' ESS model and retain inflation risk premium (IRP) of 0.2% pa.	Model reflects medium-to-long-term consensus expectations for UK headline inflation to stay slightly above the BoE's target of 2% pa, with higher inflation expected in the short-term. Fund concerns about inflation uncertainity justifies retaining 0.2% pa IRP.
Salary increases	Average annual rate of future inflationary salary awards.	Maintain current assumption of 0.5% pa above CPI inflation	No compelling evidence to justify a change.
Demographic assumptions			
Baseline longevity	How long we expect members to live based on current observed death rates.	Adopt latest Club Vita analysis, updated to reflect non-Covid related experience (as per 2022 valuation).	Ensures longevity assumptions are tailored to Fund's membership profile to reduce risk of actual experience being materially different from expectations.
Future improvements in longevity	How death rates are expected to change in the future.	Adopt latest available CMI model with parameters adjusted in line with the default approach to reflect the Fund's membership.	Latest version of CMI model is best practice. Officer beliefs about future longevity drivers align with the default assumption, overall.
All other demographic assumptions	Events such as retirement age, rate of ill health retirement, proportion leaving a dependant, level of commutation and 50:50 take up.	Assumptions to be based on LGPS-wide analysis, adjusted for Fund specific experience where required.	Ensures demographic assumptions reflect the Fund's membership experience.

Prudence level for the discount rate assumption

The discount rate assumption (i.e. the assumption about future investment returns) includes a prudence margin to meet the regulatory requirement for a 'prudent' valuation (i.e. there is a greater than 50% chance that the assumed level of future investment returns will be achieved). Note that all other valuation assumptions are "best estimate."

The Fund have decided to adopt a **prudence level of 80%** at the 2025 valuation, which is higher than the level of prudence adopted at the 2022 valuation of 75%.

This increase in prudence is in recognition of increased volatility in the markets and increased uncertainty in various other risks.

Based on market conditions at 31 March 2025, this results in a reported discount rate assumption of 6.0% pa and an estimate funding level of 146% (at whole fund level). As shown in Table 1, using a higher prudence level will result in a lower discount rate assumption and hence a lower reported funding level (and vice versa).

Based on the same 80% prudence level, we estimate Primary rates to be around 18.1% (using a single Fund employer that is representative of the whole Fund average primary rate). As shown in Table 2, adopting a higher prudence level increases the Primary rate i.e. the contributions payable towards future benefits (and vice versa).

Please note the funding levels and Primary rates provided here are estimates and the actual figures will only be known once the full valuation has been completed (and will vary by individual employer). Further details on the calculation of these estimates can be found in the Appendix 1.

Indicative funding level

Table 1	31 March 2025	
Prudence level	Reported discount rate (% pa)	Indicative funding level
75%	6.6%	159%
80%	6.0%	146%
85%	5.5%	134%

Indicative Primary rate

Table 2	31 March 2025
Prudence level	Indicative Primary rate* (% of pay pa)
75%	15.1%
80%	18.1%
85%	22.7%

*Indicative Primary rates include an allowance for expenses of 0.4% of pay in line with the 2022 valuation assumption

Summary of financial assumptions

The following table summarises the financial assumptions that will be used to calculate the funding level at 31 March 2025, along with a comparison at the last valuation.

Assumption	2025 assumption (31 March 2025)	2022 assumption (31 March 2022)	Decision
Financial assumptions			
Discount rate	6.0% p.a. (80% prudence)	4.4% p.a. (75% prudence)	Increase prudence in the ongoing basis from 75% to 80% to recognise increased uncertainty in the markets and other risks
Benefit increases / CARE revaluation	2.5% p.a.	2.9% p.a.	No change to current approach (median CPI plus 0.2% pa IRP), but updated to reflect current market conditions
Salary increases	3.0% p.a. (CPI + 0.5%)	3.4% p.a. (CPI + 0.5%)	No change to current approach (CPI + 0.5%), but updated to reflect current market conditions

Summary of longevity assumptions

The following table shows a summary of the longevity assumptions, along with a comparison at the last valuation. The same longevity assumptions are used in setting contribution rates and assessing the current funding level.

Assumption	2025 assumption (31 March 2025)	2022 assumption (31 March 2022)	Decision
Longevity assumptions			
Baseline longevity	VitaCurves based on member level lifestyle factors	VitaCurves based on member level lifestyle factors	No change to current approach, but updated to reflect the latest available Club Vita base tables.
Future improvements in longevity	**CMI 2023 model*** Initial addition = 0.25% (Male & Female) Smoothing factor = 7.0 1.5% pa long-term rate of improvement 0% weight placed on 2020 and 2021 experience 15% weight placed on 2020 and 2021 experience	**CMI 2021 model** Initial addition = 0.25% (Male & Female) Smoothing factor = 7.0 1.5% pa long-term rate of improvement 0% weight placed on 2020 and 2021 experience	Adopt latest CMI model with parameters updated to reflect the Fund's membership. Weightings placed on post-2022 experience to avoid long-term projections being unduly affected by short-term Covid-19 experience.

*At the 2025 valuation, we recommend using the latest available CMI model. This is currently CMI_2023, however this will likely be updated to CMI_2024 provided it becomes available before the valuation results are calculated. When CMI_2024 model becomes available, we will review and confirm the parameters that will be used for the 2025 valuation.

Summary of all other demographic assumptions

Assumption	2025 assumption (31 March 2025)	2022 assumption (31 March 2022)	Decision
Demographic assumptions			
Withdrawals	Default assumption scaled by 50% for part-time males, and 60% for part-time females. See sample rates in Appendix 4	See sample rates in 2022 valuation report	Rate of withdrawal updated to reflect recent experience of Fund's membership
Retirements in ill-health	Default assumption adopted. See sample rates in Appendix 4	See sample rates in 2022 valuation report	No change to current approach
Death in service	Default assumption adopted. See sample rates in Appendix 4	See sample rates in 2022 valuation report	No change to current approach
Promotional salary increases	Default assumption adopted. See sample rates in Appendix 4	See sample rates in 2022 valuation report	No change to current approach
Members leaving dependants	A varying proportion of members are assumed to have a dependant at death (e.g. at age 65 this is assumed to be 55% for males and 54% for females).	A varying proportion of members are assumed to have a dependant at retirement or on earlier death (e.g. at age 60 this is assumed to be 90% for males and 85% for females).	Updated to reflect Club Vita's LGPS-wide analysis
Age difference with dependant	The dependant of a male member is assumed to be 3.5 years younger than him and the dependent of a female member is assumed to be 0.6 years older than her.	The dependant of a male member is assumed to be 3 years younger than him and the dependent of a female member is assumed to be 3 years older than her.	Updated to reflect Club Vita's LGPS-wide analysis
Commutation	Retirements elect to take 70% of the maximum tax-free cash available in exchange for pension (for all tranches of benefit).	Retirements elect to take 55% of the maximum tax-free cash available in exchange for pension (for all tranches of benefit).	Updated to reflect the Fund's specific experience / No change to current approach
50:50 assumption	0% of existing members will opt to change schemes.	1.0% of existing members will opt to change schemes.	Updated to reflect the Fund's specific experience / No change

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Post 31 March 2025 market volatility

Post 31 March 2025 market volatility

The final assumptions proposed for use at the 2025 valuation are based on market conditions at 31 March 2025. The impact of market conditions after this date are therefore not included in the setting of valuation assumptions. However, where there is significant disruption to markets, it is important to consider this impact as a post valuation date event and to understand whether it is appropriate to make any allowance within the valuation process.

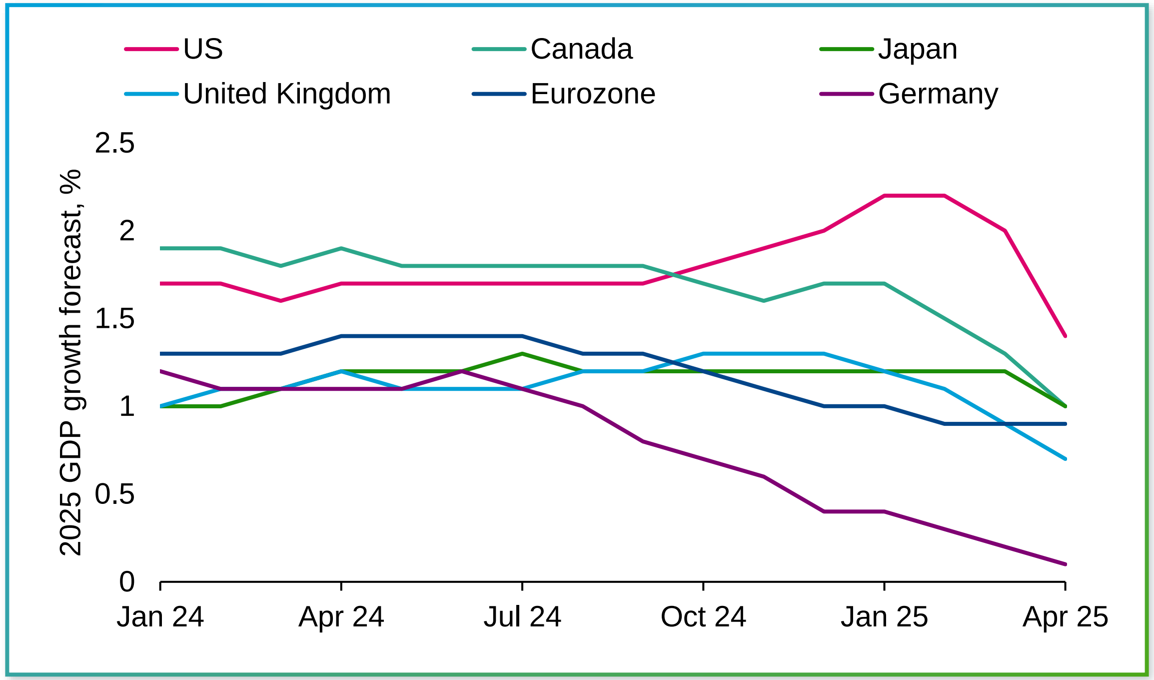
What has caused the recent market volatility?

The trade tariffs imposed by the US on the 2 April 2025 (dubbed as 'Liberation Day') were more severe than forecasters expected and has contributed to significant volatility in financial markets throughout April, particularly shortly after the valuation date of 31 March 2025.

The US have already postponed the implementation of additional reciprocal tariffs for all countries and, crucially, reached a trade deal with China which will lower the much higher duties imposed on China. However, the newly introduced baseline 10% tariff on all trading partners, along with significantly higher duties applied specifically to Chinese imports, will still substantially raise the US average effective tariff rate.

As a result, consensus forecasts for global growth have slipped since the start of the year, as seen in the chart. The impact will extend beyond US imports as global supply chains are disrupted. Despite the recent trade deal, growth is likely to remain weaker than anticipated prior to the tariff announcements.

Given this volatility is occurring around the date of the 2025 valuation, we have set out our current views on the following pages to provide some insight into how this may impact the Fund and the 2025 valuation (from an actuarial perspective).



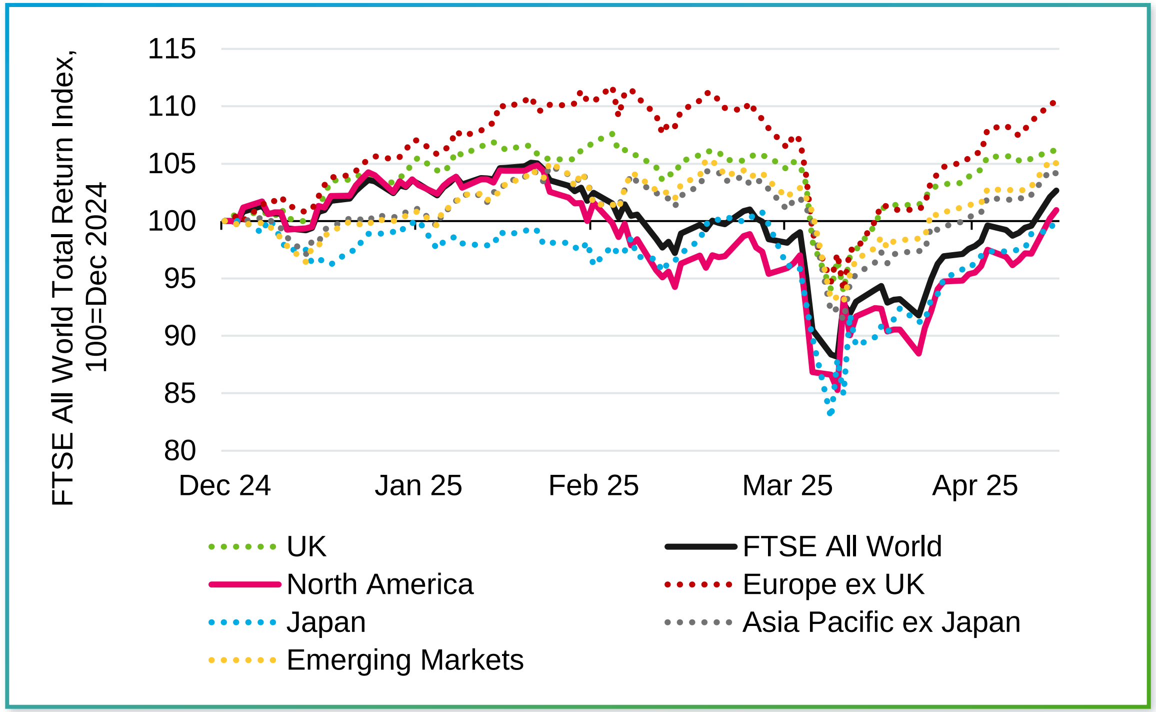
Source: Consensus Economics

Impact on equity markets

As seen in the chart, equities fell sharply in the wake of tariff announcements.

However, all the lost ground has since been recovered as the US delayed the implementation of the tariffs and then reached trade deals with the UK and, more importantly, China. The UK trade deal will see cuts to tariffs on car and steel imports, but the 10% tariff on most other goods is still in place.

As of 13th May the FTSE All World was up 2.7% year-to-date, and only 2.5% below its February peak, having experienced a decline of 16% between February and April.



Source: LSEG DataStream

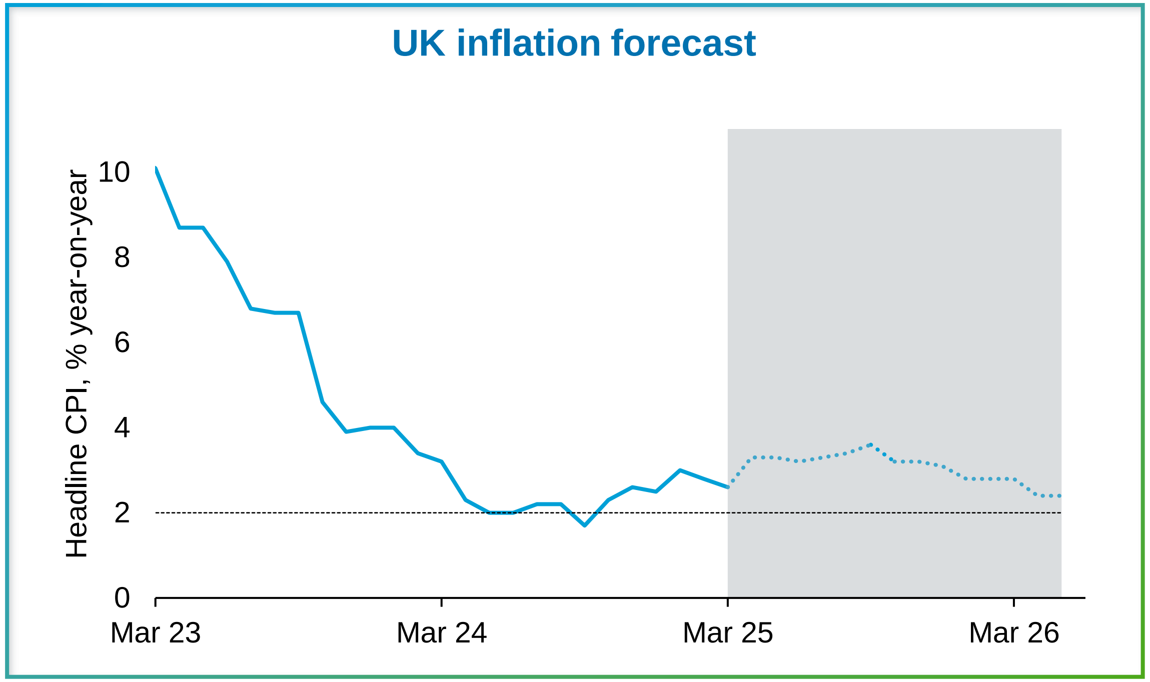
Equity markets sold off sharply following the “Liberation Day” tariff announcements but have since regained all their lost ground

Inflation forecast

Inflation forecasts have been drifting up, with at least some of that potentially owing to anticipated trade disruption.

The US is being hit with both supply and demand shocks, which will raise near-term inflation, but the impact on inflation elsewhere is more ambiguous.

There are other reasons the Bank of England might still be cautious with regards to rate cuts. UK year-on-year headline CPI inflation is forecast to rise to close to 4% this year. While much of this is due to energy prices, and so expected to be temporary, strong wage and service-sector point to some persistence in underlying domestic inflation pressures.



Source: LSEG DataStream and Consensus Economics

Future inflation remains uncertain

April 2025 market conditions

The chart on the right summarises how the expected future investment returns in our ESS model have changed between 31 March 2025 and 30 April 2025 for major asset classes.

Any decrease in the expected future investment returns caused by the recent disruption to the markets would generally have the following impact:

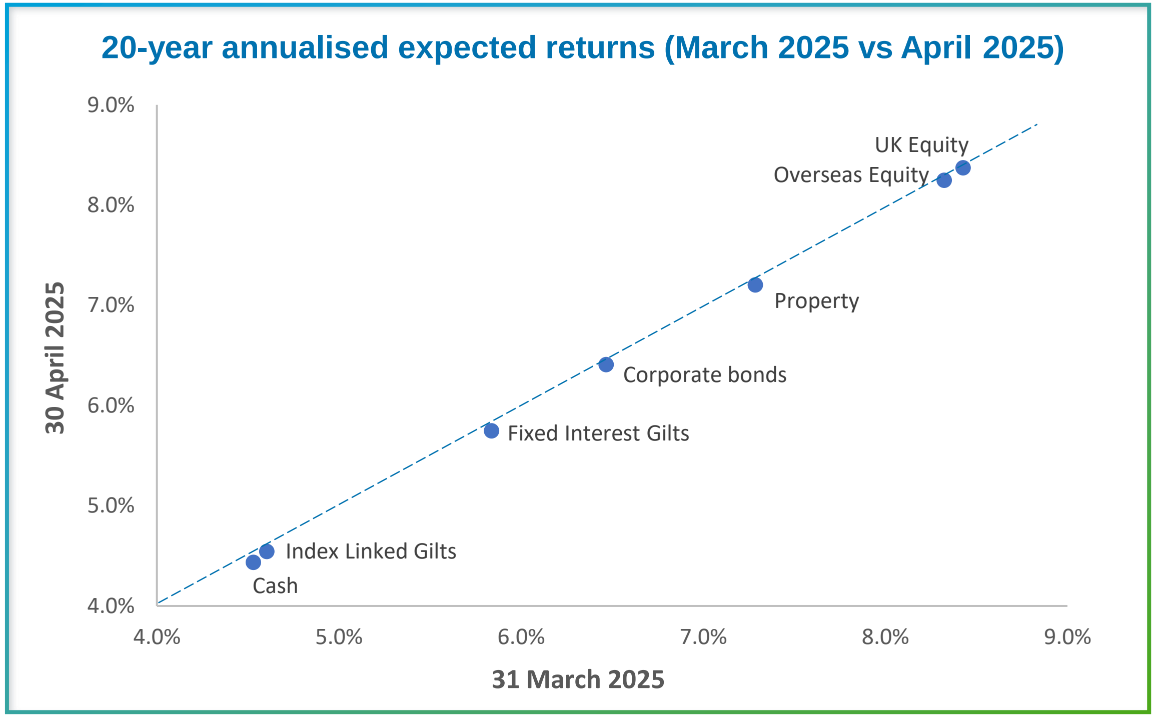
- A lower funding level because a higher value is placed on the Fund's liabilities
- Higher required employer contributions (all other things being equal)

However, as seen in the chart, there is very little difference in the expected future investment returns in our ESS model between March 2025 and April 2025. This may appear surprising given the market volatility experienced throughout April, however this is due to the following reasons:

- Our ESS model already allows for market volatility, with the current levels of market performance falling within the range of potential outcomes over the short term; and
- Our model reflects the long-term nature of the LGPS as an open scheme, meaning a longer-term view can be taken on market volatility.

We therefore do not believe the recent market volatility has caused a significant shift in the future investment returns expected to be achieved by the Fund.

Further details on the ESS model calibration at 31 March 2025 and how that compares to 30 April 2025 are set out in Appendix 3.



Source: Hymans ESS model

The April 2025 calibration of our ESS model is broadly in line with the March 2025 calibration

42

43

Impact on the 2025 valuation

Are the assumptions set for the 2025 valuation still suitable?

Given the timing of this market shock (i.e. immediately after the 31 March 2025 valuation date), the impact of the volatility will continue to be monitored, however we do not propose any changes to the assumptions set for the 2025 valuation. This is due to the following reasons:

- the Fund's assumptions are constructed to reflect the long-term nature of the LGPS as an open scheme, meaning a longer-term view can be taken on currently heightened levels of market volatility (which may be temporary);
- the risk-based model used to set the Fund's financial assumptions allows for market volatility, with the current levels of market performance falling within the range of potential outcomes over the short term;
- there is no clear consensus or agreement about what these tariffs will mean for the economy in the longer-term, including future investment returns and inflation (the two main LGPS funding factors that may be affected by this announcement); and
- the Fund includes a margin of prudence within its discount rate assumption to help navigate periods of uncertainty – **noting the Fund has already proposed to adopt a higher margin of prudence at the 2025 valuation in recognition of increased uncertainty in markets**.

We therefore do not believe it would be appropriate to take any immediate action regarding the assumptions set for the 2025 valuation in light of the current activity in financial markets. At the time of writing, the proposed assumptions remain fit for purpose.

Impact on funding levels

Given asset values will likely have fallen in April due to market movements, funding levels may be slightly lower now than at the valuation date of 31 March 2025 (although markets have largely recovered lost ground). In general, funding level changes do not cause any immediate concern as the funding level is only a snapshot measure at a point in time and is only a backward-looking measure of liabilities earned to date. As an indicator of the long-term health of the Fund and funding plans, any snapshot funding level is of limited use.

Impact on funding plans

In recent months, we have worked with the Fund to communicate proposed contribution rates for 1 April 2026 onwards. At this stage we do not believe there is any need to review or change the rates that have been communicated for the same reasons:

- our risk-based model allows for market volatility, with the current levels of market performance falling within the range of potential outcomes over the short term;
- the Fund includes a margin of prudence within its funding strategy to help navigate periods of uncertainty;
- the results of the modelling were positive, including the alternative scenarios tested, including lower returns on growth assets and higher inflation)
- the Fund takes a long-term view when setting contribution rates and has adopted an approach in line with the existing stabilisation mechanism to contribution rate reductions.

Proposed assumptions (and funding plans) for the 2025 valuation remain appropriate

Appendices

APPENDIX 1

Technical detail for funding positions and Primary rates

In the *'Prudence level for the discount rate assumption'* section of this report we set out an estimated funding level as at 31 March 2025 for the Fund. The funding levels were extracted from our Funding Risk Monitoring (FRM) tool. The data, methodology and assumptions used are as set out below.

Data

Funding updates are based on the membership data provided for the 2022 valuation. Details on the quality of this data and a data summary can be found in the documentation provided for that valuation.

Methodology

Liability calculations are based on a roll forward of the liability calculated at the last valuation. The roll forward allows for experience based on the demographic assumptions made at the valuation, plus an allowance for actual pension increases vs the assumption made at the valuation. It also allows for changes in financial assumptions over time as market conditions change. Finally, it will allow for any change to the Fund's strategic asset allocation.

The model allows for actual pension increases based on the value of the UK CPI inflation measure at end of September. This measure is typically used to set the annual pension increases which come into force the following April. The model makes allowance for each actual pension increase once the inflation measure is available (instead of waiting until it comes into force in the following April).

Assets are projected from the last valuation date allowing for daily benchmark index returns and estimated cashflows. Where available, index returns are adjusted based on known actual returns to give the equivalent result over the same period.

Financial assumptions as at 31 March 2025

- Salary increases: 3.0% p.a.
- Benefit increases: 2.5% p.a.

Notes on roll-forward approach

In projecting forward the valuation results, a number of assumptions are made with regard to actual experience. The accuracy of the projection will likely decline over time as actual experience diverges ever more from assumed experience. Significant membership changes will exacerbate this issue and could have a significant effect on the accuracy of the projection. It is not possible fully to assess the accuracy of the projection without carrying out a full actuarial valuation.

Primary rates

The indicative Primary rates have been calculated using the membership data supplied for the purposes of the 2022 valuation (updated as appropriate for known benefit revaluation) and ESS assumptions as at 31 March 2025.

Leicestershire County Council have been modelled as representative of the whole Fund average Primary rate. The Primary rate is the future service rate required to be 100% funded on the ongoing basis at the end of a 17-year funding time horizon with a chosen likelihood.

APPENDIX 2

Investment strategy modelled

The Fund's current strategic benchmark investment strategy has been used for the analysis set out in the Section entitled '*Prudence level for discount rate assumption*' . The investment strategy to be modelled was agreed with the Fund.

Whilst we are not aware of any significant changes to the investment strategy, the analysis in this paper can be updated when any strategy decisions are made to understand what the impact may be.

		Current
Equities	Global equities	37.50%
	Private equity	7.50%
	Infrastructure equity	12.50%
Bonds	Fixed interest gilt (14 yr maturity)	0.90%
	Index-linked gilt (24 yr maturity)	3.50%
	UK corporate bonds (A-rated average)	4.65%
	Multi-asset credit	5.55%
Alternatives	DGF Low Beta	5.00%
	EM Debt Local	0.90%
	Asset Backed Securities	0.75%
	Property	10.00%
	Private lending	10.50%
	Cash	0.75%
Total		100%

APPENDIX 3

Economic Scenario Service (ESS)

The ESS uses statistical models to generate a future distribution of year-on-year returns for each asset class e.g. UK equities. This approach is also used to generate future levels of inflation (both realised and expected). The ESS is also designed to reflect the correlations between different asset classes and wider economic variables (e.g. inflation). In the short-term (first few years), the models in the ESS are fitted with current financial market expectations. Over the longer-term, the models are built around our long-term views of fundamental economic parameters e.g. equity risk premium, credit-spreads, long-term inflation etc. The ESS is calibrated every month with updated current market expectations (a minor calibration). Every so often (annually at most), the ESS is updated to reflect any changes in the fundamental economic parameters as a result of change in macro-level long-term expectations (a major calibration).

The following table shows the calibration at 31 March 2025.

Annualised total returns

		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Developed World ex UK Equity	Property	Corp Medium A	Inflation (RPI)	17 year real yield (RPI)	Inflation (CPI)	17 year real yield (CPI)	17 year yield
5 years	16th %'ile	3.5%	1.7%	2.2%	0.1%	-0.5%	0.2%	2.5%	2.2%	1.4%	1.2%	1.5%	4.8%
	50th %'ile	4.3%	4.5%	4.3%	8.2%	8.2%	6.8%	4.9%	3.8%	2.4%	2.8%	2.4%	5.8%
	84th %'ile	5.1%	7.5%	6.2%	16.4%	16.9%	14.1%	7.1%	5.3%	3.3%	4.3%	3.3%	7.1%
10 years	16th %'ile	3.6%	2.7%	4.2%	2.5%	2.1%	2.3%	4.5%	1.3%	0.8%	0.8%	0.8%	3.9%
	50th %'ile	4.6%	4.7%	5.4%	8.6%	8.5%	7.3%	6.0%	3.0%	2.1%	2.5%	2.1%	5.3%
	84th %'ile	5.8%	6.9%	6.5%	14.6%	14.8%	12.7%	7.3%	4.6%	3.3%	4.1%	3.3%	7.1%
20 years	16th %'ile	3.1%	2.9%	5.0%	3.8%	3.7%	3.5%	5.5%	1.0%	-0.5%	0.7%	-0.5%	1.6%
	50th %'ile	4.5%	4.6%	5.8%	8.4%	8.3%	7.3%	6.5%	2.5%	1.2%	2.3%	1.3%	3.6%
	84th %'ile	6.3%	6.4%	6.5%	12.9%	13.1%	11.3%	7.4%	4.2%	3.0%	3.9%	3.0%	6.2%
	Volatility (Disp) (1 yr)	0.3%	6.7%	5.5%	16.3%	18.6%	15.2%	6.5%	1.4%		1.4%		

APPENDIX 3

Economic Scenario Service (ESS)

For the purposes of comparison, the following table shows the calibration at 30 April 2025.

Annualised total returns													
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Developed World ex UK Equity	Property	Corp Medium A	Inflation (RPI)	17 year real yield (RPI)	Inflation (CPI)	17 year real yield (CPI)	17 year yield
5 years	16th %'ile	3.2%	1.3%	1.9%	-0.4%	-1.3%	-0.2%	2.1%	1.9%	1.5%	0.9%	1.6%	4.8%
	50th %'ile	3.9%	4.1%	3.9%	8.1%	7.9%	6.5%	4.6%	3.4%	2.5%	2.4%	2.5%	5.9%
	84th %'ile	4.7%	7.1%	5.9%	16.7%	17.3%	13.8%	6.9%	5.0%	3.4%	4.0%	3.4%	7.1%
10 years	16th %'ile	3.4%	2.5%	4.0%	2.2%	1.7%	2.0%	4.3%	1.1%	0.9%	0.6%	0.9%	4.0%
	50th %'ile	4.4%	4.5%	5.2%	8.5%	8.3%	7.1%	5.9%	2.8%	2.2%	2.3%	2.2%	5.4%
	84th %'ile	5.6%	6.7%	6.3%	14.5%	14.8%	12.5%	7.2%	4.4%	3.4%	3.9%	3.4%	7.1%
20 years	16th %'ile	3.0%	2.8%	5.0%	3.7%	3.5%	3.4%	5.4%	0.9%	-0.5%	0.6%	-0.5%	1.6%
	50th %'ile	4.4%	4.5%	5.7%	8.4%	8.2%	7.2%	6.4%	2.4%	1.2%	2.2%	1.3%	3.6%
	84th %'ile	6.2%	6.4%	6.4%	12.8%	13.2%	11.2%	7.3%	4.0%	3.0%	3.8%	3.0%	6.2%
	Volatility (Disp) (1 yr)	0.3%	6.7%	5.5%	20.4%	24.3%	15.5%	6.7%	1.4%		1.4%		

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APPENDIX 4

Further detail on demographic assumptions

The following tables show the default sample rates of male and female demographic assumptions. The Fund's specific demographic assumptions will be scaled accordingly in line with the decisions summarised on Page 9 of this paper and the final figures will be documented within the Fund's Funding Strategy Statement and 2025 formal valuation report.

Males

Age	Salary scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.17	323.45	609.76	0.00	0.00	0.00	0.00
25	117	0.17	213.65	402.77	0.00	0.00	0.00	0.00
30	131	0.20	151.59	285.73	0.00	0.00	0.00	0.00
35	144	0.24	118.44	223.22	0.10	0.07	0.02	0.01
40	151	0.41	95.36	179.66	0.16	0.12	0.03	0.02
45	159	0.68	89.57	168.72	0.35	0.27	0.07	0.05
50	167	1.09	73.83	138.92	0.90	0.68	0.23	0.17
55	173	1.70	58.14	109.45	3.54	2.65	0.51	0.38
60	174	3.06	51.82	97.51	6.23	4.67	0.44	0.33
65	174	5.10	31.81	59.85	11.83	8.87	0.00	0.00

Females

Age	Salary scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.10	281.94	373.90	0.00	0.00	0.00	0.00
25	117	0.10	189.71	251.55	0.10	0.07	0.02	0.01
30	131	0.14	159.02	210.83	0.13	0.10	0.03	0.02
35	144	0.24	137.25	181.90	0.26	0.19	0.05	0.04
40	151	0.38	114.23	151.34	0.39	0.29	0.08	0.06
45	159	0.62	106.60	141.21	0.52	0.39	0.10	0.08
50	167	0.90	89.87	118.92	0.97	0.73	0.24	0.18
55	173	1.19	67.06	88.83	3.59	2.69	0.52	0.39
60	174	1.52	54.04	71.50	5.71	4.28	0.54	0.40
65	174	1.95	25.76	34.07	10.26	7.69	0.00	0.00

Figures are incidence rates per 1,000 members except salary scale. FT and PT denoted full-time and part-time members respectively

APPENDIX 5

Reliances and limitations

This paper is addressed to Leicestershire County Council as Administering Authority to the Leicestershire Pension Fund. It has been prepared in our capacity as actuaries to the Fund and is solely for the purpose of summarising the final assumptions for the 2025 formal valuation and providing commentary on the impact of recent market volatility. It has not been prepared for any other purpose and should not be used for any other purpose.

The Administering Authority is the only user of this advice. This paper has not been prepared for any other third party or for any other purpose. We make no representation or warranties to any third party as to the accuracy or completeness of this report, no reliance should be placed on this report by any third party and we accept no responsibility or liability to any third party in respect of it.

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The following Technical Actuarial Standards are applicable in relation to this advice, and have been complied with where material and to a proportionate degree:

- TAS100 – Principles for technical actuarial work
- TAS300 – Pensions

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Leicestershire County Council

LOCAL PENSION COMMITTEE – 27 JUNE 2025

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

MCCLOUD REMEDY PROGRESS REPORT

Purpose of the Report

1. The purpose of the report is to update the Local Pension Committee regarding progress in respect of the implementation of the McCloud remedy for Leicestershire County Council Pension Fund. The previous update was provided to the Committee on 19 June 2024.

2. The report also seeks the Committee's approval to extend the deadline for the completion of the 'McCloud implementation phase' to 31 August 2026.

Background

3. On 8 September 2023, the Government laid The Local Government Pension Scheme (Amendment) (No.3) Regulations 2023. The regulations implemented the McCloud remedy.

4. The remedy came into force on 1 October 2023 following an age discrimination court case. It rectifies the discriminatory treatment that affected some scheme members when the Government introduced changes to public sector pensions in 2014 and 2015.

5. The remedy requires Officers to assess records and if it is established that members were better off under the previous regulations for the period between April 2014 and March 2022, then pensions are re-calculated on the basis of those regulations.

6. The regulations were backdated to 1 April 2014 and required historic, as well as current, cases to be assessed. Numerous actions are required to fully implement the remedy.

7. Whilst the Pension Section must assess all cases in-scope, it is expected that very few members will receive an increase in pension benefits as a result of the remedy.

Current Position

8. Officers continue to implement the remedy.

9. The then Department for Levelling Up, Housing and Communities (DLUHC), now called Ministry of Housing, Communities and Local Government (MHCLG), issued statutory guidance in June 2024, which stated that all work related to the 'McCloud Implementation phase' of the remedy must be completed by 31 August 2025. However, there is scope within the guidance for this deadline to be extended to 31 August 2026, subject to approval by the Local Pension Committee.

10. The 'McCloud implementation phase' covers all areas of work in respect of the McCloud remedy with the exception of on-going 'Business as Usual' casework.

11. Work began on the implementation of the ruling in September 2020 prior to the McCloud remedy coming into force on 1 October 2023.

12. Additional temporary resource was added to the Pensions Section, to assist with the initial preparatory work that was required. Officers were required to review and where necessary amend contractual hours data for members deemed 'in-scope' for the ruling. This would allow the records to be accurately assessed to establish if there was any entitlement to additional pension when the remedy came into force. This has been a major exercise, mainly manual and was finally completed on 31 March 2025.

13. When the remedy came into force it impacted significantly on 'Business as Usual' casework and this has been reflected in Key Performance Indicators since then. Whilst additional permanent resource was recently approved by the Committee and a recruitment exercise is nearing completion, it is likely that any new Officers will require extensive training and it will take some time before any impact will be felt.

14. Consequently, Officers will not be able to complete the remaining areas of work by 31 August 2025 and are seeking approval from the Committee to extend this deadline. It is proposed that the deadline is extended to 31 August 2026, this being the maximum extension possible.

15. The Pensions Manager has discussed the McCloud extension with other Local Government Pension Funds locally and more widely, and each Fund plans to request approval from each of its own Pension Committee, for the McCloud extension.

16. In addition to the McCloud deadline there is also an existing statutory deadline for production of Annual Benefit Statements for active and deferred members by 31 August each year. These are produced following the completion of the annual year end exercise. This year's exercise is underway and the latest position is detailed elsewhere in this report. With effect from 2025, details of any additional pension that members are entitled to following the McCloud ruling must be included within these statements.

17. Officers are prioritising this requirement and expect to meet the deadline.

18. Pensions already in payment will also need to be assessed to establish if any increase is due under the same legislation. These cases will be identified by 30 September 2025.

19. The remaining areas of work that will need to be completed are detailed in the grid below which gives the position as of 30 May 2025.

20. It is expected that the number of members who will benefit from the McCloud remedy will be low.

'Business as Usual' Casework	Following the implementation of the McCloud remedy on 1 October 2023, all 'Business as Usual' cases have included an assessment to establish any entitlement to additional benefit arising from the remedy, and where this was established, was included in calculations.
Changes to contractual hours between April 2014 and March 2022	Data has been received from all employers and manual updates have now been **completed.** Whilst other cases are likely to emerge, for example where scheme members previously not in-scope declare membership of other public sector pension schemes that could mean they become in-scope for this exercise, this phase of the project has now finished. Any remaining cases will be addressed as part of 'Business as Usual' casework following their date of leaving.
Active and Deferred Members 'in-scope'	Records of active and deferred members must be updated with underpin data (used to establish additional pension due to the McCloud remedy) for inclusion in Annual Benefit Statements by **31 August 2025**. Records will be updated using 'bulk' facilities available in Altair and any errors will be addressed manually.
Pensioners 'in-scope'	'Bulk' facilities available in Altair will be used to identify pensioners (including dependant pensioners) who are entitled to an underpin (additional pension) by **30 September 2025**. The work required to increase their pension value will be completed by **31 August 2026.**

Other members 'in-scope'	Remaining categories of McCloud related work will also be processed by **31 August 2026.** This will include: Death Cases Transfers Interfund Adjustments Trivial Commutations Teachers (Enhanced Pensions) Some aspects of transfers will require system upgrades to be applied before re-calculations can be processed.

Recommendation

21. It is recommended the Committee considers the report and approves the request to extend the deadline of the McCloud implementation phase to 31 August 2026.

Equality Implications

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

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Leicestershire County Council

LOCAL PENSION COMMITTEE – 27 JUNE 2025

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

ADDITIONAL VOLUNTARY CONTRIBUTIONS

Purpose of the Report

1. The purpose of this report is to inform the Local Pension Committee of the outcome of the Fund's Additional Voluntary Contribution (AVC) tender and some improvements introduced for the Fund's AVC payers.

Background

2. The Local Government Pension Scheme has a regulatory requirement to provide members with access to a defined contribution Additional Voluntary Contribution scheme. Active contributors may opt to pay extra pension contributions, known as AVCs.

3. AVCs are used to increase scheme member benefits. Whilst they can be used to increase the annual pension, they are often used to increase a scheme member's tax-free lump sum when they are taken at the same time as their LGPS benefits. Less commonly the AVC can be transferred separately from the LGPS to another pension scheme or arrangement which may increase the options available to them from this other pension arrangement.

4. Officers cannot provide financial advice, but the Money Helper service joins up several money and pension guidance services and is a free impartial service sponsored by the Government. Members can use Money Helper to discuss their AVC options.

5. In early 2025, Fund Officers concluded an external tender via the National LGPS Frameworks for the Leicestershire Fund's AVC provider. The successful bidder was Prudential. The Prudential has been the Leicestershire Pension Fund's AVC provider since 1996, so this extends the Fund's longstanding relationship with the Prudential.

Salary Sacrifice Shared Cost AVC

6. There is a provision within the regulations to allow an employer to also contribute to their employee's AVC. This is known as a 'Shared Cost' AVC which can be provided through a salary sacrifice arrangement, often referred to as a Salary Sacrifice Shared Cost AVC (SSSCAVC). The decision to offer

SSSCAVCs lies with individual Fund employers, not the Pension Fund, and there are currently only a small number of employers within the Leicestershire Fund that offer this to their members.

7. Under the SSSCAVCs, an employee agrees to enter a salary sacrifice arrangement under which they accept a reduction in their gross salary equal to their chosen AVC contribution amount and in return the employer pays the amount of the salary sacrificed into the AVC fund. In addition, the employee is required to pay an individual contribution into the SSSCAVC arrangement as the “shared cost element”. This shared cost contribution must be at least £1 per month and is deducted from the employee’s gross salary and paid into the AVC fund in addition to the contribution from the employer under the salary sacrifice arrangement.

8. For employees, the advantage is that they will not pay tax or national insurance contributions (NICs) on the amount of salary sacrificed. As a result, operating Shared Cost AVCs through a salary sacrifice arrangement provides an opportunity for employees to save NICs in addition to the usual tax savings, thus increasing take-home pay.

9. In addition, the employer will benefit from a reduction in the employer national insurance contributions.

10. The Prudential can administer SSSCAVCs for Leicestershire Fund employers. Should other fund employers decide to implement SSSCAVCs in future, Prudential are willing to work directly with these employers when implementing and administering SSSCAVCs.

11. Employers may choose to work with third party providers to manage the salary sacrifice arrangement. The third-party providers must comply with the Prudential processes in dealing with the salary sacrifice contributions.

12. The Pension Fund can administer SSSCAVCs with the Prudential alongside normal employer and employee AVCs.

13. Officers will write to all the Fund employers informing them of the outcome of the tender and Prudential’s ability to administer SSSCAVCs.

Investment Choices

14. AVCs and SSSCAVCs, are invested by Prudential into each AVC scheme payer’s individual investment choice. The individual can spread their contributions across several investment funds if they wish.

15. The investment fund choices include - higher risk, medium/higher risk, medium risk, lower/medium risk, and minimal risk. This allows the Fund’s AVC payers to make their own investment choice, based on their own risk appetite.

16. There are annual management charges deducted from the contributions and in some cases other charges may apply. The charges are shown in the table in point 25 below.

17. The charges are lower than the rates in place before the tender, thereby benefiting the Fund's AVC payers, by increasing the amount of their AVCs invested for retirement.

18. Currently the Fund offers 18 different fund choices to Fund members. 16 are non-lifestyle fund choices and 2 are lifestyle fund choices which track a members age and de-risk the investment as the member nears retirement age.

19. However, Prudential offer a HSBC Islamic Global Equity Index S3 Fund. This only invests in shares of companies that meet Shariah compliance principles.

20. The Director of Corporate Resources and the Pensions Manager have agreed to add this investment option to the Fund's AVC investment portfolio as there have been requests for this option from members as it provides a greater diversity for its AVC scheme payers.

21. Inclusion of this fund will increase the investment choice to 19.

22. The Default Investment Option is the Prudential With-Profits Fund.

23. Further information on the choices available can be found in the proposed Prudential Leicestershire County Council Pension Fund AVC Fund Guide (see the Appendix attached to this report).

24. The change to the Fund's AVC investment portfolio will become active from the 1 July 2025.

Non-Lifestyle Fund Choices

25. The charge stated below is made up of the Annual Management Charge plus any further costs that may apply from 1 July 2025. More information can be found in the Fund Guide.

	Fund Name	**Investment Risk**	**Asset Class**	**Active or Passive**	**Charge each year %**
1	UK Equity Fund	Higher	Equities	Active	0.50
2	UK Equity Passive Fund	Higher	Equities	Passive	0.43
3	Global Equity Fund	Medium/Higher	Equities	Active	0.54
4	International Equity Fund	Medium/Higher	Equities	Active	0.54
5	Positive Impact Fund	Medium/Higher	Equities	Active	0.54
6	HSBC Islamic Global Equity Index	Medium/Higher	Equities	Passive	0.68

7	Discretionary Fund	Medium	Equities	Active	0.54
8	Dynamic Growth IV Fund	Medium	Multi-Asset	Active/Passive	0.51
9	Dynamic Growth V Fund	Medium	Multi-Asset	Active/Passive	0.51
10	Index-Linked Fund	Medium	Bond	Active	0.54
11	Long-Term Gilt Passive Fund	Medium	Equities	Passive	0.44
12	Dynamic Growth I Fund	Lower/Medium	Multi-Asset	Active/Passive	0.51
13	Dynamic Growth II Fund	Lower/Medium	Multi-Asset	Active/Passive	0.51
14	Dynamic Growth III Fund	Lower/Medium	Multi-Asset	Active/Passive	0.51
15	Fixed Interest Fund	Lower/Medium	Bond	Active	0.54
16	With Profits Fund	Lower/Medium	Multi-Asset	Active	*See note
17	Cash Fund	Minimal	Deposits	Active	0.43

*The charge will depend on the investment returns achieved and the expenses incurred by the Fund (higher investment returns will be associated with a higher charge and lower investment returns will be associated with a lower charge). The charge is currently expected to be approximately 0.76% a year if the investment return in the With-Profits Fund is 5% a year.

Prudential previously offered the Prudential Deposit Fund, but this closed to new members on the 31 May 2017.

Lifestyle Fund Choices

	Fund Name	Investment Risk	Asset Class	Active or Passive	Charge each year
18	Prudential Dynamic Growth IV Lifestyle targeting 100% cash	Lower/Medium (moving to Minimal)	Equities / Bonds	Active	Dependant on which fund member is in at any given point
19	Prudential Dynamic Growth IV Lifestyle targeting retirement options	Lower/Medium	Equities / Bonds	Active	Dependant on which fund member is in at any given point

26. The Prudential Dynamic Growth Funds may invest in a range of assets which include equities, bonds, property and cash.

27. The Lifestyle Fund choices are made up of three funds:

    - Dynamic Growth IV Fund (medium risk)
    - Dynamic Growth II Fund (lower/medium risk)
    - Cash Fund (minimal risk)

28. The ‘targeting 100% cash’ choice is aimed at those intending to take their fund as a lump sum. The ‘targeting retirement options’ lifestyle is for those that want a lifestyle option but are unsure how they might want to access their pension savings when they take their benefits.

Service Standards and Communications

29. Officers have developed Key Performance Indicators with the Prudential to monitor their performance.

30. Officers recognise the benefit of AVCs for scheme members. Prudential will work with Fund Officers to drive an increase in the number of AVC payers and will provide access to a suite of new member promotional and educational materials to assist with this. Fund employers will also receive communication on AVCs.

31. As part of the contract review, Prudential agreed lower annual management charges for the unit linked investment funds offered, as detailed earlier in the report. These revised rates come into effect from 1 July 2025. Details are included in the Appendix to the report.

32. Prudential will communicate the lower annual management charges to the existing AVC payers, and these come into effect on the 1 July 2025.

33. Officers have ongoing quarterly governance meetings with the Prudential that include the following areas: KPIs, communications, AVC take up and new employers implementing SSSCAVCs, value for money.

Pension Dashboards

34. To comply with the new National Pension Dashboards, the Fund must ensure AVC data is sent to the dashboard along with LG pension data.

35. It’s proposed AVC data will be provided securely by the Prudential to the Fund every month and the Fund will capture this on the member’s individual pension record. The AVC data will then be transmitted to the dashboard alongside the member’s LG pension data by the Fund using a secure ISP when required. This is known as the “single source” approach and enables the person to see their pension data together.

36. Officers have started work with the Prudential and the Fund’s employers on monthly AVC data collection.

37. The Fund’s deadline for the National dashboard is the 31 October 2025.

Recommendation

38. It is recommended that the Committee;
    a. Notes the outcome of the Fund's AVC tender
    b. Notes the addition of the HSBC Islamic Global Equity Index S3 Fund to the Fund's AVC investment portfolio

Equality Implications

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

Human Rights Implications

40. There are no human rights implications arising from the recommendations in this report.

Appendix

Appendix – Prudential Leicestershire County Council Pension Fund AVC Fund Guide (from 1 July 2025)

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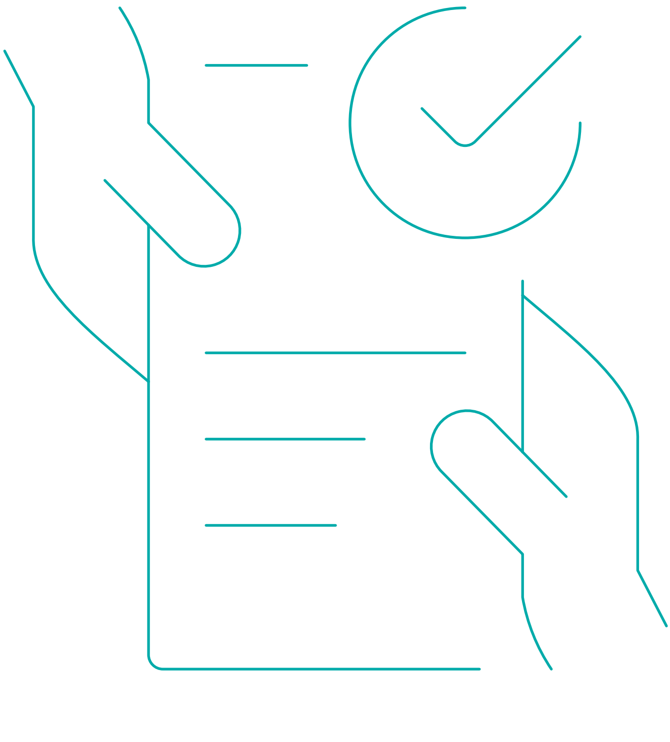
Pru
part of M&G plc

Fund Guide

Leicestershire County Council Pension Fund

Local Government AVC Scheme



Hello and welcome to your fund guide. You have this guide as you're a member of your employer's pension scheme. The scheme has selected funds to be available for you to invest your pension savings in.

Saving for retirement is a great idea for most people. By putting money away, and investing it where it may grow in value, you're taking a step towards living the way you want to in later years.

This guide includes information to help you understand funds and investments. It has detailed descriptions of the fund options that are available to you. And includes a glossary and other practical information.

If you need any additional support we suggest speaking to a financial adviser. If you don't already have an adviser, you can find out more at **pru.co.uk/find-an-adviser**

It's important that you read this document before making any decisions.

It may be a part of a pack of other related materials, which may include the Key Features document. The Key Features document has the main features, benefits and risks of your scheme.

We recommend you read all the materials you've been provided, and store them in a safe place so you can refer to them in the future.

Helping you to think about your future

This guide is set up in three sections.

Section 1 covers some investment basics, and you'll learn about funds, risk and diversification as well as charges and costs. It's worth reading this section first before moving on to the next ones.

Section 2 has more specific details on the actual funds you can invest in within your pension. Some of the terms used might be new to you or a bit trickier to understand. So please make sure you have first read section 1 and make use of the glossary in section 3. You might also want to speak to an adviser – see below.

In section 3 we cover more practical things about funds and how they work as well as things like the Financial Services Compensation Scheme. This is also where you'll find the glossary.

We know that customers will use this guide in different ways, but we'd recommend, even if you feel confident about investing, that you read the whole guide at least once. Especially sections 1 and then 3 before looking at your available fund choice in section 2.

The value of your investment can go down as well as up so you might get back less than you put in.

The information included in this guide is correct at the time of production in May 2025.

Financial Advice

Before you read any further, you'll see that throughout the guide we suggest that you may wish to speak to an adviser for more information. An adviser can be useful in a variety of financial situations including pensions, providing expert help and advice when you think you might need it. To find an adviser in your area go to **pru.co.uk/find-an-adviser**

Contents

Using this guide

We'd strongly recommend you read the whole of this document. You can also use the information on the previous page to find out where to find information you're looking for.

If you're looking at this guide online then there are bits of the document that you can interact with.

Fund links – When you're connected to the web, if you click on a fund name the fund factsheet will open for you. Look out for your cursor changing as you move through the 'Available funds' section.

Our factsheets contain more detailed information about our available funds. You can find all our fund factsheets at **pru.co.uk/ourfactsheets**

If you have a printed copy, but would like the latest online version, then search for **https://www.pru.co.uk/pdf/LAVS379702.pdf**

If you'd like to ask us for anything, please visit **pru.co.uk/contact-us** or call us on 0800 000 000 between 8am and 6pm, Monday to Friday.
(We might record your call for training and quality purposes.)

Section 1

Useful things to know about your investment choices

This section will help you find out about things like funds, risk and diversification as well as charges and costs. You can find out more about many of the terms used here in the **'Useful things to know about investing'** section as well as the **glossary**.

Useful things to know about investing

Assets

These are just different types of investments. You may have heard of some common ones like equities (also called shares), bonds or deposits. Another is property.

A fund manager thinks about putting money in different asset types depending on where they are allowed to invest, and how well they think the asset might do.

You can see definitions of some different asset classes in our glossary at the end of this guide.

Risk and reward

Always remember that some assets are riskier than others. So you might get back more money from one type of asset class than another, but there's also a chance that you might lose more money. It's about weighing up the risk against the potential reward.

Diversification

This sounds quite complicated but it's just a way to manage risk. You probably learnt years ago about the benefits of not putting all your eggs in one basket. Well, the same thing goes with investments.

Spreading your money out across different assets or investments means if one falls in value then there's a chance the others won't be affected so badly.

There's lots of different ways to diversify for example by asset class, country, industry, size or type of company and so on. Fund managers will use diversification and it can help reduce risk to your money.

Charges and costs

You won't be surprised to know there's a cost to investing. Different funds have different charges and further costs. You can find out more about these, and how much they are, later in this guide.

Active and passive investing

Just as you might think, an 'active' investment style is one where the fund manager actively uses skill, research and knowledge to select and manage assets.

While, as the name suggests, a 'passive' style is where the manager takes a step back. The fund is managed to follow the performance of an index like the share price of the 100 largest companies in the UK, for example.

As a result, active funds often have a higher charge than passive funds. The active manager would expect that the extra cost was rewarded by better performance. This isn't always the case.

Some risks to think about

You'll need to take risk to grow your retirement savings, so risk isn't always a bad thing. But there are a number of different kinds of risks to take into account. We've explained some of these risks in the table below which we hope you'll find useful.

Find out more about many of the terms used here in the earlier 'Useful things to know about investing' section as well as the **Glossary.**

Risk Type	Investment Risk	Inflation Risk	Liquidity Risk
What it is	This is about how the assets that funds invest in react to changes in the marketplace. Riskier assets like equities, which can potentially give a higher return, can move sharply down and up (be more volatile) than less risky ones.	You can think of inflation as the increasing cost of buying things. So inflation risk is the risk that the value of your investments grow slower than inflation does. This might happen if for example, you only invest in minimal risk funds such as a Cash fund.	Some asset types can take longer to buy and sell than others. A good example is property – as with buying or selling a house, it can also take the fund manager longer to buy or sell property than an equity. So this is the risk that you might not be able to get your money back as fast as you might like or need to.
The potential impact on you	Selecting higher rated funds like equities will mean you're more likely to experience the ups and downs of sharp market movements. But you may benefit from higher returns over the long term (up to 15 years).	If inflation is higher than your investment return, then you're effectively losing money in real terms. In other words, your money will be able to buy less than it could before.	If you can't buy or sell an asset as fast as you would like or need to, it might affect any plans you have for your investment.
When is this most likely to be important to you	Throughout your investment journey, with increasing importance when you come to take your retirement savings.	Throughout your investment journey.	When you take your retirement savings.

There are other risks that might apply to you at different times as you save for and take your retirement benefits. For more information on these, please speak to a **financial adviser**.

Funds

When you put money into your pension it goes into one or more funds of your choice. You'll see on the right what a fund is. We offer a number of different funds for you to invest in and each invests money in a slightly different way. This means you have a choice of funds that might suit your own investment aims.

Find out more about many of the terms used here in the 'Useful things to know about investing' section as **well as the Glossary.**

Funds – what they are

Lots of investors pool their money together. This gives them the chance to use the expertise of a fund manager and invest in a wider range of assets than they would if they invested themselves.

A fund manager decides year-to-year, week-to-week, day-to-day where to invest the money. They do that based on the agreed objective of the fund, which explains what the fund is trying to achieve and where it can and cannot invest.

Over time the assets the fund manager invested in should generate a return. Returns aren't guaranteed and will depend on things like where the fund manager has invested the money and market conditions.

When an investor decides to leave the fund they take their share. Hopefully they get back a positive return. The aim is to provide a positive return over the medium to long term (10 to 15 years) which is usually the case for many types of investment. Not always though and no-one knows what might happen in the future.

Important to know

The way a fund's managed depends on its 'aim' or 'objective' which is just a description of what the fund aims to do, and how. It's a bit like some rules that the fund manager has to follow. Because all funds have different aims and objectives, the return from each fund is usually different.

Let’s talk about risk – and potential reward

Although risk can sound quite unsettling, when it comes to investing, it’s about getting a balance between the amount of risk you take and the potential return you might get back. Your attitude to risk is personal to you. It’s likely to change over time as your outlook, ability to accept any potential investment loss and circumstances change.

Deciding what’s right for your investment journey

If you’re just starting or already on the retirement savings journey...

Then you might have as much as 30 or 40 years of saving ahead of you. In that case it’s likely that you would be able to take on a higher level of investment risk for the potential of a higher return. It could be that you’re less concerned by day-to-day rises and falls in the investment markets, as you’re a long-term investor and have time to ‘ride out’ any short-term storm.

Or if you’re closer to taking your retirement savings...

Then it’s probably more important to consider protecting the value of the retirement savings you’ve built up by using funds with less investment risk.

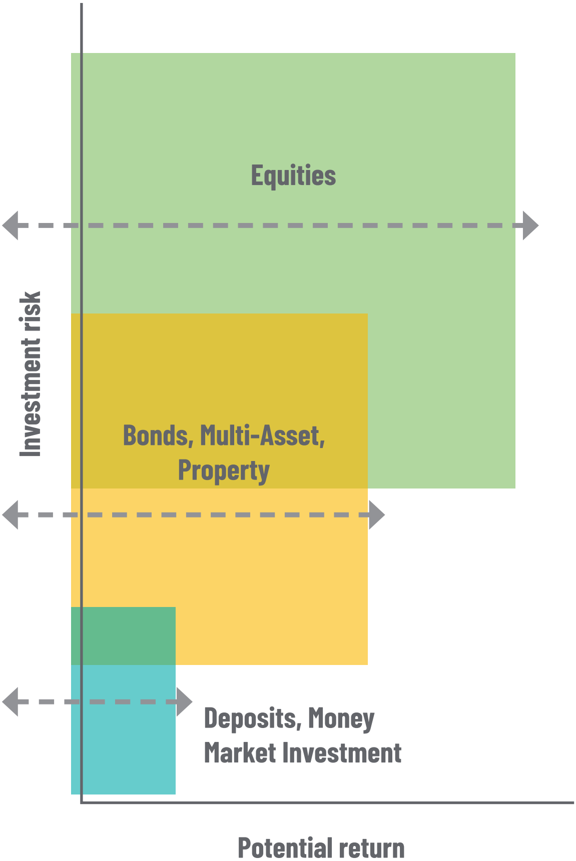
So, your personal circumstances need to be considered carefully when you make any decisions.

Throughout your investment journey, events in financial markets will cause the value of assets a fund invests in to rise and fall. We call this volatility and funds with a higher level of risk will be more affected by it than those with a lower level. The diagram on the next page helps to show how the relationship between risk and return can work.

Let’s talk about risk – and potential reward continued

Different levels of investment risk

This chart is an example of how volatility relates to asset classes.



Higher investment risk

Some funds tend to rise in value more than lower-risk funds over the medium to long term (ten to fifteen years), but there’s a greater chance they will experience large drops in value compared to those less risky funds.

To get more back you need to take more risk – but more risk means more potential for loss.

Lower investment risk

For some funds, there’s a good chance that their values will only go down and up by small amounts compared to other funds. These are lower risk funds.

But, the less risky the fund, the lower the potential gain. And that might mean it can’t provide you with the amount of money you need when you come to take your retirement savings.

Some funds are riskier than others and so have different levels of potential return. So it’s important that if you’re selecting your own funds, you select those which invest in assets that you feel will have a chance of providing enough for you to live on when you retire. It’s about trying to get a trade-off between risk and reward that you’re comfortable with.

Below we show the level of investment risk we think each different type of fund has, depending on what the fund invests in.

Our risk ratings are based on this scale. Later in the guide you'll see the funds you can invest in with their Prudential risk ratings. **Find out more about many of the terms used here in the previous 'Useful things to know about investing' section as well as the Glossary.**

What does the fund typically invest in?

Risk Rating

Potential return: Higher – Lower

Investment risk: Higher – Lower

Equities (Shares)

Higher Risk These are specialist equity funds that focus on set geographical regions or a particular type of share eg shares of smaller companies or those that conform to certain criteria.

Medium to Higher Risk These funds offer a diverse geographical spread of equity investment or have multi-asset strategies with a specialist focus eg ethical. The equity funds within this category will have greater overseas exposure and underlying volatility than the 'medium risk' sector.

Corporate Bonds, Government Bonds (Gilts), Multi-Asset, Property

Medium Risk These funds may invest in multi-asset strategies with a higher weighting in equities (or with significant derivative use), while funds investing mainly in property, high yield or government bonds (such as UK Gilts) are also in this category.

Lower to Medium Risk These funds may invest in corporate bonds or multi-asset strategies with a higher weighting in corporate bonds (and other comparable strategies).

Deposits, Money Market Instruments

Lower Risk These funds may invest in assets, combination of assets or defensive strategies, where the chances of values falling and rising are likely to lie between those of funds investing in money market instruments and funds investing solely in corporate bonds.

Minimal Risk These funds may invest in a combination of deposits, money market instruments and other types of interest-bearing securities.

Important to know

Our risk ratings are based on our expectation of future volatility (how much the value of the fund could rise and fall). Other companies use different approaches and descriptions, so these risk ratings shouldn't be considered as generic across the retirement savings or fund management industry.

We regularly review our risk ratings so they may change. Please make sure that you understand the risk rating of any fund before you decide to choose it.

Fund charges and further costs

When you invest your retirement savings in a fund there are charges and costs. Further information on what these are for the funds you can invest in, are shown later in this guide.

We take an Annual Management Charge (AMC) for looking after your investment, from each of the funds you invest in. AMCs may vary in the future and may be higher than they are now. We'll write to you if an AMC goes up for a fund you are invested in, unless the change in the AMC we quote is part of the expected function of that fund (for example the With-Profits Fund – see your Key Features document for more information).

In addition to our AMC, there may be further costs incurred. Where these are applicable, they are paid for by the fund and will impact on the overall performance. We've included more information on further costs on the next page. As it's normal for further costs to vary over time, we won't contact you when they change.

This is the total of the Annual Management Charge and further costs.

The name of the fund these charges and costs are applicable to.

Fund Name	Annual Management Charge (%)	Further Costs (%)	Yearly Total (%)
An Example Fund	0.75	0.18	0.93

What this means in money terms based on retirement savings of £10,000.	£75	£18	£93

This isn't a real life example or a recommendation.

Further costs

In addition to our annual charges, there may be further costs incurred. Where these are applicable, they're paid for by the fund and will impact on the overall performance.

Some examples of what further costs might include are shown below. These aren't listed in order of importance, they won't necessarily apply to all funds, and this isn't an exhaustive list.

Name	What that means	Where appropriate, are they included in the further costs figures we show in this fund guide?
Miscellaneous fund administration fees and costs	There can be a number of different administration fees associated with funds. These can include, for example, audit fees, custody fees, infrastructure costs, registrar fees, regulatory fees, transaction related custody fees and trustee fees.	No, for unit-linked funds, apart from transaction related custody fees*. Yes, for the With-Profits Fund (if an option for your scheme).
Performance fees	In some funds the fund managers are paid a fee depending on how they perform.	No, but if they're applicable they will impact on the performance of a fund.
Property expenses	For funds that invest in property, either directly (i.e. the fund owning physical property) or indirectly (i.e. owning units in a property fund or shares in a property company) there are costs incurred for managing these properties. These can include costs for development, maintenance, oversight and renovation of the properties held, collecting rents, and managing tenants, as well as running costs that can't be passed onto tenants.	Yes.
Transaction costs	When a fund manager trades the investments in a fund (for example, makes a decision to sell one holding and buy another) there are associated costs, for example taxes.	No, but if they're applicable they will impact on the performance of a fund.

* *Currently, for unit-linked funds, we give these back (rebate these) to the fund, so they won't impact the fund performance, and aren't disclosed. We reserve the right to not rebate them in the future.*

The further costs listed in this guide are indicative, based on the current levels of costs, and are correct as at May 2025.

Further costs might be incurred by a Prudential fund or, where it's applicable, any fund our fund invests in (see the 'Objective' for information on where a fund might invest).

You can find details of how we manage our unit-linked funds at **pru.co.uk/ppfm/ul**

With-Profits information

Charges on With-Profits business depend on the performance of the With-Profits Fund and, in particular, the investment returns achieved and expenses incurred.

Over time, if investment returns are higher, then the charges would be expected to be higher, and if investment returns are lower, the charges would be expected to be lower.

An indication of the current estimated level of the annual charge can be found in your Key Features Document and, for existing With-Profits investors, your Annual Benefits Statement.

There's also a charge to pay for all the guarantees the With-Profits Fund supports. That charge isn't included in this guide but you'll find information on this, and further information about With-Profits, in your Key Features document.

The annual charge, further costs, and charges to cover the cost of these guarantees, are already taken into account when we calculate the bonus rates for our With-Profits Fund.

If you move money out of the With-Profits Fund a Market Value Reduction (MVR) may be applied, which would cause the value of your retirement savings to fall. MVRs are our way of protecting the interests of all of our With-Profits customers. They ensure that every investor gets a fair return based on the earnings of the With-Profits Fund over the period their payments have been invested. For more information, please see our 'MVR – a clear explanation' document, on **pru.co.uk/PRUS6165.pdf**

For With-Profits investments, the rate of future bonuses cannot be guaranteed. Final bonus may vary and is not guaranteed. For investments in the With-Profits Fund, the value of the Policy depends on how much profit the Fund makes and how we decide to distribute that profit. Policyholders usually receive their shares of any profits as bonuses but we may use other methods to distribute profits.

For further information on With-Profits please refer to your Key Features Document or visit **pru.co.uk/funds/ppfm/**

You can find details of how we manage our With-Profits Fund at **pru.co.uk/funds/ppfm**

Section 2

Your Investment choices

Here's where you can find out about the funds you can invest in. You can narrow down the options that suit you. You can find out more about many of the terms used here in the **'Useful things to know about investing'** section as well as the **glossary**.

Available funds

In this section you'll find a list of all the funds you can invest in. The most you can choose is twenty (if your scheme offers that many funds). We've organised the funds by their risk ratings. Further information on our risk ratings is available in section 1 of this guide. We've also included an explanation on charges and costs.

For any fund, there may be a delay in buying, selling or switching of units. These delays will only apply in exceptional circumstances and we will let you know if they apply to you. There may, for example, be circumstances outside our control which prevent us, from acting upon an instruction to buy, sell or switch units. For example, where, due to restrictions imposed by an external fund manager, we are unable to sell units in an externally-managed fund.

Equally we may need to delay acting upon an instruction where we believe that will protect remaining investors in the fund from suffering an unfair reduction in the value of their investment in the fund or some other form of unfair treatment.

- Other than in very exceptional circumstances we would not expect delays to be longer than six months for investments in property and land and one month in the case of units in other funds.
- While we will not delay buying, selling or switching units for longer than reasonably required, we cannot guarantee that we will never delay acting upon your instructions beyond the timescales set out above.
- If we do delay, we will use the unit prices that apply on the day we actually sell, buy or switch units after the delay has ended, unless, again, we believe that in the particular circumstances that would not be fair to investors in general.

The price of units can go up or down during this time. If these delays apply to you, we'll let you know.

Monitoring our fund range

You can be confident that we continually monitor our fund range and may remove or add funds if we think it is in the best interests of our investors. If we stop offering a fund you're invested in, we'll write to you to let you know.

You can find more details on our funds, including performance on our factsheets at **pru.co.uk/ourfactsheets**

Your scheme's default investment option

You may not feel comfortable making a choice. That's okay.

Your scheme has selected a default investment option. It's there for those that are not comfortable making their own investment choices. The Default Investment Option for your plan is the Prudential With-Profits Fund. It's the responsibility of your trustee or employer to select the Default Investment Option with guidance from their adviser. If you're invested in your scheme's default investment option then you can change your mind at a later date.

This doesn't represent a recommendation on behalf of Prudential and you should consider and choose fund options to suit your needs. Please speak to a financial adviser if you need help.

Available funds continued

Fund Name	Fund Charges and Further Costs		
	Annual Management Charge (%)	Further Costs (%)	Yearly Total (%)
Higher Risk These are specialist equity funds that focus on set geographical regions or a particular type of share e.g. shares of smaller companies or those that conform to certain criteria.			
Prudential UK Equity Fund	0.49	0.01	0.50
Prudential UK Equity Index Fund	0.43	0.00	0.43
Medium to Higher Risk These funds offer a diverse geographical spread of equity investment or have multi-asset strategies with a specialist focus (e.g ethical). The equity funds within this category will have greater overseas exposure and underlying volatility than the 'medium risk' sector.			
HSBC Islamic Global Equity Index Fund	0.68	0.00	0.68
Prudential Global Equity Fund	0.53	0.01	0.54
Prudential International Equity Fund	0.53	0.01	0.54
Prudential Positive Impact Fund	0.53	0.01	0.54
Medium Risk These funds may invest in multi-asset strategies with a higher weighting in equities (or with significant derivative use), while funds investing mainly in property, high yield or government bonds (such as UK Gilts) are also in this category.			
Prudential Discretionary Fund	0.53	0.01	0.54
Prudential Dynamic Growth IV Fund	0.50	0.01	0.51
Prudential Dynamic Growth V Fund	0.50	0.01	0.51
Prudential Index-Linked Fund	0.53	0.01	0.54
Prudential Long-Term Gilt Passive Fund	0.43	0.01	0.44

Available funds continued

Fund Name	Fund Charges and Further Costs		
	Annual Management Charge (%)	Further Costs (%)	Yearly Total (%)
Lower to Medium Risk These funds may invest in corporate bonds or multi-asset strategies with a higher weighting in corporate bonds (and other comparable strategies).			
Prudential Dynamic Growth I Fund	0.50	0.01	0.51
Prudential Dynamic Growth II Fund	0.50	0.01	0.51
Prudential Dynamic Growth III Fund	0.50	0.01	0.51
Prudential Fixed Interest Fund	0.53	0.01	0.54
Prudential With-Profits Fund	†	0.31	†
Minimal Risk These funds may invest in a combination of deposits, money market instruments and other types of interest bearing securities.			
Prudential Cash Fund	0.43	0.00	0.43

† *For further information on the Prudential With-Profits Fund please see the With-Profits information earlier in the guide. Please also see your personalised illustration, where relevant, for an indication of your current estimated yearly total value.*

Further costs

Further costs will depend on which funds your money is invested in and when any costs are calculated.

Lifestyle options

How lifestyle options work

We'd recommend reading this page and the next at the same time as looking at real life lifestyle options as it'll help matching the theory with an actual example. **Your lifestyle options can be found on the next few pages.**

Why use a lifestyle option

Investment needs change the closer you get to retirement. When you're further away from taking your retirement savings it makes sense to invest in funds that offer greater potential for growth. That also potentially means more risk, so as you move closer to retirement it also makes sense to start to move into generally lower-risk funds.

A lifestyle option can do this for you automatically, without you having to make any decisions about:

- when to make changes
- which funds to choose, and
- how much to change.

The diagram on the next page shows you how that might look with a 'growth' phase being followed by a 'defensive' phase.

How it works

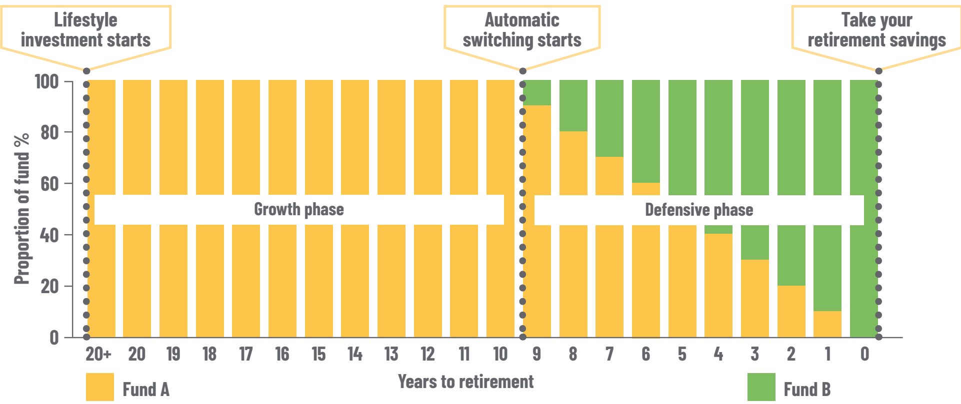
The first phase (we call it the 'growth' phase), is when the aim is to grow the value of your retirement savings. You do that by investing in funds that aim to provide a higher return by taking higher risk.

In the second phase (which we call the 'defensive' phase), your investments are switched automatically, into preselected funds that should help reduce the risk of short-term falls in the value of the retirement savings you've built up.

How this can benefit you

Using a lifestyle means that you don't need to closely manage the funds through the years you're invested. But it's a good idea to check your options from time to time to make sure you're happy it's on track to support you as you would like.

It can be a really good option to consider if you're not keen to take active, regular control on where you are invested. You can find out more at **pru.co.uk/lifestyling**



Some things we think you should read

- We've designed the switches between funds (shown by funds A and B in the example diagram on the previous page) so that the investment in each fund changes as you approach the date you plan to take your retirement savings.
- The actual funds used, their risk ratings and the point where your fund value will start automatic switching, will be dependent on the lifestyle option you choose. The lifestyle options available to you can be found on the next few pages.
- If you choose a lifestyle option, all your contributions will be made into the lifestyle option and you will not be able to select any other funds or lifestyle option at the same time. You can switch all your retirement savings out of this option at any time.
- As a lifestyle option moves your money between funds, the actual fund charges and costs will be based on a proportioned split between the funds you're invested in and the fund charges and costs applicable at that time.
- We reserve the right to change the terms of a lifestyle option. If such a change applies to you, we'll let you know.

Your lifestyle options

We've shown here the lifestyle options available to you, including the funds used. The funds change automatically and monthly throughout the year to achieve the pre-set proportions. We've included the objectives for each of the funds used in each lifestyle option in the available funds section.

If you're invested in a lifestyle investment option then you can change your mind at a later date.

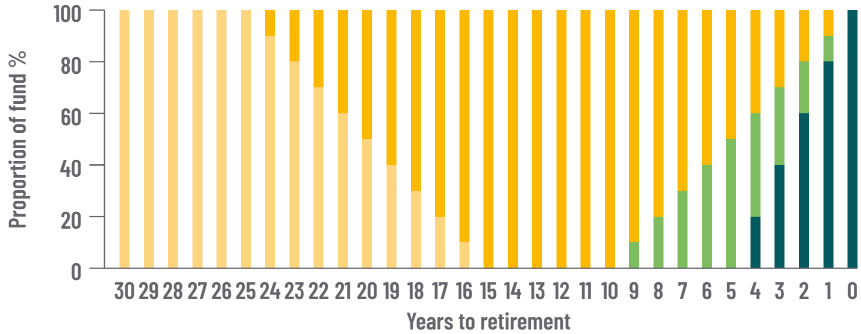
As a lifestyle option moves your money between funds, the actual fund charges you pay will be based on a proportioned split between the funds you're invested in and the fund charges and costs applicable at that time.

Your plans for taking your pension may influence how you want to invest. We have designed some lifestyles to reflect these different approaches.

Visit **pru.co.uk/approachingretirement** to find out more about accessing your pension.

The lifestyle options are not a recommendation from Prudential and suitability will depend on your individual aims and requirements. Please speak to a financial adviser if you need help or want to know more about your lifestyle options.

Prudential Dynamic Growth Lifestyle targeting cash



Risk rating

- Prudential Dynamic Growth IV Fund – Medium
- Prudential Dynamic Growth V Fund – Medium
- Prudential Dynamic Growth II Fund – Lower to Medium
- Prudential Cash Fund – Minimal

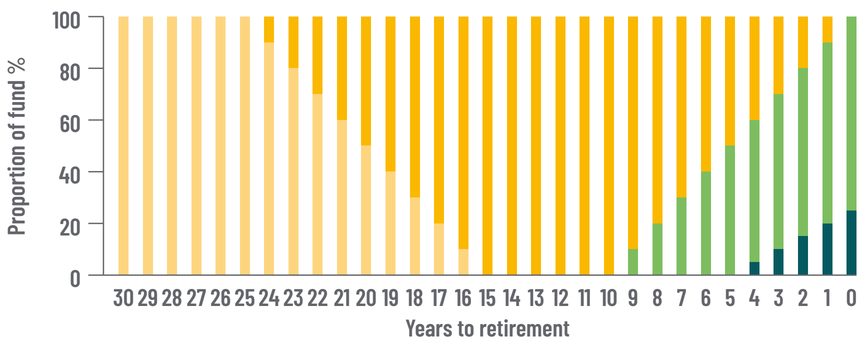
The graph shows the funds included in the lifestyle option, where you're initially invested and how the proportions invested change automatically and monthly, to achieve the pre-set proportions, each year to retirement.

Charges and costs in this guide depend on which funds your money's invested in and when these are calculated.

The 'targeting cash' lifestyle is for those intending to take their pension as a single or series of cash lump sums. At retirement, you'll need to consider whether by taking cash you will have sufficient income to meet your needs.

Lifestyle options aren't risk rated by Prudential. More lifestyling information is available in the 'Lifestyle options' section.

Prudential Dynamic Growth Lifestyle targeting retirement options



Risk rating

- Prudential Dynamic Growth IV Fund – Medium
- Prudential Dynamic Growth V Fund – Medium
- Prudential Dynamic Growth II Fund – Lower to Medium
- Prudential Cash Fund – Minimal

The graph shows the funds included in the lifestyle option, where you're initially invested and how the proportions invested change automatically and monthly, to achieve the pre-set proportions, each year to retirement.

Charges and costs in this guide depend on which funds your money's invested in and when these are calculated.

The 'targeting retirement options' lifestyle is for those that want a lifestyle option, but aren't sure how they might want to access their pension savings when they take their benefits.

Lifestyle options aren't risk rated by Prudential. More lifestyling information is available in the 'Lifestyle options' section.

Closed funds

These funds are now closed to new members. If you are already invested you may still be able to make additional payments if you want to.

Fund Name	Fund Charges and Further Costs			Date Closed
	Annual Management Charge (%)	Further Costs (%)	Yearly Total (%)	
Prudential Deposit Fund	N/A*	N/A	N/A	31/05/2017

* *For further information on the Prudential Deposit Fund please see the 'Fund descriptions' section.*

Fund descriptions

Here's a list of all the funds you can invest in, with a description of the funds' objectives. The most you can choose is twenty (if your scheme offers that many funds). We've organised the funds by their risk ratings. Further information on our risk ratings is available earlier in the guide. We've also included an explanation on charges and costs.

You can find more details on our funds, including performance on our factsheets at: **pru.co.uk/ourfactsheets**

Fund Name and Manager	Asset Class, Active or Passive	Objective
Higher Risk		
Prudential UK Equity Fund Prudential	Equities, Active	Objective: The investment strategy of the fund is to purchase units in the M&G UK Equity Fund - the underlying fund. Underlying Fund Objective: The fund invests, via other M&G funds, in the shares of UK companies. The fund is actively managed against its benchmark, the FTSE All-Share Index. It is a "fund of funds" holding units in several more specialised UK equity funds giving access to a variety of methods for generating investment returns in differing market conditions. Derivative instruments may be used for efficient portfolio management. Performance Objective: To outperform the benchmark by 0.75%-1.0% a year (before charges) on a rolling three year basis.
Prudential UK Equity Index Fund Prudential	Equities, Passive	Objective: The investment strategy of the fund is to purchase units in the M&G PP UK Equity Index Fund – the underlying fund. Underlying fund objective: The fund gains its exposure via the M&G (ACS) BlackRock UK All-Share Equity Fund. The underlying fund aims to be fully invested in the equity securities and equity related securities of companies that are constituents of the FTSE All-Share Index. Within the index-related limits, the Investment Manager uses a structured and systematic, bottom- up stock selection process to build a portfolio with similar risk-return characteristics as the index in order to meet the fund's investment objectives. In addition, the Investment Manager aims to reflect a fundamental ESG approach by overweighting its investments in securities which score well against the Investment Manager's ESG research framework and underweighting the securities which score less well. Performance objective: The fund aims to provide a total return (i.e. capital growth plus income), gross of the Ongoing Charges Figure, over any three year period.

Fund Name and Manager	Asset Class, Active or Passive	Objective
Medium to Higher Risk		
HSBC Islamic Global Equity Index Fund HSBC	Equities, Passive	Objective: The investment strategy of the fund is to purchase units in the HSBC Islamic Global Equity Index Fund - the underlying fund. Underlying Fund Objective: The Fund aims to track as closely as possible the performance of the Dow Jones Islamic Market Titans 100 Index (the Islamic Index). The Index is comprised of the shares of companies in emerging and developed markets that are based anywhere in the world. The Fund will be passively managed and will aim to invest in the shares of the companies in generally the same proportion as in the Index. The shares are selected by filtering the Index universe through screens for business activities and financial ratios to remove stocks that are not Shariah compliant. The Fund will only invest in shares of companies that meet Shariah compliance principles as interpreted or approved by the Shariah Committee. The Shariah Committee monitors the Fund throughout the year and issues an annual Shariah certificate on the Fund's compliance with Shariah principles. This certificate is included in the annual report of the Fund as confirmation of the Shariah compliance for that year. The Fund will not invest in derivatives.
Prudential Global Equity Fund Prudential	Equities, Active	Objective: The investment strategy of the fund is to purchase units in the M&G PP Global Equity Fund - the underlying fund. Underlying Fund Objective: The fund provides an all-equity approach to investment, holding a 55% UK equity and 45% mix of overseas company shares. For the overseas shares, the fund is actively managed against an internal composite benchmark asset allocation set by the M&G Treasury & Investment Office. It is a "fund of funds" where both active stock selection, within the underlying sector funds, and asset allocation decisions are used to add value. Derivative instruments may be used for efficient portfolio management. Performance Objective: To outperform the internal composite benchmark by 1.0% a year (before charges) on a rolling three-year basis.

Fund Name and Manager	Asset Class, Active or Passive	Objective
Prudential International Equity Fund Prudential	Equities, Active	Objective: The investment strategy of the fund is to purchase units in the M&G PP International Equity Fund - the underlying fund. Underlying Fund Objective: The fund invests, primarily via other M&G funds, in the shares of overseas companies. It is actively managed against an internal benchmark asset allocation set by the M&G Treasury & Investment Office. It is a “fund of funds” where both active stock selection, within the underlying sector funds, and asset allocation decisions are used to add value. Derivative instruments may be used for efficient portfolio management. Performance Objective: To outperform the internal composite benchmark by 1.0% a year (before charges) on a rolling three year basis.

Fund Name and Manager	Asset Class, Active or Passive	Objective
Prudential Positive Impact Fund Prudential	Equities, Active	Objective: The investment strategy of the fund is to purchase units in the M&G PP Positive Impact fund (the underlying fund). Underlying fund objective: The Fund has two aims: • To provide a higher total return (the combination of capital growth and income), net of the Ongoing Charges Figure, than the MSCI ACWI Index over any five-year period; and • To invest in companies that aim to have a positive societal impact through addressing the world's major social and environmental challenges. The Fund gains its exposure through the M&G Positive Impact Fund, an M&G OEIC. The Fund is a concentrated portfolio of global stocks, usually holding fewer than 40 stocks, investing over the long term in companies that make a positive social and/or environmental impact alongside a financial return, using a disciplined stock selection process. Sustainability and impact considerations are fundamental in determining the Fund's investment universe and assessing business models. The Fund embraces the United Nations Sustainable Development Goals framework and invests in companies focused on areas including climate action, pollution reduction, circular economy, health and wellbeing, education and innovation, and working conditions. The Fund invests in three categories of positive impact companies: • "Pioneers", whose products or services have a transformational effect on society or the environment; • "Enablers", which provide the tools for others to deliver positive social or environmental impact; and • "Leaders", which spearhead the development of sustainability in their industries. Investing in these categories provides diversification across industries and maturity of business models. Dialogue with the companies in which the Fund invests is fundamental to the investment approach. The objective is to support and influence their contribution to the world's major social and environmental challenges. The fund manager has discretion to invest in companies with limited exposure to fossil fuels but which are driving or significantly participating in the transition to a more sustainable economy. The Fund may also invest in other transferable securities, cash, and near cash, directly or via collective investment schemes (including funds managed by M&G). Derivatives may be used for Efficient Portfolio Management and hedging.

Fund Name and Manager	Asset Class, Active or Passive	Objective
Medium Risk		
Prudential Discretionary Fund Prudential	Multi-Asset, Active	Objective: The investment strategy of the fund is to purchase units in the M&G PP Discretionary Fund - the underlying fund. Underlying Fund Objective: The fund provides a multi-asset approach to investment, holding a mix of UK and overseas company shares, bonds, property, cash plus listed alternative assets primarily through other M&G funds or direct holdings. It is actively managed against an internal benchmark asset allocation set by the M&G Treasury & Investment Office. It is a "fund of funds" where both active stock selection, within the underlying sector funds, and asset allocation decisions are used to add value. Derivative instruments may be used for efficient portfolio management. Performance Objective: To outperform the internal composite benchmark by 1.15% - 1.40% a year (before charges) on a rolling three year basis.
Prudential Dynamic Growth IV Fund Prudential	Multi-Asset, Active	The fund aims to deliver long term growth through investing in a diversified range of assets both in the UK and globally. At any time, the fund will invest at least 40% of its assets in equities but not more than 80%. Investments are managed across asset classes and across world markets with a focus on long run investment potential as forecast on a rolling 10 years basis. The fund may invest in a range of permitted assets which include equities, bonds, property and cash accessed directly or indirectly via appropriate fund vehicles. The fund may include other assets as deemed appropriate by both the manager and current regulations.
Prudential Dynamic Growth V Fund Prudential	Multi-Asset, Active	The fund aims to deliver long term growth through investing in a diversified range of assets both in the UK and globally. At any time, the fund will invest at least 60% of its assets in equities but may invest up to 100%. Investments are managed across asset classes and across world markets with a focus on long run investment potential as forecast on a rolling 10 years basis. The fund may invest in a range of permitted assets which include equities, bonds, property and cash accessed directly or indirectly via appropriate fund vehicles. The fund may include other assets as deemed appropriate by both the manager and current regulations.

Fund Name and Manager	Asset Class, Active or Passive	Objective
Prudential Index-Linked Fund Prudential	Government Bond, Active	Objective: The investment strategy of the fund is to purchase units in the M&G PP Index-Linked Fund - the underlying fund. Underlying Fund Objective: The fund invests mainly in UK Government index-linked gilts, typically with over five years to maturity. The fund is actively managed against its benchmark, the iBoxx UK Gilt Inflation-Linked Over 5 Years Index. The fund can also invest in corporate bonds, overseas government bonds and fixed interest gilts. Exposure to short-term exchange rate movements from any overseas holdings is mitigated by hedging. Performance Objective: To outperform the benchmark by 0.75% a year (before charges) on a rolling three year basis.
Prudential Long-Term Gilt Passive Fund Prudential	Government Bond, Passive	Objective: The investment strategy of the fund is to purchase units in the M&G PP Long-Term Gilt Passive Fund - the underlying fund. Underlying Fund Objective: The fund invests in UK Government gilts with over 15 years to maturity. The fund is passively managed against its benchmark, the iBoxx Sterling Gilts (15+) Index. Tracking this index is achieved by fully replicating the stocks in the index. Performance Objective: To match the performance of the benchmark as closely as possible.

Fund Name and Manager	Asset Class, Active or Passive	Objective
Lower to Medium Risk		
Prudential Dynamic Growth I Fund Prudential	Multi-Asset, Active	The fund aims to deliver long term growth through investing in a diversified range of assets both in the UK and globally. At any time, the fund will invest a maximum of 30% of its assets in equities. Investments are managed across asset classes and across world markets with a focus on long run investment potential as forecast on a rolling 10 years basis. The fund may invest in a range of permitted assets which include equities, bonds, property and cash accessed directly or indirectly via appropriate fund vehicles. The fund may include other assets as deemed appropriate by both the manager and current regulations.
Prudential Dynamic Growth II Fund Prudential	Multi-Asset, Active	The fund aims to deliver long term growth through investing in a diversified range of assets both in the UK and globally. At any time, the fund will invest at least 10% of its assets in equities but not more than 40%. Investments are managed across asset classes and across world markets with a focus on long run investment potential as forecast on a rolling 10 years basis. The fund may invest in a range of permitted assets which include equities, bonds, property and cash accessed directly or indirectly via appropriate fund vehicles. The fund may include other assets as deemed appropriate by both the manager and current regulations.
Prudential Dynamic Growth III Fund Prudential	Multi-Asset, Active	The fund aims to deliver long term growth through investing in a diversified range of assets both in the UK and globally. At any time, the fund will invest at least 20% of its assets in equities but not more than 55%. Investments are managed across asset classes and across world markets with a focus on long run investment potential as forecast on a rolling 10 years basis. The fund may invest in a range of permitted assets which include equities, bonds, property and cash accessed directly or indirectly via appropriate fund vehicles. The fund may include other assets as deemed appropriate by both the manager and current regulations.

Fund Name and Manager	Asset Class, Active or Passive	Objective
Prudential Fixed Interest Fund Prudential	Government Bond, Active	Objective: The investment strategy of the fund is to purchase units in the M&G PP Fixed Interest Fund - the underlying fund. Underlying Fund Objective: The fund invests mainly in UK government gilts. The fund is actively managed against its benchmark, the iBoxx Sterling Gilts Index. The fund can also invest in overseas government bonds and corporate bonds issued by UK and overseas companies and institutions. Exposure to short-term exchange rate movements from any overseas holdings is mitigated by hedging. Performance Objective: To outperform the benchmark by 0.75% a year (before charges) on a rolling three year basis.
Prudential With-Profits Fund Prudential	Multi-Asset, Active	Objective: The fund aims to produce growth over the medium to long-term (5 to 10 years or more) while smoothing some of the ups and downs of short-term investment performance. The fund spreads investment risk by investing in a range of different asset types, which currently includes UK and international equities, property, fixed interest securities, index-linked securities and other specialist investments.
Minimal Risk		
Prudential Cash Fund Prudential	Deposits, Active	Objective: The investment strategy of the fund is to purchase units in the M&G PP Cash Fund - the underlying fund. Underlying Fund Objective: The fund invests in both secured (reverse repurchase agreements) and unsecured interest bearing deposits, as well as short-term UK Government bonds and Certificates of Deposit. It is actively managed against its benchmark, the Sterling Overnight Index Average 1 Week. Performance Objective: To outperform in line with the benchmark before charges on a rolling three year basis.
Prudential Deposit Fund Prudential	N/A, Active	The current practice, which we can review at any time, is to set and declare the interest rate on the first of each month, in line with the Bank of England base rate. Any interest is declared monthly and there are no explicit charges. The assets of this fund are part of the With-Profits Fund which is a multi-asset fund. The capital you hold in the Prudential Deposit Fund will not decrease.

Section 3

Further information

More information we think it's worth reading, including the **'Useful things to know about investing'** section as well as the **glossary**.

Further information

How unit-linked funds invest

Some of the Prudential funds listed in this guide may invest in 'underlying' funds. Some of these underlying funds may invest in derivatives or other investment vehicles. Have a look at a fund's objective and that will tell you where it invests – including if that's in an underlying fund or funds.

If the Prudential fund is investing in just one underlying fund then it's what's known as a 'mirror' fund, as the performance of the Prudential fund broadly aims to reflect the performance of the underlying fund it invests in. The performance of our Prudential fund, compared to what it's invested in won't be exactly the same. The differences between the underlying fund and our fund can be due to:

- additional charges,
- cash management (needed to help people to enter and leave our fund when they want),
- tax,
- timing of investments (this is known as a fund's dealing cycle, it varies between managers and can be several days).

Find out more about how we manage our funds

You can find more details of how we manage our unit-linked funds at **pru.co.uk/ppfm/ul/**

You'll also find a shortened version, our "Customer Guide", which explains briefly how the Prudential unit-linked funds work, our current approach to managing them, and the standards and practices we use to manage the funds.

This Customer Guide will explain:

- the nature and extent of the decisions we take to manage the funds, and
- how we treat customers and shareholders fairly.

Switching between funds

- When switching between different unit-linked funds, the sale of existing units and the purchase of new units will not normally take place on the same date. There will be a lead-time involved in making unit prices available and where external companies are involved, this lead-time may be longer than for funds managed by Prudential. The prices of units can go up or down during that time: this is a risk to you. The exact time lapse between sale and purchase will depend on the funds involved in the switch. No interest is due for the period between the sale and purchase of units.

- When switching an existing investment from a unit-linked fund to a lifestyle option (if available), the total value of your fund will be switched automatically to that lifestyle option.
- If you choose a lifestyle option (if available), all of your payments will be made into that option and you will not be able to select any other funds or lifestyle option. You can switch all of your retirement savings out of this option at any time.
- If your scheme offers the With-Profits Fund, there may be a Market Value Reduction (MVR) applied if you move money out of the fund. You'll find more information about an MVR in the 'With-Profits information' section earlier in this guide.

A bit about how our funds work

- Funds are legal arrangements which pool together the contributions of numerous individuals (such as members of schemes like you) to collectively buy assets like shares and bonds. These funds are then divided into units of equal value. In return for their contributions, each individual receives ownership of their share of the fund in the form of these units.
- These funds – known as 'unit-linked' funds – have a single price, based on the valuation of the assets held by the fund. Each unit will have this price.
- The unit-linked funds are "forward priced". This means that the unit price you receive is the next available price after you have invested money in or taken money out of a fund.
- When calculating the unit price of a fund it is important to consider how much money is either going into or being taken out of the fund. If more money is being paid into the fund than is being taken out, then the fund will need to purchase assets. If this is the case then the purchase price (or "offer" price as it is sometimes known) will be relevant in determining the unit price of the fund.
- If more money is being taken out of the fund than is being paid in then the fund will need to sell assets. If this is the case, the sale price of the underlying assets will be more relevant when calculating the unit price.
- Sales prices are generally lower than purchase prices so a switch from a purchase price to a sales price will result in a lower unit price. Conversely, a switch from a sales price to a purchase price will result in a higher unit price.

  In both cases the movement in unit price can be significant and will occur immediately.

  This is known as a "single swinging price". It is done to protect the interests of those customers who remain in the fund and means that the costs of buying and selling assets are borne by those customers who are trading in and out of the fund. The difference between the purchase and sales price reflects these costs which tend to be largest for funds investing in property, smaller companies and developing markets. The costs can include stockbroker commission and withholding taxes (such as stamp duty in the UK) and are outside Prudential's control.

It also means that, whenever you switch funds, there may be an investment cost to you if you switch from a fund where the sales price applies that day to a fund where the purchase price applies on the day the switch is completed.

Changes to our funds

We reserve the right to make changes at any time to the funds we make available, subject to certain restrictions. We might also introduce new funds. To find out about changes to our range of funds, please go to **pru.co.uk/cpfundupdates**

If you want to contact us then visit **pru.co.uk/contact-us** for information on how to do so.

You can change your funds

You can switch your money between funds at any time. We won't charge you for this though, as noted earlier, there is a risk to you as the prices of units can go up or down during the lead-time involved in making those prices available. If this changes in the future we will let you know.

The Financial Services Compensation Scheme

The products Prudential Assurance Company Limited (PACL) offer are covered by the Financial Services Compensation Scheme (FSCS). If we get into financial difficulties, you may be able to make a claim. The FSCS is an independent body set up by Government to provide compensation for people where their authorised financial services provider gets into financial difficulties and becomes unable, or unlikely to be able, to pay claims against it. This circumstance is referred to as being 'in default'.

Losses, which may result from poor investment performance, are not covered by the FSCS.

Where does FSCS protection apply?

There is full FSCS coverage if PACL is 'in default'.

- Your pension is protected up to 100% of the value of your claim.
- Any funds you choose to hold in your pension will be included in the value of your claim in the event that PACL is declared 'in default'.
- If you hold the Prudential With-Profits Fund or Deposit Fund (if an option for your scheme) in your pension, they are protected 100% in the event of the default of PACL.

All the other funds we offer, apart from those mentioned above, are unit-linked, and invest in other funds managed by non-PACL fund managers. FSCS cover does not apply if the non-PACL fund manager were to be 'in default'.

- There is no FSCS cover for unit-linked funds investing with non-PACL fund managers if that manager were to be 'in default'.
- See 'How unit-linked funds invest' for further information on these types of fund (often called 'mirror' funds).

You can find out more information on the FSCS at **pru.co.uk/fscs**, or you can call us.

Information is also available from the Financial Services Compensation Scheme.

Visit their website: **fscs.org.uk**

Or write to: The Financial Services Compensation Scheme, PO Box 300, Mitcheldean GL17 1DY

Or call the FSCS: Telephone: **0800 678 1100**

Where FSCS coverage does not apply, then other factors can come in

As explained in the 'Where does FSCS protection apply?' section, the FSCS doesn't cover every situation. For example unit-linked funds that invest in the funds of non-PACL fund managers (often called 'mirror' funds).

But, where FSCS protection does not apply, there are other factors that could help if the worst happened and a provider was 'in default'. For example, the use of custodians or depositories to provide protection for fund assets, where there is separate legal ownership of assets and legal entities that aren't liable for any losses of a fund manager. In so doing, the intention is that the underlying fund will not be liable for any losses the underlying fund management company incurs.

PACL would aim to recover any money invested in an underlying fund where the fund manager has been declared 'in default', but PACL would not be liable for any loss incurred from the default of the non-PACL fund manager.

Note about the Financial Times Stock Exchange (FTSE)

Glossary – a high level guide to some useful investment terms

It's not meant to cover every term you may come across. Please speak to a financial adviser if you need help or want to know more about terms used around investments.

Bonds and Fixed Interest Securities

A bond is an 'I owe you' that promises to pay an amount of money on a specified date and pay a fixed rate of interest along the way. Companies and governments can issue bonds when they want to raise money. Bonds issued by companies are called corporate bonds. Bonds issued by the UK government are called gilts and those issued by the US government are called treasury bonds.

Collective Investment Schemes

A way of pooling investment with others within a single fund. Once you've joined the scheme, you can have access to a wider range of investments than if you were investing individually. You'll also share the costs and benefits.

Collective Investment Schemes, such as OEICs, Unit Trusts, Mutual funds, usually target investments in geographic regions (like emerging market countries) or specific themes (like technology or property).

Custodian

A, normally large and reputable, financial institution that holds customers' securities for safekeeping in order to minimise the risk of their theft or loss. A custodian holds securities and other assets in electronic or physical form.

Depository

A depository can be appointed to a fund to safe keep the assets of the fund (whether by taking them into custody, or record-keeping and verifying title of them) and oversee the affairs of the fund to ensure that it complies with obligations outlined in relevant laws and the fund's constitutional documents.

Deposits

Money that is placed with banks, building societies and other organisations to earn interest. Deposits can be considered to be minimal risk, but there are exceptional circumstances where they can fall in value.

Derivatives

These refer to products such as futures and options which are generally an arrangement between different parties to buy or sell a standard quantity of a specified asset on a fixed future date at a price agreed today.

Equities

Equities are also known as shares or stocks. They are a share of the ownership of a company.

Money Market Investments

These are cash and investments similar to cash such as bank deposits, certificates of deposits, fixed interest securities or floating rate notes. They usually have a life of less than a year.

Glossary continued

Multi-Asset

A fund that invests in a range of assets, such as equities, bonds, property and alternative assets, is known as a Multi-Asset fund.

By investing in a range of assets the fund is not relying on the performance of assets of the same type. This helps to give diversification of risk.

OEIC (Open Ended Investment Company)

An open ended investment company is a way to invest collectively with others into a portfolio of companies or assets.

It pools investors money and uses it to invest in companies, assets and other commodities that it thinks may generate a return.

The value of the OEIC is equally divided into shares which will vary in price and in the number issued. When new money is invested, new shares or units are created to match the share price.

Property

Investment in commercial property (such as retail, office and industrial properties). This can be done either by investing directly (eg owning physical property) or indirectly (eg owning shares in a property company). The return achieved from investing in property is a combination of rental income and changes in the value of the property, which is generally a matter of a valuer's opinion rather than fact. It should also be noted that property can be difficult to sell, which can delay withdrawing money from a fund that invests in property. Property can be considered to be lower risk than equities, but higher risk than bonds over the long term.

Smaller Companies

Companies that you can find on a recognised exchange that have lower value than blue chip companies. In the UK, smaller companies are usually defined as those with market values below the largest 350 companies in the FTSE All Share Index.

Thank you for reading this guide. We recommend you read any other documents we've sent you, and store them in a safe place so you can refer to them in the future.

If you have any questions about the funds and investments that are available to you, or you need any additional support we suggest speaking to a financial adviser. If you don't already have an adviser, you can find out more at **pru.co.uk/find-an-adviser** pru.co.uk

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Leicestershire County Council

LOCAL PENSION COMMITTEE – 27 JUNE 2025

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

VALUATION OF PENSION FUND INVESTMENTS

Purpose of Report

1. The purpose of this report is to provide the Local Pension Committee (LPC) with an update on the investment markets and how individual asset classes are performing, and the total value of the Fund's investments as at 31 March 2025.

2. The report also provides an update on action taken by the Investment Sub-Committee (ISC) at its meeting on 24 July 2024 with respect to investment recommendations to invest in two LGPS Central infrastructure funds.

Markets Performance and Outlook

3. Many global growth forecasts have fallen over the quarter given general uncertainty around future global growth. The uncertainty was felt sharply within global equity markets which saw
sharp sell offs during April at a pace not seen in many years. The correction, however, was short lived as many equity indices recovered losses during April and May, with volatility high and reacting to news flow usually from the US administration and tariffs.

4. Although some time has passed since the two historically good years (2023 and 2024) for listed equity returns, 2025 has proved to be quite resilient in terms of listed equity returns considering the headwinds which include slowing global growth, higher for longer interest rates, and stickier inflation as well as the volatility from tariffs as already mentioned.

5. As at the 27 May 2025 the MSCI (Morgan Stanley Composite Index) world index was up 5.3% year to date in USD and around 3% when translated to GBP. This index represents large companies from 23 developed market countries and includes over 1,300 stocks. The long-term returns (since 31 December 1987) of this very broad index is close to 9.5%per annum when priced in GBP. Bear in the mind the large corrections this index has had to endure over this time, such as the tech crash in 2000 and the global financial crisis in 2008. The Fund has exposure linked to this broad index across a number of its equity funds.

6. Global growth forecasts have slipped through the year and were at +2.3% in March which Hymans describe as low, even compared to post global financial crisis standards. However, Hymans seem optimistic of future continued growth where negative impacts may be cushioned by ongoing supportive fiscal policy in the US and as such, they believe the US is expected to outperform its advanced economy peers.

7. As at today there are two more interest rate cuts forecast for the US, bringing the rate to 3.5% - 3.75% by the end of the year. The level of interest rate cuts priced in for the

UK, which has had two 0.25% cuts in 2025 to date, has two more cuts priced in during 2025 which would bring the UK base rate down to 3.75%.

8. Since the last quarterly update, the near-term data has been heavily influenced by news surrounding US Liberation day tariffs and the effect on data that drives many central bank decisions regarding interest rate policy. The table below shows a handful of developed market interest and inflation rates as at 27 May 2025. The general direction of interest rate moves has been lower through 2025.

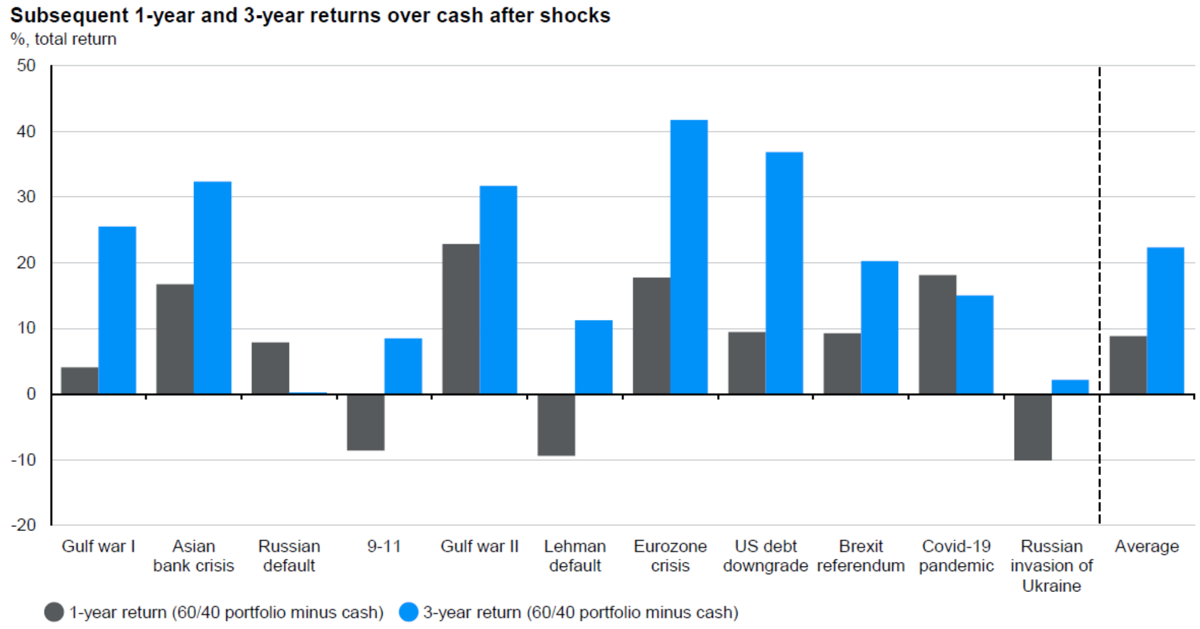
Country	**Interest Rate %**	**Last Movement**	**Date of Last Movement**	**Inflation Rate %**	**Date of Inflation Rate**	**Inflation Metric Used**
Australia	3.85	Down	May 2025	2.4	March 2025	Consumer Price Index (CPI)
Canada	2.75	No Change	May 2025	1.7	April 2025	Consumer Price Index (CPI)
Euro Area	2.4	Down	April 2025	2.2	March 2025	Harmonised Index of Consumer Prices (HICP)
Japan	0.5	No Change	May 2025	3.6	March 2025	Consumer Price Index (CPI)
Sweden	2.25	Down	January 2025	2.3	March 2025	Consumer Price Index with Fixed Interest Rate (CPIF)
United Kingdom	4.25	Down	May 2025	4.1	April 2025	Consumer Prices Index including owner occupiers' housing costs (CPIH)
United States	4.50	No Change	January 2025	2.3	March 2025	Consumer Price Index (CPI)

Source: tradingeconomics.com and global-rates.com

9. Longer term views of markets have proved to be valuable from an asset allocation point of view. The Fund does not make short term decisions and instead attempts to stay invested at all times and rebalances to the strategic asset allocation (SAA) at regular intervals. The Fund has a rebalancing policy which allows for movement around the target allocation to an asset class.

10. The last rebalance was actioned during March 2025 with an additional £25million invested into the Central investment grade bond fund which the Fund had a small underweight to. There have been no more rebalancing movements since. There is more information on the Fund's current valuation and variances to the SAA later within this paper.

11. In supporting the holding for the long term and steady reallocations from overweight to underweight areas is the following analysis from JP Morgan showing returns following economic and geopolitical shocks, the conclusion that in many of the examples listed below the average portfolio (consisting of 60% equities and 40% bonds) the three year return has been over 20%.



12. The Fund is now in a better funded position, meaning the Fund's assets are larger than the liabilities. Although the formal valuation is not completed yet, the Fund's actuary Hymans Robertson (Hymans) expects a funding level around 150%. Although funding levels can reverse, the current higher level affords the Fund the ability to navigate volatility in the value of the investment assets with a lesser effect on employer contributions than if the Fund was on a lower funding level.

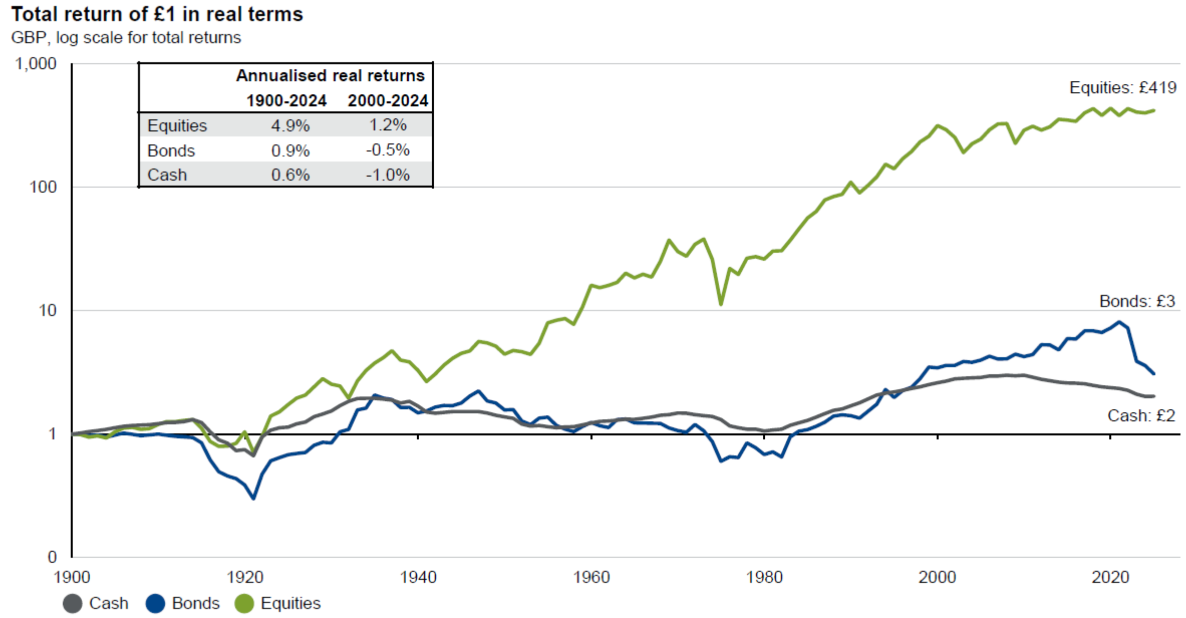
13. The Fund would expect calls for lowering of investment in those asset classes that in the past are known to have higher volatility and higher returns, in exchange for increasing allocations to those asset classes that have traditionally been known to be of lower volatility and more predictable returns. The Fund assesses its SAA once a year alongside it's investment advisor Hymans and takes a measured approach to understanding the investment markets without making sharp changes to the SAA. This allows for changes over time and avoids short term biases from leading long term investment choices.

14. A graph below shows long term real returns from three assets types, equities, bonds and cash (real returns being nominal returns being adjusted for inflation), the takeaways being:

    a. Equities have outpaced inflation by a quite a margin over the very long term (+4.9% pa) and less so over the last two decades (+1.2%).

    b. Although both bonds and cash have done well over the long term considering the risk associated with both, over the last two decades have produced negative real returns (-0.5% and -1.0% respectively).

    c. The Fund's liabilities are linked to inflation given pensions paid are uplifted each year for the year-on-year change in the consumer prices index (CPI) and if the CPI is negative then pensions are held at the previous year.



	Annualised real returns 1900-2024	Annualised real returns 2000-2024
Equities	4.9%	1.2%
Bonds	0.9%	-0.5%
Cash	0.6%	-1.0%

Source: JP Morgan, Equites - FTSE100; bonds - JP morgan GBP government bond index; cash – three month GBP LIBOR and short dated treasury bills prior to 2008

15. Hymans capital markets review for the March 2025 quarter ending is attached to the report at Appendix A. They comment on most major asset classes performance and their prospects. A summary of the paper for a number of asset classes starting with equities is shown below.

a. Equities:

- Global equity markets declined 1.9% in Q1 2025, ending 10 consecutive quarters of positive returns, with US markets underperforming due to trade policy concerns.
- The value factor significantly outperformed growth as sentiment shifted away from expensive technology stocks affected by trade barriers and competitive pressures.
- Cyclically adjusted valuations remain on the expensive side despite recent weakness, as earnings appear elevated relative to trend.
- 2025 earnings forecasts for MSCI World have fallen from 12% to 9.5% year-on-year, with negative earnings momentum as downgrades exceed upgrades.

b. Government bonds:

- UK gilt yields at 4.9% appear attractive relative to long-term growth and inflation forecasts, despite headwinds from heavy issuance and inflation risks.
- The Bank of England is expected to proceed cautiously with only a couple more 0.25% rate cuts in 2025, as domestic disinflation has stalled and inflation could approach 4%.
- Index-linked gilts offer increased fundamental attraction given rising inflation forecasts coupled with falling real GDP forecasts.

- Forward yields provide an attractive entry point for long-term investors despite expected volatility from heavy supply and ongoing Bank of England (BoE) asset sales.

c. Corporate credit:

- Investment-grade credit spreads have risen 0.3% to 1.3% year-to-date, while speculative-grade spreads increased 1.4% to 4.5%, moving closer to long-term median levels. (The term spread refers to the difference from the risk-free benchmark, typically government bonds).

- Credit spreads are no longer at historically cheap levels but present potential opportunities for long-term investors who were previously underweight due to tight spreads.

- Corporate debt affordability metrics remain relatively healthy, with Moody's (one of the largest ratings agencies) forecasting the 12-month default rate to fall to 2.2% by end-2025.

- Economic and earnings growth risks are skewed to the downside, which could pressure default forecasts upward.

d. UK Property:

- The sector delivered 8.1% total returns over 12 months to February 2025, with income contributing 5.9% driven by strong rental growth in quality, energy-efficient buildings.

- Net initial yields of 5.2% remain below gross reversionary yields (the potential return once a property reaches full rental) of 7.3%, suggesting scope for further capital appreciation.

- Transaction activity remains sluggish in 2025, below 2024 levels, with continued redemption pressure on property funds highlighting technical challenges.

- Rental growth expectations are moderating as tenants face rising inflation and weak growth outlook.

16. A summary of global asset class performance over various time frames as at quarter end 31 March 2025 is shown below. Gold having had a good run through the year, is showing returns over 10% per annum over the last five, ten and twenty years, comparable to broad global equity indexes like the FTSE all world index.

		Return	Annualised Total Returns to 31/3/25 (GBP unless stated)					
Asset Class	Sub Asset Class	3 Months	1 Year	3 Years	5 Years	10 Years	20 Years	Since Valuation*
Equity	Global FTSE ALL world	-4.0%	5.2%	8.1%	14.7%	10.9%	10.4%	8.1%
	US S&P500	-7.1%	5.6%	9.8%	17.6%	14.1%	12.3%	9.8%
	UK All share	4.5%	10.7%	7.1%	12.0%	6.1%	6.9%	7.1%
	EM (USD)	2.3%	12.4%	3.2%	9.7%	4.6%	6.8%	3.2%
Fixed Income	US Investment Grade	-0.6%	2.1%	1.1%	0.3%	3.9%	6.3%	1.1%
	US Non Investment Grade	-1.9%	5.4%	5.4%	5.6%	5.9%	7.6%	5.4%
	UK Investment Grade	0.6%	-0.6%	-5.1%	-4.6%	-0.2%	2.9%	-5.1%
	European High Yield (EUR)	0.6%	7.6%	4.4%	6.2%	3.5%	5.9%	4.4%
	Emerging Markets	2.3%	6.8%	2.4%	2.7%	2.2%	5.1%	2.4%
	UK Gilts	0.5%	0.0%	-6.1%	-5.8%	-0.7%	2.7%	-6.1%
	UK Index Linked Gilts	-1.4%	-7.9%	-13.7%	-7.1%	-0.9%	3.5%	-13.7%
Cash	Cash	1.2%	5.2%	4.3%	2.8%	1.8%		4.3%
Other	Gold GBP	15.3%	34.8%	17.9%	13.7%	11.7%	12.6%	17.9%
	Catastrophe Bonds	-2.1%	10.9%	12.2%	8.3%	7.8%	9.5%	12.2%

		Return	Annualised Total Returns to 31/12/24 (USD)					
		3 Months	1 Year	3 Years	5 Years	10 Years	15 Years	Since Valuation*
Private Markets	Private Equity	2.8%	7.4%	4.4%	14.2%	14.1%	14.4%	4.4%
	Private Credit	1.8%	8.4%	7.4%	9.2%	8.4%	9.7%	7.4%
	Real Estate	1.6%	1.7%	1.3%	5.3%	7.9%	9.5%	1.3%
	Infrastructure	3.0%	10.2%	10.4%	10.2%	9.8%	9.5%	10.4%

Source: Bloomberg for listed markets, *Since valuation is change from 31 March 2022.

Portfolio changes during the quarter ended March 2025

17. A £25million investment to the LGPS investment grade corporate bond fund was made in March 2025 in order to realign towards the target weight for this asset class.

18. The net effect on cash, quarter on quarter, has been an increase from £517million to £556million. Further information on the cash position is given from paragraph 21 below.

Strategic Asset Allocation (SAA) 2025

19. The annual meeting of the Local Pension Committee on 31 January 2025 was attended by representatives from Hymans Robertson who presented the proposed changes to the SAA alongside a review of the performance of the Fund.

20. The proposals were approved and the changes to allocations are described below

    a. Listed equity: An increase to 41% (from 37.5%) of total fund assets was approved for listed equity. The current allocation as at 31 March 2025 is 41.1% to listed equity.

    b. Property: A reduction to the property allocation to 7.5% of total Funds assets was approved from the current 10% target. The Fund has had an underweight position to property for a number of years and the current allocation at 31 March 2025 is 7.2% of total Fund assets which is marginally below the current 7.5% target.

c. Private credit: A reduction to the private global credit allocation from a 10.5% allocation to 9.5%. The Fund is currently underweight to this asset class at 31 March 2025 with 7.1% of total Fund assets. Existing commitments are in place and at the time of writing total over £400million. There is currently a review taking place of this asset class with proposals planned to be presented to the July 2025 meeting of the Investment Sub-Committee (ISC).

Cash holdings and outstanding commitments

21. The level of cash held by the Fund is higher than the SAA limit of 0.75% of total Fund assets. This, alongside a cash flow is presented to the ISC each quarter. At the quarter end the Fund held £556million (£517m last quarter) in cash and an additional £54million (£46million last quarter) with Aegon as collateral in order to support the currency hedge. Taken together this represents 9.1% (8.5% last quarter) of total Fund assets.

22. The additional cash is as a result of SAA recommendations in 2022 and 2023 prompted a switch from liquid assets, although some switch has been reduced as part of the 2025 SAA review. There over £800million in outstanding commitments awaiting to be called for private market asset classes.

23. In addition, there a number of proposals planned to present over the remainder of 2025 covering infrastructure, property, private credit and private equity. These proposals may increase the value of outstanding commitments and therefore not immediately decreasing the level of cash.

24. These illiquid assets take time for money to be invested (called) by the underlying managers. In the meantime, the majority of the cash that would be used to satisfy calls will be held within cash which includes the use of money market funds, fixed cash deposits and UK treasury bills.

25. The Fund has made relevant commitments to the underlying managers which are in the process of being called, and at the time of writing there are commitments totalling around £830million waiting to be called, with nearly £700m of that amount being allocated to LGPS Central products. In addition, the Fund has approval to commit a further £260million to Central products in 2025 and 2026 across infrastructure asset classes. £280million was committed to two LGPS Central private debt vintages during the final quarter 2024.

26. The Fund, at the time of writing has £370million invested in fixed deposits with a weighted average interest rate of 4.39% (was 4.65% at the last update) with an average term to maturity of 3.6 months.

27. A cashflow forecast for the Fund estimates that cash should reduce gradually over the calendar year towards £250million. The reduction in cash is dependent on a number of factors:

    a. The speed at which the significant commitments already made by the Fund are called.

    b. The level of new commitments made by the Fund.

    c. The pace at which closed ended funds return capital, in particular private equity, private credit and infrastructure funds.

d. The pace at which investments into the LGPS Central MAC fund are made. The Fund has a £175million underweight position within this fund. The decision to restart investments into this fund will recommence once the LGPS Central review into the multi manager strategy is concluded. The review is due to be completed in Q3 of 2025 all being well. The Fund will then start to close the underweight over a period of time. The Fund has assumed around two thirds of the underweight is closed by the end of 2025.

28. Although little time has passed in order to align to the 2025 SAA, which was approved at the 31 January 2025 meeting of the Local Pension Committee, a table below shows the current position of the Fund's actual investments against the new 2025 targets.

29. Approvals or planned approvals and expected cashflows to the end of 2025/26 is also shown in the tables below. The 'commitments / investments approved' will be called over a number of years whilst the cashflows column shows expected movements until 31 March 2026. In summary, the Fund is overweight cash, and underweight income assets. Although significant commitments have been made to income asset classes, they will take time to be fully called.

	31/03/25 £m	2025 SAA	31/03/25 Actual weight %	Difference, actual to 2025 SAA	£m to SAA weight	Commitments / investments approved	to 31/3/26: other cashflow / divests	Diff to target weight post changes £m	% diff to SAA
Growth	3,489	53.5%	52.1%	-1.4%	-95	150	-50	5	-0.1%
Income	2,127	38.5%	31.8%	-6.7%	-451	987	-164	372	-5.5%
Protection	525	8.0%	7.8%	-0.2%	-10	0	0	-10	0.2%
Cash	556	0.0%	8.3%	8.3%	556				
	6,698	**100.0%**	**100.0%**						

The Protection asset group includes hedge collateral at 0.75% of total fund assets

Growth	31/03/25 £m	2025 SAA	31/03/25 Actual weight %	Difference, actual to 2025 SAA	£m to target weight	Commitments / investments approved	to 31/3/26: other cashflow / divests	Diff to target weight post changes £m	% diff to SAA
Listed Equity	2,750	41.00%	41.1%	0.1%	4			4	0.1%
Targeted Return Funds	332	5.00%	5.0%	0.0%	-3			-3	0.0%
Private Equity	407	7.50%	6.1%	-1.4%	-96	150	-50	4	0.1%

Income	31/03/25 £m	2025 SAA	31/03/25 Actual weight %	Difference, actual to 2025 SAA	£m to target weight	Commitments / investments approved	to 31/3/26: other cashflow / divests	Diff to target weight post changes £m	% diff to SAA
Infrastructure	743	12.50%	11.1%	-1.4%	-94	313	-30	189	2.8%
Global private credit	478	9.50%	7.1%	-2.4%	-159	446	-120	167	2.5%
Property	481	7.50%	7.2%	-0.3%	-22	51	-14	15	0.2%
Global Credit - liquid MAC	426	9.00%	6.4%	-2.6%	-177	177		0	0.0%

Protection	31/03/25 £m	2025 SAA	31/03/25 Actual weight %	Difference, actual to 2025 SAA	£m to target weight	Commitments / investments approved	to 31/3/26: other cashflow / divests	Diff to target weight post changes £m	% diff to SAA
Inflation linked bonds	216	3.50%	3.22%	-0.3%	-19			-19	-0.3%
Investment grade credit	192	3.25%	2.87%	-0.4%	-26			-26	-0.4%
Short dated IG credit	64	0.50%	0.96%	0.5%	31			31	0.5%
Active currency hedge	54	0.75%	0.80%	0.1%	4			4	0.1%

Cash	556	0.00%	8.3%	8.3%	556				

Overall Investment Performance

30. Investment performance analysis over various time frames to the period quarter ending 31 March 2025 is conducted by Hymans, the Fund's Investment Advisor. Hymans collate information directly from investment managers and calculate performance, which provides an independent check of valuations. The valuation summary is included within the exempt part of today's agenda together with the managers reports.

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

32. Summarised returns for the whole Fund versus benchmark are shown below excluding the effect of the hedging facility.

	Quarter	1yr	3yr pa	5yr pa
Total Fund	0.0%	+4.5%	+4.2%	+8.8%
vs benchmark	+0.9%	-1.8%	-1.4%	+0.2%

33. It is important to note that investment returns can be negative in absolute terms and for a protracted period, and chances of negative returns over shorter periods of time are considerably higher than over longer periods of time.

34. At present the returns over the one-year and three-year timeframes versus the benchmarks have turned negative. This is partly due to the change of benchmarks

through 2024 where existing comparisons were replaced with comparisons which more accurately reflect the risk being taken. In many cases the old benchmarks were replaced with tougher comparisons, for example, moving of the private equity benchmark from FTSE all world to FTSE all world plus 3% pa.

35. Over the one-year period the effect of cash plus benchmarks has made attainment of the overall benchmark harder, together with the effect of a second year of interest rates over 4%. Many of the Fund’s benchmarks are measured against cash plus a margin of three to four percent which includes many infrastructure funds, the Ruffer and Fulcrum funds, and most of the private credit funds for example.

36. In particular the asset classes that have performed adversely to the benchmark are shown below for three years and five years.

Asset class	Benchmark (BM)	3 year returns, benchmark and (variance)	5 year returns, benchmark and (variance)
Private equity	FTSE All world + 3%	+1.1% vs +11.4% BM (-10.3%)	+14.3% vs +18.0%BM; (-3.7%)
Targeted Return	SONIA 3mth + 4%	+4.6% vs +8.3% BM; (-3.7%)	+8.0% vs +6.6% BM; (+1.4%)
Private Credit	Blended BM, SONIA +4% and absolute returns	+5.6% vs +7.7%BM; (-2.1%)	+5.9% vs +6.5% BM; (-0.6%)

*SONIA is the sterling overnight index average – a bank of England published rate that roughly tracks the bank of England base rate

37. Private equity (PE) over the three year time frame (between April 2022 and March 2025) has proved to be difficult to achieve the benchmark. The strategy relies on supportive and positive public markets. Many PE strategies rely on exiting investments by selling to the public market. The initial public offering (IPO) market has been subdued over the three years in particular with initially the Russia and Ukraine (2022) conflict and global interest rate and inflation increases thereafter supressing demand. The Fund does, however, have a diversified PE portfolio which is able access other PE strategies which reduces the reliance on IPO’s for example. Although not meeting the benchmark over five years, PE performance has been respectable at 14.3%.

38. The targeted return benchmark that was chosen was a cash plus benchmark given this asset class is able to generate positive returns through market downturns. The cash plus 4% benchmark also creates a higher target as interest rates rose through 2022 and 2023. Given the diversified nature of the underlying positions used by the managers within this asset class certain positions will have performed well whilst generally bonds and equities had a difficult period through 2022 and 2023. The returns over three years reflect this whilst over five years returns are positive, versus the benchmark which will have benefited from equity positions the managers will have held during the second half of 2020 and 2021 when equity performed well post the Covid downturn in the first half of 2020.

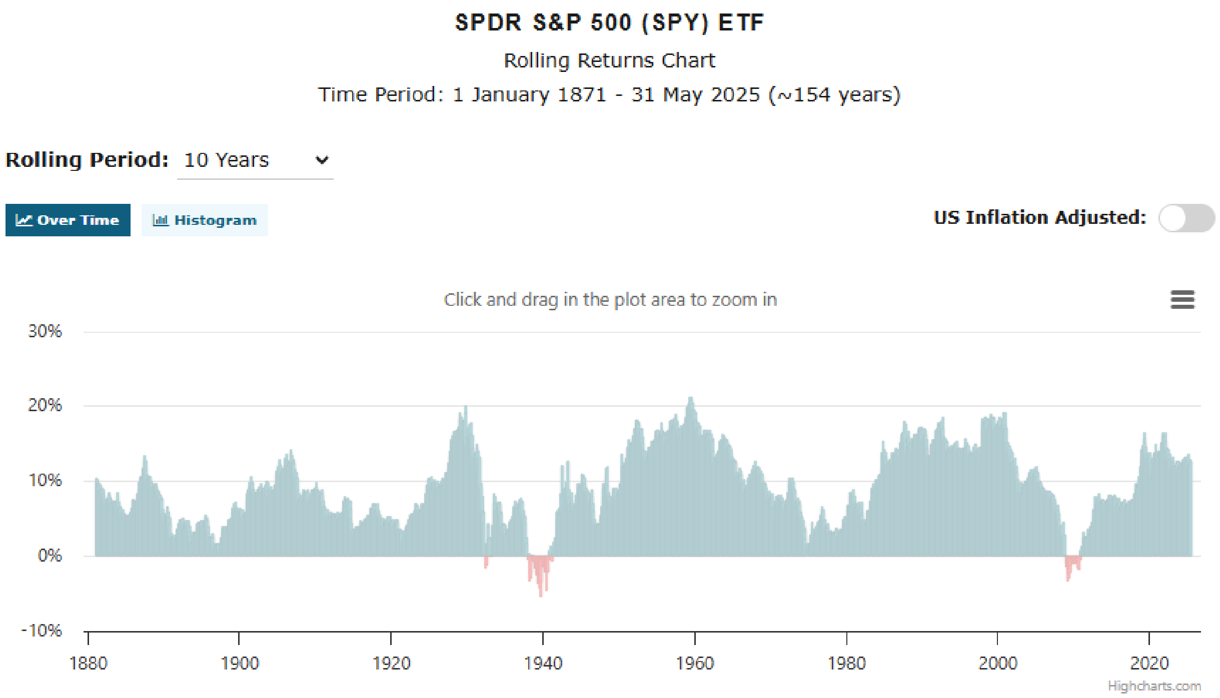
39. The private credit benchmark is a blended average of SONIA + 4% and absolute returns targets such as 7%, 9% and 13% per annum. Over the three year period the returns have been below expectations. The distressed debt sub category has performed poorly, the products that this strategy relates to were committed to over five years ago now and are in run off (total value now £40m or 0.6% of total Fund),

however, the strategy where capital loaned to distressed borrowers where the investment manager feels there a good chance of getting paid the higher than usual interest rate and returning the original loan has not performed as expected.

40. In addition, two of the earlier vintages to a product that invests in the lower risk (and returns) area of the market have not performed as well as expected and has also proved to be a drag versus the three year benchmark target. The Fund has invested into six products with this manager since 2014 and over the five year period the returns are in line with expectations. More recent commitments are performing well and will have been largely invested in a higher interest rate environment and so the products will benefit from the higher returns matched to the benchmark.

41. Overall, the Fund's five year return is largely in line with the benchmark, returning +8.8% pa, with listed equity driving the gains having recorded +13.5% pa over this time period. Whilst listed equity will have been volatile over this five year period it demonstrates the long term attractiveness of this asset class that is highly liquid, relatively cheap to access from a management cost perspective and has a very long history of producing positive returns when staying invested over long periods of time.

42. The graph below shows the 10 year return from investing in the S&P500 index with each bar representing the average return over the last 10 years. There have been very few instances when investing would have resulted in a negative 10 year return. The two times as shown below relate to 1929 to 1939 (the US great depression) and 1999 to 2009 which included both the tech crash and fallout from the global financial crisis.



Pooling progress

43. The Government's ambition is to have all investments pooled by 31 March 2026.

44. The Fund's current pooled total is £3.9billion or 57.8% of total fund assets. The Legal and General (LGIM) passive equity investments are now classed as pooled with Central. The Fund invests with LGPS Central across most asset classes having

collectively built the investment products over the life of LGPS Central and continually refining the individual mandate characteristics.

45. The Fund, as mentioned earlier on this paper, has around £700million in uncalled commitments to LGPS Central products. In addition, there is a proposal to commitment a further £130million as part of this paper to two LGPS Central infrastructure investment products. This will leave another £130million in approvals to Central infrastructure funds which the Fund plans to commit formally in 2026.

Infrastructure commitment

46. At the meeting of the ISC on the 24 July 2024 it was agreed to make a multi-year commitment to the infrastructure asset class via two investment products developed by LGPS Central, the core / core plus product and the value add / opportunistic product.

47. It was agreed:

  a. £100million (GBP) be committed to the LGPS Central infrastructure core/core plus fund in 2024.
  b. £30million (GBP) to be LGPS Central infrastructure value add/opportunistic fund in 2024.

48. It was also agreed that it be approved that authority be delegated to the Director of Corporate Resources to commit in 2025 and 2026 a further:

  a. £100million in each year to the LGPS Central infrastructure core/core plus fund
  b. £30million in each year to the LGPS Central infrastructure value add/opportunistic fund

49. There is an investment round for both these investment products at the end of June 2025 and as such the Fund instructed Hymans to conduct assurance on the proposed investments of £100million and £30million as part of the 2025 infrastructure commitments, which were sized in order to move the Fund closer to the 12.5% of total Fund assets target for this asset class.

50. The assurance note is appended to this paper.

51. Hymans have reviewed and provided commentary on:

  a. The infrastructure framework the Fund uses to balance investment risk and geographical risk.
  b. The investment market outlook for infrastructure.
  c. The suitability of the two Central products and the Central team.
  d. The performance of the two products and alignment to sector and geographic targets.
  e. Responsible investment considerations and how the two funds incorporate these.
  f. Appendix B provided shows the characteristics of the Funds other investments within infrastructure.

52. Hymans conclude that the two Central funds have made satisfactory progress to remain comfortable with the next phase of commitments in each fund and ask that a similar comfort check is made before the next round of commitments in 2026.

Investment Sub-Committee (ISC) approval

53. The ISC meeting scheduled for 16 April 2025 was cancelled. The next two meetings of the ISC will have the items agreed at the January 2025 LPC presented. Due diligence on the individual items has commenced for:

   a. A private credit asset class review
   b. A property asset class review
   c. A tail risk protection review
   d. A private equity commitment

Leicestershire Pension Fund Conflict of Interest Policy

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

Recommendation

55. The Local Pension Committee is asked to note the report and the commitment to the LGPS Central infrastructure core / core plus fund of £100million GBP and commitment to the LGPS Central infrastructure value add / opportunistic fund of £30million.

Environmental Implications

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

Equality Implications

57. 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 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

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

Background Papers

Local Pension Committee 31 January 2025, Overview of the Current Asset Strategy and Proposed 2025 Asset strategy – item 130:
https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=740&MId=7986&Ver=4

Appendix

Appendix A: Hymans Robertson, Capital Markets update Winter 2025
Appendix B: Hymans Robertson, Review of LGPS Central infrastructure mandates

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HYMANS ROBERTSON

Capital Markets Update

Spring 2025

Global growth forecasts have slipped in recent months as US tariff uncertainty weighs on consumer and business sentiment. Meanwhile, inflation forecasts have drifted higher: partly due to potential supply disruption, but sticky domestic inflation has also contributed.

US stocks had their worst quarter since 2022, with global equities down 1.9% in Q1. In contrast, expectations of greater defence and infrastructure spending helped European equities to out-perform strongly. The shift in sentiment was reflected in bond markets, with US yields falling. However, European yields rose in anticipation of higher bond supply and the potential boost to growth from government spending.

Global themes

Consensus forecasts for global growth slipped to 2.3% in March – which is low, even relative to post-GFC standards. Trump has already postponed the implementation of additional 'reciprocal' tariffs for all countries except China. However, the newly introduced baseline tariff on all trading partners, along with significantly higher duties applied specifically to Chinese imports, is still expected to substantially increase the overall tariff burden.

The impact of US tariffs, and retaliation by peers, is likely to be extensive as rising costs and weaker demand from the squeeze on consumer incomes weighs on US corporate earnings while other economies see weaker demand for their exports. Heightened uncertainty will also affect consumer and business sentiment as well as investment and spending decisions. Indeed, US growth forecasts were already falling before the recent escalation as post-election optimism over pro-growth policies on tax and regulation gave way to pessimism about global trade. As a result, the risks to economic and corporate earnings growth forecasts look skewed to the downside.

However, the negative impacts may be cushioned by ongoing supportive fiscal policy in the US: even as growth slows, the US is expected to outperform its advanced-economy peers (Chart 1). A more isolationist US is also spurring European governments to dramatically increase defence spending in the face of less certain security guarantees, while emphasising the need to invest more heavily in ageing infrastructure. Chinese policymakers may focus stimulus more directly towards domestic consumers: export-led growth, which has so far offset weak domestic demand, could become harder to deliver as trade headwinds intensify.

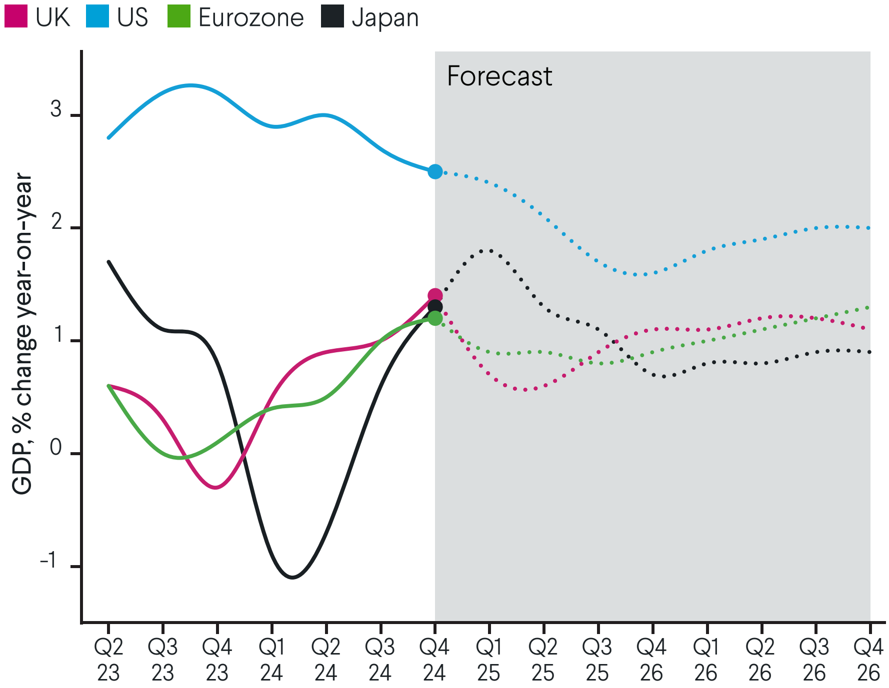
Chris Arcari
Head of Capital Markets

While US tariffs on imports would be near-term inflationary for the US, and negative for global growth, the impact on inflation elsewhere is ambiguous. Disruption to, and the reconfiguration of, supply chains would be inflationary, but exchange-rate movements will depend on relative trade policies and changes in risk sentiment. Meanwhile, weaker US and global demand for exports, and lower prices of exports previously destined for the US, would be disinflationary.

More importantly for the Bank of England (BoE), domestic disinflation has stalled. In the UK, disinflation in energy, food and goods prices has accounted for almost all the decline in inflation since its 11.1% peak in October 2022. With this in the rear-view mirror, inflation is forecast to rise in 2025 and could approach 4% (Chart 2). While the increase is expected to be closely linked to energy prices and, therefore, temporary, wage and service-sector inflation point to persistent underlying domestic price pressures.

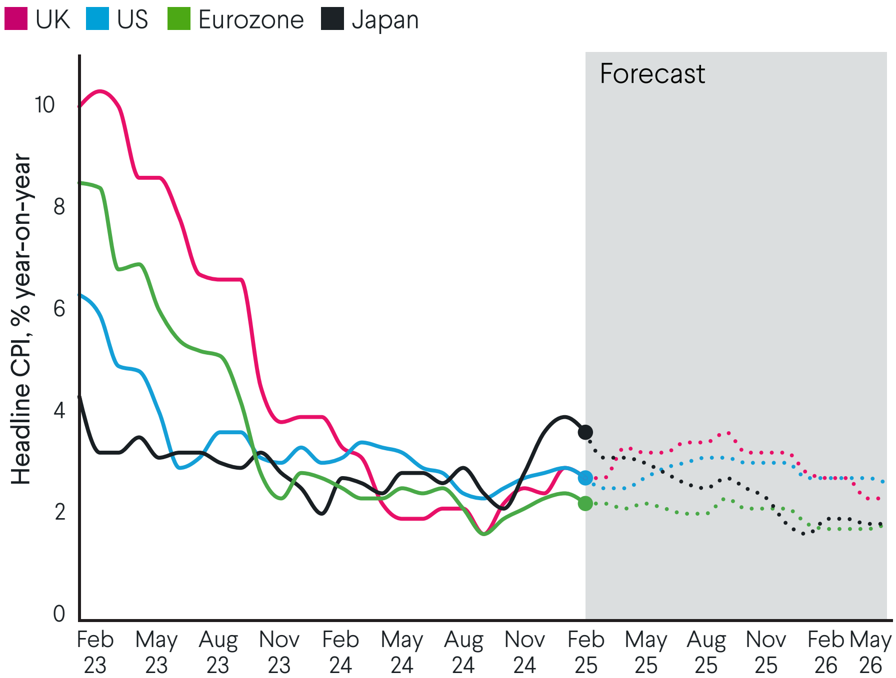
The current level of interest rates should allow for a couple more 0.25% pa interest-rate cuts in 2025, but we expect the BoE to proceed with care. The risks around this outlook are finely balanced – if growth slows, and inflation falls more than expected, interest rates leave ample scope for more aggressive cuts. But sticky inflation will keep policymakers cautious in the near term.

Chart 1: US growth is slowing, but still expected to remain stronger than in other major advanced economies



Source: Datastream and Consensus Economics

Chart 2: UK and US inflation is expected to rise and remain above target in 2025



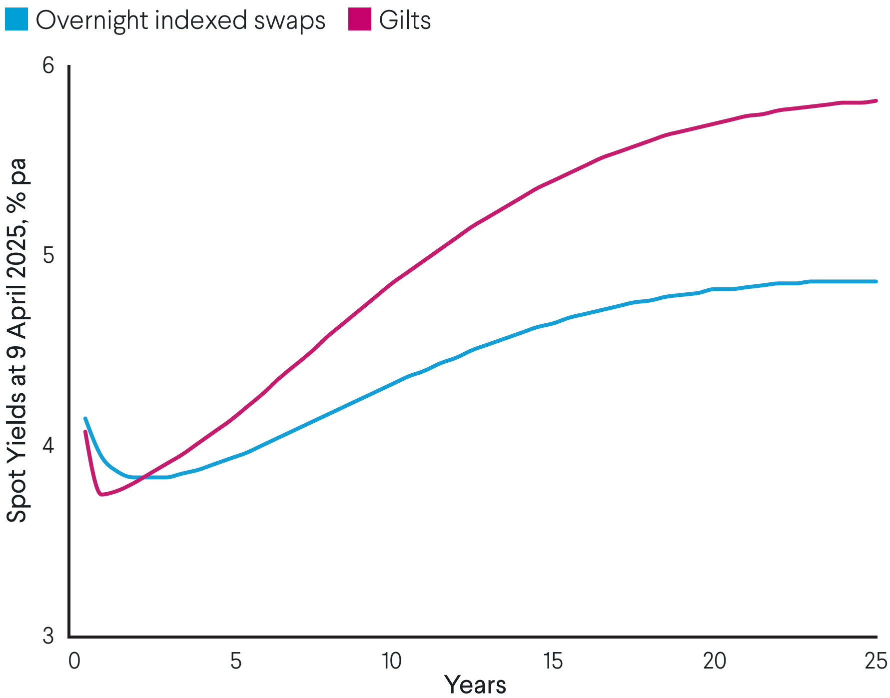
Source: Datastream and Consensus Economics

Government bonds

However, swaps markets may already be pricing in a higher-for-longer interest-rate environment: as of 9 April, overnight index swaps (which we would suggest are a better gauge of market-based interest-rate expectations than gilts) indicate the BoE base rate will average 4.3% pa over the next 10 years.

Furthermore, term premia (the additional amount required by investors to hold a long-term instrument versus a short-term deposit) have, perhaps surprisingly, risen further since the global equity sell-off at the start of April. Commentators suggest margin calls on levered equity and credit positions forced collateral sales (US treasuries and other major sovereign bonds), as credit and equity markets weakened, putting pressure on US – and global – bond yields. 10-year gilt yields, at 4.9% pa, are arguably reflective of the weak technical backdrop of anticipated heavy issuance and risks to inflation. As a result, we think yields are attractive relative to long-term growth and inflation forecasts.

Chart 3: The yield spread between gilts and swaps suggests a reasonable term premium is priced into gilt markets



Source: Bank of England, Consensus Forecasts

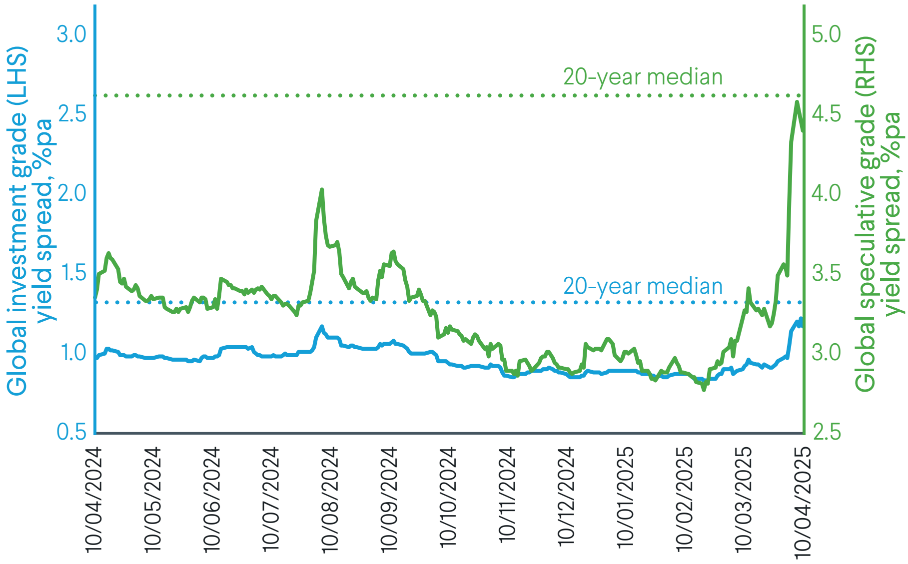
The recent rise in UK inflation forecasts, coupled with a fall in real GDP forecasts, increases the fundamental attraction of index-linked gilts. Meanwhile, the Debt Management Office's tabling of a lower proportion of index-linked gilt issuance makes for a slightly better supply-demand dynamic for index-linked than nominal gilts. As a result, we have a balanced view between index-linked and nominal gilts, despite nominal gilts being more attractive from a valuation perspective.

Robert Kotlar
Senior Investment Research Analyst

Credit

Credit spreads drifted higher in Q1 as concerns mounted over tariffs and slowing growth. They subsequently rose more dramatically following the intensification of trade hostilities on 2 April. At the time of writing (10 April), global investment-grade credit spreads are up 0.3% pa since the start of the year, at 1.3% pa. Global speculative-grade credit spreads have risen more, by 1.4% pa, to 4.5% pa. Credit spreads started their ascent from historically low levels but are now only a little below long-term median levels (Chart 4). Credit is not necessarily cheap, and credit spreads tend to overshoot to the upside in a risk-off environment, but long-term investors who had been underweight relative to their strategic benchmark on account of low spreads might be considering moving back towards a more neutral position.

Chart 4: Corporate credit spreads are now only slightly below long-term median levels



Source: ICE Index Platform

Debt affordability metrics, such as the number of times interest payments are covered by earnings, remain relatively healthy in fixed-rate corporate bond markets. Indeed, ratings agency Moody's suggests corporates will be able to weather the ongoing rise in effective interest rates, as maturing debt is rolled over at higher yields. The ratings agency forecasts the 12-month trailing default rate will fall to 2.2% by the end of 2025, well below long-term averages. However, with economic and earnings growth slipping in recent months, and the risks to those forecasts skewed to the downside, the default forecast may be more likely to rise than fall in 2025.

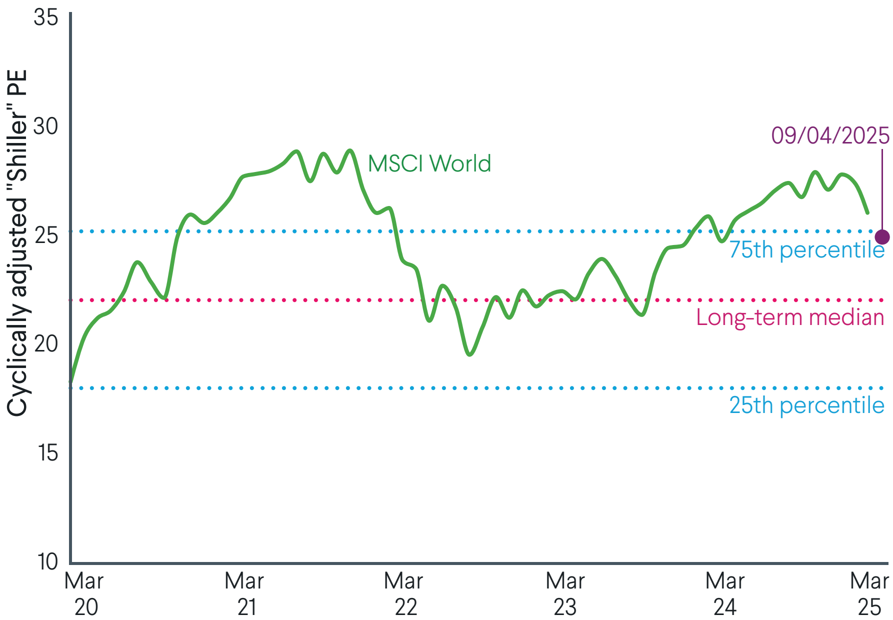
David Watson
Senior Investment Research Consultant

Equities

Global equity markets lost ground in Q1 (-1.9%), ending a streak of 10 consecutive quarters of positive returns for sterling-denominated investors. US markets underperformed as growth forecasts fell and inflation forecasts rose amid concerns over trade policy. The quarter saw a reversal of many of the trends that have dominated markets in recent years. 'Value' far outperformed 'growth' as sentiment soured towards relatively expensive technology stocks, driven by the potential impact of trade barriers on the highly globalised sector and the emergence of DeepSeek, a Chinese AI company that could provide a cheaper alternative to US offerings. This, alongside commitments to defence spending and a larger-than-anticipated infrastructure package announced in Germany, led the US to significantly underperform more value-oriented European markets.

Recent equity market weakness has taken a little heat out of global valuations. Trailing price-to-earnings multiples do not look particularly high relative to long-term median levels. However, earnings look extended relative to trend – ie the denominator is making multiples look a little lower than they are. As a result, cyclically adjusted valuations are still on the expensive side (Chart 5). Furthermore, the risks to earnings, and hence likelihood of reversion in earnings, have perhaps risen: 2025 full-year earnings forecasts for the MSCI World stand at a healthy 9.5% year-on-year. But this forecast has fallen from 12% at the start of the year, and earnings momentum – the extent to which analysts' upgrades exceed downgrades – is negative. It should also be noted that, despite rotation of favoured areas of the market, US equity market concentration is elevated relative to history, and the US market still trades at a premium to both global equities and its own history.

Chart 5: Global markets remain on the more expensive end when compared with history

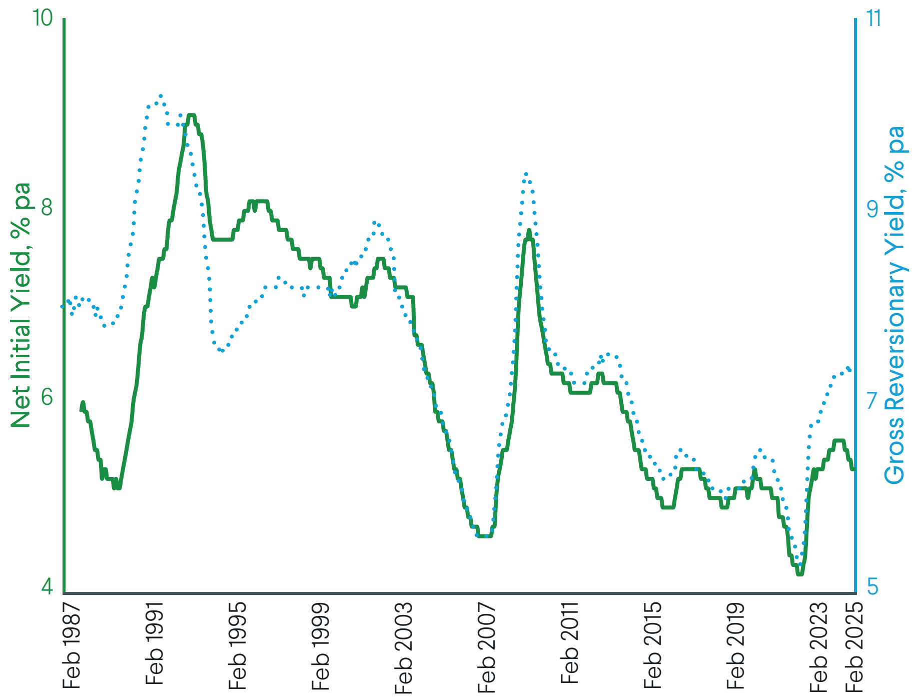


Matt Firth
Investment Research Associate Consultant

Property

Strong rental value growth in recent years has been driven by demand for better quality, more energy-efficient buildings, particularly in the industrial and office sectors. This trend has been exacerbated by a lack of supply of prime quality space, as development activity has slowed amid high financing and construction costs. This has supported robust income growth, which contributed 5.9% of the 8.1% rise in the MSCI UK Property Total Return Index in the 12 months to the end of February. Rental growth expectations have been slipping more recently, though, as tenants contend with rising inflation and a weak growth outlook. We anticipate further divergence between market average/sub-prime and prime quality property rental growth.

Chart 6: UK commercial property reversionary yields suggest there may be scope for further capital appreciation



Source: MSCI IPD Monthly

Net initial yields (based on current rents) of 5.2% pa are below gross reversionary yields (based on future estimated rent when leases expire or are renegotiated) of 7.3% pa. This suggests scope for further capital appreciation. However, MSCI data suggest transaction activity is still sluggish in 2025 and below the levels of 2024. There is also continued redemption pressure on several UK pooled funds, underscoring the challenging technical landscape of the past few years.

Matthew Doria
Investment Research Analyst

Conclusion

While cracks have started to appear in the economic outlook, equity valuations are less stretched than they were, and credit spreads have risen from historic lows.

Equities are less expensive than they were but still not cheap. Trailing price-to-earnings multiples now look close to the long-term median, but these appear artificially low, given earnings look elevated relative to trend. In other words, the likelihood of earnings reversion has increased, and valuations have not yet fallen enough to offset this risk.

Credit spreads have risen rapidly in 2025, but spreads have a history of overshooting in risk-off environments. However, there may be some opportunities for longer-term investors who have been underweight strategic targets on account of the historically low spreads in 2024 to revisit those positions.

UK sovereign bonds may be in for a bumpy ride given heavy supply, ongoing BoE asset sales and waning institutional demand. But forward yields, which are elevated relative to longer-term economic fundamentals, provide an attractive entry point for long-term investors.

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Review of LGPS Central Infrastructure mandates

Addressee

This paper is addressed to the Local Pension Committee ("LPC") of Leicestershire County Council Pension Fund (the "Fund"). The purpose of the paper is to provide a high-level view of the progress LGPS Central ("Central") have made with their infrastructure funds in certain areas, prior to making additional commitments to the funds.

We have provided this advice in our capacity as investment advisers to the Fund. This paper should not be used for any other purpose. The paper should not be disclosed to any third party except as required by law or regulatory obligation or with our prior written consent. We accept no liability where the paper is used by or disclosed to a third party unless we have expressly accepted such liability in writing. Where this is permitted, the paper may only be released or otherwise disclosed in a complete form which fully discloses our advice and the basis on which it is given. Where the subject of this note refers to legal or tax matters, please note that Hymans Robertson LLP is not qualified to give such advice therefore we recommend that you seek independent advice on these matters.

Background

The Fund's Infrastructure assets were previously reviewed in depth in July 2024, concluding that the underweight position should be closed by further commitments to Central Core / Core Plus fund, and Central Value Add fund. Commitments to both funds were to be implemented in a phased manner over 3 years and subject to satisfactory progress in several areas.

As a reminder, the Committee set practical target allocations across risk and geography, to ensure that the Fund remains well diversified and balanced across risk and returns.

		Practical Target Allocation	Actual Allocation (Q1 25)
Risk	Core / Core Plus	70 – 90%	86%
	Value-add / Opportunistic	10 – 30%	14%
Geography	UK	10 – 30%	16%
	Developed Overseas	60 - 80%	75%
	Advanced Emerging	0 – 10%	8%

The actual allocation weightings align with the practical target allocations. For each category the allocation falls within its respective target range.

The Fund have investments with a number of other third party funds, a mixture of open and closed ended and well diversified exposures - see table in the appendix.

Infrastructure market outlook

Our view remains positive on long-term infrastructure investment. The core characteristics of infrastructure investing remain intact due to the strong ability of assets to pass through inflation and the certainty of contracted revenue from long-term or regulated contracts. In a slow growth and high interest rate environment, where earnings are hard to achieve and returns may be uncertain, an inflation-linked income stream from infrastructure could be valuable for clients with regular cashflow requirements.

Private infrastructure returns have remained stable since 2015, while other growth assets had periods of volatile performance over the same timeframe. Concerns around high interest rates, a mixed economic outlook and geopolitical conflicts have led to some shorter-term volatility in the asset class. Most noticeably, we saw a marked slowdown in infrastructure fundraising and transactions from mid-2022 to 2024. We believe these are short-term trends and expect infrastructure market activity to pick up once the economic environment stabilises.

Over the longer term, we believe there are four global themes (decarbonisation, digitalisation, deglobalisation and demographics) that will drive the need for continued capital investment in infrastructure. In 2025, we expect infrastructure managers to take advantage of the recent volatility to invest in these themes, with a focus on assets that have strong growth prospects and are likely to remain resistant to revaluations.

The current policy environment is supportive for long-term infrastructure investments. Public policy is strongly in favour of these four long-term themes, with examples such as the European Green Deal in Europe providing favourable tax incentives and strong regulatory support for decarbonisation investments. We expect these themes will persist through changing political environments. Political changes could make the short-term case for investment in some of these themes or geographies less attractive, but the long-term prospects for investments remain strong in our view.

The recent slowdown in infrastructure fundraising and transactions has created a tactical opportunity in infrastructure secondary investments. The need for secondary capital currently exceeds supply, which has led to market conditions where secondary investors can be highly selective and negotiate favourable pricing terms, with significant discounts to NAV (5–15%) available on secondary funds.

Overall, we continue to be supportive of maintaining strategic exposure to infrastructure in the current market environment and selectively adding to funds that can improve outcomes. The variety of solutions currently available means the Fund can tailor the portfolio mix to focus on the need for stable inflation-linked income, long-term capital growth, and local investment and still achieve the blended investment return expected from an infrastructure allocation. We remain comfortable with the practical target allocations.

Review of suitability of LGPS Central Infrastructure

The remainder of the paper discusses the suitability of Central Infrastructure investments and whether the previously earmarked commitments to the funds remain appropriate.

Investment team

The investment team responsible for the sub-fund comprises five individuals. The team is led by Nadeem Hussain, who joined Central in January 2020 from Amber Infrastructure where he sourced and managed infrastructure and property portfolios. Nadeem Hussain has 15 years’ experience across infrastructure, property, mergers and acquisitions and corporate finance.

Nadeem is supported by Tanya Nolan (Portfolio Manager), who joined from West Midlands Pension Fund where she had 8 years’ investment experience across asset classes, including 4 years’ infrastructure investment experience alongside Mike Hardwick. Fuad Ahmed joined the Private Markets Team in December 2024 and is a Senior Portfolio Manager across infrastructure and property. He has over 12 years of experience in investment strategy and fund allocations covering primate markets. The team are supported by Andrew McClean (Junior Portfolio Manager), who also works on Private Credit Investments, and Sanesh Patel (Junior Portfolio Manager) who also works on Private Equity. There have also been 3 new analysts hired from the investment management industry, who will work across the private markets asset class within Central before concentrating on a particular area.

We believe the team to be of adequate size and experience to successfully manage the strategies. We previously noted that the team is small and lacks the depth of infrastructure investing experience typically seen at fund of fund managers, but they compare favourably to some infrastructure teams within other LGPS pools and we view the recent senior hire a positive step for Central to broaden infrastructure experience. It is pleasing that the team now have some years of experience running these sleeves.

Philosophy & Process

Central continue to have the following core set of investment beliefs that aim to deliver positive future performance:

- Strong performance in private markets can be reproduced over differing economic conditions
- Consistent performance can only be achieved through a combination of good processes and people
- Embracing responsible investment is accretive to investment returns
- Comprehensive due diligence adds significant value
- Diversification is a valuable tool for infrastructure investors

The team has engaged with the Partner Funds on the requirements of the sub-funds and this has led to the creation of two sleeves that Partner Funds may allocate to: a core/core-plus sleeve and a value-add/opportunistic sleeve. Both sleeves have the following key aims:

- To provide Partner Funds a return above CPI inflation
- To create a diversified portfolio of investments
- To invest with top performing investment managers
- To integrate Responsible Investment (RI)
- To provide future cost savings to investors

The team employs a nine stage investment process. The investment process hasn’t changed over the year. More details on the nine-stage investment process can be found in the appendix.

We are comfortable with the manager’s investment philosophy and we believe that they have a robust manager selection and monitoring process in place with Responsible Investment given meaningful consideration throughout the process. In reviewing the commitments to date, we see clear evidence of the investment process being carried out in accordance with the stated process and procedures and have no concerns.

Performance and Outlook

LGPS Central Infrastructure Core / Core Plus

Since increasing the commitment to the Core / Core Plus fund in 2024, the Fund now represents 12.6% of committed capital to the Sleeve (not exceeding the Fund's cap of 25% share of total commitment to the Sleeve). The portfolio is now well established with 9 underlying investments, comprising a mix of open-ended and closed-ended funds with well-known managers who have good track records. The new underlying investment (date of investment Dec 2024) has a more cautious approach due its focus on core infrastructure assets which are typically characterised by the following which contributes to the high degree of downside protection:

- High barriers to entry and often monopolistic or quasi-monopolistic market positions
- Reducing competitive pressures, income-generating assets with long-term, stable cash flows, providing a reliable yield component
- Strong inflation protection, often through contractual mechanisms or regulatory frameworks; and
- Minimal exposure to volume and GDP-related risks, as revenues are generally less sensitive to economic cycles.

The presence of existing open-ended investments means money can be deployed more quickly (at Central's discretion), as well as adding an element of liquidity should it be needed. Central does not intend to add to the line-up of managers for the time being, as they are satisfied with the composition of the portfolio. Additional investments will be made when further commitments are received from Partner Funds.

The investment strategy is largely unchanged although they have recently increased the allocation to renewables (adding the IFM Net Zero fund) and reduced the allocation to Asia where they see less opportunity. Central is considering investing in the secondary market for fund interests which we believe is appropriate given the current market opportunity.

The fund's mandate does not permit co-investments without prior investor approval and no such investments have made. Co-investments can increase exposure to attractive assets and reduce investment management costs, so this is a material limitation. However, we consider it an appropriate constraint because the Central team does not realistically have the capacity to originate and evaluate such investments at present.

This fund now has a track record, albeit still relatively limited, and performance seems to be heading in the right direction.

Return on Investment Since Inception (as at 31 December 2024, latest available at time of writing)

	To 31 December 2024	To 31 December 2023
FUND IRR	6.0%	1.4%

In terms of new commitments, money is still coming in albeit less quickly than previously. We note the underlying funds are generally performing in line with expectations; Dutch Infrastructure Fund (DIF) VII is the exception with returns being impacted by upfront costs, which were not originally anticipated. Capital committed has now been largely allocated to underlying managers; approximately 70% of the Core/Core Plus sleeve has currently been sub-committed and there are plans to commit a further £150 million by the end of Q2 2025 to top up three of the existing open-ended funds. Approximately 42.8% of committed capital is undrawn (an improvement from last year where 52% of committed capital had yet to be drawn). The fund is relatively close to sector target ranges, whilst geographically remaining overweight UK. They are currently at the top of their target parameter for renewables and therefore will not be looking at any new renewables only funds for a while; instead they are looking to reduce the proportion by deploying new money elsewhere.

Strategic diversification – Geographic target against current composition (as at 31 December 2024, latest available at time of writing)

Geography	Target (%)	Current (%)
UK	20 – 30	30
Europe	20 – 40	34
US	20 – 40	24
Asia	0 – 15	8
Other	0 – 15	4

Strategic diversification – Sector target against current composition (as at 31 December 2024, latest available at time of writing)

Sector	Target (%)	Current (%)
Energy (traditional)	0 – 10	8
Renewables	20 – 50	45
Utilities	10 – 25	18
Transport	0 – 20	7
Social	0 – 9	6
Other	0 – 10	0
Telecoms	5 – 20	16

Central see reasons to be optimistic within the asset class, with fundraising picking up pace and easing inflation, though geopolitical tensions could be headwinds. They are therefore focussed on managers that have an eye on downside protection. The fund recently committed £100m to the IFM Net Zero Infrastructure Fund, which also forms a very small part of the IFM Global Infrastructure Fund used directly by the Fund. The fund also invests in KKR's Diversified Core Infrastructure Fund but this is a different, lower risk strategy to the KKR fund that the Fund invests directly.

Central have confirmed that their focus going forward is allocating to Core Plus opportunities, where the current allocation is below the target of 50%. These strategies typically involve slightly higher risk in exchange for enhanced return potential, such as through asset development or operational improvements. We do not expect this to change the risk profile materially, and the fund could be considered to be at the lower end of the Core/Core Plus risk spectrum presently. We recommend closely monitoring the funds selected and impact on risk for the fund.

Central are aiming to eventually increase the total number of underlying funds to 10–12, which would provide high levels of diversification once reached. Central are expecting continued demand for the Core / Core Plus offering so this should be achievable in time.

We remain comfortable with the mandate, and are satisfied with progress and future direction. We therefore continue to support the Fund making further commitments to this fund.

LGPS Central Infrastructure Value Add / Opportunistic fund

Since investing in the Value add/ Opportunistic fund in 2024, the Fund represents 7.1% of committed capital to the Sleeve (not exceeding the Fund's cap of 25% share of total commitment to the Sleeve). The fund currently consists of 4 underlying sub-funds, all of which are closed-ended. Performance has been well below target since inception although this is to be expected from recent investments in closed-end, value-add funds.

Capital deployment has been fairly slow. Whilst this has increased slightly since last year, approximately 78.4% of committed capital is still undrawn (versus 82% a year previous). Central have a potential investment of £50 - £60m currently going through due diligence, expected to be completed in Q3. We acknowledge that a selective approach to origination was likely justified in a challenging market environment.

Central has seen strong performance from power-producing assets where returns correlate with increased long-term inflation, and assets with long term fixed debt riding out the high-rate environment. They also see opportunities in planning and logistics due to US onshoring and e-commerce trends.

Return on Investment Since Inception (as at 31 December 2024, latest available at time of writing)

	To 31 December 2024	To 31 December 2023
Fund IRR	2.6%	0.5%

The fund remains out of line with its sectoral and geographical target allocations, but this is not a material concern given the portfolio is still being built up. Note that there has been some progress towards target over the last year. They are currently at the top of their target parameter for renewables and therefore will not be looking at any new renewables only funds for a while; instead they are looking to reduce the proportion by deploying new money elsewhere.

Strategic diversification – Geographic target against current composition (as at 31 December 2024, latest available at time of writing)

Geography	Target (%)	Current (%)
UK	20 – 30	10
Europe	20 – 40	30
US	20 – 40	49
Asia	0 – 15	8
Other	0 – 15	3

Strategic diversification – Sector target against current composition (as at 31 December 2024, latest available at time of writing)

Sector	Target (%)	Current (%)
Energy (traditional)	0 – 10	14
Renewables	20 – 55	38
Utilities	0 – 15	-
Transport	5 – 25	21
Social	0 – 15	12
Other	0 – 25	-
Telecoms	5 – 25	15

*Includes committed investments and development projects of capital drawn

The fund still has a very limited track record, making it hard to assess whether it will deliver an adequate level of return over time. However, satisfactory progress has made in achieving the target investment return. The fund is still in early stages and therefore at this stage there are no red flags regarding performance.

As per the previous review, we note that the fund is open-ended whilst the underlying investments are all closed-ended in nature. Central have said that it is likely any further investments would also be closed-ended, as they do not see many attractive open-ended options in the value-add space. This liquidity mismatch should continue to be noted. However, there are some mitigating factors here including: relatively complicated rules around redemptions including lock-ins and gating mechanisms; unused commitments – Central stated they would never be fully committed; and the fact that Partner Funds are also long-term investors who are unlikely to require liquidity urgently.

We met with the infrastructure team where we discussed the future direction of the fund. Similar to the Core-Core Plus fund, Central are looking to increase the risk profile of this fund. They feel the fund is currently at the lower end of the Value Add / Opportunistic scale, and they are looking to increase exposure to Real GDP / Volume risk and where possible more opportunistic / Private Equity like funds, however the latter has not been decided yet. This evolution reflects a measured and deliberate approach to portfolio construction, aiming to enhance returns while maintaining a disciplined risk posture. Whilst not a significant concern at this stage, we recommend monitoring progress here closely as we continue to increase commitment to the fund.

Central also suggested that they would eventually like 10-12 investments in this fund, although that feels like a long way off at present, given the current pace of deployment, and expectations that demand for this fund may not be as great as for the Core / Core Plus fund. We would note however that due to limited visibility of Central's pipeline of fund investments, there is material blind pool risk of committing to the sleeve.

We remain comfortable with the commitment to the fund this year. However we recommend that any changes in the fund's risk profile are reviewed carefully.

Responsible Investment (RI)

Central's RI & Engagement Framework has been designed using the investment beliefs of the Partner Funds and is focused on two key objectives: (1) primarily, to support investment objectives; (2) secondarily, to be an exemplar for RI within the financial services industry, promote collaboration, and raise standards across the marketplace. These aims are realised through actions taken in the selection of investments, stewardship of investments and by being transparent & accountable through regular disclosure of RI activities.

The Central RI & Engagement Framework is reviewed annually by the Board. Central is a signatory to UN PRI, the LGPS Code of Transparency and report on climate change disclosure annually using TCFD recommendations.

RI and its integration into the investment process was given a meaningful weight at all stages of the selection and due diligence process with Central's Director of Responsible Investment and Engagement responsible for the scoring of managers and their approaches to RI.

We held a meeting with their RI and Infrastructure teams in 2024 to discuss their approach in more detail. They continue to consider their Net Zero approach across private markets as a whole (including infrastructure) and have considered the recent NZIF guidance on infrastructure but believe that other frameworks are helpful. Their initial focus is to carbon footprint the current portfolios, using portfolio company measurements where possible or their own estimates, and to prioritise (using a risk-based framework) underlying managers for engagement on decarbonisation targets and plans. Work on the infrastructure funds will commence this year.

Based on discussion, we believe Central's approach is pragmatic and fairly well aligned with the Fund's climate strategy and beliefs. In particular, it reflects the current status of the market on key issues such as data availability, target setting/planning and manager readiness. Their commitment to developing their approach appears strong.

Central have made no changes over the last year which would affect the Responsible Investment suitability of the funds.

Conclusion & Next Steps

We continue to consider the Central infrastructure mandates as a **suitable investment**. There have been **no key changes** to the manager or fund approach since our last review. Although we do note that the Core / Core Plus fund has begun investing, which reduces blind pool risk. We note the following areas for continued close monitoring.

Core / Core Plus fund:

- The fund has continued to make progress on deploying capital, however this still remains slower than we would prefer. Although Central have confirmed new commitments are being made to top up existing funds, which we see as positive progress.
- Central have confirmed that their focus going forward is allocating to Core Plus opportunities. This will increase risk in the fund, however we do not expect this to change materially and the fund could be considered to be at the lower end of the Core/Core Plus risk spectrum presently. We recommend closely monitoring any new funds selected, and the impact on risk for the fund, before making next year's commitments.

Value Add / Opportunistic fund:

- We note that the fund is open-ended whilst all of the underlying investments are all closed-ended in nature. Central have said that it is likely any further investments would also be closed-ended, as they do not see many attractive open-ended options in the value-add space. This liquidity mismatch should be noted, though there are some mitigating factors here as set out earlier.
- Central are also looking to increase the risk profile of this fund. The fund is viewed to be currently at the lower end of the risk scale for this type of fund, and are looking to increase exposure to Real GDP / Volume risk with more opportunistic / Private Equity like funds, however this has not been decided yet. Whilst not a significant concern at this stage, we recommend monitoring progress here closely as we continue to increase commitment to the fund.

Overall the funds have made satisfactory progress for us to remain comfortable with the next phase of commitments in each fund. However we continue to propose a similar comfort check before making next year's commitments, particularly in light of the continued slow deployment and potential future increase in risk profile (both of particular concern on the Value Add fund).

Prepared by;

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With contributions from;

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June 2025

For and on behalf of Hymans Robertson LLP

Appendix 1: Characteristics of Infrastructure funds

Manager/Fund	Allocation (Q1 25)	Characteristics					
		Active/ Passive	Geographic Focus	Sector Focus	Risk Profile	Manager's target return (% p.a.)	Fund Structure
JPM Infrastructure	2.5%	Active	Developed markets	Economic sectors	Core/core-plus	8-12%	Open-end
IFM Global Infrastructure	2.5%	Active	Global	Economic sectors	Core-plus/ Value-add	10%	Open-end
KKR Global Infrastructure Funds I, II, III	0.6%	Active	Mainly developed markets	Energy, utilities, transport and others	Core-plus/Value-add	10-15%	Closed-end
Stafford Timber Funds VI, VII, VIII	1.7%	Active	Global	Timber	Core/core-plus	10%	Closed-end
Infracapital Infrastructure	0.3%	Active	Developed markets	Energy, utilities, transport and others	Value-add	10-15%	Closed-end
LGPSC Infrastructure Core/Core Plus sleeve	2.1%	Active	Mainly developed markets	At least 3 of energy, utilities, transport, social and other	Core/core-plus	CPI+3.5%	Open-end
LGPSC Value Add fund	0.0%	Active	Global	Energy, utilities, transport and others	Value-add/ Opportunistic	CPI+5%	Open-end
Quinbrook Net Zero Power Fund	0.6%	Active	Developed markets	Renewable	Value-add/ Opportunistic	13% IRR	Closed-end
Quinbrook Net Zero Power Fund - Co-inv	0.6%	Active	Developed markets	Renewable	Value-add/ Opportunistic	13% IRR	Closed-end
Total Infrastructure Portfolio	**11.1%**						

Appendix 2: Investment Process

1. **Mandate** – the sub-fund has been designed with the following considerations: geographic weightings; industry and sector weightings; co-investments; investment limit; investment restrictions; and liquidity.

2. **Strategy** – the portfolios within each sleeve have an investment strategy set by Central which is reviewed annually. Considerations include: macroeconomic factors; predictability of income streams; competition; consumer trends; leverage; sustainability; and operational and regulatory risks. This provides the framework for the creation of a model portfolio which aids portfolio construction.

3. **Portfolio construction** – this stage involves the team making decisions about how to execute the annual strategy given the current positioning of the portfolio and the output of the model portfolio. This allows for the key risks to be monitored, including: geographical, sector and manager exposure; brownfield/greenfield mix; leverage; and economic exposure.

4. **Source** – the team sources suitable opportunities in order to deliver the intended portfolio construction from the previous stage. Opportunities are sourced through their own networks as well as utilising the Preqin Fund Database. The team filters down the opportunities to a shorter list of potential investment opportunities.

5. **Review** – the infrastructure team will then conduct an initial review of each opportunity from this filtered universe. Each opportunity is given an initial score across the following eight key areas: management fee and terms; strategy, focus and investment process; geographic footprint pipeline and seed investments; track record and capital deployment; team, leadership and experience; General Partner commitment; and responsible investment and ESG considerations. Funds are then ranked by score and further due diligence is undertaken. An initial due diligence report, known as a Preliminary Investment Recommendation, is then produced on each potential investment and shared with Central's Private Markets Investment Committee (PMIC) who may make observations before providing an initial approval, which requires a majority vote.

   The PMIC consists of Mike Hardwick and Nadeem Hussein from the investment team, along with the following five individuals from elsewhere within Central: Ian Brown (Head of Private Markets); Jas Sidhu (Senior Portfolio Manager – Private Equity & Debt); Colin Pratt (Investment Director – Total Return and Manager of Managers); Patrick O'Hara (Investment Director – Responsible Investment and Engagement); and Antony Clark (Investment Risk Reporting Manager).

6. **Diligence** – if approval is gained at the previous stage, a full due diligence report is written, covering each of the areas in greater depth than during the initial review. The aim of this stage is to ensure the underlying manager has the ability, motivation and tools to deliver future performance without incurring unnecessary risks.

7. **Refine** – following the completion of the more detailed due diligence of the previous stage, the investment team will then refine the analysis and another PMIC meeting convened. If the PMIC is satisfied that all questions have been addressed then it will provide final approval, subject to a majority vote. All legal documentation is then reviewed and refined before a formal commitment is made to commit to the investment opportunity.

8. **Close / Execute** – the investment is then executed and the Partner Funds are informed how much commitment they have made to the opportunity.

9. **Perpetual Oversight and Monitoring** – regular contact is maintained with the underlying manager after commitment has been made, with fund performance and activity monitored. Manager review meetings are held at least annually and held more frequently if there are any issues of concern. There are no formal triggers that, if breached, would result in a termination of a manager but Central regards breaches of a fund's restrictions or limitations as a reckless disregard of the consequences or a breach of a manager's duty of care to its investors. As many of the funds that the sub-fund will invest in are likely to be closed-ended, there is limited action Central can take to terminate a manager of a closed-ended fund so in this instance they would look to work with other investors to obtain a better outcome as well as not committing to follow-on funds.

Appendix 3: Responsible Investment

Manager/Fund	LGPSC Infrastructure Core/Core Plus and Value Add sleeves
Overall approach to Net Zero	Strategy is to work with portfolio companies to decarbonise and invest in climate solutions, but limited detail provided
Aim for NZ 2050 or sooner	Yes – no specific overall target for LGPSC, but underlying manager targets range from 2040 to 2050
Short/medium term objective	
Portfolio Coverage	No
Financing Climate Solutions	No
Decarbonisation Reference	No
Engagement	No
Comments	LGPSC has begun applying its Net Zero approach to infrastructure funds. Their initial focus is baselining current emissions and understanding their managers' decarbonisation plans, a focus which we support. Overall fund or underlying fund objectives will be considered in due course.
Metrics	
Current scope 1/2 emissions	No - work-in-progress
Material scope 3 emissions	No - work-in-progress
Forecast emissions	No
Whole life emissions	No

Manager/Fund	LGPSC Infrastructure Core/Core Plus and Value Add sleeves
Decarbonisation plan	
Portfolio construction/management	No - work-in-progress
Asset stewardship	No - work-in-progress
Comments	LGPSC has prioritised underlying managers for engagement on NZ and has begun working with them to understand their decarbonisation strategy and plans
Governance - explicitly covering NZ targets/plans	[Not disclosed]
Hymans RI rating	Unrated

Leicestershire County Council

LOCAL PENSION COMMITTEE – 27 JUNE 2025

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES AND THE DIRECTOR OF LAW AND GOVERNANCE

FIT FOR THE FUTURE AND LGPS CENTRAL UPDATE

Purpose of the Report

1. The purpose of this report is to provide the Local Pension Committee with an update on the outcome of the fit for the future consultation and pooling matters with LGPS Central, including a PowerPoint presentation (Appendix B) which will be delivered at the meeting by representatives from LGPS Central.

2. The report also seeks approval of the revised Terms of Reference for the Local Pension Committee (Appendix A).

Policy Framework and Previous Decisions

3. The Leicestershire County Council Pension Fund (the Fund) is an equal owner of LGPS Central Limited (Central) which is authorised and regulated by the Financial Conduct Authority as an asset manager and operator of alternative investment funds. The Fund owns Central alongside Cheshire, Derbyshire, Nottinghamshire, Shropshire, Staffordshire, West Midlands and Worcestershire. As set out in the Investment Strategy Statement it is the Fund's intention to invest its assets through Central as and when suitable pool investment solutions become available.

4. Central has been in operation since 1 April 2018. As of 31 March 2025, Leicestershire County Council Pension Fund (the Fund) has circa £3.8bn invested in Central, as well as over £650m in uncalled commitments which will increase its overall pooled exposure.

Background

5. Leicestershire County Council is the administering authority for the Local Government Pension Scheme (LGPS) within Leicestershire and Rutland. Leicestershire County Council has a statutory obligation, as defined under the

Public Service Pensions Act 2013, to administer a Pension Fund for eligible employees of all local authorities within the County boundary and also the employees of certain other scheduled and admitted bodies.

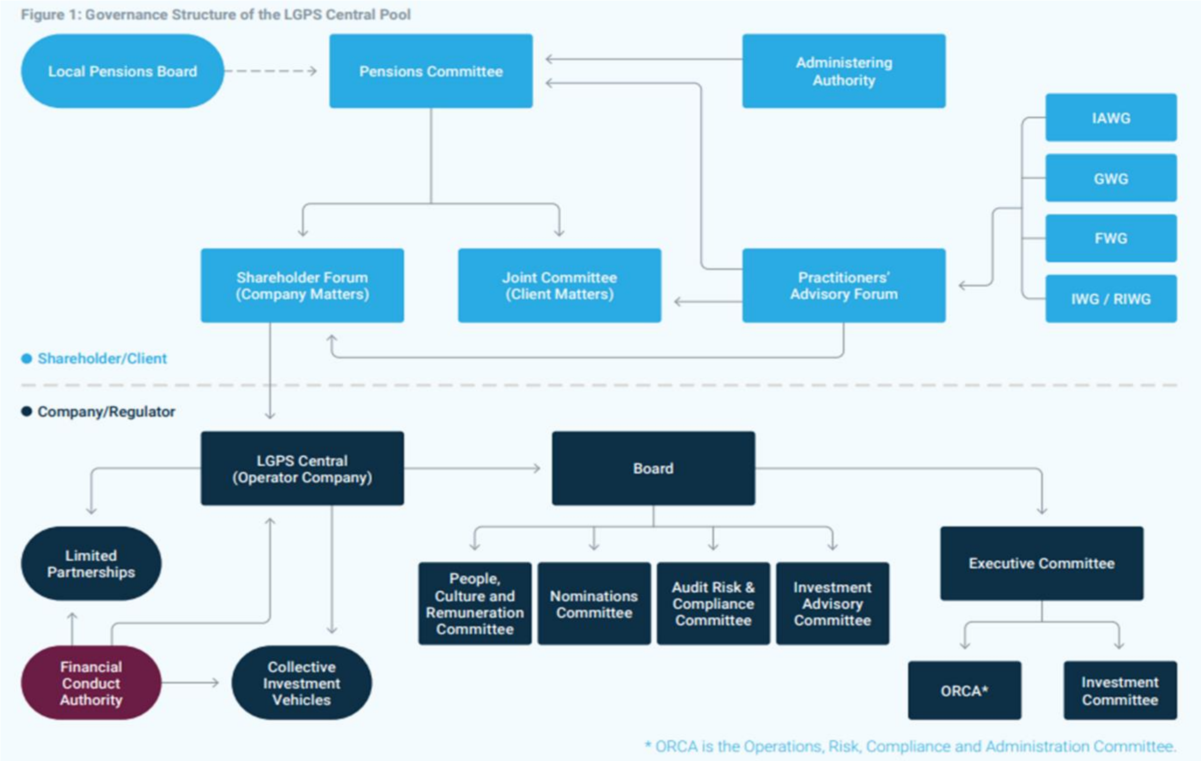
6. In accordance with Section 101 of the Local Government Act 1972 the County Council has delegated the responsibility for decisions relating to investment of the Fund's assets to the Local Pension Committee.

7. In 2016 the Local Government Pension Scheme Regulations 2016 came into force. These regulations mandate that the separate LGPS funds in England and Wales combine their assets into a small number of investment pools. To meet the requirements of these regulations Leicestershire County Council, alongside Cheshire, Derbyshire, Nottinghamshire, Shropshire, Staffordshire, West Midlands, Worcestershire helped develop LGPS Central Limited, which they each jointly own.

8. By leveraging the scale of the underlying partner funds Central aims to reduce costs, enhance investment returns, and expand the range of available asset classes, all for the benefit of local government pensioners, employees and employers.

9. The Fund is a stakeholder in LGPS Central from two different perspectives:
    a. A co-owner of the company (shareholder) alongside the other owners, and;
    b. As a recipient of investment services (client)

10. These interests are managed through the Shareholders' Forum and the Joint Committee as well as Leicestershire Pension Fund's Funding Strategy Statement, Investment Statement Strategy and Conflict of Interest Policy. The figure below illustrates the relationships between the various bodies.



11. In November 2024 Government initiated the 'Local Government Pension Scheme (England and Wales): Fit for the Future' consultation. The focus of which was to look at how tackling 'fragmentation and inefficiency' can unlock the investment potential of the scheme, including through asset pooling and enhanced governance, while strengthening the focus on local investment. On 29 November 2025 the Local Pension Committee considered key themes and initial views and authorised the Director of Corporate Resources, following consultation with the Chairman of the Local Pension Committee to prepare a detailed response.

'Fit for the Future' Consultation Outcome

12. Alongside the 'Fit for the Future' consultation, each LGPS pool was invited to submit a transition proposal on how they would seem to meet the minimum standards by the proposed deadline. Following Government's assessment, support was expressed for six (including Central) out of eight pools on 11 April 2025. Government invited the remaining two pools to engage with pools to determine which they wish to form a new partnership with. For affected funds they have been asked to provide an in-principle decision between themselves and the pool they wish to work with by 30 September 2025, with shareholder or client agreements in place by March 2026.

13. On 29 May 2025 Government published the final report of the Pensions Investment review and 'Fit for the Future' consultation outcome, which confirmed all core proposals are to be implemented. In summary these are as follows.

14. **Reforming the LGPS asset pools** by mandating certain minimum standards which were:

    - All Administering Authorities will be required to delegate investment strategy implementation and take their principal investment advice from their pool.

    - Pools must become Financial Conduct Authority (FCA)-regulated investment management companies. This is already the case for LGPS Central.

    - A March 2026 deadline for Funds and pools to meet these minimum requirements, including transferring all assets to pool management, where Funds are continuing with their existing partner funds, like Leicestershire.

15. **Local and Regional Investment -** Fund's will be required to set target ranges for local investment in their Investment Strategy Statements and be required to collaborate with local authorities, regional mayors and pools. Pools will conduct due diligence on local investment opportunities, including the final decision whether to invest and be responsible for impact reporting.

16. Local investment is defined as broadly local or regional to the Fund or pool. It will be for the Fund to work with the pool and other partner funds on any appropriate framework and collaborate as necessary.

17. **Governance –** The government will work with the Scheme Advisory Board to produce statutory guidance to implement the 2021 Good Governance Review recommendations, this will include areas such as training, governance, and triennial independent governance reviews. This will include appointment of Senior LGPS Officer with delegated responsibility for fund management and budget-setting, separate from the administering authority. Government is expected to clarify how the role relates to the s151 officer and pools in guidance.

18. Funds must also appoint a non-voting independent pension advisor for investment strategy oversight and governance support to the Local Pension Committee.

19. Partner Funds and Pools will be able to agree appropriate governance structures for Pool Company Boards.

20. The government intends to establish statutory asset pooling requirements for the LGPS through the Pension Schemes Bill. Accompanying regulations and

guidance are expected to come into force at the same time as the bill's powers. Government have said they will consult on draft regulations in due course.

21. Where Funds do not comply with aforementioned requirements the Pensions Bill is also looking to clarify the existing provision in the Public Service Pensions Act 2013 to allow for the winding-up of pension funds (for example where Funds may need to merge as a result of local government reorganisation) as well as compulsory mergers to enable government to intervene in the event that local decision making is not effective in bringing about satisfactory arrangements.

22. At a high level there are plenty of positives to be taken in continuing the Fund’s trajectory towards pooling which will continue the good practice already achieved with Central and partner funds. It will be important as part of the implementation that partner funds and pools continue to work closely to ensure changes are enacted appropriately so as not to lose sight of the schemes primary purpose.

23. These proposals will mean significant changes to how Fund’s and their Committees and Pools interact as are highlighted below but also provide opportunities for pools and partner funds to develop their own best practices for developing pooling moving forward.

24. These changes will require significant governance reviews at pool, and Fund level to ensure existing structures are appropriately set up for the new roles and responsibilities, this will include legal, financial and many other considerations ahead of the 31 March 2026 transition for all assets.

25. Some of the implications of these considerations mean from April 2026 the Committee will be required to use the following Strategic Asset Allocation template, as well as follow any other guidance that has yet to be published.

Asset class	**Strategic asset allocation (%)**	**Tolerance range (±%)**
Listed equity		
Private equity		
Private credit		
Property / Real estate		
Infrastructure		
Other alternatives		

Asset class	Strategic asset allocation (%)	Tolerance range (±%)
Credit (i)		
UK Government bonds		
Investment cash		

(i) Including credit instruments of investment grade quality, including (but not limited to) corporate bonds and non-UK government bonds.

26. Government set out it is important for Funds and the pool to work closely in the development of each SAA given it will be for pools to provide principal advice to funds, instead of existing investment advisors. It will then be for pools to make all investment and implementation decisions to fulfil the set Strategic Asset Allocations for funds.

27. Committee's role and the Investment Subcommittee will need to adjust to these changes and include, for example, more focused agendas with scrutiny on Central's performance rather than individual managers which will be supported by the new role of independent person highlighted in paragraph 30. The Board and Committee will be updated as matters progress as further guidance is expected on many of these considerations which will help shape how Committee will function in future.

LGPS Central Presentation

28. Representatives from LGPS Central will be in attendance to present to Committee, attatched as Appendix B. This provides highlights of Central's work, their approach to investment and developments in relation to Fit for the Future.

Terms of Reference Review

29. The Terms of Reference for the Committee were reviewed in November 2020. This was in light of the expectations of the Pensions Regulator and the emerging themes from the Scheme Advisory Board's Good Governance Review. As part of that review, it was agreed that the Terms of Reference would thereafter be reviewed at least once every three years or following any significant change in law or guidance and was last updated in March 2024 by the Local Pension Committee.

30. This review has been undertaken in light of significant changes to the Local Government Pension Scheme following the Fit for the Future consultation

outcome, as set out in this report, to support efficient and effective governance, as follows:

A. The Fit for the Future consultation outcome notes that “Administering Authorities will be required to have a qualified pensions professional appointed as independent person and adviser to the Committee, as a non-voting member.”

   It is Government’s view that the role of independent advisor will be able to support the Committee to effectively hold their pools to account for their advice, and support Committee in challenging and testing the advice from the pool. It is also set out that the advisor would be required to have one or more of the following qualifications and experience:

   - qualifications from Pensions Management Institute (PMI) - the award in pension trusteeship, diploma in professional trusteeship, certificate in professional trusteeship, accreditation for professional trustee;
   - member of, and accredited by, the Association of Professional Pension Trustees (APPT);
   - and significant experience of pensions and/or investments.

   In line with this proposed requirement the Terms of Reference have been reviewed to facilitate the ability to appoint to this role at an appropriate time, noting that the majority of LGPS funds will need to appoint to a similar role around the same time. Roles and appointments are expected to be made over 2025-2026 and will be developed and reviewed in context of pooling developments and any further government guidance. .

   The Administering Authority will approve and manage a transparent recruitment process.

B. To enable the Fund to efficiently engage with LGPS Central on developments over the next year it is further proposed that modification be made to allow flexibility in who can act as the Fund’s Shareholder Representative on LGPS Central. This will be agreed by the Chairman of the Local Pension Committee in conjunction with the Section 151 Officer, and any decisions reported back to the Local Pension Committee.

31. It is expected that the Terms of Reference will need to be revisited following further progress of the relevant guidance and legislation relating to the Fit for the Future consultation. The Committee will continue to be kept updated on these matters.

Resource Implications

32. It is noted that while pooling has delivered substantial benefits so far these proposals will accelerate the transfer of assets and responsibilities to pools.

33. Officers will address potential resource implications as part of working through the outcome of the consultation and further awaited guidance to consider how this may impact Fund resources.

Recommendations

34. It is recommended that the Local Pension Committee:
    i. note the report and presentation.
    ii. approve the revised Terms of Reference.

Background papers

31 January 2025 Local Pension Committee: Fit for the Future Consultation response
https://democracy.leics.gov.uk/ieListDocuments.aspx?MId=7986

Equality Implications

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

Human Rights Implications

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

Appendices

Appendix A: Terms of Reference Review
Appendix B: LGPS Central Presentation

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LOCAL PENSIONS COMMITTEE

TERMS OF REFERENCE

1. Introduction

1.1 This document sets out the terms of reference for the Local Pension Committee of Leicestershire County Council, which is the scheme manager of the Leicestershire County Council Local Government Pension Scheme (the Fund), as defined under Section 4 of the Public Service Pensions Act 2013 (and any associated legislation).

1.2 The Committee is constituted as a Committee of Leicestershire County Council (the Administering Authority) under Section 101 of the Local Government Act 1972. The key functions and terms of the Committee are therefore as detailed in Leicestershire County Council's Constitution.

1.3 These Terms of Reference will also apply to any subcommittee of the Local Pension Committee.

2. Purpose of the Committee

The Committee's purpose is to safeguard and manage the employers' assets held by the Fund, which are for the purpose of ensuring that pensions and lump sum benefits can be paid to Fund members.

3. Responsibility and Role of the Committee

3.1 The Committee is to act on behalf of the Administering Authority in its role as a scheme manager of the Fund.

3.2 The Administering Authority has delegated responsibility for all decisions relating to the investment of the Fund's assets and administration of the Fund in accordance with Section 101 of the 1972 Superannuation Act (see Part 3 of Leicestershire County Council's Constitution).

3.3 In the conduct of the Committee's purpose, its principal duties are to:

3.3.1 Exercise all functions of the Fund in line with all relevant law, statutory guidance and industry codes of best practice;
3.3.2 Determine the investment and funding strategy and all other relevant policies for the Fund and deliver this in accordance with the best interests of Fund members (i.e. using the assets of the Fund to ensure over time benefits are paid to Fund members) and employers (i.e. safeguarding the Fund and making investments that will minimise the overall costs to employers);
3.3.3 Ensure appropriate investment management arrangements are in place for pension funds monies including pooling of investments;
3.3.4 Undertake all functions relating to LGPS Central;

[Note: LGPS Central Limited is the company formed by eight partner funds (including the Leicestershire County Council Pension Fund) which is authorised as the operator of the Authorised Contractual Scheme (ACS), to provide investment services to the partner funds, by the Financial Conduct Authority (FCA). The company is therefore subject to the regulator's conduct of business rules and has established its internal governance framework to ensure strict adherence both to its regulatory obligations to the FCA and with the Companies' Acts.

The Fund holds dual interest in LGPS Central Ltd as shareholder of the company and as a recipient of its investment services, these are managed separately through the Shareholders Forum and the Joint Committee.]

3.3.5 Establish and maintain arrangements for the effective administration of the Fund including discretionary elements of the scheme, staffing and budgetary arrangements;

3.3.6 Delegate functions to pension fund officers, the Investment Sub-Committee, and other service areas within the Administering Authority as the Committee may consider appropriate to ensure the smooth administration of the Fund having regard to the Scheme of Delegation to Officers as set out in Part 3 of Leicestershire County Council's Constitution;

3.3.7 Approve the allocation of resources for the operation and administration of the funds from Fund assets in accordance with the applicable pension regulations;

3.3.8 Approve responses to consultations relevant to the Fund issued by government and other bodies;

3.3.9 Monitor overall performance of the Fund in the delivery of services and financial performance, and consider all matters in respect of the Fund including:

- approving the pension fund annual report and accounts;
- approving strategies and policies;
- setting standards for service delivery;
- securing best value in the provision of services;
- Managing responsible investment, including the Net Zero Climate Strategy;
- ensuring appraisal of the control environment and framework of internal controls in respect of the Fund to provide reasonable assurance of effective and efficient operations and compliance with laws and regulations;
- ensuring an appropriate risk management strategy and risk management procedures;
- Oversight of the performance of investment managers, including those appointed by LGPS Central
- promoting, monitoring and developing continuous improvement.

3.3.10 Work with the Local Pension Board considering all their recommendations and determine any appropriate action(s) to be taken or provide a reason to the Board for not enacting a recommendation made by them.

3.4 In addition to the duties set out in para 3.3 above, the Committee is subject to a fiduciary duty to act in the best interests of employers and Fund members, in accordance with the advice provided to the Committee from time to time in light of guidance and the law.

4. Duties of all Members (including non-voting representatives) on the Committee

4.1 Members of the Committee should at all times act in a reasonable manner in the conduct of the Committee's purpose.

4.2 Members who sit on the Committee act as 'quasi-trustees' and must ensure that the Fund is managed in the best interest of all its members, employers and beneficiaries. As quasi-trustees, Committee members have a clear fiduciary duty in the performance of their functions and must ensure that the Fund is managed in accordance with the regulations and do so prudently and impartially, in the best interest of all its members as above.

4.3 Members should be mindful that, when making decisions, they are required to put the Fund, the interests of Fund members and employers first, at the exclusion of their own personal and political interests. Members of the Committee must therefore take a non-political approach to the decisions they make.

4.4 Members should be able to demonstrate their capacity to attend and complete the necessary preparation for meetings, including the participation in training as detailed below.

4.5 It is expected that good practice will be followed by Committee members, in so far that appointees will abide by the requirements specified in the Pension Regulator's code of practice and the Pension Act 2004 sections 247 to 249.

Training

4.6 Members (including substitutes) are required to undertake induction training before taking up their role, and to adhere to the policy Pension Fund and Finance - Leicestershire Member Self-Service (pensiondetails.co.uk), and to undertake such other training as the Administering Authority considers appropriate.

Conflicts of interest

4.7 All members of the Committee must declare to the Administering Authority on appointment, and at any such time as their circumstances change, any potential conflict of interest arising as a result of their position on the Committee in accordance with the Funds Conflict of Interest Policy.

[Note: A conflict of interest is defined as a financial or other interest which is likely to prejudice a person's exercise of functions as a member of the Committee. It does not include a financial or other interest arising merely by virtue of that person being a member of the Scheme.]

5. Membership of the Committee

5.1 The Committee shall comprise of ten voting members and three non-voting members as follows:

Voting members

- Five County Council members.
- Two District Council members (appointments to be made by the District Councils).
- Two members of Leicester City Council.

- One University representative (appointment to be made by De Montfort and Loughborough Universities).

Non-Voting members

- Up to three Employee Representatives who must be members of the Fund in either an active, deferred or retired member capacity.

5.2 Any substitution for voting Members appointed to the Pension Committee shall follow their respective Council's procedures, subject to 4.6 above.

6. Appointment

6.1 County Council, district council and university representatives will be appointed by the bodies they represent on the Committee.

6.2 Employee representatives will be appointed by Fund Members by way of nominations and a vote taken at the Leicestershire County Council Pension Fund Annual General Meeting, following a transparent recruitment process which is open to all Fund Members. The recruitment process will be approved and managed by the Administering Authority. The positions will be appointed to on a rolling basis so that at least one employee representative position will become available at each of the Fund's Annual General Meeting.

6.3 A reserve employee representative shall be appointed at the Fund's AGM. The reserve representative will act as a substitute at meetings of the Committee where an elected employee representative is unable to attend.

6.4 In the event of a vacancy occurring during the course of the year the reserve employee representative shall serve on the Committee as a full member until the Fund's AGM.

7. Terms of Office

7.1 The term of office for County, City, District and University representatives will be one year. They may be reappointed following their relevant appointment processes.

7.2 The term of office for employee representatives will be three years, or for such period as is remaining if a position is vacated during a three-year term, to ensure appointments are made on a rolling basis each year, as outlined in 6.2 above. An employee representative may be appointed for further terms of office, following the process set out in paragraph 6.2.

7.3 Committee membership may be terminated prior to the end of the term of office due if:

7.3.1 An employee representative is no longer a member of the Fund.
7.3.2 A Committee member who no longer has the capacity to attend and prepare for meetings or to participate in required training.
7.3.3 The representative is withdrawn by the nominating body.
7.3.4 There is a conflict of interest which cannot be managed in accordance with the Fund's Conflict of Interest Policy.
7.3.5 A Committee member becomes a member of the Local Pension Board.
7.3.6 An elected member representative ceases to be an elected member of the local authority they represent.
7.3.7 The university representative ceases to be employed by their appointing university.

8. Appointment of Chairman and Vice Chairman

8.1 The Administering Authority will administer the appointment process for the Chairman and Vice Chairman and Substitute Members.

8.2 The Chairman will usually be nominated by the Administering Authority at its annual Council meeting

8.3 It will be the first business of the Committee to appoint a Chairman and Vice Chairman to sit for the term of one year following the Administering Authority's annual meeting. The Vice-Chairman will act as Chairman in the absence of the Chairman.

8.4 The Chairman of the Local Pension Committee, in conjunction with the Fund's Section 151 officer, will agree on the most appropriate person to act as the Fund's shareholder for the Administering Authority's interest in LGPS Central and who will be the Fund's representative at the Shareholders Forum and the Joint Committee of LGPS Central Ltd, eligible to vote on the Administering Authority's behalf on LGPS Central company matters. This will either be a senior officer of the Administering Authority, the Chairman or Vice Chairman. They will report back to the Local Pension Committee as appropriate.

[Note: The Shareholders' Forum acts as a supervisory body which focuses on shareholder issues. The Forum meets at least twice a year to agree certain reserved matters as set out in the Shareholders Agreement.

The Joint Committee deals with the 'investor' functions and provides assistance, guidance and recommendations to individual councils, taking into consideration the conflicting demands and interests of the participants within the pool.]

9. Meetings

Number of meetings

9.1 Meetings of the Committee will be held at least four times a year.

Meeting Procedures

9.2 The Pension Committee is a Committee of the Administering Authority. It will therefore, subject to paragraph 9.7 below, adhere to the Meeting Procedure Rules, as set out in Part 4 of Leicestershire County Council's Constitution, and all matters of due process, so far as they do not conflict with the Committee's delegations, duties and responsibilities provided for in law and the requirements of these Terms of Reference.

Public Access

9.3 The Access to Information Procedure Rules, as set out in Part 4 of Leicestershire County Council's Constitution, will apply except where any particular issue is governed by other specific legislation relevant to pensions. The Committee's meetings will therefore be open to the general public unless an exemption under relevant legislation applies. These rules also apply to any sub-committee of the Pension Committee.

Quorum

9.4 A meeting is only quorate when at least one quarter of the voting members are present, subject to a minimum of 3.

9.5 A meeting that is or becomes inquorate may continue, but no decisions may be taken.

Moving Recommendations and Amendments at meetings

9.6 Any recommendation, or amendment to a recommendation, put forward and seconded at a meeting which proposes any action which the Chairman, and/or the Section 151 Officer and/or the Monitoring Officer (or their representatives) of the Administering Authority, considers should not be voted upon without proper professional advice being provided, either by Fund officers or other appropriate external, independent advisors, will stand adjourned to the following meeting to allow for such advice to be provided. This is to ensure the Committee is fully informed on a proposed course of action before taking a decision as is required in law, and ensuring it is able to act in the best interest of Fund members.

Voting

9.7 Subject to paragraph 9.8 below, if there is an equal number of votes for and against a proposition, the Chair will have a second or casting vote. There will be no restriction on how the Chair chooses to exercise a casting vote.

9.8 In the case of an equality of votes on an amendment to a motion, the amendment will be regarded as not carried and the meeting will proceed to consider the main proposition or further amendments.

9.9 When casting votes Members must be explicit about the reasons for their decisions, the supporting information and expected impact.

Officer Support and Advice

9.10 Officers representing the Administering Authority will be expected to produce reports for the Committee and provide advice and clarification during the Committee's meetings to enable the Committee to take informed decisions in line with the law and best practice.

9.11 All members of the Committee (including Employee Representatives) and Officers are expected to abide by the Member/Officer Protocol set out in Leicestershire County Council's Constitution.

10. Advisers to the Committee

10.1 The Committee will be supported in its role and responsibilities by officers from the Administering Authority's Finance, HR, Legal and other teams as needed.

10.2 The Section 151 Officer of the Administering Authority acts as the Section 151 Officer for the Fund and has responsibility for appointing a Fund Actuary and a Fund Investment Consultant, as well as other external advisers as they consider necessary from time to time. The Monitoring Officer for the Administering Authority acts as the Monitoring Officer for the Fund. The Fund may, subject to any applicable regulation and legislation from time to time in force, consult with such advisers.

10.3 The Administering Authority will also have the ability to appoint a suitably qualified Independent Advisor to the Committee (and Investment Subcommittee). This will be a remunerated appointment and follow a transparent recruitment process.

11. Expenses

The Pension Fund may meet reasonable expenses of the Committee. Such expenses will be met by the Fund and have regard to Leicestershire County Council's Members' Allowance Scheme.

12. Investment Subcommittee

12.1 The County Council has appointed the Investment Subcommittee to assist the Committee to carry out its functions. It meets occasionally on months when there are no Committee meetings. It has significant delegated powers to make decisions on behalf of the Committee.

12.2 Under the guidance of the Local Pension Committee, the Subcommittee has responsibility for appointing and monitoring the performance of Fund Managers, considering action that is in-line with the strategic benchmark agreed by the Committee, taking a pro-active approach to the Fund's investments, making timely decisions in response to, or in anticipation of, market activity, and dealing with 'tactical' issues associated with implementing the investment strategy (which is updated annually, usually at the first Local Pension Committee meeting for the calendar year), such as the timing of asset allocation changes. (These responsibilities are also exercised by the Committee.) The full list of the Subcommittee's functions is set out in Part 3 of Leicestershire County Council's Constitution.

12.3 The Investment Subcommittee will consist of six voting members, all of whom will be members of the Local Pension Committee. This will include 3 County Councillors (the Chairman and Vice-Chairman of the Committee plus one other Committee member); 1 member representing Leicester City Council; 1 member representing the district councils; the member representing De Montfort/Loughborough Universities and 1 employee representative (non-voting).

13. Annual Meeting of Members of the Pension Fund

An Annual Meeting of all beneficiaries of the Pension Fund is held each year. For administrative purposes only, the Chairman of the Local Pension Committee will chair this meeting. Members of the Committee will be notified of the meeting and may attend as an observer (unless they are entitled to attend as a Fund member).

[Note: The purpose of this meeting is to enable Fund members to consider the contents of the Pension Fund Annual Report, to receive a report by the Employee Representatives of both the Committee and Local Pension Board and to elect Employee Representatives for the Committee and Board for the following 12 months. Details of the meeting will be published on the Pension Fund website.]

14. Local Pension Board

14.1 In fulfilling its functions, the Committee shall have regard to the advice of the Local Pension Board established in accordance with the Local Government Pension Scheme (Amendment) (Governance) Regulations 2015 in its role in assisting the Administering Authority in ensuring the effective and efficient governance and administration of the Local Government Pension Scheme including, securing compliance with LGPS Regulations, other legislation and the requirements of the Pensions Regulator.

14.2 The Chair of the Local Pension Board may attend a Local Pension Committee meeting as an observer.

Approved by Local Pension Committee

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LGPS Central Limited

Leicestershire County Council Pension Fund
LGPS Central Limited – Public Markets Update

27 June 2025

Leicestershire County Council
PENSION FUND

Agenda

Leicestershire County Council Pension Fund

1. *Welcome and introductions*
2. *Investment Overview*
3. *Fit for the Future*
4. *Closing Comments*

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Investment Overview

Leicestershire County Council Pension Fund

Investments with LGPS Central

Fund Name and Benchmark	Valuation 31/03/2025 (£m)	Date of First Investment	Performance (% p.a.)							
			Since First Investment		5 Years		3 Years		1 Year	
			Fund	B'mark	Fund	B'mark	Fund	B'mark	Fund	B'mark
LGPS Central Limited Global Equity Active Multi Manager Fund	783	February 2019	11.97	11.27	16.56	14.76	8.79	8.14	3.92	5.46
LGPS Central Limited All World Equity Climate Multi Factor Fund	843	December 2020	9.41	9.20	13.96	13.76	7.50	7.32	3.90	3.73
LGPS Central Global Active Investment Grade Corporate Bond Multi Manager Fund	167	April 2020	0.46	-0.05	1.36	0.86	0.50	0.15	4.89	3.82
LGPS Central Global Multi Asset Credit Multi Manager Fund	426	April 2021	1.16	3.32	-	-	2.75	4.32	5.80	4.97
Under Pool Management	**Valuation as at 31 March 2025 (£m)**	-	-	-	-	-	-	-	-	-
LGPS Central LGIM Passive Funds Oversight and Stewardship Services	1,123	-	-	-	-	-	-	-	-	-
Total Public Markets Under Pool Management	**3,342**	-	-	-	-	-	-	-	-	-

Source: LGPS Central, figures subject to rounding

Total Proportion Pooled: c. 58%

Leicestershire County Council Pension Fund

Investments with LGPS Central

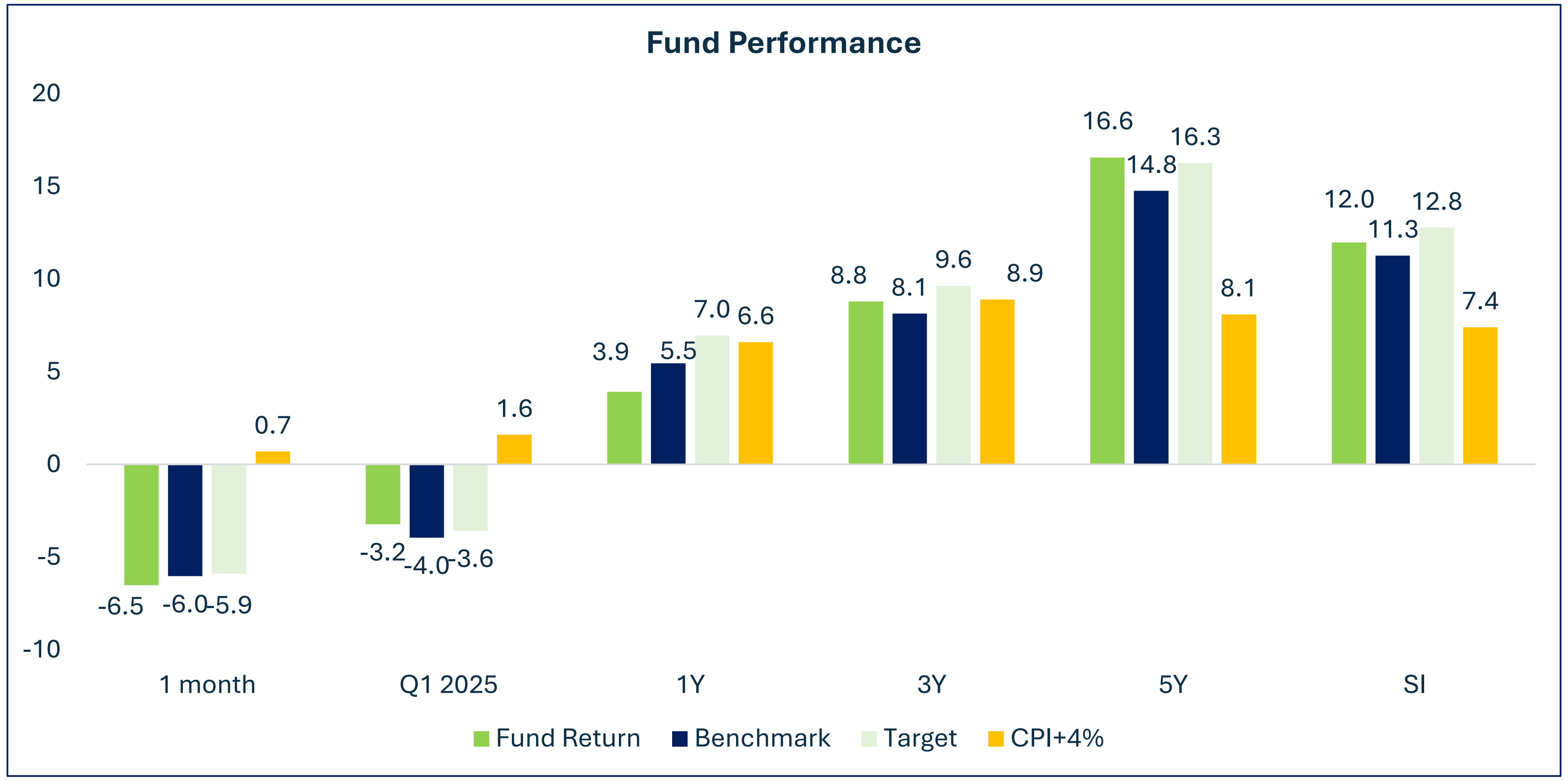
Private Markets	Closing Value 31/12/2024 (£m)	Leicestershire Commitment (£m)	Total PF Commitments (£m)	Drawn	IRR	B'mark	Target
Direct Property	67	120	130	61%	4.9%	MSCI +0.5%	
LGPS Central PE Primary Partnership 2018 LP	9	10	150	90%	11.4%	12.2%	16.2%
LGPS Central Core/Core Plus Infrastructure Partnership LP	143	235	1,104	68%	6.3%	5.8%	9.3%
LGPS Central Value Add/Opportunistic Infrastructure Partnership LP	2	30	266	26%	3.8%	5.8%	10.8%
Private Credit I	36	60	305	69%	8.7%	12% - 14%	
Private Credit II	163	240	1,165	76%	9.8%	6% -8%	
Private Credit IV	65	117	587	66%	1.2%	4.5% - 6%	
LGPS Central PE Primary Partnership 2021 LP	10	30	365	31%	14.0%	13.6%	17.6%
LGPS Central PE Primary Partnership 2023 LP	6	80	315	7.8%	Not meaningful		
LGPS Central Private Credit Direct Lending Partnership 2024 LP	-	180	460	-	-	-	-
LGPS Central Private Credit Real Asset Partnership 2024 LP	-	100	198	-	-	-	-
Total Private Markets	501	1,202	5,045	-	-	-	-

Source: LGPS Central, figures subject to rounding

Total Proportion Pooled:
c. 58%

Global Equity Active Multi Manager Fund

Performance Overview



Source: Northern Trust as at 31 March 2025 Returns in GBP/ Returns % post total fees
** Inception Date: 12/3/19.*

Portfolio	3m Quartile vs Peers	12m Quartile vs Peers	3 year Quartile vs Peers	5 year Quartile vs Peers
GEAMMF*	*2 (All)*	*2 (All)*	*1 (All)*	*1 (All)*

Source: Northern Trust/eVestment, data as at 31 March 2025 taken on 17 April 2025; using % Returns in GBP net of total fees; returns annualised except for first quarter.

Quarterly Commentary

- The Fund returned -3.23% over the quarter, outperforming the benchmark return of -3.95% by 72bps.
- **January -** President Trump kicked off his second term in office with the introduction of trade policies. His administration signalled tariff increases on Canada, Mexico and China, which unnerved investors, particular in emerging markets, and created potential for counter-tariffs.
- **February –** In the US, investor sentiment remained cautious due to persistent uncertainty regarding President Trump's tariff policies, exacerbating inflation concerns and growth risks. The "Magnificent 7" group of leading tech stocks recorded its weakest monthly performance since December 2022. There were clear signs of sector rotation within the market as Consumer Staples, Energy and Real Estate saw strong demand.
- **March –** The Federal Reserve held interest rates steady throughout the quarter. However, at the March meeting, Fed Chair Powell signalled a potential shift in policy, indicating a greater focus on downside risks to growth than on inflationary pressures.

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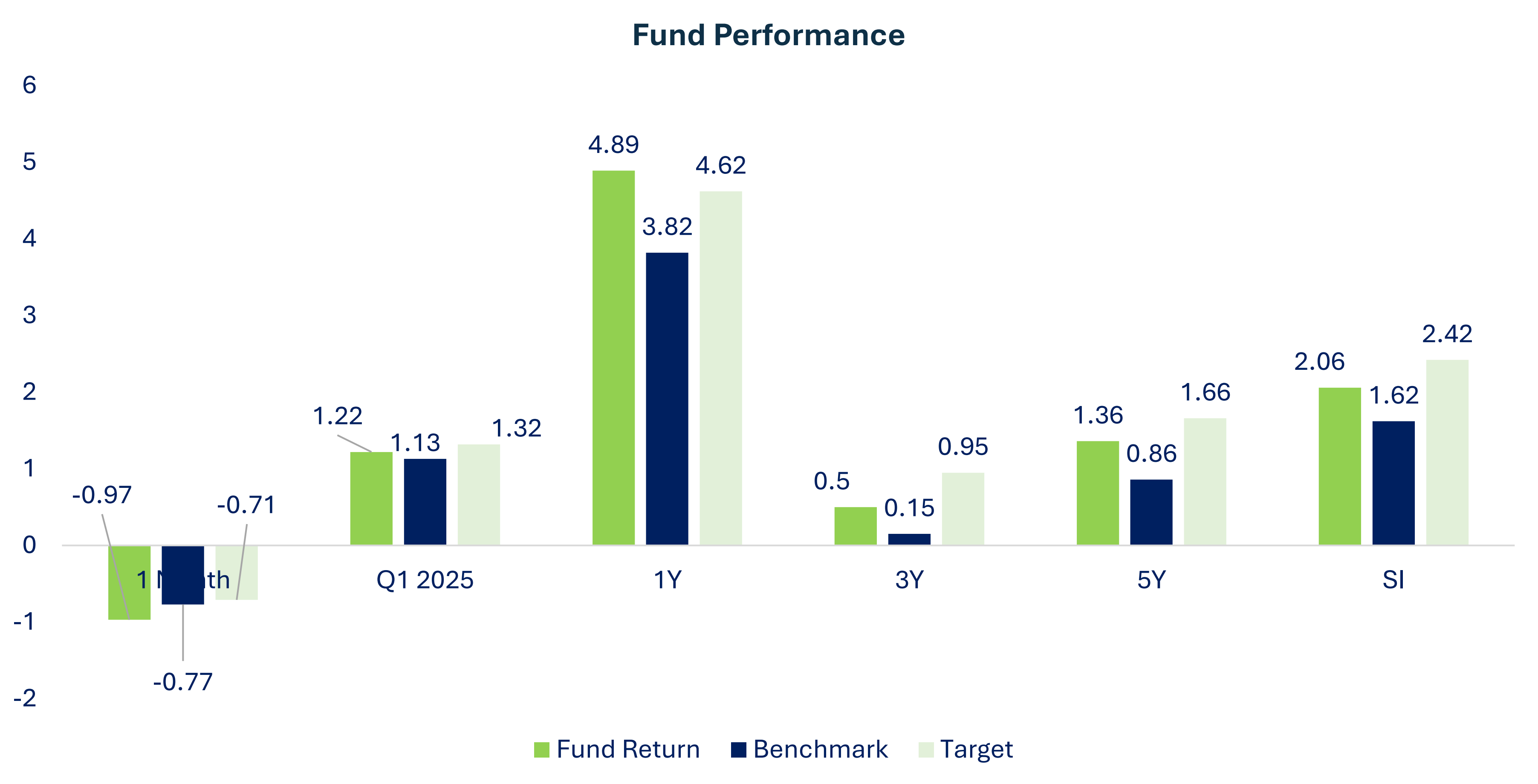
Global Active IG Corporate Bond MM Fund

Performance Overview



Source: Northern Trust as at 31 March 2025 Returns in GBP/ Returns % post total fees
** Inception Date: 23/3/2020*

Portfolio	3m Quartile vs Peers	12m Quartile vs Peers	3 year Quartile vs Peers	5 year Quartile vs Peers
*GAIG**	*4*	*4*	*4*	*3*

Source: Northern Trust/eVestment, data as at 31 March 2025 taken on 17 April 2025; using % Returns in GBP net of total fees; returns annualised except for first quarter.

Quarterly Commentary

- The Fund returned 1.22% over the quarter, outperforming the benchmark return of 1.13% by 9bps.

- **January -** US policymakers kept interest rates unchanged whilst the ECB reduced rates as inflation moved closer to the target. Tighter US policy and subsequent lower growth expectations resulted in a steepening of the yield curve. Credit spreads compressed to historically tight levels despite Trump administration signalling tariff increases on Canada, Mexico and China.

- **February -** Geopolitical developments and uncertainty around Trump's trade policies saw increased volatility across global financial markets. Global credit spreads widened, predominantly in high yield although there was still strong demand for investment grade bonds.

- **March -** The Fed left interest rates unchanged but highlighted downside risks to growth as a result of increased tariffs rather than increased threat of inflation. GDP was downgraded whilst PCE inflation ticked up signalling stagflation risks. Germany announced plans to increase spending on defence and infrastructure which saw bund yields move meaningfully higher.

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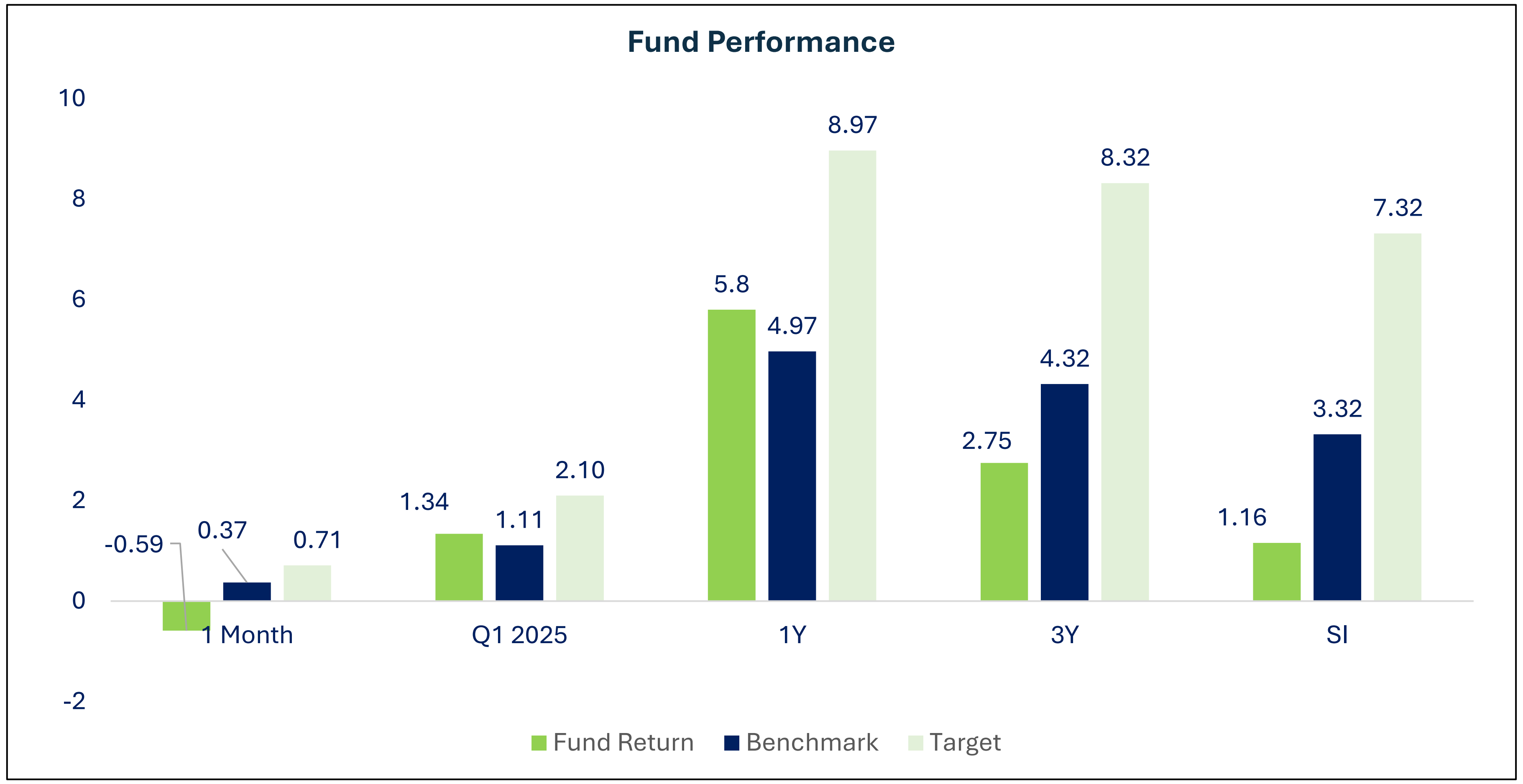
Global Active Multi Asset Credit MM Fund

Performance Overview



Source: Northern Trust as at 31 March 2025 Returns in GBP/ Returns % post total fees
** Inception Date: 15/4/2021.*

Portfolio	3m Quartile vs Peers	12m Quartile vs Peers	3 year Quartile vs Peers
MAC*	*4*	*3*	*3*

Source: Northern Trust/eVestment, data as at 31 March 2025 taken on 17 April 2025; using % Returns in GBP net of total fees; returns annualised except for first quarter.

Quarterly Commentary

- The Fund returned 1.34% over the quarter, outperforming the benchmark return of 1.11% by 23bps.

- **January -** Improving macroeconomic sentiment drove credit markets with strong inflows and light issuance**.** High yield saw outperformance aided by a rebound in oil prices whilst emerging market debt posted solid gains amid declining US yields.

- **February -** Geopolitical developments and uncertainty around Trump's trade policies saw increased volatility across global financial markets. Defaults in high yield ticked upwards with outperformance in BB-rated bonds. Soft Chinese PMI data and stronger dollar dampened enthusiasm and weighed on China debt.

- **March -** The Fed held rates steady but highlighted downside risks to growth due to uncertainty around tariffs. Wider spreads were experienced in high yielding assets as flows slowed down. Weaker China trade data pressured both hard currency and local markets causing sentiment in Asia credit markets to deteriorate.

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Fit for the Future

LGPS Central Plan

Pooling progress

The journey so far...

May 2013: National Association of Pension Funds' local authority conference, Local Government Minister Brandon Lewis said:

"...the clear message from me this morning is that I am not wedded to the existing number of 89 funds in England and Wales. If it takes a smaller number of funds to improve the efficiency and cost-effectiveness of the Scheme, I shall not shy away from pursuing that goal."

November 2015: Government produce set of principles against which authorities were invited to bring forward proposals for half a dozen "asset pools". The principles included the following objectives:

- **Attain scale** – *with £25 billion set as a target size for pools*
- **Make savings** – *no target was set but the word "substantial" gave an insight into the expectations*
- **Include good governance**
- **Do more infrastructure –** *expressed as an objective to develop the capacity and capability to increase investment but without a target*

February 2016: Submissions were received by government for eight developing pools.

These groupings were a mixture of natural allies, geographical neighbours and/or the strategically like-minded.

3 April 2018:
LGPS Central Limited opens for business.

14 November 2024:
Fit for the Future Consultation Launched

29 May 2025:
Government published its response

Fit for the Future

Government requirements

1. Administering Authorities would remain responsible for setting a high-level investment strategy for their fund but would be required to use the pool as the principal source of advice on their investment strategy

2. Authorities would be required to fully delegate the implementation of their investment strategy to the pool

3. Pools would be required to be established as investment management companies authorised and regulated by the FCA, with FCA permission to provide advice and with the expertise and capacity to implement investment strategies

4. Administering Authorities would be required to transfer all assets, including legacy assets, to the management of the pool

5. Pools would be required to develop the capability to carry out due diligence on local investments and to manage such investments

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Working with our Partner Funds

Implementation of the LGPS Central Fit for the Future Plan

Preservation of Value	Preservation of value in assets to be transitioned.
Depth of Knowledge	Recognition of the value of Partner Fund knowledge and experience.
Collaborative Solutions	Delivering the high standard of service our Partner Funds expect, working with our Partner Funds to develop solutions to meet their strategic needs.
Robust Governance	Reviewing and enhancing pool governance to ensure it meets Partner Fund requirements for oversight as well as the Government's objectives.
Flexible and Pragmatic Approach	The deadline for Partner Funds to transition assets is fast approaching, we need to work together to meet requirements.

Appendices

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About LGPS Central

LGPS Central at a Glance

CORE SERVICES:
- Investment Management
- Asset Pooling
- Advisory Services
- Responsible Investment Advisory, Analytics and Reporting

OUR STORY:
- Founded in 2017 by eight Partner Funds - AUM £62bn
- ~70% of partner fund assets pooled so far
- 27 investment funds across seven asset classes
- FCA regulated
- Over £6bn committed in Private Markets

TEAM:
- A team of 90 experienced professionals including investment specialists covering all asset classes, with a strong focus on responsible investment, supported by professionals in legal, finance, risk management, technology, procurement, programmes, people and culture, and client services
- 43% from non-white ethnic backgrounds
- 50% of Board members are female

UK Investment

£10.8bn
of assets
invested in the UK

£825m (28.6%)
of private market investment
is in the UK

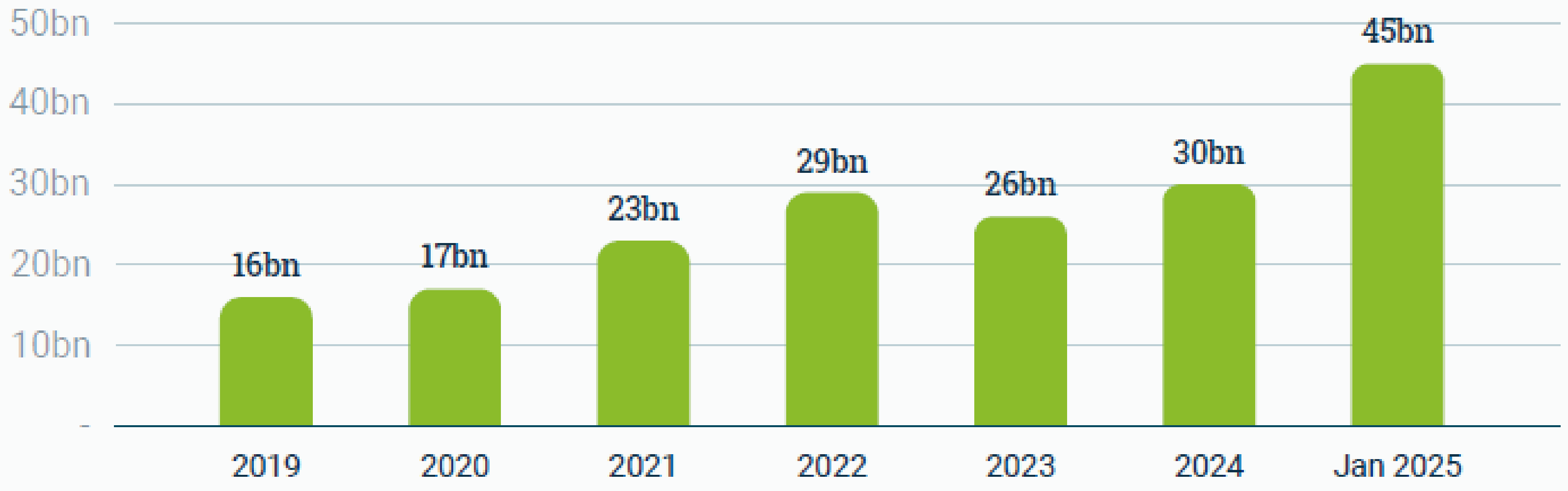
£2.3bn
of committed funds are available to make further investments

Direct UK Property Fund
initially attracting £130 million in commitments to date

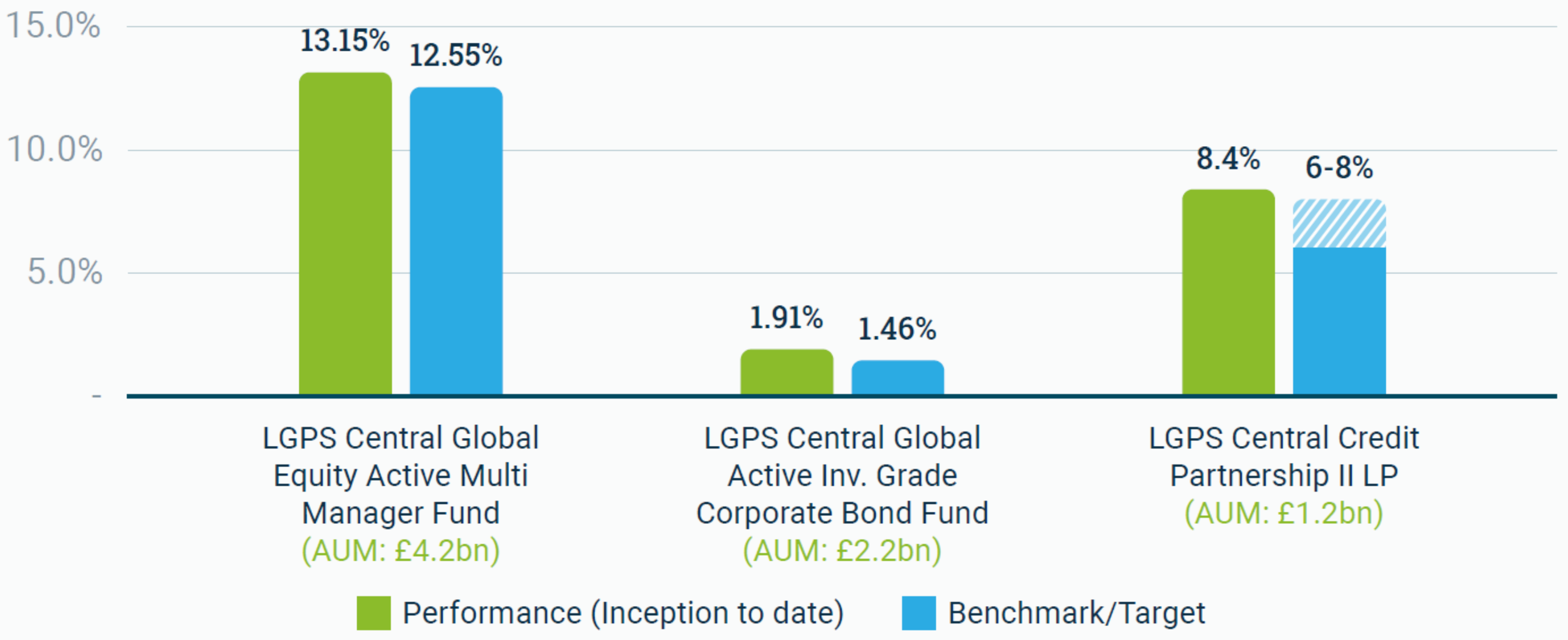
Residential UK Property Fund
focused on assets in the social, affordable and private rented sector initially attracting commitments of £115 million to date

£30m
invested in local NHS facilities

Assets Under Stewardship



Performance Highlights



Cost Efficiency and Value

£108m gross cost savings achieved
since inception

£361m gross cost savings forecast
by 2033/34

Over £12bn
of internally managed public market assets

Responsible Investment & Stewardship

Voted at 3,432 meetings
comprising of
41,754 resolutions

5-star UN PRI scores
in five out of six categories

Signatories of the
UK Stewardship Code
since 2021

All Partner Funds producing
TCFD-compliant Climate Reports

Disclaimer: Global Equity Active Multi Manager Fund & Global Active Investment Grade Corporate Bond Fund data as at 31/12/2024. Credit Partnership II data as at 30/09/2024. Cost Efficiency and Value data as at 31/12/2024. UK Public Assets at 28/02/2025. UK Private Assets at 30/09/2024. Source: LGPS Central Reporting data. Date of document issue April 2025.

LGPS Central Limited

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

DISCLAIMERS

Share Class and Benchmark performance displayed in GBP.

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

All information is prepared as of 18 June 2025.

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

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Leicestershire County Council

LOCAL PENSION COMMITTEE – 27 JUNE 2025

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

RESPONSIBLE INVESTMENT UPDATE

Purpose of the Report

1. The purpose of this report is to provide the Committee with updates on:
   a. Progress versus the responsible investment plan 2025 (Appendix A).
   b. The Fund's quarterly voting report (Appendix B) and stewardship activities.
   c. Considerations and the timeline for the Net Zero Climate Strategy review, and to agree next steps.

Policy Framework and Previous Decisions

2. Leicestershire County Council Pension Fund's (the Fund) Investment Strategy Statement (ISS) sets out that all prospective investment managers are required to take account of all financial, environmental, social and governance (ESG) factors as part of their decision-making processes before they can be considered for appointment. This is in-line with the Fund's fiduciary duty.

3. The Committee agreed the Fund's first Net Zero Climate Strategy (NZCS) on 3 March 2023, following extensive engagement with the Committee, scheme members, employers, and investment managers.

4. Climate change is one of many risks the Fund manages within the risk register. The NZCS recognises the systematic impact climate change could have on the Fund and sets out how the Fund would monitor and manage these risks and opportunities posed. Alongside other financially material factors, these considerations have fed into all decisions made since approval of the NZCS.

5. The Local Pension Committee approved the annual Responsible Investment (RI) Plan in January 2025. The Plan was developed following discussion with LGPS Central's (Central) in-house RI team. The Fund has a continual

focus on raising RI standards. Progress made to date on the 2025 RI Plan is set out in Appendix A.

Background

6. For the Fund, the term ‘responsible investment’ refers to the integration of financially material 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. The approach taken by the Fund, as set out in the ISS, is distinct from ‘ethical investment,’ which may look to exclude companies engaged in activities deemed ‘unethical’ by the investor, whereby the moral persuasions of an organisation or individual take primacy over financial factors.

7. Climate change is considered a systematic risk, given it is possible it will affect all investment asset classes, sectors and regions. For example, higher average and absolute global temperatures together with extreme weather events pose risks to physical assets, while the impact to markets from a transition towards a more decarbonised economy will have its own risks and opportunities with changes in consumer behaviour, and considerations around resilience and resource efficiency. The Fund considers this a key material risk within its risk register given the challenges across the short, medium, and long-term.

8. As set out in the NZCS, the Fund is targeting net zero by 2050, with an ambition for sooner. This ambition is one that considers the risks, and potential opportunities, such as investing in emerging technologies. It is also expected that government will align private pension scheme requirements to LGPS funds, which will require Fund’s to consider and disclose their climate-related financial risks and opportunities fully in line with recommendations by the Task Force on Climate-related Financial Disclosures.

9. Failure to consider these aspects, or exercise effective stewardship of the Fund’s assets risks inferior investment performance which would negatively impact contributing employers.

Responsible Investment (RI) Plan 2025 Progress

10. As set out above, progress made to date on the 2025 RI Plan is appended. This includes beginning work on the refresh of the NZCS. The current NZCS states it would be reviewed every three years and so is due in 2026. Further detail is set out below.

Net Zero Climate Strategy

11. In 2021, prudently in recognition of the potential risks posed by climate change to the Fund, the Committee began work on developing the Fund's first NZCS that looked to proactively manage climate risk, using a combination of nine targets and measures, as well as the approach to stewardship. This was based on metrics that were in line with the Net Zero Investment Framework developed by the Institutional Investors Group on Climate Change, a group with over 375 investor members with more than £45trillion in assets.

12. In 2022 climate scenario analysis was undertaken on behalf of the Fund by LGPS Central and Mercer LLC. While the limitations of the modelling as an emerging area is well documented, it set out that the Fund would perform best with a successful global transition in line with the Paris Agreement (a legally binding international treaty on climate change with an overarching goal to hold “the increase in global average temperature to well below 2°C above pre-industrial levels” and pursue efforts “to limit the temperature increase to 1.5°C above pre-industrial levels”).

13. The Committee agreed to undertake engagement on potential net zero targets from July to September 2022 and consulted on the draft Strategy from November 2022 to February 2023 which resulted in 1,700 responses from scheme members, employers and other stakeholders, a response rate which compared well against other council and LGPS fund consultations.

14. The outcome of the consultation saw the majority of respondents supporting proposed targets and ultimately the draft NZCS which was formally approved in March 2023.

15. The NZCS recognised existing limitations with regards to data availability and considerations across asset classes. However, it was recognised this should not be a block to managing risk and opportunities wherever possible. It was agreed that the Fund would review the Strategy at least every three years. This reflects the fact that good practice, methodologies, and data are evolving quickly and so may require flexibility to adapt.

Fund progress since NZCS approval

16. As reported to Committee in November 2024 the Fund has met its primary interim targets which have supported management of the climate risk within the Fund’s risk register, while also supporting investment returns, as shown below.

17. An example of portfolio performance of climate tilted funds and the standard type of index funds within the Fund's equity portfolio can be seen below as at 31 March 2025. It is worth noting that the Fund is a long-term investor and does not measure performance over short time frames. More detail on Fund performance is available in exempt papers elsewhere on the agenda.

Fund name	Performance (%)			Commentary
	1 Year	3 years	Since inception	
LGPS Central All World Equity Climate Multi Factor	3.9	7.5	9.6 (December 2020)	This fund tilts towards companies with green revenues. This is performing ahead of benchmark.
LGIM All World (No tilt)	4.9	n/a	14.1 (November 2023)	This is a standard passive equity fund we expect to match the benchmark. This is performing in line with the benchmark. This is less than 18 months of investment.
LGIM Low Carbon Equity Fund	5.4	n/a	14.3 (November 2023)	This fund tilts to increase exposure to 'greener' companies. This is performing in line with the benchmark. This is less than 18 months of investment.
LGIM UK Equity (No tilt)	10.4	7.1	6.2 (December 2013)	This is a standard passive UK equity fund.

18. Detail on the Fund's achievements since setting the NZCS are set out below.

- The Fund has achieved its first interim target of reducing the weighted average carbon intensity (WACI) by 50% by 2030. This is a measure of the Fund's underlying companies' total emissions per $1million of sales. The Fund's listed equity portfolio is now 52.8% less carbon intensive as at 31 March 2024. This means the companies the Fund is invested in are less exposed to carbon taxes and emissions trading programs for in-scope investments.

- The Fund has also achieved its second interim target of having reduced its total financed emissions (greenhouse gas emissions attributed to the Fund through its investments) by 40%, with an actual reduction of the total carbon emissions the Fund is responsible for by 40.4% as at 31 March 2024 from a baseline set in 2019, by 2030 across the listed equity portfolio. This is despite a corresponding increase in underlying assets under management. As above this means the Fund is less exposed to the potential monetary toll on underlying investments which can impact a company's share price.

- The Fund now has over £1.3billion (circa 20% of the total Fund) directly allocated to funds that are tilted away from carbon intensive companies and towards 'green' investments. These investments are across equity, debt, infrastructure, and forestry. These assets while part of an already diversified Fund are diverse in themselves, from managers choosing to invest in more carbon efficient investments (all else being equal), to forestry assets which act as a low-volatility investment while also contributing to carbon sequestration, to investments in critical grid stability mechanisms like synchronous condensers alongside renewable energy.

- 57.5% of the Fund's £6.3billion in assets are now covered by LGPS Central's Climate Risk Management Report. This is up from 47% in 2023 ahead of the scheduled timeline within the NZCS. The Fund will continue to work with LGPS Central to continue developing reporting mechanisms to give the Fund the best sight of potential risks.

19. The Fund meeting both interim targets requires careful consideration. From the start it was recognised that decarbonisation would not be linear. Furthermore, at this point it is clear the majority of the Fund's decarbonisation resulted from investment in tilted funds, rather than being only related to real-world decarbonisation of underlying companies.

20. Other progress has been made in the meantime in support of the NZCS, which will feed into considerations for the next NZCS.

    a. Following a motion to Committee in 2023, Hymans undertook an in-depth review of the fossil fuel divestment debate and considerations for the Fund. This was reported to Committee in January 2024 and set out that the Fund's approach to engagement, over a blanket exclusion or divestment policy remained appropriate, with recommendations that would strengthen the Fund's oversight of managers and engagement with companies.

    b. LGPS Central reviewed its Stewardship Strategy and presented to Committee in March 2024. Committee members requested more detail on an outcomes-based approach which will feed into future quarterly stewardship reports. Developments can be viewed within LGPS Central's 2024 Stewardship Report which provides more on their work to identify and respond to market-wide and systematic risks to promote a well-functioning financial system considered later in this report. Officers will continue to engage with Central on reporting their outcomes-based approach.

c. In November 2024 it was agreed by the Committee to change the measures for climate solutions and fossil fuel exposure to report these 'by revenue' rather than reporting any company with at least £1 in either metric, this allows for a fairer consideration of the Fund's potential risk exposure.

21. The original NZCS followed the Net Zero Investment Framework developed by the Institutional Investors Group for Climate Change. The Framework's purpose is to set a blueprint for guiding, supporting, and enabling investors to make significant progress this decade, and beyond by providing both the ambition and hugely practical guidance contained in the Framework. Alongside extensive consultation with scheme members, employers, and other stakeholders. Since the NZCS's approval the NZIF has issued an updated Framework extending to other asset classes. There are also other frameworks such as the Private Markets Decarbonisation Roadmap which have developed since.

22. As part of the 'Fit for the Future' consultation outcome Government has set out that pools are not expected to create bespoke arrangements for each Fund's ESG and RI requirements. Government expects each pool will facilitate discussions among their partner Administering Authorities to establish a common approach, though it is recognised this may not always be possible. In these cases, pools may need to consider alternative options such as offering more than one ESG standard. The appropriate solution may depend on the number of administering authorities within a pool and the degree of divergence between ESG and RI stances. The government does not intend to proscribe a single solution but does not expect to see bespoke arrangements for each Administering Authority.

23. The Fund will need to continue to engage with LGPS Central and partner funds on its own RI approach within the ISS and NZCS.

24. Hymans presented the Fund's Strategic Asset Allocation review in January 2025. As part of the review, it noted the Fund's good progress towards managing climate risk though they recommended officers wait for the outcome of, at the time ongoing consultation. The Fund will continue to work with LGPS Central and partner funds on the implications of the outcome.

Global Developments

25. According to research by the Global Carbon Project, there is still no sign that the world has reached peak emissions, and for the first time the world breached 1.5C for the calendar year. Current policies in place around the world are projected to result in about 2.7°C warming above pre-industrial levels.

26. The impact of increasingly extreme weather has also shown some areas are finding it increasingly difficult to obtain insurance because of rising wildfire and flood risks.

27. Energy demand continues to increase, partly driven by hotter weather and increased use of air conditioning and demand from digitalisation, data centres and artificial intelligence, this increasing demand was largely met through renewable energy and nuclear power that now provide 40.9% of the world's electricity generation. Passing the 40% mark for the first time since the 1940s.

28. Over the last year UK and European based banks and asset managers have largely been strengthening their approach to managing climate risks. However, political pressure has resulted in some US based banks, asset managers and the Federal Reserve exiting climate focused collaboration groups. A roll back of the US Securities and Exchange Commission's climate disclosure rule will mean reduced disclosure pressure on US-based companies, which may ultimately feed into how much detailed reporting the Fund can expect on underlying US assets.

Proposals for Review

29. This report seeks Committee's views on the following key strands and timeline for the review.

A. Managing climate risk and opportunities: It will be important to consider the results of the Fund's triennial valuation where it is a requirement for actuaries to assess and report on climate risk per the Government's Actuary Department as part of their report under Section 13 of the Public Service pensions Act 2013 (GAD Section 13 report).

B. Evolution not revolution: Recognising the Fund is a long-term investor in comparison to the market and government cycles. To consider whether anything has significantly changed since March 2023 to require substantial changes to the Fund's approach or interim targets. As well as the latest available data as at 31 March 2025 which will be presented to Committee in November 2025.

C. Stewardship for real-world impact: LGPS Central enhanced their stewardship strategy as was presented to Committee in March 2024. How have outcomes progressed and does this continue to meet the Fund's approach. As well as activities and alignment of external managers, LGPS Central and the Local Authority Pension Fund Forum. Managers are in the process of returning questionnaires on these matters.

D. Remaining Asset Classes: The Fund's targets currently focus on the Fund's equity portfolio. Whether possible targets and measures should be expanded to further asset classes, while noting limitations existing in certain asset classes, the levers the Fund can continue to hold and Fit for the Future considerations for alignment with LGPS Central and other partner funds.

30. A proposed timeline is set out below for approval and consultation, while noting these may need to be flexible depending on work also taking place around Fit for the Future.

Date	**Comment**
July/August 2025	As part of the Triennial Valuation Hymans will begin work on climate scenario analysis for the Fund which will set out plausible scenarios and the potential impact that has on the Fund's current assets as required by the GAD Section 13 report.
26 September 2025	Proposals for Committee to agree regarding engagement with scheme members and employers of the Fund on key themes for the strategy.
5 December 2025	Committee to review Climate Risk Report for data as at 31 March 2025.
February 2026	Local Pension Board oversight of Climate Risk Report and Strategy considerations.
March/ June 2026	Engagement outcome and redrafted strategy.

Voting and Engagement

31. Appendix B sets out the Fund's voting report from January to March 2025. This incorporates circa 41% of the Fund's assets (LGIM's Global, UK and Low Carbon Transition fund, LGPS Central's Climate Multi Factor fund and the Global Equity Active fund).

32. A brief breakdown is set out below:

- The Fund made voting recommendations at 917 meetings (9339) resolutions)
- At 557 meetings the Fund opposed one or more resolutions.
- The Fund voted with management by exception at 4 meetings and supported management on all resolutions at the remaining 355 meetings.
- The majority of votes where the Fund voted against management were related to board structure (47%). These votes include issues such as over boarding, diversity, and inadequate management of climate risk.

33. Some further highlights from engagement activity from partners and investment managers are set out below.

LGPS Central – January – March 2025, and 2024 Annual Report

34. Central is the pooling company of the Fund. It is a strong supporter of responsible investment through the Responsible Investment and Engagement Framework. Over the last quarter they have published their quarterly report and 2024 Annual Stewardship Report which sets out progress across the year covering:

- Global Leadership: Actively participated in over 20 international initiatives.
- Direct Regulator Engagement: Engaged in policy dialogues with regulatory bodies in Brazil and Australia.
- Governance Oversight: Conducted a full audit of EOS's (Central's stewardship provider) engagement data, confirming alignment with Central's responsible investment and stewardship expectations.
- Strategic Focus: Refreshed their stewardship strategy around four core themes: Climate Change, Natural Capital, Human Rights, and Sensitive/Topical Activities.
- Impact Delivery: Achieved 100% engagement with priority companies, with 73% evidencing tangible progress.

35. As an example:

Company	Theme	Outcome
Volution Group (Designs and manufactures indoor air quality solutions)	Modern Slavery	LGPS Central are the lead investors engaging with Volution through the Find it Fix it, Prevent it collaborative engagement initiative that aims to engage with the construction sector on addressing Modern Slavery Risk. After engaging with them to discuss their approach Central requested that the Company publicly disclose their supply chain map and to identify their most salient modern slavery risks. Volution have confirmed that they will address Central's request, following which Central plan to meet with the company to discuss.

Legal and General Investment Management – Q1 2025

36. Legal and General Investment Management (LGIM) manage the majority of the Fund's passive equity which accounts for 16.8% of the Fund. LGIM's latest ESG impact report highlights some key activity in the Investment Stewardship team.

37. The latest ESG impact report highlights key engagements across LGIM's global stewardship themes, with a focus on:

   a. Holding boards to account - To be successful, companies need to have people at the helm who are well-equipped to create resilient long-term growth. By voting and engaging directly with companies, we encourage management to control risks while seeking to benefit from emerging opportunities.
   b. Creating sustainable value - LGIM see responsible investing as the incorporation of financially material ESG considerations into investment decisions, alongside engagement with companies, regulators, and policymakers, to help drive long-term value creation and support real-world outcomes for our clients.
   c. Promoting market resilience - The decisions that companies make today will impact our collective future in the decades to come, and over our clients' long-term investment horizons. Through LGIM, their clients have exposure to a slice of the global market, and therefore to systemic risks and opportunities that can be financially material to our clients' investments. LGIM's 'universal ownership' approach to investment stewardship means that we believe in using corporate

engagement and policy dialogue to drive long-term value creation and shape the future by encouraging more sustainable, long-term practices from companies.

38. An example of their activities are as follows:

Theme	Action	Outcome
Corporate Governance Timing of annual disclosures in Japan which are largely published the day of, or a few days after the AGM.	LGIMs engagement has ranged from direct and collective efforts over the years. More recently this included meetings with the Japan Financial Services Agency, Tokyo Stock Exchange and Ministry of Economy Trade and Industry.	On 28 March, the Japan Financial Services Agency requested all 4000 listed companies in Japan publish their annual securities report “a day before or a few days before the AGM”. This contains the fully audited financial statements and other important governance and sustainability related information which investors need to make informed voting decisions. LGIM will continue to engage noting real governance and investor dialogue improvements will only be possible if these reports are published three to four weeks before the AGM, in line with global best practice.

Local Authority Pension Fund Forum: January – March 2025

39. The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), which acts to promote the highest standards of corporate governance to protect the long-term value of local authority pension fund assets. Highlights from the latest quarterly report include engagements with energy suppliers, housebuilders, and water stewardship.

40. As an example:

Topic	Action	Outcome
London Stock Exchange Group (LSEG) Standards	LAPFF has been concerned with the weakening of standards relating to new entrants to the London listed	LAPFF have convened a ‘Capital Markets Working Group’ to help address shareholder interests, including issues of investor protection.

	companies' market, which has included Aston Martin Lagonda, NMC Health, Finablr and Quindell, the former of which has lost >90% of its value since listing, the other three being 100% losses.	LAPFF have met with the Senior Executive Director of the LSEG and are looking to meet with the Capital Markets Industry Taskforce chair and members. It is recognised that there is a shared understanding regarding the fundamental challenge facing the London Stock Exchange.

Ruffer – Q1 2025

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

42. One of their tools is their resource usage and productivity indicator (RUPI) a quantitative model which assesses companies on nine variables they believe are integral to fostering value creation that should deliver shareholder returns over the long term. This allows Ruffer to identify gaps in disclosure and then engage with the laggard companies. For example, this quarter they engaged with the following company, noting they have low absolute RUPI scores, lag their global peers, and have low scopes for the disclosure of extra financial data they track.

Topic	**Action**	**Outcome**
Toll Brothers	Human capital disclosure, to go alongside qualitative disclosure.	Ruffer shared interest in seeing quantitative data – for example, employee turnover and return on investment from training spend which might help Ruffer assess Toll Brothers' ability to attract and engaged skilled workers to drive competitive advantage. Ruffer expect to see a range of metrics from the company later this year when the sustainability Report update is complete, Ruffer will update their RUPI scores and re-run their benchmarking analysis to track progress.

Fiduciary duty

43. The Local Pension Committee has a fiduciary duty to act in the best interests of employers and scheme members. Case law on fiduciary duty explains the duty as the exercise of discretionary power rationally and reasonably and for a proper purpose, by reference to relevant legal considerations. This duty can be summarised as achieving what is the best for the financial position of the Fund. Investment powers must be directed to achieving what is the best for the financial position of the Fund, to ensure the Fund is able to pay benefits.

44. With regard to ESG considerations, the guidance states that the Funds should consider any factor financially material to the performance of their investments, including ESG factors. Although pursuit of a financial return should be the predominant concern, Funds may take purely non-financial (i.e. ethical) considerations into account provided that doing so would not involve significant risk of financial detriment to the Fund and where they have good reason to think that scheme members would support their decision. To gauge scheme members support, or otherwise, Funds should explain the extent to which the views of the local pension committee and other interested parties (i.e. Fund employers and members) are taken into account when making an investment decision based on nonfinancial factors and explain the extent to which non-financial factors will be taken into account in the selection, retention and realisation of investments.

45. The appetite of the Fund for taking risk when making investment decisions is ultimately for local consideration and determination by the Local Pensions Committee subject to the aim and purpose of the Fund. As a reminder this is to maximise the returns from investment returns within reasonable risk parameters.

46. Therefore, based on the present law and guidance the Local Pension Committee would not be acting lawfully with regard to approving investment decisions where Hymans Robertson or any successor external advisor believe a decision:

- risks conflict with the fiduciary duty to the Fund
- risks lower investment returns.

Resource Implications

47. The strategy review is planned and scoped based on existing Pension Fund resource as set out in the Pension Fund Budget and Business plan approved in March 2025.

Recommendations

48. It is recommended that the Committee provide any comments on the contents of the report and agree the next steps set out within the paper.

Background papers

Net Zero Climate Strategy

https://leicsmss.pensiondetails.co.uk/documents/LCC-Pension-Fund-Net-Zero-Climate-Strategy.pdf?language_id=1

Overview of the Current Asset Strategy and Proposed 2025 Asset Strategy Local Pension Committee Friday 31 January 2025

https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=740&MId=7986&Ver=4

Responsible Investment Plan 2025 Local Pension Committee Friday 31 January 2025

https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=740&MId=7986&Ver=4

Overview of the Current Asset strategy and Proposed 2024 Asset Strategy – Local Pension Committee 26 January 2024

https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=740&MId=7538&Ver=4

Equality Implications

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

Human Rights Implications

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

Appendix

Appendix A: RI Plan Update

Appendix B: The Fund's Quarterly Voting Report

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Appendix A

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 public markets.	
		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 LGPS Central - private markets 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.	As per the January SAA review ISC will consider a number of reports over the year in relation to private credit, property, tail risk, and private equity, these will contain net zero and RI considerations.
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.	RIWG met (January) and April 2025. Including a deep dive into carbon allowances, human rights and current stewardship developments and regulatory updates.
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.	In June 2025 the UK Stewardship Code 2026 was published and will need to be considered alongside fit for the future considerations.

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.

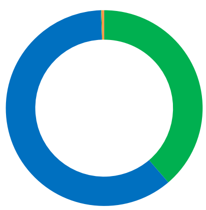
Leicestershire County Council Pension Fund

Voting Report, Q1 2025 (Jan-Mar 2025)

Over the last quarter we voted at **917** meetings (**9,339** resolutions). At **557** meetings we opposed one or more resolutions. We abstained at **one** meeting. We voted with management by exception at **22** meetings. We supported management on all resolutions at the remaining **four** meetings.

Global

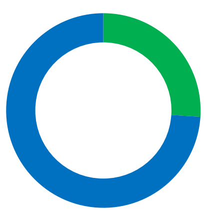
We voted at 917 meetings (9339 resolutions) over the last quarter.



Meetings in Favour 39%
Meetings Against 61%

Developed Asia

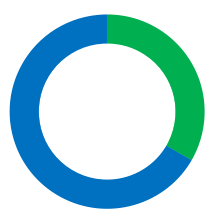
We voted at 265 meetings (2415 resolutions) over the last quarter.



Meetings in Favour 26%
Meetings Against 74%

Australia and New Zealand

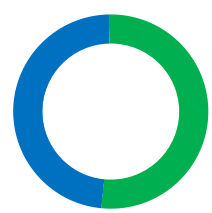
We voted at 3 meetings (15 resolutions) over the last quarter.



Meetings in Favour 33%
Meetings Against 67%

Emerging and Frontier Markets

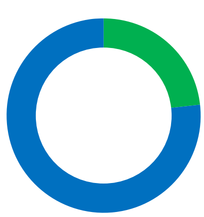
We voted at 355 meetings (2645 resolutions) over the last quarter.



Meetings in Favour 51%
Meetings Against 48%

Europe Ex-UK

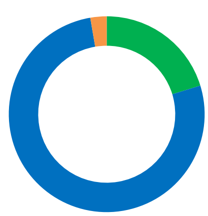
We voted at 112 meetings (2224 resolutions) over the last quarter.



Meetings in Favour 23%
Meetings Against 77%

North America

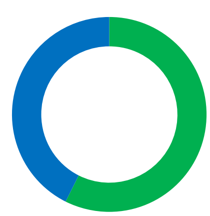
We voted at 74 meetings (862 resolutions) over the last quarter.



Meetings in Favour 20%
Meetings Against 77%
Meetings with Management by Exception 3%

United Kingdom

We voted at 108 meetings (1178 resolutions) over the last quarter.

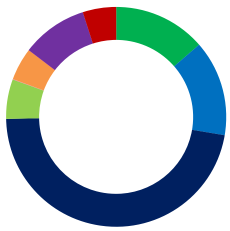


Meetings in Favour 57%
Meetings Against 43%

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

Global

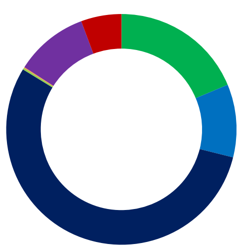
We voted against or abstained on 5896 resolutions over the last quarter.



- Amend Articles 14%
- Audit + Accounts 14%
- Board Structure 47%
- Capital Structure + Dividends 6%
- Other 5%
- Remuneration 10%
- Shareholder Resolution 5%

Developed Asia

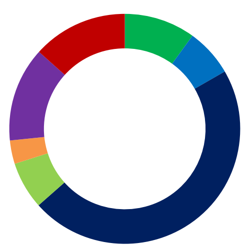
We voted against or abstained on 1643 resolutions over the last quarter.



- Amend Articles 19%
- Audit + Accounts 10%
- Board Structure 55%
- Remuneration 10%

Australia and New Zealand

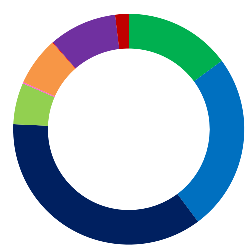
We voted against or abstained on 30 resolutions over the last quarter.



- Amend Articles 10%
- Audit + Accounts 7%
- Board Structure 47%
- Capital Structure + Dividends 7%
- Other 3%
- Remuneration 13%
- Shareholder Resolution 13%

Emerging and Frontier Markets

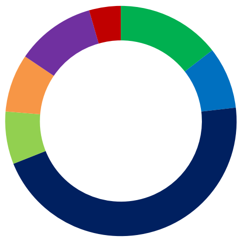
We voted against or abstained on 1584 resolutions over the last quarter.



- Amend Articles 15%
- Audit + Accounts 25%
- Board Structure 36%
- Capital Structure + Dividends 6%
- Other 7%
- Remuneration 10%

Europe Ex-UK

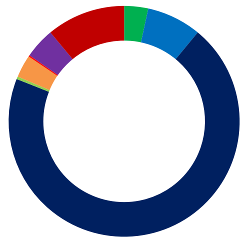
We voted against or abstained on 1513 resolutions over the last quarter.



- Amend Articles 14%
- Audit + Accounts 9%
- Board Structure 46%
- Capital Structure + Dividends 7%
- Other 8%
- Remuneration 11%
- Shareholder Resolution 4%

North America

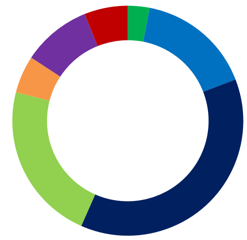
We voted against or abstained on 536 resolutions over the last quarter.



- Amend Articles 3%
- Audit + Accounts 8%
- Board Structure 70%
- Other 3%
- Remuneration 4%
- Shareholder Resolution 11%

United Kingdom

We voted against or abstained on 590 resolutions over the last quarter.



- Amend Articles 3%
- Audit + Accounts 16%
- Board Structure 37%
- Capital Structure + Dividends 22%
- Other 5%
- Remuneration 10%
- Shareholder Resolution 6%

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Leicestershire County Council

LOCAL PENSION COMMITTEE – 27 JUNE 2025

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

RISK MANAGEMENT AND INTERNAL CONTROLS

Purpose of the Report

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

Policy Framework and Previous Decisions

2. The LPC's Terms of Reference sets out that its principal aim is to consider pension matters with a view to safeguarding the interests of all Pension Fund members.

3. This includes the specific responsibility to monitor overall performance of the pension funds in the delivery of services and financial performance, and to consider all matters in respect of the pension funds including:

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

Background

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

5. In order to comply with the Code, the risk register and an update on supporting activity is included on each agenda for LPC and LPB.

Risk Register

6. The 19 risks are split into six different risk areas. The risk areas are:

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

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

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

9. The latest version of the Fund's risk register was approved by the LPC on the 14 March 2025

.

10. Officers meet quarterly to discuss the risk register and there has been a handful of changes to three existing risks since the previously approved risk register. These changes are highlighted below, alongside broader discussions on reasoning behind some of the remaining risk scores.

11. To meet Fund Governance best practice, the risk register has been shared with Internal Audit, who have considered the register and are satisfied with the current position. The LPB will consider the report on the 25 June 2025, any comments will be provided verbally at LPC.

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

Revisions to the Risk Register

Risk 4: Risk to Fund assets and liabilities arising from climate change.

13. This risk reflects that the Fund will be affected by any impact on global markets and investment assets from the transition to a low carbon economy, or the failure to achieve an orderly transition in line with the Paris Agreement. This risk continues to be rated 'amber' due to the potential impact and likelihood of climate change. These risks are posed through both physical impacts such as extreme weather, but also transitional risks which include policy, legal, technological, market and reputational risks for underlying companies.

14. This risk has been updated to reflect work progressing in reviewing the Net Zero Climate Strategy which will start with a report to the Local Pension Committee in

June 2025. Further actions have been updated to reflect that the Fund will also receive climate scenario analysis as part of the actuarial valuation. This should support the Fund's approach to risk identification, understanding of the Fund's exposure to climate-related risk and the funding strategy's resilience, which will further feed into the Net Zero Climate Strategy Review. Climate considerations have also fed into triennial valuation considerations for longevity.

Risk 10: Sub-funds of individual employers are not monitored to ensure that there is the correct balance between risks to the Fund and fair treatment of the employer

15. This risk reflects potential of insolvency or financial difficulties for an individual employer, and the impact that may have on the Fund. Part of managing this risk relates to engaging with employers as part of setting new employer contribution rates, as well as employer risk profiling. One key contributor to this risk relates to 'high-risk' employers where potentially a closure of an employer could result in liabilities reverting to the Fund.

16. Following updated guidance from the Department for Education the Fund now has assurance that if a further education body, including sixth form colleges and bodies established under the Further and Higher Education Act 1992 close. The assets of the further education body would be used to pay-off any liabilities, with any shortfall paid for through the DfE's guarantee. As a result, both the residual impact and residual likelihood risks have reduced taking the residual risk score down to 3 and rated 'green'.

17. This risk has been considered as part of the 2025 triennial valuation, with this group of employers having their risk rating reduced.

Risk 11: Investment decisions are made without having sufficient expertise to properly assess the risks and potential returns.

18. While a lot of work has been undertaken in training Committee and Board it is recognised that the levels of training will be cyclical due to council elections. As a result, this residual risk has increased to reflect changes in membership after the County Council's election in May 2025. This has changed the residual risk rating to 'amber'. To mitigate this risk new members have had induction training in line with the Training Policy and have been invited to training as per this year's training plan.

<u>Other considerations</u>

19. During the review officers discussed all risks, and while not at a point requiring further updates to the remaining risks officers felt it was relevant to provide this wider information and context to the Board for a selection of these risks.

Risk 1: Market investment returns are consistently poor, and this causes significant upward pressure onto employer contribution rates.

20. This risk remains ‘amber’ and reflects the potential for poor market returns due to poor economic conditions and/or shocks, such as a global recession which would result in needing to increase employer contributions upwards.

21. While the Fund has had strong investment returns over the past few years, which has contributed to the mid-point funding level reported of 150% as at 30 June 2024 It is recognised that funding levels can easily shift, noting the Fund was 76% funded in 2016. This risk, alongside the medium-term outlook for different asset classes continues to be considered as part of the Strategic Asset Allocation (SAA) agreed every January.

Risk 3: Failure to take account of ALL risks to future investment returns within the setting of asset allocation policy and/or the appointment of investment managers.

22. This risk remains ‘amber’ following the ‘Fit for the Future’ consultation outcome as set out in more detail in relation to <u>Risk 18: Proposed changes to LGPS regulations and guidance requires changes to the Fund’s investment, pooling and governance processes.</u>

23. Currently the Local Pension Committee considers and agrees the SAA annually which is reviewed by the officers and the Fund’s Investment Advisor. This risk will need to be carefully managed following the outcome of the Fit for the Future consultation that will require the Fund to use the pool as the source of principal investment advice, with investment manager appointment to be undertaken by the pool. It will be important that the appropriate risks are considered when working with the pool and this risk will continue to be reviewed as officers work through the implications of the consultation outcome.

24. To date the Fund has received reasonable assurance on the controls taken to manage this risk from Internal Audit, however given these risks can never fully be protected against the Fund is looking to undertake a review following the January 2025 SAA with the Fund’s Investment Advisor on whether a tail risk strategy could manage this further.

Risk 5: Assets held by the Fund are ultimately insufficient to pay benefits due to individual members.

25. This risk remains ‘amber’. As set out in paragraph 16 the Fund has had a positive direction of travel over the past few years with increasing assets under management by the Fund. However, it has been agreed to not change the risk scoring at this time, given this could reverse just as quickly as the current position of the assumed positive future Investment returns.

26. As part of the 2025 valuation Hymans and Officers have considered calculating monetary contributions alongside employer percentages of salaries and decided not to use this for this valuation. The Actuary and Officers are comfortable employer percentages of salaries will be sufficient to ensure that any employer contribution rates set are effective, and do not negatively impact on employer financial situations by requiring large increases in future.

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

27. Both risks are 'green' and have a residual risk of three due to the low likelihood of the risk at this time due to the ongoing work by the Pensions Section. These risks are tolerated; however, it was considered important to retain them on the risk register as fundamental risks to the pensions section. These risks are also exposed to potential issues outside of the Fund's direct control if there are changes to employers' staff who provide information to the Fund, or changes to payroll systems.

Risk 13: If immediate payments are not applied correctly, or there is human error in calculating a pension, scheme members pensions or the one-off payments could be wrong.
Risk 14: If transfer out checks are not completed fully there may be bad advice challenges against the Fund.
Risk 15: Failure to identify the death of a pensioner causing an overpayment, or potential fraud or other financial irregularity.

28. These risks are also rated 'green' and represent business as usual processes for the Pensions Section. These are managed through clear processes, training, as well as additional verification processes. These risks are kept on the register given the importance of continuing to apply processes correctly and the impact not doing so may have.

Risk 16: The resolution of the McCloud case and 2016 Cost Cap challenge could increase administration significantly resulting in difficulties providing the ongoing pensions administration service.

29. The McCloud case requires Fund Officers to review and calculate in scope member's benefits, backdated to April 2014 when the LGPS commenced the career average revalued earnings scheme. Final system changes have been loaded onto the systems and work continues. Manual checking was completed by March 2025. Further details will continue to be provided to the Board.

Risk 18: Proposed changes to LGPS regulations and guidance requires changes to the Fund's investment, pooling and governance processes.

30. On 29 May Government published the outcome of the Fit for the Future consultation which seeks to strengthen the management of LGPS investments in three areas:
    a. Reforming the LGPS asset pools
    b. Boosting LGPS investment in their localities and regions in the UK
    c. Strengthening the governance of both LGPS AAs and LGPS pools

31. It is still too early to truly assess the potential implications from these proposals. Officers will continue to work with its investment advisor, LGPS Central and partner funds in relation to proposals and appropriate mechanisms.

Risk 19: Gaps in knowledge, caused by a significant number of Pensions Section staff deciding to retire over the next five years, could emerge if succession planning is not in place.

32. This risk was added in the previous risk register update and therefore there are no significant updates. Training has now been put in place with the first tranche to be undertaken starting April and second for September.

Recommendation

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

Equality Implications

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

Human Rights Implications

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

Background Papers

None

Appendix

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

Officers to Contact

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Risk no	Category	Risk	Causes (s)	Consequences	List of current controls	Impact	Likelihood	Current Risk Score	Risk Response	Further Actions / Additional Controls	Residual Impact	Residual Likelihood	Residual Risk Score	Residual Risk Change since December 2024	Action owner
1	**Investments**	**Market investment returns are consistently poor, and this causes significant upward pressure onto employer contribution rates**	Poor market returns most probably caused by poor economic conditions and/ or shocks e.g. CV19, global recessions	Significant financial impact on employing bodies due to the need for large increases in employer contribution rates	Ensuring that strategic asset allocation is considered at least annually, and that the medium-term outlook for different asset classes is included as part of the consideration	**5**	**2**	**10**	Treat	Making sure that the investment strategy is sufficiently flexible to take account of opportunities and risks that arise but is still based on a reasonable medium-term assessment of future returns. Last reviewed January 2025.	**4**	**2**	**8**	—	Investments - SFA
2	**Investments**	**Market returns are acceptable, but the performance achieved by the Fund is below reasonable expectations**	Poor performance of individual managers including LGPS Central, poor asset allocation policy or costs of transition of assets to LGPS Central is higher than expected	Opportunity cost in terms of lost investment returns, which is possible even if actual returns are higher than those allowed for within the actuarial valuation. Lower returns will ultimately lead to higher employer contribution rates than would otherwise have been the case	Ensuring that the causes of underperformance are understood and acted on where appropriate. Shareholders' Forum, Joint Committee and Practitioners' Advisory Forum will provide significant influence in the event of issues arising. Appraisal of each LGPS Central investment product before a commitment to transition is made.	**3**	**3**	**9**	Treat	After careful consideration, take decisive action where this is deemed appropriate. It should be recognised that some managers have a style-bias and that poorer relative performance will occur. Decisions regarding manager divestment to consider multiple factors including performance versus mandate and reason for original inclusion and realignment of risk based on revised investment strategy. The set-up of LGPS Central is likely to be the most difficult phase. The Fund will continue to monitor how the company and products delivered evolve. Programme of LGPS Central internal audit activity, which has been designed in collaboration with the audit functions of the partner funds. Each transition's approach is independently assessed with views from 8 partners sought	**3**	**2**	**6**	—	Investments - SFA
3	**Investments**	**Failure to take account of ALL risks to future investment returns within the setting of asset allocation policy and/or the appointment of investment managers**	Some assets classes or individual investments perform poorly as a result of incorrect assessment of all risks inherent within the investment. These risks may include, but are not limited to the risk of global economic slowdown and geopolitical uncertainty and failure to consider Environmental, Social and Governance factors effectively.	Opportunity cost within investment returns, and potential for actual returns to be low. This will lead to higher employer contribution rates than would otherwise have been necessary.	Ensuring that all factors that may impact onto investment returns are taken into account when setting the annual strategic asset allocation. Only appointing investment managers that integrate responsible investment (RI) into their processes.Utilisation of dedicated RI team at LGPS Central and preparation of an annual RI plan. The Fund is also member of the Local Authority Pension Fund Forum (LAPFF) and supports their work on shareholder engagement which is focused on promoting the highest standards of corporate governance and corporate responsibility. The Committee has approved a Net Zero Climate Strategy to take into account the risk and opportunities related to climate change. Climate Risk Report and Climate Stewardship Report. The Fund also produces an annual report as part of the Taskforce on Climate-related Financial Disclosures.	**3**	**4**	**12**	Treat	Responsible investment aims to incorporate environmental (including Climate change), social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns. Annual refresh of the Fund's asset allocation allows an up to date view of risks to be incorporated and avoids significant short term changes to the allocation. This can take into account geopolitical uncertainty, the impact of climate change on the portfolio including risk from stranded assets. Asset allocation policy allows for variances from target asset allocation to take advantage of opportunities and negates the need to trade regularly where investments under and over perform in a short period of time. LGPS Central are in the process of developing an ESG report for the Fund which can be used to monitor the Fund's portfolio exposure, and support engagement with underlying companies	**3**	**3**	**9**	—	Investments - SFA
4	**Investments**	**Risk to Fund assets and liabilities arising from climate change**	The impact on global markets and investment assets from the transition to a low carbon economy, and/or the failure to achieve an orderly transition in line with the Paris agreement.	Failure of meeting return expectations due to risks, or missed investment opportunities, related to the transition to a low carbon economy, and/or the failure to achieve an orderly transition. Resulting in increased employer contributions costs. Some asset classes, and carbon intensive sectors may be overexposed to transition risks, and/or the risk of stranded assets	Net Zero Climate Strategy, targeting by 2050 with an ambition for sooner. Climate metrics, including decarbonisation targets monitored annually through the Climate Risk Report, and reporting under TCFD recommendations. Supporting real world emissions reduction with partners (LAPFF, and LGPS Central) as part of the Fund's Climate Stwarship Plan. Consideration of clmiate change in investment decisions including investment in climate solutions and funds titled towards clmiate factors. Climate scenario analysis is undertaken biennially on impact to Fund assets. The Funding Strategy Statement's resilience to climate risk was also tested through the 2022 triennial valuation	**3**	**4**	**12**	Treat	Annual refresh of the Fund's asset allocation allows for an up to date view of climate risks and opportunities to be incorporated and avoids significant short term changes to the allocation. This will take into account the Fund's latest Climate Risk report. Increased asset coverage for climate metric reporting. Increased engagement with investment managers and underlying companies through Net Zero Climate Strategy and further collaboration. Expected regulatory change on climate monitoring. As part of the actuarial valuation the Fund's Actuary will undertake climate scenario analysis. Climate considerations will also feed into longevity assumptions. The IIGCC has produced a Net Zero Infrastructure Framework 2.0 that will be incorporated into the Fund's Net Zero Climate Strategy review to include further asset classes over 2025/2026.	**3**	**3**	**9**	—	Investments - SFA

5	**Liability**	**Assets held by the Fund are ultimately insufficient to pay benefits due to individual members**	Ineffective setting of employer contribution rates over many consecutive actuarial valuations	Significant financial impact on scheme employers due to the need for large increases in employer contribution rates.	Input into actuarial valuation, including ensuring that actuarial assumptions are reasonable and the manner in which employer contribution rates are set does not bring imprudent future financial risk Early engagement with the Fund's higher risk employers to assess their overall financial position. Ongoing review of Community Admission Bodies (CABs)	**5**	**2**	**10**	Treat	Actuarial assumptions need to include an element of prudence, and Officers need to understand the long-term impact and risks involved with taking short-term views to artificially manage employer contribution rates. Regular review of market conditions and dialogue with the schemes biggest employers with respect to the direction of future rates. GAD Section 13 comparisons. Funding Strategy Statement approach is to target funding level of 120%.	4	2	8		Pensions Manager
6	**Employer**	**If the pensions fund fails to receive accurate and timely data from employers, scheme members pension benefits could be incorrect or late. This includes data at year end.**	A continuing increase in Fund employers is causing administrative pressure in the Pension Section. This is in terms of receiving accurate and timely data from these new employers who have little or no pension knowledge and employers that change payroll systems so require new reporting processes	Late or inaccurate pension benefits to scheme members Reputation Increased appeals Greater administrative time being spent on individual calculations failure to meet statutory year-end requirements.	Training provided for new employers alongside guidance notes for all employers. Communication and administration policy Year-end specifications provided Employers are monthly posting Inform the Local Pension Board quarterly regarding admin KPIs and customer feedback.	**3**	**2**	6	Tolerate	Continued development of wider bulk calculations. Implemented automation of certain member benefits using monthly data posted from employers. Pensions to develop a monthly tracker for employer postings. Monitor employers that change payroll systems.	3	1	3		Pension Manager
7	**Employer**	**If contribution bandings and contributions are not applied correctly, the Fund could receive lower contributions than expected**	Errors by Fund employers payroll systems when setting the changes	Lower contributions than expected. Incorrect actuarial calculations made by the Fund. Possibly higher employer contributions set than necessary	Pension Section provides employers with the annual bandings each year. Pension Section provides employers with contributions rates (full and 50/50) Internal audit check both areas annually and report their findings to the Pensions Manager Finance reconcile monthly contributions to payroll schedule	**3**	**2**	6	Tolerate	Pension Officers check sample cases Pension Officers to report major failings to internal audit before the annual audit process Major failings to be reported to the Pensions Board	**3**	**1**	3		Pensions Manager
8	**Employer**	**Employer and employee contributions are not paid accurately and on time**	Error on the part of the scheme employer	Potentially reportable to The Pensions Regulator as late payment is a breach of The Pensions Act.	Receipt of contributions is monitored, and late payments are chased quickly. Communication with large commercial employers with a view to early view of funding issues. Internal Audit review on an annual basis and report findings to the Pensions Manager	**2**	**3**	6	Tolerate	Late payers will be reminded of their legal responsibilities.	**2**	**3**	6		Pensions Manager
9	**Governance**	**If the Funds In House AVC provider (The Prudential) does not meet its service delivery requirements the Pension Fund is late in making payment of benefits to scheme members**	Prudential implemented a new administration system in November 2020	Failure to meet key performance target for making payments of retirement benefits to members Complaints Reputational damage Members may cease paying AVCs	Reported it to the Chair of the Pension Boards and Senior Officers Reported to the LGA and other Funds Discussed with the Prudential Prudential attended a meeting with the Local Pension Board with improvement plan agreed	**3**	**3**	9	Treat	Prudential continue to engage with Fund Officers positively to quickly resolve issues National meetings with LGPS Funds and the Prudential continue to develop improvements. The national Framework is live and the Fund has signed up enabling the Fund to commence a future tender to select AVC providers.	**3**	**1**	3		Pensions Manager
10	**Governance**	**Sub-funds of individual employers are not monitored to ensure that there is the correct balance between risks to the Fund and fair treatment of the employer**	Changing financial position of both sub-fund and the employer	Significant financial impact on employing bodies due to need for large increases in employer contribution rates. Risk to the Fund of insolvency of an individual employer. This will ultimately increase the deficit of all other employers.	Ensuring, as far as possible, that the financial position of each employer is understood. On-going dialogue with them to ensure that the correct balance between risks and fair treatment continues.	**5**	**2**	**10**	Treat	Dialogue with the employers, particularly in the lead up to the setting of new employer contribution rates. Include employer risk profiling as part of the Funding Strategy Statement update. To allow better targeting of default risks Investigate arrangements to de-risk funding arrangements for individual employers. The Deprtnment for Education extended its guarantee to provide assurance to LGPS funds that FE bodies should not be treated as high risk employers. The Fund will ensure that the implications of the independent, non-public sector status, of further education, sixth form colleges, and the autonomous, non-public sector status of higher education corporations is fully accounted for in the Funding Strategy.	**3**	**1**	3		Pensions Manager

11	**Governance**	**Investment decisions are made without having sufficient expertise to properly assess the risks and potential returns**	The combination of knowledge at Committee, Officer and Consultant level is not sufficiently high. Turnover of Committee Membership requiring time to retrain.	Poor decisions likely to lead to low returns, which will require higher employer contribution rates	Continuing focus on ensuring that there is sufficient expertise to be able to make thoughtfully considered investment decisions. Improved training at Committee. Additional experience at LGPS Central added who make investment decisions on behalf of the Fund. Revised Training Policy agreed March 2024. Committee are required to colmpete all modules of the Hymans Aspire Online Training within 6 months of appointment or revision of modules.	**3**	**3**	**9**	Treat	On-going process of updating and improving the knowledge of everybody involved in the decision-making process. Members undertake Training Needs Assesment and get issued individual training Plans.	**3**	**3**	**9**		Investments - SFA
12	**Operational**	**If the Pensions database system is subjected to a cyber attack, resulting in the theft of personal data or a period of unavailability, then there may be a breach of the statutory obligations.**	Pensions database now hosted outside of LCC. Employer data submitted through online portal. Member data accessible through member self-service portal (MSS). Data held on third party reporting tool (DART). Greater awareness of information rights by service users.	Diminished public trust in ability of Council to provide services. Loss of confidential information compromising service user safety. Damage to LCC reputation. Financial penalties.	Regular LCC Penetration testing and enhanced IT health checks in place. LCC have achieved Public Sector Network (PSN) compliance. New firewall in place providing two layers of security protection in line with PSN best practice. Contractual arrangements in place with system provider regarding insurance. Work with LCC ICT and Aquila Heywood (software suppliers) to establish processes to reduce risk, e.g. can Aquila Heywood demonstrate that they are carrying out regular penetration testing and other related processes take place. Developed a new Cyber risk policy	**5**	**2**	**10**	Treat	Liaise with Audit to establish if any further processes can be put in place in line with best practice. Good governance project and the TPR new code of practice to include internal audit reviews of both areas. Under review and findings will be reported to the Board.	5	1	5		Pensions Manager
13	**Operational**	**If immediate payments are not applied correctly, or there is human error in calculating a pension, scheme members pensions or the one off payments could be wrong**	Human error when setting up immediate payments or calculating a pension System failures Over or under payments Unable to meet weekly deadlines	Reputation Complaints/appeals Time resource used to resolve issues Members one off payments, not paid, paid late, paid incorrectly	Officers re-engineered the retirement process using member self service (MSS) which speeds up process and reduces risk New immediate payments bank account checks system Use of insights report to identify discrepancies between administration and payroll sides of the system Funds over and under payment policy. Segregation of duties, benefits checked and authorised by different Officers Training provided to new staff. Figures are provided to the member so they can see the value and check these are correct A type of bank account verification applied to all pensions and transfer payments.	4	1	4	Tolerate	Officers worked with LCC Technical Security and Audit colleagues to update the Fund Cyber Policy document, ensuring that it complies fully with TPR Code of Practice. The latest version was approved by the Local Pension Committee in March 2025	4	1	4		Pensions Manager
14	**Operational**	**If transfer out checks are not completed fully there may be bad advice challenges against the Fund** **There are some challenges being lodged from Claims Management Companies on historic transfers out**	Increasing demand for transfers out from members Increased transfer out activity from Companies interested in tempting people to transfer out their pension benefits Increased complexity on how the receiving schemes are set up Increased challenges on historic transfers Manual calculation of transfer values due to McCloud.	Reputation Financial consequence from 'bad advice' claims brought against the Fund IDRP appeals (possible compensation payments) Increased administration time and cost	The Pensions Regualtor (TPR) checks Follow LGA guidance Queries escalated to Team Manager then Pensions Manager Legislative checks enable the Fund to withold a transfer in certain circumstances. Signed up to The Pension Regulator's national pledge "To Combat Pension Scams"	**2**	**4**	**8**	Treat	Escalation process to officers to check IFA, Company set up, alleged scam activity Further escalation process to external Legal Colleagues National change requires checks on the receiving scheme's arrangements. Some McCloud calculations using an LGA template.	**2**	**3**	**6**		Pension Manager
15	**Operational**	**Failure to identify the death of a pensioner causing an overpayment, or potential fraud or other financial irregularity**	Late or no notification of a deceased pensioner. Fraudulent attempts to continue to claim a pension	Overpayments or financial loss Legal cases claiming money back Reputational damage	Tracing service provides monthly UK registered deaths Life certificates for overseas pensioners Defined process governing bank account changes Moved to 6 monthly checks, (from one check every 2 years) National Fraud mortality screening for overseas pensioners	**3**	**1**	**3**	Tolerate	Targeted review of status for pensioners where the Fund does not hold the current address e.g. care of County Hall or Solicitors. Informal review of tracing service arrangements.	3	1	3		Pensions Manager

16	Regulatory	**The resolution of the McCloud case and 2016 Cost Cap challenge could increase administration significantly resulting in difficulties providing the ongoing pensions administration service**	The Regulations were laid on the 8 September 2023 and became active on the 1 October 2023. The legislation requires Fund Officers to review and calculate in scope member's pension benefits, backdated to April 2014 when the LGPS commenced the career average revalued earnings scheme. The Unions challenge on the 2016 cost cap, could result in possible benefit recalculations if the challenge is successful	Ultimate outcome on both McCloud and the cost cap are currently unknown but likelihood is; Increasing administration Revision of previous benefits Additional communications Complaints/appeals Increased costs	Guidance from LGA, Hymans, Treasury Employer bulletin to employers making them aware of the current situation on McCloud Team set up in the Pension Section to deal with McCloud casework. Quarterly updates to the Board. Internal Audit completed an audit on the first phase of McCloud implementation in the final quarter of 2023/24.	**3**	**3**	**9**	Treat	Final system changes have been loaded into the system. Fund Officers are adopting a phased approach starting with new in scope retirements and leavers. Phase two will require a review of existing in scope pension benefits with revision and payment of any arrears, as necessary.	2	2	4		Pensions Manager
17	Regulatory	**The implication of the national dashboard project could increase administration resulting in difficulties providing the ongoing pensions administration service**	National decision to implement pension dashboards thereby enabling people to view all their pension benefits via one single dashboard	Increased administration Data cleaning exercise on member records Increased system costs Additional communications	Initial data cleaning started Contract made with the system provider on building the data link	**3**	**3**	**9**	Treat	Work with LCC's internal IT Team Security checked on the required link to allow the access to secure member pension data GDPR requirements Quarterly updates to the Board Work with the Prudential regarding the transfer of AVC information	3	2	6		Pensions Manager
18	Regulatory	**Proposed changes to LGPS regulations and guidance requires changes to the Fund's investment, pooling and governance processes.**	National pressure from Government and as part of the Pensions Review, to reform the LGPS, and/or direct investment decisions towards specific asset classes that may not completely correlate with the Fund's fiduciary duty. Pensions review underway with respect to further consolidation. Fit for the Future consultation proposals.	Conflicting pressure on the Fund to make specific investments or investment transitions contrary to the Fund's investment approach. Some proposed changes may present additional management fees. Changes to the Fund's pooling approach and subsequent reduction in pools in the medium-term which may lead to administrative, legal and transition burdens and pressure on the Fund if not managed appropriately. Significant changes in the oversight, governance of investment management is possible over the next 12-24 months.	Response provided to the DLUHC consultation on 'Next Steps in Investing' alongside LGPS Central partners on challenges that may arise from proposed changes. Productive participation with LGPS Central at officer and Joint Committee level. Investment in pool products where possible and in line with the Fund's strategy as approved by it's investment advisor. Careful consideration of government proposals, balancing pooling proposals and improved governance and continuation of the investment strategy including the net zero journey.	**3**	**4**	**12**	Tolerate	Officers to review all relevant guidance and/or regulation changes. Continue to work with the Fund's Investment Advisor and LGPS Central on progressing pooling. Review the outcome of the Fit for the Future consultation and Pensions Bill considerations in collaboration with LGPS Central, the chair of the Local Pension Committee and the section 151 officer.	3	4	12		Investments - SFA
19	Operational	**Gaps in knowledge, caused by a significant number of Pensions Section staff deciding to retire over the next five years, could emerge if succession planning is not in place.**	Number of staff aged over 55 continues to rise (noting that minimum retirement age increases to age 57 from April 2028). It takes several years to be fully trained and knowledgeable in all LGPS calculations, hence staff turnover tends to be low and colleagues often remain in the section until retirement.	Loss of knowledge from all areas of the section (noting that the average service length in the Leicestershire Pension Section was 13.5 years at March 2024). Delays in the calculation and payment of all pension benefits. Complaints. Reputational damage.	All new staff undergoing extensive training. Utilise apprentice scheme as part of recruitment planning. Monitor the situation with Team 1-2-1s with colleagues to ensure awareness of any upcoming retirement plans. Offer external training from Barnett Waddingham to compliment internal training and to encourage retention of existing staff.	**3**	**3**	**9**	Treat	Offer external training from Barnett Waddingham to compliment internal training and to encourage retention of existing staff.	3	2	6		Pensions Manager

Appendix B: Risk Scoring Matrix

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

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

Residual Risk Score Change since last meeting indicator

- Risk Increase
- No Change
- Risk Decrease

Impact Risk Scoring Criteria

Scale	Description	Departmental Service Plan	Internal Operations	People	Reputation	Impact on the Environment
1	Negligible	Little impact to objectives in service plan	Limited disruption to operations and service quality satisfactory	Minor injuries	Public concern restricted to local complaints	None or insignificant damage
2	Minor	Minor impact to service as objectives in service plan are not met	Short term disruption to operations resulting in a minor adverse impact on partnerships and minimal reduction in service quality.	Minor Injury to those in the Council's care	Minor adverse local / public / media attention and complaints	Minor local impact
3	Moderate	Considerable fall in service as objectives in service plan are not met	Sustained moderate level disruption to operations / Relevant partnership relationships strained / Service quality not satisfactory	Potential for minor physical injuries / Stressful experience	Adverse local media public attention	Moderate local impact
4	Major	Major impact to services as objectives in service plan are not met.	Serious disruption to operations with relationships in major partnerships affected / Service quality not acceptable with adverse impact on front line services. Significant disruption of core activities. Key targets missed.	Exposure to dangerous conditions creating potential for serious physical or mental harm	Serious negative regional criticism, with some national coverage	Major Local Impact
5	Very High/Critical	Significant fall/failure in service as objectives in service plan are not met	Long term serious interruption to operations / Major partnerships under threat / Service quality not acceptable with impact on front line services	Exposure to dangerous conditions leading to potential loss of life or permanent physical/mental damage. Life threatening or multiple serious injuries	Prolonged regional and national condemnation, with serious damage to the reputation of the organisation i.e. front-page headlines, TV. Possible criminal, or high profile, civil action against the Council/Fund, members or officers	Major regional or national impact

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

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

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