

Minutes of a meeting of the Leicestershire Local Government Pension Fund - Annual General Meeting held at County Hall, Glenfield on Monday, 9 December 2024.

PRESENT

Leicestershire County Council

Mr. T. Barkley (Chairman)

Mrs. H. J. Fryer

District Representative

Cllr. M. Cartwright

Employee Representative

Mr. V. Bechar

Mr. N. Booth

Mr. C. Pitt

In attendance

Mr. Tom Hoare – Hymans Robertson

Mr. Steven Tart – Hymans Robertson

1. Minutes.

The minutes of the meeting held on 11 December 2023 were taken as read, confirmed and signed.

2. Question Time.

The Chief Executive reported that 6 questions had been received under Standing Order 34 from Mr. Anthony Simmons

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

Reply by the Chairman:

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

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

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

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

Reply by the Chairman:

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

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

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

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

Reply by the Chairman:

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

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

Reply by the Chairman:

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

Governments consultation proposals at a high level relate to:

- Pooling - Mandating certain minimum standards for pooling including, delegation of implementation of investment strategy to pools, pools providing principle investment advice and a requirement to transfer legacy assets to pools by 31 March 2026.
- UK and Local Investment - Funds to set out approach to local investment with regard to local growth plans and local economic priorities in setting their

investment strategy, noting however the definition of 'local' requires further clarification.

- Governance - Strengthening the governance of both LGPS funds and LGPS pools.

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

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

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

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

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

Reply by the Chairman:

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

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

Supplementary Question

“When replying to the Government's consultation will the Director of Corporate Resources and the Chairman be asking the Government to define 'local' as the geographical area covered by a Fund [e.g. Leicester, Leicestershire and Rutland] rather than an area covered by a Pool or the UK as a whole?”

Reply by the Chairman:

At the request of the Chairman, officers were asked to provide a response to Mr. Simmons supplementary question following the meeting.

[The Fund's response to the Government's Fit for the Future consultation, as delegated to the Director of Corporate Resources in consultation with the Chairman of the Local Pension Committee was included in the agenda of the Local Pension Committee on 31 January 2025, and Question 13 highlighted to Mr. Simmons in an email]

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

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

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

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

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

Reply by the Chairman:

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

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

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

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

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

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

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

3. 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).

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

There were no urgent items for consideration.

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

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

No declarations were made.

6. Pension Fund Annual Report and Accounts 2023/2024.

A presentation by the Director of Corporate Resources was given on the Annual Report and Accounts of the Pension Fund 2023/24. A copy of the report marked 'Agenda Item 6' and presentation is filed with these minutes.

During delivery of the presentation, the following points made:

- i. As of 31 March 2024, there were exactly 107,000 scheme members, and the scheme size continued to grow.
- ii. There were over 3,000 retirements in the year, with 9,552 new starters.
- iii. The Pension Fund as at 31 March 2024 was circa £6.5billion, which was 50% bigger than March 2020.
- iv. Whilst some Key Performance Indicators (KPIs) were slightly lower than target, when looking at the number of scheme Members and the complexity of the scheme regulations that changed during the 2023/24 financial year due to the McCloud Sargeant Judgement, the figures were quite impressive and showed a strong year of performance in total.
- v. Almost 60% of the Fund was classed as pooled, with the remaining investments being funds with external managers moving on to uncalled commitment (credited amounts to managers to be called down over time whenever they need that money to invest).
- vi. The Government recently launched its Fit for the Future consultation on three main proposals, which were the reforming of LGPS asset pools, boosting LGPS investment in the localities and UK, and strengthening governance of administering authorities. Feedback on the consultation would be provided by the Authority by the deadline of 16 January 2025.
- vii. Progress against the Net Zero Climate Strategy was positive, in that progress towards net zero had already exceeded initial expectations against two primary targets:
 - A reduction in weighted average carbon intensity by 50% - this had already reduced by 52.8% versus the 2019 baseline so was way ahead of the 2030 target.
 - A target reduction in financed emissions of 40% with an actual reduction of the total of carbon emissions by 40.4% from the 2019 baseline.
- viii. All progress towards Net Zero was against a backdrop of increasing assets under management that were continuing to outperform market benchmarks, which showed the Fund was continuing positive climate actions in a way that was supportive of its fiduciary duty.
- ix. The Fund continued to engage on a whole host of environmental, social and governance issues. One method was through voting with over 125,000 resolutions made over the past year and those were votes that the Fund expected Managers to

support the long-term economic interests of its stakeholders, and to ensure that boards and directors were accountable to shareholders.

In response to questions raised, the following points were made:

- x. A member observed that the Committee and Board members came from varying different backgrounds with varying different skills, and noted that the extensive training programme in person and online, that members undertook had not been included in the presentation, and gave reassurance to scheme members that the pension regulations were observed by all Committee and Board members.
- xi. A member congratulated officers on the speed in which they had managed the implementation of the McCloud judgement, and how they had managed the extensive, complicated exercise with no additional resources.
- xii. A member questioned if, at the age of 55, a person chose to take a portion of their own pension pot, therefore reducing the final balance of their pension fund, if inheritance would also be reduced. It was explained that there would be scenarios where people would need to consider their overall estate, and inheritance was just one element of that. It was further noted that pensions officers were not financial advisors, therefore had to be careful they were not drawn into discussions on financial matters such as tax where independent financial advice should be sought in terms of how they access the benefits to try and reduce the risk around tax.
- xiii. A member raised the subject of pension payments around probate. It was explained that currently it was quite an easy process where a member completed a death grant nomination form, which when notified a valuation was provided to the person managing the estate to take account of, with a deduction of tax over the threshold (£325,000 is the norm for the majority but not for all). Following a recent government announcement around inheritance tax, it was likely to be more administratively more complex and could delay payment.

The Chairman welcomed Mr. Tom Hoare and Mr. Steven Tart from Hymans Robertson to the meeting. During their presentation, the following points were made:

- xiv. One funding valuation element was to see how the level of prudence was placed between the balance of contributions and reliance on future investment returns within the funding strategy, to ensure the Fund was able to meet all scheme member benefits now and in the future.
- xv. A funding progression chart since the valuation in 2022 since the funding position as at 30 September 2024 was 150%, which was a healthy funding position. The key driver in the improved funding position was largely down to the reduction in liabilities coupled with good asset performance over the past twelve months.
- xvi. A factor of uncertainty when managing the pension fund was life expectancy, and analytics around longevity such as place, income, pension, affluence and gender provided a level of uncertainty and it was difficult to predict how long people were expected to live for.
- xvii. With regards to climate risk and pension risk, a lot of pension funds had not paid enough attention to with regards to pension risk. As actuaries, Hymans when setting funding plans were alive to and had improved reporting around risks to the pension

fund, with improved sophistication in some of the modelling which looked at extreme events, for example, global food shock which could cascade very quickly through supply chains.

- xviii. It was pointed out that, though the Fund was 150% funded, that was for benefits that had been earned, and the majority of benefits had yet to be earned with future contributions. It was acknowledged that employers were under pressure, with councils having budget deficits forecast, and other sectors were experiencing pressure which Hymans were aware, and there was a balance to be made between protecting member benefits and also looking after affordability for employers.

In response to questions raised, the following points were made:

- xix. A Member questioned, when looking at long-term projections, to what extent had changes in demographics been into account when the world's population was expected to fall over the century. It was explained the scheme members were of primary concern, and though future earners were not yet in the pension fund, it was something to be aware of. The pension fund would be referred to as 'immature' should there be more active members compared to deferred members, and cash flows would become very relevant because more money would be paid out than was coming in, which meant assets would be used to pay pensions rather than the cash coming in.
- xx. A member asked if the models used when processing data were as good as they could be, and with regards to climate change, how much had the models changed over the past year. It was noted that the model used was an in-house model called the economic scenario service. There was regular training with the modelling team to understand the governance process around the model, which received minor calibration every month to reset to market conditions.

RESOLVED:

That the contents of the Pension Fund Annual Report and Accounts 2023-24 be noted.

7. Local Pension Board Annual Report

A report was presented on behalf of the Local Pension Board. A copy of the report marked 'Agenda Item 7' is filed with these minutes.

RESOLVED:

That the report be noted.

8. Report of the Local Pension Committee Employee Representatives.

A report was presented on behalf of the Local Pension Committee Employee Representatives. A copy of the report marked 'Agenda Item 8' is filed with these minutes.

RESOLVED:

That the report be noted.

9. Appointment of Scheme Member Representatives to the Local Pension Committee.

The Chairman reported that three nominations for the position of employee representative on the Local Pension Committee had been received. However, there was only one position for employee representative for three years, and one position for reserve scheme member to be offered to the person placed second in the ballot for one year.

The nominations were for Mr. Vipul Bechar, Mr. Ray Hurst, and Mr. Rupert Simms.

It was noted that the current employee representatives elected to the Committee were:

- Mr. C. Pitt (to remain an employee representative for a period of one year)
- Mr. N. Booth (to remain an employee representative for a period of two years).

RESOLVED:

- a) That Mr. V. Bechar be appointed as an employee representative for a period of three years expiring at the Annual General Meeting in 2027.
- b) That Mr. R. Hurst and Mr. R. Simms, having received an equal number of votes, be contacted after the meeting to discuss the position of reserve scheme member.

10. Appointment of Scheme Member Representatives to the Local Pension Board.

The Chairman reported that one nomination for the position of employee representative on the Local Pension Board has been received. The nomination was from Mr. Manjit Saroya. It was noted that there was also a vacancy of reserve employee representative. Mr. Andrew Stewart, currently elected to the Board as reserve employee representative, had agreed to continue in this role.

It was noted that the current employee representatives elected to the Board were:

- Mrs. R. Gilbert (to remain an employee representative for a period of one year).
- Mr. A Cross (to remain an employee representative for two years).

RESOLVED:

- a) That Mr. M. Saroya be appointed as employee representative for a period of three years expiring at the Annual General Meeting in 2027.
- b) That Mr. A. Stewart be appointed as reserve employee representative for a period of one year expiring at the Annual General Meeting in 2025.

11. Date of next meeting.

It was noted that the next Annual General Meeting was scheduled for 15 December 2025.

12. Urgent items.

As reported there were no urgent items.

12.00pm to 1.41pm
09 December 2024

CHAIRMAN