



Meeting: Local Pension Committee

Date/Time: Friday, 30 January 2026 at 10.00 am

Location: Sparkenhoe Committee Room, County Hall, Glenfield

Contact: Mrs Angie Smith (0116 305 2583).

Email: Angie.Smith@leics.gov.uk

AGENDA

<u>Item</u>	<u>Report By</u>	<u>Marked</u>
1. Minutes of the meeting held on 5 December 2025.		(Pages 3 - 20)
2. Question Time.		
3. Questions asked by members under Standing Order 7(3) and 7(5).		
4. To advise of any other items which the Chairman has decided to take as urgent elsewhere on the agenda.		
5. Declarations of interest in respect of items on the agenda.		
6. Cessation Corridor Approach - Draft Funding Strategy Statement	Director of Corporate Resources	(Pages 21 - 104)
7. Overview of the Current Asset Strategy and Proposed 2026 Asset Strategy.	Director of Corporate Resources	(Pages 105 - 236)
8. Update on Fit for the Future and LGPS Central Pooling.	Director of Corporate Resources	(Pages 237 - 242)
9. Draft Investment Strategy Statement.	Director of Corporate Resources	(Pages 243 - 272)

Democratic Services ◦ Chief Executive's Department ◦ Leicestershire County Council ◦ County Hall

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10. Pension Fund Training Needs Self Assessment.	Director of Corporate Resources	(Pages 273 - 284)
11. Draft Responsible Investment Plan 2026.	Director of Corporate Resources	(Pages 285 - 298)
12. Date of next meeting.		

The date of the next meeting is scheduled for 20 March, 2026 at 10.00am.

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

TO:

Leicestershire County Council

Mr. P. King CC (Chairman)	Mr. B. Piper CC
Mr. D. Grimley CC (Vice-Chairman)	Mr. M. Durrani CC
Dr. J Bloxham CC	

Leicester City Council

Cllr. B. Dave
Cllr. G. Whittle

District Council Representatives

Cllr. M. Cartwright
Cllr. R. Denney

University Representative

Mr. J. Henry

Scheme Member Representatives

Mr. V. Bechar
Mr. N. Booth
Mr. R. Simms



Minutes of a meeting of the Local Pension Committee held at County Hall, Glenfield on Friday, 5 December 2025.

PRESENT

Leicestershire County Council

Mr. P. King CC (Chairman)
Dr. J. Bloxham CC (online)
Mr. M. Durrani CC
Mr. D. J. Grimley

Leicester City Council

Cllr. B. Dave
Cllr. G. Whittle

District Council Representatives

Cllr. M. Cartwright (online)
Cllr. R. Denney

Staff Representatives

Mr. N. Booth

In attendance

LGPS Central

Mr. Louis-Paul Hill
Mr. Joshua Simpson
Mr. Edward Baker

76. **Minutes of the previous meeting.**

The minutes of the meeting held on 26 September 2026 were taken as read, confirmed and signed.

77. **Question Time.**

The Chief Executive reported that eight questions had been received under Standing Order 35.

1. Question asked by Mr. Rupert Simms

The Committee recently confirmed that the Fund has investments worth £28m in companies known to support illegal settlements in the occupied West Bank and that the size of these investments represents below 0.4% of the total pension fund.

Does the Committee consider that, were it to dispose of these investments, that it could do so without incurring any significant risk to its fiduciary duty?

Reply by the Chairman:

Thank you for your question. As recognised within the question any decision made by the Committee must be considered in the context of the Fund's primary duty to act in the best financial interests of scheme members whereby investment decisions must aim to secure the required returns in a risk managed manner, to meet pension liabilities.

For context the Fund's investments are held within multiple pooled passive and active funds meaning the Fund does not hold direct investment in individual companies, nor have the power to direct specific investment managers to either invest or divest in a company.

As a result, any considerations with regard to disposal would be complex and likely require divestment from multiple mandates.

The practical limitations of investing through pooled vehicles mean that a decision to dis-invest from specific companies would require the Fund to exit entire pooled vehicles, including low-cost passive funds that track the market indices, which would result in transition costs and potential loss of returns whilst significant sums are not invested, of around half of the Fund's total portfolio. The Fund would need to find appropriate replacement funds with relevant exclusions, while fulfilling the investment objectives of existing mandates, as well as conform with the upcoming regulation changes with relation to investment pooling.

From a strategic point of view although the investments referenced are relatively small as a proportion of the Fund, any decision to divest would establish a precedent. This would require the Committee to ensure that the rationale for exclusion is applied consistently to future requests, which could significantly increase complexity, operational risk and financial risk to the Fund.

2. Question asked by Ms. Colleen Molloy

The committee recently explained that the majority of its investments in companies providing goods and services to illegal settlements in the occupied West Bank are held in passive funds which track the market. Can the committee list which, if any of these investments, are not held in passive funds and explain how these investments are held?

Reply by the Chairman:

Thank you for your question. Of the companies previously listed by the UNCHR a proportion of the holdings in Airbnb, Booking Holdings and Motorola are also managed by active investment managers who were appointed via LGPS Central. These are all international companies that will have limited exposure to the aforementioned areas.

These are all held within pooled funds, as it is most cost-effective to invest via a pooled fund from a management fee perspective as indicated in the response to the first question. All day-to-day decisions are made by specialist investment managers.

LGPS Central regularly discuss managers commitments to [United Nations Guiding Principles](#) on Business and Human Rights in [Conflict-Affected and High Risk areas](#) is a regular item during their monitoring calls and they are increasingly asking managers to facilitate engagement with these companies.

3. Question asked by Ms. Joanne Springthorpe

The LGPS fund sought legal opinion earlier this year about whether continued investment in companies 'linked to the ongoing situation in the Middle East' was lawful. Notwithstanding that advice, or that the advice may now be out of date, does the committee recognise that any given investment may be unethical even while it remains technically lawful?

Reply by the Chairman

Thank you for your question. It is recognised that underlying investments may be considered unethical subject to an individual's beliefs.

While non-financial factors (such as ethical or social considerations) may be taken into account, this is permissible only where it will not result in significant financial detriment.

Furthermore, an ethical approach would require the Fund to consider the moral persuasion of an organisation over that of financial investment considerations which would not be in line with the Fund's fiduciary duty. As the Fund is diversified across countries, sectors companies at any one time there will be multiple investments that individuals may find unethical dependant on their beliefs. This can vary between individuals, and over time.

If the Fund were to look at excluding all unethical investments, however that may be defined, this would divert from the Fund's primary purpose. Due to this the Fund's investment strategy statement sets out that the Fund does not make investment decisions based on ethical considerations.

4. Question asked by Ms Natasha Bednall

The LGPS Investment Strategy Statement (ISS) states that the 'Fund does not exclude investments to pursue boycotts' The following links give examples of pension and investment schemes around the world that have taken the decision to divest from companies listed in the Fund's portfolio because of their involvement with illegal settler activity in Palestine.

<https://etikkradet.no/bezeq-the-israeli-telecommunication-corp-ltd-2/>

<https://bdsmovement.net/news/luxembourg-pension-fund-dumps-9-israelifirms-over-settlements>

<https://www.klp.no/en/corporate-responsibility-and-responsibleinvestments/exclusion-anddialogue/Decision%20to%20exclude%20Mivne%20Real%20Estate%20Ltd.pdf>

<https://www.business-humanrights.org/it/ultime-notizie/israelpalestine-large-dutch-pension-funds-continue-to-divest-from-stocks-linked-to-human-rights-abuses-by-israel/>

Having considered these examples does the committee recognise that it could review its investment strategy and choose to divest from companies providing goods and services to illegal settlements?

Reply by the Chairman:

Thank you for your question. Any review of the Fund's Investment Strategy Statement must be accompanied by appropriate consideration of fiduciary factors relevant to the Fund.

The Fund is subject to government regulations regarding investment decisions ensuring funds are managed responsibly as set out in the Investment Strategy Statement. The Fund's ISS follows the government's rules on what it can and can't invest in and is regularly reviewed and considered by the Committee.

This is a hugely complex matter that has been referred to the Scheme Advisory Board on behalf of all LGPS funds.

The Fund awaits any guidance and advice from the UK Government, as they have the necessary legal expertise and resources to analyse the complex and dynamic situation, as recognised in the Scheme Advisory Board's letter to the [Minister of Local Government and Homelessness](#).

5. Question asked by Mr Phil Hardy

In its answer to a recent question about LGPS investments in companies supporting illegal settlements in the occupied West Bank, the committee cited its Investment Strategy Statement, stating that the Fund does not 'exclude investments to pursue boycotts....unless formal sanctions, embargoes and restrictions have been put in place by the Government'.

Having considered the full UK sanctions list, can the committee explain what due diligence has been undertaken by it and its fund managers to ensure that current investments in illegal settlements do not conflict with any specific sanctions placed by the UK Government upon individuals or organisations engaged with illegal settlements in the Occupied West Bank?

<https://www.gov.uk/government/publications/the-uk-sanctions-list>

Reply by the Chairman:

Thank you for your question. For the passively managed funds which track an index, the index providers are typically responsible for excluding sanctioned securities from their indices which would prevent the funds tracking them from investing in sanctioned securities; notwithstanding this, LGPS Central (Central) also reviews its passive funds for sanctions compliance. To support oversight arrangements, Central receive sanctions watch lists and restricted markets information from the depositary and review this within established governance arrangements to ensure visibility around existing and newly issued sanctions.

All Central funds are subject to oversight arrangements which includes the review of sanctions information, such as that published by the Office of Financial Sanctions Implementation which is part of HM Treasury. For actively managed funds, Central conduct routine engagement with underlying managers on portfolio composition as part of ongoing meetings.

6. Question asked by Ms Jane Hammond

On 24th September 2025 the pension fund issued a statement based on a legal opinion from Nigel Giffin KC to the effect that he did not believe that LGPS funds were acting unlawfully by “holding and failing to divest from investments in companies which have been linked to the ongoing situation in the Middle East”.

However, this advice related to the allegation that the State of Israel is engaged in genocide and did not consider the specific case of companies providing goods and services to illegal Israeli settlements. Does the committee maintain that these investments are also lawful?

Reply by the Chairman:

Thank you for your question. [The advice provided to the Scheme Advisory Board from Nigel Giffin's KC 2024](#) is concerned with the suggestion that it would be unlawful for administering authorities to invest, or continue to invest, LGPS funds in undertakings engaged in certain activities with a bearing upon Israel's conduct in and in relation to Gaza or the other Palestinian territories.

This includes the question of whether any underlying criminality on the part of relevant companies or those to whom they supply might mean that investing in those companies was unlawful as a matter of public law, set out within paragraph 7. Paragraph 80 (i) references that “merely to make an ordinary investment in a company will not in normal circumstances amount to assistance in that company’s activities”.

The Fund is subject to government regulations regarding investment decisions ensuring funds are managed responsibly as set out in the Investment Strategy Statement (ISS). The Fund's ISS follows the government's rules on what it can and can't invest in and is regularly reviewed and considered by the Committee. The ISS sets out that the Fund does not exclude investments to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries unless formal legal sanctions, embargoes and restrictions have been put in place by the Government.

This is a hugely complex matter that has been referred to the Scheme Advisory Board on behalf of all LGPS funds.

The Fund awaits any guidance and advice from the UK Government, as they have the necessary legal expertise and resources to analyse the complex and dynamic situation, as recognised in the Scheme Advisory Board's letter to the [Minister of Local Government and Homelessness](#).

7. Question asked by Ms Sarah Ridgway

The LGPS fund sought legal opinion earlier this year about whether continued investment in companies 'linked to the ongoing situation in the Middle East' was lawful. Notwithstanding that advice, or that the advice may now be out of date, does the committee recognise that any given investment may be unethical even while it remains technically lawful?

Reply by the Chairman

Thank you for your question. It is recognised that underlying investments may be considered unethical subject to an individual's beliefs.

While non-financial factors (such as ethical or social considerations) may be taken into account, this is permissible only where it will not result in significant financial detriment.

Furthermore, an ethical approach would require the Fund to consider the moral persuasion of an organisation over that of financial investment considerations which would not be in line with the Fund's fiduciary duty. As the Fund is diversified across countries, sectors companies at any one time there will be multiple investments that individuals may find unethical dependant on their beliefs. This can vary between individuals, and over time.

If the Fund were to look at excluding all unethical investments, however that may be defined, this would divert from the Fund's primary purpose. Due to this the Fund's investment strategy statement sets out that the Fund does not make investment decisions based on ethical considerations.

8. Question asked by Mr Brendan Keegan

Considering the commitment within the LGPS Investment Strategy Statement to a 'strategy of engagement rather than exclusion', can the committee explain how continued investment in companies providing goods and services to illegal settlements in the occupied West Bank could help to bring about an end to or prevent the expansion of those illegal activities?

Or alternatively can it provide an example of how it has been successful in influencing the companies the LGPS invests in in the past?

Is there any evidence that "engagement" can in any way alleviate the humanitarian disaster unfolding across Gaza and the West Bank?

Reply by the Chairman:

Thank you for your question. The Fund's approach as set out within the Investment Strategy Statement prioritises engagement, investment managers are expected to manage the risks within their portfolio, including those related to geopolitical and human rights issues within their investment process.

The Fund uses its membership of the Local Authority Pension Fund Forum, alongside LGPS Central to assist it in pursuing engagement activities. Both have set out their approach to engaging with companies operating in conflict zones, including the Occupied Palestinian Territories.

LGPS Central is also an investment management company that manages pooled assets on behalf of the Fund. Central have committed to a policy of engagement rather than exclusion, as this approach aligns with fiduciary duties and international standards such as the United Nations Guiding Principles on Business and Human Rights.

Central recognise that investment in these areas requires thorough human rights due diligence, risk assessments and stakeholder engagement to mitigate negative impacts and ensure alignment with company law. By promoting transparency and collaboration

with underlying companies Central can effectively promote risk management and support human rights in conflict-affected areas. The growing adoption of the UN's Heightened Human Rights due diligence framework underscores the importance for businesses to address human rights and conflict risks proactively.

The Local Authority Pension Fund's public statement is available [here](#) which sets out their expectations of companies.

Central believe that engagement with firms in high-risk regions can lead to improved transparency and meaningful policy changes. This forms part of a long-term strategy for managing systematic risks. In terms of ongoing activity Central has initiated engagement with seven companies operating in the region and have identified additional companies suitable for engagement which they are looking to initiate by the end of January 2026.

Both the Local Authority Pension Fund Forum and LGPS Central provide quarterly, and annual engagement reports available on their websites.

78. 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).

79. Urgent Items.

There were no urgent items for consideration.

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

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

Councillor Denney declared an Other Registrable Interest in Agenda Item 6, LGPS Central report and presentation, in that he managed funds which had passive stocks with Legal and General.

81. LGPS Central Presentation.

The Committee considered a report of the Director of Corporate Resources which provided an update on the public markets investments the Fund held with LGPS Central (Central). A copy of the report marked 'Agenda Item 6' is filed with these minutes.

The Chairman welcomed Mr. Louis-Paul Hill from Central. They provided a presentation as part of this item. A copy of the presentation slides is filed with these minutes.

Arising from discussion, the following points were made:

- i. A Member asked how tariffs and the imbalance they created influenced the markets. Central reported that tariffs were expected to have a significant impact, alongside other events such as regional banking issues seen a few years previously, including the collapse of Silicon Valley Bank, and it had been anticipated that they could have triggered a recession. However, markets had largely absorbed those shocks and demonstrated resilience.

- ii. Members queried if recent market trends, especially the strong performance of big technology companies, had affected the Pension Fund's results, and if the level of return was sustainable and affected the way the Fund was managed. It was reported that the Fund had seen positive returns, but not as high as the overall market, mainly due to investment managers caution with investing too much money into a small group of technology companies that had driven most of the market gains over the year. Whilst those companies had performed very well, relying heavily on them would increase risk.
- iii. Clarification was sought on how the Pension Fund was performing against its long-term goals and targets set. Central reported the Fund's performance was measured against long-term targets rather than short-term market trends, with the long-term goal of a steady growth of around 6-8% a year return to keep the Fund sustainable.
- iv. It was noted that the Fund had relatively little investment in the major technology companies often referred to as the "Magnificent Seven." In response to a question, it was noted there was no formal comparison with other local government pension funds currently, although it might change as pooling arrangements developed.
- v. A Member asked if there was a case for increasing passive investments rather than relying on active managers. It was reported recent performance suggested passive strategies could be advantageous, though historically active managers had outperformed at times. The main risk of shifting to passive was aligning with the benchmark, which would result in significant exposure to tech stocks and increased concentration risk.
- vi. A Member questioned if, with regards to passive stocks, Central were expecting managers to adjust their holdings, or if the current approach was acceptable. It was reported that Central operated as a manager-of-managers, whose role was to ensure confidence in each manager's investment process, philosophy, and team, monitoring performance closely and challenging managers where necessary, but ultimately, decisions on stock selection and positioning rested with them. At present, their underweight position in the global active equity mandate aligned with their stated approach, and Central supported that strategy.
- vii. In response to a question about the Fund's £900 million in uncalled funds, it was explained that the commitments were part of a plan to bring the portfolio back in line with the Fund's agreed investment strategy. In order to correct the position, there had been additional commitments made, which was standard practice. Because those investments had not yet been called, more cash was being held by the Fund than usual, but cash would decrease as funds were drawn by managers.

RESOLVED:

That the LGPS Central report and presentation be noted.

82. Valuation of Pension Fund Investments.

The Committee considered a report of the Director of Corporate Resources, which provided an update on the investment markets and how individual asset classes were performing and the total value of the Fund's investments as at 30 September 2025. The report also included the scope for the annual review of the Fund's strategic asset allocation (SAA). A copy of the report marked 'Agenda Item 7' is filed with these minutes.

Arising from discussion, the following points were made:

- i. Clarification was sought on what actions were being taken to address the current level of cash holdings, and what steps were being taken by managers to address the issue. It was reported that there were underweights in several areas of the market, which had been reviewed by the Investment Sub-Committee. At present, there were approximately £1 billion in outstanding commitments to managers, and if all of these commitments were called immediately, the Fund would be overweight in those asset classes. It was further noted that delays to calling down commitments were due to managers taking time to identify suitable investment opportunities, and unlike listed markets, private markets operated on longer timelines to deploy capital.
- ii. In response to a question on whether previously approved commitments could be withdrawn and funds relocated elsewhere, it was stated that generally, once a commitment was made, it became a legally binding obligation to provide funds when requested. Whilst there might be exceptional circumstances, such as a fund closure where commitments were not fulfilled, in practice, managers had discretion to call funds within the agreed investment period, which could be up to five years. and once the investment period had expired, managers could not call remaining commitments.
- iii. A Member asked if there was the possibility of allocating uncalled cash to passive funds for quicker deployment. Officers reported that the position was reviewed annually, but increasing passive allocations would raise market risk. The current growth asset group allocation was 53% and considered appropriate by the investment advisor. Adding 5 to 8% would increase risk and potential losses during drawdowns. Steps had been taken to improve cash returns, including investing £90 million in Aegon's short-dated bond product.
- iv. A Member inquired whether recent benchmark underperformance reflected overly aggressive benchmarks or the impact of strong United States (US) tech stock performance. Officers explained that both factors contributed, adding that benchmarks were reviewed and toughened in 2024, moving to cash-plus targets and adding higher expectations for private equity and infrastructure. Despite this, private equity had delivered near-zero returns over the past three years which had been a drag on overall returns when the benchmark return was positive.
- v. In response to a question, it was reported that geographic allocation was reviewed annually, and whilst listed equity was global, it was skewed toward the US, which represented about 60% of major indices. The Fund also maintained a UK overweight position in comparison to major global indexes. Emerging markets were included in the all-world allocation, though US exposure remained dominant.

RESOLVED:

That the Committee noted:

- a) The valuation of Pension Fund Investments report.
- b) The scope for the annual review of the Fund's Strategic Asset Allocation.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to provide details regarding the proposed 2026 investment advisor objectives for Hymans Robertson, the Fund's investment advisor. A copy of the report marked 'Agenda Item 8' is filed with these minutes.

Arising from discussion, the following points were made:

- i. Clarification was sought on whether the proposal covered the period up to the end of March. It was noted that clarification was still awaited on technical guidance regarding permitted actions.
- ii. With regards to Hymans Robertson's role after March 2026, it was explained that under current draft regulations, LGPS Central would provide primary advice, with independent advice permitted only in exceptional circumstances. The definition of "independent advisor" remained unclear, though previous consultations suggested it excluded anyone who had previously advised the Fund, but final guidance was awaited.
- iii. Central reported that it was expected to become the principal advisor from 1 April 2026. The organisation was building an internal advisory team, including investment consultants and risk modelling capabilities, but might rely on Hymans temporarily if full capacity was not achieved by April 2026.
- iv. A Member questioned that with certain responsibilities, such as Strategic Asset Allocation (SAA), if it would remain with the Committee and require support. Officers reiterated uncertainty over whether the independent advisor would be an individual or a firm, and whether prior advisors could assume the role.
- v. A Member raised concern about the limited availability of suitably skilled individuals and raised further concern about accountability if LGPS Central and the Committee shared advisors. Central indicated consultants were being recruited and expected the independent advisor to be an individual, possibly supported by an oversight consultant under a fiduciary model.

RESOLVED:

That the Committee approved the Hymans investment advisor objectives for 2026.

84. Local Government Reorganisation.

The Committee considered a report of the Director of Corporate Resources which provided information of the possible administrative implications of Local Government Reorganisation (LGR) on the Leicestershire Local Government Pension Fund. A copy of the report marked 'Agenda Item 9' is filed with these minutes.

Arising from discussion, the following points were made:

- i. Members stated that regardless of which option the government selected, it was essential to minimise administrative disruption, which was critical for pension scheme members, ensuring they could access their benefits, receive accurate information, and resolve queries efficiently.

- ii. It was noted that a public consultation was expected in March 2026, based on three submitted proposals, at which point the Committee might choose to respond to the consultation as the administering authority. It was further noted that the process coincided with other significant changes, including the Fit for the Future programme, and would create additional workload. Potential impacts included increased requests for benefit calculations from scheme members and possible redundancies due to organisational mergers, leading to higher administrative demands.
- iii. It was noted that Leicester City Council had proposed two options, therefore the Government had four options to consider. The current proposal was for a combined authority, with or without an elected mayor. However, the situation remained uncertain, with the government having recently delayed mayoral elections until 2028.
- iv. It was further likely that the administrative budget for the Fund would have to be reviewed to ensure sufficient capacity for any unexpected pressures. The timetable for implementation was extremely tight, but a decision was expected in Summer 2026, with a shadow authority on the current timetable to go live the following April 2027, with the new authority in place for 2028.

RESOLVED:

That the potential administrative implications of Local Government Review and on the Leicestershire Pension Fund be noted.

85. Risk Management and Internal Controls.

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

RESOLVED:

That the Committee:

- a) Note the Risk Management and Internal Controls report;
- b) Approve the updated Risk Register attached as Appendix A to the report;
- c) Delegate any response to Government's Fit for the Future – technical consultation to the Director of Corporate Resources following consultation with the Chairman of the Local Pension Committee.

86. Climate Related Disclosures Report 2025 and Responsible Investment Update.

The Committee considered a report of the Director of Corporate Resources which provided the Fund's 2025 Climate Related Disclosures Report (Appendix A) and recommend changes to the Climate Stewardship Plan. The report also provided an update on progress versus the Responsible Investment Plan 2025 (Appendix B), quarterly voting report (Appendix C) and stewardship activities. A copy of the report marked 'Agenda Item 11' is filed with these minutes.

The Chairman welcomed Mr. Joshua Simpson and Mr. Edward Baker from LGPS Central. They provided a presentation as part of this item. A copy of the presentation slides is filed with these minutes.

Arising from discussion, the following points were made:

- i. It was reported that the Net Zero Climate Strategy was scheduled for review in 2026. As agreed by the Committee in September, engagement would take place with scheme members and employers on net zero targets and other responsible investment issues. A workshop was planned before the March Committee meeting to gather feedback and identify key themes, which would inform the updated strategy, with a revised version presented to Committee for approval in 2026.
- ii. Direct impacts of extreme weather events and how it could impact real assets was reported. With climate change it had altered the odds and the severity with which those type of events happened, and with cities increasing in size, they were likely to have more assets damaged when extreme weather events occurred. Therefore, it was important to know where the pockets of vulnerabilities were, and where investments were positioned otherwise that could impact the rates of the asset and furthermore could impact the ability to sell the asset at the end of it.
- iii. Members heard that transition risk referred to the potential impact of technological and policy changes on business strategies. A classic example was Nokia's decline after the rise of smartphones like the iPhone. It was reported that similar dynamics were now evident in the energy sector, where clean energy technologies had dominated new projects globally over the past five years, accounting for 90–95% of developments. The trend had been driven by climate change responses and policy shifts, although regional differences existed (for example, oil-producing countries favouring traditional energy). Overall, clean energy was expected to experience the fastest growth, influencing markets and investment strategies significantly.
- iv. It was noted that progress against internal targets was positive and ahead of schedule by a number of years.

RESOLVED:

- a) That Climate Related Disclosures Report attached as Appendix A to the report, and progress verses the Responsible Investment Plan 2025 (Appendix B), quarterly voting report (Appendix C) and stewardship activities and high -level overview of the Fund's investment managers net zero approaches be noted.
- b) That the proposed changes to the Climate Stewardship Plan companies as set out in paragraphs 34 and 35 be approved.

87. Date of next meeting.

RESOLVED:

That it be noted that the date of the next meeting would be 30 January 2026, at 10.00am.

Members were asked to note the new start time for the meeting.

88. 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.

89. Climate Related Disclosures 2025 - Exempt Information.

The Committee considered an exempt report of the Director of Corporate Resources, the purpose of which was to provide supplementary information to the public Climate-Related Disclosure Report 2025. A copy of the report marked 'Agenda Item 15' is filed with these minutes.

The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

90. Leicestershire Total Fund Summary.

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

RESOLVED:

That the report be noted.

91. LGPS Central Quarterly Investment Report.

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

RESOLVED:

That the report be noted.

92. Ruffer Quarterly Report.

The Committee considered an exempt report of 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.

93. 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.

94. 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.

95. 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.

96. LGPS Central PE Primary Partnership 2018 LP Quarterly Report.

The Committee considered an exempt report by LGPS Central PE Primary Partnership 2018 LP. 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.

97. LGPS Central PE Primary Partnership 2021 LP Quarterly Report.

The Committee considered an exempt report by LGPS Central PE Primary Partnership 2021 LP. 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.

98. LGPS Central PE Primary Partnership 2023 LP Quarterly Report.

The Committee considered an exempt report by LGPS Central PE Primary Partnership 2023 LP. 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.

99. Patria SOF Quarterly Report.

The Committee considered an exempt report by Patria SOF. 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.

100. 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 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.

101. Saltgate UK AVPUT.

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

102. Christofferson Robb & Company CRC Capital Release Fund Quarterly Report.

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

103. 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 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.

104. IFM Global Infrastructure Quarterly Investor Report.

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

105. JP Morgan Asset Manager Infrastructure Investments Fund Quarterly Report.

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

RESOLVED:

That the report be noted.

106. 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 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.

107. 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.

108. 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 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.

109. 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 35' is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

110. Partners Group Multi Asset Credit Quarterly Reports.

The Committee considered an exempt report by Partners Group Multi Asset Credit. 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.

111. Quinbrook Infrastructure Partners Net Zero Power Fund Quarterly Report.

The Committee considered an exempt report by Quinbrook Infrastructure Partners Net Zero Power Fund. 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.

112. Aegon Asset Management Quarterly Report.

The Committee considered an exempt report by Aegon Asset Management. A copy of the report marked 'Agenda Item 38' is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

113. Aegon Asset Management Global Short Dated Climate Transition Fund Quarterly Report.

The Committee considered an exempt report by Aegon Asset Management Global Short Dated Climate Transition Fund. A copy of the report marked 'Agenda Item 39' is filed with these minutes. The report was not for publication by virtue of paragraph 3 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

114. Aegon Asset Management LCCPF IL and FX Update.

The Committee considered an exempt report by Aegon Asset Management LCCPX IL and FX Update. A copy of the report marked 'Agenda Item 40' 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 11.43am
05 December 2025

CHAIRMAN



LOCAL PENSION COMMITTEE – 30 JANUARY 2026

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

CESSATION CORRIDOR APPROACH – DRAFT FUNDING STRATEGY STATEMENT

Purpose of the Report

1. The purpose of this report is to inform the Local Pension Committee (LPC) of a proposed change to the Fund's cessation approach when an employer leaves the scheme. The change will be incorporated into the Fund's final Funding Strategy Statement (FSS).

Background

2. When an employer leaves the Leicestershire Fund's LGPS, Regulations require the Fund Actuary to carry out a cessation calculation. The calculation determines if the employer is in deficit or surplus when leaving the scheme.
3. If an employer leaves the scheme in deficit the employer makes payment of the required value, and in so doing, complies with their Fund requirements.
4. If an employer leaves the scheme in surplus the Fund determines how much, if any, surplus is repaid back to the employer via an 'exit credit'.
5. The Regulations outline steps that each LGPS fund must carry out when determining the value (which may be zero) of any exit credit.
6. Each exit credit should be assessed on a case-by-case basis subject to the circumstances of the employer exit, and further guidance on the Fund's process is set out in the Fund's current cessation policy (Appendix I of the current FSS).
7. The Fund's total funding position has improved to 140% at the 2025 valuation, which has been primarily driven by changes in market conditions. The improved funding position means it is now more likely employers will leave in surplus.
8. As part of the wider review of funding strategy and policies, officers are reviewing the approach to calculating cessation values in the context of the current funding environment.

9. Officers informed the LPC on the 26 September 2025, the cessation approach was under review, and the final details will be included in the Fund's final Funding Strategy Statement (FSS) which will be brought to the Committee meeting on the 20 March 2026 for approval.
10. Employers were invited to reply on the recent consultation on the FSS that ended on the 11 January 2026. Officers highlighted proposed changes to the cessation approach detailed in Appendix E of the draft FSS. The current draft FSS is included as Appendix A.
11. Officers are currently considering employers' responses on the draft FSS and whether any changes or additions are required, for finalising the FSS for Committee in March 2026.
12. Approval of the final FSS on the 20 March 2026 will conclude the 2025 valuation, finalising employer rates for the period 1 April 2026 to 31 March 2029.

Cessation Basis 2022

13. At the 2022 valuation the Fund reviewed the cessation approach, moving from a gilts-based methodology to a risk-based approach for the low-risk cessation exit basis.
14. All employers that leave the scheme are assessed on the low-risk basis, other than Transferee Admission Bodies (TABs) as they have a scheme employer guarantor that the liabilities pass back to.
15. By moving to the risk-based approach in 2022, this aligned with the approach used to determine the future investment return for the ongoing basis and contribution rate setting.
16. Notably in 2022, the Fund defined the assumed future investment return for the Fund's low-risk cessation basis to be the level of return that the Fund's Investment Strategy is expected to achieve, with a 90% likelihood over the 20 years following the valuation.
17. This approach has been in place since the 2022 valuation.

Cessation Basis 2025

18. Since 2022 there has been improvement in the funding position of the Fund and employers, which has increased the number of employers who could exit the scheme in surplus.
19. Officers accept there are occasions when employers may choose to leave the Fund. Exiting employers do not bring additional risk to the Fund if the cessation basis is managed with adequate prudence and provided there is sufficient surplus for the remaining employers.

20. The improved funding position is positive for the Fund and employers, as it reduces the risk of an unaffordable deficit being owed by any exiting employer.
21. To protect the Fund and remaining employers when an employer exits the scheme, the Fund proposes a change to the 2022 cessation basis, to introduce a cessation likelihood “corridor”.
22. The Fund Actuary, Hymans has recommended the “corridor” approach to the Leicestershire Fund, and this is already in place at other LGPS Funds.
23. The Fund proposes to move away from calculating cessations with a fixed 90% likelihood (of the assets achieving at least this rate of return) and replace with an upper and lower level (referred in the appendix as bounds) to provide a ‘corridor’ of certainty for employers approaching exit.
24. Officers propose 85% likelihood as the lower level, and 95% likelihood as the upper level. This means that an exiting employer would only pay a debt to the Fund if there was a deficit on the 85% lower level, while an exit credit would only be payable if a surplus existed on the 95% upper level.
25. Officers feel 85% and 95% are reasonable and present fairness to the Fund and employers. This is designed to provide greater scope for an employer to not be in deficit at the 85% lower level (rather than 90%) but also to protect the Fund and other employers by increasing the upper level to 95% (rather than 90%), when an exit credit payment may be payable.
26. The lower and upper levels would be fixed at 85% and 95% likelihood, until the cessation policy is reviewed in the future, however the discount rate under each level would change as markets change.
27. The cessation corridor at 31 March 2025 would range from a discount rate of approximately 5.3% pa (85% lower level) to 3.4% pa (95% upper level).
28. This range (at 31 March 2025) is approximately a 2% per annum difference in the discount rate - which is equivalent to a change in liability values of around 30%. This helps reduce the volatility of cessation valuations and provides more certainty to employers when planning for future cessation events.
29. Officers propose to review the 85% to 95% levels at each triennial valuation period, or sooner if considered necessary (e.g. in response to a rapid change in the economic environment or a change in Regulations).
30. The following three examples demonstrate how the 85% lower level and 95% upper level will work. The examples are simply designed to show the methodology and not actual calculations.

Example One

Methodology	Cessation Value	Surplus or Deficit
85% (lower level)	(£10,000)	Deficit
90% (mid-point)	(£20,000)	Deficit
95% (upper level)	(£30,000)	Deficit

In this example, there is a £10,000 payment due from the employer as there is a deficit at the 85% lower level.

Example Two

Methodology	Cessation Value	Surplus or Deficit
85% (lower level)	£220,000	Surplus
90% (mid-point)	£150,000	Surplus
95% (upper level)	(£15,000)	Deficit

In this example, there is no deficit payment due from the employer as there is a surplus at the 85% lower level. There is no payment due from the Fund as there is a deficit at the 95% upper level.

Example Three

Methodology	Cessation Value	Surplus or Deficit
85% (lower level)	£650,000	Surplus
90% (mid-point)	£440,000	Surplus
95% (upper level)	£200,000	Surplus

In this example, there is no deficit payment due from the employer as there is a surplus at the 85% lower level. There may be an exit credit payable from the Fund as there is a surplus at the 95% upper level.

The attached document from the Fund actuary Hymans Robertson provides information on the proposed cessation change. See Appendix B.

Exit credit

31. In example three, where there is a surplus at the 95% upper level, officers will consider if an element of the surplus can be repaid to the exiting employer.
32. The approach used when considering payment of an exit credit is detailed in the Fund's current FSS in Appendix I and there is no proposal to change this methodology.

33. Officers will consider the amount of any exit credit having regard to the following factors:

- The extent to which there is an excess of assets in the Fund relating to the employer (i.e. is there a surplus on the cessation calculation)
- The proportion of this excess of assets which has arisen because of the value of the employer's contributions
- Any representations to the Fund made by the exiting employer or relevant qualifying party
- Any other relevant factors

34. Officers will liaise with the exiting employer when assessing if there is a surplus or deficit on the cessation calculation, after allowing for the corridor approach set out above.

35. Where there is a surplus (on the 95% upper level) – known as an ‘excess of assets’ – Officers will make an exit credit determination (which may be zero) subject to the circumstances of the exit and the steps set out in the Fund’s cessation policy and will notify the employer of this decision.

Timeline

36. The latest valuation timeline is detailed as follows.

Date	Topic	Stakeholder
January/February 2026	Consider consultation replies and any changes to the FSS	Pension Section
March 2026	Finalise FSS for approval	Committee
March 2026	Final valuation report	Hymans
April 2026 to March 2029	Employer rates to be implemented	Fund employers

Recommendation

37. It is recommended that the Committee notes:

- The proposed change to introduce a corridor approach for the Fund’s cessation methodology
- The Fund’s final Funding Strategy Statement will be brought to the 20 March 2026 Pension Committee meeting for approval

Equality Implications

38. 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

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

Appendix

Appendix A – Fund's draft FSS

Appendix B – Hymans Robertson Cessation Paper

Background Papers

Report of the Director of Corporate Resources – Pension Fund Valuation – Indicative Whole Fund Results, Draft Funding Strategy Statement – 26 September 2025:

<https://democracy.leics.gov.uk/documents/s192029/Pensions%20Committee%20Whole%20Fund%20Results%20and%20FSS%202026%20Sept%202025%20final.pdf>

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Leicestershire County Council Pension Fund

Funding Strategy Statement

April 2026

Effective date	1 April 2026
Previous valuation date	31 March 2025
Date approved	
Next review	March 2029
Prepared in accordance with SAB / CIPFA / MHCLG guidance dated	January 2025

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Appendix A – The regulatory framework

Appendix B – Roles and responsibilities

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Appendix I - Cessation Policy

1 Purpose of the Leicestershire County Council Pension Fund and the Funding Strategy Statement

This document sets out the Funding Strategy Statement (FSS) for Leicestershire County Council Pension Fund (the Fund).

The Leicestershire County Council Pension Fund is administered by Leicestershire County Council, known as the Administering Authority. Leicestershire County Council worked with the Fund's Actuary, Hymans Robertson, to prepare this FSS which is effective from 1 April 2026.

There's a regulatory requirement for Leicestershire County Council to prepare an FSS. You can find out more about the regulatory framework in [Appendix A](#). If you have any queries about the FSS, contact ian.howe@leics.gov.uk.

1.1 What is the Leicestershire County Council Pension Fund?

The Fund is part of the Local Government Pension Scheme (LGPS). You can find more information about the LGPS at www.lgpsmember.org. The Administering Authority runs the Fund on behalf of participating employers, their employees and current and future pensioners. You can find out more about roles and responsibilities in [Appendix B](#).

1.2 What are the funding strategy objectives?

The funding strategy objectives are to:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- where appropriate, ensure stable employer contribution rates
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.
- where appropriate, ensure fairness between employers and between different generations of tax-payers.
- The Fund will engage in a consultation with employers when developing funding strategy in a way which balances the risk appetite of stakeholders.

1.3 Who is the FSS for?

The FSS is mainly for employers participating in the Fund, because it sets out how money will be collected from them to meet the Fund's obligations to pay members' benefits.

Different types of employers participate in the Fund:

Scheduled bodies

Employers who are specified in a schedule to the LGPS regulations, including councils and employers like academies and further education establishments. Scheduled bodies must give employees access to the LGPS if they can't accrue benefits in another pension scheme, such as another public service pension scheme.

Designating employers (otherwise known as Resolution bodies)

Employers like town and parish councils can join the LGPS through a resolution. If a resolution is passed, the Fund can't refuse entry. The employer then decides which employees can join the scheme.

Admission bodies

Other employers can join through an admission agreement. The Fund can set participation criteria for them and can refuse entry if the requirements aren't met. This type of employer includes contractors providing outsourced services like cleaning or catering to a scheduled body.

Some existing employers may be referred to as **community admission bodies** (CABs). CABs are employers with a community of interest with another scheme employer. Others may be called **transferee admission bodies** (TABs), that provide services for scheme employers. These terms aren't defined under current regulations but remain in common use from previous regulations.

The Scheme Advisory Board refer to three different tiers of employers which may participate in the LGPS, specifically:

- Tier 1 – Local Authorities (including contractors participating in the LGPS with Local Authority backing)
- Tier 2 – Academy Trusts and Further Education Institutions (Colleges).
- Tier 3 – Standalone employers with no local or national taxpayer backing. Include universities, housing associations and charities.

1.4 How is the funding strategy specific to the Leicestershire County Council Pension Fund?

The funding strategy reflects the specific characteristics of the Fund employers and its own investment strategy.

1.5 How often is the Funding Strategy Statement reviewed?

The FSS is reviewed in detail at least every three years ahead of the triennial actuarial valuation and an annual check is carried out in the intervening years.

Amendments to the FSS may be in the following circumstances:

- material changes to the scheme benefit structure (e.g. HM Treasury-led)
- on the advice of the Fund Actuary
- Significant changes to investment strategy or if there has been significant market volatility which impacts the FSS or goes beyond FSS expectation
- if there have been significant changes to the Fund membership and/or Fund maturity profile
- if there have been significant or notable changes to the number, type, or individual circumstances of any of the employing authorities to such an extent that they impact on the funding strategy (e.g. exit/restructuring/failure) which could materially impact cashflow and/or maturity profile and/or covenant)
- if there has been a material change in the affordability of contributions and/or employer(s) financial covenant strength which has an impact on the FSS.
- recommendations from MHCLG/GAD.

In undertaking such reviews, the Administering Authority should consider:

- looking at experiences in relation to long-term funding assumptions (in terms of both investment income and forecast contributions income) and consequences of actions taken by employers (e.g. pay awards and early retirements)

- the implications for the funding strategy and, if significant, determine what action should be taken to review the FSS
- the implications arising from the funding strategy for meeting the liabilities of individual employers and any amendments required to the ISS
- consulting with individual employers specifically impacted by any changes as an integral part of the monitoring and review process and ensuring any communication regarding a review won't necessarily lead to rates changes for individual employers but could impact admissions, terminations, approach to managing risk and employer risk assessment.

Any amendments will be consulted on, approved by the Pensions Committee and included in the Committee meeting minutes.

This Funding Strategy Statement is effective from 1 April 2026 and is expected to remain in force until 31 March 2029 at the latest, unless an interim review is carried out prior to then.

1.6 Links to Administration Strategy

The Fund maintains an Administration Strategy Statement which outlines the responsibilities, standards and procedures for employers and the Fund. A copy of this can be found [here](#).

Adherence with the requirements of the Administration Strategy Statement is crucial to ensure the well-running of the Pension Fund and any failure to do so may lead to uncertainty around the value of an employer's liabilities and the need for prudent assumptions to fill any data gaps.

1.7 Actuarial valuation report

[LGPS Regulations](#) (specifically Regulation 62) require an actuarial valuation to be carried out every three years, under which contribution rates for all participating employers are set for the following three years. This Funding Strategy Statement sets out the assumptions and methodology underpinning the 2025 actuarial valuation actuarial exercise. The actuarial valuation report sets out 1) the Actuary's assessment of the past service funding position, and 2) the contributions required to ensure full funding by the end of the time horizon. The Rates and Adjustments certificate shows the contribution rates payable by each employer (which will typically be expressed as a percentage of payroll).

PART A – Key Funding Principles

2 How does the Fund calculate employer contributions?

2.1 Calculating contribution rates

Employee contribution rates are set by the LGPS regulations.

Employer contributions are determined by a mandatory actuarial valuation exercise, and are made up of the following elements:

- **the primary contribution rate** – contributions payable towards future benefits
- **the secondary contribution rate** – an adjustment to the total contribution rate to allow for the current funding position of the employer's past service benefits.

The primary rate also includes an allowance for the Fund's administration expenses.

The fund actuary uses a methodology known as Asset Liability Modelling to set employer contribution rates. Under this methodology, for a given proposed employer contribution rate, the model projects future asset and liability values for the employer under 5,000 different simulations of the future economic environment. Each simulation – generated by Hymans Robertson's Economic Scenario Service (ESS) model - has a different path for future interest rates, inflation rates and the investment return on different asset classes. This approach allows the fund actuary to understand the potential range of future funding outcomes that could be achieved via payment of that contribution rate.

The fund has set *funding strategy criteria* for each employer in the fund which must be satisfied in order for a given employer contribution to be deemed acceptable. The funding strategy criteria are specified in terms of the following four parameters:

- **the target funding level** – how much money the Fund aims to hold for each employer
- **the time horizon** – the time over which the employer aims to achieve the target funding level
- **the funding basis** – the set of actuarial assumptions used to value the employer's (past and future service) liabilities
- **the likelihood of success** – the proportion of modelled scenarios where the target funding level is met.

For example, an employer's funding strategy criteria may be set as follows:

The employer must have at least a 80% likelihood of being 100% funded on the ongoing participation basis at the end of a 17 year funding time horizon

The funding strategy criteria used by the fund are set out in Table 2. Further detail on the ESS and on the funding bases used by the fund are set out in [Appendix E](#).

The target funding level may be set greater than 100% as a buffer against future adverse experience. This may be appropriate for long term open employers, where adverse future funding experience may lead to future contribution rises.

This approach takes into account the maturing profile of the membership when setting employer contribution rates.

The approach taken by the Fund Actuary helps the Fund meet the aim of maintaining as stable a primary employer contribution rate as possible.

2.2 The contribution rate calculation

Table 1: contribution rate calculation for individual or pooled employers

Type of employer	Scheduled bodies			CABs and designating employers		TABs ¹ (all)
	Local authorities, police, fire	Universities	Academies and Colleges	Open to new entrants	Closed to new entrants	
SAB Tier	Tier 1	Tier 3	Tier 2	Tier 3	Tier 3	Tier 1
Funding basis²	Ongoing	Ongoing	Ongoing	Ongoing	Low-risk	Ongoing
Target funding level³	120%	120%	120%	120%	120%	100%
Minimum likelihood of success	80%	80-85% ⁴	80%	80%	90%	80%
Maximum time horizon⁵	17 years	17 years	17 years	17 years	17 years	Same as the letting employer
Primary rate approach⁶	The contributions must be sufficient to meet the cost of benefits earned in the future with the required likelihood of success at the end of the time horizon, expressed as a percentage of pensionable pay					
Secondary rate	The difference between the total contribution rate payable (determined as per 2.1) and the primary rate.					
Stabilised contribution rate?	Yes	No	No	No	No	No
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: Reductions may be permitted by the Administering Authority - see section 2.3 below				
Recognising covenant	Stabilisation parameters	Adjust likelihood of success – can be at employer level				
Phasing of contribution changes	Covered by stabilisation arrangement	Up to 3 years			None	
Approach to cessation calculations	The Fund's approach to cessation calculations is set out in Section 3.1 of Appendix 1					

¹ Employers participating in the Fund under a pass-through agreement will pay a contribution rate as agreed between the contractor and letting authority (in most cases this is set equal to the letting authority's total contribution rate). The Fund's policy on pass-through employers is detailed in [Appendix 1](#).

² See [Appendix E](#) for further information on the funding basis.

³ See section 2.3 for further information on the target funding level.

⁴ The likelihood of success will reflect the employer's risk characteristics. The Fund's approach to assessing and monitoring employer risk is set out in [Appendix D6](#). Where an employer is able to evidence stronger covenant (eg providing security), a lower likelihood within this bound may be permitted (but no lower than 80%)

⁵ If an employer moves into a deficit position it is expected that this is resolved as soon as possible, and a shorter time horizon may be used by the Fund where deemed appropriate. The time horizon will be set with reference to the employer's covenant strength.

⁶ The Primary Rate for the whole Fund is the weighted average (by payroll) of the individual employers' primary rates

The Fund manages funding risks as part of the wider risk management framework, as documented in the Fund's risk register. The funding-specific risks identified and managed by the Fund are set out in [Appendix D – Risks and Controls](#).

2.3 Target funding level and contribution reductions

Where an employer has a surplus, as calculated by the Fund Actuary on the appropriate funding basis, a reduction in contribution rate may be permitted by the Administering Authority.

The following framework will be used as a guide, and the Administering Authority has discretion and applies to all employers who remain open to new entrants and with no fixed end date in the scheme.

Employer funding level	Total contribution rate
Between 100% and 120%	Employer pays their Primary contribution rate
Greater than 120% funded	<p>Employer is allowed to benefit from a contribution rate reduction (via a negative Secondary Rate), to gradually reduce their funding level down to 120%</p> <p>Employer may pay up to a maximum of 3% less than the Primary Rate to support the aims of stability and inter-generational fairness</p>

Where an employer is expected to exit the scheme in the future, in general the Fund will seek to reduce any surplus where possible prior to the Employer's exit date.

2.4 Making contribution rates stable

Making employer contribution rates reasonably stable is an important funding objective. If this isn't appropriate, contribution increases or decreases may be phased subject to agreement by the Administering Authority.

The Fund may adopt a stabilised approach to setting contributions for individual employers, which keeps contribution variations within a pre-determined range from year-to-year.

After taking advice from the Fund Actuary, the Administering Authority believes a stabilised approach is a prudent longer-term strategy.

Table 1: current stabilisation approach

Type of employer	Local authorities, police & fire.

Maximum contribution increase per year	+2% of pay
Maximum contribution decrease per year	-2% of pay

Stabilisation criteria and limits are reviewed during the valuation process. The Administering Authority may review them between valuations to respond to membership or employer changes. The Fund may exercise discretion over the phasing of the maximum contribution increase/decrease per year subject to a maximum increase/decrease of 6% of pay over the 3-year inter-valuation period.

2.5 Employer open or closed status

Employer Status	Employer duties	Comments	Fund Requirements
Open (employer is 'open' to new entrants)	All new eligible staff employed by the employer are brought into the LGPS	Assessed by employer group (Table 2.2. FSS)	Actuarially assessed using the open (ongoing) methodology
Closed (employer is 'closed' to new entrants, but existing LGPS staff continue to accrue benefits)	There are no new eligible staff employed by the employer. All new staff are enrolled into a different pension arrangement	Assessed by closed to new entrants (Table 2.2. FSS)	Employer guarantor Security bond (full or capital cost) May be actuarially assessed using the low-risk methodology and/or by targeting a higher likelihood of success
Where an employer is partially open/closed the following principles will apply:			
'Deemed Closed' (9% or less)	Employers closing the scheme to some future eligible staff (existing staff remaining in) Employer to provide annual payroll data to enable the Fund to assess LGPS % level	9% or less of new employees still eligible to join the LGPS	Employer guarantor Security bond (full or capital cost) May be actuarially assessed using the low-risk methodology and/or by targeting a higher likelihood of success

			If the employer's annual payroll data reflects a change to 'deemed open' then a contribution review may be requested
'Deemed Open' (10% or higher)	<p>Employers closing the scheme to some future eligible staff (existing staff remaining in)</p> <p>Employer to provide annual payroll data to enable the Fund to assess LGPS % level</p>	<p>10% or more of new employees still eligible to join the LGPS</p>	<p>Actuarially assessed using the open (ongoing) methodology</p> <p>The overall risk of the employer will be assessed (which may include a covenant assessment by a third party covenant specialist), and this will be factored into the funding approach taken (for example, a higher likelihood of success may be adopted to reflect increased risk or other conditions imposed to suitably manage the risk).</p> <p>If the employer's annual payroll data reflects a change to 'deemed closed' then a contribution review may be carried out by the Fund.</p>

2.6 Links to investment strategy

The funding strategy sets out how money will be collected from employers to meet the Fund's obligations. Contributions, assets and other income are then invested according to an investment strategy set by the Administering Authority.

The funding and investment strategies are closely linked. The Fund must be able to pay benefits when they are due – those payments are met from a combination of contributions (through the funding strategy) and asset returns and income (through the investment strategy). If investment returns or income fall short the Fund won't be able to pay benefits, so higher contributions would be required from employers.

The investment strategy is designed allowing for the funding position determined on an appropriate and prudent basis, with the objective of achieving the funding objective for each employer group of the specific time horizon.

The Fund does not currently offer any alternative employer investment strategies (including facilitating a buy-in or other insurance solutions) due to the cost and administrative implications to maintain these relative to a single strategy.

The Fund's current strategic investment strategy as at 31 March 2025 is summarised in the table, with full details available at [link].

Asset class	Allocation
Listed Equity	41.0%
Private Equity	7.5%
Other alternatives	5.0%
Infrastructure	12.5%
Property / Real estate	7.5%
Credit (inc UK govt bonds)	9.0%
Credit	13.25%
UK gvt bonds	3.5%
Investment cash	0.75%

2.7 Does the funding strategy reflect the investment strategy?

The funding policy is consistent with the investment strategy. Future investment return expectations are set with reference to the investment strategy, including a margin for prudence which is consistent with the regulatory requirement that Funds take a 'prudent longer-term view' of funding liabilities (see [Appendix A](#))

2.8 Reviewing contributions between valuations

The Fund may amend contribution rates between formal valuations, in line with its policy on contribution reviews. The Fund's policy is available in [Appendix H Section 3.1](#). The purpose of any review is to establish the most appropriate contributions. A review may lead to an increase or decrease in contributions. The cost of this work is charged to the employer.

2.9 What is pooling?

The Administering Authority does not currently allow employers to enter into a funding pool except under specific circumstances. Where an employer is participating in the Fund under a pass-through admission

agreement this employer will be pooled with the letting authority. Similarly, when an academy joins an existing multi-academy trust (MAT) within the Fund, the funding positions are pooled together. In both situations the funding position of the individual employers are no longer tracked separately.

The Fund's policies on pass-through employers and academies are detailed in [Appendix F](#) and [Appendix G](#) respectively.

2.10 What are the current contribution pools?

There are currently no contribution pools in the Fund with the exception of MATs and pass-through employers who are pooled with the respective letting authority.

2.11 Administering Authority discretion

Individual employers may be affected by circumstances not easily managed within the FSS rules and policies. If this happens, the Administering Authority may adopt alternative funding approaches on a case-by-case basis.

Additionally, the Administering Authority may allow greater flexibility to the employer's contributions if added security is provided. Flexibility could include things like a reduced contribution rate or extended time horizon. Added security may include a suitable bond, a legally binding guarantee from an appropriate third party, or security over an asset.

2.12 Prepayment of contributions

The Fund permits the prepayment of employer contributions in specific circumstances.

Employer contributions

- The Fund will consider requests from employers to make payment of their employer contributions early or additional amounts over and above their employer rate.
- Each case will be considered on its own merits, taking into account the type of the employer, the employer rate, the amount and the value of cash the Fund holds.

Employee contributions

- The Fund will not usually consider requests to allow payment of employee contributions early.
- In exceptional circumstances, Officers may consider this on a case-by-case basis.

Prepayment of contributions does not guarantee improved investment benefits and any detriment is at the employer's own risk.

2.12 Non cash funding

The Fund will not accept any form of non-cash assets in lieu of contributions.

2.13 Managing surpluses and deficits

The funding strategy is designed to ensure that all employers are at least fully funded on a prudent basis at the end of their own specific time horizon. The uncertain and volatile nature of pension scheme funding means that it is likely there will be times when employers are in surplus and times when employers are in deficit. The funding strategy recognises this by 1) including sufficient prudence to manage the effect of this over the time horizon, and 2) making changes to employer contribution rates to ensure the funding strategy objectives are met.

Fluctuations in funding positions are inevitable over the time horizon, due to market movements and changing asset values, which could lead to the emergent of deficits and surplus from time to time, and lead to changes in employer contribution rates.

Table 1 sets out the Fund's approach to setting contribution rates for each employer group.

3 What additional contributions may be payable?

3.1 Pension costs – awarding additional pension and early retirement on non ill-health grounds

If an employer awards additional pension as an annual benefit amount, they pay an additional contribution to the Fund as a single lump sum. The amount is set by guidance issued by the Government Actuary's Department and updated from time to time.

If an employee retires before their normal retirement age on unreduced benefits, employers may be asked to pay additional contributions called strain payments.

Employers typically make strain payments as a single lump sum, though strain payments may be spread in exceptional circumstances if the Administering Authority agrees but when spread, the employer will need to pay for the lost investment return.

3.2 Pension costs – early retirement on ill-health grounds

If a member retires early because of ill-health, their employer must pay a funding strain, which may be a large sum. Each employer has an 'ill health allowance' built into the full contribution rate that is set at each actuarial valuation, but for higher risk employers or breaches of the "ill health allowance" the Fund may require immediate payment of this funding strain.

To mitigate this, employers may choose to use external insurance made available by the Fund (which is currently provided through Legal & General).

- **TABs** – the Fund's admission agreement requires TABs to take out ill-health liability insurance (IHLI).
- **Other employers** – IHLI is offered to all other employers. This is not mandatory but is strongly recommended for smaller and mid-size employers.

If an employer insures against the risk of ill-health retirements, there will be a reduction to the employer's contribution rate that is the equivalent to the external insurance premium rate.

In the event of an ill health early retirement:

- **Insured employers** – will be invoiced for the funding strain cost which they pay to the Fund. The employer then claims this cost back via the insurance contract.
- **Uninsured employers** – the Pension Manager reviews cases each quarter and the employer may be asked to make an additional payment towards the funding strain.

4 How does the Fund calculate assets and liabilities?

4.1 How are employer asset shares calculated?

The Fund adopts a cashflow approach to track individual employer assets.

The Fund uses Hymans Robertson's HEAT system to track employer assets monthly. Each employer's assets from the previous month end are added to monthly cashflows paid in/out and investment returns to give a new month-end asset value.

If an employee moves one from one employer to another within the Fund, assets equal to the cash equivalent transfer value (CETV) will move from the original employer to the receiving employer's asset share.

Alternatively, if employees move when a new academy is formed or an outsourced contract begins, the Fund Actuary will calculate assets linked to the value of the liabilities transferring (see section 4).

4.2 How are employer liabilities calculated?

The Fund holds membership data for all active, deferred and pensioner members. Based on this data and the assumptions in [Appendix E](#), the Fund Actuary projects the expected benefits for all members into the future. This is expressed as a single value – the liabilities – by allowing for expected future investment returns.

Each employer's liabilities reflect the experience of their own employees and ex-employees.

Benefits are valued in line with the regulations in force at the time of the valuation, with an exception relating to the McCloud ruling. The benefits of members likely to be affected by the McCloud ruling have instead been valued in line with the expected regulations, reflecting an underpin as directed by Ministry of Housing, Communities and Local Government (MHCLG).

4.3 What is a funding level?

An employer's funding level is the ratio of the market value of asset share against liabilities. If this is less than 100%, the employer has a shortfall: the employer's deficit. If it is more than 100%, the employer is in surplus. The amount of deficit or surplus is the difference between the asset value and the liabilities value.

Funding levels and deficit/surplus values measure a particular point in time, based on a particular set of future assumptions. While this measure is of interest, for most employers the main issue is the level of contributions payable. The funding level does not directly drive contribution rates. See section 2 for further information on rates.

PART B – Employer Events

5 What happens when an employer joins the Fund?

5.1 When can an employer join the Fund

Employers can join the Fund if they are a new scheduled body or a new admission body. New designated employers may also join the Fund if they pass a designation to do so.

On joining, the Fund will determine the assets and liabilities for that employer within the Fund. The calculation will depend on the type of employer, the existence of any guarantee, and the circumstances of joining.

A contribution rate will also be set. This will be set in accordance with the calculation set out in Section 2, unless alternative arrangements apply (for example, the employer has agreed a pass-through arrangement). More details on this are in Section 5.4 below.

The required calculations will be carried out by the Fund Actuary, and the associated actuarial costs will be recharged to the employer.

5.2 New academies

New academies (including free schools) join the Fund as separate scheduled employers. Only active members of former council schools transfer to new academies. Free schools do not transfer active members from a converting school but must allow new active members to transfer in any eligible service.

Liabilities for transferring active members will be calculated (on the ongoing basis) by the Fund Actuary on the day before conversion to an academy. Liabilities relating to the converting school's former employees (ie members with deferred or pensioner status) remain with the ceding council.

New academies will be allocated an asset share based on the estimated funding level of the ceding council's active members, having first allocated the council's assets to fully fund their deferred and pensioner members. This funding level will then be applied to the transferring liabilities to calculate the academy's initial asset share, capped at a maximum of 100%. The council's estimated funding level will be based on market conditions on the day before conversion.

The Fund treats new academies as separate employers in their own right, who are responsible for their allocated assets and liabilities. The new academy's contribution rate (where not joining an existing MAT) is based on the current funding strategy (set out in section 2) and the transferring membership.

Academies joining an existing MAT within the Fund will be pooled with this MAT and will fully share all risks and costs. Academies within a MAT pay the same total contribution rate. If an academy leaves one MAT and joins another, all active, deferred and pensioner members transfer to the new MAT (unless it is not possible to identify all deferred and pensioner members of the transferring academy).

The Fund's policies on academies may change based on updates to guidance from the Ministry of Housing, Communities and Local Government or the Department for Education. Any changes will be communicated and reflected in future Funding Strategy Statements.

The Fund's full policy on academy participation is detailed in [Appendix G](#)

5.3 New admission bodies as a result of outsourcing services

New admission bodies usually join the Fund because an existing employer (usually a scheduled body like a council or academy) outsources a service to another organisation (a contractor). This involves TUPE transfers of staff from the letting employer to the contractor. The contractor becomes a new participating Fund employer

for the duration of the contract and transferring employees remain eligible for LGPS membership. At the end of the contract, employees typically revert to the letting employer or a replacement contractor.

There is flexibility for outsourcing employers when it comes to pension risk potentially taken on by the contractor. You can find more details on outsourcing options from the Administering Authority or in the contract admission agreement.

Passthrough admissions

The Fund's preference is that all new admission bodies will be set up via a pass-through arrangement. The Fund's policy on passthrough is detailed in [Appendix F](#)

Non-passthrough admission

Liabilities for transferring active members will be calculated by the Fund Actuary on the day before the outsourcing occurs.

New contractors will be allocated an asset share equal to the value of the transferring liabilities. The admission agreement may set a different initial asset allocation, depending on contract-specific circumstances.

5.4 Other new employers

There may be other circumstances that lead to a new admission body entering the Fund, eg set up of a wholly owned subsidiary company by a Local Authority. Calculation of assets and liabilities on joining and a contribution rate will be carried out allowing for the circumstances of the new employer.

New designated employers may also join the Fund. These are usually town and parish councils. Contribution rates will be set using the same approach as other designated employers in the Fund.

5.5 Risk assessment for new admission bodies

Under the LGPS regulations, a new admission body must assess the risks it poses to the Fund if the admission agreement ends early, for example if the admission body becomes insolvent or goes out of business. In practice, the Fund Actuary assesses this because the assessment must be carried out to the Administering Authority's satisfaction. The required amount will be calculated by the Fund Actuary, and the associated actuarial costs will be recharged to the admission body.

This must cover some or all of the:

- strain costs of any early retirements, if employees are made redundant when a contract ends prematurely
- allowance for the risk of assets performing less well than expected
- allowance for the risk of liabilities being greater than expected
- allowance for the possible non-payment of employer and member contributions
- admission body's existing deficit.

The admission body is required to provide security – such as an indemnity or bond – as determined by the Administering Authority.

6 What happens if an employer has a bulk transfer of staff?

Bulk transfer cases will be looked at individually, but generally:

- the Fund won't pay bulk transfers greater in value than either the asset share of the transferring employer in the Fund, or the value of the liabilities of the transferring members, whichever is lower
- the Fund won't grant added benefits to members bringing in entitlements from another Fund, unless the asset transfer is enough to meet the added liabilities
- the process to agree bulk transfer terms, transfer the data and calculate the asset share can be lengthy and the administrative and actuarial costs associated with the bulk transfer will be payable by the effected employer.

7 What happens when an employer leaves the Fund?

7.1 What is a cessation event?

Triggers for considering cessation from the Fund are:

- the last active member stops participation in the Fund. The Administering Authority, at their discretion, can defer acting for up to three years by issuing a suspension notice. That means cessation won't be triggered if the employer takes on one or more active members during the agreed time. Please note this is only permitted where the employer is expected to admit further members into the scheme in the near future (typically only for Town & Parish Councils)
- insolvency, winding up or liquidation of the admission body
- a breach of the agreement obligations that isn't remedied to the Fund's satisfaction
- failure to pay any sums due within the period required
- failure to renew or adjust the level of a bond or indemnity, or to confirm an appropriate alternative guarantor
- termination of a deferred debt arrangement (DDA), where an employer with no active members had been participating in the Fund as a deferred employer (see below).

On cessation, the employer may be permitted to enter into a deferred debt arrangement (DDA) and become a deferred employer in the Fund (as detailed in Section 7.4). If no DDA exists, the Administering Authority will instruct the Fund Actuary to carry out a cessation valuation to calculate if there is a surplus or a deficit when the employer leaves the Fund and the associated actuarial costs will be recharged to the exiting employer.

7.2 What happens on cessation?

The Administering Authority must protect the interests of the remaining Fund employers when an employer leaves the scheme. The Actuary aims to protect remaining employers from the risk of future loss. The funding basis adopted for the cessation calculation is below. These are defined in [Appendix E](#).

- Where there is no guarantor, cessation liabilities will usually be calculated using a low-risk basis, which is more prudent than the ongoing participation basis. The low-risk basis used for cessation calculations is defined in [Appendix E](#).
- Where there is a guarantor, the nature of the guarantee will be considered before the cessation valuation and the cessation may be calculated using the same basis for ongoing funding, depending on the circumstances of the employer's exit. The ongoing basis is defined in [Appendix E](#).

If the Fund can't recover the required payment in full, unpaid amounts will be paid by the related letting authority (in the case of a ceased admission body) or shared between the other Fund employers. This may require an immediate revision to the rates and adjustments certificate or be reflected in the contribution rates set at the next formal valuation.

After an employer without a guarantor has left the scheme and paid off the deficit in full or settled the surplus (calculated using assumptions in place at the time of leaving) future risk then sits with the remaining Fund employers.

The Fund Actuary charges a fee for cessation valuations. Fees and expenses are at the employer's expense and will be invoiced to the employer on completion of the cessation valuation (or in certain cases may be deducted from the cessation surplus or added to the cessation deficit).

The Fund's cessation policy is detailed in [Appendix I](#)

7.3 How do employers repay cessation debts?

If there is a deficit, full payment will usually be expected in a single lump sum or:

- spread over an agreed period, if the employer enters into a deferred spreading arrangement (DSA).
- if an exiting employer enters into a deferred debt agreement (DDA), it stays in the Fund and pays contributions until the cessation debt is repaid. Payments are reassessed at each formal valuation.

The Fund's policy on employer flexibilities on exit is set out [Section 3.2 of the cessation policy in Appendix I](#)

7.4 What if an employer has no active members?

When employers leave the Fund because their last active member has left, they may pay a cessation debt, receive an exit credit or enter a DDA/DSA. Beyond the DDA/DSA they have no further obligation to the Fund and either:

- a) their asset share runs out before all ex-employees' benefits have been paid. The other Fund employers will be required to contribute to the remaining benefits. The Fund Actuary will portion the liabilities on a pro-rata basis at the formal valuation.
- b) the last ex-employee or dependant dies before the employer's asset share is fully run down. The Fund Actuary will apportion the remaining assets to the other Fund employers on a pro-rata basis at the formal valuation.

7.5 What happens if there is a surplus?

If the cessation valuation shows the exiting employer has more assets than liabilities – an exit credit – the Administering Authority can decide how much will be paid back to the employer based on:

- the surplus amount
- the proportion of the surplus due to the employer's contributions
- any representations (like risk sharing agreements or guarantees) made by the exiting employer and any employer providing a guarantee or some other form of employer assistance/support
- any other relevant factors.

The exit credit policy is set out within [Section 3.3 of the Fund's cessation policy in Appendix I](#)

7.6 Partial cessations

In general, the Fund does not allow employer partial cessations on the grounds of equitable treatment for all employers (as the funding risks of the employer seeking to partially cease would transfer to other employers within the Fund, if allowed). The Fund reserves the right to review this policy in exceptional circumstances.

8 What are the statutory reporting requirements?

8.1 Reporting regulations

The Public Service Pensions Act 2013 requires the Government Actuary's Department to report on LGPS Funds in England and Wales after every three-year valuation, in what's usually called a section 13 report. The report includes advice on whether the following aims are achieved:

- Compliance
- Consistency
- Solvency
- Long term cost efficiency

8.2 Solvency

Employer contributions are set at an appropriate solvency level if the rate of contribution targets a funding level of 100% (or above) over an appropriate time, using appropriate assumptions compared to other Funds. Either:

- (a) employers collectively can increase their contributions, or the Fund can realise contingencies to target a funding level of (at least) 100%.

or

- (b) there is an appropriate plan in place if there is, or is expected to be, a reduction in employers' ability to increase contributions as needed.

See Section 2 for further details on how contributions rates are set to maintain solvency.

8.3 Long-term cost efficiency

Employer contributions are set at an appropriate long-term cost efficiency level if the contribution rate makes provision for the cost of current benefit accrual, with an appropriate adjustment for any surplus or deficit.

To assess this, the Administering Authority may consider absolute and relative factors.

Relative factors include:

1. comparing LGPS Funds with each other
2. the implied deficit recovery period
3. the investment return required to achieve full funding after 20 years.

Absolute factors include:

1. comparing Funds with an objective benchmark
2. the extent to which contributions will cover the cost of current benefit accrual and interest on any deficit
3. how the required investment return under relative considerations compares to the estimated future return targeted by the investment strategy
4. the extent to which contributions paid are in line with expected contributions, based on the rates and adjustment certificate
5. how any new deficit recovery plan reconciles with, and can be a continuation of, any previous deficit recovery plan, allowing for Fund experience.

These metrics may be assessed by GAD on a standardised market-related basis where the Funds' actuarial bases don't offer straightforward comparisons.

Standard information about the Fund's approach to solvency of the pension Fund and long-term cost efficiency will be provided in a uniform dashboard format in the Fund's valuation report to facilitate comparisons between Funds.

Appendices

Appendix A – The regulatory framework

A1 Why do Funds need a funding strategy statement?

The Local Government Pension Scheme (LGPS) regulations require Funds to maintain and publish a funding strategy statement (FSS). According to the Ministry for Housing, Communities and Local Government (MHCLG) the purpose of the FSS is to document the processes the Administering Authority uses to:

- establish a clear and transparent Fund-specific strategy identifying how employers' pension liabilities are best met going forward
- support the desirability of maintaining as constant and stable primary contribution rate as possible, as defined in Regulation 62(5) of the LGPS Regulations 2013
- ensure that the regulatory requirements to set contributions to ensure the solvency and long-term cost efficiency of the Fund are met.
- explain how the Fund balances the interests of different employers.
- explain how the Fund deals with conflicts of interest and references other policies/strategies.

To prepare this FSS, the Administering Authority has used guidance jointly prepared by the Scheme Advisory Board (SAB), MHCLG, and by the Chartered Institute of Public Finance and Accountancy (CIPFA) dated January 2025.

The fund has a fiduciary duty to scheme members and obligations to employers to administer the scheme competently to keep employer contributions at an affordable level. The funding strategy statement sets out how the fund meets these responsibilities.

A2 Consultation

Both the LGPS regulations and most recent CIPFA guidance state the FSS should be prepared in consultation with "persons the authority considers appropriate". This should include '*meaningful dialogue... with council tax raising authorities and representatives of other participating employers*'.

The Fund's consultation process during a valuation year includes issuing a draft version of the FSS to participating employers, highlighting the key changes, and inviting employers to attend the AGM. Draft employer valuation results will be issued alongside the draft FSS. Employer feedback from this process will be considered, and any changes incorporated within the final version of the FSS that will be approved by the Fund's committee prior to the end of the valuation year.

The fund also shared the draft FSS with the Department for Education.

A3 How is the FSS published?

The FSS is emailed to participating employers. A full copy is included in the Fund's annual report and accounts. Copies are freely available on request and is published on the Administering Authority's website.

A4 How does the FSS fit into the overall Fund documentation?

The FSS is a summary of the Fund's approach to funding liabilities. It isn't exhaustive – the Fund publishes other statements like the Investment Strategy Statement, governance strategy and communications strategy. The Fund's annual report and accounts also includes up-to-date Fund information.

You can see all Fund documentation at <https://leicsmss.pensiondetails.co.uk/home/scheme-member/lgps/Fund-admin-and-guidance/pension-Fund-and-finance>

Appendix B – Roles and responsibilities

B1 The Administering Authority are required to:

- 1 operate a pension Fund
- 2 collect employer and employee contributions, investment income and other amounts due to the pension Fund as stipulated in LGPS Regulations
- 3 have an escalation process in situations where employers fail to meet their obligations
- 4 pay from the pension Fund the relevant entitlements as stipulated in LGPS Regulations
- 5 invest surplus monies in accordance with the relevant regulations
- 6 ensure that cash is available to meet liabilities as and when they fall due
- 7 ensure benefits paid to members are accurate and undertake timely and appropriate action to rectify any inaccurate benefit payments
- 8 take measures as set out in the regulations to safeguard the Fund against the consequences of employer default
- 9 manage the valuation process in consultation with the Fund's Actuary
- 10 prepare and maintain an FSS and associated funding policies and ISS, after proper consultation with interested parties
- 11 monitor all aspects of the Fund's performance and funding, and amend the FSS/ISS accordingly
- 12 establish a policy around exit payments and payment of exit credits/debits in relation to employer exits
- 13 effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and scheme employer
- 14 enable the local pension board to review the valuation and FSS review process and as set out in their terms of reference
- 15 support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice

B2 Individual employers are required to:

- 1 Ensure staff who are eligible are contractually enrolled and deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations),
- 2 provide the Fund with accurate data and understand that the quality of the data provided to the Fund will directly impact on the assessment of their liabilities and their contributions. In particular, any deficiencies in their data may result in the employer paying higher contributions than otherwise would be the case if their data was of high quality
- 3 pay all ongoing contributions, including employer contributions determined by the Actuary and set out in the rates and adjustments certificate, promptly by the due date
- 4 develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework

- 5 make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain
- 6 notify the Administering Authority promptly of all changes to active membership that affect future funding
- 7 Pay any exit payments on ceasing participation in the Fund timely provide the Fund with accurate data and understand that the quality of the data provided to the Fund will directly impact on the assessment of their liabilities and their contributions. In particular, any inaccuracies in data may result in the employer paying higher contributions than otherwise would be the case if their data was of high quality.

B3 The Fund Actuary should:

- 1 prepare valuations including the setting of employers' contribution rates at a level to ensure Fund solvency and long-term cost efficiency based on the assumptions set by the Administering Authority and having regard to the FSS and the LGPS Regulations
- 2 provide advice so the Fund can set the necessary assumptions for the valuation
- 3 prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill health retirement costs, compensatory added years costs, etc
- 4 provide advice and valuations to the Fund so that it can make decisions on the exit of employers from the Fund
- 5 provide advice to the Fund on bonds or other forms of security against the financial effect on the Fund of employer default
- 6 assist the Fund in assessing whether employer contributions need to be revised between valuations as permitted or required by the regulations
- 7 ensure that the Fund is aware of any professional guidance or other professional requirements that may be relevant in the role of advising the Fund.
- 8 Identify to the Fund and manage any potential conflicts of interest that may arise in the delivery the contractual arrangements to the Fund and other clients.

B4 Local Pension Boards (LPB):

Local Pension Boards have responsibility to assist the Administering Authority to secure compliance with the LGPS regulations, other legislation relating to the governance and administration of the LGPS, any requirements imposed by the Regulator in relation to the LGPS, and to ensure the effective and efficient governance and administration of the LGPS. It will be for each Fund to determine the input into the development of the FSS (as appropriate within Fund's own governance arrangements) however this may include:

1. Assist with the development and review the FSS
2. Review the compliance of scheme employers with their duties under the FSS, regulations and other relevant legislation
3. Assist with the development of and review communications in relation to the FSS.

B5 Employer guarantors

- 1 Department for Education - To pay cessation debts in the case of academy cessations (where the obligations are not being transferred to another MAT) and to consider using intervention powers if an academy is deemed to be in breach of the regulations.
- 2 Other bodies with a financial interest (outsourcing employers)

B6 Other parties:

- 1 internal and external investment advisers ensure the investment strategy statement (ISS) is consistent with the Funding Strategy Statement
- 2 investment managers, custodians and bankers play their part in the effective investment and dis-investment of Fund assets in line with the ISS
- 3 auditors comply with standards, ensure Fund compliance with requirements, monitor and advise on fraud detection, and sign-off annual reports and financial statements
- 4 governance advisers may be asked to advise the Administering Authority on processes and working methods
- 5 internal and external legal advisers ensure the Fund complies with all regulations and broader local government requirements, including the Administering Authority's own procedures
- 6 the Ministry for Housing, Communities and Local Government, assisted by the Government Actuary's Department and the Scheme Advisory Board, work with LGPS Funds to meet Section 13 requirements.

Appendix C – Glossary

Actuarial certificates

A statement of the contributions payable by the employer (see also rates and adjustments certificate). The effective date is 12 months after the completion of the valuation.

Actuarial valuation

An investigation by an Actuary, appointed by an Administering Authority into the costs of the scheme and the ability of the Fund managed by that authority to meet its liabilities. This assesses the funding level and recommended employer contribution rates based on estimating the cost of pensions both in payment and those yet to be paid and comparing this to the value of the assets held in the Fund. Valuations take place every three years (triennial).

Administering Authority (referred to as ‘the Fund’)

A body listed in Part 1 of Schedule 3 of the regulations who maintains a Fund within the LGPS and a body with a statutory duty to manage and administer the LGPS and maintain a pension Fund (the Fund). Usually, but not restricted to being, a local authority.

Admission agreement

A written agreement which provides for a body to participate in the LGPS as a scheme employer

Assumptions

Forecasts of future experience which impact the costs of the scheme. For example, pay growth, longevity of pensioners, inflation, and investment returns,

Code of Practice

The Pensions Regulator’s General Code of Practice.

Debt spreading arrangement

The ability to spread an exit payment over a period of time

Deferred debt agreement

An agreement for an employer to continue to participate in the LGPS without any contributing scheme members

Employer covenant

The extent of the employer’s legal obligation and financial ability to support its pension scheme now and in the future.

Funding level

The funding level is the value of assets compares with the liabilities. It can be expressed as a ratio of the assets and liabilities (known as the funding level) or as the difference between the assets and liabilities (referred to as a surplus or deficit).

Fund valuation date

The effective date of the triennial Fund valuation.

Guarantee / guarantor

A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.

Local Pension Board

The board established to assist the Administering Authority as the Scheme Manager for each Fund.

Non-statutory guidance

Guidance which although it confers no statutory obligation on the parties named, they should nevertheless have regard to its contents

Notifiable events

Events which the employer should make the Administering Authority aware of

Past service liabilities

The cost of pensions already built up or in payment

Pension committee

A committee or sub-committee to which an Administering Authority has delegated its pension function

Pensions Administration Strategy

A statement of the duties and responsibilities of scheme employers and Administering Authorities to ensure the effective management of the scheme

Primary and secondary employer contributions

Primary employer contributions meet the future costs of the scheme and Secondary employer contributions meet the costs already built up (adjusted to reflect the experience of each scheme employer). Contributions will therefore vary across scheme employers within a Fund.

Rates and adjustments certificate

A statement of the contributions payable by each scheme employer (see actuarial certificates)

Scheme Manager

A person or body responsible for managing or administering a pension scheme established under section 1 of the 2013 Act. In the case of the LGPS, each Fund has a Scheme Manager which is the Administering Authority.

Appendix D – Risks and controls

D1 Managing risks

The Administering Authority has a risk management programme to identify and control financial, demographic, regulatory and governance risks.

The role of the Local Pension Committee and Local Pension Board is available on the Pension Fund's website, [here](#).

Details of the key Fund-specific risks and controls are set out in the risk register which is presented quarterly to the [Committee and Board](#).

D2 Financial risks

Risk	Control
Fund assets don't deliver the anticipated returns that underpin the valuation of liabilities and contribution rates over the long-term.	<p>Anticipate long-term returns on a prudent basis to reduce risk of under-performing.</p> <p>Use specialist advice to invest and diversify assets across asset classes, geographies, managers, etc.</p> <p>Analyse progress at three-year valuations for all employers.</p> <p>Roll forward whole Fund liabilities between valuations.</p>
Inappropriate long-term investment strategy.	<p>Consider overall investment strategy options as part of the funding strategy. Use asset liability modelling to measure outcomes and choose the option that provides the best balance.</p> <p>Operate various strategies to meet the needs of a diverse employer group.</p>
Active investment manager under-performs relative to benchmark.	<p>Use quarterly investment monitoring to analyse market performance and active managers, relative to index benchmark.</p>
Pay and price inflation is significantly more than anticipated.	<p>Focus valuation on real returns on assets, net of price and pay increases.</p> <p>Use inter-valuation monitoring to give early warning.</p> <p>Invest in bonds.</p>
Increased employer's contribution rate affects service delivery and admission/scheduled bodies.	<p>Employers to be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</p>
	<p>Agree an explicit stabilisation mechanism, with other measures to limit sudden increases in contributions.</p>

Risk	Control
Orphaned employers create added Fund costs.	Seek a cessation debt (or security/guarantor). Spread added costs among employers.

D3 Demographic risks

Risk	Control
Pensioners live longer, increasing Fund costs.	Set mortality assumptions with allowances for future increases in life expectancy. Use the Fund Actuary's experience and access to over 50 LGPS Funds to identify changes in life expectancy that might affect the longevity assumptions early.
As the Fund matures, the proportion of actively contributing employees declines relative to retired employees.	Monitor at each valuation, consider seeking monetary amounts rather than % of pay. Consider alternative investment strategies.
Deteriorating patterns of early retirements	Charge employers the extra cost of non ill-health retirements following each individual decision. Monitor employer ill-health retirement experience, with optional insurance.
Reductions in payroll cause insufficient deficit recovery payments.	Buy-out employers in the stabilisation mechanism to permit contribution increases. Review contributions between valuations. This may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

D4 Regulatory risks

Risk	Control
Changes to national pension requirements or HMRC rules.	Consider all Government consultation papers and comment where appropriate. Monitor progress on the McCloud court case and consider an interim valuation or other action once more information is known. Build preferred solutions into valuations as required.
Time, cost or reputational risks associated with any MHCLG intervention triggered by the Section 13 analysis	Take advice from the Actuary and consider the proposed valuation approach, relative to anticipated Section 13 analysis.

Changes to employer participation in LGPS Funds leads to impacts on funding or investment strategies.

Consider all Government consultation papers and comment where appropriate.

Take advice from the Fund Actuary and amend strategy.

D5 Governance risks

Risk	Control
The Administering Authority is not aware of employer membership changes, for example a large fall in employee members, large number of retirements, or is not advised that an employer is closed to new entrants.	The Administering Authority develops a close relationship with employing bodies and communicates required standards. The Actuary may revise the rates and adjustments certificate to increase an employer's contributions between valuations
Actuarial or investment advice is not sought, heeded, or proves to be insufficient in some way	Deficit contributions may be expressed as monetary amounts. The Administering Authority maintains close contact with its advisers. Advice is delivered through formal meetings and recorded appropriately.
The Administering Authority fails to commission the Actuary to carry out a termination valuation for an admission body leaving the Fund.	Actuarial advice is subject to professional requirements like peer review. The Administering Authority requires employers with Best Value contractors to inform it of changes. CABs' memberships are monitored and steps are taken if active membership decreases.
An employer ceases to exist with insufficient funding or bonds.	It's normally too late to manage this risk if left to the time of departure. This risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body. Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Requiring a bond to protect the Fund, where permitted. Requiring a guarantor for new CABs. Regularly reviewing bond or guarantor arrangements. Reviewing contributions well ahead of cessation.

Risk	Control	
An employer ceases to exist, so an exit credit is payable.	The Administering Authority regularly monitors admission bodies coming up to cessation.	
	The Administering Authority invests in liquid assets so that exit credits can be paid.	
D6 Employer covenant assessment and monitoring		
Many of the employers participating in the Fund, such as admitted bodies (including TABs and CABs), have no local tax-raising powers. The Fund assesses and monitors the long-term financial health of these employers to assess an appropriate level of risk for each employer's funding strategy.		
Type of employer	Assessment	Monitoring
Local Authorities, Police, Fire	Tax-raising or government-backed, no individual assessment required	Triennial review of risk profiling analysis
	High level risk profiling carried out on pension metrics	
Colleges	Government-backed, covered by DfE guarantee in event of failure	Triennial review of risk profiling analysis
	High level risk profiling carried out on pension metrics	Check that DfE guarantee continues, after regular scheduled DfE review
Universities	High level risk profiling carried out on pension metrics	Triennial review of risk profiling analysis
		Additional conversations with employers to consider emerging risks
		Development of ongoing risk management review, requesting additional security where appropriate
Academies	Government-backed, covered by DfE guarantee in event of MAT failure	Triennial review of risk profiling analysis
	High level risk profiling carried out on pension metrics	Check that DfE guarantee continues, after regular scheduled DfE review
Admission bodies (CABs)	High level risk profiling carried out on pension metrics	Triennial review of risk profiling analysis
	Review available security	Ongoing risk management review, requesting additional security where appropriate

Type of employer	Assessment	Monitoring
Admission bodies (TABS)	<p>On admission Fund considers letting authority covenant, contract length and potential capital costs risk.</p> <p>Reference effective guarantee provided by the Awarding Authority</p> <p>High level risk profiling carried out on pension metrics</p>	<p>Triennial review of risk profiling analysis</p> <p>Regular monitoring (at triennial valuation, or more regularly where necessary)</p>
Designating employers	High level risk profiling carried out on pension metrics	Triennial review of risk profiling analysis

The outcome of any assessments may be a factor considered when setting employer contribution rates.

D7 Climate risk

The Fund has considered climate-related risks when setting the funding strategy, in line with guidance approved by the LGPS Scheme Advisory Board, MHCLG and GAD for “key principles for preparing climate scenario analysis as part of the 2025 valuation”.

The Fund’s Actuary Hymans Robertson have stress tested the funding and investment strategies against possible future climate scenarios, enabling the Fund to understand the resilience of the funding strategy statement.

While there is significant uncertainty around the type of risks, and when they may occur,

the current strategies were proven to be resilient to climate transition risks within an appropriate level of prudence. The Fund will continue to monitor the resilience of the funding strategy to climate risks at future valuations or when there has been a significant change in the risk posed to the Fund (e.g. global climate policy changes).

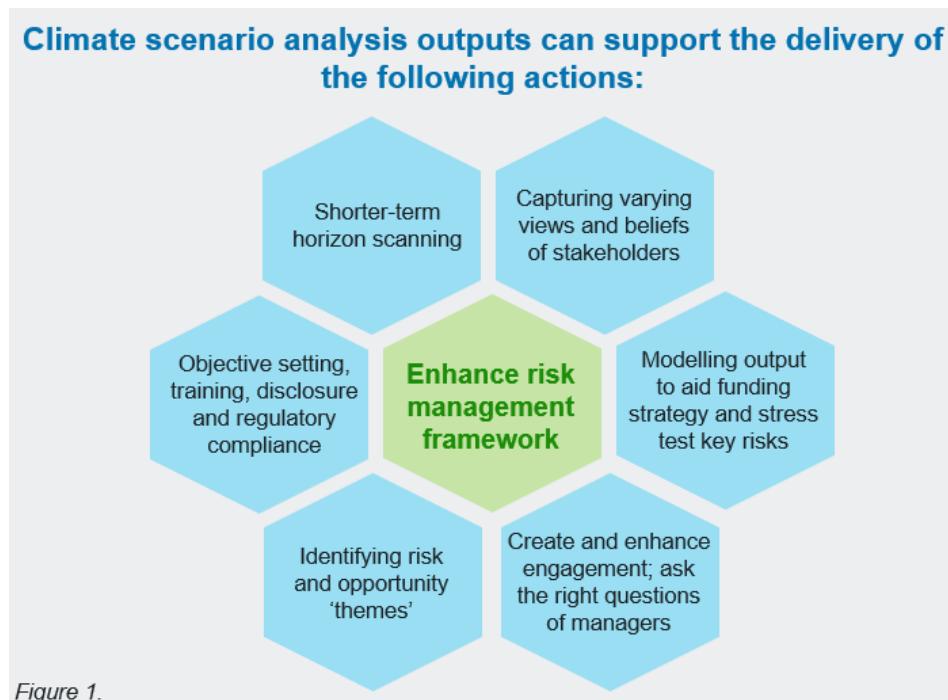
The climate scenario analysis incorporates both stress testing, and narrative-based scenario analysis for the local authority employers at the 2025 valuation. The narrative approach explores the complex and interrelated risks associated with climate change by defining a specific extreme, downside risk (in this instance a food shock) and constructing narratives around potential policy and market responses, noting these may be sub-optimal.

This approach allows consideration to be given to the impact of sudden, severe downside risks in the short term, the interdependencies that arise and potential immediate actions. Coupling this approach with stress testing (to better understand the impact of possible climate scenarios) has allowed the Fund to assess a range of outcomes that may arise, and assess the resilience of the Fund under these scenarios.

The results show that:

1. When considering climate scenario stress tests, the Fund appears to be generally resilient to different climate scenarios, with generally modest impacts versus the base case modelled
2. The results of the downside, narrative analysis suggest that the Fund is likely to be resilient in the face of some severe downside risk events (in comparison to the base case), but not all.

Climate scenario analysis helps assess risks and tests the resilience of current and long-term strategies under various scenarios. This helps to identify vulnerabilities across both assets and liabilities. Identification of these vulnerabilities can inform risk management processes (see figure 1), helping the Fund ensure appropriate controls and mitigations are in place. Scenario analysis therefore supports informed decision making, and may be used in future to assist with disclosures prepared in line with Task Force on Climate-Related Financial Disclosures (TCFD) principles.



This climate analysis was not applied to the funding strategy modelling for smaller employers. However, given that the same underlying model is used for all employers and that the local authority employers make up the vast majority of the fund's assets and liabilities, applying the climate analysis to all employers was not deemed proportionate at this stage and would not be expected to result in any changes to the agreed contribution plans.

Climate risk is considered in the Fund's risk register, Investment Strategy Statement and Net Zero Climate Strategy which is reported against annually as part of the Fund's TCFD compliant Climate Risk Management Report. The actions taken by the Fund are reported as part of this process.

The latest report is available on the Pension Fund's website, [here](#).

Appendix E – Actuarial assumptions

The key outputs from an employer's funding valuation are its contribution rate requirement (see Section 2 for further details) and its funding level (see Section 4). For both calculations the fund actuary requires actuarial assumptions.

The fund typically reviews and sets the actuarial assumptions used for funding purposes as part of the triennial valuation. Those assumptions are then used until the next triennial valuation (updated for current market conditions where appropriate).

The fund has reviewed the actuarial assumptions used for funding purposes as part of the 2025 valuation. These are set out below.

E1 What are actuarial assumptions?

Actuarial assumptions are required to value the fund's liabilities because:

- There is uncertainty regarding both the timing and amount of the future benefit payments (the actual cost can't be known until the final payment is made). Therefore to estimate the cost of benefits earned to date and in the future, assumptions need to be made about the timing and amount of these future benefit payments
- The assets allowed to an employer today are a known figure. However, the future investment return earned on those assets and future cashflows into the fund are uncertain. An assumption is needed about what those future investment returns will be

There are two types of actuarial assumptions that are needed to perform an actuarial valuation: **financial assumptions** determine the expected amount of future benefit payments and the expected investment return on the assets held to meet those benefits, whilst **demographic assumptions** relate primarily to the expected timing of future benefit payments (i.e. when they are made and for how long).

All actuarial assumptions are set as best estimates of future experience with the exception of the discount rate assumption which is deliberately prudent to meet the regulatory requirement for a 'prudent' valuation.

Any change in the assumptions will affect the value that is placed on future benefit payments ('liabilities'), but different assumptions don't affect the actual benefits the fund will pay in future.

E2 What funding bases are operated by the Fund?

A *funding basis* is the set of actuarial assumptions used to value an employer's (past and future service) liabilities. The fund operates two funding bases for funding valuations: the *ongoing basis* and the *low-risk basis*. All actuarial assumptions are the same for both funding bases with the exception of the discount rate – see further details below.

E3 What financial assumptions are used by the fund?

Discount rate

The discount rate assumption is the average annual rate of future investment return assumed to be earned on an employer's assets from a given valuation date.

The fund uses a risk-based approach to setting the discount rate which allows for prevailing market conditions on the valuation date (see 'Further detail on the calculation of financial assumptions') and the Fund's investment strategy.

The discount rate is determined by the *prudence level*. Specifically, the discount rate is calculated to be:

The average annual level of future investment return that can be achieved on the Fund's assets over a 20 year period with a 80% likelihood.

The prudence level is the likelihood. The prudence levels used by the fund are as follows:

Funding basis	Prudence level
Ongoing	80%
Low-risk	90%

The application of the funding basis for different types of employer groups is set out in the table in Section 2.2.

Cessation basis	Prudence level
Low-risk (lower limit)	90%
Low-risk (upper limit)	95%

Where an exiting employer ceases on the low-risk basis, the liabilities will be calculated on both the lower and upper limits to determine whether any deficit or surplus exists. Any deficit to be payable by the employer is determined using a discount rate calculated on the lower limit. If a surplus exists using a discount rate calculated on the upper limit, then the Fund will carry out an exit credit determination. See section 3.3 of the Fund's cessation policy in [Appendix I](#) for more detail.

CPI inflation

The CPI inflation assumption is the average annual rate of future Consumer Price Index (CPI) inflation assumed to be observed from a given valuation date. This assumption is required because LGPS benefit increases (in deferment and in payment) and revaluation of CARE benefits are in line with CPI.

The fund uses a risk-based approach to setting the CPI inflation assumption which allows for prevailing market conditions on the valuation date (see 'Further detail on the calculation of financial assumptions').

The CPI inflation assumption is calculated to be:

The average annual level of future CPI inflation that will be observed over a 20 year period with a 50% likelihood

Since the valuation date, the risk of high inflation persisting for longer than consensus expects has increased, primarily driven ongoing geo-political uncertainty and global trade tariffs. Due to these factors, an 'inflation protection' margin of 0.2% pa has been to the 2025 ESS valuation assumption.

Salary growth

The salary growth assumption is linked to the CPI inflation assumption via a fixed margin. The salary increases assumption is 0.5% above the CPI inflation assumption plus a promotional salary scale.

E4 Further detail on the calculation of financial assumptions

The discount rate and CPI inflation assumptions are calculated using a risk-based method. To assess the likelihood associated with a given level of investment return or a given level of future inflation, the fund actuary uses Hymans Robertson's proprietary economic scenario generator; the *Economic Scenario Service* (or *ESS*). The model uses statistical distributions to project a range of 5,000 different possible outcomes for the future behaviour of different asset classes and wider economic variables, such as inflation.

The table below shows the calibration of the model as at 31 March 2025 for some sample asset classes and economic variables. All returns are shown net of fees and are the annualised total returns over 5, 10 and 20 years. Yields and inflation refer to the simulated yields at that time horizon.

		Annualised total returns							Economic variables				
		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	3.1%	0.9%	1.6%	-0.3%	-0.8%	-0.2%	1.4%	2.3%	0.4%	1.3%	0.5%	3.7%
	50th %'ile	3.9%	3.8%	3.7%	7.8%	7.7%	6.4%	4.1%	3.9%	1.3%	2.8%	1.4%	4.8%
	84th %'ile	4.7%	7.0%	5.9%	16.0%	16.1%	13.8%	6.5%	5.4%	2.3%	4.4%	2.3%	6.0%
10 years	16th %'ile	2.9%	1.6%	3.1%	1.8%	1.5%	1.6%	3.2%	1.5%	0.2%	1.0%	0.2%	3.2%
	50th %'ile	3.9%	3.6%	4.3%	7.8%	7.7%	6.6%	4.7%	3.2%	1.5%	2.6%	1.4%	4.6%
	84th %'ile	5.1%	5.9%	5.5%	13.8%	13.9%	11.9%	6.2%	4.9%	2.7%	4.2%	2.7%	6.3%
20 years	16th %'ile	2.6%	1.9%	4.0%	3.3%	3.1%	3.0%	4.3%	1.1%	-0.5%	0.8%	-0.5%	1.6%
	50th %'ile	4.0%	3.6%	4.8%	7.9%	7.7%	6.7%	5.3%	2.7%	1.2%	2.4%	1.2%	3.5%
	84th %'ile	5.7%	5.4%	5.5%	12.4%	12.5%	10.7%	6.3%	4.3%	2.9%	4.0%	2.9%	6.1%
Volatility (Disp) (1 yr)		0%	7%	6%	16%	17%	16%	7%	1%		1%		

The ESS model is recalibrated monthly. The fund actuary uses the most recent calibration of the model (prior to the valuation date) to set financial assumptions for each funding valuation.

E5 What demographic assumptions were used?

Demographic assumptions are best estimates of future experience. The Fund uses advice from Club Vita to set demographic assumptions, as well as analysis and judgement based on the Fund's experience.

Demographic assumptions vary by type of member, so each employer's own membership profile is reflected in their results.

Life expectancy

The longevity assumptions are a bespoke set of VitaCurves produced by detailed analysis and tailored to fit the Fund's membership profile.

Allowance has been made for future improvements to mortality, in line with the 2024 version of the continuous mortality investigation (CMI) model published by the actuarial profession. The core parameters of the model apply, however, the starting point has been adjusted by +0.25% (for males and females) to reflect the difference between the population-wide data used in the CMI and LGPS membership. A long-term rate of mortality improvements of 1.5% pa applies.

Other Demographic assumptions

Retirement in normal health	Members are assumed to retire at the earliest age possible with no pension reduction.
Promotional salary increases	Sample increases below
Death in service	Sample rates below
Withdrawals	Sample rates below
Retirement in ill health	Sample rates below
Family details	A varying proportion of members are assumed to have a dependant partner at death. For example, at age 65 this is assumed to be 55% for males and 54% for females. Dependant of a male is assumed to be 3.5 years younger than him. Dependant of a female is assumed to be 0.6 years older than her.

Commutation	70% of maximum under HMRC limits.
50:50 option	0% of members will elect to change scheme.

Males

Age	Salary scale	Death before retirement	Incidence per 1000 active members per year					
			Withdrawals		Ill-health tier 1		Ill-health tier 2	
			FT &PT	FT	PT	FT	PT	FT
20	105	0.17	323.45	304.88	0.00	0.00	0.00	0.00
25	117	0.17	213.65	201.38	0.00	0.00	0.00	0.00
30	131	0.20	151.59	142.86	0.00	0.00	0.00	0.00
35	144	0.24	118.44	111.61	0.10	0.07	0.02	0.01
40	151	0.41	95.36	89.83	0.16	0.12	0.03	0.02
45	159	0.68	89.57	84.36	0.35	0.27	0.07	0.05
50	167	1.09	73.83	69.46	0.90	0.68	0.23	0.17
55	173	1.70	58.14	54.73	3.54	2.65	0.51	0.38
60	174	3.06	51.82	48.76	6.23	4.67	0.44	0.33

Females

Age	Salary scale	Death before retirement	Incidence per 1000 active members per year					
			Withdrawals		Ill-health tier 1		Ill-health tier 2	
			FT &PT	FT	PT	FT	PT	FT
20	105	0.10	281.94	224.34	0.00	0.00	0.00	0.00
25	117	0.10	189.71	150.93	0.10	0.07	0.02	0.01
30	131	0.14	159.02	126.50	0.13	0.10	0.03	0.02
35	144	0.24	137.25	109.14	0.26	0.19	0.05	0.04
40	151	0.38	114.23	90.80	0.39	0.29	0.08	0.06
45	159	0.62	106.60	84.72	0.52	0.39	0.10	0.08
50	167	0.90	89.87	71.35	0.97	0.73	0.24	0.18
55	173	1.19	67.06	53.30	3.59	2.69	0.52	0.39
60	174	1.52	54.04	42.90	5.71	4.28	0.54	0.40

Appendix F – Passthrough policy

Policy on passthrough

1 Introduction

The purpose of this policy is to set out the administering authority's approach to admitting new contractors into the Fund on a passthrough basis.

In addition, and subject to review on a case-by-case basis, the Fund may be willing to apply its passthrough principles to other admission bodies where liabilities are covered by a guarantor within the Fund.

Contractors are still permitted to enter the Fund under non-passthrough admissions as detailed in Section 5.3 of the FSS. This policy does not apply in these cases.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

1.1 Aims and objectives

The administering authority's aims and objectives related to this policy are as follows:

- To set out the Fund's approach to admitting new contractors, including the calculation of contribution rates and how risks are shared under the passthrough arrangement.
- To outline the process for admitting new contractors into the Fund

1.2 Background

Employees outsourced from local authorities, or from independent schools (generally academies, regulated by the Department for Education) must be offered pension benefits that are the same, better than, or count as being broadly comparable to, the Local Government Pension Scheme (as per the Best Value Authorities Staff Transfer (Pensions) Direction 2007).

This may be achieved by offering affected employees membership of an alternative broadly comparable scheme. However this is typically achieved by employees remaining in the LGPS and the new employer becoming an admitted body to the Fund and making the requisite employer contributions.

Passthrough is an arrangement whereby the letting authority (the local authority or the independent school) retains the main risks of fluctuations in the employer contribution rate during the life of the contract, and the risk that the contractor's assets may be insufficient to meet the employees' pension benefits at the end of the contract.

1.3 Guidance and regulatory framework

The [Local Government Pension Scheme Regulations 2013](#) (as amended) set out the way in which LGPS funds should determine employer contributions and contain relevant provisions regarding the payment of these, including the following:

- Schedule 2 Part 3 sets out the entities eligible to join the Fund as an admitted body, their key responsibilities as an admitted body and the requirements of the admission agreement.
- Regulation 67 – sets out the requirement for employers to pay contributions in line with the Rates and Adjustments (R&A) certificate and provides a definition of the primary rate.

- Regulation 64 - covers the requirements for a cessation valuation following the exit of a participating employer from the Fund.

2 Statement of principles

This statement of principles covers the admission of new contractors to the Fund on a passthrough basis. Each case will be treated on its own merits, but in general:

- Pass through is the preferred approach for the admission of all new contractors to the Fund. For the avoidance of doubt, this would apply to contracts established by councils, Police & Fire authorities, and academy trusts (the letting authority).
- The contractor's pension contribution rate is set equal to the contribution rate payable by the letting authority. This will change from time to time in line with changes to the letting authority's contribution rate (i.e. following future actuarial valuations).
- The letting authority retains responsibility for variations in funding level, for instance due to investment performance, changes in market conditions, longevity, under its passthrough arrangement, irrespective of the size of the outsourcing.
- The contractor will meet the cost of additional liabilities arising from (non-ill health) early retirements and augmentations.
- Ill health experience will be pooled with the letting authority and the contractor will have the ill health insurance in place, usually as a requirement of the admission agreement.
- The contractor will not be required to obtain a full indemnity bond but may be required to obtain a capital cost bond to cover strain potential costs for those members age 55+. This is assessed on a "case by case" basis.
- Where an academy is the letting authority, the Fund will expect the academy to ensure and confirm that the outsourcing complies with the requirements set out in the 'DfE Academy Trust LGPS Guarantee policy' (which can be viewed on the GOV.UK website at this [link](#)) before permitting the contractor into the Fund.
- There will be no notional transfer of assets to the contractor within the Fund. This means that all assets and liabilities relating to the contractor's staff will remain the responsibility of the letting authority during the period of participation.
- At the end of the contract (or when there are no longer any active members participating in the Fund, for whatever reason), the admission agreement will cease and no further payment will be required from the contractor (or the letting authority) to the Fund, save for any outstanding regular contributions and/or invoices relating to the cost of early retirement strains and/or augmentations or Fund recharges. Likewise, no "exit credit" payment will be required from the Fund to the contractor (or letting authority).
- The terms of the pass through agreement will be documented by way of the admission agreement between the administering authority, the letting authority, and the contractor.
- All existing admission agreements are unaffected by this policy.

The principles outlined above are the default principles which will apply; however, the letting authority may request the specific details of a particular agreement to differ from the principles outlined above. The administering authority is not obliged to agree to a departure from the principles set out in this policy but will consider such requests and engage with the letting authority to reach agreement.

3 Policy and process

3.1 Compliance

Adherence to this policy is the responsibility of the relevant responsible service manager for any given outsourcing.

The administering authority and the Fund actuary must always be notified that an outsourcing has taken place, regardless of the number of members involved.

3.2 Contribution rates

The contribution rate payable by the contractor over the period of participation will typically be set equal to the total employer contribution rate payable by the letting authority. This means that the contractor's contribution rate will change when the letting authority rate changes.

Alternatively, the administering authority may wish to pursue a fixed rate with the contractor (subject to the agreement of the letting authority).

3.3 Risk sharing and cessation valuation

The letting authority will retain the risk of the contractor becoming insolvent during the period of admission and so no indemnity bond will be required from contractors participating in the Fund on a passthrough basis. The letting authority is effectively guaranteeing the contractor's participation in the Fund.

A cessation valuation is required when a contractor no longer has any active members in the Fund. This could be due to a contract coming to its natural end, insolvency of a contractor or the last active member leaving employment or opting out of the LGPS.

Where a passthrough arrangement is in place, the Fund assets and liabilities associated with outsourced employees are retained by the letting authority. At the end of the admission, the cessation valuation will therefore record nil assets and liabilities for the ceasing employer and therefore that no cessation debt or exit credit is payable to or from the Fund.

The contractor will be required to pay any outstanding regular contributions and/or unpaid invoices relating to the cost of (non-ill health) early retirement strains, augmentations or professional fees at the end of the contract. If the contractor does not pay, it becomes the letting authority's liability.

However, in some circumstances, the winning bidder will be liable for additional pension costs that arise due to items over which it exerts control. The risk allocation should be agreed between the contractor and letting authority before the contract commences and should be appropriately detailed in the service agreement and legal documentation.

The details of any risk sharing agreements should be shared with the administering authority to ensure the correct funding treatment is applied. There may be additional actuarial, legal and professional fees to administer such agreements for which the letting authority and/or the contractor would be liable to pay.

3.4 Accounting valuations

Accounting for pensions costs is a responsibility for individual employers.

It is the administering authority's understanding that contractors may be able to account for such pass-through admissions on a defined contribution basis and therefore no formal FRS102 / IAS19 report may be required (contractors are effectively paying a fixed rate and are largely indemnified from the risks inherent in providing defined benefit pensions).

As the letting authority retains most of the pension fund risk relating to contractors, it is the administering authority's understanding that these liabilities (and assets) should be included in the letting authorities' FRS102 / IAS19 disclosures.

The letting authority and contractor should seek approval from their auditor of the proposed accounting treatment in the first instance.

3.5 Application

Letting authorities may request terms which differ from those set out in this policy and any such request will be considered by the administering authority.

3.6 Process

The procurement department at each letting authority that has responsibility for staff/service outsourcing must be advised of this policy. The process detailed below must be adhered to by the letting authority and (where applicable) the winning bidder.

- **Tender Notification** - The letting authority must publicise this passthrough policy as part of its tender process to bidders. This should confirm that the winning bidder will not be responsible for ensuring that the liabilities of outsourced employees are fully funded at the end of the contract, and that the winning bidder will only be responsible for paying contributions to the Fund during the period of participation and meeting the cost of (non-ill health) early retirement strains and the cost of benefit augmentations (assuming the terms of this policy are adhered to). It should also advise the employer contribution rate as detailed in paragraph 3.2.
- **Initial notification to Pension Team** – The letting authority must contact the administering authority when a tender (or re-tender) of an outsourcing contract is taking place and staff (or former staff) are impacted. The administering authority must be advised prior to the start of the tender and the letting authority must also confirm that the terms of this policy have been adhered to.
- **Confirmation of winning bidder** – The letting authority must immediately advise the administering authority of the winning bidder.
- **Request for winning bidder to become an admitted body** – The winning bidder (in combination with the letting authority), should request to the administering authority that it wishes to become an admitted body within the Fund.
- **Template admission agreement** – a template admission agreement will be used for admissions under this policy. It will set out all agreed points relating to employer contribution rate, employer funding responsibilities, and exit conditions. Only in exceptional circumstances, and only with the prior agreement of the Administering authority, will the wording within the template agreement be changed. All admission agreements must be reviewed (including any changes) by the administering authority and possibly its legal advisors.
- **Post commercial contract** – Once the admission agreement has been signed, the winning bidder is then able to enter the Fund. NB, the letting authority must ensure that the commercial contract is also signed.
- **Signed admission agreement** - Signing of the admission agreement can then take place between an appropriate representative of the winning bidder, the lead finance officer of the letting authority, and the administering authority. It is at this point the Fund can start to receive contributions from the contractor and its employee members (backdated if necessary).

- **Admitted body status** – The letting authority will advise the contractor of its requirements and responsibilities within the Fund.

3.7 Costs

Contractors being admitted to the Fund under a passthrough agreement will be required to meet the cost of this, which includes (but is not limited to) the actuarial fees incurred by the administering authority.

4 Related Policies

The Fund's approach to setting regular employer contribution rates is set out in the Funding Strategy Statement, specifically "Section 2 – How does the Fund calculate employer contributions?".

The treatment of new employers joining the Fund is set out in the in the Funding Strategy Statement, specifically "Section 5 – What happens when an employer joins the Fund?"

The treatment of employers exiting the Fund is set out in the Funding Strategy Statement, specifically "Section 6 – What happens when an employer leaves the Fund?"

Appendix G – Academies policy

1 Introduction

The purpose of this policy is to set out the administering authority's funding principles relating to academies and Multi-Academy Trusts (MATs).

1.1 Aims and Objectives

The administering authority's objectives related to this policy are as follows:

- to state the approach for the treatment and valuation of academy liabilities and asset shares on conversion from a local maintained school, if establishing as a new academy or when joining or leaving a MAT
- to state the approach for setting contribution rates for MATs
- to outline the responsibilities of academies seeking to consolidate
- to outline the responsibilities of academies when outsourcing

1.2 Background

As described in Section 5.2 of the FSS, new academies join the Fund on conversion from a local authority school or on creation (eg newly established academies, Free Schools, etc). Upon joining the Fund, for funding purposes, academies may become stand-alone employers or may join an existing MAT.

Funding policy relating to academies and MATs is largely at the Fund's discretion, however guidance on how the Fund will apply this discretion is set out within this policy.

1.3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) contains general guidance on Scheme employers' participation within the Fund which may be relevant but is not specific to academies.

There is currently a [written ministerial guarantee of academy LGPS liabilities](#), which was [reviewed in 2022](#).

Academy guidance from the Department for Education and the Ministry of Housing, Communities and Local Government may also be relevant.

2 Statement of Principles

This Statement of Principles covers the Fund's approach to funding academies and MATs. Each case will be treated on its own merits but in general:

- the Fund will seek to apply a consistent approach to funding academies that achieves fairness to the ceding councils, MATs and individual academies.
- the Fund's current approach is to treat all academies within a MAT as a single employer (effectively operating as a funding pool where all pension risks are shared).
- academies must consult with the Fund prior to carrying out any outsourcing activity.
- the Fund will generally not consider receiving additional academies into the Fund as part of a consolidation.

3 Policies

3.1 Admission to the Fund

As set out in section 5.2 of the FSS:

Asset allocation on conversion

New academies will be allocated an asset share based on the estimated funding level of the ceding council's active members, having first allocated the council's assets to fully fund its deferred and pensioner members. This funding level will then be applied to the transferring liabilities to calculate the academy's initial asset share, capped at a maximum of 100%.

Contribution rate

New academy contribution rates are based on the current funding strategy (set out in section 2 of the FSS) and the transferring membership. If an academy is joining an existing MAT within the Fund then it may pay the MAT contribution rate (which may or may not be updated as a result - see below).

3.2 Multi-academy trusts

Asset tracking

The Fund's current policy is to pool assets (and liabilities) of all the academies within a MAT. Once an academy joins a MAT the individual asset share of that academy is merged into the MAT and no longer tracked individually.

Contribution rate

The MAT is treated as a 'full funding risks' pool meaning that all academies within the MAT pay the same contribution rate to the Fund and all membership experience is shared across the MAT (ie full cross-subsidy exists).

Any transferring academy will pay the certified contribution rate of the MAT it is joining. At the discretion of the Fund, the MAT's contribution rate may be revised by the Fund actuary to allow for impact of the transferring academy joining.

Academies leaving a MAT

If an academy(ies) leaves a MAT, it is not generally possible (or practical) to identify the ex-employees of the transferring academy, therefore all deferred and pensioner members will remain with the MAT. The notional funding position of the transferring academy will be removed from the MAT before being transferred. This calculation will be carried out under the same principles as new academy conversions (as described below and per section 5.2 of the FSS).

Liabilities for transferring active members will be calculated (on the ongoing basis) by the Fund actuary on the day before the academy transfers. Liabilities relating to the transferring academy's former employees (ie members with deferred or pensioner status) remain with the MAT.

Transferring academies will be allocated an asset share based on the estimated funding level of the MAT's active members, having first allocated the MAT's assets to fully fund its deferred and pensioner members. This funding level will then be applied to the transferring liabilities to calculate the academy's asset share, capped at a maximum of 100%.

The MAT's estimated funding level will be based on market conditions on the day before the transfer.

3.3 Merging of MATs (contribution rates)

If two MATs merge during the period between formal valuations, the new merged MAT will pay the higher of the two certified individual MAT rates until the rates are reassessed at the next formal valuation (NB where one or both MATs are paying a monetary secondary contribution rate these will be converted to a % of pay for the purposes of determining the new merged contribution rate).

Alternatively, as set out in the Fund's contribution review policy and as per Regulation 64 A (1)(b) (iii) the MAT may request that a contribution review is carried out. The MAT would be liable for the costs of this review.

3.4 Cessations of academies and multi-academy trusts

A cessation event will occur if a current academy or MAT ceases to exist as an entity or an employer in the Fund.

The cessation treatment will depend on the circumstances:

- If the cessation event occurs due to an academy or MAT merging with another academy or MAT within the Fund, all assets and liabilities from each of the merging entities will be combined and will become the responsibility of the new merged entity.
- If the MAT is split into more than one new or existing employers within the Fund, the actuary will calculate a split of the assets and liabilities to be transferred from the exiting employer to the new employers as described in 3.2 above.
- In all other circumstances, and following payment of any cessation debt, section 7.4 of the FSS would apply.

3.5 Academy consolidations

If an academy or MAT is seeking to merge with another MAT outside of the Fund they would need to seek approval from the secretary of state to consolidate their liabilities (and assets) into one LGPS fund. It is the Fund preference that academies do not seek to consolidate.

Where a direction has been granted the Fund does not generally accept academy consolidations into the Fund. The Fund will provide the necessary administrative assistance to academies seeking to consolidate into another LGPS fund, however the academy (or MAT) will be fully liable for all actuarial, professional and administrative costs.

3.6 Outsourcing

An academy (or MAT) may outsource or transfer a part of its services and workforce via an admission agreement to another organisation (usually a contractor). The contractor becomes a new participating Fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership.

The contractor will pay towards the LGPS benefits accrued by the transferring members for the duration of the contract, but ultimately the obligation to pay for these benefits will revert to the academy (or MAT) at the end of the contract.

It is the Fund's preference for the contractor's contribution rate to be set equal to the letting academy's (or MAT's) total contribution rate.

It is critical for any academy (or MAT) considering any outsourcing to contact the Fund initially to fully understand the administrative and funding implications. The academy should also read and fully understand the Fund's admissions / passthrough policy.

In some cases, it is necessary to seek approval from Department for Education before completing an outsourcing (including seeking confirmation that the guarantee provided to academies will remain in place for the transferring members). In particular, the Fund expects the academy to ensure and confirm that the outsourcing complies with the requirements set out in the 'DfE Academy Trust LGPS Guarantee policy' (which can be viewed on the GOV.UK website at this [link](#)) before permitting a contractor into the Fund

3.7 Accounting

Academies (or MATs) may choose to prepare combined FRS102 disclosures (eg for all academies within a MAT). Any pooling arrangements for accounting purposes may be independent of the funding arrangements (eg academies may be pooled for contribution or funding risks but prepare individual disclosures, or vice versa).

4 Related Policies

The Fund's approach to admitting new academies into the Fund is set out in the Funding Strategy Statement, specifically "Section 5 – What happens when an employer joins the Fund?"

- Contribution policy
- Cessation policy

Appendix H – Contribution reviews

Policy on contribution reviews

1 Introduction

The purpose of this policy is to set out the administering authority's approach to reviewing contribution rates between triennial valuations.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

1.1 Aims and objectives

The administering authority's aims and objectives related to this policy are as follows:

- To provide employers with clarity around the circumstances where contribution rates may be reviewed between valuations.
- To outline specific circumstances where contribution rates will not be reviewed.

1.2 Background

The Fund may amend contribution rates between valuations for 'significant change' to the liabilities or covenant of an employer.

Such reviews may be instigated by the Fund or at the request of a participating employer.

Any review may lead to a change in the required contributions from the employer.

1.3 Guidance and regulatory framework

Regulation 64 of the Local Government Pension Scheme Regulations 2013 (as amended) sets out the way in which LGPS funds should determine employer contributions, including the following;

- Regulation 64 (4) – allows the administering authority to review the contribution rate if it becomes likely that an employer will cease participation in the fund, with a view to ensuring that the employer is fully funded at the expected exit date.
- Regulation 64A - sets out specific circumstances where the administering authority may revise contributions between valuations (including where a review is requested by one or more employers).

This policy also reflects **Statutory guidance** from the Ministry of Housing, Communities and Local Government on preparing and maintaining policies relating to the review of employer contributions. Interested parties may want to refer to an accompanying **guide** that has been produced by the Scheme Advisory Board.

2 Statement of principles

This statement of principles covers review of contributions between valuations. Each case will be treated on its own merits, but in general:

- The administering authority reserves the right to review contributions in line with the provisions set out in the LGPS Regulations.
- The decision to make a change to contribution rates rests with the administering authority, subject to consultation with employers during the review period.
- Full justification for any change in contribution rates will be provided to employers.
- Advice will be taken from the Fund actuary in respect of any review of contribution rates.
- Any revision to contribution rates will be reflected in the Rates & Adjustments certificate.

3 Policy

3.1 Circumstances for review

The Fund would consider the following circumstances as a potential trigger for review:

- in the opinion of an administering authority there are circumstances which make it likely that an employer (including an admission body) will become an exiting employer sooner than anticipated at the last valuation.
- an employer is approaching exit from the Fund within the next two years and before completion of the next triennial valuation.
- there are changes to the benefit structure set out in the LGPS Regulations which have not been allowed for at the last valuation.
- it appears likely to the administering authority that the amount of the liabilities arising or likely to arise for an employer or employers has changed significantly since the last valuation.
- it appears likely to the administering authority that there has been a significant change in the ability of an employer or employers to meet their obligations (e.g. a material change in employer covenant, or provision of additional security).
- it appears to the administering authority that the membership of the employer has changed materially such as bulk transfers, significant reductions to payroll or large-scale restructuring.
- where an employer has failed to pay contributions or has not arranged appropriate security as required by the administering authority.

The Fund would not normally consider a rate review within 12 months of new rates being prepared as part of the standard triennial valuation exercise.

3.2 Employer requests

The administering authority will also consider a request from any employer to review contributions where the employer has undertaken to meet the costs of that review and sets out the reasoning for the review (which would be expected to fall into one of the above categories, such as a belief that their covenant has changed materially, or they are going through a significant restructuring impacting their membership).

The administering authority will require additional information to support a contribution review made at the employer's request. The specific requirements will be confirmed following any request and this is likely to include the following:

- a copy of the latest accounts;
- details of any additional security being offered (which may include insurance certificates);
- budget forecasts; and/or
- information relating to sources of funding.

The costs incurred by the administering authority in carrying out a contribution review (at the employer's request) will be met by the employer. These will be confirmed upfront to the employer prior to the review taking place.

3.3 Other employers

When undertaking any review of contributions, the administering authority will also consider the impact of a change to contribution rates on other Fund employers. This will include the following factors:

- The existence of a guarantor.
- The amount of any other security held.
- The size of the employer's liabilities relative to the whole Fund.

The administering authority will consult with other Fund employers as necessary.

3.4 Effect of market volatility

Except in circumstances such as an employer nearing cessation, the administering authority will not consider market volatility or changes to asset values as a basis for a change in contributions outside a formal valuation.

3.5 Documentation

Where revisions to contribution rates are necessary, the Fund will provide the employer with a note of the information used to determine these, including:

- Explanation of the key factors leading to the need for a review of the contribution rates, including, if appropriate, the updated funding position.
- A note of the new contribution rates and effective date of these.
- Date of next review.
- Details of any processes in place to monitor any change in the employer's circumstances (if appropriate), including information required by the administering authority to carry out this monitoring.

The Rates & Adjustments certificate will be updated to reflect the revised contribution rates.

4 Related Policies

The Fund's approach to setting employer contribution rates is set out in the Funding Strategy Statement, specifically "Section 2 – How does the Fund calculate employer contributions?".

Appendix I – Cessation policy

Policy on cessations

1 Introduction

The purpose of this policy is to set out the administering authority's approach to dealing with circumstances where a scheme employer leaves the Fund and becomes an exiting employer (a cessation event).

It should be noted that this policy is not exhaustive. Each cessation will be treated on a case-by-case basis, however certain principles will apply as governed by the regulatory framework (see below) and the Fund's discretionary policies (as described in Section 3 - Policies).

1.1 Aims and Objectives

The administering authority's aims and objectives related to this policy are as follows:

- To confirm the approach for the treatment and valuation of liabilities for employers leaving the Fund.
- To provide information about how the Fund may apply its discretionary powers when managing employer cessations.
- To outline the responsibilities of (and flexibilities for) exiting employers, the administering authority, the actuary and, where relevant, the original ceding scheme employer (usually a letting authority).

1.2 Background

As described in Section 7 of the Funding Strategy Statement (FSS), a scheme employer may become an exiting employer when a cessation event is triggered e.g. when the last active member stops participating in the Fund. On cessation from the Fund, the administering authority will instruct the Fund actuary to carry out a valuation of assets and liabilities for the exiting employer to determine whether a deficit or surplus exists. The Fund has full discretion over the repayment terms of any deficit, and the extent to which any surplus results in the payment of an exit credit.

1.3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) contain relevant provisions regarding employers leaving the Fund ([Regulation 64](#)) and include the following:

- Regulation 64 (1) – this regulation states that, where an employing authority ceases to be a scheme employer, the administering authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the termination date. Further, it requires the Rates & Adjustments Certificate to be amended to show the revised contributions due from the exiting employer
- Regulation 64 (2) – where an employing authority ceases to be a scheme employer, the administering authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the exit date. Further, it requires the Rates & Adjustments Certificate to be amended to show the exit payment due from the exiting employer or the excess of assets over the liabilities in the Fund.
- Regulation 64 (2ZAB) – the administering authority must determine the amount of an exit credit, which may be zero, taking into account the factors specified in paragraph (2ZC) and must:
 - a) Notify its intention to make a determination to-
 - (i) The exiting employer and any other body that has provided a guarantee to the Exiting Employer

- (ii) The scheme employer, where the exiting employer is a body that participated in the Scheme as a result of an admission agreement
- b) Pay the amount determined to that exiting employer within six months of the exit date, or such longer time as the administering authority and the exiting employer agree.
- Regulation (2ZC) – In exercising its discretion to determine the amount of any exit credit, the administering authority must have regard to the following factors-
 - a) The extent to which there is an excess of assets in the Fund relating to that employer in paragraph (2)(a)
 - b) The proportion of this excess of assets which has arisen because of the value of the employer's contributions
 - c) Any representations to the administering authority made by the exiting employer and, where that employer participates in the scheme by virtue of an admission agreement, any body listed in paragraphs (8)(a) to (d)(iii) of Part 3 to Schedule 2 of the Regulations: and
 - d) Any other relevant factors
- Regulation 64 (2A) & (2B) – the administering authority, at its discretion, may issue a suspension notice to suspend payment of an exit amount for up to three years, where it reasonably believes the exiting employer is to have one or more active members contributing to the Fund within the period specified in the suspension notice.
- Regulation 64 (3) – in instances where it is not possible to obtain additional contributions from the employer leaving the Fund or from the bond/indemnity or guarantor, the contribution rate(s) for the appropriate scheme employer or remaining Fund employers may be amended.
- Regulation 64 (4) – where it is believed a scheme employer may cease at some point in the future, the administering authority may obtain a certificate from the Fund actuary revising the contributions for that employer, with a view to ensuring that the assets are expected to be broadly equivalent to the exit payment that will be due.
- Regulation 64 (5) – following the payment of an exit payment to the Fund, no further payments are due to the Fund from the exiting employer.
- Regulation 64 (7A-7G) – the administering authority may enter into a written deferred debt agreement, allowing the employer to have deferred employer status and to delay crystallisation of debt despite having no active members.
- Regulation 64B (1) – the administering authority may set out a policy on spreading exit payments.

In addition to the 2013 Regulations summarised above, [Regulation 25A](#) of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the Transitional Regulations") give the Fund the ability to levy a cessation debt on employers who have ceased participation in the Fund (under the previous regulations) but for whom a cessation valuation was not carried out at the time. This policy document describes how the Fund expects to deal with any such cases.

This policy also reflects [statutory guidance](#) from the Ministry of Housing, Communities and Local Government on preparing and maintaining policies relating to employer exits. Interested parties may want to refer to an accompanying [guide](#) that has been produced by the Scheme Advisory Board.

These regulations relate to all employers in the Fund.

2 Statement of Principles

This Statement of Principles covers the Fund's approach to exiting employers. Each case will be treated on its own merits but in general:

- it is the Fund's policy that the determination of any surplus or deficit on exit should aim to minimise, as far as is practicable, the risk that the remaining, unconnected employers in the Fund have to make contributions in future towards meeting the past service liabilities of current and former employees of employers leaving the Fund.
- the Fund's preferred approach is to request the full payment of any exit debt (an exit payment), which is calculated by the actuary on the appropriate basis (as per Section 7 of the FSS and Section 3.1 below). This would extinguish any liability to the Fund by the exiting employer.
- the Fund's key objective is to protect the interests of the Fund, which is aligned to protecting the interests of the remaining employers. A secondary objective is to consider the circumstances of the exiting employer in determining arrangements for the recovery of the exit debt.

3 Policies

On cessation, the administering authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus as defined in Section 4.3 of the FSS.

Where there is a deficit, payment of this amount in full would normally be sought from the exiting employer. The Fund's normal policy is that this cessation debt is paid in full in a single lump sum within 28 days of the employer being notified.

However, the Fund will consider written requests from employers to spread the payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation (see [3.2 Repayment flexibility on exit payments](#) below).

In circumstances where there is a surplus, the administering authority will determine, at its sole discretion, the amount of exit credit (if any) to be paid to the exiting employer (see [3.3 Exit credits](#) below).

The Fund may consider withholding any surplus where an employer has chosen to exit the Fund prematurely.

3.1 Approach to cessation calculations

Cessation valuations are carried out on a case-by-case basis at the sole discretion of the Fund depending on the exiting employer's circumstances. However, in general the following broad principles and assumptions may apply, as described in Section 7.2 of the FSS and summarised below:

Type of employer	Cessation exit basis	Responsible parties for unpaid or future deficit emerging
Local Authorities, Police, Fire	Low risk basis ¹	Shared between other Fund employers
Colleges & Universities	Low risk basis	Shared between other Fund employers
Academies	Low risk basis	DfE guarantee may apply, otherwise see below
Admission bodies (TABs)	Ongoing basis ²	Letting authority (where applicable), otherwise shared between other Fund employers
Admission bodies (CABs)	Low risk basis	Shared between other Fund employers (if no guarantor exists)
Designating employers	Low risk basis	Shared between other fund employers (if no guarantor exists)

¹Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (e.g. machinery of Government changes), these cessation principles would apply.

²Where a TAB has taken, in the view of the administering authority, action that has been deliberately designed to bring about a cessation event (e.g. stopping future accrual of LGPS benefits), then the cessation valuation will be carried out on a low-risk basis.

Cessation of academies and multi-academy trusts (MATs)

A cessation event will occur if a current academy or MAT ceases to exist as an entity or an employer in the Fund.

The cessation treatment will depend on the circumstances:

- If the cessation event occurs due to an academy or MAT merging with another academy or MAT within the Fund, all assets and liabilities from each of the merging entities will be combined and will become the responsibility of the new merged entity.
- If the MAT is split into more than one new or existing employers within the Fund, the actuary will calculate a split of the assets and liabilities to be transferred from the exiting employer to the new employers. The actuary will use their professional judgement to determine an appropriate and fair methodology for this calculation in consultation with the administering authority.
- In all other circumstances, and following payment of any cessation debt, section 7.5 of the FSS would apply.

Further details are included in the Fund's Academies Policy.

3.2 Repayment flexibility on exit payments**Deferred spreading arrangement (DSA)**

The Fund will consider written requests from exiting employers to spread an exit payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation.

Spreading the exit payment could increase the cost due to lost investment return in the period.

In this exceptional case, the Fund's policy is:

- The agreed spread period is no more than three years, but the Fund could use its discretion to extend this period in extreme circumstances.
- The Fund may consider factors such as the size of the exit payment and the financial covenant of the exiting employer in determining an appropriate spreading period.
- The exiting employer may be asked to provide the administering authority with relevant financial information such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) etc. to help in this determination.
- Payments due under the DSA may be subject to an interest charge.
- The Fund will only consider written requests within six months of the employer exiting the Fund. The exiting employer would be required to provide the Fund with detailed financial information to support its request.
- The Fund would take into account the amount of any security offered and seek actuarial, covenant and legal advice in all cases.
- The Fund proposes a legal document, setting out the terms of the exit payment agreement, would be prepared by the Fund and signed by all relevant parties prior to the payment agreement commencing.
- The terms of the legal document should include reference to the spreading period, the annual payments due, interest rates applicable, other costs payable and the responsibilities of the exiting employer during the exit spreading period.

- Any breach of the agreed payment plan would require payment of the outstanding cessation amount immediately.
- Where appropriate, cases may be referred to the Pensions Committee for consideration and considered on its individual merit. Decisions may be made by the Chair in consultation with officers if an urgent decision is required between Committee meetings.

Deferred debt agreement (DDA)

The Fund's preferred policy is for the spreading of payments, as detailed above, to be followed in the exceptional circumstances where an exiting employer is unable to pay the required cessation payment as a lump sum in full. However, in the event that spreading of payments will create a high risk of bankruptcy for the exiting employer, the Fund may exercise its discretion to set up a deferred debt agreement as described in [Regulation 64 \(7A\)](#).

The employer must meet all requirements on Scheme employers and pay the secondary rate of contributions as determined by the Fund actuary until the termination of the DDA.

The Administering Authority may consider a DDA in the following circumstances:

- The employer requests the Fund consider a DDA.
- The employer is expected to have a deficit if a cessation valuation was carried out.
- The employer is expected to be a going concern.
- The covenant of the employer is considered sufficient by the administering authority.

The Administering Authority will normally require:

- A legal document to be prepared, setting out the terms of the DDA and signed by all relevant parties prior to the arrangement commencing.(including details of the time period of the DDA, the annual payments due, the frequency of review and the responsibilities of the employer during the period).
- Relevant financial information for the employer such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) to support its covenant assessment.
- Security be put in place covering the employer's deficit on their cessation basis and the Fund will seek actuarial, covenant and legal advice in all cases.
- Regular monitoring of the contribution requirements and security requirements
- All costs of the arrangement are met by the employer, such as the cost of advice to the Fund, ongoing monitoring or the arrangement and correspondence on any ongoing contribution and security requirements.

A DDA will normally terminate on the first date on which one of the following events occurs:

- The employer enrolls new active fund members.
- The period specified, or as varied, under the DDA elapses.
- The take-over, amalgamation, insolvency, winding up or liquidation of the employer.
- The administering authority serves a notice on the employer that the Administering Authority is reasonably satisfied that the employer's ability to meet the contributions payable under the DDA has weakened materially or is likely to weaken materially in the next 12 months.

- The Fund actuary assesses that the employer has paid sufficient secondary contributions to cover all (or almost all) of the exit payment due if the employer becomes an exiting employer on the calculation date (i.e. employer is now largely fully funded on their low risk basis).
- The Fund actuary assesses that the employer's value of liabilities has fallen below an agreed *de minimis* level and the employer becomes an exiting employer on the calculation date.
- The employer requests early termination of the agreement and settles the exit payment in full as calculated by the Fund actuary on the calculation date (i.e. the employer pays their outstanding cessation debt on their cessation basis).

On the termination of a DDA, the employer will become an exiting employer and a cessation valuation will be completed in line with this policy.

3.3 Exit credits

The administering authority's entitlement to determine whether exit credits are payable in accordance with these provisions shall apply to all employers ceasing their participation in the Fund after 14 May 2018. This provision therefore is retrospectively effective to the same extent as provisions of the [Local Government Pension Scheme \(Amendment\) Regulations 2020](#).

The administering authority may determine the amount of exit credit payable to be zero, however, in making a determination, the Administering Authority will take into account the following factors.

- a) the extent to which there is an excess of assets in the Fund relating to the employer over and above the liabilities specified.
- b) the proportion of the excess of assets which has arisen because of the value of the employer's contributions.
- c) any representations to the Administering Authority made by the exiting employer, guarantor, ceding Scheme Employer (usually the Letting Authority) or by a body which owns, funds or controls the exiting employer; or in some cases, the Secretary of State.
- d) any other relevant factors

The principles below will be considered as part of the exit credit determination. However, they are designed only to provide an indication of how decisions are likely to be made and do not fetter the Fund's discretion over its decision. Each potential exit credit determination will be considered by the Fund on its own merits, and the Fund will make its discretionary decision on that basis.

Admitted bodies

- i. No exit credit will be payable in respect of admissions who joined the Fund before 14 May 2018 unless it is subject to a risk sharing arrangement as per paragraph iii) below. Prior to this date, the payment of an exit credit was not permitted under the Regulations and this will have been reflected in the commercial terms agreed between the admission body and the letting authority/awarding authority/letting authority. This will also apply to any pre-14 May 2018 admission which has been extended or 'rolled over' beyond the initial expiry date and on the same terms that applied on joining the Fund.
- ii. No exit credit will be payable to any admission body who participates in the Fund via the mandated pass through approach. For the avoidance of doubt, whether an exit credit is payable to any admission body who participates in the Fund via the "Letting employer retains pre-contract risks" route is subject to its risk sharing arrangement, as per paragraph iii) below.

- iii. The Fund will make an exit credit payment in line with any contractual or risk sharing agreements which specifically covers the ownership of exit credits/cessation surpluses or if the admission body and letting authority have agreed any alternative approach (which is consistent with the Regulations and any other legal obligations). This information, which will include which party is responsible for which funding risk, must be presented to the Fund in a clear and unambiguous document with the agreement of both the admission body and the letting authority/awarding authority/letting authority and within one month (or such longer time as may be agreed with the administering authority) of the admission body ceasing participation in the Fund.
- iv. In the absence of this information or if there is any dispute from either party with regards interpretation of contractual or risk sharing agreements as outlined in c), the Fund will withhold payment of the exit credit until such disputes are resolved and the information is provided to the administering authority.
- v. Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the Fund will consider how the approach to setting contribution rates payable by the admission body during its participation in the Fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.
- vi. If the admission agreement ends early, the Fund will consider the reason for the early termination, and whether that should have any relevance on the Fund's determination of the value of any exit credit payment. In these cases, the Fund will consider the differential between employers' contributions paid (including investment returns earned on these monies) and the size of any cessation surplus.
- vii. If an admitted body leaves on a low risk basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.
- viii. The decision of the Fund is final in interpreting how any arrangement described under iii), v), vi) and vii) applies to the value of an exit credit payment.

Scheduled bodies and designating bodies

- i. Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the Fund will consider how the approach to setting contribution rates payable by the employer during its participation in the Fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.
- ii. Where no formal guarantor or risk-sharing arrangement exists, the Fund will consider how the approach to setting contribution rates payable by the employer during its participation in the Fund reflects the extent to which it is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.
- iii. The decision of the Fund is final in interpreting how any arrangement described under i) and ii) applies to the value of an exit credit payment.
- iv. If a scheduled body or designating body becomes an exiting employer due to a reorganisation, merger or take-over, then no exit credit will be paid.
- v. If a scheduled body or resolution body leaves on a low-risk basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

General

- i. The Fund will advise the exiting employer as well as the letting authority and/or other relevant scheme employers of its decision to make an exit credit determination under Regulation 64.

- ii. Subject to any risk sharing or other arrangements and factors discussed above, when determining the cessation funding position the Fund will generally make an assessment based on the value of contributions paid by the employer during their participation, the assets allocated when they joined the Fund and the respective investment returns earned on both.
- iii. The Fund will also factor in if any contributions due or monies owed to the Fund remain unpaid by the employer at the cessation date. If this is the case, the Fund's default position will be to deduct these from any exit credit payment.
- iv. The final decision will be made by the pension manager, in conjunction with advice from the Fund's actuary and/or legal advisors where necessary, in consideration of the points held within this policy.
- v. The Fund accepts that there may be some situations that are bespoke in nature and do not fall into any of the categories above. In these situations the Fund will discuss its approach to determining an exit credit with all affected parties. The decision of the Fund in these instances is final.
- vi. The guidelines above at point v) in the 'Admitted bodies' section, and at points i) and ii) in the 'Scheduled bodies and designating bodies' section, make reference to the Fund 'considering the approach to setting contribution rates during the employer's participation'. The different funding approaches, including the parameters used and how these can vary based on employer type, are covered in detail in Table 2 (section 2.2) in the FSS. Considering the approach taken when setting contribution rates of the exiting employer may help the Fund to understand the extent to which the employer is responsible for funding the underlying liabilities on exit. For example, if contribution rates have always been based on ongoing assumptions then this may suggest that these are also appropriate assumptions for exit credit purposes (subject to the other considerations outlined within this policy). Equally, a shorter than usual funding time horizon or lower than usual probability of success parameter may reflect underlying commercial terms about how responsibility for pension risks is split between the employer and its guarantor. For the avoidance of doubt, each exiting employer will be considered in the round alongside the other factors mentioned above.

Disputes

In the event of any dispute or disagreement on the amount of any exit credit paid and the process by which that has been considered, the appeals and adjudication provisions contained in Regulations 74-78 of the LGPS Regulations 2013 would apply.

4 Practicalities and process

4.1 Responsibilities of ceasing employers

An employer which is aware that its participation in the Fund is likely to come to an end must:

- advise the Fund, in writing, of the likely ending of its participation (either within the terms of the admission agreement in respect of an admission body (typically a 3 month notice period is required) or otherwise as required by the Regulations for all other scheme employers). It should be noted that this includes closed employers where the last employee member is leaving (whether due to retirement, death or otherwise leaving employment).
- provide any relevant information on the reason for leaving the Fund and, where appropriate, contact information in the case of a take-over, merger or insolvency.
- provide all other information and data requirements as requested by the Administering Authority which are relevant, including in particular any changes to the membership which could affect the liabilities (e.g. salary increases and early retirements) and an indication of what will happen to current employee members on cessation (e.g. will they transfer to another Fund employer, will they cease to accrue benefits within the Fund, etc.).

4.2 Responsibilities of Administering Authority

The administering authority will:

- gather information as required, including, but not limited to, the following:
 - details of the cessation - the reason the employer is leaving the Fund (i.e. end of contract, insolvency, merger, machinery of government changes, etc.) and any supporting documentation that may have an effect on the cessation.
 - complete membership data for the outgoing employer and identify changes since the previous formal valuation.
 - the likely outcome for any remaining employee members (e.g. will they be transferred to a new employer, or will they cease to accrue liabilities in the Fund).
- identify the party that will be responsible for the employer's deficit on cessation (i.e. the employer itself, an insurance company, a receiver, another Fund employer, guarantor, etc.).
- commission the Fund actuary to carry out a cessation valuation under the appropriate regulation.
- where applicable, discuss with the employer the possibility of paying adjusted contribution rates that target a 100% funding level by the date of cessation through increased contributions in the case of a deficit on the cessation basis or reduced contributions in respect of a surplus.
- where applicable, liaise with the original letting authority or guarantor and ensure it is aware of its responsibilities, in particular for any residual liabilities or risk associated with the outgoing employer's membership.
- having taken actuarial advice, notify the employer and other relevant parties in writing of the payment required in respect of any deficit on cessation and pursue payment.

Payment of an exit credit

- If the actuary determines that there is an excess of assets over the liabilities at the cessation date, the administering authority will act in accordance with the exit credit policy above. If payment is required, the administering authority will advise the exiting employer of the amount due to be repaid and seek to make payment within six months of the exit date. However, in order to meet the six month timeframe, the administering authority requires prompt notification of an employers' exit and all data requested to be provided in a timely manner. The administering authority is unable to make any exit credit payment until it has received all data requested.
- At the time this policy was produced, the Fund has been informed by HMRC that exit credits are not subject to tax, however all exiting employers must seek their own advice on the tax and accounting treatment of any exit credit.

4.3 Responsibilities of the actuary

Following commission of a cessation valuation by the administering authority, the Fund actuary will:

- calculate the surplus or deficit attributable to the outgoing employer on an appropriate basis, taking into account the principles set out in this policy.
- provide actuarial advice to the administering authority on how any cessation deficit should be recovered, giving consideration to the circumstances of the employer and any information collected to date in respect to the cessation.
- where appropriate, advise on the implications of the employer leaving on the remaining fund employers, including any residual effects to be considered as part of triennial valuations.

5 Related Policies

The Fund's approach to exiting employers is set out in the FSS, specifically "Section 7 – What happens when an employer leaves the Fund?"

The approach taken to set the actuarial assumptions for cessation valuations is set out in [Appendix D](#) of the FSS.

Leicestershire County Council Pension Fund

Cessation corridor approach

Richard Warden FFA, C.Act

20 January 2026
For and on behalf of Hymans Robertson LLP

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Addressee & Purpose

Addressee

This paper is addressed to the Pension Committee of the Leicestershire County Council Pension Fund ("the Fund").

Purpose

As part of the 2025 formal valuation, the Fund has reviewed its cessation policy. The purpose of this paper is to explain the introduction of a 'corridor' for ceasing employers that have no guarantor and are valued using the Fund's low-risk exit basis.

The 'corridor' affects cessation valuations in the round, so any decision will impact both cessation debt payments due to the Fund from a ceasing employer (if the valuation identifies a deficit) and potential exit credits (if the valuation identifies a surplus).

This policy change will be documented in the FSS and consulted on in line with LGPS Regulations and guidance.

1. Background to current cessation approach

Background to the current cessation approach

The Fund's cessation approach for the low-risk exit basis was last reviewed as part of the 2022 valuation exercise.

Following this review, the Fund's low-risk exit basis switched from a "gilts-based" methodology to a risk-based approach. This aligns with the approach used to determine the future investment return for the ongoing basis and the approach used for contribution rate setting purposes.

Notably, it was agreed that the level of future investment return under the Fund's low-risk exit basis would target a **90% likelihood** of being achieved over a 20-year time horizon. In other words, the prudence margin was set at 90%. This is captured in the Fund's current FSS (see excerpt opposite).

The approach was approved by Committee in November 2022 as part of the funding strategy review for the 2022 formal valuation and has since been used for any cessation calculations for employers ceasing on the low-risk exit basis.

FSS: Appendix D – Actuarial assumptions

D5 What assumptions apply in a cessation valuation following an employer's exit from the Fund?
Where there is a guarantor the following exit basis will apply:

- **Admission bodies (TABs)** – where the liabilities will be passed back to the letting authority on exit, the contractor exit basis will apply (see below)
- **Other employers** - in specific circumstances an exiting employer may have a guarantee provided by another employer within the Fund or by a parent company etc. If the Fund is satisfied with the covenant of this guarantee the liabilities may be calculated on the ongoing basis.

Contractor exit basis

The financial and demographic assumptions underlying the contractor exit basis are equal to those set for calculating contribution rates. Specifically, the discount rate is set equal to the risk-free rate at the cessation date, plus a margin equal to that set to allocate assets to the employer on joining the Fund.

Low risk exit basis

Where there is no guarantor, the low-risk exit basis will apply.

The financial and demographic assumptions underlying the low-risk exit basis are explained below:

- The discount rate used for calculating the funding position will be higher than the ongoing funding basis, specifically that there is a 90% likelihood that the Fund's assets will achieve future investment returns over the 20 years following the date of the calculation.
- The CPI assumption is based on Hymans Robertson's ESS model plus an 'inflation protection' margin of 0.2% pa. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022, giving an overall CPI assumption of 2.9% pa.

The cessation policy is reviewed regularly as part of the Fund's ongoing risk management processes

Why review the cessation policy now?

The economic environment has changed significantly since 2022. This has resulted in improved funding positions for employers, and less concern around affordability of the scheme and exit costs.

This has increased the number and urgency of employers seeking exit from funds across the LGPS. It has also shifted the focus from debt management to the possibility of the employer receiving an exit credit. This has seen increased activity from employer-appointed independent advisers, who are challenging the cessation approach, often to seek a higher exit credit.

The current cessation approach presents the following two challenges:

- Risk of insufficient assets - a high exit credit results in less assets being left behind in the Fund, increasing the risk that these assets won't be sufficient to meet the liabilities of the ceased employer in the future (if the assets don't earn the assumed level of future investment return).
- Uncertainty for employers - it remains difficult for employers to plan for future cessation events, whether in surplus or in deficit, as their assets and liabilities are sensitive to market movements that are shifting continuously.

In this paper, we discuss an alternative approach which would help both the Fund and the employers plan future cessation events with more cost certainty and ensure exit credits are only paid out where there is a high level of confidence of sufficient monies remaining in the Fund.

Furthermore, since the Fund has decided to increase prudence in its ongoing basis from a 75% to 80% likelihood of success as part of the 2025 valuation funding strategy, it makes sense to review the cessation policy for consistency.

2. Risk-based cessation ‘corridor’ approach

Extending current approach to use a likelihood ‘corridor’

As mentioned in the previous section, the current cessation approach leads to two key challenges for the Fund.

To address these challenges, a cessation likelihood “corridor” can be added which works as follows:

1. The Fund sets the bounds of the corridor, namely a minimum and maximum required likelihood of achieving the investment return as part of its funding strategy;
2. For each cessation valuation, we would use our in-house model (the Economic Scenario Service (“ESS”)) to generate the assumed investment returns on the cessation date, using the Fund’s investment strategy and a time horizon of 20 years;
3. We would then calculate two liability values using the assumed investment returns that could be achieved with the minimum and maximum likelihoods. These two liability values then represent the bounds of the likelihood “corridor”;

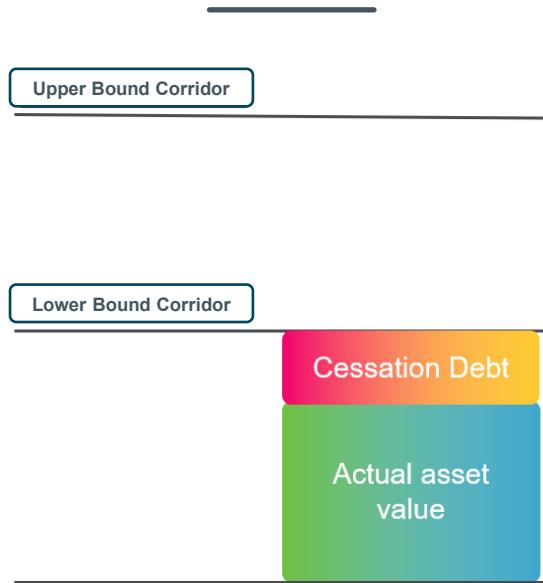
The choice of the upper and lower bound of the corridor is at the Fund’s discretion. It would be documented within the Funding Strategy Statement and subject to employer consultation. The likelihood associated with each bound would remain fixed for all low-risk exit basis cessation calculations until the cessation policy is next formally reviewed.

The following page illustrates the operation of the likelihood ‘corridor’ in each scenario.

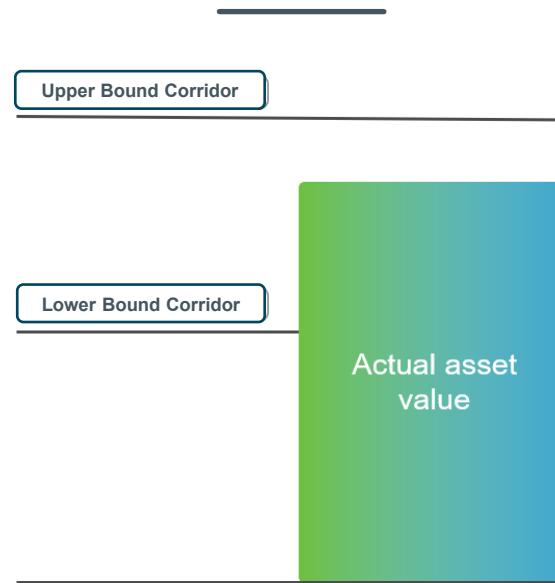
4. The actual asset value at the point of cessation is then compared to the lower and upper bound of the liabilities, leading to one of the following three potential outcomes:
 - **Debt scenario:** If the actual asset value falls below the lower bound of the corridor, then a cessation debt is payable by the exiting employer, equal to the difference between the lower bound and the actual asset value. This ensures the employer’s asset share meets at least a minimum required level.
 - **No payment scenario:** If the actual asset value falls within the upper and lower bounds of the corridor, then no cessation debt or exit credit is payable. This is because the employer’s asset share is within the required corridor and therefore deemed broadly sufficient.
 - **(Potential) credit scenario:** If the actual asset value falls above the upper bound of the corridor, then no cessation debt is payable by the exiting employer. An exit credit **may** be payable, of no more than the excess above that upper bound in order to limit the employer’s asset share to no more than the maximum required level (and noting that under LGPS Regulations there are additional factors to take into account when determining the amount of an exit credit).

Risk-based cessation corridor approach

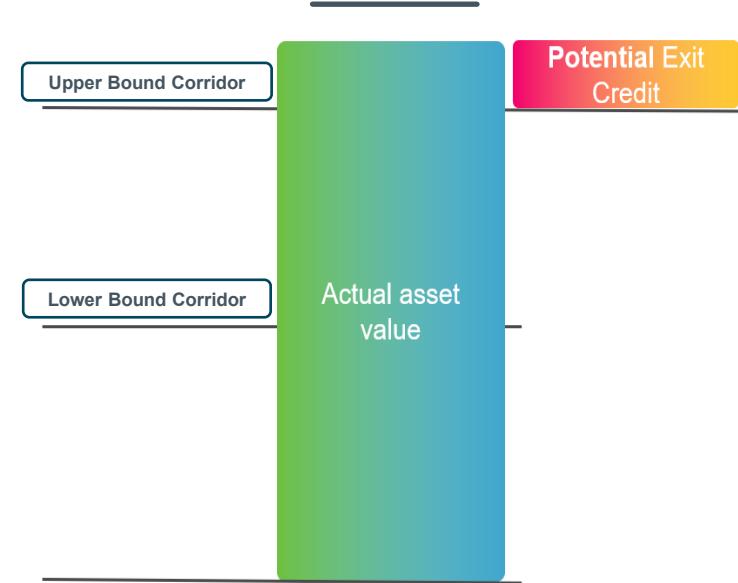
1. Debt scenario



2. No payment scenario



3. (Potential) exit credit scenario



The actual asset value at the point of exit is compared to the lower and upper bound of the liabilities

3. Choice of corridor bounds

Cessation corridor parameters

The key parameters are as follows:

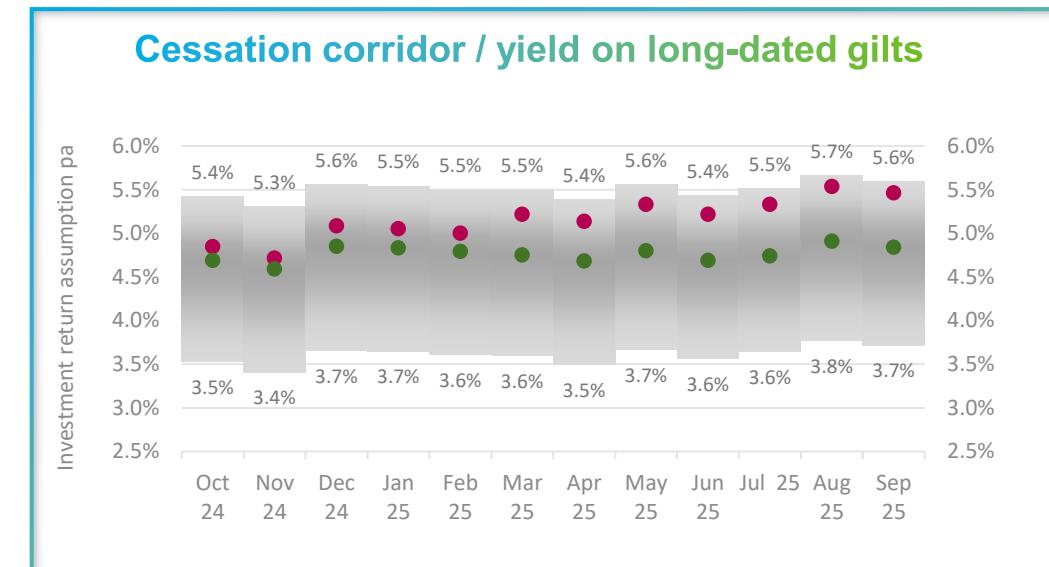
- **Lower bound** – the level below which an exit debt may be payable. This would be set equal to the value of the liabilities calculated with reference to the X% likelihood return assumption (e.g. 85%, 90%)
- **Upper bound** – the level above which an exit credit may be payable. This would be set equal to the value of the liabilities calculated with reference to the Y% likelihood return assumption (e.g. 90%, 95%)

The discount rates (likelihood return assumption) for the lower and upper bounds are set with reference to the returns expected from the Fund's assets, based on the investment return assumptions generated from our ESS model. Whilst these assumptions vary over time due to changes in asset return expectations, the upper and lower bound likelihoods would remain fixed.

The chart to the right shows the 85% to 95% discount rate corridor at month-ends between October 2024 and September 2025 (the grey shaded area), along with the 90% discount rates (the **green dots**) and the yield on long-dated government bonds at each month-end (the **pink dots**). The rationale for using the yield on long-dated government bonds as a reference point is that this is viewed as the least-risky asset class and is how the Fund used to define the low-risk exit basis before the current risk-based approach was adopted. While the upper and lower bound discount rates are not set with reference to the yield available on long-dated government bonds, the discount rate set based on a high likelihood of occurrence can be similar to the gilt yield at any point in time, and these can change in a similar (but not identical) way.

From this we can make the following observations:

- The likelihood of the Fund's assets generating returns at least equal to the gilt yield has ranged been between 86% to 89% (i.e. the gilt yield has been broadly similar to the 90% likelihood discount rate).
- The average range of the future expected returns for a 90%-95% corridor over this period is 1.2% pa (equivalent to a difference in liability value of c.15-20%).
- The average range of the future expected returns for an 85%-95% corridor over this period is 1.9% pa (equivalent to a difference in liability value of c. 25-30%).



Discount rate (pa)	Min	Max	Average
85% likelihood	5.3%	5.7%	5.5%
90% likelihood	4.6%	4.9%	4.8%
95% likelihood	3.4%	3.8%	3.6%
Gilt yield	4.7%	5.5%	5.2%

Considerations for cessation corridor parameters

When considering the bounds for the cessation corridor, the following are relevant:

- The upper and lower bound discount rates can provide a wide range over which an employer can be 'fully funded' for cessation purposes (e.g. the range of an 85% to 95% corridor has been c1.9% pa which is equivalent to a change in liability values of c.25-30%). This helps reduce the volatility of cessation valuations and provides more certainty to employers when planning for future cessation events. Any narrowing of the range of the corridor (e.g. 90% to 95%) would lessen the benefit of this reduced volatility in cessation valuations.
- One of the Fund's objectives should be to design an approach that is fair to employers. Any choice of parameters which lead to a higher likelihood of a cessation debt being payable, or which reduces the cessation surplus, may be deemed unfair by employers. Careful considerations around the implementation timetable and the communication of such a change would be required if the parameters were to change in this way.
- A key source of volatility in the discount rates and width of corridor, is the nature of underlying assets themselves. An asset allocation with less risk would inherently reduce both.

Other considerations

- **Source of prudence** – does the Fund wish to apply further prudence in any of the other actuarial assumptions, which may be valid due to uncertainty in these assumptions, or to reflect any emerging evidence that future experience may be detrimental compared to the current assumption?
- **Ongoing review** – Regular reviews of the cessation approach and parameters would be good practice: these could be annual (to capture changes in market conditions), or triennial (to tie in with the funding valuations and reviews to the Funding Strategy Statement).
- **Consistency with 2025 valuation** - Funding Strategy is under review as part of the 2025 valuation. The Fund have adopted a higher prudence margin as part of that assumption setting process. Increases in prudence may also be appropriate within any cessation corridor parameters.

Following discussions, officers propose to introduce a corridor with bounds of 85% and 95%

Appendices

APPENDIX 1

Reliances and limitations

This paper is addressed to Leicestershire County Council as Administering Authority to the Leicestershire County Council Pension Fund (“the Fund”). It has been prepared in our capacity as actuaries to the Fund and is solely for the purpose of explaining the risk-based corridor cessation approach for the Fund’s low-risk exit basis. 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. Neither we nor Hymans Robertson LLP accept any liability to any party other than the Administering Authority unless we have expressly accepted such liability in writing.

This paper may not be passed onto any other third party except as required by law or regulatory obligation, without prior written consent of Hymans Robertson LLP.

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APPENDIX 2

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. Property. 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 30 September 2025.

Annualised total returns													
	Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Developed World ex UK Equity	Property	CorpMedium A	Inflation (RPI)	17 year real yield (RPI)	Inflation (CPI)	17 year real yield (CPI)	17 year yield	
5 years	16th %ile	3.4%	1.6%	2.2%	0.1%	-0.5%	-0.1%	2.3%	1.6%	1.7%	0.6%	1.8%	5.1%
	50th %ile	4.2%	4.4%	4.2%	8.1%	7.9%	6.9%	4.6%	3.1%	2.7%	2.2%	2.7%	6.2%
	84th %ile	5.0%	7.3%	6.1%	16.3%	16.4%	14.3%	6.8%	4.6%	3.6%	3.7%	3.6%	7.5%
10 years	16th %ile	3.7%	2.8%	4.4%	2.5%	2.2%	2.3%	4.6%	0.9%	1.0%	0.5%	1.0%	4.2%
	50th %ile	4.7%	4.8%	5.6%	8.7%	8.5%	7.5%	6.1%	2.6%	2.3%	2.1%	2.2%	5.6%
	84th %ile	5.9%	7.0%	6.7%	14.6%	14.7%	12.8%	7.4%	4.2%	3.5%	3.8%	3.5%	7.4%
20 years	16th %ile	3.2%	3.1%	5.4%	3.9%	3.7%	3.6%	5.7%	0.8%	-0.5%	0.6%	-0.4%	1.7%
	50th %ile	4.6%	4.8%	6.2%	8.5%	8.4%	7.4%	6.7%	2.3%	1.3%	2.1%	1.3%	3.6%
	84th %ile	6.4%	6.7%	6.8%	13.1%	13.2%	11.4%	7.6%	4.0%	3.0%	3.7%	3.0%	6.3%
Volatility (Disp) (1 yr)		0.3%	6.6%	5.4%	16.0%	16.7%	16.8%	6.3%	1.4%		1.4%		

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LOCAL PENSION COMMITTEE – 30 JANUARY 2026

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

OVERVIEW OF THE CURRENT ASSET STRATEGY AND PROPOSED 2026 ASSET STRATEGY

Purpose of the Report

1. The purpose of this report is to inform the Local Pension Committee (LPC) of the outcome of the annual review of the Leicestershire Pension Fund's (the Fund) strategic investment allocation and structure. A paper written by the Fund's investment advisor Hymans Robertson (Hymans) supports this section and is appended to this paper.
2. The report also provides guidance regarding the Fund's approach to local investment as required by Government's draft regulations, as well as the approach to engagement and divestment.
3. Representatives from Hymans will present at the meeting which will include more detail of the proposed investments strategy and review of the current portfolio holdings and market background.

Background

4. The nature of the Fund's liabilities is long-term. The strategic investment benchmark is structured to reflect the nature of liabilities by focusing on the need for long-term returns and a degree of inflation-linked returns. Market fluctuations and timing of commitments will cause the Fund's actual asset allocation to vary from the agreed strategic asset allocation (SAA). Investments within private market asset classes will create further variation as capital is added to new products and returned from existing products where the timing of capital flows is uncertain. The strategic benchmark, which is set each year, should therefore be considered an 'anchor' around which the actual asset allocation is managed.
5. The Fund has improved its funding level over successive actuarial valuations with the last valuation as at 31 March 2025 showing a funding level of 140%, essentially every pound of liabilities was supported by £1.40 of investment assets. 31 March 2022 showed a funding level of 105% and as at 2019 and 2016 funding levels were 89% and 76% respectively.
6. The LPC was updated regarding the whole fund actuarial outcome at the 26 September 2025 meeting where the major assumptions underpinning the funding level were shared. These are summarised below.

Assumption	Approach for the 2025 Valuation
Discount Rate	Adopt an 80% prudence for calculating funding levels and contribution rates, equating to a 6.1% 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.

7. The improvement in funding level has largely been driven by an improved investment outlook due to a rise in global interest rates leading to higher expected future returns across all asset classes. It is important to note that future investment returns are not guaranteed and whilst there has been a significant improvement in funding levels since 2019, the fund must remain prudent to protect the position going forward .
8. The Fund is invested in funds administered by various investments managers, one of which is LGPS Central (Central), a private company jointly owned by the Fund and currently seven other pension fund administering authorities. By pooling investments, Central aims to reduce costs, provide improved manager oversight, improve responsible investment outcomes and investment returns to the ultimate benefit of Fund employers and members.
9. Central's product offer continues to develop at pace given the Government's fit for the future consultation outcomes, and this year's strategy review has been undertaken with this in mind.
10. Pooling of Fund assets has resulted in Central becoming the single largest investment manager the Fund invests with. The Fund has made good progress regarding an orderly transition to Central products to date. As at 30 September 2025, the Fund was valued at £7.1billion with £4.4billion or 62% of the total assets within Central investment funds, which has continued to increase as commitments made to private market investments with Central are called. The value as at the last update at the December LPC meeting was £900million in uncalled commitments to Central investment products.
11. The decision on the appropriate investment allocation to each asset class is difficult and is dependent on a trade-off between expected risk (as measured by volatility for example) and investment return for each asset class. Whilst historic outcomes for risk and return can be informative about how different asset classes are correlated to each other and may perform into the future, they give no guarantee that these historic links will persist.
12. 2022 was a reminder of this, as previously held beliefs were proven not to be the case as both bonds and equities sold off sharply whilst global interest rates increased. This does not detract from the desirability to agree a strategic asset allocation benchmark that makes intuitive sense in terms of the risks being taken to achieve a required return in line with the Fund's required rate of return.

Summary of last years (Jan 2025) asset strategy proposals and progress made

13. Three changes to the SAA were approved at the LPC meeting in January 2025. These are described below.

- Listed equity from 37.5% to 41%, a +3.5% change
- Property from 10% to 7.5%, a -2.5% change
- Global private credit from 10.5% to 9.5%, a -1.0% change

14. As at the latest position (30 September) and as reported to the December 2025 meeting of the LPC the progress versus the strategic target is illustrated below.

Growth	30/09/25			Difference, actual to 2025 SAA	£m to target weight
	£m	2025 SAA	30/09/25 Actual weight %		
Listed Equity	3,115	41.00%	43.8%	2.8%	199
Targeted Return Funds	354	5.00%	5.0%	0.0%	-1
Private Equity	387	7.50%	5.4%	-2.1%	-146

Income	30/09/25			Difference, actual to 2025 SAA	£m to target weight
	£m	2025 SAA	30/09/25 Actual weight %		
Infrastructure	725	12.50%	10.2%	-2.3%	-164
Global private credit	485	9.50%	6.8%	-2.7%	-191
Property	495	7.50%	7.0%	-0.5%	-38
Global Credit - liquid MAC	449	9.00%	6.3%	-2.7%	-191

Protection	30/09/25			Difference, actual to 2025 SAA	£m to target weight
	£m	2025 SAA	30/09/25 Actual weight %		
Inflation linked bonds	214	3.50%	3.02%	-0.5%	-34
Investment grade credit	200	3.25%	2.82%	-0.4%	-31
Short dated IG credit	66	0.50%	0.93%	0.4%	30
Active currency hedge	59	0.75%	0.83%	0.1%	6

Cash	561	0.00%	7.9%	7.9%	561
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	30/09/25			Difference, actual to 2025 SAA	£m to SAA weight
	£m	2025 SAA	Actual weight %		
Growth	3,857	53.5%	54.2%	0.7%	52
Income	2,154	38.5%	30.3%	-8.2%	-584
Protection	540	8.0%	7.6%	-0.4%	-29
Cash	561	0.0%	7.9%	7.9%	561
	7,111	100.0%	100.0%		

15. In summary, versus the 2025 SAA targets, the Fund is overweight cash with the majority of the underweight positions within private markets (infrastructure and private credit) and multi asset credit (MAC). The infrastructure and private credit commitments have been made and will take time to be called. The MAC underweight is due to the Fund opting to hold adding to this investment product whilst Central reorganise the underlying manager line up.
16. Three asset class reviews were planned over 2025. A tail risk protection review scheduled for the end of 2025 with the scope to be defined in advance between officers and investment advisors and taking into account the outcome of the 2025 triennial valuation and required rates of future investment return. A review of property and private global credit asset classes with the aim to maintain exposure and take into account pooling.
17. The private credit and property reviews were presented to the 1 October meeting of the Investment Sub-Committee (ISC). The tail risk review commenced earlier in the 2025 with a scope agreed. Owing to the complex nature of this investment and the likelihood of it taking longer than 31 March 2026 to design and implement a solution, alongside fit for the future guidance stating implementation decisions would be the responsibility of the Pool, it was deemed prudent to pause this workstream.
18. Investment frameworks for both private credit and property were reviewed and where appropriate, commitments were approved at the 1 October meeting of the ISC. In summary, additional private credit commitments of £120million in aggregate was approved to existing Central private credit vintages. And whilst capital waiting to be called £90million was approved to be added to the Aegon short-dated investment grade credit fund.

The 2026 investment strategy review

19. The strategy review is appended to this report. The scope was agreed with officers in advance and communicated to the LPC at the December 2025 meeting. The areas to be considered are:
 - A general investment markets update alongside the asset classes the Fund has invested in.
 - Reviewing the investment strategy using the asset liability modelling conducted by the actuarial team as part of the 2025 actuarial valuation of the

Fund. How probable is the strategy able to meet the investment return requirements.

- Commentary on the role of protection assets, noting the strong funding position the Fund is in as at 31 March 2025.
- Local investing – how the Fund should approach this new requirement given the existing exposure to the UK and guidance from Government regarding local investment taking into account the Leicestershire Pension Committee workshop outcomes.
- Mapping of the current strategy and any proposed changes to the nine asset class framework proposed by Government fit for the future consultation outcome.

Executive Summary of Recommendations: 2026 SAA

20. Hymans will present additional detail which covers the following points, 21 to 38.

Asset liability modelling (ALM)

21. Hymans modelled a range of alternative strategies using 5,000 stochastic simulations. The key findings include:

- All strategies tested, including the current SAA, display high probabilities of success and similar levels of downside risk.
- The likelihood of success (remaining fully funded over 20 years) was consistently above 70%, regardless of asset mix.
- Risk of regret (likelihood of requiring higher contributions at 2028 valuation) is also broadly similar across all strategies — meaning none of the options introduces material additional risk.
- The Fund can therefore adjust asset allocation at the margin based on practical considerations, rather than being constrained by ALM results.

Growth, income and protection asset group summary

22. Hymans conclude that the current strategy remains well diversified with exposure to listed equities, private markets and credit. Actual allocation remains underweight in private markets and MAC due to timing of capital calls and ongoing manager revisions. Modelled changes involving moving assets from equities or credit to protection show minimal impact on return expectations, but lower volatility marginally.

23. Hymans make the case for increasing protection assets by 2% to 10%. Their modelling explored increases to protection assets across various funding sources (such as, from equities, MAC, IG credit). The results showed that a 5% increase did not materially change probability of success, downside risk or long-term funding dynamics. Hymans specifically make the case for a 2% fixed interest gilts allocation.

24. These are essentially fixed interest loans to the UK government which mature at a preset date in the future. Maturities can range from a few months to 2073. Risk to capital is minimal but valuations can fluctuate until maturity and valuations of longer dated gilts are usually more volatile than short dated maturities. The exact style of implementation will be dependent on the offering availability with products at Central. This can be further investigated with either Hymans or LGPS Central.

25. However, operational and liquidity considerations make 2% more suitable and while Central's Multi Asset Credit fund remains underweight, a 2% reduction can be executed efficiently without forced sales and provides the smooth introduction of a new investment at a steady rate the Fund is accustomed to.

26. A 2% increase supports the Fund's liquidity profile, as both MAC and UK government gilts are highly liquid ensuring quick liquidity for ongoing private market commitments. Hymans also note that current gilt yield levels present an attractive entry point, making a modest initial allocation appropriate.

27. The 2% move also aligns more proportionately with the Fund's improved funding position; whilst noting there is no need to de-risk more aggressively at this point. If approved the Fund will have 10% of assets in traditional protection assets, investment grade bonds and UK fixed interest and index linked gilts. In addition, the Fund has made progress over the years to move into income generating assets which are understood to be less volatile than equity markets.

28. The proposed move from MAC into protection assets provides a relatively clean, low disruption adjustment consistent with modelling results and liquidity considerations. The proposed SAA is shown in the table below in the new 9 asset class format as prescribed by Government. The Local investment allocation is covered in more detail later in the paper.

Asset Class	Current Strategy	Proposed allocation	Tolerance range (+/-%)	Local Investing
Growth	53.5	53.5	51.75 - 56.75	
Listed equities	41.0	41.0		-
Other alternatives (targeted return)	5.0	5.0	+/- 2.5	-
Private equity	7.5	7.5		
Income	38.5	36.5	34.5 - 38.5	
Infrastructure (inc timberland)	12.5	12.5		1%
Property	7.5	7.5		
Private credit	9.5	9.5	+/- 2.0	
Credit liquid MAC	9.0	7.0		-
Protection	8.0	10.0	8.0-12.0	-
Credit IG credit	3.75	3.75		-
UK Government Bonds**	3.5	5.5	+/- 2.0	-
Cash*	0.75	0.75		-
Total	100.0	100.0		

* Currency hedge collateral ** Includes new proposed +2% allocation to fixed interest gilts

29. In addition, Hymans recommend two asset class review, one for listed equity and one for investment grade credit. Both are sizeable allocations and have not been reviewed recently. Both are likely to be reviewed by Central as part of their asset class design work but will need to be discussed with Central as to when this review can be scheduled.

Strategic Risks to Monitor

30. Hymans emphasise the growing importance of climate risks (transition and physical risks), geopolitical instability, liquidity risks, especially around private market capital calls and alignment to pooling requirements.

31. They also note that Fund's existing diversification and climate-aligned positions mitigate many of these risks, but ongoing monitoring remains essential.

Local Investment

32. The Fit for the Future guidance require each Fund to set a target for local investment. In September 2025 a workshop of Local Pension Committee members covered expectations with regard to local investment. From this the following high-level views were largely supported:

- Members support defining local investment through the LGPS Central pool area (including any new PF's), as it provides the widest opportunity set and diversification.
- Members believe that a local investment allocation will sit across private equity, infrastructure, property and private credit asset classes.
- Investments must achieve appropriate commercial returns in line with the Fund's agreed SAA/ISS. Ultimately LGPS Central will be responsible for delivering against the Local Investment target and decisions must be undertaken following appropriate due diligence by LGPS Central. Careful regard should be given to identify the best sectors available within the pool area.

33. Hymans have considered these high-level views and local investment in light of draft regulations and guidance and have agreed that these views are sensible for the Fund. It is recognised that these can be reviewed in line with future SAA and ISS reviews as Central's offering is expected to develop.

Engagement and Divestment

34. As part of the strategy review Hymans considered the Fund's existing approach to engagement and divestment in relation to pooling requirements and the fact that stewardship is increasingly being delivered through LGPS Central.

35. The Fund has been clear that it operates a engagement-first model, with escalation and, where needed, divestment (for example expecting investment managers to sell or reduce positions where there are material risks or reducing or removing allocations to an investment manager) used as complementary tools rather than

mutually exclusive options, this aligns with LGPS Central's philosophy and stewardship framework.

36. As part of Hymans review they consider the practical constraints to consider, this includes the fact that the Fund cannot directly instruct the pool to sell a particular company, or apply a bespoke exclusion approach as that would undermine the objectives that pooling is designed to deliver, as well as involve higher costs, reduced pooling benefits and additional governance demands.
37. Hymans recommends the Fund considers sharpening expectations around escalation and defining what constitutes "insufficient progress" against engagement objectives, improving visibility of how stewardship priorities are set and confirming broader thematic expectations, so LGPS Central's priorities reflect the Fund's own. Hymans believe this will strengthen alignment with Central, support more consistent stewardship outcomes and ensure the Fund's approach remains grounded in fiduciary duty.
38. It is proposed these recommendations are considered throughout the year through the Fund's responsible investment plan, to consider the approach within the Net Zero Climate Strategy, the outcome of the responsible investment survey, as well as government guidance which may restrict the Fund's approach.

LGPS Central view

39. Similarly to previous years, the SAA has been shared with Central for a high level review. No red flags have been raised with respect to the proposed changes to the strategic weights.
40. The implementation of the recommendations will rest with Central under the guidance from Government. Any implementation plans will be considered by the Client Director at Central. The process to inform officers and Local Pension Committees is being formalised currently.

Climate Risk

41. The risk is identified within the risk register and considered as part of SAA reviews. The existing net zero climate strategy (NZCS) which was initially approved in 2023 is in the process of being reviewed. A workshop is planned in the coming months to discuss options with the Local Pension Committee and the results of the engagement exercise that has recently completed.
42. The Fund has made progress against the 2030 interim targets included within the original NZCS (approved at the meeting of the LPC in March 2023) with the primary targets met early. This was reported the Local Pension Committee at the meeting on 1 December 2025.
 - The 50% carbon intensity reduction by 2030 for the equity portfolio (tCO2e/\$m sales) was met in 2025 with a 55.6% reduction since the 2019 baseline.

- The 40% absolute carbon emissions reduction for the equity portfolio by 2030 (tCO2e) was met in 2025 with a 42.2% reduction since the 2019 baseline.

43. The changes made to Fund to enable achievement of investment returns and management of risks include the investment in the LGPS Central climate multi factor fund in 2020 before the Fund had a formal net zero climate strategy (NZCS). Other investments made to support the funds climate strategy ambitions include:

- \$114m committed to the Quinbrook Net Zero Power Fund. A Fund that invests in solar power with battery systems, both as part of the decarbonisation of the energy system, and as part of demand from data centres.
- \$67m committed to the Stafford Capital Carbon Offset Opportunity fund, in addition to its existing investment in timberland. This fund looks to invest in sustainably managed timberland globally, provide a source of sustainable low carbon timberland materials, generate verified carbon offsets.
- £335m committed the LGPS Central Core/Core+ Infrastructure Partnership which invests in infrastructure funds across the core/core plus space. To date this partnership has made several such investments which include UK focussed solar and battery storage, as well as social, renewables, transport, and utilities assets.
- £200million invested in LGIM's low carbon transition (LCT) fund in November 2023 which has an objective to reduce carbon emissions intensity and align with the net zero pathway. The LCT fund has an initial 70% reduction in carbon intensity versus the benchmark and aims for a 7% reduction per annum in line with a Paris aligned strategy. The LCT fund also incorporates LGIM's climate impact pledge which commits LGIM to helping invested companies reach net zero by 2050.

Leicestershire Pension Fund Conflict of Interest Policy

44. Whilst not a conflict of interest, it is worth noting that the County Council also invests funds with three managers which the Leicestershire County Council Pension Fund invests with, namely Partners Group, JP Morgan and Christofferson Robb and Company (CRC). The County Council's investments were made following due diligence Hymans Robertson had provided the Fund.

Recommendations

45. It is recommended that the LPC:

- Approve the changes to the 2026 target SAA allocation as described at paragraph 22 to 28 of this report, and summarised at the table at point 28. Which includes a 1% initial allocation to Local Investments across the four asset classes, private equity, property, infrastructure and private credit.
- Agree that the following two asset class reviews be undertaken: depending for listed equity and investment grade credit. The nature of the reviews will depend

on the asset class design work Central will be working on through the next few months and investment products available. Any outcomes will be presented to the relevant LPC meeting during 2026.

Equality Implications

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

Human Rights Implications

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

Appendix

Appendix A: Hymans Robertson, Asset Class review

Appendix B: Hymans Robertson, Strategic Asset Allocation review 2026

Appendix C: Hymans Robertson, Review of engagement and divestment policy

Appendix D: Hymans Robertson, Local investing

Background Papers

Local Pension Committee - 31 January 2025 – Annual Review of the Asset Strategy and Structure

<https://democracy.leics.gov.uk/documents/s188033/SAA%20Report%20Jan%202025.pdf>

Investment Sub-Committee – 1 October 2025 item 6 – private credit, private equity and property recommended investments

<https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=919&MId=7913&Ver=4>

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Leicestershire County Council Pension Fund

High-Level Asset Class Review

David Walker, Partner

*Independently peer reviewed by Samuel Hampton,
Senior Investment Consultant*

January 2026

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Background and contents

Addressee and purpose

This paper is addressed to the Pension Fund Committee (the “Committee”) of the Leicestershire County Council Pension Fund (the “Fund” or “LCCPF”). The purpose of this paper is to provide high-level review of selected asset classes, in conjunction with the Fund’s annual Strategic Asset Allocation (SAA) review.

Background and scope

This review covers three areas of the Fund’s portfolio: listed equities, targeted return and investment-grade credit.

For each, it considers their role within the Fund, how the underlying mandates have performed, and the key risks or considerations arising from current market conditions.

These asset classes have been highlighted through recent discussions with Fund officers as areas where market conditions, performance trends, or strategic importance warrant closer attention, and where significant time has passed since the last review. Listed Equities also represents a substantial allocation within the portfolio.

The findings will support the Fund’s development agenda for the year ahead, informing future strategic discussions and highlighting any areas where additional analysis or action may be required.

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Executive summary – listed equities

- 1. Current Allocation:** The Fund's equity allocation is delivered through a mix of passive L&G funds, an active multi-manager strategy via LGPSC, and climate-tilted holdings aligned with the Fund's Net Zero climate strategy. The passive funds continue to provide broad, low-cost market exposure, while the active multi-manager fund is intended to add value through a blend of differentiated styles. The equity allocation is currently c.3% above target but remains within the growth allocation's rebalancing range, driven mainly by strong absolute equity performance in recent periods.
- 2. Performance:** Although absolute returns since inception have been positive and in the double digits, performance remains behind the benchmark overall. This is primarily due to the recent underperformance of the active multi-manager fund (c.9.6% lag vs benchmark), which has also weighed on longer-term results. The passive funds, by contrast, have tracked their benchmarks closely and delivered the expected beta exposure.
- 3. Why Has the Active Multi-Manager Fund Underperformed?** The active allocation has been increasingly underweight the "Magnificent 7" and has a stronger tilt towards the value style factor. This has been a clear headwind in a market where returns have been dominated by a very narrow group of large US technology stocks. Lower exposure to Emerging Markets during periods of rebound, and overweight positions in steadier sectors such as Healthcare, have also contributed to this underperformance. Overall, the underperformance is not a concern in itself, as the strategy has delivered in line with expectations based on the underlying investment styles being targeted and the market environment experienced in recent years.
- 4. Market Risk:** Importantly, the same market backdrop that has challenged the actively managed fund also signals a wider risk for the Fund as a whole. Earnings growth in the largest US companies, combined with rising valuations, has pushed US concentration in global indices to levels well above historical norms. This has resulted in global indices becoming increasingly reliant on a small group of US mega-cap technology names, reducing the breadth of future return drivers. Valuation measures such as CAPE for the US are also well above long-term averages—levels historically associated with lower forward returns. Given LCCPF's meaningful exposure to equities, including large passive allocations, this combination of elevated US valuations and heightened concentration feeds directly into the Fund's equity portfolio and represents a material structural risk.

The last full equity review was undertaken three years ago. Given the broader market backdrop, developments since, and the Fund's current overweight to equities (albeit still within the rebalancing range), it may be appropriate for the Fund to consider a refreshed full equity review in 2026—building on the annual SAA review—to help confirm the structure remains resilient, appropriately diversified, and aligned with long-term objectives.

Executive summary – targeted return

- 1. Current Allocation:** The role of the targeted return allocation within LCCPF is to deliver cash +4% with low equity correlation and strong downside protection. The Fund has therefore focused on absolute-return multi-asset mandates. The 2023 review identified a 60:40 blend of Ruffer and Fulcrum as the best fit, and the allocation is currently exactly at its 5% SAA target, with the Ruffer/Fulcrum mix also fully in line.
- 2. Have the Funds Met the Cash +4% Objective?** Absolute returns have been positive across the allocation, but recent performance during a period of strong equity market returns and higher cash rates (over 1 and 3 years) has lagged the benchmark and not met the return objective. Ruffer has driven the shortfall and is also marginally behind its benchmark since inception (Dec-13). Fulcrum, on the other hand, has outperformed since its inception in Oct-23.
- 3. Why Has Ruffer Underperformed?** Ruffer has maintained a sizeable allocation to protection strategies, consistent with its capital-preservation philosophy. This defensive stance shaped returns in 2023 and 2024, when protection assets detracted and the portfolio captured little of the US tech-led rally. These factors meant the strategy failed to meet its cash +4% objective over the past three years. However, performance has improved in 2025, and it is encouraging to see that the portfolio has captured most of its recent equity returns from outside the US — a region the strategy has deliberately avoided. We view the current concentration in the US and the “Magnificent 7” as a material market risk in its own right (as discussed in the targeted equities section), so we see Ruffer’s positioning as appropriate given its role within the Fund.
- 4. What About the Other Key Objectives? (Low Equity Correlation & Downside Protection)** Despite recent return challenges, both Ruffer and Fulcrum continue to meet the allocation’s other core objectives. Over both long-term and recent periods, each has delivered low equity correlation (c.<0.4 over the long term, and even lower more recently) and materially lower volatility than global equities. Both have also provided consistent and strong downside protection across major equity drawdowns (in all six quarters since 2008 when global equities fell by double digits, these funds experienced much smaller declines—and in several cases even posted positive returns).
- 5. Actions to Consider:** Limiting downside risk and protecting the funding position remain key priorities for LCCPF, and both funds continue to support these aims, so we see merit in retaining exposure. However, recent developments suggest this is a natural point to reassess structure. Fulcrum has recently delivered stronger returns, better risk-adjusted outcomes and greater downside resilience than Ruffer, and its strategic enhancements since mid-2023 (including real-time stress monitoring and tighter drawdown controls) may have contributed to this improvement. This also raises the question of whether the current 60:40 balance should be adjusted at the margin, particularly when considering the cost of each manager.

In light of the observations above and alongside the wider SAA work, it may be worth noting whether a further targeted-return review is required in 2026, recognising that a detailed review was already undertaken in 2023 and the allocation continues to serve its intended role.

Executive summary – investment grade credit

- 1. Current Allocation:** The Fund holds investment grade (IG) credit to provide duration, deliver higher expected returns than gilts, offer a stable income stream and improve diversification. The total allocation is currently 3.7%, close to the 3.75% SAA target. The portfolio is fully active, split between Aegon (short-dated IG) and LGPSC global IG, although the internal mix diverges from target with Aegon overweight and LGPSC underweight. The LGPSC underweight (c.£25m) will be addressed using available cash in January 2026.
- 2. Performance:** Both managers have delivered strong returns and are ahead of their benchmarks over three years, although Aegon has weakened more recently. Since inception, returns are positive but both funds have underperformed, with LGPSC only slightly behind and Aegon showing the larger shortfall. Aegon's underperformance reflects the timing of inception and the sharp, sustained rise in its cash-plus (SONIA) benchmark, while short-dated credit repriced more slowly and experienced mark-to-market impacts.
- 3. Market Environment:** These results sit against a backdrop of steadily tightening credit spreads, now near historical lows across major regions (around 0.7–0.8% p.a.). At such levels, even modest widening could lead to IG Credit underperforming gilts in the short term, though the risk reduces over longer holding periods. Despite tight spreads, higher sovereign yields and robust credit fundamentals continue to support medium-term return potential from an absolute return perspective. In this environment, the Fund's current mix of short-dated and global active IG strategies may benefit from additional diversification.
- 4. Actions to Consider:** With spreads at long-term lows and limited scope for active outperformance, there is merit in considering both alternatives within IG credit and alternatives outside IG credit.
 - ✓ Within IG credit – Buy & Maintain: Buy & Maintain offers a complementary approach that locks into yields over the long-term and offers attractive absolute return, reducing sensitivity to spread widening and broadening issuer coverage, while keeping turnover and costs low. LGPSC's new Buy & Maintain Sterling IG Credit Fund is therefore a relevant option, potentially funded by trimming the current overweight to Aegon (subject to due diligence).
 - ✓ Outside IG credit: There are also asset classes outside IG credit that offer comparable risk/return profiles and diversification — such as ABS (already indirectly held through MAC/private debt) and other more niche areas like insurance-linked securities. Adjustments to these allocations could be explored alongside, or as an alternative to, changes within IG credit, subject to availability through LGPS Central.

It may be appropriate for the Fund to consider a more detailed review of its IG credit allocation to explore the relative merits of Buy & Maintain and potential alternatives outside IG credit, and to confirm whether any adjustments to scale or structure would be beneficial. As part of this, the review could also reflect on where future product development or engagement with LGPS Central might support the Fund's longer-term needs.

Executive summary – key recommendations

Where appropriate, and in light of government guidance and pool implementation options, the Pension Fund Committee may wish to review certain asset classes over 2026, based on the time elapsed since their last assessment. The key priority areas would be:

- 1. Listed Equities:** A refreshed equity review, reflecting market developments and the Fund's current equity positioning, to confirm that the structure remains robust and appropriately diversified.
- 2. Investment-Grade Credit:** A review of the IG credit allocation, assessing the case for Buy & Maintain alongside other alternatives, and confirming the appropriate scale and structure of any changes. This should also consider potential product development or engagement with LGPS Central to support longer-term needs.

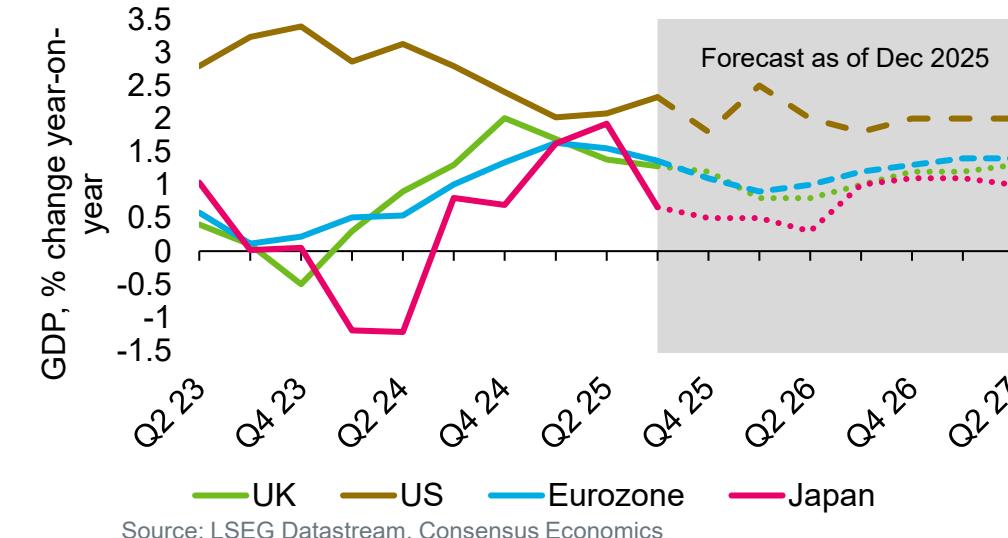
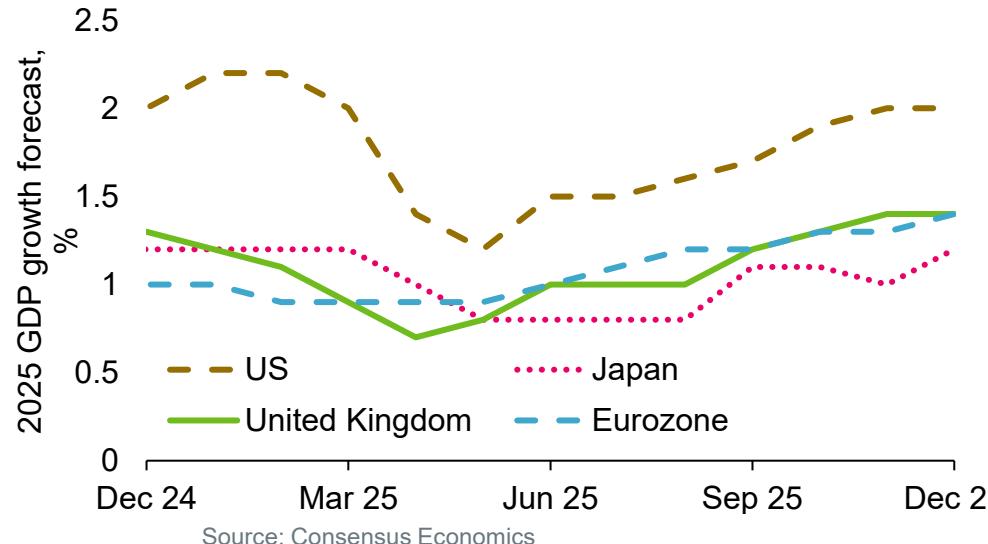
A review of Targeted Return is not proposed as a priority for 2026, given the comprehensive review completed in 2023; however, it remains an area the Fund may wish to continue monitoring.

The final scopes of these reviews should be agreed jointly by officers, investment advisers and LGPS Central.

General Market Update (Q4 2025)

Economic background

Growth forecasts have been revised up since being cut dramatically in the wake of “liberation” day



Growth is still expected to slow, but has held up remarkably well amid sharply higher US tariffs and uncertainty

Global GDP data for Q3 25 demonstrated resilience as tariff impacts, which distorted growth in many economies earlier in the year, diminished.

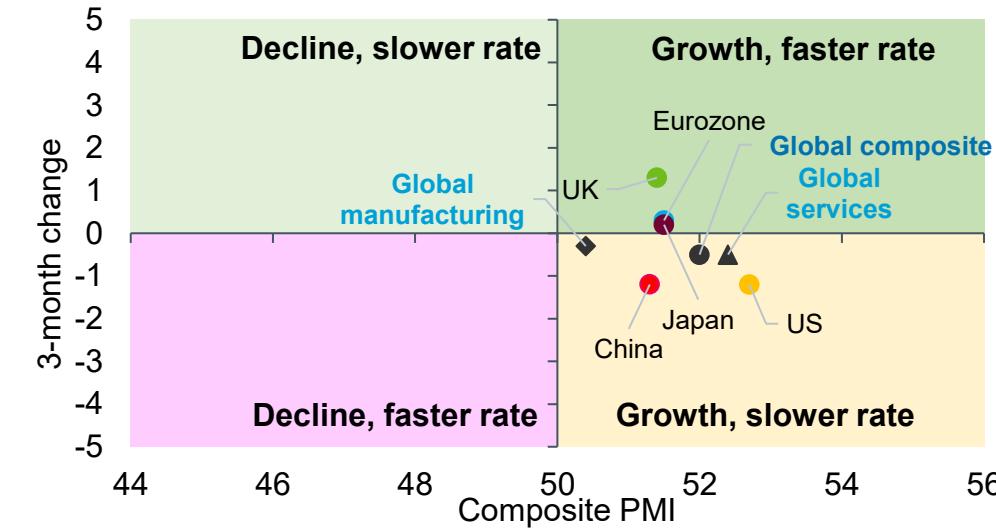
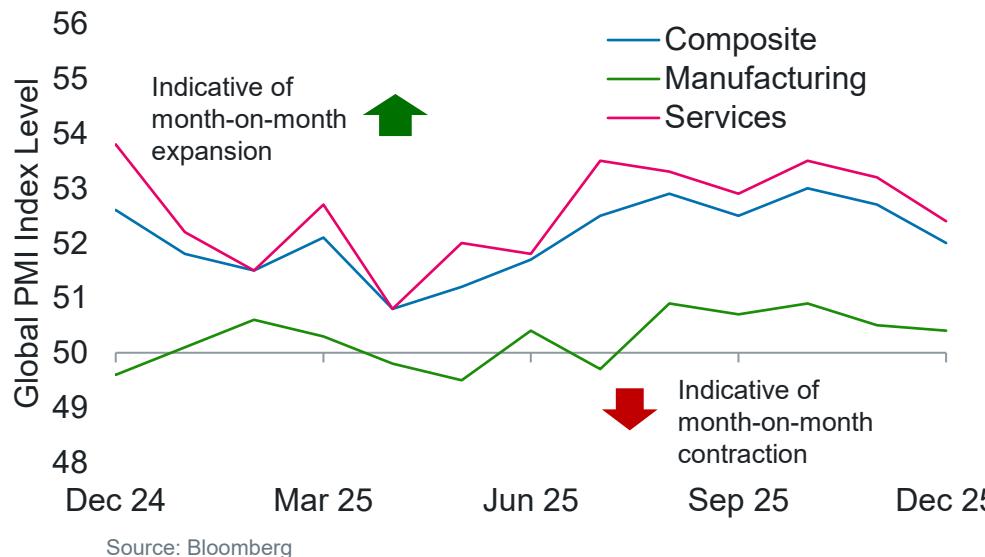
The US economy expanded robustly at a 4.3% annualised rate, its strongest in two years. Eurozone growth improved but remained uneven, driven by Spain and France, while Germany stagnated. China's economy grew steadily, supported by exports and policy measures addressing deflation and stabilising demand despite ongoing property sector challenges. Meanwhile, UK growth slowed, remaining slightly below potential, and Japan experienced its first quarterly contraction after a period of modest growth.

Overall, global growth has remained strong in 2025 despite higher US tariffs and economic uncertainty. This resilience has led to upward revisions of full-year forecasts, with 2025 expected to match 2024's 2.7% growth rate and a moderate slowdown to 2.5% projected for 2026.

Near-term prospects are supported by a global AI-driven investment surge, solid corporate balance sheets, expansive fiscal policies, and delayed effects from rate cuts. The US's One Big Beautiful Bill Act extends tax cuts, while China plans increased stimulus to bolster manufacturing and export-led growth in 2026. Although core European economies underperformed in 2025, infrastructure and investment spending are anticipated to drive growth in 2026.

Economic background

Business surveys suggest slower (but still above-trend) global growth in Q4 25



The JP Morgan Global Composite PMI¹ stayed above the neutral 50 mark for the 35th straight month in December, indicating slower but still above-trend growth at the end of 2025.

Services continued to grow faster than manufacturing, though both sectors expanded at their slowest rates in six and five months, respectively. The latter has been more severely impacted by global trade disruptions, with protectionism and increased competition from China (as it diversified exports beyond the US). This has weighed on investment and manufacturing within the EU, in particular.

Out of 14 nations, 11 saw output growth, led by India, Spain, and Ireland, with the US also above trend. China, the eurozone, Japan, and the UK lagged. Within the eurozone, Germany contracted due to manufacturing weakness despite moderate service growth. France and Italy grew slowly, while Spain performed well thanks to strong services.

New orders growth slowed to a six-month low, driven by a drop in new export orders amid declining global trade. The labour market remains the weak spot; employment expanded slowly worldwide across sectors, except in the UK and China, where it contracted. This raises questions about the sustainability of the current expansion.

Price pressures increased modestly in December 2025, with input and output prices rising at seven- and four-month highs, respectively, especially for service providers.

¹PMI (Purchasing Managers' Index) is a leading economic indicator that reflects business conditions in manufacturing and services. A reading above 50 indicates expansion; below 50 signals contraction.

Economic background

Inflation

The impact of tariffs on US inflation is proving milder than feared. In November, US headline CPI dropped to 2.7%, well below forecasts and September's 3% rise.

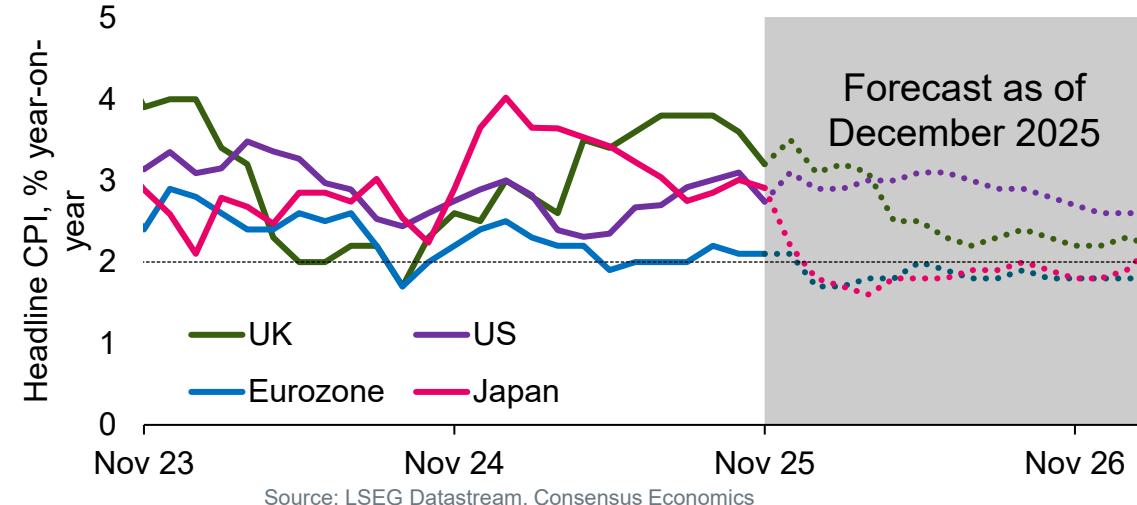
Data accuracy was questioned due to limited collection during the government shutdown, which also led to the October's CPI report not being published.

UK CPI fell to 3.2% in November, an eight-month low, with core inflation also at 3.2%. Wage and service-price inflation moderated, though remains elevated. Unemployment rose to 5.1%, and recent business surveys indicate further job cuts in Q4, suggesting slower wage growth ahead.

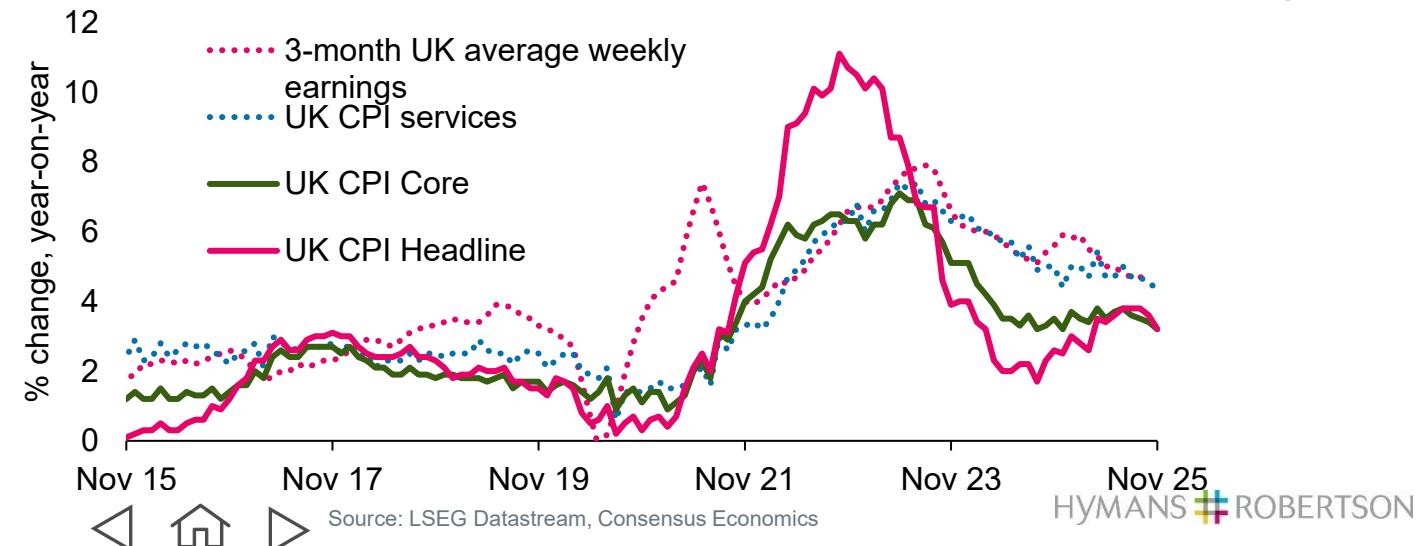
The BoE's Decision Maker Panel expects wage settlements to average 3.5% this year. With the Office for Budget Responsibility (OBR) forecasting just 1% pa productivity growth, inflation is likely to remain above target.

Economists continue to expect a sharp slowdown in Japan's inflation, which has exceeded target for several years now. Eurozone inflation pressures appear much less severe.

UK and US inflation is projected to stay above target in the near term



UK inflation eased in Q4 25 on broad-based cooling beyond headline categories



Economic background

Interest Rates

Despite the delay of several reports amid the government shutdown in Q4, the US Fed lowered borrowing costs to 3.50-3.75% pa range, after a 0.25% pa cut in September. The central bank prioritised labour market weakness over above-target inflation.

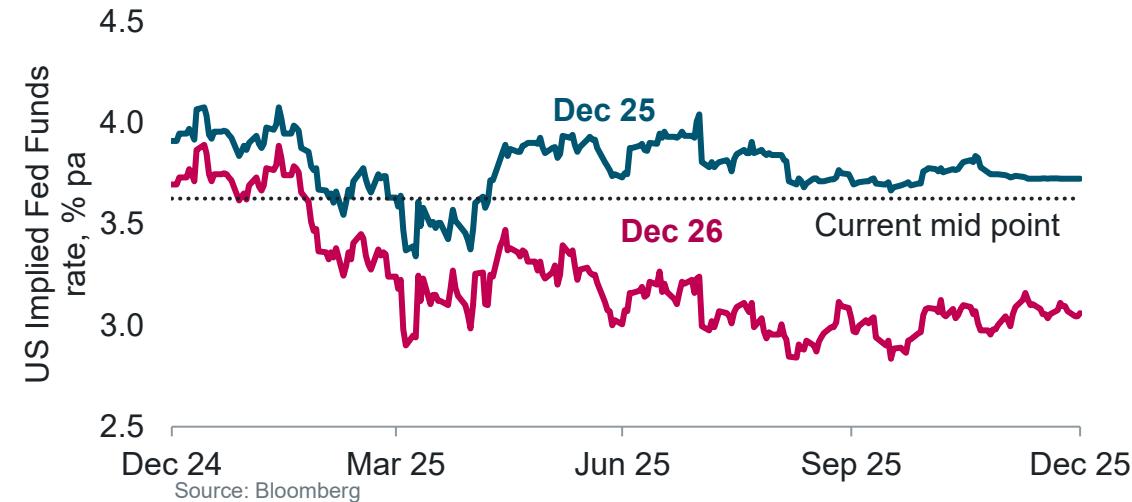
Markets expect at least two 0.25% pa cuts in 2026. However, unless growth and inflation slow more than forecast, the divided Fed may struggle to deliver, with inflation likely remaining above target until 2027.

The BoE reduced the base rate by a total of 1.0% pa in 2025 and is likely to proceed cautiously, as it walks the tight rope between weaker-than-potential growth and above-target inflation.

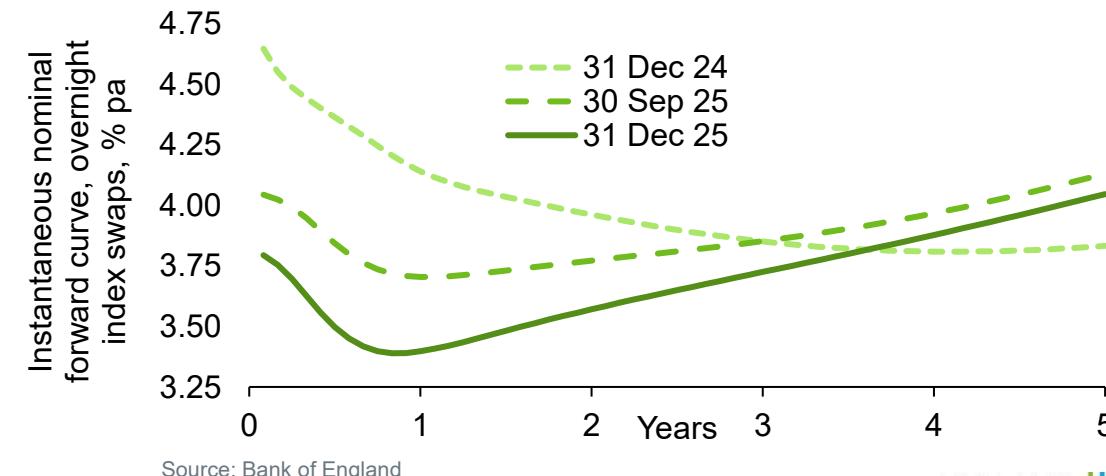
Markets are pricing in one more 0.25% pa cut this year, leaving rates near neutral at 3.50% pa.

Conversely, the BoJ raised rates by 0.25% pa to 0.75% pa in December – the highest in 30 years – and signalled readiness for further tightening.

Markets expect at least two more cuts from the US Fed in 2026

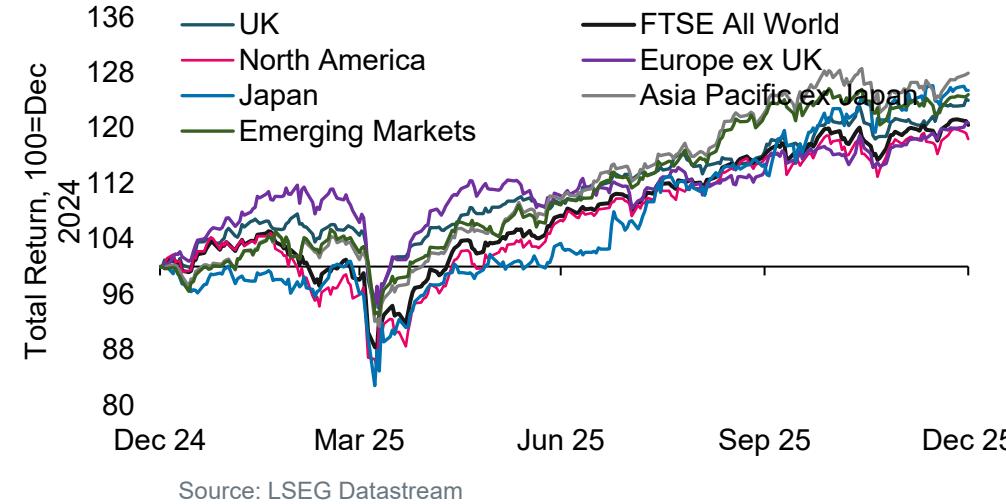


Conversely, markets price in only one 0.25% pa BoE cut in 2026

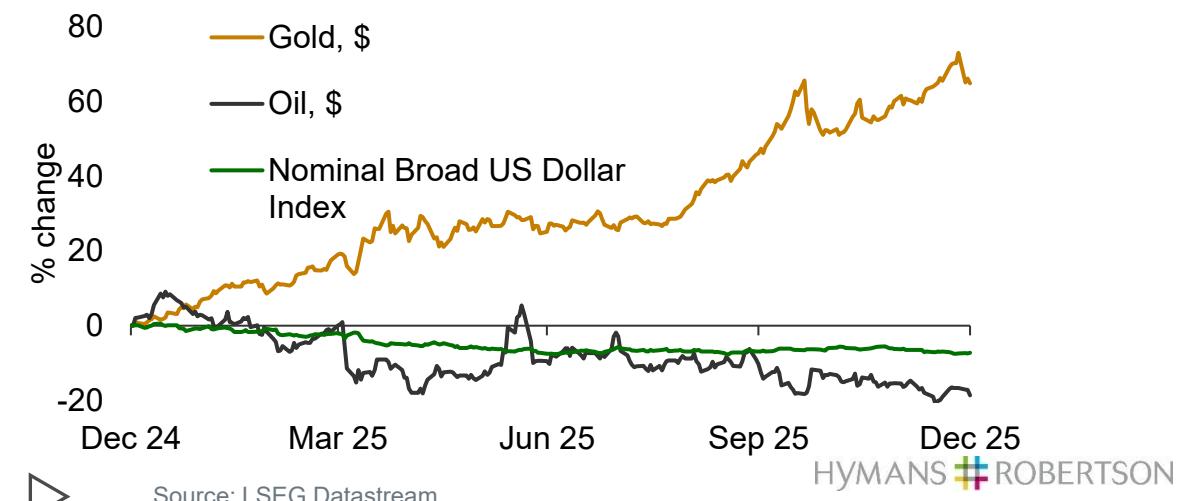
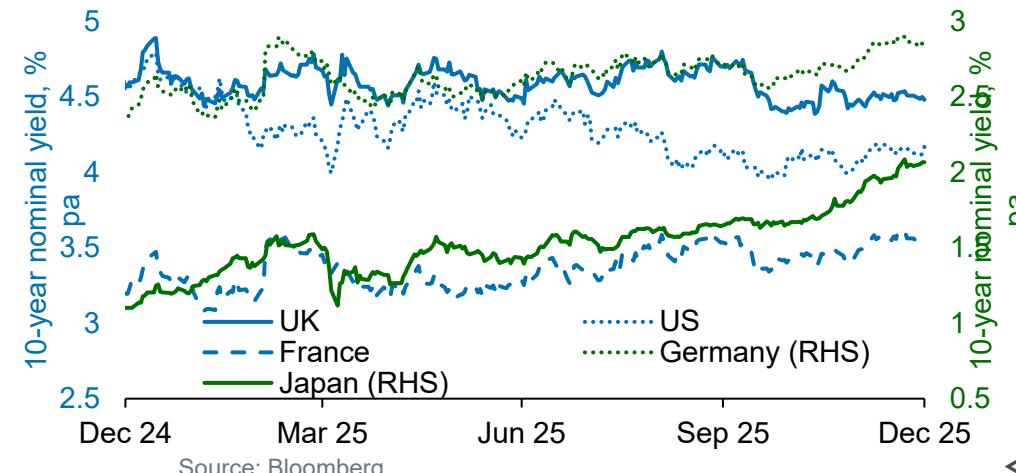


Market background

Global equities extended gains in Q4 to deliver another year of strong returns while credit spreads closed 2025 near historic lows



UK yields fell while German and Japanese yields extended their rise in Q4. US yields fell the most over the year. Gold marched higher, while oil and USD fell in 2025



Listed Equities

Current listed equity portfolio

Current allocation as at 30 September 2025

Manager	Fund	Active/ Passive	Actual Allocation	2025 SAA	Above/ Below Target
L&G	UK Equity fund	Passive	2.2%	2.0%	+
	All World Equity fund	Passive	11.9%	11.5%	+
	Low Carbon Transition Global Equity fund	Passive	4.0%	3.5%	+
	Sub-total L&G Passive Equity		18.2%	17.0%	+
LGPSC	LGPSC Global Eq Active Multi Mgr fund	Active	11.9%	12.0%	-
	LGPSC AW Eq				
	Climate Multi Factor fund	Passive	13.7%	12.0%	+
	Sub-total LGPSC Equity		25.6%	24.0%	+
	Total		43.8%	41.0%	+

Source: Investment managers and "Leicestershire Total Fund Q3 2025 - Manager Summary" quarterly report.

Blended passive + active model

Balance between low-cost beta, climate-aligned systematic strategies and diversified active stock-picking through the Pool

Strong climate tilt embedded in structure

The Fund uses listed equities as one of the primary levers for decarbonisation

Global equity focus with limited UK bias

The portfolio is predominantly global, with only a modest c.2% standalone UK position and another c.2% coming from UK holdings within global mandates

Portfolio above target but within growth allocation rebalancing range¹

Portfolio sits at c.44% vs the 41% target, with most sub-allocations also above target. This mainly reflects strong equity performance in absolute terms through 2025, which we explore on the next slide.

¹As at 30 September 2025, the overall growth allocation (Listed Equities, Private Equity, Targeted Return) stands at 54.2%, which remains within the ±2.5% rebalancing range around the 53.5% target.

Performance

Performance to 30 September 2025

Manager	Fund	Inception Date	1-year (%)	3-year (%)	Since Inception (%)
L&G	UK Equity fund	Dec-13	16.2 (0.0)	14.5 (0.0)	6.9 (0.2)
	All World Equity fund	Nov-23	17.1 (-0.2)	-	18.8 (-0.3)
	Low Carbon Transition Global Equity fund	Nov-23	18.2 (0.3)	-	19.7 (0.3)
LGPSC	LGPSC Global Eq Active Multi Mgr fund	Feb-19	9.8 (-7.6)	14.7 (-1.5)	11.6 (-0.9)
	LGPSC AW Eq Climate Multi Factor fund	Dec-20	17.0 (0.1)	15.1 (-0.6)	11.9 (0.7)
Total			15.0 (-2.2)	14.5 (-0.8)	11.2 (-0.6)

Figures are net of fees; returns over one year are annualised. Benchmark-relative returns are shown in brackets. Total performance includes legacy assets no longer held.

Source: Investment managers and “Leicestershire Total Fund Q3 2025 - Manager Summary” quarterly report.

Strong absolute returns but behind benchmark overall

Active multi-manager fund is the main source of recent underperformance

We explore this in more detail on the next slide.

Passive funds are performing as intended
Tracking is tight across all mandates

Climate-tilted strategies have been stable performers

LGPSC Active multi-manager fund

Performance to 30 September 2025

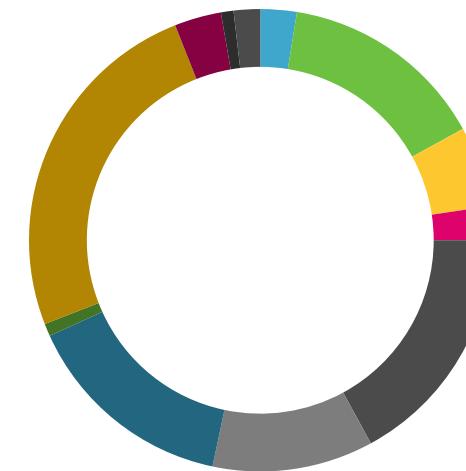
Inception Date	1-year (%)	3-year (% p.a.)	Since Inception (% p.a.)
Feb-19	9.8 (-7.6)	14.7 (-1.5)	11.6 (-0.9)

Source: Investment managers and "Leicestershire Total Fund Q3 2025 - Manager Summary" quarterly report.

Why has the fund underperformed over recent periods?

- Over recent periods, global equity returns have been driven by a very narrow group of large US technology companies, particularly the "Magnificent 7".
- The fund is increasingly underweight the Magnificent 7 (14.6% vs 21.2% in the benchmark at end-September 2025, compared with 17.5% vs 19.7% at end-June 2024), resulting in the fund capturing far less of the market's main source of return.
- The positioning has also been affected by having less exposure to Emerging Markets at points when they have rebounded, while some of the Fund's larger sector overweight positions – such as Healthcare – have delivered steadier but comparatively softer returns during a tech-led rally.
- At the same time, market behaviour became more speculative, with retail activity and margin debt reaching new highs, favouring momentum-driven growth stocks. Given the fund's clear tilt toward value-oriented and fundamentally-driven approaches, these conditions collectively created a difficult backdrop and weighed on relative performance.

Current sector allocation



Source: LGPS Central, as at 30 September 2025

Hymans' views:

We view the current concentration in the US and the Magnificent 7 as a material market risk in its own right (as outlined on the next slides), so we do not regard the Fund's underweight to these stocks, or the resulting recent underperformance, as a concern; it is broadly what we would expect given the fund's purpose and underlying investment styles in this environment.

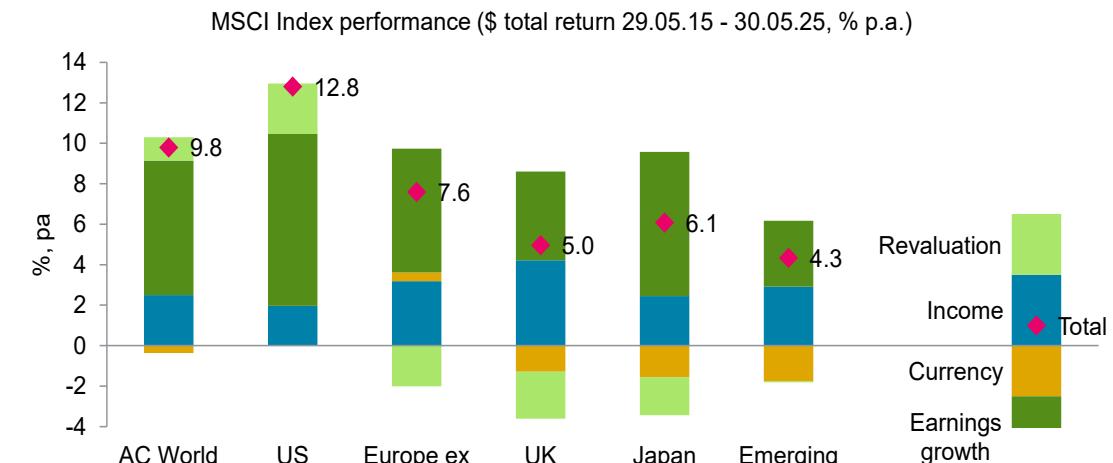
Nonetheless, it is important to periodically review that managers remain true to their stated styles, that the overall balance remains appropriate, and that the level and sources of active risk are suitable and being taken for the right reasons.

Current market risk (1)

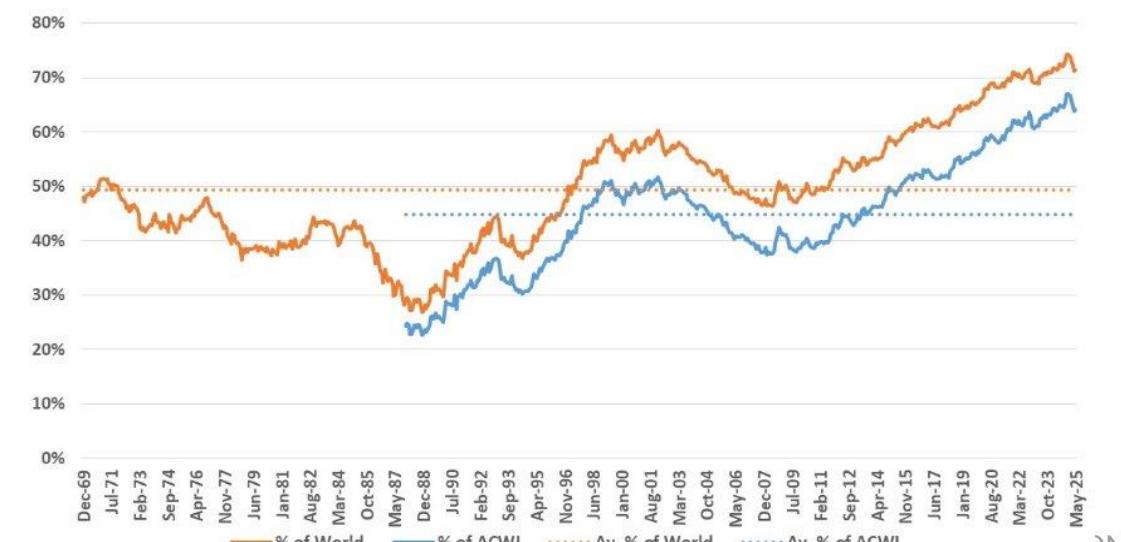
US equity concentration – what's happening

- Return decomposition shows US outperformance has been driven by stronger earnings growth and rising valuations, while other regions have seen P/E multiple contraction.
- This has led to a steadily increasing US weight in global equity indices, pushing US concentration above historical norms.
- A large share of performance has come from a small group of mega-cap tech stocks (“Magnificent 7”). The 10 largest stocks now make up c.25% of global indices – this represents concentration levels not seen in decades.
- US earnings growth without these largest stocks is broadly in line with other regions illustrating the significance that these stocks have on equity market metrics.

Decomposition of 10-year returns



US weight in global indices



Source: MSCI, DataStream

Current market risk (2)

US equity concentration – why it's a risk

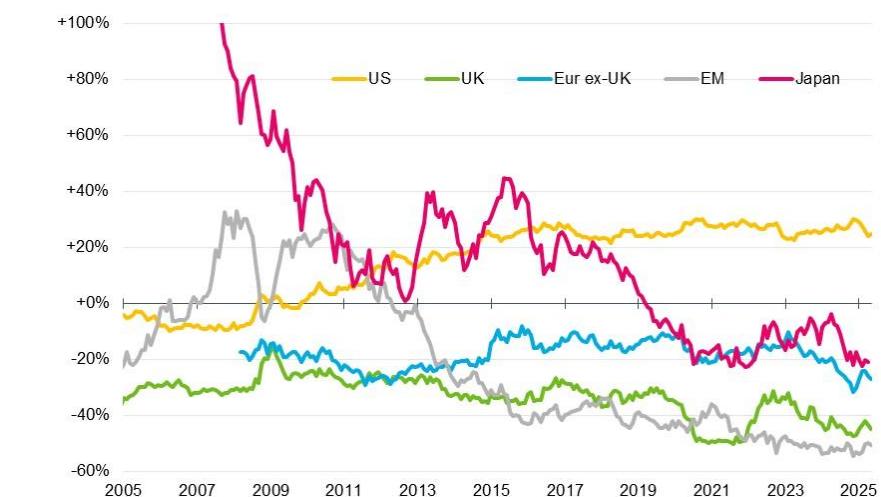
- US valuations are elevated – CAPE¹ is high even with earnings above long-term trend, both in absolute and relative terms. Historically, higher CAPE¹ levels have been associated with lower forward returns.
- Global indices are now heavily concentrated in the US and a small group of mega-cap tech names, increasing country and thematic concentration and leading to greater volatility and a narrower set of future return drivers.
- As LCCPF holds meaningful exposure to global equities (including passive allocations), **this concentration and valuation risk feeds directly into the Fund's equity portfolio.**

¹CAPE (Cyclically Adjusted Price-to-Earnings) is a valuation measure that compares a market's price to its average inflation-adjusted earnings over the past 10 years. It helps smooth out short-term earnings fluctuations and is often used to assess whether a market looks expensive or cheap relative to history.

US CAPE vs Forward Returns



Regional CAPE vs World

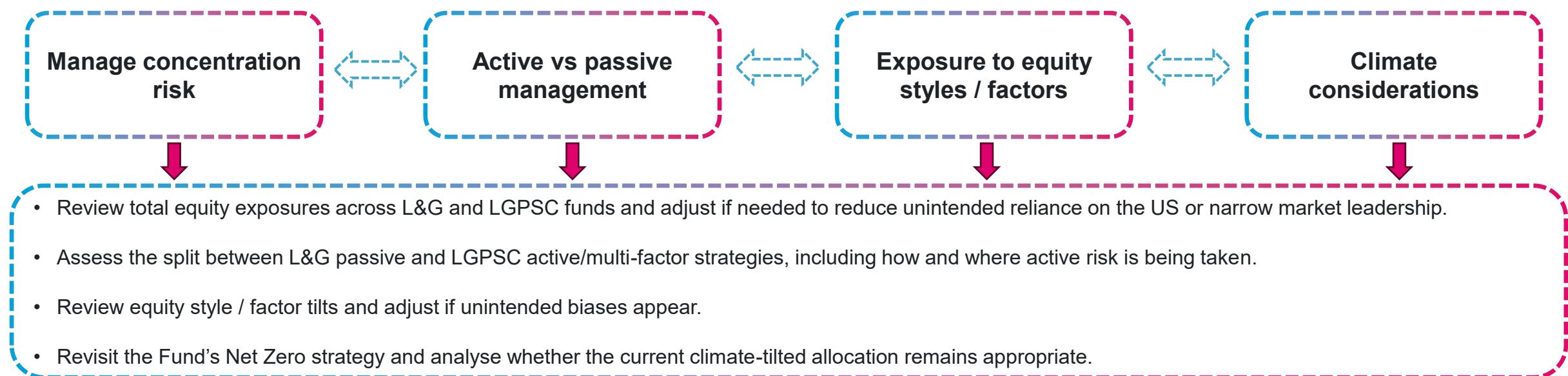


Actions to consider

- The last full equity portfolio review was undertaken in early 2023. Since then, market environment has evolved, particularly with the increased concentration in US equities and the dominance of the Magnificent 7 highlighted earlier. The Fund is also currently sitting above its equity target.
- Building on the annual SAA review, we believe it would be sensible to **carry out a full equity refresh review** to ensure the structure and allocation remain aligned with the Fund's long-term objectives and investment beliefs, as well as the current market backdrop.

What priorities need to be addressed as part of the equity review?

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Targeted Return

Overview of targeted return funds

Within the targeted-return space, the opportunity set is broad:

Multi-asset absolute return mandates – invest across equities, bonds, currencies and alternatives, typically with explicit targets (e.g. cash + 3–5%) and a focus on capital preservation and low equity beta.

Directional multi-asset / “growth” targeted-return mandates – long-only or largely long exposures, maintaining persistent equity and credit beta, aiming for equity-like returns but with lower volatility.

Managed futures / trend-following mandates – systematic strategies using futures and other derivatives to capture price trends across multiple asset classes.

Risk-parity and other derivative-heavy strategies – balance risk across asset classes using leverage; generally more complex and highly reliant on derivatives.



Role of targeted return allocation within the LCCPF:

To deliver an absolute return of cash +4% p.a., assessed over rolling three-year periods, irrespective of market conditions, with low equity correlation and strong downside protection.

The Fund, therefore, has deliberately concentrated on “absolute return” multi-asset mandates as these best align with the allocation’s purpose.

In the 2023 review, we concluded that a 60:40 blend of Ruffer and Fulcrum provided the strongest fit to meet these objectives.

In the next slide, we review the current portfolio’s performance and allocation.

Current portfolio

Current allocation as at 30 September 2025

Manager	Fund	Actual Allocation	2025 SAA	Above/ Below Target
Ruffer	Absolute Return fund	3.0%	3.0%	=
Fulcrum	Diversified Core Absolute Return fund	2.0%	2.0%	=
Total		5.0%	5.0%	=

Performance to 30 September 2025

Manager	Fund	Inception Date	1-year (%)	3-year (%)	Since Inception (%)
Ruffer	Absolute Return fund	Dec-13	5.7 (-2.7)	0.2 (-8.5)	5.1 (-0.4)
Fulcrum	Diversified Core Absolute Return fund	Oct-23	11.8 (3.4)		10.8 (2.0)
	Total		8.1 (-0.3)	4.4 (-4.3)	5.9 (0.2)

Figures are net of fees; returns over one year are annualised. Benchmark-relative returns are shown in brackets. Total performance includes legacy assets no longer held.

Source: Investment managers and “Leicestershire Total Fund Q3 2025 - Manager Summary” quarterly report.

Allocation fully aligned with 2025 SAA

The Targeted Return allocation sits exactly at its 5% target

The current Ruffer : Fulcrum blend is also exactly 60:40, in line with the sub-target.

Positive absolute returns but recent performance has trailed the cash-plus benchmark.

Ruffer fund is the main source of recent underperformance

We focus on Ruffer in the next slide.

Ruffer

Why has the fund underperformed over recent periods?

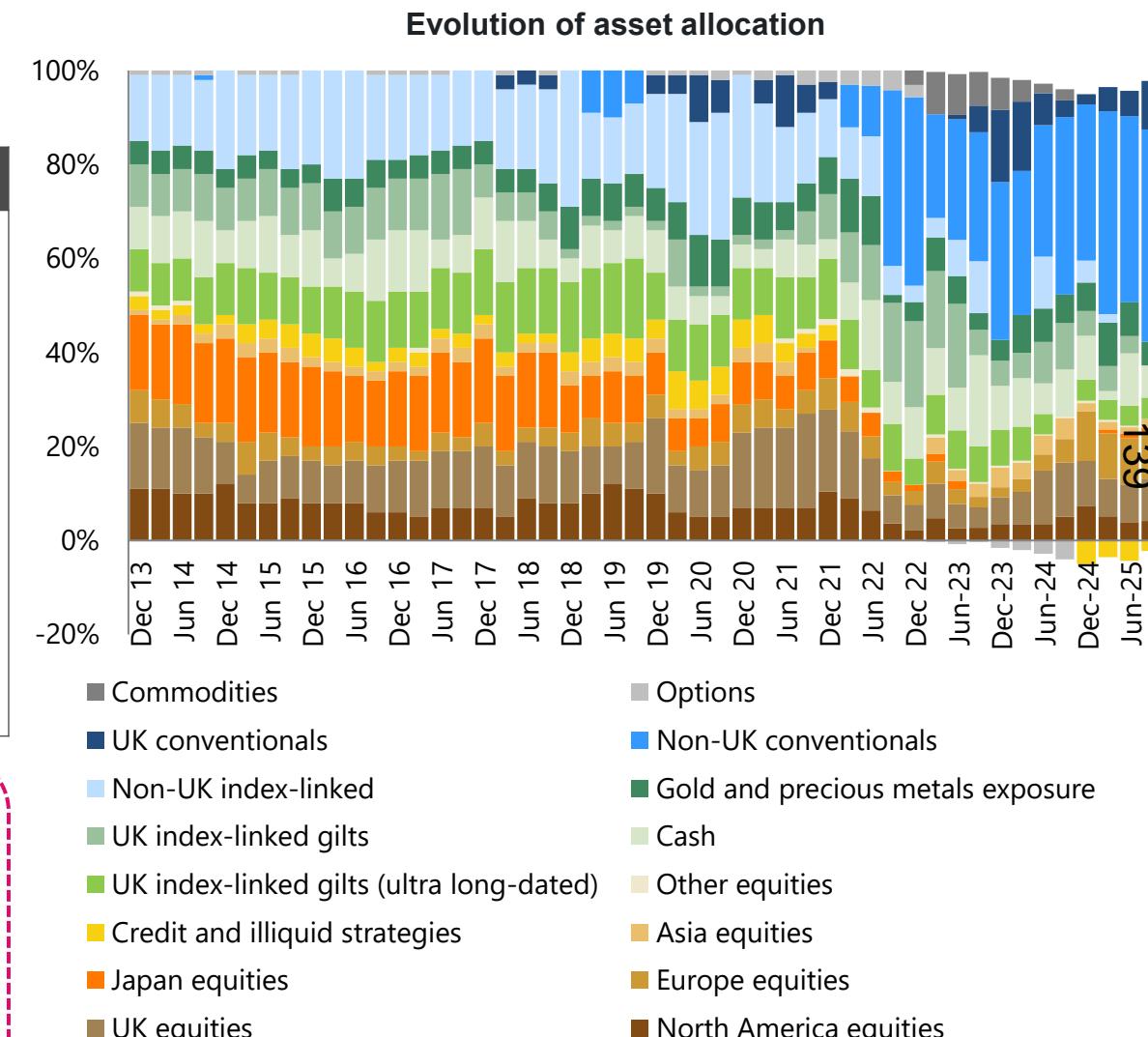
The chart on the right shows that the portfolio has carried a sizeable allocation to protection strategies (shown in the blue and green shades, green being inflation-protection) over recent years. This defensive positioning reflects Ruffer's capital preservation philosophy, but it has also shaped performance. We therefore focus on 2023 and 2024, both of which delivered disappointing negative absolute returns.

In 2023 (-6.5%), the negative absolute return was driven by losses in protective positions and the portfolio's growth exposure being concentrated in China, where the post-pandemic economic reopening disappointed. Limited participation in the US tech-led rally provided little offset.

In 2024 (-1.9%), a broader mix of growth assets helped, but late-year weakness in protection assets, the yen and index-linked bonds offset gains, while US equities again dominated global returns.

Ruffer has not met its cash + 4% objective over the past three years, largely due to negative returns in 2023 and 2024, which have also weighed on since-inception performance. However, 2025 performance has improved, and it is encouraging to see that since May 2025, the equity allocation has outperformed global equities and captured returns outside the US, even during a US tech-led rally that the portfolio has deliberately avoided.

The next slide considers whether they have delivered on the allocation's other key objectives: low equity correlation and strong downside protection.



Equity correlation

Correlation with Global Equity

	Ruffer	Fulcrum ¹	60:40 Ruffer/Fulcrum	Global Equity ²
Measured from 1 Oct 2008 to 30 Sep 2025				
Annualised Return	5.98%	4.07%	5.27%	10.60%
Correlation v equity	0.32	0.41	0.39	1.00
Volatility of quarterly returns	3.86%	2.63%	2.97%	7.75%
Measured from 1 Oct 2020 to 30 Sep 2025				
Annualised Return	3.93%	6.32%	4.94%	14.65%
Correlation v equity	0.24	0.09	0.23	1.00
Volatility of quarterly returns	3.35%	2.60%	2.48%	6.49%

Source: Ruffer, Fulcrum, Bloomberg/MSCI

¹Diversified Core Absolute Return Fund was launched in December 2014, and data prior to this date relates to the Diversified Absolute Return Strategy.

²Global equity performance is based on the MSCI All Country World Index (ACWI), which represents a broad measure of global equity market returns.

Observation

We have shown two periods – the longer-term view from 2008 and the more recent period from 2020 – to illustrate how Ruffer, Fulcrum, and a 60:40 blend have behaved relative to global equities.

Across both periods, Ruffer and Fulcrum have lagged global equities from an absolute return perspective. We would expect this given these strategies purpose is to diversify equity risk rather than chase equity market beta. The more important point is that **both have consistently delivered low equity correlation alongside materially lower volatility**. This is one of the core roles they play in the portfolio, alongside supporting the Fund's long-term return objective. The 60:40 blend, unsurprisingly, tends to capture the steadier features of both managers.

Longer-term picture (since 2008):

Over the full period, Ruffer has generally delivered higher returns, albeit with greater variability than Fulcrum. Fulcrum has been the smoother, more stable performer, although this mandate has demonstrated higher correlation to equities than Ruffer. Both, however, have offered meaningful diversification over the long term horizon.

More recent trend (last 5y):

In the more recent period, this pattern has almost reversed. Fulcrum has delivered stronger returns, lower volatility, and even lower correlation to equities than Ruffer. Notably, equity correlations for both managers have fallen further relative to their longer-term levels, indicating an even stronger diversifying profile in the current environment.

Downside protection

Performance during significant equity drawdowns

Quarter	Ruffer	Fulcrum ¹	60:40 Ruffer/Fulcrum	Global Equity ²	Downside saved (60:40 Ruffer/Fulcrum) ³
Q4 2008 (Global Financial Crisis crash)	16.6%	3.3%	11.3%	-20.7%	155%
Q2 2010 ("Flash Crash" + Eurozone stress (early phase))	-0.7%	-4.1%	-2.1%	-10.3%	80%
Q3 2011 (Eurozone sovereign debt crisis)	-2.7%	-2.3%	-2.5%	-14.7%	83%
Q4 2018 (Fed tightening & global growth slowdown)	-5.5%	-4.3%	-5.0%	-12.4%	59%
Q1 2020 (COVID-19 crash)	-2.3%	1.1%	-0.9%	-19.9%	95%
Q2 2022 (Inflation shock and aggressive rate hikes)	-4.3%	-0.7%	-2.8%	-13.5%	79%

Source: Ruffer, Fulcrum, Bloomberg/MSCI

¹Diversified Core Absolute Return Fund was launched in December 2014, and data prior to this date relates to the Diversified Absolute Return Strategy.

²Global equity performance is based on the MSCI All Country World Index (ACWI), which represents a broad measure of global equity market returns.

³Downside saved = $\frac{\text{Portfolio Return} - \text{Global Equity Return}}{|\text{Global Equity Return}|} \times 100$

Interpretation:

>100% = avoided loss and gained.

100% = fully protected (flat vs equities down).

0-100% = partial protection (lost less than equities).

<0% = worse than equities.

Observation

Another way to assess the diversification qualities of the targeted return funds is to look at how they behave during periods of significant equity stress. The table on the left highlights the six major quarters since 2008 in which global equities fell by more than 10%.

Across all these episodes, both Ruffer and Fulcrum successfully preserved capital relative to equities. While equities suffered double-digit losses, both funds experienced much shallower drawdowns – and in several cases delivered outright positive returns. This demonstrates another core purpose of the strategies: **strong downside protection** whilst still capturing some upside in more constructive markets.

A notable pattern, which links back to the earlier analysis, is how the relative behaviour of the two managers has evolved over time. In earlier stress periods, including the GFC (Q4 2008) and the early Eurozone stress (Q2 2010), Ruffer tended to outperform Fulcrum in protecting capital. However, in the more recent crises, the Covid-19 crash in Q1 2020 and the 2022 inflation and rate-hike shock, Fulcrum held up better for reasons outlined in the next slide.

Actions to consider

- The targeted return allocation has delivered positive absolute returns, although recent performance has fallen short of the cash + 4% objective, with Ruffer being the main driver of the shortfall. However, we believe both funds (Ruffer and Fulcrum) continue to meet their other core purposes within the Fund – namely low equity correlation and strong downside protection across multiple stress episodes.
- These characteristics remain particularly valuable for LCCPF, where a key priority is to limit downside risk and protect the funding position, and therefore retaining an allocation to assets who can provide these characteristics remains appropriate.
- In forming the equity-correlation and downside-protection analysis, we have deliberately considered a long-time horizon – including periods before the Fund invested in these strategies – as this provides a more complete view of how each manager behaves across different market environments. We believe this longer lens is important in assessing the structural qualities of the strategies.
- We are aware that Fulcrum introduced several strategic enhancements from mid-2023 – including real-time stress monitoring, tighter drawdown controls, and extending risk oversight directly to each portfolio manager. It would be sensible to explore how much these changes (and any others made) have contributed to the improvement in Fulcrum's profile, and whether this represents a structural shift.
- Another reasonable question is whether the cost attached to achieving this degree of downside protection and diversification remains proportionate. Both managers sit at the more active end of the multi-asset spectrum, and their respective fees reflect their different approaches. This is an area that would be sensible to explore further as part of the full targeted return review.
- Taken together, these points suggest a natural moment to reflect on the structure of the targeted return allocation. While the 60:40 Ruffer/Fulcrum blend has served the Fund well, the recent divergence in behaviour raises the question of whether the balance could be refined at the margin, particularly when considering the cost of each manager.
- **In light of the observations above and alongside the wider SAA work, it may be worth noting whether a further targeted-return review is required in 2026, recognising that a detailed review was already undertaken in 2023 and the allocation continues to serve its intended role.**

Investment Grade Credit

Key Characteristics of Investment Grade credit

LCCPF holds investment grade (IG) credit for the following reasons:

Provides duration to support funding objectives

Delivers higher expected returns than gilts

Offers stable income stream

Improves diversification

Current portfolio

Current allocation as at 30 September 2025

Manager	Fund	Actual Allocation	2025 SAA	Above/ Below Target
Aegon	Global Short Dated Climate Transition fund	0.9%	0.5%	+
LGPSC	IG Credit fund	2.8%	3.25%	-
Total		3.7%	3.75%	-

Performance to 30 September 2025

Manager	Fund	Inception Date	1-year (%)	3-year (%)	Since Inception (%)
Aegon	Global Short Dated Climate Transition fund	Mar-21	5.2 (-0.4)	6.2 (0.2)	2.9 (-1.7)
LGPSC	IG Credit fund	Mar-20	4.8 (0.8)	8.5 (1.2)	1.3 (-0.2)

Figures are net of fees; returns over one year are annualised. Benchmark-relative returns are shown in brackets.

Source: Investment managers and “Leicestershire Total Fund Q3 2025 - Manager Summary” quarterly report.

Overall IG credit exposure is broadly on target

Total allocation (3.7%) is very close to the 3.75% SAA target

Internal mix diverges from the SAA

Aegon is running at nearly twice its target while LGPSC IG is below target. After 30 Sep 2025, a further £90m has been added to Aegon as a temporary holding place for undrawn private market commitments, as agreed at the October 2025 ISC.

Longer-term picture remains soft

Both funds lag since inception, particularly Aegon, reflecting the timing of inception and its cash-plus (SONIA) benchmark rising sharply and remaining elevated, while short-dated credit repriced more slowly and saw mark-to-market impacts.

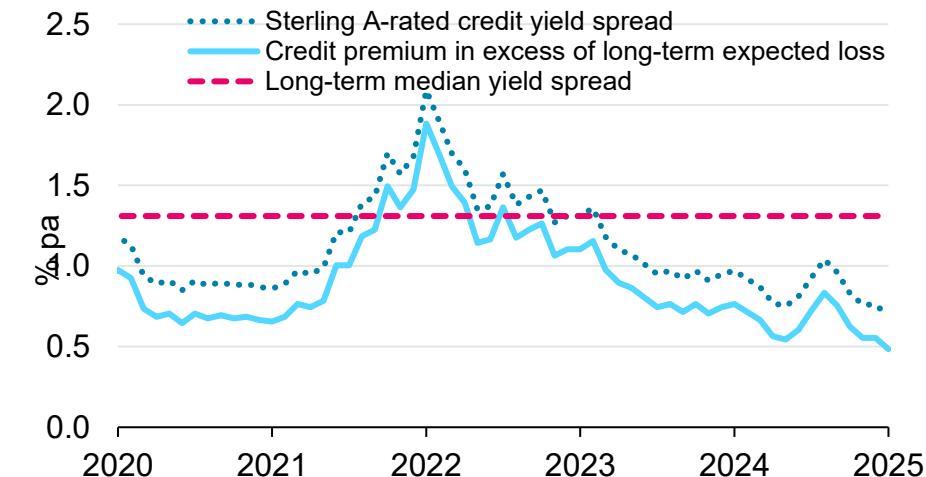
Current market dynamics

Spreads now at historically tight levels:

- Global IG credit spreads continued to grind tighter in Q3 and are lower YTD.
- A-rated global spreads are now around 0.7% p.a., slightly below the 10th percentile of their long-term history; Sterling and Euro A-rated spreads are about 0.8% p.a., and the US sits at 0.7% p.a., all well below their long-term medians.
- At these levels, **even a modest widening could lead credit to underperform gilts in the short term, although this risk reduces with longer holding periods.**
- Even with very low spreads, attractive underlying sovereign bond yields support the absolute medium-term return potential from corporate bonds. Indeed, yield-driven demand, alongside relatively robust fundamentals, are helping keep spreads at their current historically low levels.

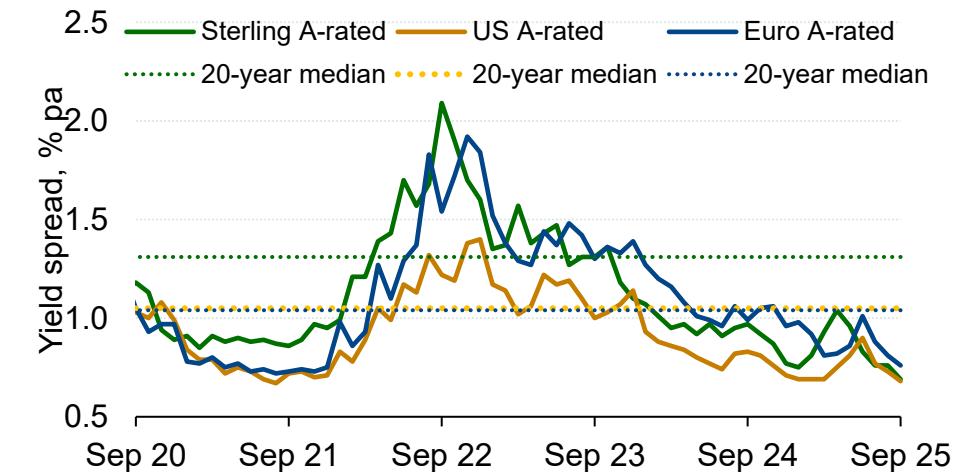
With spreads at historically tight levels and the Fund currently limited to active short-dated and global IG credit, this may be a timely opportunity to diversify the IG Credit allocation to include alternative credit mandates.

US A-Rated Spreads vs Trend



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US, UK & Euro IG Spreads



Comparing IG credit approaches

There are three different investment approaches for investment grade credit:

	1. Passive	2. Buy & Maintain	3. Active
Performance target	Track the performance of benchmark	Attractive absolute return through credit selection and low turnover	Outperform benchmark, typically 0.5-1.0% p.a. but can vary
Approach	Aim to replicate benchmark in a cost-efficient manner	Bonds are intended to be held to maturity unless default or downgrade risks emerge.	Aims to add value through security, sector, duration and curve positioning relative to the index.
Duration	Broadly in-line with benchmark	For LGPSC fund specifically, duration is kept within two years of the ICE BofA Sterling Non-Gilt Index	Managed around benchmark, typically +/- 1-3 years
Off-benchmark positions	Limited	N/A – typically more diversified than passive or active funds, with limits on sector and issuer concentrations.	Non-sterling corporate bonds, cash, government bonds, high-yield bonds
Portfolio turnover	As necessary to replicate benchmark	Low compared to actively managed credit portfolio	High, typically over 100%
Dealing	Daily, typically	Weekly, typically	Daily, typically

Liquidity is similar across all three approaches, but differs in emphasis. Passive and active typically deal daily and invest predominantly in benchmark-eligible IG credit, so liquidity tends to be robust in normal market conditions. B&M strategies are designed to be lower-turnover, but none of the approaches pose material liquidity concerns

Potential addition to
the IG Credit allocation

Both current mandates
use this approach

Buy & Maintain

Why consider Buy & Maintain in the current market backdrop?

- ✓ **Spreads are historically tight, reducing the scope for active credit outperformance**
With IG spreads at long-term tights, active managers have fewer opportunities to add value through spread compression or credit selection. Buy & Maintain instead focuses on harvesting underlying yield rather than relying on tactical spread moves.
- ✓ **Yields remain attractive, and Buy & Maintain locks these in for the long term**
Even with tight spreads, underlying sovereign yields are still meaningfully higher than in the past decade. Buy & Maintain enables the Fund to secure these higher yields for many years, providing an attractive baseline absolute return.
- ✓ **Strengthens downside resilience if spreads widen from here**
Global active IG is most sensitive to spread widening, while short-dated IG is in theory defensive but may offer limited return. Buy & Maintain provides a steadier middle ground by holding higher-quality bonds to maturity and only selling when fundamentals weaken.
- ✓ **Enhances diversification within credit**
Buy & Maintain adds wider issuer coverage, longer-dated bonds and a different style of credit risk that complements the Fund's two active mandates.
- ✓ **Lower turnover and lower cost, which is beneficial when spreads are tight**
When spreads are compressed, trading can be expensive relative to the return available. Buy & Maintain avoids unnecessary turnover and preserves carry.

LGPSC Buy and Maintain Fund Characteristics

Characteristics	LGPSC Central Buy and Maintain Sterling IG Credit Fund
Objective	Produce a return over the long term that will outperform the market.
Approach	Buy & Maintain; low turnover; hold bonds to maturity.
Universe	60%+ GBP IG; up to 40% developed-market IG (USD/EUR/JPY/CHF/CAD/AUD)
Fund size	£917m
Risk & Profile	Average rating: A– Modified duration: 4.4 Larger weights in financials and utilities
Performance	4.0% since inception (Nov 24 to Sep 25)

LGPSC's new Buy & Maintain Sterling IG Credit Fund (launched in November 2024) presents a potential option for the Fund to consider (subject to due diligence).

Additionally, Central have indicated a preference for the Fund to move from the existing Sterling IG Credit product to the Global IG Credit product.

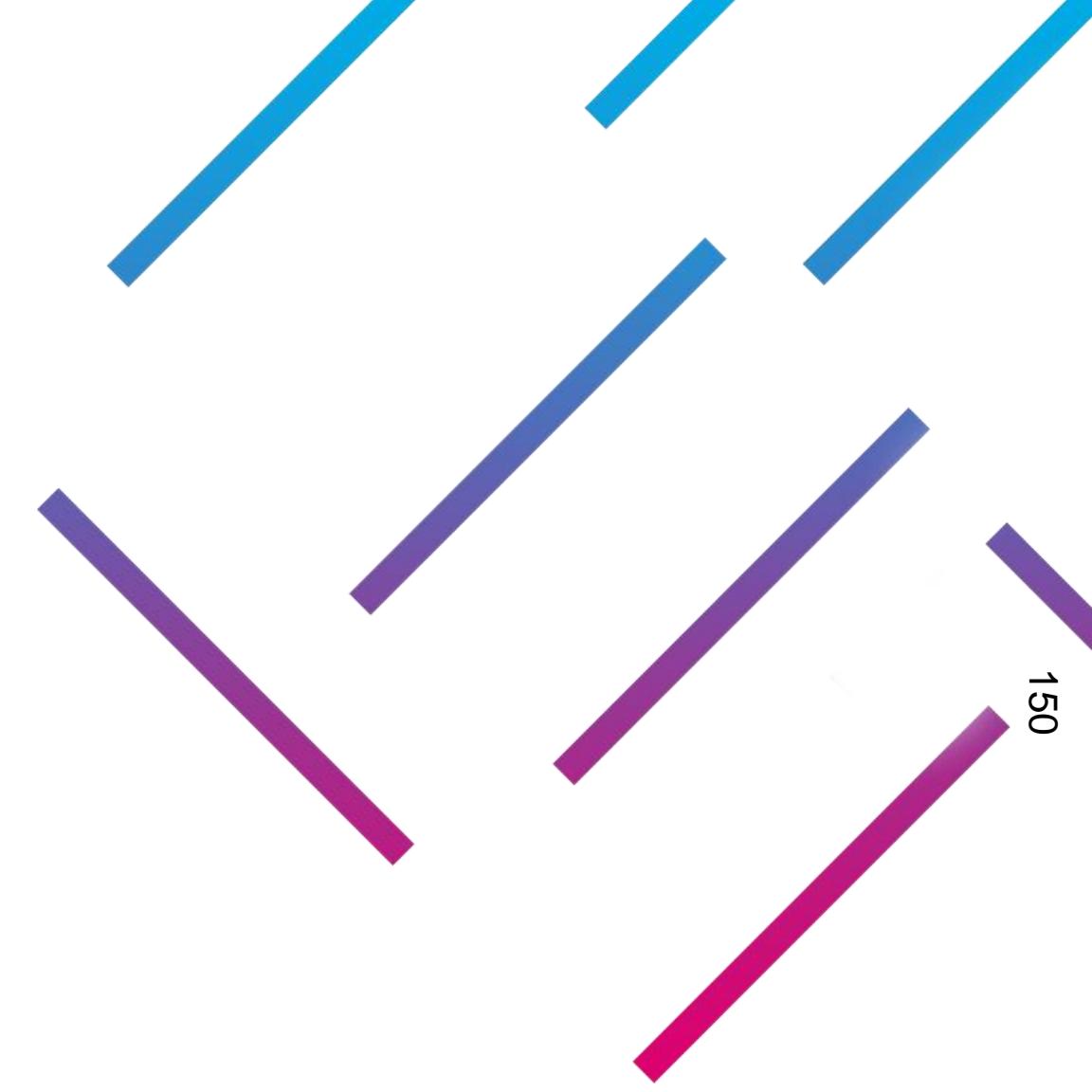
We therefore recommend a detailed review of the Fund's IG Credit allocation to assess the suitability, sequencing and scale of any adjustments, working with the Pool as appropriate.

Alternative options to IG credit

Asset class	Description	Expected return (p.a.) ¹	Risk level	Cashflow certainty	Liquidity	Fees (% p.a.)	Already held in LCCPF?	Pool product available?
IG credit	Corporate bonds rated BBB–A/AA	5.0% – 7.0%	Low	High	High	Low	Yes – Aegon Short Dated IG; LGPSC IG Credit	Yes – Global Active and buy and maintain
Asset-Backed Securities	Bonds backed by mortgages/loans; securitised credit	5.0% – 7.0%	Low	Medium - High	Medium	Low – Medium	Indirectly – via MAC (max 30% of portfolio)	Indirectly – via Global MAC
Absolute Return Bonds	Flexible bond funds targeting stable positive returns	5.0% – 6.0%	Medium	Low	Medium	Low – Medium	No	No
High-Yield Bonds	Sub-investment-grade corporate bonds (BB–B)	6.5% – 8.5%	Medium	Low – Medium	Medium	Medium	Indirectly – via MAC (max 30% of portfolio)	Indirectly – via Global MAC
Insurance-Linked Securities	Instruments linked to catastrophe/insurance risks	7.0% – 9.0%	Medium	Low - Medium	Medium	Medium - High	No	No
Private credit	Illiquid direct lending, senior loans, private debt	8.0% – 10.0%	Medium	Medium	Medium	High	Yes – Partners Group PD; CRF; LGPSC PD	Yes – LGPSC PD low & high return, real assets
Infrastructure debt	Senior / secured loans to infrastructure projects	5.0% – 7.0%	Medium	High	Medium	Medium - High	No	Indirectly- via LGPSC PD real asset fund
Emerging Market (EM) Debt	Sovereign or corporate EM bonds	6.0% – 8.0%	Medium	Low - Medium	Medium	Medium	No	Yes – Global Active EM Bond Fund

From another angle, we have also considered alternatives outside of IG credit, specifically asset classes that offer a broadly similar risk/return profile. One option could be to adjust the Fund's existing allocations to these areas, either alongside changes within IG credit or as an alternative to them.

This will be explored further as part of the wider review. Any options beyond the current line-up will naturally be constrained by availability through LGPS Central, though the review will also identify where future product development or engagement with the Pool may be useful.

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Thank you

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LCCPF portfolio – growth assets

Asset Class	Mandate	Market Value (£m)	Weight (%)
	Total Growth Assets	3,856.7	54.2
Listed Equity	Total Listed Equity Fund	3,115.0	43.8
	<i>L&G UK Equity Fund</i>	158.6	2.2
	<i>L&G All World Equity Fund</i>	848.2	11.9
	<i>L&G Low Carbon Transition Global Equity Fund</i>	285.0	4.0
	<i>LGPSC Global Eq Active Multi Mgr Fund</i>	847.2	11.9
	<i>LGPSC AW Eq Climate Multi Factor Fund</i>	975.6	13.7
Targeted Return	Total Targeted Return Fund	354.3	5.0
	<i>Ruffer Fund</i>	211.5	3.0
	<i>Fulcrum Diversified Core Abs Ret Fund</i>	142.8	2.0
Private Equity	Total Private Equity Fund	387.4	5.4
	<i>UK Private Equity Fund - Catapult (L)</i>	0.9	0.0
	<i>Oseas Private Equity Fund - Adams Street (L)</i>	345.6	4.9
	<i>LGPSC Private Equity Fund 2018 (L)</i>	9.2	0.1
	<i>LGPSC Private Equity Fund 2021 (L)</i>	12.5	0.2
	<i>LGPSC Private Equity Fund 2023 (L)</i>	10.0	0.1
	<i>Patria Capital Partners SOF III Feeder LP</i>	9.2	0.1

LCCPF portfolio – income assets (1)

Asset Class	Mandate	Market Value (£m)	Weight (%)
	Total Income Assets	2,153.2	30.3
Infrastructure	Total Infrastructure Fund	724.7	10.2
	<i>JPMorgan Infrastructure Fund (L)</i>	164.4	2.3
	<i>IFM Global Infrastructure Fund</i>	176.9	2.5
	<i>KKR Global Infrastructure Fund</i>	32.2	0.5
	<i>Stafford Timberland Fund (L)</i>	114.4	1.6
	<i>Infracapital Infrastructure Fund</i>	12.2	0.2
	<i>LGPSC Infra Core/Core+ (L)</i>	140.7	2.0
	<i>LGPSC Value Add Infrastructure (L)</i>	3.2	0.0
	<i>Quinbrook Net Zero Power Fund (L)</i>	38.1	0.5
	<i>Quinbrook Net Zero Power Fund Co-Inv (L)</i>	42.6	0.6
Property	Total Property Fund	495.2	7.0
	<i>DTZ Legacy Direct Property</i>	88.1	1.2
	<i>La Salle Property Fund</i>	282.6	4.0
	<i>Active Value I Property Fund (DTZ)</i>	12.9	0.2
	<i>Active Value II Property Fund (DTZ)</i>	32.5	0.5
	<i>LGPSC UK Direct Property Fund</i>	79.1	1.1

LCCPF portfolio – income assets (2)

Asset Class	Mandate	Market Value (£m)	Weight (%)
Private Debt	Total Private Debt Fund	484.6	6.8
	<i>Christofferson Robb & Company Fund - CRF3 (1 month L)</i>	2.7	0.0
	<i>Christofferson Robb & Company Fund - CRF5 (1 month L)</i>	43.1	0.6
	<i>Christofferson Robb & Company Fund - CRF6 (1 month L)</i>	31.1	0.4
	<i>M&G DOF Fund</i>	38.6	0.5
	<i>Partners Group Private Debt Fund</i>	103.6	1.5
	<i>LGPSC PD Low Return 2021 (L)</i>	159.7	2.2
	<i>LGPSC PD High Return 2021 (L)</i>	32.1	0.5
	<i>LGPSC PD Real Assets (L)</i>	73.8	1.0
Public Debt	LGPSC Global Active MAC Fund	448.7	6.3

LCCPF portfolio – protection assets

Asset Class	Mandate	Market Value (£m)	Weight (%)
	Total Protection Assets	1,100.7	15.5
Investment Grade Credit	Total Investment Grade Credit Fund	266.4	3.7
	<i>Aegon Global Short Dated Climate Transition Fund</i>	66.0	0.9
	<i>LGPSC Investment Grade Credit Fund</i>	200.4	2.8
Inflation-linked Bonds	Aegon (formally Kames) Index-Linked Fund	214.4	3.0
Currency Hedge	Aegon (formally Kames) Currency Hedge Fund	58.9	0.8
Cash	Cash	560.9	7.9

Private equity – current framework

	Segment	Target Allocation
Geography	North America	30-60%
	Europe	20-40%
	Asia Pacific	10-30%
	Emerging Markets	0-10%
Lifestage	Venture	10-30%
	Growth	10-30%
	Buy-out	40-70%
	Special Situations	0-10%
Origination channel	Primary funds	50-70%
	Secondaries	10-30%
	Co-investments	15-25%
Economic sector	No specified ranges as opportunity set varies, but aim for diversification	-

Infrastructure – current framework

	Target Allocation	Allocation Ranges
By Risk	80% core and core-plus infrastructure	70-90% core and core-plus infrastructure
	20% value-add and opportunistic infrastructure	10-30% value-add and opportunistic infrastructure
By Geography	20% UK	10-30% UK
	75% Overseas (Developed)	60-80% Overseas (Developed)
By Sector	5% Advanced Emerging Countries	0-10% Advanced Emerging Countries
	No sector allocations targeted, but looking for reasonable diversification	Timberland allocation capped at 20%

Key Beliefs:

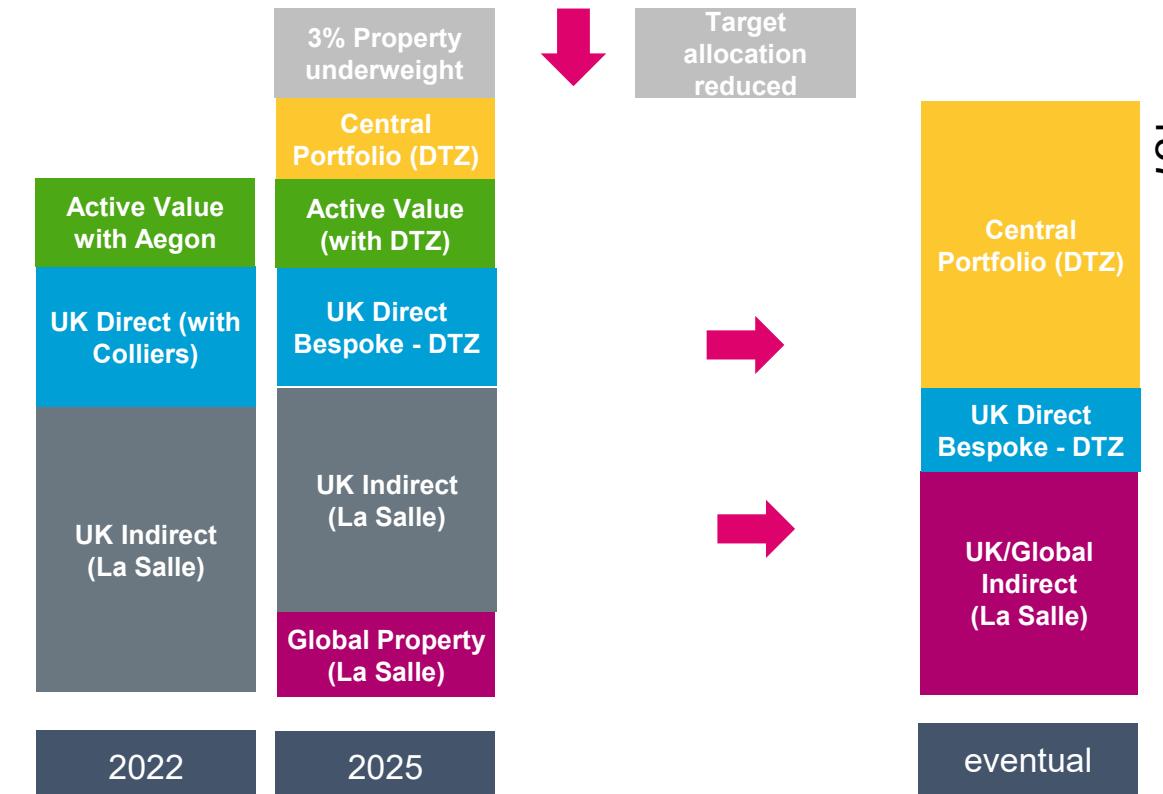
- Bias towards core and core-plus infrastructure with a target allocation set between 70% - 90%
- Preference for global mandates, with UK exposure limited to 30%
- Focus on developed markets, with EM exposure limited to 10%

Property – current framework

Target framework

Target allocation (2025 review)		
Regional split	UK	70%
	Global	30%
Manager split	DTZ	60%
	LaSalle	40%
Investment Channel	Direct	60%
	Indirect	40%
Risk	Core Commercial	70 – 90%
	Residential	Up to 15%
	Value-add Commercial	Up to 20%

Expected evolution of property portfolio



Private debt – current framework

		Current Target (%)	Allocation Ranges (%)
By Market Segment	Senior corporate debt	70	40-90
	Real asset-linked debt	20	10-30
	Opportunistic debt	10	0-20
By Region	Europe	45	30-60
	North America	45	30-60
	Developed Asia & Rest of World	10	0-20

Glossary

Term	Description
Beta	The extent to which a fund moves with the market. Equity beta refers to sensitivity to equity market movements; credit beta refers to sensitivity to credit markets.
CAPE (Cyclically Adjusted Price-to-Earnings	CAPE is a valuation measure that compares a market's price to its average inflation-adjusted earnings over the past 10 years. It helps smooth out short-term earnings fluctuations and is often used to assess whether a market looks expensive or cheap relative to history.
Directional	A strategy that maintains meaningful market exposure (e.g. to equities or credit) and therefore rises or falls with markets.
Targeted-return mandate	A fund aiming for a specific return outcome (such as cash +X%) rather than tracking or outperforming a benchmark index.
Capital preservation	An investment approach focused on limiting losses and protecting the value of capital, especially in market downturns.
Managed futures	Funds that trade futures contracts across multiple asset classes to gain or reduce exposure quickly.
Trend-following	A systematic strategy that seeks to profit from sustained upward or downward price movements across markets.
Derivatives	Financial instruments whose value is based on an underlying asset (e.g. futures, options, swaps). Used to gain or hedge exposures efficiently.
Risk parity	An investment approach that aims to balance risk equally across asset classes, often using leverage to adjust exposures.
Leverage	Using borrowed money or derivatives to increase the size of an investment exposure beyond the underlying capital invested.
Systematic strategy	A rules-based, model-driven investment approach with minimal discretionary decision-making.

Reliances and limitations

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Leicestershire County Council Pension Fund

Annual Review of Investment Strategy and Structure

David Walker, Partner

January 2026

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Background and contents

Addressee and purpose

This paper is addressed to the Pension Fund Committee (the “Committee”) of the Leicestershire County Council Pension Fund (the “Fund” or “LCCPF”). The purpose of this paper is to provide an annual review of the Fund’s Strategic Asset Allocation (SAA) and structure.

Background and scope

The aim is to assess the effectiveness of the current funding and investment strategy to meet the Fund’s objectives and test potential alternative strategies that may enhance the likelihood of achieving long-term investment outcomes.

The review is supported by Asset Liability modelling (ALM) analysis.

The findings will support the Fund’s development agenda for the year ahead, informing future strategic discussions and highlighting any areas where additional analysis or action may be required.

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Executive summary

1. **Strong funding position:** The Fund's funding level has improved significantly from March 2022 to March 2025, with a surplus rising from approximately £0.28bn to £1.91bn. This improvement is underpinned by a higher discount rate (an increase in the expected returns used to value the liabilities) and robust investment returns. The annual review assesses the effectiveness of the current funding and investment strategy, using Asset Liability Modelling* (ALM) to test alternative strategies and support the Fund's development agenda for the year ahead.
2. **Current Investment Strategy is robust:** The Fund's current strategy is well-diversified. The strategy performs well in meeting the Fund's success and risk criteria but the assessment against these criteria improves under alternative strategies supporting some minor amendments.
3. **Alternative Strategies:** Asset Liability Modelling shows that all tested strategies (including increases to protection or illiquid assets, and shifts from equities to credit or gilts) deliver high probabilities of funding success, with only marginal differences in risk and return.
 - Increasing protection assets can reduce risk of downside funding risks and higher contributions without meaningfully lowering the probability of meeting funding objectives.
 - Analysis suggests funding this increase from equities provides marginally better results, however, given the changes to strategy previously agreed and the Committee's preference to maintain equity exposure we would support the Fund in retaining the current target weight to equities. Funding an increase in protection from MAC also reduces risk and provides a balanced approach to risk and overall Fund liquidity requirements.
 - The current allocation to private markets remain underweight relative to target as private markets continue to call capital, we therefore do not recommend increasing the allocation to illiquid assets at this stage. If increasing allocations to illiquid assets was desired, liquidity constraints and the need for cashflow management is important to consider
4. **Recommendations:**
 - Maintain 41% in listed growth equity assets for liquidity and returns.
 - Increase protection assets from 8% to 10% to further diversify and reduce risk, funded from MAC.
 - Review income portfolio to ensure cashflow needs are met.
 - Engage with pooling requirements and monitor strategic risks
 - We recommend incorporating local within the current private market targets, targeting 1% across private market assets.

*An ALM (Asset-Liability Modelling) exercise uses stochastic modelling to simulate multiple economic scenarios, projecting future funding levels and assessing risk. Factoring in realistic behaviours across asset classes and conditions provides a robust view of the Fund's resilience under a broad range of circumstances.

Current strategy

Objectives and Funding Position

The fund has two overall objectives:

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

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

The Committee recognises that:

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

The table below shows a summary of how the funding level for the Fund has improved during the period from March 2022 to March 2025, as well as a number of important assumptions that underpin the Fund's investment strategy.

	Mar 2019	Mar 2022	Mar 2025
Funding level %	89	105	140
Surplus / (Deficit)	c.£(0.54bn)	c.£0.28bn	c.£1.91bn
Discount rate p.a.	3.8**	4.4 *	6.1 **

*expected returns over 20yr with 75% likelihood

** expected returns over 20yr with 80% likelihood

Source: Hymans

Changes in funding environment since 2022

LGPS funds do not operate in isolation from the wider environment. LGPS funding plans are affected by changes in the financial, demographic and political environment. The main changes in the funding environment since the 2022 valuation date are set out below:

Economic

- There has been a large shift in economic environment since the 2022 valuation, characterised by an increase in interest rates from historic lows to rates closer to the long-term average. See the next page for further details.
- There has been higher than expected inflation since 31 March 2022. April 2023 (10.1%) and April 2024 (6.7%) pension increase orders were slightly higher than that assumed at the 2022 valuation, increasing the value placed on liabilities.
- Increasing budgetary pressure for LGPS employers, and Local Authorities in particular, due to high inflation and higher costs of borrowing.

Demographic

- Despite losing a decade of longevity improvements in 2020 during the pandemic, emerging data from [Club Vita](#) suggests that life expectancies have recovered to pre-pandemic levels.
- Whilst LGPS pensioners appear to have been somewhat insulated from some of the population health effects observed in recent years, based on [Club Vita's paper](#), local pockets of COVID-19 infections and deaths led to regional variations in mortality. This could be linked to socio-economic variations.

Political

- In July 2024, the UK Government launched its Pensions Investment Review. As part of this review, the government will focus on developing policy to encourage further pension investment into UK assets.
- Based on information currently available, we do not believe that the Pensions Investment Review will have a material impact on this funding strategy review.
- The Fund is reviewing its investment beliefs within the Investment Strategy Statement (ISS) to support the Pool in managing investments effectively. It should also consider any changes to implementation of investment strategy from government reforms and their potential impact on future returns when assessing this report.

Others

- The Government Actuary's Department (GAD) carry out a review of all LGPS funding plans* following the conclusion of each triennial valuation.
- In their [report on the 2022 valuations](#), GAD set out their intended approach to assessing Long Term Cost Efficiency (LTCE) at the 2025 valuation review in relation to the utilisation of surpluses.
- For the 2025 review, GAD will introduce new metrics which aim to identify where LGPS funds are either utilising surpluses too quickly or retaining large surpluses.
- The aim of this analysis is to ensure intergenerational fairness between generations of taxpayers.

The most material change for the purpose of funding at the 2025 valuation is the change in **economic** environment

Current investment strategy

Asset class	Current Allocation (%)	Current Target (%)
Growth	54.2	53.5
Listed equity	43.8	41.0
Private equity	5.4	7.5
Targeted return	5.0	5.0
Income	30.3	38.5
Infrastructure (inc timberland)	10.2	12.5
Property	7.0	7.5
Global credit – public debt (sub-IG)	6.3	9.0
Global credit - private debt (sub-IG)	6.8	9.5
Protection	14.7	8.0
Inflation-linked bonds	3.0	3.5
Investment grade (IG) credit	3.7	3.75
Currency hedge	0.8	0.75
Cash	7.9	-
Total	100.0	100.0

Source: Investment managers and “Leicestershire Total Fund Q3 2025 - Manager Summary” quarterly report.

- The current investment strategy is well diversified, with target allocations of approximately 54% allocated to growth assets, 39% to income assets, and 8% to protection assets.
- As of September 30, 2025, the Fund's allocation comprised approximately 54% growth assets, 30% income assets, and 15% protection assets.
- Significant commitments have already been made to private markets. Deviations between current and strategic allocations are expected to diminish as private market mandates draw capital.
- Since the 2022 actuarial valuation, the Fund has implemented minor strategic adjustments, including:
 - Aligning with the government's May 2025 “Fit for the Future” consultation response, aiming to pool assets by the March 31, 2026 deadline.
 - Supporting the Fund's climate and responsible investment objectives.

Asset Liability Modelling details

Asset Liability Modelling methodology

Asset Liability Modelling allows the Fund to better understand the level of funding risk associated with different funding and investment plans and make a more informed decision.

At a high-level, the methodology for Asset Liability Modelling is:

- Assets and benefits are projected forward from the valuation date under 5,000 different simulations for future market and economic conditions. A summary of the 5,000 simulations is set out in Appendix 2 of this report.
- For each simulation (of which there are 5,000 per funding plan modelled), we calculate the funding position annually throughout the projection period.
- The assumptions underlying the funding position are set out in the 'Data and Inputs' section of this report.
- We rank the 5,000 simulations from best to worst and we plot the outcomes graphically.

We can then compare the range of outcomes and risk metrics with other investment and funding plans modelled.

When comparing plans, we focus on two key risk metrics:

The "likelihood of success" metric shows the percentage of simulations that meet the funding objective at the end of the funding time horizon

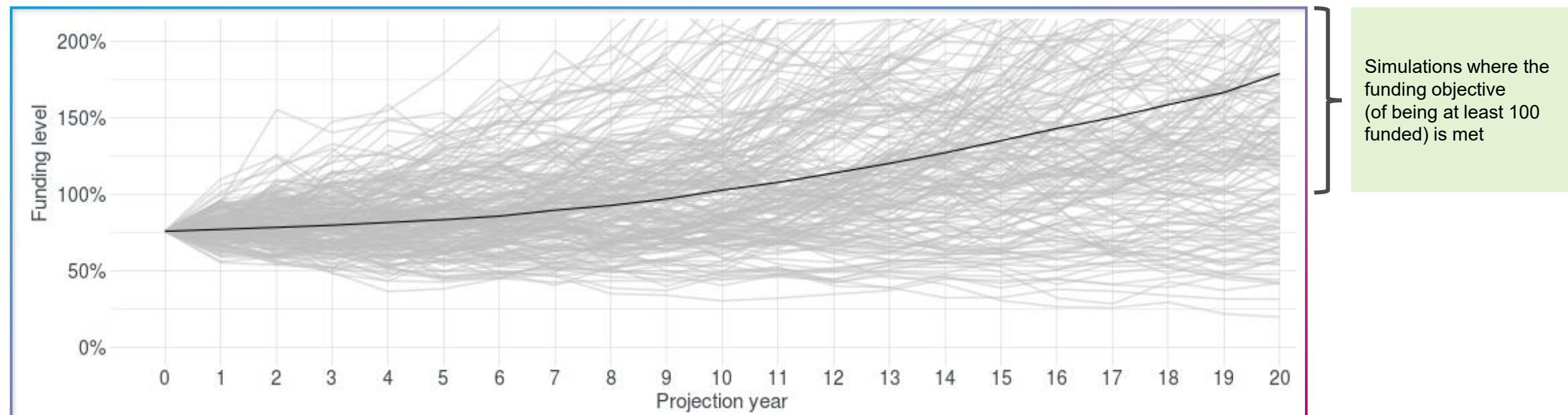
The "risk of regret" metric shows the percentage of simulations which result in the funding plan needing to be revised (either through a change in investment strategy or increasing contribution rates) at the 2028 valuation (ie the percentage of simulations for which the likelihood of success in 2028 is no longer above the Fund's threshold of 70%)

Further detail on these metrics are set out on the following pages.

For further technical detail on the Asset Liability Modelling approach please see Appendix.

Likelihood of success

The chart below shows a sample of the 5,000 simulations for a certain funding plan tested. Each simulation projects the employers'/fund's assets and liabilities under a potential future outcome for investment returns, inflation and interest rates, allowing us to calculate the funding level over the period. Doing this 5,000 times then provides a range of future funding levels to analyse.



The likelihood of success is the percentage of the 5,000 simulations that meet the funding objective at the end of the employer's funding time horizon
Under the current funding strategy criteria, the minimum acceptable likelihood of success is 70%

Risk of regret

As well as understanding if a funding plan will be successful, it is also important to assess the level of potential downside risk. As the LGPS is an open, long-term scheme, most employers' primary focus will be on contribution rates. Therefore, a key question that needs considered is:

"If the contribution rate is set at a particular level now, what is the likelihood that it will need to increase at the next valuation?"

We refer to this as the "risk of regret". To measure this risk we model a selection of contribution rates (keeping investment strategy the same) which are fixed. We then analyse the model at 31 March 2028 to see how many of the 5,000 simulations do not meet the current funding strategy criteria (of having a 70% likelihood of being 100% funded at the end of a 20 year time horizon). In these simulations, we assume that the funding plan would need adjusted which will typically be done by increasing the contribution rate (but could also be achieved by a change of investment strategy).

So, if a funding plan had a 10% risk of regret, then there is a 10% chance that this plan would have an insufficient likelihood of success of achieving funding strategy criteria at 31 March 2028 and potentially require the contribution rate to be increased (or the investment strategy to be changed).

The chart on the right shows, for a sample fund/employer, how the risk of regret varies by contribution rate paid.

The risk of regret measures the risk of having to raise the contribution rate (or change investment strategy) at the next valuation. Comparing different funding plans on this metric will be helpful for understanding the relative level of downside risk.



In this example, a contribution rate of 14% of pay has a 10% risk of regret. As the contribution rate increases, the risk of regret decreases (and vice versa).

Index Linked Gilts

Role of Index Linked Gilts:

- Index-linked gilts (ILGs) provide substantial duration exposure, which helps align assets with long-term pension liabilities and stabilises funding levels.
- ILGs offer direct inflation protection, matching liabilities that are sensitive to inflation and safeguarding the real value of pension payments.
- ILGs act as a hedge against long-term inflation risk, supporting the scheme's ability to meet future inflation-linked benefit promises.

Current Market Views:

- Index-linked gilts are benefiting from a slightly more supportive backdrop, with weaker growth and higher inflation making them more attractive from a fundamental perspective. Ten-year real yields have climbed to around 1.7% pa in Q3, which is attractive relative to our assessed fair value.
- However, the technical environment is becoming more challenging, partly due to the global AI investment boom, which is increasing competition for capital and pushing real yields higher. As a result, the outlook is balanced between nominal and index-linked gilts: nominal gilts offer slightly better valuation, but index-linked gilts have stronger fundamental support.

How does Investment Grade (IG) Credit differ?

Duration & Yield: Provides duration exposure and an additional yield over government bonds.

No Inflation Protection: Does not offer direct inflation linkage, making it less effective for inflation-sensitive liabilities.

Tight Spreads: Current credit spreads are historically tight, limiting the potential for further yield enhancement.

Contrary to IG Credit, Index-linked gilts offer robust inflation protection and liability matching.

IG credit can enhance yield and duration but lacks inflation protection and currently faces tight spreads.

Fixed Interest Gilts

Role of Fixed Interest Gilts:

- Fixed interest or nominal gilts (Gilts) provide substantial duration exposure, which helps align assets with long-term pension liabilities and stabilises funding levels.
- Unlike ILGs they do not offer direct inflation protection, but their fixed nature can provide additional benefits in deflationary environments and add to diversification within a portfolio of protection assets.
- Inflation pricing can also at times be expensive and therefore an allocation to Gilts alongside ILGs can provide relative value opportunities and a lower cost way of reducing risk.

Current Market Views:

- Ten-year yields fell 0.1% pa in 2025 to close the year at 4.5% pa – still very attractive relative to our fair value, even when allowing for persistence in term premia. Instantaneous forward yields (the gilt market's expectation of cash rates) eased to 5.9% pa at the 10-year point but remain high relative to long-term growth and inflation forecasts.
- Despite above-target near-term inflation, slightly weaker-than-potential real GDP growth means average forecast for nominal GDP growth remains within our neutral band. Interest rate cuts have anchored short-term yields, but longer-dated yields have fallen less amid heavy issuance and waning institutional demand. Ten-year yields remain “very attractive” relative to long-term growth and inflation forecasts – even allowing for some persistence in a positive “term premium”.

Investment strategies modelled

We have outlined the alternative strategies considered in this strategy review. These strategies do not entail significant changes to the current investment strategy, instead they consider different factors like local investing and possible ways in which the Fund could reduce risk.

Asset Class	Current Strategy	Alt 1 - top up to illiquids	Alt 2 - equities to IG credit	Alt 3 – equities to ILG	Alt 4 - MAC to FIG
Growth	53.5	51.5	48.5	48.5	53.5
Global equities	41.0	38.0	36.0	36.0	41.0
Targeted return	5.0	5.0	5.0	5.0	5.0
Private Equity	7.5	8.5	7.5	7.5	7.5
Income	38.5	40.5	38.5	38.5	36.5
Infrastructure (inc timberland)	12.5	13.5	12.5	12.5	12.5
Property	7.5	8.0	7.5	7.5	7.5
Global credit - private debt (sub-IG)	9.5	10.0	9.5	9.5	9.5
Global credit – public debt (sub-IG)	9.0	9.0	9.0	9.0	7.0
Protection	8.0	8.0	13.0	13.0	10.0
Investment grade credit	3.75	3.75	8.75	3.75	3.75
Index linked gilt	3.5	3.5	3.5	8.5	3.5
Fixed interest gilt	0.0	0.0	0.0	0.0	2.0
Cash	0.75	0.75	0.75	0.75	0.75
Total	100.0	100.0	100.0	100.0	100.0

Investment strategies tested

The asset-liability modelling evaluates the Fund's investment strategy from a top-level perspective, helping to determine the optimal allocation among Growth, Income, and Protection assets to meet the Fund's long-term goals. Further analysis will examine the investment strategy's structure and establish the appropriate distribution within each asset category.

We have assessed how the likelihood of success and the risk of regret vary across different investment strategies, and identified asset allocation mixes that can achieve the desired risk-return balance under various market scenarios.

1. Increase in protection assets. Considering the Fund's current funding position, there is an opportunity to raise the allocation to protection assets while still meeting the Fund's overall objectives. We have evaluated how different approaches to increasing protection assets impact the Fund's success probability and regret risk, specifically examining whether to fund this increase solely through equities or income assets. For the equity variations we have tested a 5% shift from equities to protection as a meaningful but manageable shift out of return seeking assets reflecting the need to balance risk with expected returns to support contribution affordability. From the income to protection shift we have tested a 2% move which is broadly in line with resetting the target to the current actual allocation to MAC within income and would address concerns around allocating more capital to this strategy given it is currently under review.

2. Increase in illiquid assets. Since listed equities are a significant contributor to the Fund's returns, we have explored the benefits of further diversifying by adding illiquid income or alternative growth assets to support the Fund's return objectives.

Analysis results

Investment strategy- alternative strategies comparison

Modelling details

Employer: Whole Fund

Contribution strategy: fixed contribution rate, varied as shown

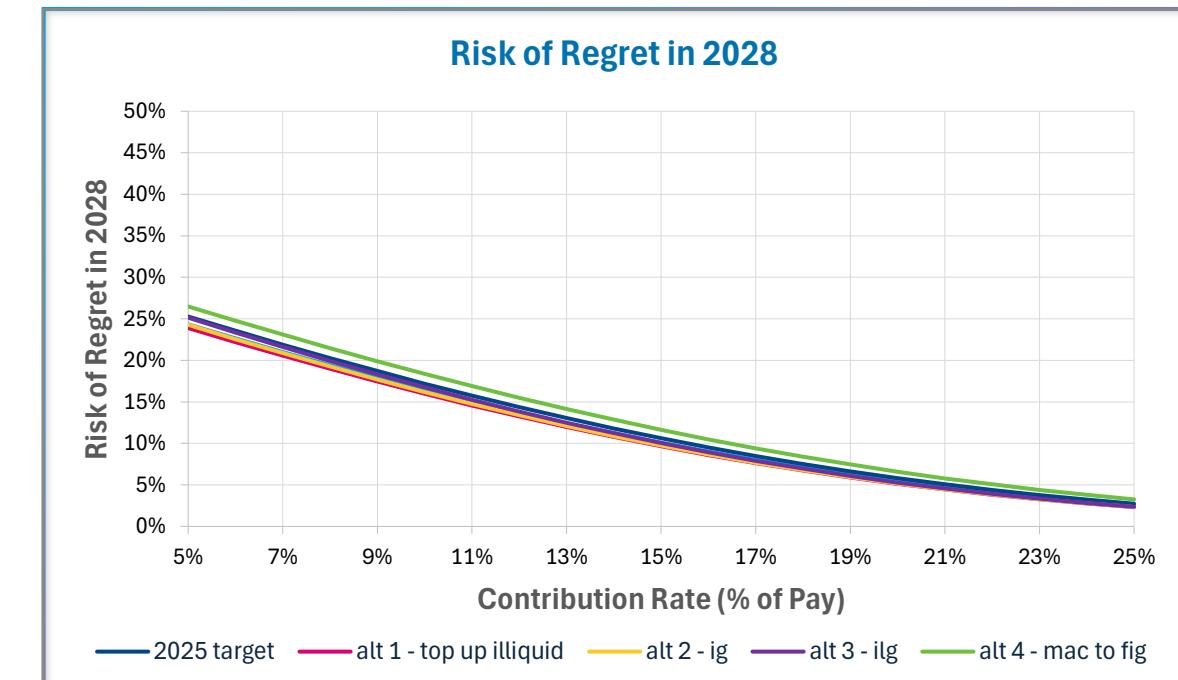
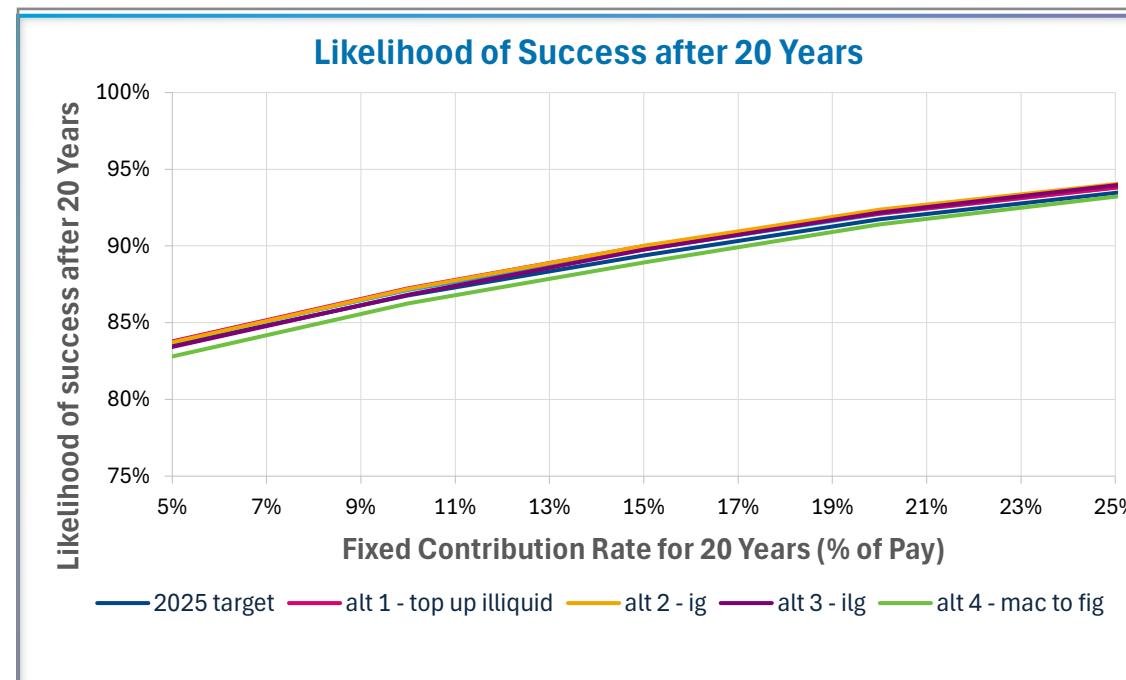
Investment strategy: varied as shown

Funding strategy criteria: current

Funding assumptions: current

Economic scenario (ESS assumptions): Core

Observations: The modelling results show that likelihood of success and risk of regret are similar if the Fund were to adopt any of the alternative investment strategies that have been modelled.

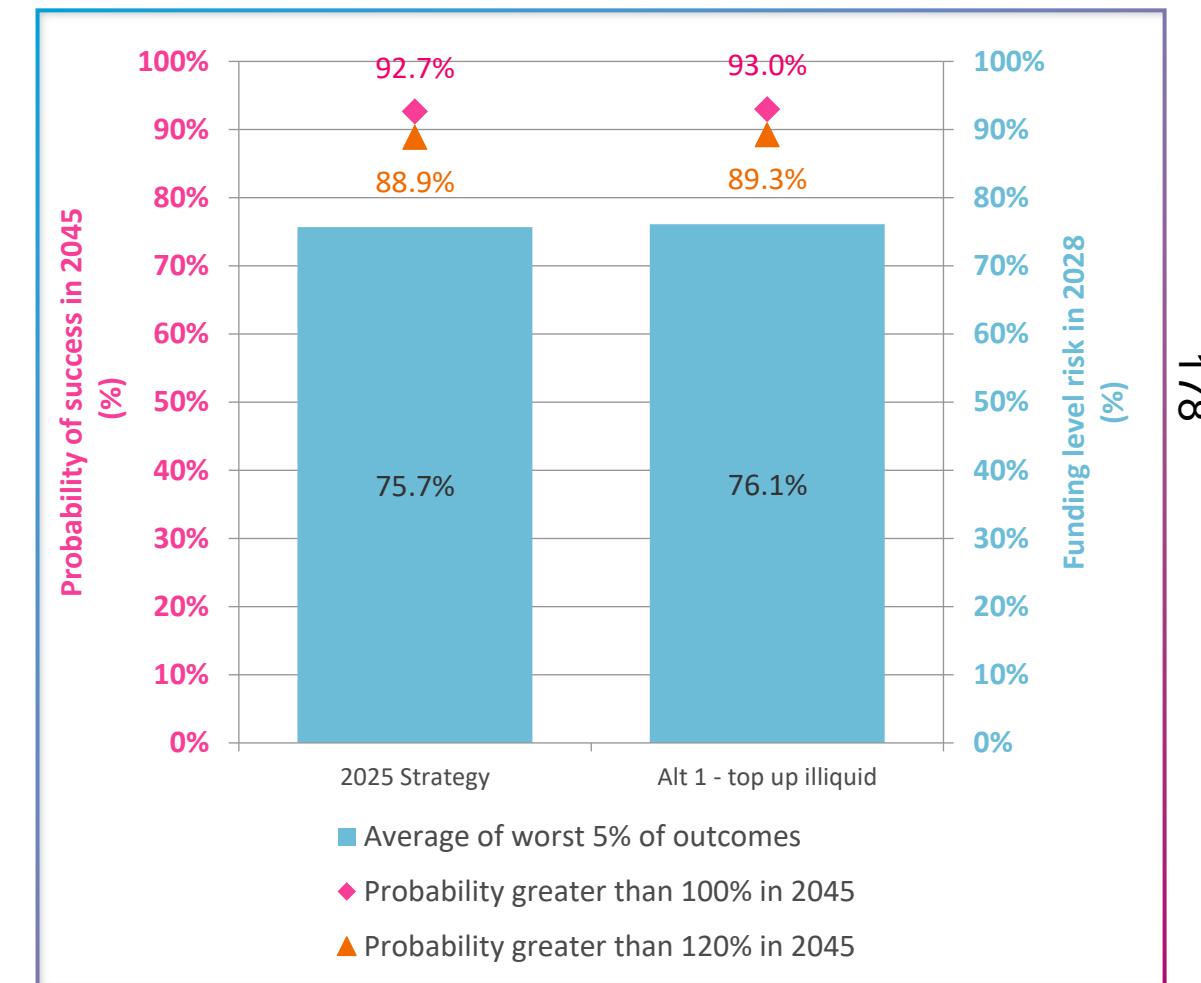


Illiquid alternative strategy

The analysis assumes an average contribution rate of pay at 22% throughout the projection period, though in reality, contributions may fluctuate, impacting funding outcomes accordingly.

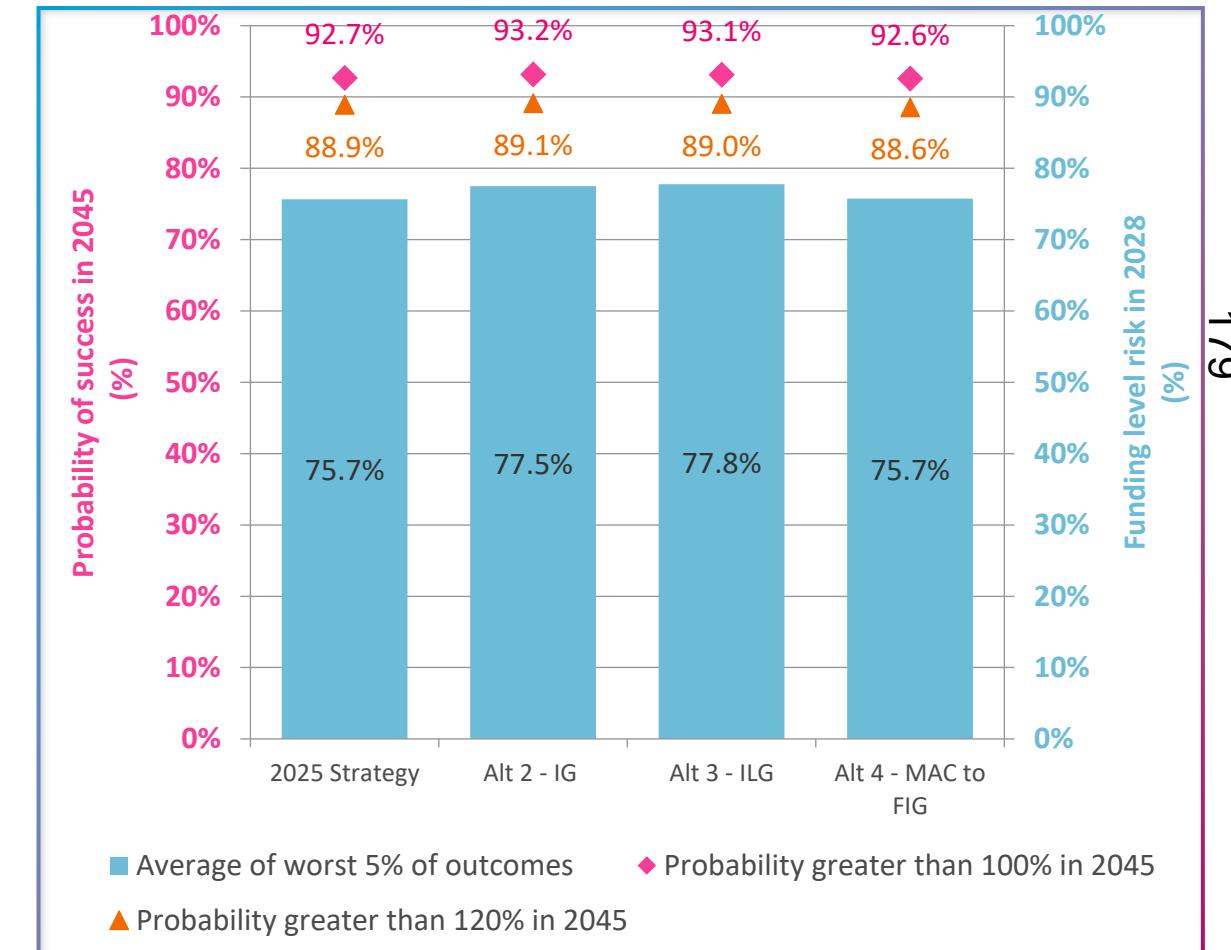
The chart on the right illustrates the following:

- Both the current strategy and alt 1 (top up to illiquids) shows a high probability that the funding level will exceed 100% in 20 years under the current investment approach (indicated by the pink diamond on the chart).
- Looking at the more stringent success measure of greater than 120% funded (indicated by the orange triangle in the chart), the probability of success has been minimally impacted.
- Despite the strong funding position, there remains a possibility for the funding level to drop to as low as 76% in the average of the worst 5% of scenarios.
- While the current strategy is well-positioned to achieve the Fund's objectives there are benefits from a success and risk perspective further diversifying the portfolio.
- Alt 1, considers an increase allocation to Local assets (split across private markets). Whilst this strategy doesn't change the dial by too much, liquidity constraints should be considered before implementing such strategies.
- The current allocation to private markets remain underweight relative to target, we therefore do not recommend increasing the allocation to illiquid assets at this stage.**
- We recommend incorporating local within the current private market targets.**



De-risked alternative strategies

- Similarly to the previous slides compared to the current long-term target, a strategy with a greater focus on investments in more liquid credit solutions (alt 2) has a subtle impact on both success and risk characteristics.
- Equally alt 3, moving from equities to index linked gilts, has a slight impact on both success and risk characteristics.
- Alt 4 also has a high probability of success and provides a slight improvement in downside risk and slight reduction in success.
- Looking at the more stringent success measure of greater than 120% funded (indicated by the orange triangle in the chart), the probability of success has been minimally impacted.
- Despite the strong funding position, there remains a possibility for the funding level to drop to as low as 76-78% in the average of the worst 5% of scenarios across the variations tested.
- The difference in both success and risk metrics from an increased allocation to protection assets are relatively small and all of the options presented are viable strategies. If the current equity allocation were to be maintained an increase to protection assets funded from income (Alt 4) could be implemented without material impact on outcomes.**



Return vs risk

	Projected 20 year Return, median (% p.a.)	Risk (1 yr volatility)
2025 Strategy	4.1	16.4
Alt 1 - top up to private market assets	4.1	16.3
Alt 2 – Investment Grade credit	4.0	15.3
Alt 3 – Index Linked Gilts	3.9	15.2
Alt 4 - MAC to Fixed Index Gilt	4.0	16.3

Source: Hymans, ESS calibration as at 30 September 2025

* Annualised medium return relative to liabilities (20 years)

- The current strategy and all the strategies modelled contain relatively high probabilities of success.
- Alternative strategy 1 maintains the current expected return with a slightly lower level of risk. However, liquidity risk, which is factored to the ALM will be higher and further consideration should be taken in order to meet benefit obligations.
- The remaining strategies slightly reduce the expected return for the Fund, which is understandable given the lower allocation to either equity or MAC, into protection. However, they did impact short term volatility to some extent.
- Despite this and given the Fund's strong funding position (i.e. the Fund does not need to seek additional return) we would be supportive of an increase to protection assets.
- The Fund currently holds both IG credit and ILG within the portfolio and we have reviewed IG credit in more detail.
- The index-linked gilts solution used by the Fund is medium dated. **The Fund does not have an explicit target to nominal gilts which we also believe provide attractive protection characteristics, however pooling requirements should be considered before implementing.**

Strategic risks

We have already discussed some of the economic, demographic and political risks that the Fund is exposed to. There are a several additional strategic risks that the Fund needs to be cognisant of:

Geopolitical

- **How could this materialise:** Increased physical conflict between regions; cyber attacks and escalation of tariffs / trade wars
- **How would this impact the Fund:** These actions would introduce heightened levels of market volatility and would likely lead to higher levels of inflation and lower economic growth in the short term.
- **How is this mitigated:** Diversification across asset classes and within asset classes (i.e. different styles of equity investing). Allocation to assets that provide inflation protection (property, infrastructure, inflation linked bonds). Low allocation to Emerging markets. Planned increase in protection assets.
- **What else could the Fund consider:** Exploring allocation to gold for its protection characteristics.
- The Fund have explored an allocation to gold over the past few years – no immediate action required

Climate

- **How could this materialise:** increase in natural disasters (physical risk); impact on assets failing to evolve (transition risk) and litigation risk
- **How would this impact the Fund:** Possibility of stranded assets and meaningful loss of value. Lower earnings potential for some sectors. However, clear investment opportunities.
- **How is this mitigated:** Diversification across asset classes and within asset classes. Allocation towards assets that will benefit from transition, i.e. Climate Opportunity Fund, infrastructure and specific equity funds.
- **What else could the Fund consider:** Further increasing allocation to climate-tilted mandates.
- Further details and recommendations on climate are included in the 2026 high-level review

Liquidity

- **How could this materialise:** Collapse of private markets or meaningful slowdown in exit activity or sell off in listed assets mean portfolio becomes skewed.
- **How would this impact the Fund:** Limited liquid assets available to meet benefit outgo requirements. Possibility to have to sell assets at distressed prices via secondary market.
- **How is this mitigated:** Diversification across private market asset classes and monitoring of current allocation relative to illustrative maximum allocation. Ability to adjust annual commitment amounts.
- **What else could the Fund consider:** Altering annual commitments and types of private markets being targeted.
- This has been incorporated into the Fund's current process – no action required.

Summary

Implementation considerations - Fit for the future

- The government have outlined nine buckets that all fund's assets should fit into.
- We have made an initial attempt to summarise the current mandates into the 9 buckets in the table below.
- The Fund will need to engage with Central on the requirements and preferences within each of these strategic groupings which would include considerations around regional focus, liquidity and RI alignment.
- The strategy to Local investment would also need to be considered as part of these preferences and requirements.
- The Fund has bucketed targeted return mandates under “other alternatives” consistent with LGPS Central’s approach.**
- We believe targeted return remains suitable for inclusion in the Fund’s portfolio, however consideration is required on implementation with the Pool.**

Asset class	Mandate	Comments
Listed equities	Global equities	Invested across L&G and LGPSC
Private equity	Private Equity	Majority of new commitments with LGPSC. Legacy assets will be need to be transferred to the Pool
Private credit	Private Debt	New commitment made to the latest vintage of the Private debt funds – legacy assets will need to be transferred to the Pool.
Infrastructure	Infrastructure (unlisted)	Top ups have been made to the Core/Core + funds, with a further £100m to be invested. Mandates outside the pool will need to be transferred
Property / real estate	Property	A review of the property mandates was completed in 2025 – a plan is in place regarding the property holding
Other alternatives	Targeted Return	Fund invested across two mandates – engagement with the Pool on Fund's preferences
Credit	Multi Asset Credit	The Fund is invested in LGPSC MAC and has earmarked capital once further due diligence has completed on the new manager
	Investment grade credit	Fund invested across two mandates – engagement with the Pool on Fund's preferences
UK government bonds	Index-Linked/Fixed Gilts	Pool options currently being developed – engagement required
Cash	Cash	<i>No comment</i>

Investment strategy summary

- The Fund's investment strategy has been structured to invest in assets that can generate a positive real return to meet past service and future service costs. The strategy is designed to provide high levels of diversification and offer sufficient liquidity to navigate various market conditions. **Given elevated levels of volatility, this reiterates the importance of maintaining a diversified strategy that offers good levels of liquidity.**
- Cashflow management is becoming increasingly important given the necessity to balance multiple objectives – for example, having liquid assets readily available to meet capital calls from the Fund's private markets program whilst ensuring that pensions can be paid under the new contribution arrangement.
- The modelling shows that altering the investment strategy to increase the protection allocation will not meaningfully impact the success or risk metrics and therefore **all of the options presented are viable strategies.**
- We are proposing some changes that are relatively modest but still represent a meaningful change in allocations and risk exposures which should be considered over time in line with the Fund's long term investment perspective. **We believe a 2% move from MAC to protection assets provides a better balance of risk and return, reflects ongoing liquidity requirements, uncertainty around revisions being made to the LGPSC MAC solution, attractive current market outlook for gilts and can be implemented efficiently given current underweight in actual allocation to MAC.**
- There are various strategic risks that are not captured within the asset liability modelling output. **It is important to monitor climate risk and liquidity risk to ensure that the Fund can achieve its stated long-term objectives.**
- The recent government pooling consultation and the requirement to pool all Fund assets by March 2026 means that engagement and alignment with the Pool is very important. **Understanding how the Fund's legacy private market assets will be transitioned will be a key focus area over the next 12 months.**

Investment strategy next steps

We recommend:

- 1) **The Fund maintains a meaningful allocation to listed growth equity assets** to ensure that the Fund retains access to liquid assets that can generate a positive real return. This allocation is complemented by alternative growth assets / illiquid income assets offering diversification as well as positive real return potential.
- 2) **The Fund incorporates Local investing within the current private market buckets and target 1% local investing across private debt, private equity, infrastructure and property.**
- 3) **The Fund considers an increase to protection assets from 8% to 10%** to further diversify the strategy and take advantage of attractive yield levels currently available in the market.
 - a) Considering practical implementation, this allocation can be funded through MAC allocation, which remains underweight to target and given recent developments within the fund, we are comfortable reducing this allocation broadly inline with the current actual allocation.
 - b) The specific assets used to achieve the protection allocation will depend upon market conditions at the point of implementation and discussions with LGPSC on what options will be offered to best meet the Fund's requirements

Asset Class	Current Strategy	Proposed allocation	Tolerance range (+/-%)	Local Investing
Growth	53.5	53.5	51.75 - 56.75	
Listed equities	41.0	41.0		-
Other alternatives (targeted return)	5.0	5.0	+/- 2.5	-
Private equity	7.5	7.5		
Income	38.5	36.5	34.5 - 38.5	
Infrastructure (inc timberland)	12.5	12.5		1%
Property	7.5	7.5		
Private credit	9.5	9.5	+/- 2.0	
Credit liquid MAC	9.0	7.0		-
Protection	8.0	10.0	8.0-12.0	-
Credit IG credit	3.75	3.75		-
UK Government Bonds**	3.5	5.5	+/- 2.0	-
Cash*	0.75	0.75		-
Total	100.0	100.0		

* Currency hedge collateral ** Includes new proposed +2% allocation to fixed interest gilts

Thank you

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Reliances and limitations

Cashflows

In projecting forward the evolution of the Scheme, we have used estimated cashflows generated using our actuarial valuation system, based on information provided as part of the March 2022 actuarial valuation of the Fund including the LGPS Regulations updated for membership data at March 2024.

Except where stated, we do not allow for any variation in actual experience away from the demographic assumptions underlying the cashflows. Variations in demographic assumptions (and experience relative to those assumptions) can result in significant changes to the funding level and contribution rates. We allow for variations in inflation (RPI or CPI as appropriate), inflation expectations (RPI or CPI as appropriate), interest rates and asset class returns. Cashflows into and out of the Scheme are projected forward in annual increments, are assumed to occur in the middle of each year and do not allow for inflation lags. Investment strategies are assumed to be rebalanced annually.

There are a number of different types of increases applied before and after retirement to benefits payable from the Fund. We have made some assumptions when modelling the various types of increases. In particular the Fund Actuary assumes a fixed CPI assumption based on the ESS in the benefit cashflows provided whereas the ALM assumes an RPI-CPI gap of broadly 1% p.a. before 2030, and 0% p.a. post-2030. All else being equal this will result in the value of the ALM liabilities being slightly different than in the cashflow run.

We have estimated future service benefit cashflows and projected salary roll for new entrants after the valuation date such that the payroll remains constant in real terms (i.e. full replacement). There is a distribution of new entrants introduced at ages between 25 and 65, and the average age of the new entrants is assumed to be 40 years. All new entrants are assumed to join and then leave service at SPA, which is a simplified set of assumptions compared to the modelling of the existing membership. The base mortality table used for the new entrants is an average of mortality across the LGPS and is not client specific, which is another simplification compared to the modelling of existing members. Nonetheless, we believe that these assumptions are reasonable for the purposes of the modelling given the highly significant uncertainty associated with the level of new entrants.

In modelling some of the LGPS benefits, we have assumed:

- Salary growth is assumed to have a floor of 0% and to be modelled in line with inflation plus (or minus) any additions applied.
- S148 salaries / national average earnings is assumed NOT have a floor and is projected in line with our projections of national average earnings and valued in line with inflation plus any additions applied.
- Non-accruing and accruing CARE benefits increase in line with CPI (no floor).

Reliances and limitations

Investment strategy and contributions

The investment strategies and contributions modelled have been agreed as part of the scoping process and documented above.

The most important assumption for the assets is which asset class to use for each of the assets. We have therefore agreed this during the scoping stage and further details are in the 'What we have modelled' section.

Investment strategy is likely to change with significant changes in funding level, but unless stated otherwise we have not considered the impact of this in order to focus on the high-level investment strategy decision.

The returns that could be achieved by investing in any of the asset classes will depend on the exact timing of any investment/disinvestment, the costs associated with buying or selling these assets and liquidity of the asset classes. The model implicitly assumes that all returns are net of fees and ignores these other factors.

Unless stated otherwise, we have assumed that all contributions are made and not varied throughout the period of projection irrespective of the funding position. In practice the contributions are likely to vary especially if the funding level changes significantly.

Reliances and limitations

Economic Scenario Service

The distributions of outcomes depend significantly on the Economic Scenario Service (ESS), our (proprietary) stochastic asset model. This type of model is known as an economic scenario generator and uses probability distributions to project a range of possible outcomes for the future behaviour of asset returns and economic variables. Some of the parameters of the model are dependent on the current state of financial markets and are updated each month (for example, the current level of equity market volatility) while other more subjective parameters do not change with different calibrations of the model.

Key assumptions include:

- The average excess equity return over the risk free asset and its volatility which affects growth asset returns
- The level and volatility of yields, credit spreads, inflation and expected (breakeven) inflation, which affect the projected value placed on the liabilities and bond returns.
- The gap between CPI and RPI. The market for CPI-linked instruments is not well developed and this is based on our judgement. Expected long-term RPI and CPI rates are in line with the current Bank of England targets. The RPI-CPI wedge, that is the average difference between projected RPI and CPI rates, is set to 1% p.a. over the short-term ultimately transitioning to zero after early 2030, when the RPI measure will switch to CPIH.
- The output of the model is also affected by other more subtle effects, such as the correlations between economic and financial variables.
- Real interest rates are assumed to (on average) gradually trend towards a long-term rate. This is based on a selection of yield normalisation levels (which can be interpreted as representing low, medium and high economic growth scenarios) reflecting the fundamental uncertainty around long-term average yield levels. Higher long-term yields would mean a lower value placed on liabilities and hence an improvement in the current funding position (and vice versa) unless the Scheme is fully hedged. The Expected Rate of Returns and Volatilities table below details the direction of interest rate movements based on the current calibration of the ESS.

While the model allows for the possibility of scenarios that would be extreme by historical standards, including very significant downturns in equity markets, large systemic and structural dislocations are not captured by the model. Such events are unknowable in effect, magnitude and nature, meaning that the most extreme possibilities are not necessarily captured within the distributions of results.

A summary of economic simulations used is included further on in this document. We would be happy to provide fuller information about the scenario generator, and the sensitivities of the results to some of the parameters, on request.

Expected rates of return and volatilities

The following figures have been calculated using 5,000 simulations of the Hymans Robertson Economic Scenario Service, calibrated using market data as at 31 March 2024. All returns are shown net of fees. Percentiles refer to percentiles of the 5,000 simulations and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to the (simulated) yields in force at that time horizon.

	Annualised total returns																					
	Cash	Index Linked Gilts (medium)	Index Linked Gilts (long)	Fixed Interest Gilts (short)	Fixed Interest Gilts (medium)	Fixed Interest Gilts (long)	Private Equity	Property	Emerging Market Debt (local currency)	Unlisted Infrastructure Equity	Diversified Growth Fund (low equity beta)	Multi Asset Credit (sub inv grade)	All World Equity GBP Unhedged	Asset Backed Securities (A rated) GBP	Direct Lending (private debt) GBP Hedged	Corporate Bonds (A rated, short duration)	Inflation (RPI)	17 year real yield (RPI)	Inflation (CPI)	17 year real yield (CPI)	17 year yield	
5 years	16th %ile	3.1%	0.9%	0.4%	3.3%	1.6%	0.9%	-2.8%	-0.2%	-1.1%	1.3%	3.0%	2.5%	-0.3%	3.3%	3.0%	3.4%	2.3%	0.4%	1.3%	0.5%	3.7%
	50th %ile	3.9%	3.8%	3.8%	3.9%	3.7%	3.7%	12.1%	6.4%	5.7%	8.1%	5.3%	5.3%	8.0%	4.6%	7.2%	4.7%	3.9%	1.3%	2.8%	1.4%	4.8%
	84th %ile	4.7%	7.0%	7.5%	4.4%	5.9%	6.4%	27.1%	13.8%	13.0%	15.4%	7.5%	7.9%	16.2%	5.8%	11.2%	5.6%	5.4%	2.3%	4.4%	2.3%	6.0%
10 years	16th %ile	2.9%	1.6%	1.5%	3.5%	3.1%	2.6%	0.9%	1.6%	0.9%	2.9%	3.6%	4.0%	1.9%	3.4%	4.7%	3.8%	1.5%	0.2%	1.0%	0.2%	3.2%
	50th %ile	3.9%	3.6%	3.8%	4.1%	4.3%	4.4%	11.8%	6.6%	5.9%	8.1%	5.4%	5.9%	8.0%	4.7%	7.5%	4.9%	3.2%	1.5%	2.6%	1.4%	4.6%
	84th %ile	5.1%	5.9%	6.3%	4.7%	5.5%	6.0%	22.7%	11.9%	11.3%	13.6%	7.3%	7.7%	14.0%	6.2%	10.1%	5.8%	4.9%	2.7%	4.2%	2.7%	6.3%
20 years	16th %ile	2.6%	1.9%	2.0%	3.3%	4.0%	3.9%	4.0%	3.0%	2.5%	4.2%	3.8%	4.8%	3.5%	3.3%	5.9%	3.9%	1.1%	-0.5%	0.8%	-0.5%	1.6%
	50th %ile	4.0%	3.6%	3.7%	4.2%	4.8%	4.9%	11.7%	6.7%	6.3%	8.2%	5.5%	6.4%	8.0%	4.9%	7.9%	5.1%	2.7%	1.2%	2.37%	1.2%	3.5%
	84th %ile	5.7%	5.4%	5.5%	5.5%	5.5%	6.0%	19.5%	10.7%	10.3%	12.3%	7.5%	8.0%	12.8%	6.7%	10.0%	6.5%	4.3%	2.9%	4.0%	2.9%	6.1%
Volatility (Disp) (1 yr)		0%	7%	8%	2%	6%	7%	31%	16%	14%	14%	5%	7%	16%	3%	11%	3%	1%		1%		

The current calibration of the model indicates that a period of inward nominal yield movement is expected. For e.g., over the next 20 years our model expects the 17-year maturity annualised nominal interest rate to fall from 4.43% to 3.54%.

The corresponding market implied forward rate is 4.25% over 20 years.

The current calibration of the model indicates that a period of outward real yield movement is expected. For e.g., over the next 20 years our model expects the 17-year maturity annualised real interest rate to rise from 0.82% to 1.17%.

The corresponding market implied forward rate is 1.27% over 20 years.

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Leicestershire County Council Pension Fund

Review of the Fund's Engagement and Divestment Policy

January 2026

David Walker, Partner

Samuel Hampton, Senior Investment Consultant

For and on behalf of Hymans Robertson LLP



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1. Introduction

Addressee and purpose

This paper is addressed to the Local Pension Committee of Leicestershire County Council Pension Fund (“the Fund”). The purpose of this paper is to review the Fund’s approach to engagement and divestment and sets out similarities and differences to the approach adopted by LGPS Central.

This paper should not be used for any other purpose. It should not be released or otherwise disclosed to any third party except as required by law or with our prior written consent, in which case it should be released in its entirety. We accept no liability to any other party unless we have accepted such liability in writing. We provide comment from an investment but not a legal or tax perspective.

Background and scope

The Fund has a long-standing commitment to responsible investment and recognises that stewardship — including active engagement, escalation and, where necessary, divestment — is central to managing financially material Environmental, Social and Governance (ESG) risks. Engagement and divestment both form part of the Fund’s risk-management toolkit, but they serve different purposes.

Given the pooling requirements and the fact that stewardship is increasingly being delivered through LGPS Central, the Fund’s expectations need to be clearly expressed and aligned with the pooling model.

This paper therefore considers:

- The Fund’s current approach to engagement, escalation and divestment;
- The degree of alignment with LGPS Central’s framework;
- The fiduciary and practical implications of exclusions or divestment, particularly within pooled vehicles;
- Areas where the Fund could further clarify expectations or strengthen alignment with the Pool.

Summary and recommendations

The review finds that the Fund already operates a clear engagement-first model, with escalation and, where needed, divestment used as complementary tools rather than mutually exclusive options. It is closely aligned with LGPS Central’s philosophy and stewardship framework.

Differences between the two approaches relate mainly to timing and degree of escalation undertaken after unsuccessful engagement. In addition, there are slight differences relating to how the Fund could consider managing risk through divestment, and the breadth of stewardship themes beyond climate.

In our view, the Fund’s immediate focus should be on:

- sharpening expectations around escalation and defining what constitutes “insufficient progress” against engagement objectives;
- improving visibility of how stewardship priorities are set; and
- confirming broader thematic expectations so LGPS Central’s priorities reflect the Fund’s own.

Together, these steps provide a practical way to strengthen alignment with LGPS Central, support more consistent stewardship outcomes, and ensure the Fund’s approach remains grounded in fiduciary duty while keeping open the option of future policy development.

Prepared by:-

David Walker, Partner

Samuel Hampton, Senior Investment Consultant

For and on behalf of Hymans Robertson LLP,

December 2025

2. Current position

The Fund does not currently operate a standalone *Engagement and Divestment Policy*. Instead, the key principles are embedded across three core documents:

- the Investment Strategy Statement (ISS), which sets out the Fund's fiduciary framework and responsible investment beliefs;
- the Net Zero Climate Strategy (NZCS), which provides a detailed approach to climate stewardship and escalation; and
- the annual Responsible Investment (RI) Plan, monitored at each Committee meeting.

Together, these form the framework the Fund uses in practice to determine how it engages, when concerns should be escalated, and in what circumstances divestment or exclusion may be considered.

What guides the Fund's approach

The Fund's approach is based on its long-standing investment beliefs, which recognise that ESG and climate-related risks can affect long-term returns. These beliefs underpin the Fund's commitment to responsible investment and its support for the UN Principles for Responsible Investment (PRI).

The Fund has identified that ESG issues can affect the long-term sustainability of businesses. Therefore, thorough due diligence and targeted engagement is required to ensure that there is sufficient confidence that these risks are being managed, mitigated and monitored. Engagement topics should be focussed on issues that are financially material to long-term investment outcomes, and the Fund acknowledges that these topics and themes might vary by geography and sector and therefore engagement must be tailored as necessary.

The Fund believes that acting collaboratively with other investors will prove beneficial as this will amplify the Fund's voice and promote positive real-world change. Effective engagement is not about engaging with all companies on all topics at the same time but instead identifying relevant companies to engage with on specific topics to achieve stated ambitions in a clear, targeted and pragmatic manner. To maximise the impact of engagement it should also consider the size of exposures, assessment of risk and ability to influence real world change.

Climate risk is a central component of this framework. Through the NZCS, the Fund has committed to achieving net zero emissions by 2050 or sooner, supported by interim targets for reducing the carbon intensity and absolute emissions of the listed equity portfolio. The Fund has also set targets to expand climate-risk coverage across other asset classes over time. Managers are expected to assess, monitor and manage transition risks, engage with companies that are material to sectoral decarbonisation pathways, and improve the quality and coverage of climate-related data.

The Fund also endorses LGPS Central's responsible investment and stewardship beliefs, including the principle that engagement is generally more compatible with fiduciary duty than broad exclusion. Divestment is recognised as sometimes necessary but can reduce the investor's leverage and remove the ability to influence company behaviour through ongoing stewardship. This belief now sits in the background of how the Fund frames escalation and divestment decisions.

How stewardship is delivered

While the Fund sets the strategic direction, most day-to-day stewardship is delivered through LGPS Central, reflecting the degree of pooling across asset classes. Central's Responsible Investment & Engagement (RI&E) Framework provides the structure for:

- thematic and company-specific engagement programmes;
- voting guided by Central's Voting Principles, with voting outcomes linked to engagement where relevant;
- collaborative initiatives through the Local Authority Pension Fund Forum (LAPFF), EOS at Federated Hermes and other investor groups;
- regular reporting that enables the Fund to assess whether engagement is producing meaningful progress.

For climate specifically, the Fund also maintains a Climate Stewardship Plan which focuses engagement on a list of high-emitting, high-risk companies that are particularly significant to the Fund's portfolio. The Fund and LGPS Central continue to refine the classification and assessment of these companies, drawing on recognised frameworks and initiatives — including Climate Action 100+, the Transition Pathway Initiative, and other emerging best-practice approaches.

The annual RI Plan, approved by the Committee, then sets the wider stewardship and RI priorities for the year – for example, climate and net-zero engagement, governance topics, and expectations for manager reporting. Progress against the RI Plan and the Climate Stewardship Plan is reviewed routinely by the Local Pension Committee as part of quarterly RI and stewardship updates.

For non-pooled mandates, the Fund expects managers to integrate ESG and climate risks into their investment processes, to engage directly with companies on material issues, and to report on stewardship and voting in a way that allows officers and advisers to challenge them where needed.

Approach to exclusions

The Fund applies exclusions only in limited circumstances. In line with Government guidance and the ISS:

"The Fund does not exclude investments to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government."

Any exclusions that do arise therefore stem from legal or regulatory requirements, or from targeted escalation decisions (see below), rather than broad values-based screening.

Engagement, escalation and divestment in practice

The NZCS sets out a four-step approach which reflects how the Fund thinks about engagement and divestment in practice:

1. Evaluation of concerns

The first step is to identify companies, sectors, managers or asset classes where climate or wider ESG risks appear material or insufficiently managed. This assessment draws on climate metrics, sector transition pathways, stewardship reports and challenge of investment managers. The purpose of this stage is to determine whether further engagement is required and where engagement should be targeted.

2. Engagement

Where concerns are identified, the Fund's default response is engagement. This includes direct, thematic and collaborative engagement delivered mainly through LGPS Central, LAPFF and external managers. Engagement resources are focussed on the areas that are most relevant for the Fund. Goal-oriented engagement is targeted to ensure the desired outcomes are achieved and progress easily measured.

3. Voting (escalation)

Voting is used to amplify the efforts of engagement and escalate action where engagement has not produced sufficient progress. This approach allows the Fund to hold directors accountable or signal concern about a company's management of material ESG issues. The Fund delegates responsibility for voting to LGPS Central and the Fund's directly appointed investment managers. For pooled mandates, LGPS Central exercises voting rights in line with its Voting Principles. For non-pooled mandates, the Fund expects managers to vote in line with industry best practices as set out in the accepted governance codes.

Where relevant, the Fund will support escalation efforts with other investors through shareholder resolutions. This approach provides a formal platform to drive positive real-world change where private engagement has proven unsuccessful. Participating in shareholder resolutions enables the Fund to clearly articulate their expectations on specific topics to management. Utilising this option will require companies to publicly respond to specific questions and therefore increases accountability.

4. Divestment

Divestment is considered only where financial risks remain unacceptable and engagement and voting have not been effective, or where risks cannot realistically be mitigated through stewardship. At the Fund level, this can involve reducing or removing allocations to particular managers, strategies or asset classes. At the stock level the Fund expects managers to sell or reduce positions where climate-related or wider ESG risks remain seriously misaligned with the Fund's objectives, taking account of factors such as the company's starting point, its sector, and the credibility of its transition plans.

Taken together, this framework reflects a clear engagement-and-escalation model: engagement is the starting point, voting and other measures provide escalation, and divestment (along with limited exclusions) sits within the same stewardship pathway rather than as a separate or mutually exclusive approach. This is the baseline position against which alignment with LGPS Central, can now be assessed.

3. Alignment with LGPS Central

As the Fund moves further into pooled arrangements, and with statutory pooling requirements due by 31 March 2026, LGPS Central (“the Pool”) will take on an increasingly central role in delivering stewardship on the Fund’s behalf. It is therefore important to understand how the Fund’s current stance on engagement and divestment aligns with LGPS Central’s wider stewardship approach – including, but not limited to, the Pool’s Responsible Investment and Engagement (RI&E) Framework, Voting Principles and Net Zero Strategy for Financed Emissions.

This section sets out the areas of alignment and highlights where further clarification or dialogue with the Pool may be helpful.

Comparative alignment between the Fund and LGPS Central

Table 1: LCCPF vs LGPS Central

Topic	LCCPF position	LGPSC position	Assessment
Fiduciary basis for RI	RI used to enhance long-term risk-adjusted returns; engagement preferred over exclusion; climate risk treated as financially material.	RI&E Framework identified RI as supportive to achieving risk adjusted return objectives over the long term; focus on integrating ESG across asset classes with clear governance roles for Board, IC and RI&E team.	Aligned – same framing of RI as financially driven.
Primary stewardship tools	Four-step model in NZCS: identify concerns, engage, escalate (including voting), then divest where risks remain unacceptable. Engagement and divestment seen as complementary, not mutually exclusive.	RI&E describes a spectrum of tools: engagement (direct, collaborative, via EOS/LAPFF), voting sanctions, shareholder proposals, escalation with external managers and, where necessary, discussion of divestment at stock or mandate level.	Aligned – engagement first and view divestment as part of escalation, not a separate philosophy.
Engagement priorities	No specific stewardship priorities are set. However, for climate, the Fund’s NZCS naturally focuses engagement on high emitters, key sectors in the transition, and companies that are most significant to the Fund’s financed-emissions profile.	LGPSC has four stewardship themes (Climate Change, Natural Capital, Human Rights, Sensitive / Topical Issues) with an Engagement Priority List and Voting Watch List of companies. LGPSC has identified specific approaches to climate change, biodiversity and deforestation and human rights	Broadly aligned but LGPSC places greater emphasis on several thematic priorities, which the Fund can choose to lean into.

Use of exclusions	ISS states the Fund does not exclude investments to pursue boycotts, divestment and sanctions (BDS) against foreign nations or UK defence industries, except where required by formal sanctions or similar measures. The Fund's NZCS cautions against wide-ranging exclusions and emphasises reducing fossil fuel exposure mainly through manager selection and tilts, not blanket bans.	RI&E Framework generally favours integration over broad exclusions, though some mandates include standard screens (e.g. controversial weapons, tobacco) from the managers. The overall philosophy is that a wider investible universe plus stewardship is more compatible with fiduciary duty and achieving financial and responsible investment objectives.	Aligned , both avoid broad exclusions and focus on financially driven integration and stewardship.
Escalation and divestment	The Fund expects managers to escalate stewardship over time and that divestment should follow where engagement is unsuccessful, with reference to company starting point, sector pathway and ability to transition. The Fund can also replace managers at mandate level where ESG/climate concerns remain unresolved. The Fund has not issued any formal divestment instructions or replaced a manager purely on grounds of ESG /Climate concerns to date.	LGPSC uses a four-level Stewardship Effectiveness Framework to assess engagement outcomes. Companies that remain at Levels 1–2 are treated as showing insufficient progress, which triggers escalation measures such as stricter voting, public statements, collaborative engagement and — where appropriate — a formal challenge to external managers on whether stock-level divestment is warranted. LGPSC notes that it has not formally instructed divestment to date, though managers have sold holdings where ESG risks were judged unacceptable.	Conceptually aligned , though the Fund's wording is more explicit that divestment <i>should</i> follow in some cases. This is a nuance to be reconciled with LGPSC's case-by-case approach.
Climate & Net Zero frameworks	The Fund uses the Net Zero Investment Framework, sets portfolio-level decarbonisation and data targets, and commits to focused stewardship of high-impact companies.	LGPSC sets similar portfolio-level targets (e.g. 50% emissions reduction by 2030 for listed equities/corporate bonds) and embeds climate engagement thresholds and coverage targets for "material sectors".	Aligned – similar headline targets.
Reporting and oversight	The Fund uses LGPSC's Climate Risk Monitoring Service and TCFD-aligned reporting to track climate risk, and receives quarterly updates	LGPSC provides Partner Funds with a Climate Risk Monitoring Service (CRMS), annual climate reports, Stewardship Code reporting and quarterly	Aligned – Central supports Fund's reporting needs.

	on voting and engagement. NZCS and the RI Plan are monitored regularly by the Local Pension Committee.	stewardship updates, including engagement case studies and voting statistics.	
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Interim conclusions on alignment

Pulling this together:

- **Beliefs and objectives** – The Fund and LGPSC are aligned on: responsible investment being financially material; climate change representing a material systemic risk; and importance of setting net zero target by 2050 (with interim milestones).
- **Operating model** – Both take an engagement-first approach, with escalation integrated and divestment used as part of the same process rather than a mutually exclusive option.
- **Exclusions** – Both the Fund and LGPSC are cautious about widespread exclusions and favour integration and stewardship.
- **Points of nuance** are mostly about degree and timing than to direction – for example:
 - how quickly escalation is triggered where companies or managers are not responding;
 - how firm the expectation is that divestment should follow if engagement is unsuccessful; and
 - how far the Fund wishes to shape stewardship priorities across themes (beyond climate), given LGPSC's broader thematic framework.

These points do not represent fundamental misalignment, but they do highlight areas where practical constraints and fiduciary considerations become more important as pooling progresses. This context frames the next section, which explores the implications of exclusions and divestment within a pooled environment.

4. Considerations for Policy Evolution

This section considers the factors the Fund must consider before introducing any additional expectations, and the risks of doing so without a clear decision-making framework.

Fiduciary duty as the foundation for any decision

Fiduciary duty is not simply a compliance requirement; it defines how the Fund must weigh evidence, risk, cost and member outcomes. This becomes particularly important in a pooled environment, where the implications of a decision extend beyond the Fund itself. In practice, this means the Fund needs to be confident that:

Any exclusion or divestment rests on demonstrable financial risk

Decisions must be grounded in material financial considerations — such as unmanaged transition risk, governance failures, litigation exposure or structural unviability under credible decarbonisation scenarios.

Divestment does not introduce greater risks elsewhere

A divestment must not undermine diversification, materially shift factor exposure, or inadvertently increase concentration risk elsewhere within the strategy. Where such impacts exist, the Fund must be able to demonstrate that the reduction in financial risk outweighs any negative portfolio effects.

The chosen implementation route is operationally realistic

Fiduciary duty extends to execution. Even where there is a strong financial case for divestment, the Fund must ensure the implementation is achievable within pooled structures, proportionate to the scale of the risk, and cost-effective relative to the expected benefit.

Practical constraints the Fund needs to consider

There are several practical constraints the Fund must work within when considering exclusions or divestment. Some stem directly from the requirements of pooling, while others reflect the realities of managing a large, diversified pension portfolio. The key considerations are as follows:

Pooling

Once an asset sits within an LGPSC pooled vehicle, the Fund cannot directly instruct the Pool to sell a particular company or apply a bespoke exclusion. Doing so would impact all Partner Funds and undermine the objectives that pooling is designed to deliver. As a result, Fund-specific exclusions generally cannot be implemented within existing pooled funds.

While alternative structures — such as bespoke pooled vehicles — may be possible, they typically involve higher costs, reduced pooling benefits and additional governance demands. Any exclusion that would require LGPSC to adjust a pooled strategy also depends on wider agreement from Partner Funds, introducing timing and dependency risks. We would also note that the draft Fit for the Future guidance from Government also seeks to limit direct engagement by the Fund on specific RI and ESG issues.

Passive exposures

The constraints are particularly pronounced for passive mandates. Although exclusions can technically be applied, doing so carries significant practical and financial implications. Screened indices must be created or sourced, often at additional cost and additional tracking error. LGPSC may also not be able to offer the specific screened index required. For these reasons, exclusions or divestment expectations in passive strategies should only be introduced where the financial rationale is strong and the Fund is comfortable with the operational consequences.

Active strategies

While active managers can, in principle, apply exclusions or divest specific holdings more readily than passive mandates, the Fund's managers remain constrained in practice because most mandates are not run on a segregated basis and must reflect the approach defined by the prospectus approved by the FCA. Even where exclusions are technically feasible, they narrow the investable universe, restrict the manager's discretion, and may conflict with the underlying investment thesis. They also increase the risk of performance dispersion relative to benchmarks or targets, potentially affecting risk-adjusted returns.

Transition costs and market impact

Any exclusion or divestment requires a portfolio transition. This introduces direct trading costs, bid-offer spreads, market-timing risk and, in less liquid markets, the risk of adverse price movement.

Precedent-setting and expectations

Applying a targeted exclusion or high-profile divestment can create expectations for further action, both from stakeholders and the wider public. This raises the risk of pressure to extend exclusions into areas where the financial case may be weaker or less clear. Any further decisions would only add complexity and financial risk.

What this means for the Fund now

Under the current direction of LGPS reform proposals, it seems unlikely that the Fund would be able to apply Fund-specific exclusions within pooled vehicles at all. Even if a degree of flexibility were allowed, the practical constraints outlined above highlight why exclusions and divestments are challenging to deliver in practice.

Given these considerations, we do not recommend introducing Fund-specific exclusions at this stage. In our view, the more constructive route is to tighten expectations, clarify escalation pathways, and work with LGPS Central to define what constitutes credible versus insufficient progress against engagement objectives.

This approach keeps future options open while ensuring the Fund's immediate focus remains on actions that are practical and compatible with pooling constraints.

5. Areas for Future Development

With the constraints and implications now clear, the next step is to identify the areas where the Fund can most productively influence the Pool, and where additional clarity could improve the consistency and transparency of engagement outcomes.

Clarifying escalation expectations

One of the key points identified in Section 2 is timing: how quickly escalation is triggered where companies or asset managers are not responding.

LGPS Central applies a structured Stewardship Effectiveness Framework, but it does not set explicit time-bound triggers. The Fund, by contrast, takes a somewhat firmer view that escalation should follow where progress remains insufficient. We see value in the Fund working with LGPSC to:

- agree a shared definition of “insufficient progress” across different themes (especially climate, where expectations are more advanced); and
- understand how long companies typically remain at Levels 1–2 in LGPSC’s framework before escalation is triggered

This does not mean imposing strict timelines — which may not be realistic across all sectors and regions — but rather agreeing with LGPSC a set of principles that link clear financial-risk signals to when engagement should shift toward stronger measures such as voting sanctions, public statements or further escalation.

Ensuring thematic alignment beyond climate

In our previous 2022 review, we noted that climate should be the most important stewardship theme for both the Fund and LGPS Central. At the time, this was appropriate: climate frameworks were more advanced than those in other areas, and climate risk was the most clearly understood from a financial perspective.

Since then, however, the climate framework has continued to mature, and the broader stewardship landscape has developed significantly. Issues such as nature, biodiversity, human rights and supply-chain practices are now receiving far greater attention and are increasingly recognised as financially material.

At present, the Fund does not set specific stewardship theme priorities. By contrast, LGPS Central already works across four themes — Climate Change, Natural Capital, Human Rights and Sensitive/Topical Issues.

We see four opportunities here:

- Considering the response to the Fund’s Responsible Investment Survey to identify which issues scheme members and employers view as most important.
- Clarifying where the Fund has preferences across the wider themes. We consider LGPS Central’s four themes to be a sensible and comprehensive starting point, and the Fund could formally adopt the same themes.
- Increasing visibility over how LGPSC proposes priorities within its four themes.

- Monitoring emerging frameworks such as the Taskforce on Nature-related Financial Disclosures (TNFD) and developments in nature-related reporting, as their relevance for stewardship is expected to grow.

Our suggestion is that these points are either built into the annual RI Plan or captured in a short addendum that sets out the Fund's expectations from a priority theme perspective.

Summary

Overall, these areas give the Fund a practical way to strengthen alignment with LGPS Central. By clarifying expectations, improving transparency, and setting a small number of future priorities, the Fund can support more effective stewardship while working within the realities of pooling.

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Leicestershire County Council Pension Fund

Local investment

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January 2026

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Session focus

Purpose	Debate key pillars of local investing and establish beliefs
Discussion points	Appetite for local and impact investing; and Implementation approach – now vs future
Outcome	Use beliefs to draft local investment strategy statement



Original ‘Fit for the future’ requirements

The [government’s latest publication on Fit for the Future](#) requires administering authority to:

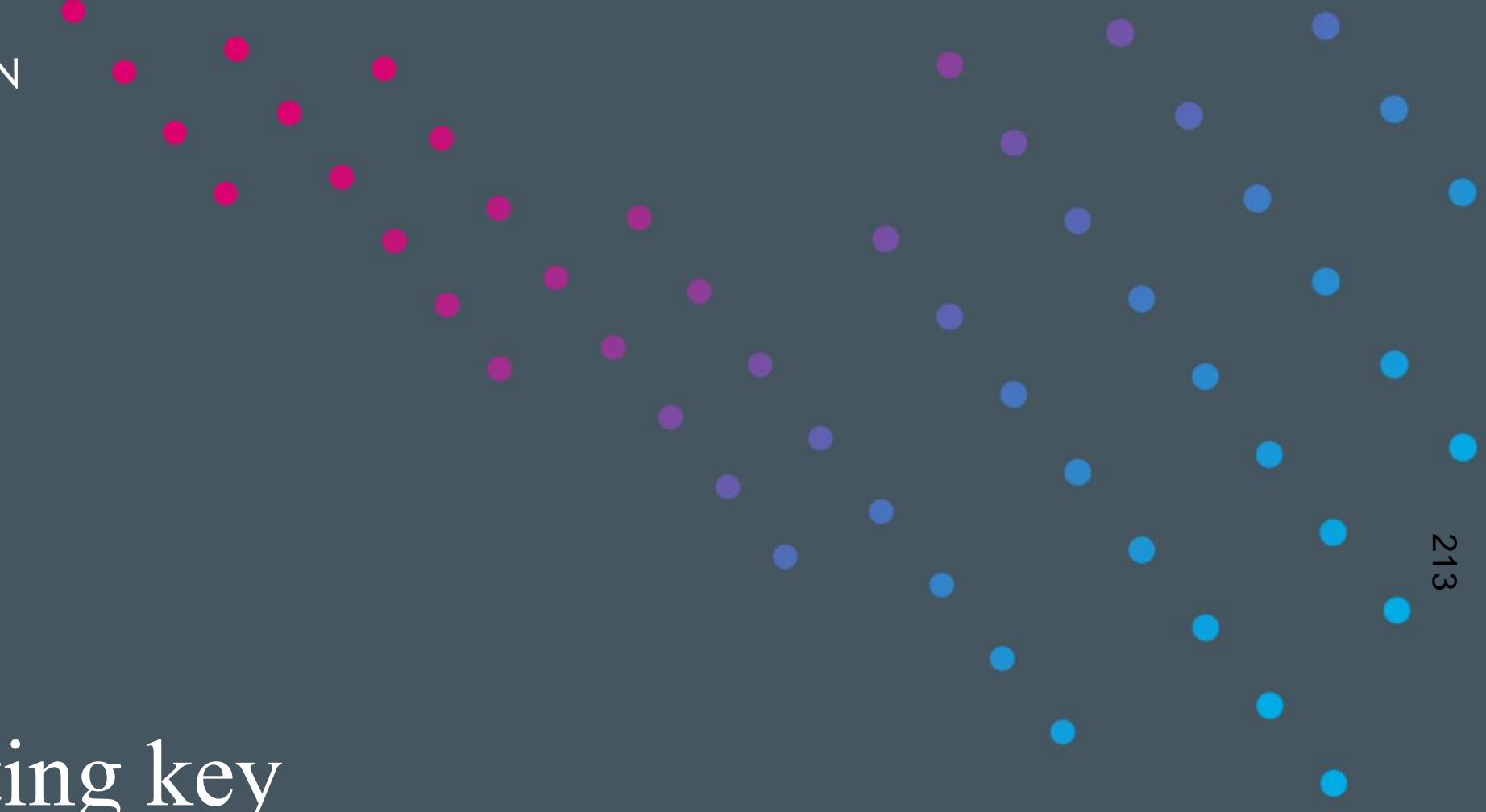
- **Set out their approach** to local investment
- **Work with relevant Strategic Authorities** to identify suitable local investment opportunities.
- **Report** on the extent and impact of their local investments.

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It also requires **pools to develop the capability** to carry out due diligence on local investment opportunities, take the final decision on whether to invest, and manage those investments.

Draft guidance

Setting clear targets	Set a clear target range for local investments, expressed as a percentage of the Fund's total assets. <i>This ensures transparency and accountability in supporting local priorities.</i>
Defining "Local"	Local investment should focus on the Fund's own region or the area covered by its investment pool, not the whole UK. <i>This approach helps ensure that investments deliver real benefits to the communities the Fund serves.</i>
Working Together	Funds are expected to work closely with their investment pool and partner funds to develop a consistent and effective approach to local investment. <i>Collaboration helps achieve greater impact and efficiency.</i>
Supporting Local Growth	When planning local investments, Funds must consider the priorities set out in Local Growth Plans by strategic authorities. <i>Where Local Growth Plans exist, they should guide investments; if not, Funds should consult local authorities to identify community needs.</i>
Balancing Returns and Impact	While local investments can deliver social and economic benefits, Funds may choose to accept a lower financial return or higher risk for these investments, but this is at each Fund's discretion. <i>The primary duty remains to ensure pensions can be paid when due.</i>
Reporting and Accountability	The investment pool is responsible for implementing the Fund's local investment strategy and reporting annually on the value and impact of these investments. <i>This ensures transparency for members and stakeholders.</i>



Local investing key components

Local investing process

Guidance supports the Fund collaborating with Partner Funds and the Pool on local investing to establish a consistent approach where possible.

Objectives	Strategy	Implementation	Monitoring	Reporting
<ul style="list-style-type: none">Local: Decide how to define local?Target range: Your level of ambition depends on how broad you are defining your local area, amount of resource/capacity, and the size of the local opportunity set.Risk and return: you will likely allow for no compromise on returns.	<ul style="list-style-type: none">Impact ambition: Set your level of ambition for robust impact standards and metrics.Themes: Decide if you'll select priority themes (e.g. climate, health). Most likely linked to own and local growth ESG prioritiesSub-fund: Decide whether you will have a separate local sub-fund, or incorporate local into the existing asset classes.	<ul style="list-style-type: none">Governance, pools and due diligence: Clarify roles across all parties and ensure robust due diligenceCollaboration with Local authorities: Models for working with Local Authorities (LA) are evolving.“Skin in the game”: determine whether projects proposed by LA need to have LA investment as well as yours.	<ul style="list-style-type: none">Target ranges: compare current local investment amounts to the target range.Impact metrics: if you decided that you had a high level of impact ambition, you may have set target amounts of impact.Escalation: under which circumstances do you escalate to engagement with the pool?	<ul style="list-style-type: none">Pool reporting : Pools will report amounts invested locally and impact metrics, and you can reuse this. Engage clearly with pools to ensure that they can support you with this government requirement.Impact metrics: consider whether you want these to be externally verified by someone other than an asset manager or pool.

Key pillars of local strategy



Your strategy will be informed by these pillars and today's discussion

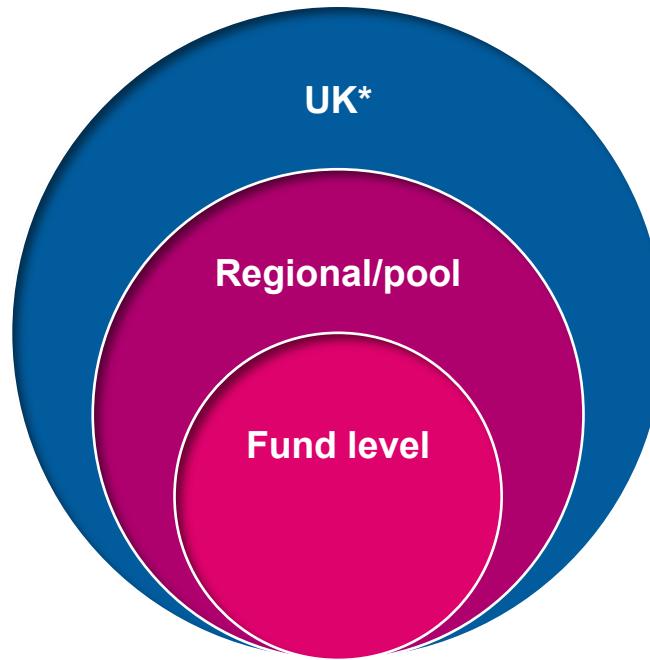


Your local investing strategy



Definition: how local is 'local'?

Within the consultation, the term 'local investment' was used to include investments local to any of a pool's partner AAs, or investments in their region (ie pool).



<£1trn

An estimated £1trn of pension fund capital is allocated to UK-domiciled assets, but some of that might not be suitable for local investments, e.g. it may be government debt

* Ruled out by draft guidance.

<£125bn

Investments at pool level will, on average, be less than 6x smaller than the whole of the UK. There will be 6 pools in E&W. This is an average – some will have more, some less.

<£2bn

Investments at Fund level will, on average, be less than 86x smaller than the whole of the UK. Again, this is an average. Care is needed.

The definition selected by the Fund will influence other local strategy pillars



Leicestershire Pension Fund local definition

Within the consultation, the term 'local investment' was used to include investments local to any of a pool's partner AAs, or investments in their region (ie pool).

Definition	Leicestershire assessment
UK wide (no longer an option under draft guidance)	Broader geography offers larger opportunity set and increases the likelihood that Central can identify projects that meet risk / return requirements at sufficient scale
Leicestershire Pension Fund Area	Adopting a narrower definition will allow for greater impact in local community but opportunity set meaningfully reduced and careful management of conflict of interest is needed
Pool Area	Increases the opportunity set relative to LPF Area while still offering the potential to support the local community. Need to be mindful of growth in Pool geography following the inclusion of new partner funds.

Adopting a pragmatic approach which focusses initially on Pool area remains sensible. Scope to explore Fund specific opportunities over time as expertise develops



Definition: local = which asset classes?

The choice of asset classes is also an investment consideration, which should be influenced by:

- **Broader investment strategy.** How does local investment complement the broader goal?
- **Opportunity set.** Breadth of asset classes for local investment and ability to achieve diversification.
- **Themes/target outcomes.** Some themes, eg homelessness, can be better satisfied in some asset classes (housing) than in others.
- **Demand.** Investment could be focused towards where there is financing need.

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Choice of “local” asset classes links to several investment considerations



Leicestershire Pension Fund

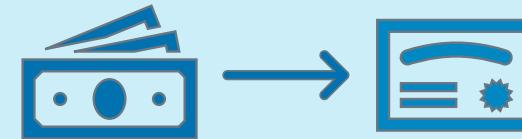
**Primary investment in private markets =
injecting money into a company**



Without your investment, the company
might not be able to do the activity

Higher benefit

**Secondary investment in listed markets =
moving share certificates between investors**



Without your investment, business largely unchanged –
the company already received the money

Lower benefit

- Consultation highlights that local investment should have quantifiable external benefits to this area
- LGPS Central required to report on impact – this means that the focus will be on private markets

Local investment will sit across private equity, private credit, property and infrastructure



Defining risk/return

Local investment strategy should consider financial objectives and impact objectives



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Local strategy must align with principles in Fund's Investment Strategy Statement



Leicestershire Pension Fund financial requirements

- Investment strategy statement highlights that the long-term investment strategy aims to maximise investment returns of the Fund whilst maintaining an acceptable level of risk
- Expected long-term returns, levels of volatility and correlation in the performance of different asset classes will all have a role to play in setting the local investment strategy
- Investments must fulfil the Fund's fiduciary duty and therefore the overall risk / return profile should not be compromised when exploring local investment opportunities
- Liaising with LGPS Central is key to ensure appropriate risk / return objectives are set and met.

The local investment allocation must achieve appropriate commercial returns and should maintain or improve the Fund's overall risk / return profile.



Local investing target allocation

- Broader definition of “local” allows for higher appetite
- Detailed knowledge on local investment opportunities can help set appetite:
 - Some areas have more scope for local investing than others
- Easier to start with low ambition and increase aspiration over time rather than the other way around
- The less consensus you have on your appetite for local investing, the broader you want your range to be



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You will need to set a local investment target range. Your appetite will drive this range



Leicestershire Pension Fund target allocation

- Fund can adopt a low / medium / high appetite for local investing

Commentary to support Leicestershire target allocation	
Low	This would translate to a target range of 0-3%. Adopting a target towards the lower end of this range could result in increased scrutiny from the government.
Medium	This would likely translate to a target range of 4 - 6%. This would demonstrate commitment to local investing but acknowledge the nascent nature of this space
High	This would likely translate to a target range of 7-10%. This would represent the preference to be a market leader in this space and have high conviction in existing capabilities of LGPS Central.

- Given the definition adopted by the Fund – local will be achieved across the Pool area via private markets – any target allocation will be built up incrementally.
- Adopting a broad target range and clear articulation of the preference to gradually build up this allocation over time is our recommended approach.

We recommend the Fund targets a low appetite for local investing initially



Impact

Local and impact are separate concepts

- An investment can be local, impact, both or neither.
- Local investments are more likely to be targeted to have some impact and you can target investments to support particular themes or outcomes

- **Possible themes for local investment include:**
- **Homelessness** and housing stock, including affordable housing
- **Social infrastructure** (healthcare, nurseries, etc)
- **Regeneration**, attracting further private investment and job creation
- Promoting **innovation** (eg commercialising IP from universities)
- **Climate**: eg upgrading property through refurbishment or repurposing



Leicestershire Pension Fund impact

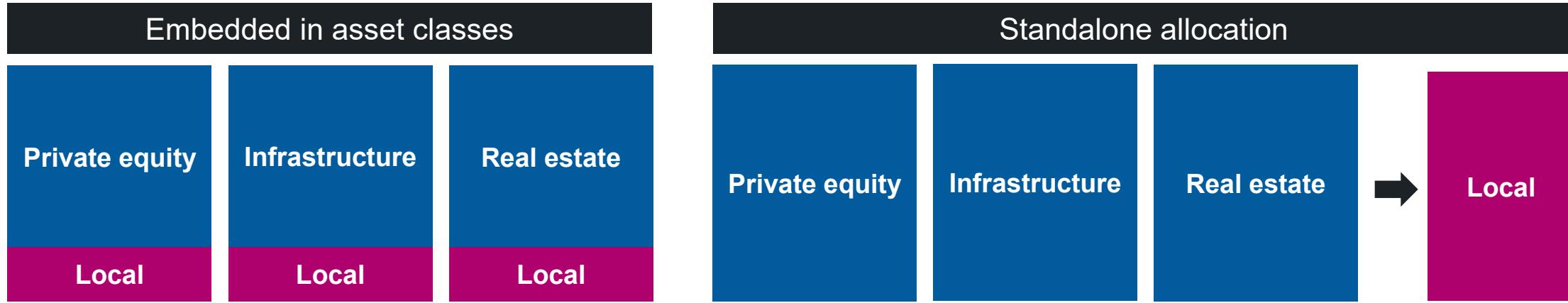
- The impact being targeted should be clearly articulated at the outset of the project
 - Specific KPIs should be set for each investment
 - Monitoring Dashboard should be set by LGPS Central to assess progress
- A standardized framework should be followed to avoid the possibility of impact washing
 - **Additionality** – assessing whether the positive impact would not have happened without Leicestershire's capital, engagement or influence
 - **Intentionality** – ensuring that the positive impact was an intended consequence of the actions taken
 - **Measurability** – ensuring that the impact generated can be quantified and reported using credible and reliable metrics based on agreed outcomes.

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LGPS Central should provide specific KPIs to enable the Fund to track impact



Investment considerations: standalone allocation?



- The embedded approach could, potentially, make you more likely to use the same asset managers for your local and non-local allocations.
- Leveraging existing asset manager relationships can reduce your governance burden.
- Using separate managers can better use specialist skills.
- A standalone allocation may lead to a greater allocation to private markets, which could add liquidity risk.

If you have more “local” ambition, a standalone allocation may be better



Leicestershire Pension Fund implementation approach

- The approach followed will be influenced by the offering from LGPS Central
- Local could be viewed as the 10th asset class categorization within the government's strategic asset allocation template or it could be embedded within the existing 9 asset classes. Embedding seems most likely under current draft guidance
- Reflecting the developing nature of this area, we believe that focusing initially on a standalone allocation would be sensible
- A standalone approach would enable a more targeted investment approach to be followed.
 - This will further emphasize the importance of the Pool having dedicated resources to local investing which is essential in ensuring the local investing goals are achieved.
- The Fund recognises that achieving this goal requires partnership, including working closely with other partner funds to align the Fund's approach and develop a framework that supports LGPS Central's management of local investment.

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An initial standalone allocation to local will ensure greater transparency and visibility



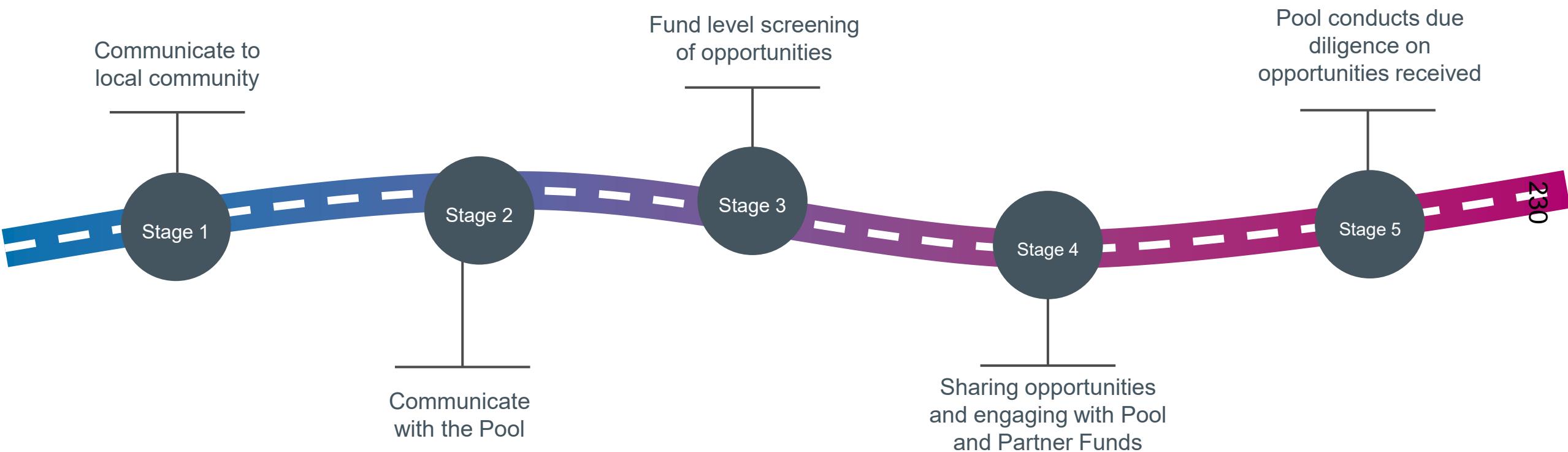
Roles and responsibilities

Objectives	Strategy	Implementation	Monitoring	Reporting
<p>Fund Committee is responsible, supported by <u>officers</u></p>	<p>Fund Committee is responsible, supported by <u>officers</u></p>	<p>Pool is responsible for investing locally. <u>Committee</u> retains overall responsibility for success of the Fund's investments</p>	<p>Fund Committee is responsible for their local strategy, and therefore need to monitor against it, including monitoring pool performance</p>	<p>Fund Committee is responsible for reporting. Pools will also report on their local investments, but responsibility is with the Fund</p>

Pools have some roles; ultimate responsibility is with the Committee



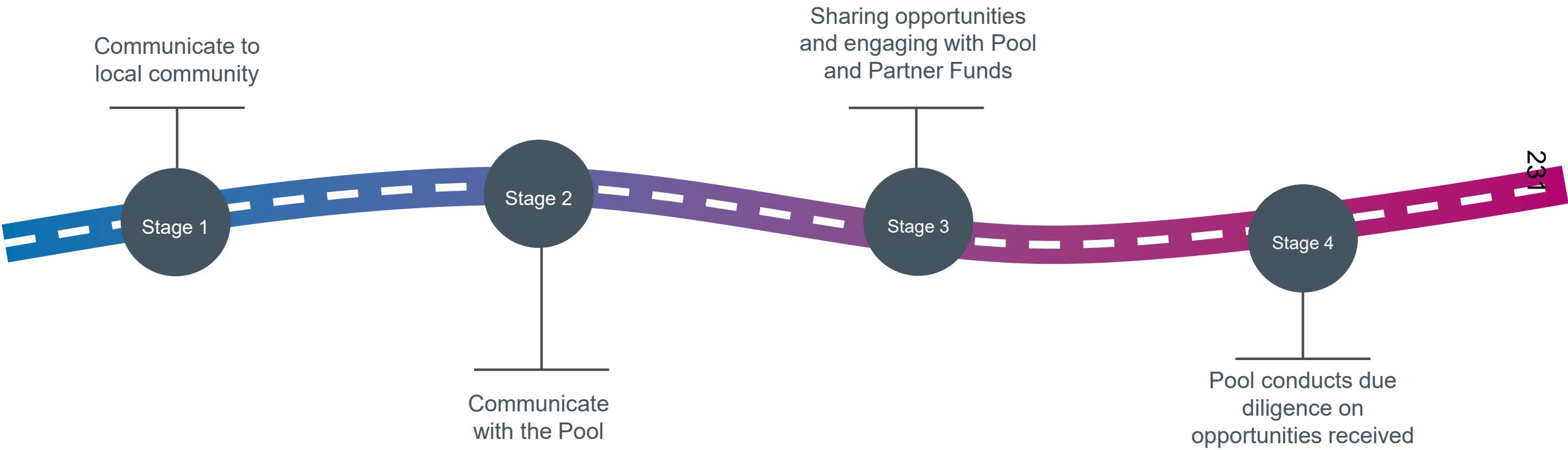
Illustrative local investment process



What government might expect based on approach adopted by larger partner funds



Illustrative local investment process



Likely approach for most partner funds reflecting resource availability



Leicestershire Pension Fund roles and responsibilities

- The Fund will engage with the local community and demonstrate that they are a source of funding
- The Fund will share a “prospectus” of Fund’s local investment principles
- The Fund will work with strategic authorities to ensure collaboration on local growth plans.
- The Fund will engage with Pool on preferred themes and asset classes to target
- The Pool will carry out the necessary screening of investment opportunities
- The Pool will carry out the due diligence on the investment opportunities
- The Pool will make the final decision on whether investment is made

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Clear articulation of Fund roles and Pool roles is required to achieve desired outcomes



Monitoring and reporting

Considerations to incorporate into your monitoring and reporting plan:

Frequency

Content

Escalation
approach

Responsibilities &
accountabilities



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Engagement with the Pool is needed to ensure monitoring and reporting needs are met

Key takeaways and next
steps

Summary

- **Having a local investment strategy is a government requirement**
- **The strategy depends on your beliefs, the following beliefs have been discussed in depth with the committee:**
 - **Definition of local investment:** Based in the authority areas of your pool primarily focused in private markets
 - **Investment/risk-return considerations:** Target same risk/return profile as the overall requirement for the Fund
 - **Governance:** Pool conducts due diligence based on guidance from Fund
 - **Monitoring/reporting:** Agree objectives at the outset, receive progress updates against these metrics and agree escalation plans

It is important to set beliefs on local and impact investment. Discussion today has helped to shed a light on your appetite to these and in drafting your local investment strategy these will be included.

- **Your appetite for local investment:** *Ambition to invest locally will likely evolve. Starting with low/medium ambition and increase aspiration over time*
- **Your appetite for impact:** *Similarly approach should be adopted with clear articulation of what is being targeted and how it is going to measured at the outset of any project.*

- **Next steps**
 - Produce local investment strategy, including target allocations to private market assets.

Thank you



Important Information

This material is provided as general information for illustration purposes only. It is not a definitive analysis of the subject(s) covered, is not a substitute for specific professional advice and should not be relied upon. It contains confidential information belonging to Hymans Robertson LLP (HR) and should not be disclosed to any third party without prior consent from HR, except as required by law.



LOCAL PENSION COMMITTEE – 30 JANUARY 2026
REPORT OF THE DIRECTOR OF CORPORATE RESOURCES
UPDATE ON FIT FOR THE FUTURE AND LGPS CENTRAL POOLING

Purpose of the Report

1. The purpose of this report is to provide the Local Pension Committee (LPC) with ongoing regulatory developments with regard to pooling and LGPS Central.
2. Representatives from LGPS Central will provide an update at the meeting which will cover ongoing developments with pooling.

Policy Framework and Previous Decisions

3. The Leicestershire County Council Pension Fund (the Fund) is an equal owner of 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 Pension Funds. As set out in the Investment Strategy Statement (ISS) it is the Fund's intention to invest its assets through Central as and when suitable pool investment solutions become available.

Background

4. 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 the other seven co-owners helped develop LGPS Central Limited, which they each jointly own.
5. 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.
6. The Fund is a stakeholder in 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)

7. These interests are managed through the Shareholders' Forum and the Joint Committee as well as Leicestershire Pension Fund's Funding Strategy Statement (FSS), Investment Statement Strategy (ISS) and Conflict of Interest Policy.

Government draft regulations and guidance

- 8. On 20 November 2025, the government published the LGPS: Fit for the Future – technical consultation. This consultation, which concluded on 2 January 2026, sought views on two draft statutory instruments:
'Local Government Pension Scheme (Pooling, Management and Investment of Funds) Regulations 2026'
- 9. The proposed regulations seek to effect into law proposals regarding pooling and investment management, including:
 - Participation in one asset pool company which has appropriate Financial Conduct Authority regulatory permissions.
 - Transfer management of all assets to the Pool with implementation of the investment strategy being the responsibility of the Pool.
 - The Pool providing investment advice on a Fund's investment strategy. Setting investment strategy (including headline strategic asset allocation (SAA)) remains the responsibility of the Fund's Pension Committee and this must include financial and risk objectives, priorities and preference for responsible investment, policy on voting rights and local investment objectives.
 - Co-operation with relevant Strategic Authorities to identify and develop opportunities for local investment, with option to delegate this to the Pool.
- 10. The draft regulations further make clear the new powers for the Secretary of State to direct funds to Pools, direct a fund to make changes to its investment strategy if it has failed to comply with guidance, and to direct the Pool to carry out certain investment management activities where it has failed to comply with guidance and which is detrimental to one or more partner funds or the Scheme as a whole. Prior to any direction, the Secretary of State must consult with relevant parties.

The Local Government Pension Scheme (Amendment) Regulations 2026

11. The proposed regulations seek to effect into law proposals on governance requirements for LGPS Funds, including:

- Regulatory requirement to appoint a Senior LGPS Officer, including requirements that the role is independent and separate to the statutory officer functions of the administering authority (no later than 1 October 2026).
- Confirmation of the statutory requirement to appoint independent persons to the pension committee, to advise on investment strategy, governance and administration (no later than 1 October 2026).
- Requirement to have a governance strategy, training strategy and conflict management policy, covering members of committees (to bring them aligned with existing statutory requirements on Board members) and officers and reviewed at least every three years.
- Requirement to have a Pensions Administration Strategy, prepared in line with guidance and reviewed and updated at least every three years.
- Requirement to commission (and publish outcomes of) an Independent Governance Review, aligned to the triennial cycle, covering the period from 1 April 2025 and conducted by a 'suitable person'. This person is described as independent of both the Administering Authority and Secretary of State and with sufficient knowledge.
- A new power for the Secretary of State to direct an Administering Authority (AA) to arrange for a suitable person to carry out an ad hoc governance review at the authority's expense.

12. On 5 December 2025 the Committee delegated a response to the technical consultation to the Director of Corporate Resources in conjunction with the Chairman of the Local Pension Committee by the 2 January 2025 which was subsequently submitted.

13. Furthermore, on 8 December 2025, the Scheme Advisory Board (SAB) released three draft guidance documents for closed consultation, seeking feedback from AAs by 12 January 2026. The draft guidance covers asset pooling, preparing and maintaining an Investment Strategy Statement (ISS) and fund governance. Fund officers have also responded to, both responses largely reflect key points related to:

- The Fund's fiduciary duty, and ensuring that requirements do not risk undermining that duty by limiting AAs' ability to seek external advice, and a suggestion that AAs may adjust their investment strategies to align with pooling objectives.
- That Government is not overly prescriptive in the approach to governance, recognising Fund's have different structures and practices which may best suit their scale and size.

Next steps for the Fund

14. To ensure the Fund is in a position to comply with the proposals as they currently stand, the Fund will need to consider the following pieces of work. These will be progressed as appropriate until final guidance and regulations are in place:

- a. Review of existing governance arrangements, including a training strategy, conflicts of interest policy, administration strategy, and development of a governance strategy.
- b. Review and update the Local Pension Committee, Investment Subcommittee and Local Pension Board Terms of Reference.
- c. Prepare for appointment of an independent advisor to the Local Pension Committee.
- d. Prepare for the appointment of a Senior LGPS Officer.
- e. Continue to work with LGPS Central on the plan and legal agreements for transitioning the management of the Fund's remaining assets to the pooling company as set out in the client update.
- f. Seek approval of an updated ISS and SAA which includes the allocation to the nine permitted asset class buckets.
- g. Any other requirements within final government guidance.

LGPS Central

Client Update

15. Officers have engaged with LGPS Central over the past several months on a high-level transition plan and is being supported by appropriate legal documentation consideration such as the equivalent of an Investment Management Agreement which will establish the terms under which LGPS Central will assume investment management responsibilities for the partner funds legacy investments. Partner Funds are reviewing the updated documents collectively with the support of external legal advice.

16. As part of the transfer, LGPS Central will become responsible for all day to day investment management of the Fund's assets, including manager selection and implementation decisions relating to the Fund's strategic asset allocation and investment beliefs. The Fund will retain its responsibility for setting the ISS and SAA, as set out elsewhere on the agenda.

17. The Local Pension Committee will continue to play an important role in the strategic direction of the Fund, ensuring strong governance by establishing clear objectives for its asset pool and regularly monitoring performance. Consideration will be given to the use of the Investment Sub-Committee

throughout the year. It is expected, given the significant change and transitions to be undertaken, that it may be best used in a transitional capacity to consider past and future LGPS Central actions to provide additional oversight.

18. LGPS Central representatives will be provide an update on ongoing developments with pooling at the meeting.

Shareholder Update

19. Officers attended a Partner Fund summit on 15 December 2025. This included existing partner funds and proposed new partner funds that have indicated their intention to join LGPS Central (Gloucestershire, Hampshire, Norfolk, Oxfordshire, Suffolk, Wiltshire and Isle of Wight). This summit allowed for discussion on how to make pooling work well and into the future. Session highlights included governance, collaboration, delivering for clients and local investment.
20. LGPS Central has circulated its draft strategic business plan for 2026-29 and budget for 2026-27 for review. Partner Funds have commenced the review process which will be carried out both collectively and on an individual basis. Initial discussions have also been had at shareholder level, alongside an update on new partner funds and fit for the future requirements more broadly.
21. Officers are engaging on legal documents, including the Inter Authority Agreement, which sets out the partner funds' agreement to cooperate in the pooling of investments, and the Shareholders' Agreement, which sets out the expectations of shareholders relating to the ownership and operation of LGPS Central Limited, are currently being reviewed and updated to reflect the new pooling environment and the forthcoming increase in the number of partner funds within the LGPS Central Pool. Partner funds are reviewing the updated documents collectively with the support of external legal advice.

Resource Implications

22. It is noted that while pooling has delivered substantial benefits so far these proposals will accelerate the transfer of assets and responsibilities to pools. Officers will address potential resource implications as part of working through the awaited guidance to consider how this may impact Fund resources.

Recommendations

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

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

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

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.

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LOCAL PENSION COMMITTEE – 30 JANUARY 2026

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

DRAFT INVESTMENT STRATEGY STATEMENT

Purpose of the Report

1. The purpose of this report is to inform the Committee of the key changes expected for the Fund's Investment Strategy Statement (ISS), attached as an appendix to the report.

Policy Framework and Previous Decisions

2. The current ISS was approved by the Local Pension Committee (LPC) in March 2025

Background

3. All LGPS funds in England and Wales are required to have an ISS. The ISS is composed in accordance with Regulation 7 of the Local Government Pension Scheme (LGPS) (Management and Investment of Funds) Regulations 2016 ("the Regulations").
4. The ISS sets out the Fund's investment objectives, how investments are managed, asset allocation, the approach to risks, including the ways in which risks are to be measured and managed, the approach to pooling, and how social, environmental or corporate governance considerations are taken into account.
5. The primary purpose of the ISS is to achieve long-term returns needed to pay pensions obligations as they fall due. These strategic decisions are recognised as being the most important drivers of long-term investment performance. With the fit for the future proposals, set out elsewhere on the agenda, the ISS remains a key strategy for the LPC with its responsibility for management of the Fund in line with its primary purpose.
6. LGPS Central will be responsible for implementing the ISS with an investment portfolio that seeks to meet the objectives and comply with the asset allocation agreed by LPC.

Draft Investment Strategy Statement

7. As set out elsewhere on the agenda there are a number of changes due which will impact the LGPS, the Fund and pooling, which have implications for the Fund's ISS. This draft ISS looks to comply as far as possible with draft regulations, as well as draft guidance as it is currently understood.
8. It is expected more changes may be required following the Pension Bill being made into law, and other regulations and guidance that are expected. It is intended to include these changes for the version that Committee will receive in March 2026, alongside any updates to the Fund's responsible investment approach following the responsible investment survey outcomes.
9. Alongside amendments to streamline the strategy, key changes within the draft ISS are set out below:
 - i. The draft ISS references the Fund's current Fit for the Future (FFtF) position and acknowledges that its role will evolve as LGPS Central assumes its required responsibilities.
 - ii. The investment beliefs have been expanded to include preferences, offering clearer direction on the Fund's expectations. While the Fund will not be able to intervene implementation, these preferences provide LGPS Central with a strong steer. Where LGPS Central is unable to reflect these preferences, the Fund expects transparent and constructive dialogue.
 - iii. The revised ISS introduces a target and sets out a broad framework for local investment in partnership with LGPS Central. The approach is intentionally flexible and expected to evolve over time, but is currently aligned with the principles and considerations established within the Strategic Asset Allocation discussed elsewhere on the agenda.
 - iv. The responsible investment section has been streamlined and updated to reflect the latest draft regulations and requirements. Further refinements may follow, informed by the outcomes of the responsible investment survey and ongoing regulatory developments.

Next Steps

10. Officers propose to start a consultation with employers on the ISS following the meeting.

Leicestershire Pension Fund Conflict of Interest Policy

11. Whilst not a conflict of interest, it is worth noting that the County Council also invests funds with three managers which the Leicestershire County Council Pension Fund invests with, namely Partners Group, JP Morgan and Christofferson Robb and Company (CRC). The County Council's investments were made following due diligence Hymans Robertson had provided the Fund.

Recommendations

12. It is recommended that the Local Pension Committee note the draft ISS and agree consultation with scheme employers.

Appendix

Draft Investment Strategy Statement 2026

Background papers

Draft regulations: The Local Government Pension Scheme (Pooling, Management and Investment of Funds) Regulations 2026:

https://assets.publishing.service.gov.uk/media/691f357e3735e57039f985ca/Local_Government_Pension_Scheme_Pooling_Managment_and_Investment_of_Fund_Regulations_2026.pdf

Equality Implications

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

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.

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Appendix

LEICESTERSHIRE COUNTY COUNCIL PENSION FUND INVESTMENT STRATEGY STATEMENT

Effective: 20 March 2026

Next review: By Q3 2028

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1. Introduction and Background

The Local Government Pension Scheme (“LGPS”), of which Leicestershire County Council Pension Fund (“the Fund”) is a part, is established under the Superannuation Act 1972 and is regulated by a series of Regulations made under the 1972 Act.

All LGPS funds in England and Wales are required to have an Investment Strategy Statement (“ISS” or “Statement”). This is the Investment Strategy Statement (“ISS”) of the Fund, which is administered by Leicestershire County Council, (“the Administering Authority”).

The Local Government Pension Scheme (Pooling, Management, and Investment of Funds) Regulations 2026 (the “Regulations”) require administering authorities to formulate and publish a statement of its investment strategy in accordance with guidance issued from time to time by the Secretary of State.

In preparing the ISS the Fund’s Local Pension Committee (“the Committee”) has consulted with such persons as it considered appropriate. The Committee acts on the delegated authority of the Administering Authority which takes advice from the Fund’s external investment consultant at the time of writing.

The current regulations require this statement to be reviewed at least triennially but the Fund reviews its strategy annually and updates as appropriate. The last version of this strategy was approved by the Local Pension Committee on 14 March 2025.

The Committee aims to invest, in accordance with the ISS and any other relevant policies, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund’s latest available Funding Strategy Statement (FSS), and Net Zero Climate Strategy (NZCS).

Fit for the Future Proposals

In July 2023, the Department for Levelling Up, Housing and Communities (DLUHC) launched the “Local Government Pension Scheme: Next Steps on Investments” consultation, commonly referred to as the “Fit for the Future” (FFtF) proposals. The consultation set out the government’s vision for the LGPS to deliver greater value for money, improved governance, and enhanced stewardship, with a particular focus on accelerating the pooling of assets and strengthening responsible investment practices.

The Fund participated in the national consultation process, responding to the government’s proposals and engaging with employers, scheme members, and other stakeholders. The Local Pension Committee considered the implications of the FFtF proposals at several meetings and workshops throughout 2024 and 2025, including a dedicated workshop in September 2025 to discuss local investment and pooling arrangements. The Fund has continued to monitor developments and prepare for the anticipated regulatory changes.

Pensions Bill and Regulatory Position

At the time of preparing this Investment Strategy Statement (ISS), the government's new Pensions Bill, which is expected to give statutory effect to many of the FFtF proposals, has not yet been enacted. The Fund will review and update this ISS as necessary once the new legislation and accompanying statutory guidance are in force.

Main Points Relating to Pooling and the ISS

The main changes within the FFtF proposals and the progressing Pensions Bill relate to the pooling of LGPS assets and the governance of investment strategy. From April 2026, all Fund assets are required to be invested and managed by LGPS Central, the Fund's pooling company, with the Administering Authority retaining responsibility for setting the high-level investment strategy and strategic asset allocation. Implementation decisions, including manager selection, mandate construction, and portfolio rebalancing, will be delegated to LGPS Central.

The ISS has been restructured to reflect these changes, with clear separation between the Fund's strategic objectives and the operational responsibilities of the Pool but taking into account the current transitional arrangements whilst legislation is being finalised.

The ISS also incorporates new requirements for explicit investment objectives, tolerance ranges for asset allocation, a formal approach to local investment, and enhanced responsible investment and stewardship policies.

2. Governance

Leicestershire County Council, as the Administering Authority, has delegated responsibility for the management of the Fund to the Local Pension Committee (the Committee). The Committee has responsibility for establishing an investment policy and its ongoing implementation.

Members of the Local Pension Committee have a fiduciary duty to safeguard, above all else, the financial interests of the Fund's beneficiaries. Beneficiaries, in this context, are the members of the Fund who are entitled to benefits (pensioners, previous and current employees) and the employing organisations. Other key stakeholders are the beneficiaries of the employing organisations services, for example local Council taxpayers.

Decisions affecting the Fund's investment strategy are taken with appropriate advice from a FCA (Financial Conduct Authority) regulated investment advisor including the Pool company LGPS Central (Central or Pool). Only persons or organisations with the necessary skills may provide advice and take decisions affecting the Fund. The Members of the Committee receive training as part of an annual review process to enable them to critically evaluate advice they receive. This is documented within the Fund's Training Policy.



The Director of Corporate Resources of Leicestershire County Council has responsibilities under Section 151 of the Local Government Act 1972 and provides financial advice to the Committee, including financial management, issues of compliance with internal regulations and controls, budgeting, and accounting.

3. Fund Objectives

The primary objective of the Fund is to provide pension and lump sum benefits as and when they fall due for members or their dependents.

The funding position will be reviewed triennially through an actuarial valuation, or more frequently as required. Payments will be met by employer contributions, resulting from the funding strategy, employee contributions, or financial returns from the underlying investments.

The Funding Strategy Statement (FSS) and ISS are therefore inextricably linked. The latest FSS can be found at: <https://www.leicspensionfund.co.uk/about-fund/governance/valuation-reports>. The Fund believes in a long-term investment strategy with regular reviews, usually annually in the form of the strategic asset allocation (SAA) review. This is with the aim to maximise investment returns of the Fund whilst maintaining an acceptable level of risk and retaining flexibility in the event the Fund is required to change strategy.

The Fund has an investment strategy that focuses on the suitability of investments based on the following investment beliefs which are developed and refreshed on a regular basis and are listed below within the core beliefs column. The ten core beliefs are supplemented with preferences listed which the Pooling company may take account of whilst implementing the investment strategy. The investment beliefs have been developed with the Fund's external investment advisor and will be considered when proposing a refresh of the strategic asset allocation each year.

	Core beliefs	Preferences
1	<p>Risk and return</p> <p>Returns should be maximised taking into consideration risk tolerance, liability profile of the Fund and affordability for employers. Returns expectations should be reviewed annually with a more robust review every three years post an actuarial valuation.</p>	<p>Expected return of the investment strategy should exceed the required return specified in the actuarial valuation with an appropriate risk buffer.</p> <p>Tactical views based on market conditions can be very challenging to time correctly so this should only be implemented in certain limited circumstances</p> <p>Where a risk factor is dominating overall volatility for an asset class, then steps should be taken to mitigate this risk</p> <p>Downside protection strategies can support long-term objectives, but investment drag should be carefully considered and communicated. Protection can cost the Fund in payments for long periods of time before potentially paying returns. These strategies may be useful in further stabilising employer contribution rates if delivered efficiently.</p> <p>Hedging part of the Fund's foreign currency exposure.</p>

2	<p>Diversification</p> <p>Diversification, across asset classes and within asset classes, can help minimise volatility and support long-term value creation.</p> <p>However, the Fund is keen to not over diversify as this adds additional governance and oversight cost whilst adding ever decreasing investment benefits.</p> <p>Focusing manager selection and oversight where each mandate makes a meaningful impact on risk and return should further the overall aim of the Fund.</p>	<p>The Fund has developed investment frameworks across four private market investment classes (private equity, private credit, infrastructure, and property) in order to manage risk from over or under investment in particular geographies and or sub investment segments or strategies.</p> <p>The Fund recognises that implementation decisions within asset classes is a Pool responsibility and would like the Pool to recognise the broad frameworks developed over the years to manage these risks and work with the Fund to retain the considerable work undertaken and presented to the relevant committees.</p> <p>Actively managed and index tracking solutions both have a role to play in strategy implementation. With active management only undertaken where the additional costs can be clearly justified over the medium term.</p> <p>Multi asset products can offer diversification potential and access to sub asset classes but require careful construction to ensure intended Fund objectives are achieved.</p>
3	<p>Opportunity Set</p> <p>Reviewing broad global opportunity sets provides best potential for long-term growth. Targeting specific geographies and/or sectors within certain asset classes can prove additive where costs to develop and monitor the investment are acceptable. This allows for niche strategies to be incorporated which could provide material investment benefits from relatively small positions.</p>	<p>Investment focus can be beneficial in markets where there are better controls, tax arrangements, or knowledge expertise.</p> <p>Managing constraints on active managers can impede their ability to add value but can be considered where overall risk management is important.</p>

4	<p>Time horizon</p> <p>The Fund is a long-term investor and investment turnover should be minimised and only undertaken if consistent with SAA evolution, if investment underperformance on balance will not reverse or if engagement attempts have been unsuccessful.</p>	<p>Contribution rate stability should be taken into account when reviewing strategic allocations.</p> <p>When appropriate the ability to take long term views to outperform within the asset class should be taken</p>
5	<p>Liquidity</p> <p>It is well known that illiquidity premiums exist, However, the overall level of illiquid assets should be carefully monitored and managed in line with the annual SAA review and cashflow requirements of the Fund. As the Fund matures and benefit payments begin to match contributions the requirement for liquidity will increase.</p>	<p>The Fund may need to consider the ability to switch between income and accumulation units as appropriate to manage planning for cashflow.</p> <p>Diversification of illiquid assets is important to achieve long-term objectives in controlled manner.</p> <p>Careful planning of illiquid investments so that maturities are smoother, attempting to avoid large year on year fluctuations in order to aid cashflow planning.</p>
6.	<p>Local investing</p> <p>Investment should be focussed in on those that deliver a positive impact to the Pool area while ensuring the appropriate investment return is targeted for the risk being taken.</p> <p>If the ability to increase exposure to local investments from a Central pooling solution exists and falls within the administering authorities' geographic boundaries a local decision may be available to increase exposure. [Subject to development of appropriate process from Central and the Fund. The default position is to not increase exposure.]</p> <p>Risk and return expectations for local investments are not compromised and, in some cases, projects may be deemed to be higher risk and therefore require an appropriate higher target return.</p>	<p>The Fund does not have an investment preference between the likely local investing asset classes that will span across private equity, infrastructure, property, and private credit.</p> <p>Keeping the opportunity set as wide as possible in line will allow the Pool to select the best opportunities.</p>

7.	<p>ESG integration</p> <p>ESG represents a financial risk that should be analysed throughout the investment process. Formal engagement plans can mitigate risk and maximise value.</p> <p>The Fund's view is that companies with sustainable practices more likely to outperform in the long run.</p>	<p>Escalation policies must be established and followed.</p> <p>Divestment may form part of an escalation strategy when engagement proves ineffective and materially risks financial returns.</p> <p>Direction of travel for investee companies is even more important than current positioning.</p> <p>Forward looking metrics can help mitigate future risks and enhance long-term performance.</p>
8.	<p>Climate risk</p> <p>Climate change presents a material risk to financial markets.</p>	<p>To manage the financial risk the Fund supports a transition to a low carbon economy, in line with its ambition to become Net Zero by 2050, or sooner.</p> <p>The Fund will consider the impact of climate change as one of many risks in its annual review of the strategic asset allocation (SAA).</p>
9.	<p>Costs</p> <p>The Fund's aims to be efficient from a cost perspective. Costs should be minimised by leveraging the Pool's scale, but net investment returns over the medium and long-term are the most important factor.</p>	<p>The Fund would expect reporting of costs to be developed over time to incorporate narrative on changes to annual costs by type and in relation to the effect of the Fund's SAA has on investment costs.</p> <p>Index tracking is appropriate for obtaining low-cost allocation to efficient markets.</p> <p>Active management can be additive when markets are relatively inefficient and managers have greater scope for added value.</p>

4. Investment Objectives

The Fund sets explicit high-level investment objectives which align to the Funding Strategy Statement and are designed to protect contribution rate stability while meeting pension obligations.

Returns objective: Achieve a long-term return consistent with the 2025 valuation discount rate of 6.1% p.a., with the aim of sustaining a funding buffer above 120% to mitigate future volatility in employer contribution rates.

Risk objective: Maintain a funding level above 120% with at least an 80% likelihood over a 17-year horizon, recognising the Fund's long-term nature and the stabilisation framework for major employers.

Cash flow (liquidity) objective: Remain cashflow positive through 2026/27 and beyond; maintain sufficient liquidity, including an indicative operational cash buffer of **c£20 million**, and use the Pool's flexibility to hold income or accumulation units as needed to support shorter term operational payments.

Local investment objective: **Target 1%** of total assets invested within the LGPS Central Pool area on a phased basis over time, without sub-targets by asset class, prioritising risk-adjusted returns consistent with the Fund's fiduciary duty.

5. Fund Management

The Committee seeks to ensure that, under normal market conditions, the Fund's assets are sufficient to fully cover all accrued pension benefits. It also aims to establish appropriate employer contribution levels to support the cost of future benefit accruals and support contribution rate stability.

The Fund considers the employers covenant to meet liabilities. The Fund will work in partnership with these employers where their ability to meet liabilities may be in question in order to protect other Fund employers from the consequences of default.

The Committee will retain responsibility to set the SAA and ISS which is recognised to be a primary driver of investment returns. The implementation of the SAA is one of the areas that the outcome of the FFtF consultation defines as being the delegated to the Funds Pooling company.

It is intended that the Fund's SAA will be reviewed annually. Information available from several sources, including the triennial actuarial valuation, investment objectives and beliefs as set out above will be used to guide the setting of the investment strategy, however, the strategy does not look to match assets and liabilities in such a way that their values move in a broadly similar manner. Asset liability matching in this way would lead to employers'

contribution rates that are too high to be affordable, so there will inevitably be volatility around the funding level (i.e. to ratio of the Fund's assets to its liabilities).

It has been recognised that considered changes to the investment strategy over time without drastic changes is important and protects the Fund from shorter term influences.

The Fund's actual allocation is monitored by Fund officers and in the future also by the Central Committee will receive quarterly reports of any differences to the SAA including any actions in place to remedy the under or over allocation to a specific asset class.

6. Asset Allocation

6.1 Investing in a variety of asset classes

The Fund's investment strategy comprises a diversified mix of asset classes, while remaining manageable and cost-effective and is covered within the investment beliefs section.

The Committee will continue to have oversight of Fund investments on a regular basis through investment reports and presentations from investment managers including Central. The Committee also seeks and considers proper advice.

The Fund's SAA is scheduled to be reviewed annually, usually at the January meeting of the Local Pension Committee. The latest and prior year SAA is set out below. As far as is practical and cost-effective, attempts will be made to maintain an actual asset allocation that is close to the target strategy. This will be supported by the Fund's formal rebalancing arrangements which are also set out below.

The assessment of the suitability of particular investments is undertaken annually during the strategic asset allocation review conducted by the Fund's investment advisor. Differences to the SAA targets are reported regularly to the Local Pension Committee alongside actions being taken.

With respect to the rebalance ranges proposed, there are provisions within the rebalancing policy to not rebalance for a variety of reasons which may include not being able to reinvest into another asset class that is outside of its range. This may occur if for example the fund requires time for money to be deployed, there are many asset classes that need time such as private equity, private credit, and direct property.

6.2 Local Investment

The Fund defines local investment as investment within the LGPS Central Pool area. The Fund sets a target of 1% of total assets to be invested locally without sub-targets by asset class. LGPS Central will identify and implement opportunities consistent with the Fund's strategic objectives and fiduciary duty. Alignment with partner funds on local priorities is encouraged to maximise impact and reduce costs.

Any local investment opportunities will be subject to due diligence by Central, or their delegated external managers. These opportunities will reside within the private equity, infrastructure, property, and private credit asset classes in the main; the local investment allocation will be spread across the four classes.

The target level of local investment will be reviewed annually as part of the SAA review. Given the start-up phase for local investment the Fund is aware of additional risks when new investment products are being launched. It is likely that embedding a new team at Central, developing an investment product suitable for all investors and locating relevant opportunities to invest in will take time and as such consideration has been given to the size of the proposed initial allocation.

The local investments must support the Fund's overall investment return and risk profile and wider objectives and beliefs, in context of the Fund's primary objective to meet its fiduciary duty to its beneficiaries.

The Fund will work with Central to:

- consider collaboration with local authorities to identify local and regional investment opportunities.
- Support a broad investment base that identifies best sectors within the appropriate geographic area to support diversification and maximise investment potential
- Not compromise on return expectations (or risk profile) as a result of selecting local opportunities.

Central will be required to report annually on the local impact of these investments and the Fund will monitor these investments in line with its broader portfolio.

6.3 SAA and rebalancing framework

Asset class	2025 current Strategic Asset Allocation	2026 proposed Strategic Asset Allocation (%)	2026 Tolerance range (±%)	2026 Local invs
Listed equity	41.00%	41.00%		
Other alternatives	5.75%	5.75%	+ / - 2.5%; 51.75% - 56.75%	
Private equity (including local invs)	7.50%	7.50%		
Property (including local invs)	7.50%	7.50%		
Infrastructure (including local invs)	12.50%	12.50%	+ / - 2.0%; 33.50% - 37.50%	1 % across 4 asset classes
Private credit (including local invs)	9.50%	9.50%		
Credit liquid MAC (i)	9.00%	7.00%		
Credit IGC (i)	3.75%	3.75%	+ / - 2.0%; 8.25% - 12.25%	
UK Government bonds	3.50%	5.50%		
Investment cash	0.00%	0.00%		
	100.00%	100.00%		

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

For completeness, investment cash includes both operational cash (held by the Fund for paying benefits and operational needs) and investment cash (managed by the Pool for portfolio purposes).

With respect to the rebalance ranges proposed, there are provisions within the rebalancing policy to not rebalance for a variety of reasons which may include not being able to reinvest into another asset class that is outside of its range. This may occur if for example the fund requires time for money to be deployed, there are many asset classes that need time such as private equity, private credit, and direct property.

In managing rebalancing, consideration to be given to valuation lags in illiquid assets, market conditions, and transaction costs to avoid unnecessary trading. Grouped tolerances are intended to be sufficiently wide to maintain operational flexibility while preserving alignment to the strategic allocation.

There will be an element of judgement that will be exercised when deciding on rebalancing as not all eventualities can be prepared for. Examples can include extreme market movements in parts of the portfolio that mean rebalancing may not be possible or preferred.

Rebalancing decisions will take place at regular intervals with Central deriving valuations from managers or using the external fund valuation consolidator. However, decisions cannot be made purely on quarter end valuations due to:

- a. Not all asset classes are valued regularly, some asset classes, especially private markets will therefore lag the more liquid public market valuations and as such judgement will need to be exercised so as not to rebalance more often than necessary.
- b. Rebalancing is not always possible when the underweight or overweight is wholly or partially in illiquid areas of the portfolio. For example, you cannot divest from closed ended private equity funds (illiquid) to reinvest into listed equity quickly. In reality, a fund like the LCCPF with a mature Private Equity portfolio may await distributions from Private Equity investments and reinvest into listed equity if all other areas were also within the rebalancing range.
- c. In order to not have to rebalance too regularly, rebalancing should take place only when the asset classes have a rebalancing variance that is material to their target weight. Rebalancing asset classes may still be appropriate whilst the asset group is within the SAA rebalance range.
- d. Even for liquid assets there is a cost to transitioning positions that has a material impact upon performance.
- e. Timing of capital calls and distributions for certain investments is uncertain and therefore requires an element of judgement.
- f. Market conditions may delay allocation changes.

Where the variance to the rebalance range (the variance) exists within an asset class that is liquid and can be redeployed to an existing manager with little risk, officers or the Pool may

conduct internal due diligence or where economic or market conditions / size of the change dictate request advice from the Fund's investment advisor.

Portfolio changes required to rebalance will become the responsibility of the Pool once relevant agreements have been concluded, until then they are to be agreed by the Director of Corporate Resources.

Any investment changes will be reported to the next Committee meeting. Where asset groups are outside of rebalance ranges and partial or no action has been taken an explanation will be provided at the next Committee meeting.

6.4 Restrictions on investment

Restrictions are based on the SAA. In line with the Regulations, the Strategy does not permit more than 5% of the total value of all investments of Fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

The Fund does not look to support blanket exclusions as set out in the considerations for responsible investment.

6.5 Managers

To date the Local Pension Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business. A full list of which is included within the Pension Fund's annual report.

It is currently expected that from 31 March 2026, LGPS Central is responsible for all implementation decision making on behalf of the Fund, including manager selection, mandate construction and portfolio rebalancing within the strategic parameters set by the Administering Authority. The ISS does not prescribe individual managers, investment styles, or geographic exposures. Oversight of delivery will be exercised through established Pool governance, Joint Committee, and client oversight arrangements. The Local Pension Committee will also receive quarterly reports and presentations from LGPS Central.

The Pool's delegated authority for management and oversight of assets and implementation of strategy must provide reporting across any relevant topics in a transparent and timely manner. Examples include reporting to pension committees across local investments of particular interest to the Administering Authority, investment performance attribution over relevant timeframes or planned investment implementation over the coming quarters.

It is recognised that given the FFtF changes to the current ways of working between the Committee, Pool's and external investment service providers there will be a period of time when the regular reporting outputs are being developed and implemented with the support of the Pool and client oversight groups.

Standard reporting should cover core metrics, RI metrics, and local metrics. Reporting should be received in a timely fashion to support decision making and bespoke reporting should be offered to support Fund specific requirements.

6.6 Cash Management Strategy (CMS)

The Fund has a nil (0%) strategic asset allocation target for cash and aims to be fully invested in line with the SAA as approved each year by the Local Pension Committee.

In the future as Central develops capabilities to manage and oversee the Fund's assets, the management of investment cash will also be transferred to Central and operate under an appropriate policy. The Fund deems the requirement to maintain a policy in the meantime appropriate and is therefore included within this ISS.

Operational cash for pensions and administrative needs remains within the Fund. Investment cash for portfolio purposes will be managed by LGPS Central once systems and processes are ready. The SAA 'Cash' line includes both operational and investment cash. The Fund will notify the Pool of any operational cash held outside the Pool to ensure whole portfolio alignment.

The Fund currently utilises the experience the administrating authority has regarding cash management, and the CMS is based upon the Leicestershire County Council's annual investment strategy as advised by the County Council's treasury advisor Link which incorporates:

- a. The management of risk – the Council's investment priorities are security first, portfolio liquidity second and then yield (return).
- b. A credit worthiness policy – Link's methodology includes the use of credit ratings from the three main credit rating agencies; Standard & Poor, Fitch, and Moody's.
- c. Country limits – the Link criteria include a requirement for the country of domicile of any counterparty to be very highly rated. This is on the basis that it will probably be the national government which will offer financial support to a failing bank, but the country must itself be financially able to afford the support.

The combination of all the factors above produces an acceptable counterparty list, for the County Council, which comprises only very secure financial institutions, and a list that is managed pro-actively as new information is available. The Fund uses a sub-set of the counterparty list as the basis of the Fund's CMS.

Link uses methodology that includes the use of credit ratings. The credit ratings of counterparties are supplemented with the following overlays:

- a. "Watches" and "outlooks" from credit rating agencies;

- b. Credit Default Swap (CDS) spreads that may give early warning of changes in credit ratings; If a CDS price increases it may be signalling to the market an increase in risk of default.
- c. Sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, and any assigned watches and outlooks, in a weighted scoring system which is then combined with an overlay of CDS spreads. The end-product of this is a series of bands which indicate the relative creditworthiness of counterparties. These are used by the Council to determine the suggested duration for investments.

The Council further restricts the list of acceptable counterparties from the base list provided by Link, and it is this restricted list that the CMS for the Fund is based on. The CMS will use a smaller list of allowable investments per the table below. Officers for the County Council and Pension Fund are familiar with the allowable list of investments and get regular updates from Link. Any updates that require amendments to investments made by the Fund will be actioned as soon as possible.

Investment	Level of security	Maximum period	Maximum sum invested
Money Market Funds: Low Volatility and constant NAV (2) Triple A rated fund	At least as high as acceptable credit rated banks.	Same day redemptions and subscriptions	£250m (max £50m in each MMF) Minimum use of two MMFs (1) with each MMF having a minimum size of £3bn GBP
Term deposits with credit-rated institutions with maturities up to 1 year (including both ring-fenced and non-ring-fenced banks)	Varied acceptable credit ratings, but high security	1 year; up to and including 365 days	£250m (3)
Term deposits with overseas banks domiciled within a single country	Varied acceptable credit ratings, but high security	1 year; up to and including 365 days	£100m (3)
Certificates of Deposit with credit rated institutions with maturities of up to 1 year	Varied acceptable credit ratings, but high security	1 year; up to and including 365 days	£250m
Term deposits with the Debt Management Office	UK Government backed	1 year; up to and including 365 days	£500m
UK Government Treasury Bills	UK Government backed	1 year; up to and including 365 days	£500m

Investment	Level of security	Maximum period	Maximum sum invested
Term Deposits with UK Local Authorities up to 1 year	LA's do not have credit ratings, but high security	1 year; up to and including 365 days	£50m

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

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

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

7. Risks

The Administering Authority will transfer the management of some risks to the Pool once all relevant legislation and legal arrangements are completed. In the meantime, it is appropriate to maintain the risks section for the ISS.

The Committee is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. Officers, investment consultants and Central manage, measure, monitor and mitigate the risks as far as possible being taken in order that they remain consistent with the overall level of risk that is acceptable to the Committee. One of the Committee's overarching beliefs is to only take as much investment risk as is necessary.

The overall risk is that the Fund's assets are insufficient to meet its liabilities. The Funding Strategy Statement calculates the value of the Fund's assets and liabilities and with the triennial valuation sets out how any difference in value between assets and liabilities will be addressed.

The principal risks affecting the Fund are set out below. They are grouped into three areas, funding risks, asset risk, and other risk. The Fund's approach to managing these three types of risks is explained after each section.

7.1 Funding risks

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.
- Changing demographics – The risk that longevity improves and other demographic factors change, increasing the cost to the Fund of providing benefits.

- Systemic risk – The possibility of an interlinked and simultaneous failure of several asset classes and / or investment managers, possibly compounded by financial contagion, resulting in an increase in the cost of meeting the Fund's liabilities.

7.1.1 How the Fund manages funding risks

The Committee measures and manages financial mismatch in two ways. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set after considering expected future returns from the different asset classes and considers historic levels of volatility of each asset class and their correlation to each other.

The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. Management of some of the risks listed below will pass to Central as part of the responsibility to manage the operational aspects of the Fund.

The Committee seeks to understand the assumptions used in any analysis, so they can be compared to their own views and the level of risks associated with these assumptions to be assessed.

The Committee seeks to mitigate systemic risk through a diversified portfolio, but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

7.2 Asset risks

- Concentration – The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity – The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Currency risk – The risk that the currency of the Fund's assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- Environmental, social and governance ("ESG") – The risk that ESG related factors incorporating climate risk may reduce the Fund's ability to generate the long-term returns.
- Manager underperformance – The failure by the investment managers to achieve the rate of investment return assumed in setting their mandates.

7.2.1 How the Fund manages asset risks

The Fund's strategic asset allocation benchmark invests in a diversified range of asset classes. The Committee has rebalancing arrangements to ensure the Fund's "actual allocation" does not deviate substantially from its target without just cause. In future, rebalancing is the operational responsibility of the Pool.

The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark, and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk.

The Fund is currently and expects to be cashflow positive, in that contributions from employees and employers are greater than benefits being paid. The Fund invests across a range of assets, including liquid quoted equities and bonds, as well as property, the Committee has recognised the need for access to liquidity in the short term. Whilst the Fund has a growing proportion of less illiquid assets, the Fund has a large proportion of highly traded liquid assets that can be sold readily in normal market conditions so that the Fund can pay immediate liabilities if needed.

The Fund invests in a range of overseas markets which provides a diversified approach to currency markets; a preference for the Fund is to hedge part of this foreign currency exposure. This currency risk is managed through a variable currency hedging programme designed to take account of both the risks involved with holding assets that are not denominated in sterling.

Details of the Fund's approach to managing ESG risks are set out later in this document within section 9.1.

The Committee has considered the risk of underperformance by any single investment manager; this risk is mitigated by appointing multiple investment managers and by having a large proportion of the Fund's equities managed on a passive basis. The Committee currently assess the investment managers' performance on a regular basis. In the future this will become assessment of Central's performance.

7.3 Other provider risk

- Transition risk - The risk of incurring costs in relation to the transition of assets between managers. This risk will transition to Central as they will be responsible for implementation decisions, the Fund would expect to be kept informed at each quarterly meeting of the committee. In future, where the Pool will have discretion to manage implementation of the SAA, they will carry out suitable due diligence.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.
- Stock-lending - The possibility of default and loss of economic rights to Fund assets.

7.3.1 How the Fund manages these other risks

The Committee expects officers to monitor and manage risks in these areas through a process of regular scrutiny of the Fund's investment managers and audit of the operations it conducts for the Fund. By April 2026, it is planned the Committee will have delegated such monitoring and oversight of risks to Central, how the Fund manages pooling related risks are set out below.

8. Pooling

The Fund is a participating scheme in the Central Pool. The objective of pooling is that pooled investments can expect to benefit from lower investment costs and the opportunity to access a wider range of alternative investments on a collective basis. As a local authority-owned and Financial Conduct Authority registered investment manager, the pool company Central is required to provide governance, transparency and reporting to give the Fund assurance that its investment instructions are being carried out appropriately.

Central currently consists of the LGPS funds administered by: Cheshire, Derbyshire, Leicestershire, Nottinghamshire, Shropshire, Staffordshire, West Midlands, and Worcestershire. At present there is agreement from at least seven more LGPS Funds to join LGPS Central once relevant legal arrangements have been concluded.

Collective investment management offers the potential for substantial savings in investment management fees, increased opportunities for investor engagement and access to a shared pool of knowledge and expertise.

The eight current administering authorities of the pension funds within the LGPS Central Pool are equal shareholders in LGPS Central Limited. Central has been established to manage investments on behalf of the Pool shareholders and received authorisation from the Financial Conduct Authority in January 2018. The Fund manages the risks arising from pooling via:

- A Shareholders Forum, comprising an elected member or senior officer from each partner funds act as the supervisory body of Central and fulfils the shareholders' role in ensuring that the company is managed efficiently and effectively.
- A Joint Committee, set up in accordance with the provisions of the Local Government Act 1972, is the forum for dealing with common investor issues and the collective monitoring of the performance of Central against its objectives.

Both Forums will undergo a review in order to best dispense the requirements of each body and ensure appropriate oversight.



The Committee will regularly monitor the pool's delivery of this strategy, and implementation of strategic asset allocation to ensure it seeks to meet the objectives and comply with the asset allocation set out. The Fund expects clear explanations of any non-compliance and will escalate issues through the appropriate channels.

9. Responsible Investing [subject to review in line with the outcomes of the RI survey]

9.1 Overview and background

The Local Government Pension Scheme (LGPS) Investment regulations (2026) set out that the Investment Strategy Statement must include the Fund's priorities and preferences regarding responsible investment, including how social, environmental and corporate governance considerations are to be taken into account in the selection, non-selection, retention and realisation of investments, alongside the policy on the exercise of the rights (including voting rights) attaching to investments. This section sets out the Fund's approach to this.

Responsible investment is an approach to investment that aims to incorporate environmental including climate risk, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable investment returns. It is recognised that ESG factors can influence long term investment performance and the ability to achieve long term sustainable returns. Responsible Investment is a core part of the Fund's approach to investment decisions. The Committee consider the Fund's approach to ESG in two key areas:

- Sustainable investment / environmental and social factors – considering the financial impact of environmental including climate risk, social and governance (ESG) factors on its investments. The Committee has in March 2023 approved the Fund's first NZCS which contains the primary aims for the Fund with respect to formalising a strategy to achieve net zero. The Fund updates achievement against the NZCS goals annually, usually at the last Local Pension Committee meeting each calendar year.
- Stewardship and governance – acting as responsible and active investors/owners, through considered voting of shares, and engaging with investee company management as part of the investment process.

In combination these two matters are often referred to as 'Responsible Investment,' or 'RI' and this is the preferred terminology of the Fund.

As part of pooling the Fund supports Central's Responsible Investment & Engagement Framework and expects environmental, social and governance (ESG) factors to be integrated across all asset classes. At present the Fund's current Responsible investment strategy is broadly compatible with Central's.

Stewardship (engagement and voting) will be delivered by Central and/or its appointed stewardship provider on the Fund's behalf, with transparent reporting. The Fund is currently

not a UK Stewardship Code signatory; compliance and disclosure are achieved via the Pool's stewardship arrangements.

9.2 The Fund's approach to Responsible Investment

In 2025/2026 the Fund undertook a high-level survey on responsible investment issues, this will look to inform this approach. [To be updated subject to outcomes due in March 2026]

The Principles for Responsible Investment are recognised as the global standard for responsible investment for investors with fiduciary responsibilities. The Fund has declared its support for the PRI and the 6 principles, available here: <https://www.unpri.org/about-PRI/what-principles-for-responsible-investment>. Central is also a signatory of PRI.

As institutional investors, the Fund has a duty to act in the best long-term interests of its beneficiaries. In this fiduciary role, the Fund believes that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios to varying degrees across companies, sectors, regions, asset classes and through time.

The processes to monitor and assess ESG related risks and opportunities includes the following:

- The Fund produces an annual RI plan with progress updated at each Committee meeting and ensures the Fund's RI progress. The plan is developed in conjunction with the specialist RI team at Central.
- The Committee takes RI matters seriously and has not appointed managers unless they can show evidence that RI considerations are an integral part of their investment decision-making processes, this is the same for Central's approach to appointing investment managers.
- Investment Manager, and Central presentations to Committee demonstrate ESG and RI considerations and allow for monitoring and discussions around ESG integration on an ongoing basis.
- Monitoring forward looking metrics that can help mitigate future risks and enhance long-term performance.
- ESG related risks are included on the Fund's risk register as part of ongoing risk assessment and monitoring, including developments that continue in this area.
- Working with partners such as Central and the Local Authority Pension Fund Forum.

The Fund does not exclude investments to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

The Fund believes engagement is more effective than divestment. Divestment should only be undertaken where companies present a material investment risk as a result of their actions or inactions.

The Fund does not apply personal, ethical, or moral judgements when making investment decisions and instead remains focused on the primary objective of acting in the best financial interests of the Fund's members.

The Fund believes engagement is more effective than divestment. Divestment should only be undertaken where companies present a material investment risk as a result of their actions or inactions.

The Fund does not apply personal, ethical, or moral judgements when making investment decisions and instead remains focused on the primary objective of acting in the best financial interests of the Fund's members.

The Committee decides on the Fund's approach to RI, Government has set out this approach should be set in collaboration with their pool and partner funds to maximise the alignment, to increase the impact of the approach in delivering positive change. Central have developed a RI Policy, alongside partner funds, that applies to all pooled assets, the Fund's approach is aligned with this.,

The Fund believes that it will improve its effectiveness by acting collectively with other likeminded investors because it increases the likelihood that it will be heard by the company, fund manager or other relevant stakeholder compared with when acting alone. The Fund currently uses its membership of the Local Authority Pension Fund Forum, alongside Central to assist it in pursuing engagement activities. Membership of LAPFF will be reviewed at the relevant time when it fully understood how Central will discharge its RI responsibilities.

9.3 The exercise of rights (including voting rights) attaching to investments

The Committee has delegated the exercise of voting rights to the investment manager(s) on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value.

The instruction of shareholder voting opportunities is an important part of responsible investment. The Fund delegates responsibility for voting to Central and the Fund's directly appointed investment managers. The majority of the Fund's listed equity holdings are managed by the former, with votes are cast in accordance with Central's Voting Principles, to which the Fund contributes during the annual review process.

For Fund assets managed by appointed external managers, votes must be cast in line with industry best practice as set out in the accepted governance codes. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f). The results of

engagement and voting activities are reported to the Local Pensions Committee on a quarterly basis.

9.4 Climate Risk

This is one of many risks the Fund recognises. The Fund believes that climate change presents a material risk to financial markets. For this reason, the Fund takes an evidenced based approach to risks and opportunities posed by climate change. These can include:

- Physical risks – direct damage to assets, indirect impacts from supply chain effects arising from climate change – event driven or longer-term shifts.
- Transition risks – from the expected transition to a lower-carbon economy; (policy, legal, tech for example) if a company the Fund has exposure to fails to adapt to the market it may be less profitable or sold off by market participants.

As a diversified asset owner, the Fund is exposed to risks at a scale greater than a single company, sector of geography impacting broad market returns investment portfolio. These risks are unpredictable and can depend on market sentiment. This is important for the Fund to consider given the scale this may impact the Fund on.

The Fund has developed a Net Zero Climate Strategy (NZCS) setting out how it intends to manage both the risks and opportunities of climate change, and how it intends to integrate climate change into its broader strategy, asset management, and approach to engagement.

The NZCS sets out the Fund's support of a transition to a low carbon economy, in line with its ambition to become Net Zero by 2050, or sooner. The Fund will consider the impact of climate change in both its asset allocation and individual investment decisions to create a more resilient portfolio that can withstand a wide range of future plausible scenarios, including more volatile or disruptive ones as considered as part of the 2025 triennial valuation. As at the 2025 assessment of the NZCS interim 2030 primary targets it was communicated that these had been achieved ahead of time. A review of this strategy will be scheduled during 2026 alongside the outcome of a survey on responsible investment matters, and due regard will be given to amendments required within the ISS

The NZCS includes targets set in line with the Paris Agreement to achieve Net Zero by 2050, with an ambition for sooner. Delivery and monitoring of these targets are reported annually to the Local Pension Committee. The NZCS is subject to review at least every three years.

Alongside the NZCS the Fund produces annual reports in line with recommendations of the Taskforce on Climate-Related Financial Disclosure (TCFD), which set out recommendations for more effective climate-related disclosures that could promote more informed investment decisions, and, in turn, enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposure to climate risk. Based on the output of annual climate reporting, the Fund produces an annual Climate



Stewardship Priority list and considers outcomes, alongside the latest triennial valuation climate scenario analysis as part of any SAA review.

10. Directions by the Secretary of State

The Secretary of State may issue directions if an administering authority fails to act in accordance with guidance, following consultation and having regard to relevant evidence. The Fund will comply with any such directions as required

Prepared by:

Declan Keegan

For and on behalf of the Local Pension Committee of the Leicestershire County Council Pension Fund.

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LOCAL PENSION COMMITTEE – 30 JANUARY 2026

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PENSION FUND TRAINING NEEDS SELF ASSESSMENT

Purpose of the Report

1. The purpose of this report is to:
 - i. Provide the Local Pension Committee (LPC) with an update on Training Needs Self Assessments which have been undertaken;
 - ii. Set out progress against the Fund's Training Policy and 2025 Training Plan.

Policy Framework and Previous Decisions

2. The LPC first agreed a Training Policy on 8 November 2019 in line with best practice at the time. The latest version of the Training Policy was approved by the Committee on 19 June 2024.
3. The policy, and regular training, is required because of:
 - the distinction of fiduciary duty owed to the Fund, compared to members' and officers' usual business;
 - the complexity of pension and investment issues;
 - inevitable changes in the membership due to the election cycles;
 - the Fund being treated by investment managers as a professional client and the requirement to comply with the Markets in Financial Instruments Directive (MiFID II);
 - the potential consequences of not administering the Fund in an appropriate manner;
 - responsible investing, net zero and how the Fund achieves this.
4. Training requirements are also reflected in the Terms of Reference of both the Committee and the Local Pension Board (LPB), which state members 'must demonstrate to the Administering Authority their capacity to attend and prepare for meetings or to participate in required training.'

Background

5. Since the LPB's formation there has been legislation setting out that Board members have a personal responsibility to have an appropriate level of knowledge and understanding for the purposes of enabling them to exercise properly their functions as a member of the LPB.
6. As indicated as part of the previous Governments 2023 consultation 'Next Steps on Investment', and through the 2025 consultation of the current Government 'Fit for the Future' proposals it will be a requirement that training requirements are extended to the LPC, as well as relevant officers such as the new 'Senior LGPS Role' and Independent person. The Fund has historically reported training undertaken by both LPC and LPB Members annually within the Fund's Annual Report as part of best practice, and as recommended by the Scheme Advisory Board's Good Governance review.
7. As identified by The Pension Regulator, good governance is essential for a pension scheme to be successful, with a clear link between good governance and good fund performance.
8. In early 2024 the Pensions Regulator published a new General Code of Practice (the code) for governing bodies of pension schemes to assist them in meeting their legal obligations and in ensuring their scheme is well governed. The Fund's Training Strategy and Plan aligns with this.

Training Needs Assessment

9. The Chartered Institute of Public Finance and Accounting (CIPFA) published guidance on Pensions Knowledge and Skills in 2021. The guidance identifies eight core areas where appropriate knowledge and skills should be achieved and maintained:
 - Pensions legislation and guidance
 - Pensions governance
 - Funding strategy and actuarial methods
 - Pensions administration and communications
 - Pensions financial strategy, management, accounting, reporting and audit standards
 - Investment strategy, asset allocation, pooling, performance, and risk management
 - Financial markets and products
 - Pension services procurement, contact management and relationship management
10. To best meet the training needs of Committee and Board Members, a training needs analysis was carried out at the end of 2025. The form consisted of 39 self-assessment questions against CIPFA's eight core areas.
11. As of 16 January 2025 ten out of 12 Committee and four out of six Board members have completed their assessments. The anonymised results are

attached at Appendix A to this report. Any members that have not yet completed the training needs assessment are asked to do so as soon as possible, to support development of this year's training programme which will be brought alongside the Fund's budget and business plan.

12. The results of the questionnaire, together with the current priorities for the Fund are used to decide on the approach and topics of training offered, this can be on a collective and individual basis. Current priorities will focus on emerging issues as a result of fit for the future which may change how Committee and Board need to consider items.
13. Members are also invited to provide any comments on the current training plan, and officers will look at how further collaboration can be utilised to support training.

2025 Training Plan Completion

14. As part of the revised Training Policy agreed in June 2024 a training plan was developed in line with Hymans' on-line Aspire training and it was agreed that Members should complete all modules within six months of approval of the policy, or their appointment. This followed engagement with Committee and Board members on the best approach to training, either with members completing the modules in their own time at home or attending sessions at County Hall, which would include question and answer sessions and be relevant to upcoming agenda items.
15. All new members to the LPC and LPB received induction training from Fund officers.
16. As of January 2026, for Committee members that have been appointed over 6 months ago, 10 are compliant with the appropriate modules. Reminders will be sent to members that have remaining modules to complete, to ensure completion within the appropriate time period, and for inclusion in the Fund's Annual Report.
17. A record of completion of all training, including Hymans on-line training, undertaken by Committee and Board members is included within the Fund's Annual Report presented in September each year. Essentially, training progress will be shown as a snapshot of the position as at 31 March each year. Appendix B provides a summary of current progress against the Training Policy, however, this will be updated for the Annual Report.

Next Steps

18. As part of the Fund's budget and business plan a draft training plan for 2026/27 will be appended to be considered by the Local Pension Board on the 5 February ahead of Committee consideration on the 20 March.

19. As part of draft guidance there are some changes to core areas of knowledge, this will feed into ad hoc training priorities as required, and form next year's training needs assessment questions.

Recommendations

20. It is recommended that all members should complete the training needs assessment if not yet completed by 31 January 2026.

Background Papers

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

Equality Implications

None.

Human Rights Implications

None

Legal Implications

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

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

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

In line with these duties under their role, Committee members are required to be able to demonstrate their knowledge and understanding and to refresh and keep their knowledge up to date on anything that would fall within the remit of their role. A written record of all relevant training and development (whether internal or external) undertaken by Committee members should be maintained. All members will undertake an annual personal training needs analysis and regularly review their skills, competencies, and knowledge to identify gaps or weaknesses, as well as the

mandatory training that the Scheme Manager considers is required to ensure the Board and Committee operates as effectively as possible. All information in relation to training and development of all members shall be made available to the Committee and Board as part of the review process.

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

The legal framework governing training is, however, expected to change during 2026, following the Government's proposed amendments to the Local Government Pension Scheme Regulations and the issue of new statutory guidance. These changes are anticipated to introduce a formal duty on administering authorities to maintain a comprehensive Training Strategy, and to ensure that all individuals involved in the governance, management, or oversight of the LGPS, including Committee and Board members, relevant officers, and the newly established roles of Senior LGPS Officer and Independent Person, meet and maintain prescribed standards of knowledge and understanding appropriate to their role.

Although these requirements are not yet in force, the Committee's current training arrangements already align with the direction of travel and will be updated as necessary once the revised Regulations and statutory guidance are finalised. The strengthened framework is also expected to emphasise clearer reporting obligations, enhanced record-keeping standards, and the need for training records to support independent scrutiny as part of future governance review processes.

Appendices

Appendix A – Training Needs Assessment Anonymised

Appendix B – Current Training Progress

Officers to Contact

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Name	LPC	LPC	LPC	LPC	LPC	LPC	LPC	LPC	LPC	LPC	LPB	LPB	LPB
General pensions legislative framework in the UK, for example defined benefit, defined contribution, tax treatment and auto-enrolment.	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
The roles and powers of the UK Government in relation to the LGPS	Green	Green	Green	Green	Yellow	Yellow	Green	Yellow	Green	Green	Green	Green	Yellow
The main features of the LGPS legislation relating to benefits, administration and investment.	Green	Green	Green	Green	Yellow	Yellow	Green	Green	Green	Green	Green	Green	Yellow
The role of Leicestershire County Council as administering authority in relation to the LGPS in relation to the Fund	Green	Green	Green	Green	Yellow	Yellow	Green	Green	Green	Green	Green	Green	Yellow
The role of the Scheme Advisor Board and the Pensions Regulator, Pensions Advisory Service and Pensions Ombudsman to the workings of the LGPS	Green	Green	Green	Yellow	Yellow	Yellow	Green	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow
Awareness of the Pension Regulator's Code of Practice for public sector pension schemes	Green	Green	Green	Green	Yellow	Yellow	Green	Yellow	Green	Green	Green	Green	Yellow
The role of the Local Pension Committee	Green	Green	Green	Green	Yellow	Yellow	Green	Yellow	Green	Green	Green	Green	Green
The role of the Local Pension Board	Green	Green	Green	Green	Yellow	Yellow	Green	Yellow	Green	Green	Green	Green	Yellow
The roles and statutory responsibilities of the Administering Authority S151 officer	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Red
Potential conflicts of interest, how they are identified and managed.	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Requirements on the Fund in relation to accounting legislation and the Fund's Annual Accounts.	Green	Green	Green	Green	Yellow	Yellow	Green	Yellow	Green	Green	Green	Green	Yellow
Audit Regulations and legislative requirements relating to internal controls and external audit for the Pension Fund.	Green	Green	Green	Green	Yellow	Yellow	Green	Yellow	Green	Green	Green	Green	Yellow
The Administration and Communication Strategy and how the service is delivered and communicated to the Fund's members and employers.	Green	Yellow	Green	Green	Yellow	Yellow	Green	Yellow	Green	Green	Green	Green	Green
An understanding of how Fund breaches in law are reported	Green	Yellow	Green	Green	Yellow	Yellow	Green	Yellow	Green	Green	Green	Green	Yellow
Understanding of Fund policies relating to member data, record keeping, internal dispute procedures, cyber risk and contributions.	Green	Green	Green	Green	Yellow	Yellow	Green	Yellow	Green	Green	Green	Green	Green
LGPS discretions and how employers' discretionary policies impact on the Fund.	Green	Green	Green	Green	Yellow	Yellow	Green	Yellow	Green	Green	Green	Green	Yellow
Tax treatment of pensions, retirement lump sums annual allowance and lifetime allowance	Green	Green	Green	Green	Yellow	Yellow	Green	Yellow	Green	Green	Green	Green	Yellow
The Fund's Additional Voluntary Contribution arrangements and choice of investments offered to members	Green	Green	Green	Green	Yellow	Yellow	Green	Yellow	Green	Green	Green	Green	Yellow
Statutory deadlines and key performance indicators of the Pension Fund.	Green	Yellow	Green	Green	Yellow	Yellow	Green	Yellow	Green	Green	Green	Green	Yellow
An understanding the background of public procurement and the roles of key decision makers and organisations in relation to pensions administration (ie. Actuarial services, Investment Advisors, AVC pr	Yellow	Green	Green	Green	Yellow	Yellow	Green	Yellow	Green	Green	Green	Green	Yellow
Supplier risk management. (ie. procurement procedure, risk assessments, what to look for when selecting an investment manager).	Green	Yellow	Green	Green	Yellow	Yellow	Green	Yellow	Green	Green	Green	Green	Yellow
An understanding of how the Fund monitors and manages outsourced providers (software providers, tracing agencies)	Green	Yellow	Green	Green	Yellow	Yellow	Green	Red	Green	Green	Green	Green	Yellow
How pension fund management risks are monitored and managed.	Green	Yellow	Green	Green	Yellow	Yellow	Green	Yellow	Green	Green	Green	Green	Red
The role of the Fund's investments in paying future pension payments.	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Yellow
Awareness of the Fund's Investment Strategy Statement	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Yellow
Key aspects of Investment Manager Monitoring	Green	Yellow	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Yellow
The Fund's approach to responsible investment and engagement, and stewardship activities undertaken by fund managers and other partners.	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Yellow
The Fund's approach to climate risk and opportunities.	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Red
Investment pooling and the role of LGPS Central.	Green	Yellow	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Red
The risk and return characteristics of the main asset classes and their role in long-term pension fund investing, including different investment vehicles available (ie. segregated or pooled, active o	Green	Green	Green	Green	Green	Green	Green	Yellow	Green	Green	Green	Green	Red
Understanding of the primary importance of the Fund's Strategic Asset Allocation (at every January Committee).	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Red
Awareness of the limits placed by regulation on the investment activities of the Fund (ie. fiduciary duty, ESG, and Fund discretions).	Green	Green	Green	Green	Green	Green	Green	Yellow	Green	Green	Green	Green	Red
The actuarial valuation process, including development of the funding strategy statement.	Green	Green	Green	Green	Green	Green	Green	Yellow	Green	Green	Green	Green	Red
Key assumptions in the actuarial valuation	Green	Yellow	Green	Green	Yellow	Yellow	Green	Yellow	Green	Green	Green	Green	Red
The types of employer eligible to join the Fund	Green	Yellow	Green	Green	Yellow	Yellow	Green	Yellow	Green	Green	Green	Green	Red
The importance of the employer covenant	Green	Green	Green	Green	Yellow	Yellow	Green	Yellow	Green	Green	Green	Green	Red
How employers' contribution rates are set	Green	Yellow	Green	Green	Yellow	Yellow	Green	Yellow	Green	Green	Green	Green	Red
Where an employer leaves the Fund, how the promised pensions liabilities are paid for.	Yellow	Yellow	Green	Green	Yellow	Yellow	Green	Yellow	Green	Green	Green	Green	Red
How employer outsourcings and bulk transfers are dealt with?	Yellow	Yellow	Green	Green	Yellow	Yellow	Green	Yellow	Green	Green	Green	Green	Red

Fully conversant

I am reasonably familiar but additional training would be useful

Some but limited knowledge

No Knowledge

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Appendix B Committee Training Progress as at 15 January

Hymans Modules completions

	Joint Training - Governance 13 June 2025	Actuarial Valuation training 27 June 2025 - training from Hymans 9.00 to 9.30	Joint Training - Areas from Training Needs Assessment 15 September LPC 26 September 2025	Joint Training 14 November Update on the SAA & Valuation Update TCFD Enhanced Module Current Issues Module
Dr. J. Bloxham CC (from 16/9/25)	/	/ \ Y Y X		
Mr. M. Durrani CC (from May 2025)	Y	X Y X Y Y		
Mr. B. Piper CC (from May 2025)	Y	Y Y Y Y Y		
Mr. Grimley CC (from May 2022)	X	X X X Y X		
Mr. P. King CC (from May 2022)	Y	Y Y Y Y X		
Cllr. R. Denney (from June 2023)	X	Y Y Y Y Y		
Cllr. M. Cartwright (from June 2023)	Y	Y Y X Y Y		
Mr. N. Booth (from 2023 AGM)	X	Y Y X Y Y		
Mr. C. Pitt (from 2022 AGM)	X	X X X X X		
Mr. V. Bechar (from 2023 AGM)	Y	Y Y X Y X		
Cllr. Geoff Whittle (from September 2024)	Y	X X Y Y -X		
Cllr. B. Dave (from August 2025)	/	/ \ X Y Y		
Mr. J.M. Henry (from June 2024)	X	Y Y X X X		

Other Training over 2025

LGPS Responsible Investment Forum: All LPC members were invited to LGPS Central's RI summit which provided a full day of debate and shared insight into the evolving world of responsible investment, examining its challenges, opportunities, and long-term implications for investors. Sessions were recorded for those unable to attend.

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

Attended by:

Dr Bloxham CC, Mr Piper CC and Mr King CC

LGPS Chairs Meeting

Attended by Mr King CC and Mr Singh Saroya

As Shareholder Representative and position on the LGPS Central Joint Committee, Mr King also received supporting training from LGPS Central and external legal providers on the role of the shareholder relevant to his position.

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LOCAL PENSION COMMITTEE – 30 JANUARY 2026

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

DRAFT RESPONSIBLE INVESTMENT PLAN 2026

Purpose of the Report

1. The purpose of this report is to seek the Local Pension Committee's (LPC) comments on the Leicestershire Pension Fund's Responsible Investment (RI) Plan 2026 (Appendix A) to enable the Fund to further improve the management of responsible investment risks.

Policy Framework and Previous Decisions

2. Responsible investment factors have long been a consideration for the Leicestershire County Council Pension Fund, having satisfied itself that potential investment managers take account of responsible investment (RI) as part of their decision-making processes before they are considered for appointment. The first RI plan was approved at the January 2020 LPC meeting, with updated plans being presented and approved annually since. A progress update of the latest 2025 plan is attached as Appendix B.
3. Climate change factors have been considered by the Fund for a number of years. This was enshrined in the Fund's Investment Strategy Statement (ISS) and Net Zero Climate Strategy (NZCS), both approved on 3 March 2023. These climate considerations have also been built into other strategies and the Fund's risk register.

Background

4. The term 'responsible investment' refers to the integration of financially material environmental, social and corporate governance (ESG) factors into investment processes. It has relevance both before and after the investment decision and is a core part of the Fund's fiduciary duty. It is distinct from 'ethical investment', which is an approach in which the moral persuasions of an organisation take primacy over its investment considerations.
5. The Fund's approach to RI matters have been incorporated into the ISS and all actions the Fund undertakes. These are considered in two key areas:
 - Sustainable Investment: considering the financial impact of ESG factors on its investments.

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

6. In December 2025 the Fund reported its latest progress against the NZCS. High-level progress against these targets is set out below which show where the Fund has exceeded initial expectations for its net zero journey, including achieving its two interim targets ahead of the 2030 deadline.

Fit for the Future Implications

- 7. In 2025 Government consulted on proposed reforms to the structure, investments and governance of the LGPS. The Government's response in May 2025 set out that Funds would continue to be able to set high level objectives in relation to ESG and RI. However, it was recognised that balancing individual Funds' RI positions, and particularly specific exclusions, would present challenges when seeking to invest at scale through pooling.
- 8. Government has consulted on draft regulations from 20 November 2025 to 2 January 2026 and is undertaking a closed consultation on draft investment, pooling and governance guidance. While this cannot be shared more widely at this stage, LGPS funds have been asked to consider the draft guidance alongside other partner funds and their pools. This guidance may have an impact on how the Fund can consider responsible investment. As above there is a much larger focus on how partner funds and pools can work collectively.
- 9. It will be more important than ever that Funds scrutinise and consider how effectively pools are engaging on their behalf and engaging with underlying managers. This will be an ongoing process which will need to develop together with new partner funds.

Responsible Investment Plan 2026

- 10. The plan includes outputs and recommendations from the Fund's latest Climate Risk Report which was supported by the Local Pension Committee at its meeting in December 2025.
- 11. The plan builds on the five previous iterations and improves on the approach and beliefs detailed in the Fund's ISS, NZCS and discussions held by the Committee throughout 2025, as well as any areas within the 2025 Plan not yet concluded.
- 12. The Fund, partner funds and the Pool will continue to work together on necessary developments throughout the year, including on RI. The Fund will work to ensure any future proposals look to enhance existing arrangements and the Fund's high-level strategic RI views as set out in paragraph 3, Investment Strategy Statement and approach to managing climate risk
- 13. The draft RI plan for 2026 is attached at Appendix A. Some highlights are as follows:
 - The Responsible Investment Survey ended on the 5 January 2026 which the Committee will consider the outcome of at a workshop ahead of formal

consideration as part of March's Committee meeting. Outcomes will feed into work ongoing across the year, including member communication, and engaging with LGPS Central.

- A revised Net Zero Climate Strategy for consideration by the Committee in June 2026.
- Continuation of quarterly manager presentations to the Local Pension Committee that include manager/LGPS Central views, performance and ESG factors. This will include a presentation from LGPS Central on their approach to Stewardship and effectiveness of engagement.
- Climate Risk Management Report/Task Force on Climate Related Financial Disclosures reporting. To progress additional asset class targets where data is available.
- Consideration of pooling, and how the Fund can work with LGPS Central and partner funds to continue alignment and ensure Fund priorities are progressed.

14. The Committee will continue to receive quarterly reports on stewardship, voting and engagement each quarter, including a deeper dive on key updates on Climate Stewardship Plan companies as part of Annual General Meeting season at its September 2025 meeting.

15. In usual course of business, the Committee would be asked to approve the appended plan, however, in light of the awaited report on the outcome of the responsible investment survey, and development of fit for the future at this point the report is presented for comments and noting. Committee members are encouraged to highlight any areas of particular interest (for example, sector or type of engagement) if they would like more in-depth reporting on specific matters or themes.

Engagement and Stewardship

Local Authority Pension Fund Forum (LAPFF)

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

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

18. LAPFF engage with companies on behalf of LGPS funds, and while progress can seem slow, escalation is evidenced and supported through their collaboration with other asset owners and managers. Reports are produced quarterly on this progress

and can be found on their website. The LAPFF 2024 annual report is available to read here:

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

Further Opportunities for Collaboration

19. Historically, other than the LAPFF, the Fund has not become a direct signatory to certain key initiatives relating to RI as it has been comfortable that, as its investment managers and LGPS Central have always been signatories, the Fund is adhering to the broad principles by default. At this time, it is not considered that there is any value add to undertake anything further at this stage given the breadth of Central's membership. Furthermore, many of these initiatives, such as the Institutional Investors Group on Climate Change, publicise frameworks which the Fund has followed in development of the NZCS, which the Fund can access without membership.
20. The Fund's strategy will be to continue to engage with its investee companies and other key stakeholders through its current partnerships, in order to protect and increase shareholder value by engaging on a range of financially material ESG investment factors. This engagement programme is implemented through partnerships including LAPFF, Equity Ownership Service (EOS) at Federated Hermes (via a contract held by LGPS Central Ltd, the Fund's investment pool operator). LGIM also have a strong engagement programme which covers a proportion of the Fund's passive portfolio.

Recommendation

21. It is recommended that the responsible investment plan be noted, and the Committee is also asked to provide feedback on any areas of interest.

Equality Implications

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

Human Rights Implications

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

This is further supported by the Fund's approach to stewardship and voting and its approach to engagement in support of a fair and just transition to net zero. There are no changes to this approach as a result of this paper.

Appendices

Appendix A: Draft 2026 Responsible Investment Plan

Appendix B: Progress against 2025 Responsible Investment Plan

Background Papers

Local Pension Committee – Friday 5 December 2025– Climate Related Disclosure Report and Responsible Investment Update,

<https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=740&MId=7990>

Local Pension Committee – Friday 31 January 2025 – Responsible Investment Plan 2025,
<https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=740&MId=7986>

Officers to Contact

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RESPONSIBLE INVESTMENT PLAN 2026

Qtr.	Date	Title	Description	Complete
Q4	30 January 2026	RI Plan	Communication and publication of the Fund's 2026 RI Plan	
		Engagement and Divestment	Report from Hymans on the Fund's existing approach	
		Strategic Asset Allocation	Consideration of the Fund's Net Zero Climate Strategy progress within the asset allocation.	
	4 February 2026	Local Pension Board Report	Update to the Local Pension Board on progress against the Fund's net zero targets and any RI matters.	
	Date	LPC Workshop	Outcome of RI Survey	
	20 March 2026	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.	
			Update on outcome of RI Survey and Net Zero Climate Strategy proposals.	
		Manager Presentation	As part of DTZ (Property) report to Committee and provide an overview of the approach to ESG.	
	Summer	Newsletter	Outcome of RI Survey update to scheme members	
		LGPS Central RI and External Managers	Consideration of how the Fund works with LGPS Central to oversee legacy external managers and how that can be reported to LPC.	
	July 2026	Manager Presentation	As part of Manager report to Committee and provide an overview of the approach to ESG.	
		Stewardship Presentation	Stewardship presentation from LGPS Central on engagement effectiveness.	
		NZCS Review	Draft Strategy for LPC consideration.	

Appendix A

		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 2026	Manager Presentation	As part of Manager 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 and consider any outcomes from the RI survey and areas for focus.	
Q3	29 November 2026			
		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 to incorporate fit for the future requirements.	
		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.	

Appendix A

Q4	January 2026	Strategic Asset Allocation Committee	Consider recommendations from Climate Risk Report	
	January 2027	RI Plan	Or consider as part of ongoing business plan 2027/28.	

Ongoing Activities throughout the year or without date

Date (where applicable)	Title	Commentary
TBC 2026	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.	
2026	Responsible Investment considerations from fit for the future and integration with LGPS Central and other partner funds to support alignment.	
Investment Subcommittee throughout the year	Implementation and further inclusion of actions positively correlated with broader Net Zero Climate Strategy through LGPS Central to support the Fund's approach to responsible investment and managing climate risk.	
Quarterly	RI Working Group with LGPS Central and Partner Funds. Including Working with LGPS Central to continue to develop climate reporting more broadly and on their work to engage companies highlighted in the Climate Stewardship Plan, and that LGPS Central are following their escalation framework.	
Mid-Year 2026	Following review of the Stewardship Code 2020, review whether the Fund should apply, subject to value being evidenced, and requirements on the Fund. To consider if the Fund is sufficiently covered through LGPS Central reporting.	
Ad hoc	Continue review of best practice with regards to the Fund's asset classes and climate reporting, and international industry standards.	

Appendix A

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.

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. The Fund contacted members in relation to the Responsible Investment seeking views in late 2025.	
		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	<p>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.</p> <p>To include deeper dive on outcomes and key votes from the AGM season.</p>	
	September/October 2025	Triennial Valuation	Whole Fund valuation results, including climate risk modelling.	
Q3	5 December 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. The ISS is under review subject to Fit for the Future, this will include any review of the RI policy.	
		Manager Presentation.	Central presentation. 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.	
	11 December 2025	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.	
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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.	Completed 18 November 2025.
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 has continued to meet throughout the year. 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.