

Agenda Item 6: Pension Fund Annual Reports and Accounts 2020/21.

Ian Howe - Pensions Manager, Leicestershire County Council



Pension Fund AGM

- What is the LGPS?
- An introduction to the Leicestershire Pension Fund
- Pensions Administration
- Pensions Investment
- LGPS Central Update on Pooling



What is the LGPS?

- National Scheme
- Defined Benefit Pension Scheme
- Final Salary v Career Average
- 191 employers with active members (Councils, Academies, Universities etc)
- Overseen by the Department for Levelling Up, Housing and Communities and the Pension Regulator
- Two local governance bodies
 - Local Pension Committee
 - Local Pension Board



Local Governance

❑ Local Pension Committee

- Delegated authority taking overall responsibility for the Fund.
- Ten employer representatives (elected members and universities rep)
- Three non voting scheme member representatives
- Principal aim is to consider pensions matters with a view to safeguarding the interests of all scheme members

❑ Local Pension Board

- Three employer representatives (elected members)
- Three scheme member representatives
- Role in assisting the Administering Authority in ensuring the effective and efficient governance and administration of the scheme



Pensions Administration

The Administering Authority – Main Administration Duties include;

- Calculating and paying all types of pension benefits
- New starters, estimates
- New employers joining the scheme
- Regulation changes
- Year-end, valuation, benefit statements
- Governance - Reports to the Pension Board and as part of the Fund's Annual Report.



Fund Statistics

Membership of the scheme has increased in the year

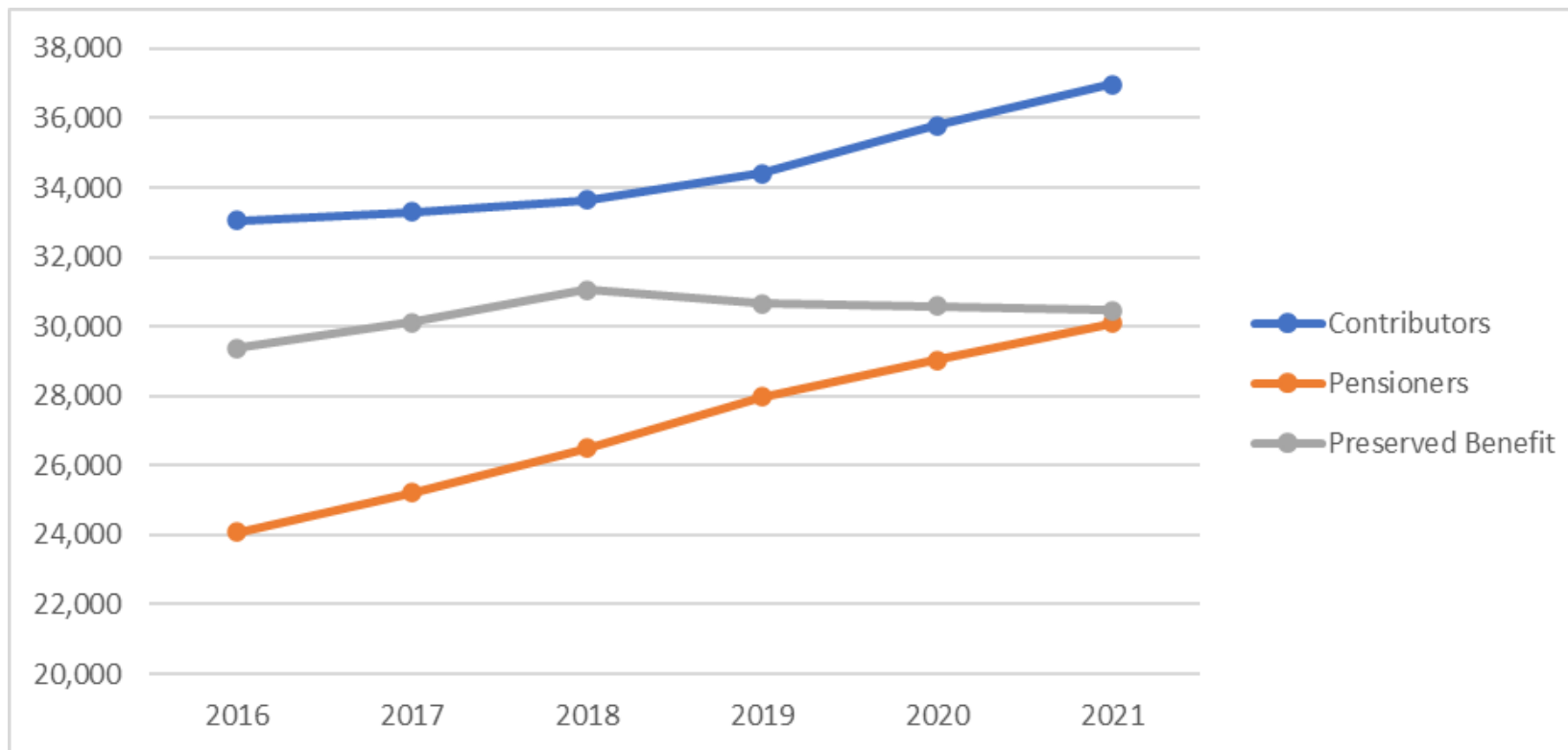
	Membership Numbers 31 March 2020 Click to add text	Membership Numbers 31 March 2021
Active contributors	35,779	36,972
Preserved members	30,586	30,469
Pensioners	29,036	30,089
Total	95,401	97,530



Membership numbers over the last five years

% increase over the 5 years

- Contributors 11.0%
- Pensioners 19.4%
- Preserved Benefits 1.2%



Administration Statistics 2020/21

Area	Number of Cases completed
New entrants	5,662
Retirements	1,601
Preserved leavers	1,250
Deaths	1,009
Refunds	964
Transfers in and out	271
Estimates	745



2020/21 Admin Key Performance Indicators

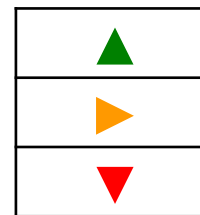
Full Year - 1 April 2020 to 31 March 2021

Business Process Perspective	Target	Achieved	
Retirement Benefits notified to members within 10 working days of paperwork received	92%	93%	▲
Pension payments made within 10 working days of receiving election	95%	93%	▶
Death benefits/payments sent to dependant within 10 working days of notification	90%	86%	▶

Good or better than target

Close to target

Below target



2020/21 Admin Key Performance Indicators

Customer Perspective - Feedback	Target	Achieved	
Establish members understanding of info provided - rated at least mainly ok or clear	95%	99%	▲
Experience of dealing with Section - rated at least good or excellent	95%	95%	▲
Establish members thoughts on the amount of info provided - rated as about right	92%	97%	▲
Establish the way members are treated - rated as polite or extremely polite	97%	99%	▲
Email response - understandable	95%	92%	▶
Email response - content detail	92%	93%	▲
Email response - timeliness	92%	96%	▲



Looking Ahead

Changes Ahead

- McCloud/Sargeant Judgement – remedy pending
- Development of Member Self-Service
- Bulk administration processes
- Dashboard

Looking Ahead

McCloud Sargeant Judgement

- In December 2018 the Court of Appeal found the protections granted during the move from final salary to career average (CARE) unlawful, on the grounds of age discrimination
- Remedy is being finalised for each Public Sector Scheme
- All Leicestershire Fund employers have been written to requesting scheme members hour changes for the period April 2014 to March 2022, as this will be required for the remedy.
- Subject to the final remedy, member's benefits will be “rerun”
- Benefits will be compared – using the better of final salary versus CARE
- Members benefits that increase will have arrears paid
- The increased cost of the remedy was scoped into the last Fund valuation



Looking Ahead

System Changes

- Further development to the Fund's member self-service system
- Over 28,000 scheme members signed up (but still much more to do)
- Working with some larger employers who have volunteered to help us increase their colleagues sign up
- A new online retirement process is available allowing a scheme member to liaise directly with the Pension Section via member self-service. This includes submission of their retirement options and certificates.
- It speeds up the retirement process, makes the transfer of documents more secure, and assists with home working
- Other online processes are being developed



Looking Ahead

Bulk Administration Processes

- Bulk administration processes are being developed for high volume areas, initially preserved benefits and refunds
- Officers will be able to run multiple member calculations simultaneously, rather than singular case by case calculations
- Improves efficiency and reduce administration time in these high-volume areas
- Reduces the time between members leaving the scheme and receiving their benefits
- Resource becomes available to work on other important areas; e.g. estimates, transfers, aggregations



Looking Ahead

Dashboard

- National move to improve the member pension experience
- People will have a "single sign in" to view all their pension benefits in one place (the dashboard)
- Data will be "pulled" securely from all pension systems – including the Leics LGPS
- Officers hope this will increase our own member self-service take up and increase member awareness
- Pension schemes will have a phased implementation – starting with some of the largest schemes.
- LGPS is due to go live in 2023



What is 'pooling'

Bhulesh Kachra, Senior Finance Analyst, Investments

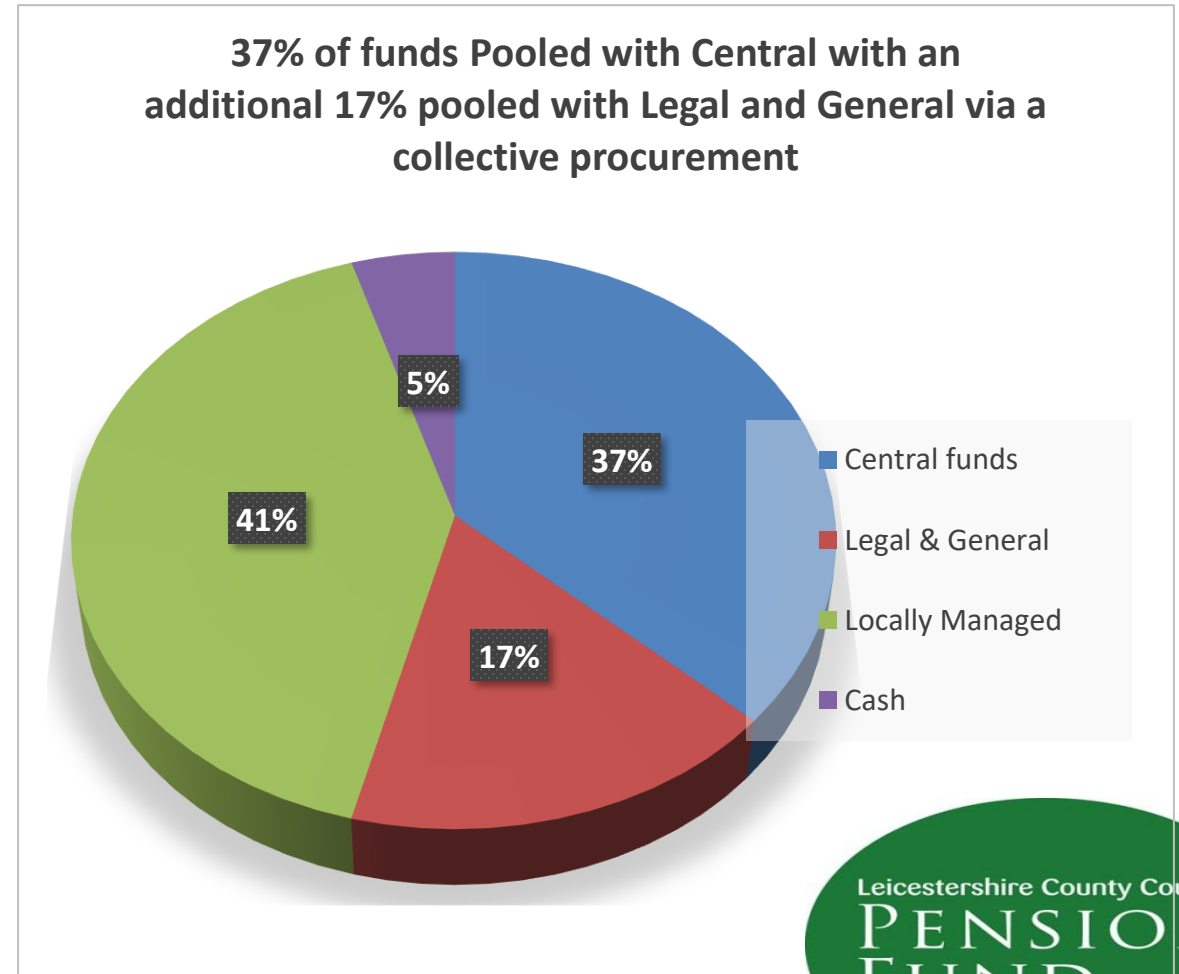


- Government instigated 'pooling' of pension funds in 2015 with the publication of criteria and guidance on pooling of Local Government Pension Scheme (LGPS) assets.
- Administering authorities formed their own groups and eight asset pools were formed. LGPS Central ("Central") is one of the eight pools, Leicestershire County Council is an equal shareholder with seven other Councils.
- The scale of each pool gives significant buying power in the investment market, allowing forecast savings of up to £2 billion by 2033.
- Total pooled or committed to pool funds by the 8 joint owners totals c£18bn at 30th September.
- Pooling has progressed at varying speed across the country. Significant progress has been made at the LCCPF. As at 30th September 2021 the LCCPF had pooled or committed to pool c£2.3bn of Fund assets



LGPS Central

- The LCCPF is has invested in 10 products to date:
 - 2 active and 1 passive equity fund - c£1,600m
 - 2 private equity vintages - £40m committed
 - Infrastructure core/core+ 2021 vintage - £70m committed
 - Emerging market credit - c£130m
 - Multi Asset Credit – c£200m
 - Investment Grade Credit – c£135m
 - Private Debt vintage - £160m committed
- Including LGIM investments LCCPF has pooled c54% of total funds
- The uncalled commitments when called will increase the proportion of pooled investments
- Investing in future Central products could increase the proportion of pooled funds



Investments

Current Investment Goals:

- Long term view of investment returns 20 years +
- Ongoing commitment to Responsible Investment
- Continually reducing employer deficit recovery periods, no employers with >17 year deficit recovery by March 2022
- Balance between long term returns and risk assessed annually
- Heavily diversified to balance risk, invested in many asset classes
- Preference to investing with known risks & established managers
- Continued commitment to asset pooling, improving ESG goals & cost savings.

Total Investments:

£5.1bn at 31 March 2021 (£4.1bn 2020; £4.3bn, 2019)

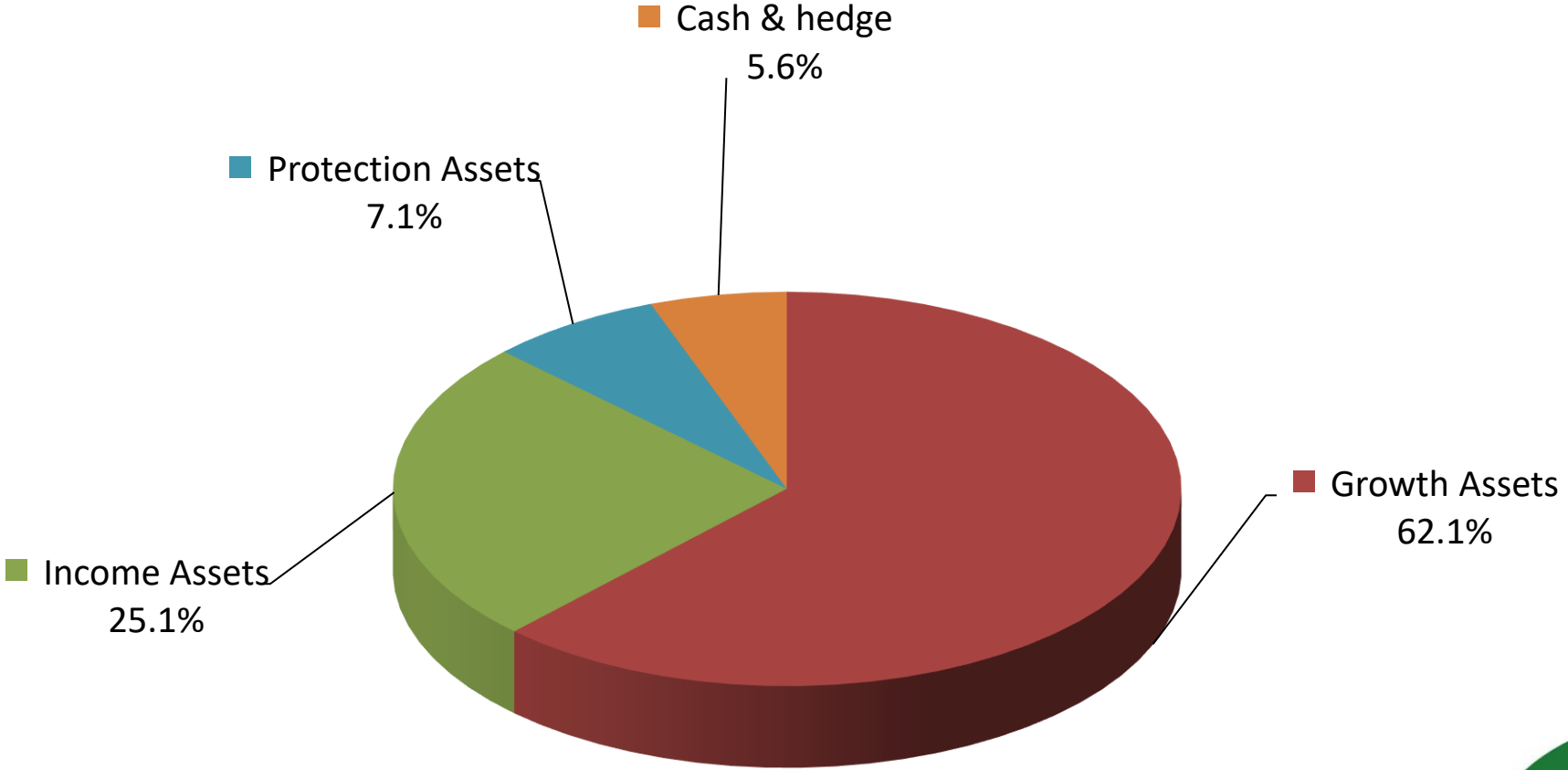


Leicestershire County Council Penson Fund and LGPS Central

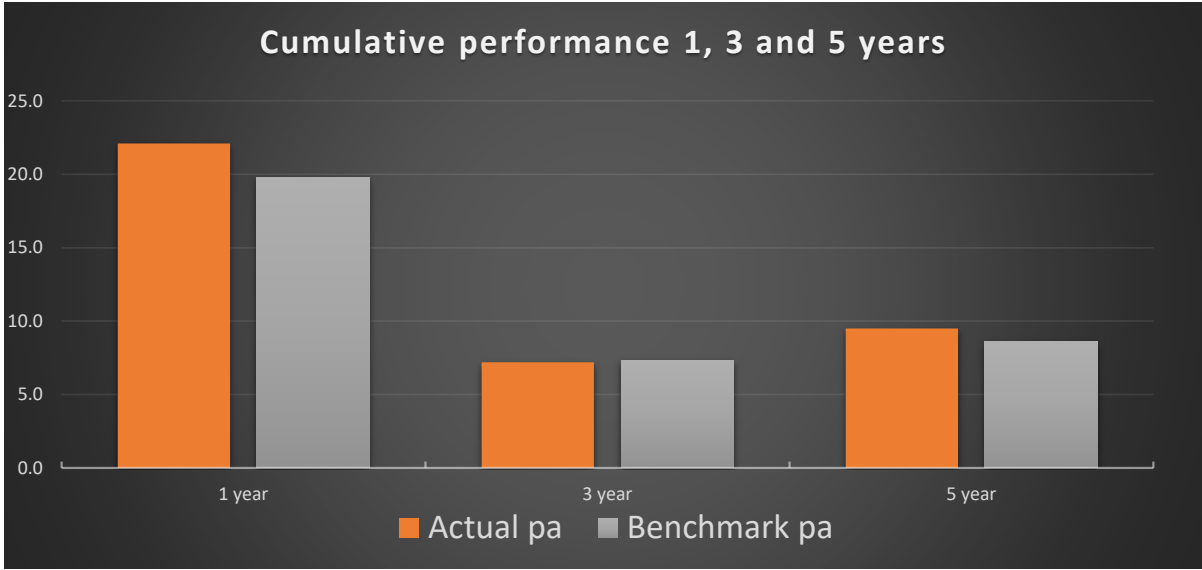
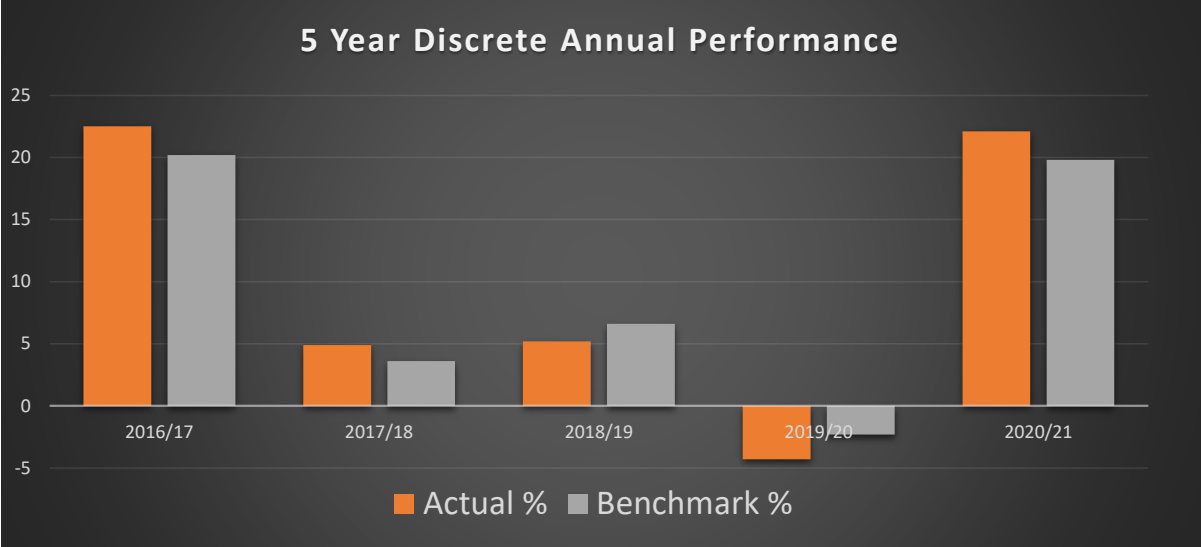
- Central has become the first port of call when assessing the needs of the Fund:
 - A single investment ‘manager’ providing client support
 - Access to Environmental, Social and Governance (ESG) specialism incorporating responsible investing and climate risk reporting
 - LCC are able to influence the development of products with respect to risk and target returns characteristics
 - The Fund is currently looking at number Central products for 2022 investments



Investments as at March 2021 (£5.1bn)



Investment Returns



	Actual pa	Benchmark pa	Diff
2016/17	22.5	20.2	2.3
2017/18	4.9	3.6	1.3
2018/19	5.2	6.6	-1.4
2019/20	-4.3	-2.3	-2
2020/21	22.1	19.8	2.3

	Actual pa	Benchmark pa	Diff pa
1 year	22.1	19.8	2.3
3 year	7.2	7.3	-0.1
5 year	9.5	8.6	0.9



Responsible Investment (RI)

- ❑ 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
- ❑ The Fund, as a responsible owner, has a strategy of engagement with companies to improve their stewardship, rather than simply excluding them from the investment portfolio
- ❑ The Fund believes that RI supports long term risk-adjusted returns and is reflected in the Funds Investment Strategy Statement (ISS)
- ❑ The Fund has recently published its second Climate Risk Report (CRR) which showed a reduction in the Fund's carbon footprint versus the benchmarks it is measured against of 17%. The 2021 analysis covered over 4,500 companies. The total carbon intensity was 158.8 tCO₂e/\$m revenue as at 31st March 2021.*
- ❑ The Fund also measures the holdings exposed to clean technology, coal power and fossil fuel reserves. All measures have improved since the first iteration of the CRR was undertaken as at 31st December 2019.

* Tonnes of carbon dioxide equivalent per million dollars of revenue



RI in the Year Ahead

- ❑ Fund has approval to commence work on a Climate Strategy with the goal of reaching net zero by at least 2050
- ❑ Work is underway with Central's RI team to deliver an updated RI plan to the Local Pension Committee in early 2022 for approval
- ❑ Four stewardship themes remain with regular reporting to the Pension Committee on progress via Central's stewardship reports
 - ❑ Climate change
 - ❑ Single-use plastics
 - ❑ Tax transparency
 - ❑ Technology and disruptive industries
- ❑ Development of the Funds Climate risk analysis to incorporate further Fund asset classes





Leicestershire County Council Pension Fund

LGPS CENTRAL LIMITED UPDATE ON POOLING

PRESENTED BY



JOHN BURNS
DEPUTY CEO



PATRICK O'HARA
Investment Director, Responsible Investment & Engagement

13th December 2021



What is Pooling?



May 2013: National Association of Pension Funds' local authority conference, Local Government Minister Brandon Lewis said:

"...the clear message from me this morning is that I am not wedded to the existing number of 89 funds in England and Wales. If it takes a smaller number of funds to improve the efficiency and cost-effectiveness of the Scheme, I shall not shy away from pursuing that goal."



November 2015: Government produce set of principles against which authorities were invited to bring forward proposals for half a dozen "asset pools". The principles included the following objectives:

- **Attain scale** – with £25 billion set as a target size for pools
- **Make savings** – no target was set but the word "substantial" gave an insight into the expectations
- **Include good governance**
- **Do more infrastructure** – expressed as an objective to develop the capacity and capability to increase investment but without a target



February 2016: Submissions were received by government for eight developing pools.

These groupings were a mixture of natural allies, geographical neighbours and/or the strategically like-minded.



3 April 2018: LGPS Central Limited opens for business.

25

Source: LAPF

Our Partner Funds:

Derbyshire Pension Fund

Leicestershire County Council Pension Fund

Staffordshire Pension Fund
Local Government Pension Scheme

West Midlands Pension Fund

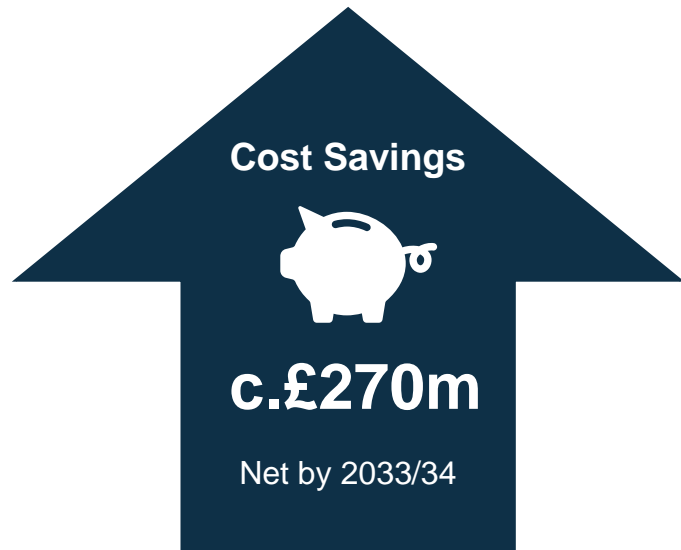
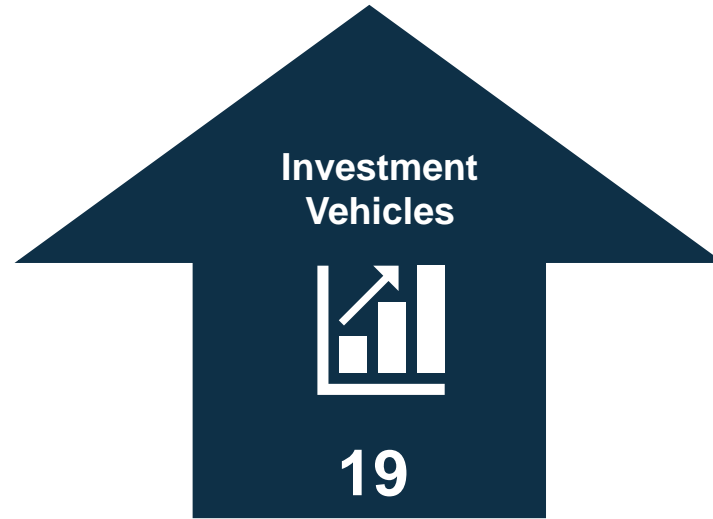
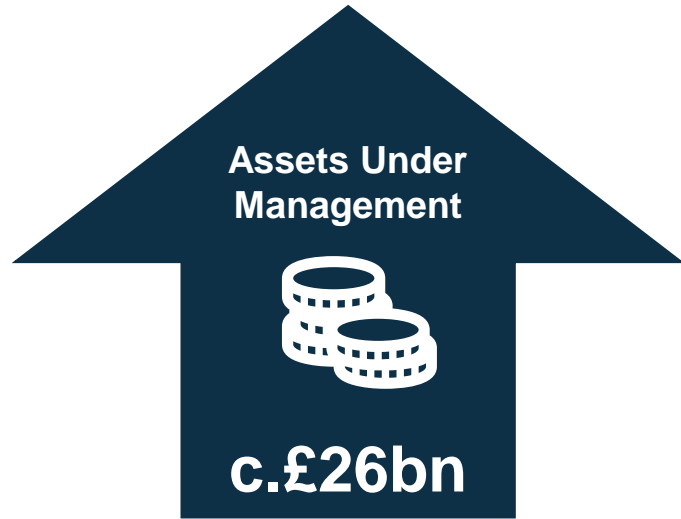
CHESHIRE Pension Fund

Nottinghamshire County Council

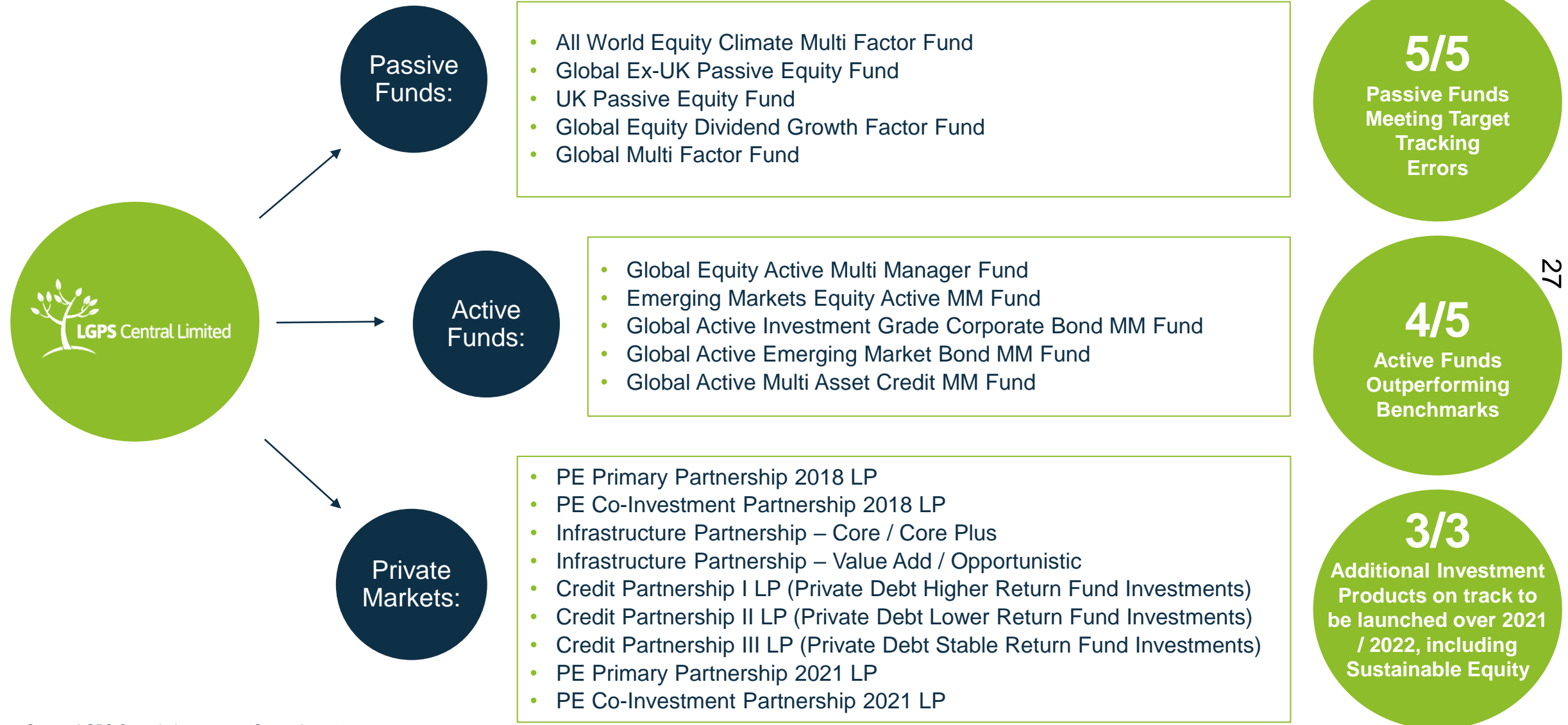
SHROPSHIRE COUNTY Pension Fund

Worcestershire Pension Fund

LGPS Central Update



LGPS Central Product Overview



Source: LGPS Central, data as at 30 September 2021

Continuous Product Development



LOOKING FORWARD TO 2022

Global Sustainable Equity

Funds that directly incorporate sustainability factors into the investment decision making process

Targeted Return

Fund targeting a return of cash + 3 - 4% p.a. with low correlation to equities and very diversified sources of return

Direct Property

Fund set up to invest directly in UK property

Private Equity

Low cost private equity fund of fund

What We Are Doing For LCCPF?

LCCPF IS INVESTED IN 9 LGPSC PRODUCTS



- Significant proportion of LCCPF assets invested in LGPS Central products, allowing access to wide range of asset classes with enhanced buying power
- Further commitments to Private Market Funds expected over 2022 / 2023
- LCCPF play an active role in product development, notably in relation to the Targeted Return Fund expected to be launched over Q1 2022
- Responsible Investment and climate considerations embedded into LGPSC processes, with additional support provided to LCCPF through Climate Risk Reporting

LGPS Central and Responsible Investment & Engagement

Patrick O'Hara



The LGPS and ESG



LGPS CENTRAL IS AN INTEGRAL PART OF THE BROAD UK ESG EFFORT

- Consideration of Environmental, Social and Governance issues is not new to LGPS funds, particularly LCCPF.
- LCCPF is also a member of the Local Authority Pension Fund Forum (LAPFF), formed in 1990, the leading collaborative shareholder’s engagement group.



Engagements include:

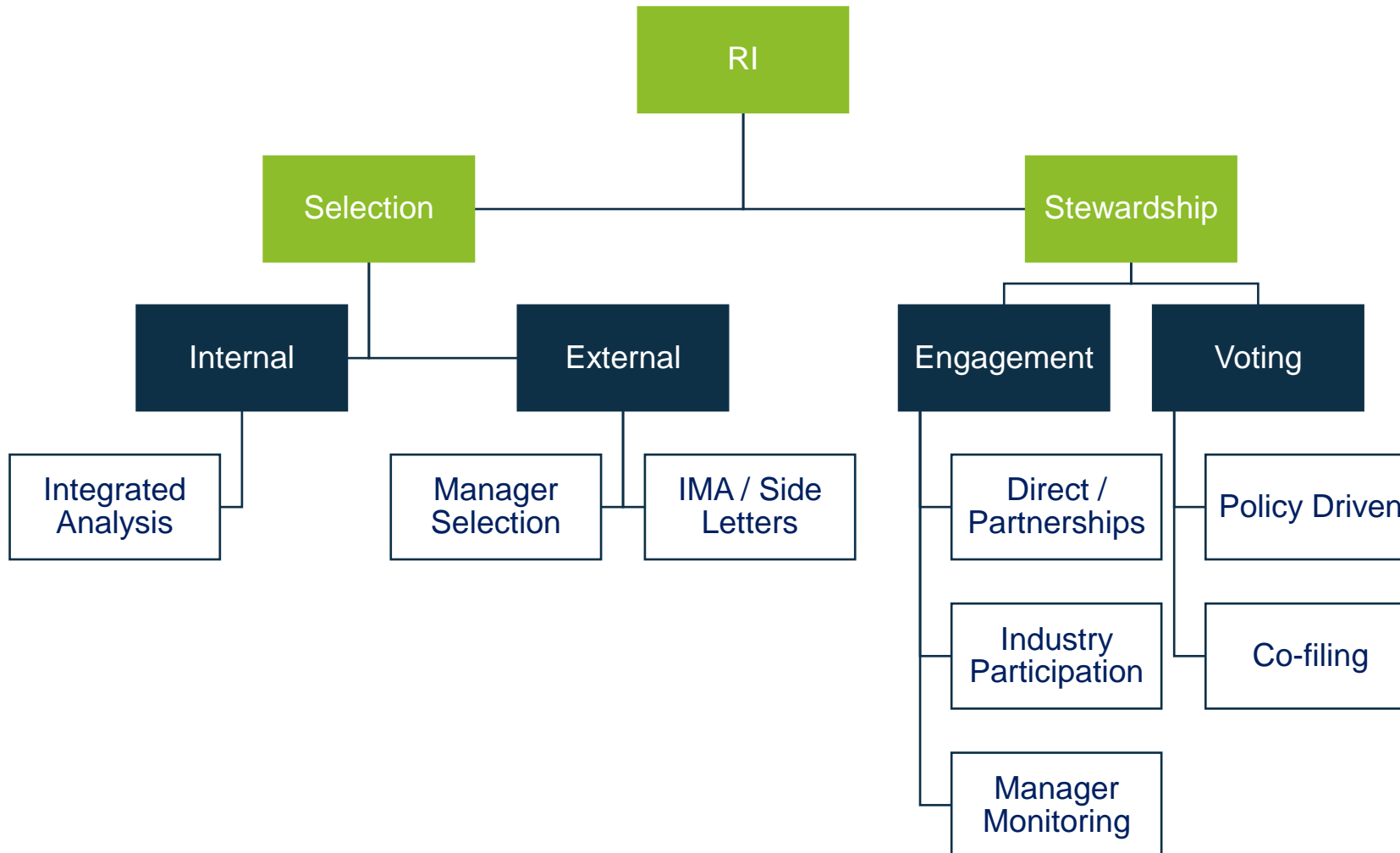
- Water scarcity
- Transition to low carbon economy
- Accounting standards

- LGPS Central Pool Member of LAPFF (along with wide ranging list of partnerships)
- Significant experience with LGPS Central RI&E team in engaging with companies on variety of ESG issues
- Provide additional support to LCCPF on RI&E issues, including provision of climate risk reports

LGPS Central and RI&E



MULTIPLE INTEGRATION ROUTES TO TAKE RI&E INTO ACCOUNT



100% LGPSC Funds achieved RI Integrated Status

Targeted voting and engagement strategies with dedicated in-house resources

Detailed Climate Risk Reports for all Partner Funds

Responsible Investment & Engagement



WE TAKE A RESPONSIBLE APPROACH TO INVESTING

- **LGPSC is Founding Member and Board Director of TPI Limited**, which plans to launch a **Global Climate Transition Centre** to greatly enhance the scope of climate assessments
- **Continued support of Paris-aligned accounting engagement project**: Reiterating message to “Big Four” of expectation to provide Net Zero aligned audits
- **Investor policy dialogue on deforestation (IPDD)** ([Investors Policy Dialogue on Deforestation \(IPDD\) Initiative » Tropical Forest Alliance](#)): Commitment to engage on deforestation across high-risk sectors (palm oil, soy, beef and leather, pulp & paper)
- **Institutional Investor Group on Climate Change (IIGCC) 2021 Global Investor Statement to Governments on the Climate Crisis** ([14 September 2021 | The Investor Agenda](#))



Does Engagement Work?

RESPONSIBLE INVESTORS TAKING THE LEAD

Engagement works but it can be a long game

As an owner, you have a voice

Corporations need responsible long-term investors

GLENCORE

Disclosure is Key

Voting and Engagement needs to be joined up

Share the heavy lifting

Collaboration increases impact

Small Investors can be influential



ExxonMobil³⁴



RioTinto

IIGCC Net Zero Framework

HOW LGPS CENTRAL CAN HELP

- Measurement of Net Zero alignment at company and portfolio level.
- Targeted engagement based on alignment.
- Engagement with regulators policy makers and government.
- Measurement and achievement of 70% target moving to 100%.
- Engagement with Corporates, supported by active voting – including shareholder resolutions.
- ESG integration in active portfolios to help identify winners and avoid losers.
- Climate Risk Monitoring Service updated for Net Zero commitments
- TCFD Report, including future enhancements.
- Benchmark construction and selection for passive markets.
- Collaborative engagement with Private Market Industry.



Summary and Next Steps

LGPS Central and Leicestershire



SUMMARY

- LGPS Central works closely with LCCPF and Partner Funds to provide **access** to a **wide range of asset classes tailored** to meet the **needs of LCCPF**
- Ability to **reduce any governance burden** on LCCPF with LGPS Central taking on vital role of manager monitoring



- Using **combined purchasing power** enables LGPSC to negotiate discounts to investment manager fees on behalf of LCCPF

- The team continues to grow with **dedicated staff** to meet the needs of LCCPF
- Working in **partnership with our shareholders** to drive the success of LGPS Central

Next Steps



PARTNERSHIP IS THE FOUNDATION FOR EVERYTHING WE DO



Strong relationship with LCCPF



Continue to develop LGPS Central's Products to meet LCCPF's needs



Focus on the ongoing performance and structure of existing LGPSC products and enhancing out RI capabilities as we move into 2022

Appendix

Fund Performance



LGPS Central Fund Performance:



Annualised Performance Since Inception to 30 September 2021	Inception Date	Fund (% p.a.)	B'mark (% p.a.)	Tracking Error
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Passive ACS Funds

LGPS Central Limited UK Passive Equity Fund	April 2018	4.90	5.11	
LGPS Central Limited Global Ex-UK Passive Equity Fund	April 2018	12.13	12.33	
LGPS Central Limited Global Equity Dividend Growth Factor Fund	April 2018	10.89	11.10	
LGPS Central Limited All World Equity Climate Multi Factor Fund	Oct 2019	14.86	14.64	
LGPS Central Limited Global Multi Factor Fund	Jan 2021	9.76	9.84	

Annualised Performance Since Inception to 30 September 2021	Inception Date	Fund (% p.a.)	B'mark (% p.a.)	Target (% p.a.)
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Active ACS Funds

LGPS Central Limited Global Equity Active Multi Manager Fund	March 2019	17.07	15.88	17.38
LGPS Central Limited Emerging Markets Equity Active MM Fund	July 2019	6.37	6.73	8.73
LGPS Central Limited Global Active Investment Grade Corporate Bond MM Fund	March 2020	10.95	9.83	10.63
LGPS Central Limited Global Active Emerging Market Bond MM Fund	Dec 2020	-0.31	-1.18	-0.39
LGPS Central Limited Global Active Multi Asset Credit MM Fund	April 2021	1.39	0.02	1.84

Scottish Limited Partnerships

LGPS Central PE Primary Partnership 2018 LP	Jan 2019	30.5	16.3	20.3
LGPS Central PE Co-Investment Partnership 2018 LP	Jan 2019	51.4	14.7	18.7

5 Passive Funds launched

5 Active Funds launched

9 Private Market Strategies Launched

Source: LGPS Central / Northern Trust

Where inception dates are less than one-year, absolute performance shown. Performance of Scottish Limited Partnerships shown to 30 June 2021. Due to the nature of private markets, performance reports lag by one quarter.

LGPS Central and RI&E



LGPS CENTRAL'S PARTNERSHIPS



IIGCC Net Zero Framework

KEY ELEMENTS OF THE FRAMEWORK

- Focuses on four asset classes.
- Focus on material sectors.
- **7.6% p.a. target for emissions reduction. Based on scope 1 and 2 emissions and sector decarbonisation pathways.**
- **Achieving 50% reduction in emissions by 2030.**
- **70% of financed emissions either net zero, aligned to a net zero pathway, or subject to engagement. Ramping up to 100%.**



- Targets reviewed every five years
- Annual disclosure of performance similar to TCFD
- Target allocation to renewables/ green tech.

Industry Participation

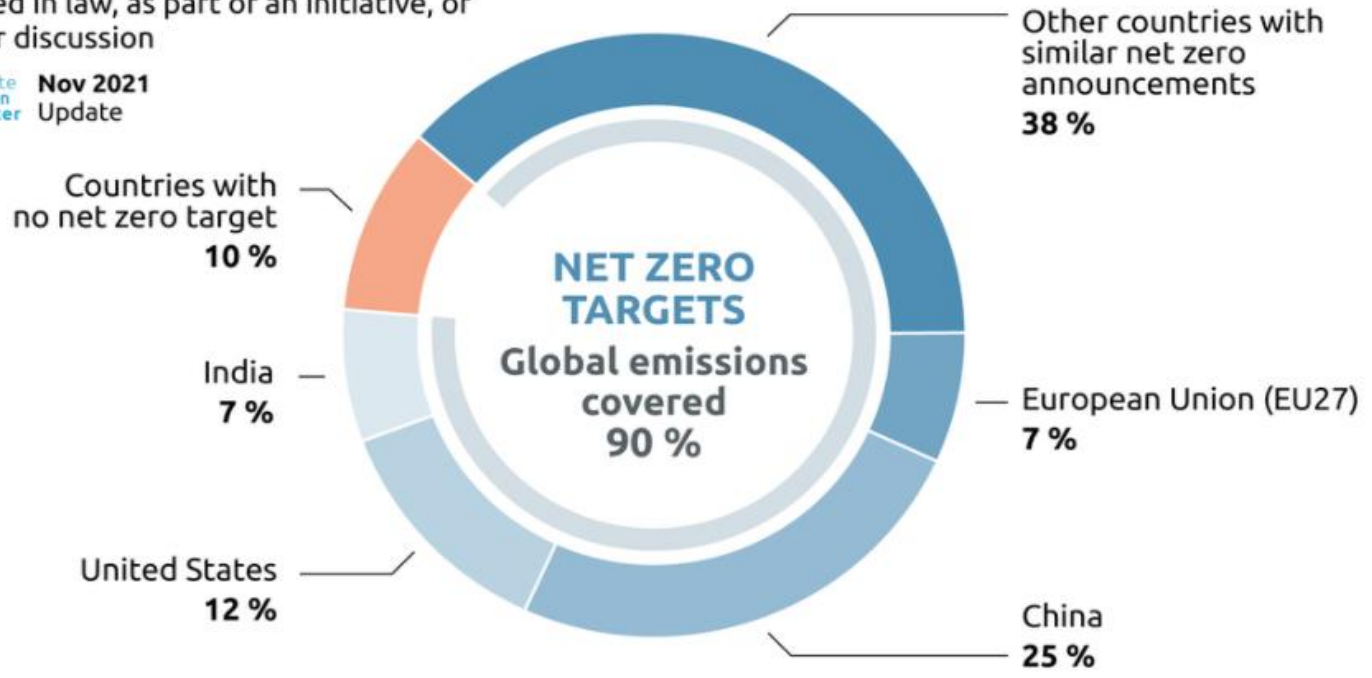


WHY WE ENGAGE WITH POLICY MAKERS

Net zero emissions target announcements

Agreed in law, as part of an initiative, or under discussion

Climate Action Tracker Nov 2021 Update



Policy Action

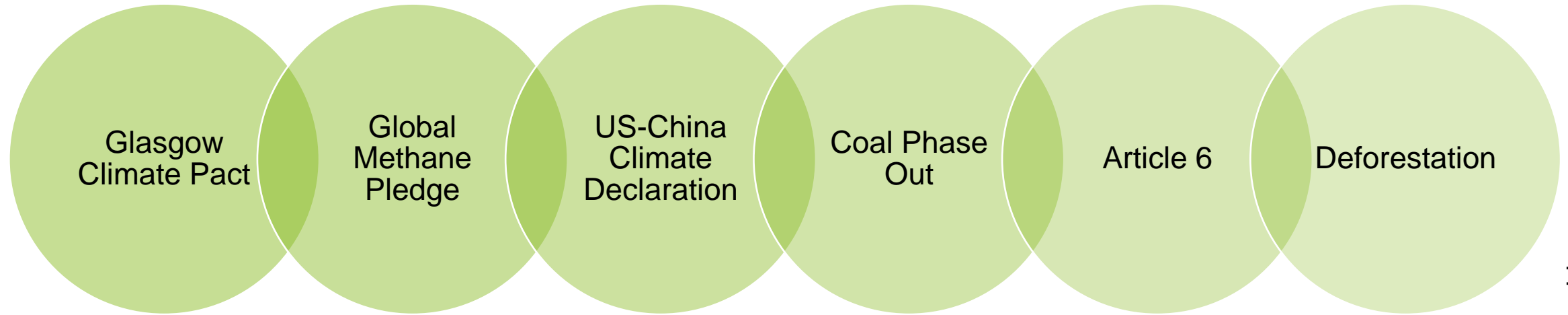
Stronger Signals

Winners and Losers

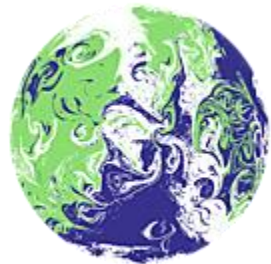
43

Figure 1: Share of GHG emissions covered by countries that have adopted or announced net zero emission targets (agreed in law, as part of an initiative, or under discussion). Compilation based on ECIU (2021) as of 09.11.2021 complemented by CAT analysis. Emissions data for 2017 taken from EDGAR emissions database (EDGAR, 2019).

COP26: The Big Turning Point for 1.5°C?



44



**UN CLIMATE
CHANGE
CONFERENCE
UK 2021**

IN PARTNERSHIP WITH ITALY



**Global
Methane
Pledge**



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Share Class and Benchmark performance displayed in GBP.

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

All information is prepared as of **6 December 2021**

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

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



46