

LEICESTERSHIRE COUNTY COUNCIL PENSION FUND**ANNUAL GENERAL MEETING – DECEMBER 12TH 2022****REPORT OF LOCAL PENSION COMMITTEE EMPLOYEE REPRESENTATIVES**

1. The provision of a good defined benefit pension scheme open to all staff such as the Local Government Pension Scheme is a very valuable benefit. Thus the performance of the Leicestershire Fund's investments is important to ensure that the scheme can meet its liabilities to pay pension benefits and grants to pensioners and other beneficiaries, and remains open to further accrual for existing and new employees.
2. The value of the Fund up to the end of March 2022 showed a total Fund value of £5.790 billion. This is a very significant increase of over £1.4 billion compared to the previous actuarial review date of March 2019 with equity investment returns being particularly strong in 2021/22.
3. It should also be noted that the discount rate has widened significantly which has had the effect of lowering the technical measurement of liabilities though not the actual pensions to be paid.
4. The latest actuarial valuation of the fund showed that as of 31st March 2022, the assets represented funding level at 105% of the liabilities at the revised CPI assumption of 2.9%, which represented a significant improvement from the 89% valuation in 2019. This means that the Leicestershire Fund's pensions benefits liabilities can currently be referred to as 'fully funded'.
5. It should be noted that although the funding position as at 31st March 2022 was encouraging, the total funding level is only at a single point in time and the markets continue to fluctuate during a turbulent period for the global economy. Pensions require a very long perspective (a few current scheme members can expect to be still receiving pension benefits in 80 years' time) and the fund should be careful about relaxing employer contributions too much based on a single snapshot in time.
6. As part of their Responsible Investment (RI) obligations, Local Government Pension Schemes (LGPSs) have always been required to take account of Environmental, Social & Governance (ESG) factors in their investment decision-making. In common with most LGPSs, the Leicestershire Pension Scheme has recognised climate change as a key ESG risk:
 - a) As employee representatives, we have sought to support & influence the Scheme in its efforts to reconcile increasing climate-related risk with its 'fiduciary' duty to maximise returns from investment through the development of a Net Zero Climate Strategy.
According to the training that the Scheme provides to new Local Pensions Committee members, the pensions industry in general is rapidly coming to the view that a shift to a more environmentally sustainable form of investing need not come at the expense of returns on investment, or the continued ability to pay out pension benefits.

- b) The Leicestershire Local Pensions Committee agreed a revised Responsible Investment Plan in January 2022. Along with all the Leicestershire Pension Fund's key funding and investment strategy documents, this is available to scheme members on the Fund's website here:

<https://leicsmss.pensiondetails.co.uk/home/scheme-member/lgps/fund-admin-and-guidance/pension-fund-and-finance>

As employee representatives, we have sought to keep the Fund to its timetable for developing a Net Zero Climate Strategy and amending its Investment Strategy Statement accordingly. We have also monitored its efforts to consult scheme members on proposed carbon reduction targets and on the final draft document. In doing so, we have noted that a substantial proportion of scheme members appear to favour firmer action to withdraw investment from companies that are causing the most damage to the environment, and direct investment towards the renewable energy industry. We encourage Scheme members to comment on the draft Strategy via the Fund's ongoing consultation process which closes on 5th February 2023:

<https://leicsmss.pensiondetails.co.uk/home/all-news>

- c) It is acknowledged that the Leicestershire Pension Fund's investments in companies that are high carbon-emitters is gradually declining over time. However, we believe that timely completion of its RI Plan will ensure that the Fund's contracted investment managers are able to take fuller account of climate-related risks and opportunities in investing sustainably for the future benefit of scheme members and their employers.

It is encouraging to note that some of the investment managers contracted by the Scheme, and in particular the LGPS Central pool that Leicestershire is a member of, are developing robust approaches to RI, e.g. Aegon Asset Management who operate an investment fund product that:

- i) has climate guidelines and milestones in place as a pathway towards net zero carbon alignment,
- ii) directs investments to companies with a robust and credible plan towards net-zero,
- iii) aims to deliver a lower carbon footprint than the broader market.

7. Employees/pensioners were represented at all Local Pensions Committee & Investment Sub-Committee meetings during the past year. We would like to thank the LCC Pensions Section for their efficient administration of the benefits of the Fund, and the greater access to individual pension information provided via their online service.

8. To conclude, the Employee representatives are satisfied that the Fund is currently being managed in a professional manner in the best interests of the Scheme members and beneficiaries.

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Employee Representatives