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Sent via email to: [LGPensions@communities.gov.uk](mailto:LGPensions@communities.gov.uk)

Dear LGF Pensions Team

I write on behalf of the Leicestershire County Council Pension Fund (the Fund) in response to the 'Fit for the Future' consultation.

The Fund acts on behalf of c.200 employers and over 100,000 members, and we are an equal one-eighth shareholder of the LGPS Central limited pool ("the pool" or "pool"). Since inception of our Pool the Fund has been supportive of pooling and recognises the benefits it has already achieved.

We further understand that changes are required to support the evolution of pooling, and we support governments ambitions on these. However, we believe there are checks and balances needed to support successful implementation which will result in positive outcomes aligned with both the Fund's fiduciary duty and government ambitions, some of these we believe are best left to Accountable Authorities (AAs) and Pool Companies. Key to our response relates to the following points:

- **Minimum standards:** Through the minimum standards it is vital that it is expressly set out that AAs fiduciary duties are extended to Pool companies as their primary duty.
- **AAs role:** AAs should continue to set high-level investment objectives, and strategic asset allocations (SAAs) where AAs view it as important to fulfil their responsibilities. AAs should have the remit to include considerations such as risk appetite, active versus passive, high-level geographic exposure (including legacy UK overweight) and responsible investment considerations.
- **Legacy assets:** We believe it is most appropriate that pool companies and AAs work together to develop a framework for legacy asset management to transition assets wherever possible ahead of the deadline. This is supported by pools being

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able to invest through existing mandates and external managers, as well as manage existing legacy funds through segregated and discretionary mandates.

- **Advice:** Pool companies should not be mandated to provide ‘principal’ advice in the short-term for SAA considerations. These are services that should develop over-time, however there are options that may be better placed to support pooling in the meantime.
- **Local Investment:** Local investment considerations can be supported by governmental bodies such as the National Wealth Fund creating investable opportunities, to help with current risk concerns. AAs and pools should consider the best options for how local investment is undertaken, whether that be as a pool, in collaboration and the scale of those investments.

We believe that these are key considerations but that ultimately it will be for asset pool companies and their AAs to work together to set high-level of standards for how implementation of these proposals are enacted.

Yours faithfully,



Declan Keegan  
Director of Corporate Resources  
Leicestershire County Council



Mr Thomas Barkley CC  
Chairman of the Local Pension Committee

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**Question 1: Do you agree that all pools should be required to meet the minimum standards of pooling set out above?**

Yes, subject to an additional requirement related to extension of fiduciary duty to pools, alongside other considerations. In summary we believe minimum standards could be implemented as follows:

1. It is expressly set out that pool companies hold the same fiduciary duty as AAs (Q3).
2. AAs delegate implementation of investment strategies to pools, subject to mandatory collaboration and dialogue with partner funds. This is necessary to fulfil the Fund's fiduciary duty (Q2 & Q3) and retain accountability to employers and scheme members. To further support this consideration should be given to how investment advice is provided as discussed in Q5.
3. Pools being FCA regulated.
4. AAs transferring legacy assets to the management of the pool as far as is cost effective and efficient, with the ability for partner funds and pools to set an appropriate framework for this (Q8 & 9).

However, while minimum standards are set for pooling it is vital pools are held to the highest standards, to this end it is vital that AAs are able to hold pools accountable in a worst-case scenario without putting partner funds, as shareholders, at risk, as discussed in Q3, as well as protect the interests of employers and ultimately taxpayers. We believe these are considerations and standards best left to partner funds and pools to agree, as discussed elsewhere.

**Question 2: Do you agree that the investment strategy set by the administering authority should include high-level investment objectives, and optionally, a high-level strategic asset allocation, with all implementation activity delegated to the pool?**

Yes, subject to clear guidance to the extent AAs can set high-level investment objectives and strategic asset allocation to ensure consistency for pools in implementation. This supports AAs continued position as being responsible for balancing the cost to employers, the risk to achieve investment returns and the target funding level. We believe this should be implemented as follows:

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- **Investment Approach:** AAs should be able to set high level allocation in relation to active, semi-passive and passive management for assets where AAs have strongly held beliefs relating to passive management providing better value. There is a risk that pools, as asset manager, believe they can outperform the market, when in reality only around 10% of active funds outperform passive markets over longer time frames.
- **Risk appetite:** Recognising there are large variety of risks within asset classes, AAs should be able to set they want average risk within each asset class. e.g., 10% exposure to Infrastructure and want X% volatility or Y% allocated to greenfield development, this can be agreed as part of SAA considerations.
- **Geographic exposure** is another way AAs can manage risk and limit overexposure. This needs careful guidance to ensure AAs are not too specific, and that it is broad enough not to create issues in development of mandates for the Pool. However, this feels important where AAs have strong views such as overexposure to the UK market or emerging markets.
- **Responsible Investment considerations**, some AAs have more stringent net zero targets, recognise value in aligning approaches through pools however recognise funds do have some differences in their targets and how they look to achieve net zero. For example, LCCPF have specific allocations to forestry and net zero infrastructure. These clear objectives should be retained.

While we believe SAA decision-making should remain with AAs, AAs will be required to work with pools on these matters in development of these considerations. Just as with the implementation of a SAA, pools must continue to engage with AAs and support open communication. To this end it is important AAs are consulted prior to assets being sold, however we believe it should be for pools and partner funds to agree appropriate governance structures for this process.

In the short to medium term, given time needed to develop appropriate mandates for investment, and deploy capital for implementation of strategies, pools should be allowed to invest in non-pooled products. This will prevent unnecessary cash holdings or inertia, while in the process of developing mandates, or where external management would be of greater benefit due to expertise and resourcing for example, rather than development of rushed, potentially sub-standard mandates.

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**Question 3: Do you agree that an investment strategy on this basis would be sufficient to meet the administering authority's fiduciary duty?**

Yes, subject to AAs fiduciary duty being extended to the asset pools as part of minimum standards. As well as by requiring appropriate checks and balances with AAs to ensure SAA implementation fits with different scheme requirements, and how additional costs may be managed or addressed.

This will help address a key concern with how AAs are able to hold pools accountable, as assets will flow to pools regardless of their performance which presents difficulty for AAs as fiduciary stewards. Given AAs own the pooling companies, traditional commercial sanctions would be less effective, as compensation would ultimately come from the AAs themselves. It is crucial for the government to consider mechanisms that promote effective pooling while ensuring that risk taking remains within acceptable bounds, as any shortfall will ultimately impact the employers within the scheme.

It is our view that government do not necessarily need to prescribe in these areas, other than the minimum standard for pools, but it will be for partner funds and pools to establish high standards for government to reflect pools new roles and ensure pools can be held to account rather than resorting to more extreme actions such as voting against director re-election for example.

**Question 4: What are your views on the proposed template for strategic asset allocation in the investment strategy statement?**

This is largely the approach LCCPF already takes, however believe scope should also be allowed to account for areas highlighted within Q2.

- Where AAs believe it adds value SAA should allow for passive, semi-passive and active allocation, and broad geographic allocations or limits.
- Risk levels: Recognising there are large variety of risks within asset classes, AAs should be able to set they want average risk within each asset class, this could be through another column within the template. This is also relevant as part of Q15.
- Pools and AAs should be allowed discretion to agree changes to the template to support clear and efficient administration.

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**Question 5: Do you agree that the pool should provide investment advice on the investment strategies of its partner AAs? Do you see that further advice or input would be necessary to be able to consider advice provided by the pool – if so, what form do you envisage this taking?**

The Fund agrees that it is appropriate for pools to provide principal advice on investment manager selection, however, believe that this creates unnecessary risks when also providing principal advice on SAAs with all other new responsibilities for pools at this early stage.

Providing principal advice on SAAs represents a significant shift from existing processes and may introduce a potential conflict which may lead to implementation of sub-optimal strategies. For example, conflicts may arise if ease of strategy for the pooling company is considered over individual needs of AAs. Having similar strategies for all AAs could also lead to concentration risk if the strategy ultimately underperforms targets.

It is recognised that models related to fiduciary management are able to manage these conflicts, however pools do not face the same rigorous competition and automatically will retain assets regardless of investments performance.

Instead, it may be appropriate for AAs to retain external principal advice in the short to medium term, while pools develop appropriate oversight and governance teams and processes. Throughout this it is vital that AAs can appropriately judge and set performance targets and identify and challenge if they believe objectives are favorably structured of if the performance hurdles set too low.

One solution may be to consider opportunities in the short-term for AAs within a pool to procure a joint investment advisor. This might allow for independence, expertise, and knowledge of the market, together with a more unified approach to investment, and resource efficiencies, while being able to hold pools to account in support of AAs fiduciary duty. Throughout this process would engage with the pool on its investment strategy prior to any approval. Advisors will then be able to be retained to support monitoring of implementation of the strategy.

If the proposal is adopted it is essential that AAs are given the ability to undertake independent review of the approach being taken, with the ability to act upon concerns.

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**Question 6: Do you agree that all pools should be established as investment management companies authorised by the FCA, and authorised to provide relevant advice?**

Yes, given LGPS Central is already set up in this way we have no disagreement with this.

**Question 7: Do you agree that administering authorities should be required to transfer all listed assets into pooled vehicles managed by their pool company?**

Yes. This is the simplest approach, subject to references to 'pooled vehicles' also allowing use of discretionary and segregated mandates through pools where appropriate and not requiring pooled ACSs being setup.

**Question 8: Do you agree that administering authorities should be required to transfer legacy illiquid investments to the management of the pool?**

Yes, to an extent, in recognition of economies of scale, resourcing and considering value for money implications.

It should be for AAs and pools to develop a framework or approach to any transfer recognising among AAs there are extensive legacy assets. It is questionable whether the resource required for management of legacy illiquid investments, versus other areas of focus such as development of new investment mandates and requiring all funds to be reinvested through the pools going forward is cost effective.

It is also worth highlighting some of these legacy assets are sub-scale. Pools and partner funds should be able to 'draw the line'; however, this will also need to manage any conflict where pools may wish to pick and choose which assets they would prefer to take on.

Performance and management costs of legacy assets that the pooling company does not want to incorporate into future mandates should remain attributed to the originating Fund.

**Question 9: What capacity and expertise would the pools need to develop to take on management of legacy assets of the partner funds and when could this be delivered?**

We believe these considerations are best left to pools and partner funds given requirements as part of annual business planning. There will be assets that can easily be transferred given common investment managers and funds, however given the number

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of legacy assets across AAs careful consideration will need to be given to this part. These considerations will need to include capacity and resourcing for the pools, which may not be as cost effective as funds managing legacy assets down over time, as well as who will be responsible for any transition costs.

It is recognised this approach makes it a lot easier for the pools to build products with discretion on implementing the SAA, and visibility of returning capital. Any potential conflicts related to pool's discretion to dispose of an investment early, which may result in additional costs for a fund need to be carefully managed. These potential conflicts could be managed with an appropriate framework agreed by pools and partner funds.

**Question 10: Do you have views on the indicative timeline for implementation with pools adopting the proposed characteristics and pooling being complete by March 2026?**

This will be a challenging timescale. However, we recognise it is a continuation of existing intentions. It is important that decisions made under time pressure do not result in sub-optimal and costly decisions due to the significant increase in requirements placed upon pools.

To date while the Fund has looked to invest through Central wherever possible, time needed to create appropriate mandates and deploy capital has left the Fund with significant cash holdings. This could be resolved through pools being able to invest with external managers non-pooled products to avoid unnecessary cash holdings, while in the process of developing mandates, or where external management would be of greater benefit due to expertise and resourcing for example.

As set out in Q7 allowing pools to take on assets as part of a discretionary or segregated mandate will support governments intended timeline.

**Question 11: What scope is there to increase collaboration between pools, including the sharing of specialisms or specific local expertise? Are there any barriers to such collaboration?**

We strongly support collaboration which may have a number of benefits including building on pool strengths, enabling even bigger economies of scale in appropriate assets, and supporting investment across niche investments.

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We believe this support for collaboration should also be extended to bodies like the National Wealth Fund. As discussed in relation to local investment in Q13 and Q 14 which will further avoid competition across the pools and support access to expertise.

**Question 12: What potential is there for collaboration between partner funds in the same pool on issues such as administration and training? Are there other areas where greater collaboration could be beneficial?**

There is a lot of good practice taking place not only across partner funds, but across the wider LGPS landscape. This is through a LGPS Central Chairs meeting, administration meetings and wider at LGPS fund officer groups and initiatives such as the Norfolk Framework.

Further collaboration on training can be supported through establishing requirements suggested through Q24 which will allow for a more consistent approach across AAs.

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

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

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

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

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**Question 14: Do you agree that administering authorities should work with their Combined Authority, Mayoral Combined Authority, Combined County Authority, Corporate Joint Committee or with local authorities in areas where these do not exist, to identify suitable local investment opportunities, and to have regard to local growth plans and local growth priorities in setting their investment strategy? How would you envisage your pool would seek to achieve this?**

As above the Fund would welcome a broader definition so as not to limit or concentrate investment risks, while also providing scale for Government's ambitions and collaboration.

Given AAs must maintain focus on fiduciary duty, it is our view that investment managers and the pool will invest in best opportunities which may or may not be considered 'local'. Government can support the approach to this through development of pipeline projects and through the National Wealth Fund. Similar to Canada's Venture Capital Catalyst Initiative, providing funding to leverage more private capital, as well as providing enticing terms for institutional investors broadly.

This broader definition would further avoid unintended concentration risk within the local area. For example, if areas face economic downturn this could result in double cost pressures on local councils, through their own need to support the local area, let alone through higher contributions if investments underperform.

If Government are minded to continue proposals related to working with local authorities it is vital the AAs and pools roles are clearly defined to prevent challenges in relation to misalignment between local economic and growth priorities across respective authorities, and to recognise the LGPS is a long-term investor and should not be subject to challenges from any political upheaval or changes to local authority priorities.

There is a risk that without clear boundaries these proposals overexpose the Fund to potential political risks, alongside capacity constraints. An approach along these lines should be limited and be dependent on a framework agreed by pools and partner funds in relation to scale and to ensure any decisions are not unduly motivated by considerations over that of financial returns.

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**Question 15: Do you agree that administering authorities should set out their objectives on local investment, including a target range in their investment strategy statement?**

Is it unclear how this question fits alongside the strategic asset allocation table, if AAs set a target should this be an asset in its own right, or should AAs set sub-targets within the existing asset classes to cover any expected targets.

If AAs are mandated to set objectives, AAs should also be able to set out if it wishes to limit or prohibit exposure to certain high-risk asset types within the UK.

**Question 16: Do you agree that pools should be required to develop the capability to carry out due diligence on local investment opportunities and to manage such investments?**

No, as with any other investment implementation decisions, pools in partnership with partner funds should be left to decide what is the appropriate approach to use in line with cost benefit analysis. It is recognised there are a number of options available which may depend on the approach agreed:

- Pools resource their own capacity, there may be limits with regard to scale in terms of not being able to invest in smaller scale investments, like some AAs have already developed.
- Collaboration between pools.
- Leveraging existing national models such as the National Wealth Fund
- Use of external regional managers for a new local specific fund which may already have experience and be closer to assets.
- Non-local specific funds where opportunities are considered by existing or new investment managers.

**Question 17: Do you agree that administering authorities should report on their local investments and their impact in their annual reports? What should be included in this reporting?**

No, this is an additional burden that does not align with the purpose of the LGPS.

Government needs to be clear for what purpose they see annual reports. If it is to communicate more broadly with scheme members and local taxpayers, there may be alternative solutions better placed to more easily communicate these areas of interest. Key considerations need to be that any communication does not confuse the purpose of the Fund:

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- Given pools are making implementation decisions they should be the ones to publish reporting on local investments. This should be split into specific pool area reporting, as well as broader UK wide investment. AAs should be able to utilise and link to this within their own reporting.
- Requirements for reporting should be kept to a minimum, be consistent and set out clear metrics and guidance for all reporting to prevent unfair comparisons across AAs and pools.

**Question 18: Do you agree with the overall approach to governance, which builds on the SAB's Good Governance recommendations?**

Broadly. However, these recommendations were recommended at a time of existing arrangements in relation to AAs and their Pension Committees investment decision making. It is important that how they are implemented reflects Government's final proposals and any reduction in responsibilities envisaged for AAs.

Vitally for AAs will be how final proposals help shape how AAs hold pools to account, this will continue to develop to ensure pools are held to the highest standards.

**Question 19: Do you agree that administering authorities should be required to prepare and publish a governance and training strategy, including a conflict of interest policy?**

Yes. Guidance would be welcomed to promote consistency between funds, this should reflect new roles and responsibilities of Committee's and AAs arising from implemented proposals.

Given shifting responsibilities to pools, they should also be required to also publish relevant policies in support of transparency for scheme members.

**Question 20: Do you agree with the proposals regarding the appointment of a senior LGPS officer?**

Yes. However, it is important that these requirements match the responsibilities and capabilities of fund involvement – in that they can hold pools to account and are able to manage risks in line with the Fund's fiduciary duty.

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Requirements should not be overly prescriptive as to who holds the position. As a result of the Government's proposals resource requirements at AAs will change making flexibility vital.

**Question 21: Do you agree that administering authorities should be required to prepare and publish an administration strategy?**

Yes.

**Question 22: Do you agree with the proposal to change the way in which strategies on governance and training, funding, administration and investments are published?**

Yes. In addition, we believe all funds should set out a designated area of their Fund website to publish specific documents to aid with accessibility.

**Question 23: Do you agree with the proposals regarding biennial independent governance reviews? What are your views on the format and assessment criteria?**

Yes. However, every three years would be more appropriate to avoid conflicting with other key pieces of work such as triennial valuations and other ongoing pressures such as dashboards and McCloud. Where AAs have received a good bill of health this should be extended in length, and vice versa.

Having more standardised guidance, such as the Code of Practice, subject to any LGPS specifics, will help with these areas given fund specific differentiation.

We also believe there may be potential for a transparent independent governance review that could be standardised across pools to provide further assurance to partner funds and other stakeholders, this is important given the high standards that should come with pooling. This may come out of wider pool to pool and partner fund collaboration.

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**Question 24: Do you agree with the proposal to require pension committee members to have appropriate knowledge and understanding?**

Yes. Requirements will need to be suitable to the responsibilities of Committee.

We believe this may be achieved through members being required to undertake induction training prior to appointment. It will be vital specific requirements align to responsibilities with a focus away from specific investment or mandate knowledge to being able to provide sufficient pool oversight.

Any requirements should promote avenues for training in a variety of methods, including as part of pension committee meetings, following meetings, outside of meetings from internal and external officers through the pool, online and in-person. Actions should be summarised in AAs annual reports.

Given proposals related to local investment it is important any requirements reiterate the appropriate fiduciary duty and political neutrality of their responsibilities, unlike other council committees.

It is further important given changes as a result of election cycles, that focus is given to Committee knowledge as a group, not only on an individual basis.

**Question 25: Do you agree with the proposal to require AAs to set out in their governance and training strategy how they will ensure that the new requirements on knowledge and understanding are met?**

We agree. The Fund already places a high priority on ensuring training is provided to all Committee members, including induction training, therefore it is easy to support the proposal.

**Question 26: What are your views on whether to require administering authorities to appoint an independent person as adviser or member of the pension committee, or other ways to achieve the aim?**

This should be an option that is available to individual funds, but not mandated. We have used independent advisors historically to supplement Committee knowledge and support improvements. The nature of what works best cannot be determined in advance.

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**Question 27: Do you agree that pool company boards should include one or two shareholder representatives?**

While not strictly opposed to this proposal we believe it poses challenges and conflicts which may be better managed through alternative processes. This may be best left for agreement of partner funds on the best governance approach for each independent pool structure, rather than any prescribed approach.

Alternative options partner funds may want to consider include allowing for an independent non-executive appointment and/or allowing one or more shareholders the ability to act as observers on the board. While an observer would not have voting rights through appropriate governance processes and the shareholders ability to vote for directors in future would provide further oversight and trust.

**Question 28: What are your views on the best way to ensure that members' views and interests are taken into account by the pools?**

Retaining AAs role for communication with members' and communicating their views to pools will remain vital.

Given pools enhanced position it is vital they retain the transparency with reporting that AAs have under local government transparency regulations, as well as public meetings which allow for questions and answers.

It is clear on many issues there are varying member views, and understanding of the LGPS. AAs should act as conduits where possible, for example we have previously engaged and consulted with scheme members and employers in relation to our specific net zero targets. Awaited guidance from the SAB on the extent to which member views on issues like ESG can be considered as part of decision making may strengthen this area.

**Question 29: Do you agree that pools should report consistently and with greater transparency including on performance and costs? What metrics do you think would be beneficial to include in this reporting?**

Yes. It is important that AAs receive clear reporting on investment performance, climate metrics, investment, performance and management costs and other metrics. Common indicators that we believe pools should report publicly and consistently against include:

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- Value for money benchmarking, against other investment managers and across varying asset classes, not only pre-pooling figures.
- Performance of individual investment funds, against benchmark and target, since inception and on a rolling basis over 12 months, 3 years, and 5 years. Overall, cost of service in basis points per £bn invested.
- A common scorecard across all FCA pools which relate to governance, investment, and operational matters.
- Climate metrics. Government should provide guidance following on from the previous TCFD consultation to promote consistency and transparency.

We believe that these indicators will support greater transparency and AAs own reporting requirement enabling streamlining for reporting.

**Question 30: Do you consider that there are any particular groups with protected characteristics who would either benefit or be disadvantaged by any of the proposals? If so, please provide relevant data or evidence.**

We are not aware of any elements of the proposals that could impact protected groups.

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