Leicestershire County Council

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 £m	2025 SAA	30/09/25 Actual weight %	Difference, actual to 2025 SAA	£m to target 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 £m	2025 SAA	30/09/25 Actual weight %	Difference, actual to 2025 SAA	£m to target 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 £m	2025 SAA	30/09/25 Actual weight %	Difference, actual to 2025 SAA	£m to target 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

	30/09/25 £m	2025 SAA	30/09/25 Actual weight %	Difference, actual to 2025 SAA	£m to SAA 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 manger 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 Governments 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 the 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:

    (a) 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.

    (b) 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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