Appendix A

LEICESTERSHIRE COUNTY COUNCIL PENSION FUND INVESTMENT STRATEGY STATEMENT

Effective: 20 March 2026
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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 withing 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	**Risk and return** 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.	Expected return of the investment strategy should exceed the required return specified in the actuarial valuation with an appropriate risk buffer. Tactical views based on market conditions can be very challenging to time correctly so this should only be implemented in certain limited circumstances Where a risk factor is dominating overall volatility for an asset class, then steps should be taken to mitigate this risk 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. Hedging part of the Fund's foreign currency exposure.

2	**Diversification** Diversification, across asset classes and within asset classes, can help minimise volatility and support long-term value creation. However, the Fund is keen to not over diversify as this adds additional governance and oversight cost whilst adding ever decreasing investment benefits. Focusing manager selection and oversight where each mandate makes a meaningful impact on risk and return should further the overall aim of the Fund.	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. 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. 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. Multi asset products can offer diversification potential and access to sub asset classes but require careful construction to ensure intended Fund objectives are achieved.
3	**Opportunity Set** 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.	Investment focus can be beneficial in markets where there are better controls, tax arrangements, or knowledge expertise. Managing constraints on active managers can impede their ability to add value but can be considered where overall risk management is important.

4	**Time horizon** 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.	Contribution rate stability should be taken into account when reviewing strategic allocations. When appropriate the ability to take long term views to outperform within the asset class should be taken
5	**Liquidity** 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.	The Fund may need to consider the ability to switch between income and accumulation units as appropriate to manage planning for cashflow. Diversification of illiquid assets is important to achieve long-term objectives in controlled manner. Careful planning of illiquid investments so that maturities are smoother, attempting to avoid large year on year fluctuations in order to aid cashflow planning.
6.	**Local investing** 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. 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.]** 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.	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. Keeping the opportunity set as wide as possible in line will allow the Pool to select the best opportunities.

7.	**ESG integration** ESG represents a financial risk that should be analysed throughout the investment process. Formal engagement plans can mitigate risk and maximise value. The Fund's view is that companies with sustainable practices more likely to outperform in the long run.	Escalation policies must be established and followed. Divestment may form part of an escalation strategy when engagement proves ineffective and materially risks financial returns. Direction of travel for investee companies is even more important than current positioning. Forward looking metrics can help mitigate future risks and enhance long-term performance.
8.	**Climate risk** Climate change presents a material risk to financial markets.	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. The Fund will consider the impact of climate change as one of many risks in its annual review of the strategic asset allocation (SAA).
9.	**Costs** 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.	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. Index tracking is appropriate for obtaining low-cost allocation to efficient markets. Active management can be additive when markets are relatively inefficient and managers have greater scope for added value.

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%	+ / - 2.5%; 51.75% - 56.75%	
Other alternatives	5.75%	5.75%		
Private equity (including local invs)	7.50%	7.50%		1 % across 4 asset classes
Property (including local invs)	7.50%	7.50%	+ / - 2.0%; 33.50% - 37.50%	
Infrastructure (including local invs)	12.50%	12.50%		
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. Re balancing 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 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.

[2]Funds 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.

[3]Limits 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 legals 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 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

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 (RI), including stewardship and exercise of voting rights.

The Fund's approach has been developed over several years and is grounded in financial materiality, in that Environmental, Social and Governance (ESG) factors can influence long term, risk adjusted returns. Member engagement was undertaken in 2025/26 and has further informed the focus of stewardship themes for 2025-2029.

Under pooling, the Fund does not implement investment decisions or select investment managers. LGPS Central (Central) is responsible for implementing the Fund's strategic asset allocation and for appointing and monitoring investment managers. The Fund sets the overall strategic framework and expects Central and external managers to reflect these within their investment processes and stewardship activities. In line with this RI encompasses both:

- Investment processes – where ESG risks and opportunities are considered by LGPS Central and underlying managers when implementing the Fund's investment strategy, and ongoing monitoring of investments.
- Stewardship – where LGPS Central and partners engage and vote on the Fund's behalf to ensure high standards of corporate governance and corporate responsibility to protect and enhance the value of the investments.

In combination these two matters are often referred to as 'Responsible Investment,' or 'RI' and this is the preferred terminology of the Fund

9.2 The Fund's approach to Responsible Investment

This approach aligns with the Fund's fiduciary duty to act in the best financial interests of members. ESG factors are considered where they are assessed as financially relevant to long-term risk adjusted returns. This is because environmental, social, and corporate governance issues can affect the performance of investment portfolios to varying degrees across companies, sectors, regions, asset classes and through time.

The Fund does not accept lower financial returns in order to pursue any ESG objectives.

The Fund supports the Principles for Responsible Investment (PRI) as the global standard for RI and acknowledges Central's signatory status. The six principles are available at: : https://www.unpri.org/about-PRI/what-principles-for-responsible-investment.

Investment process

The Fund supports Central's Responsible Investment & Engagement Framework and expects ESG integration across all asset classes.

The Fund has developed its RI approach in collaboration with Central and partner funds, consistent with Government expectations.

Central's RI Framework applies across all pooled assets, and the Fund's approach is aligned to it.

- Investment Managers should only be appointed by Central where they demonstrate RI considerations are an integral part of their decision making processes, and monitored accordingly.
- 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.
- Divestment should only be undertaken where companies present a material investment risk as a result of their actions or inactions. It is recognised that the Fund does not have the ability to specify divestment of a company or sector, and any decisions are the responsibility of either Central, or underling investment managers depending on the investment.
- Engagement is considered more effective than divestment in driving ESG improvements.
- The Fund does not apply personal, ethical, or moral judgements when making decisions on the SAA and ISS and instead remains focused on the primary objective of the Fund.

Stewardship Approach

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 pursing engagement activities.

To strengthen transparency and alignment following engagement with scheme members the Fund has identified a set of key stewardship themes that will guide expectations with Central, alongside reporting and communication with scheme

members. It is recognised that while these themes are presented separately, in practice these factors are deeply interconnected and should not be considered in isolation.

Where factors are financially material:			
Theme	Good corporate governance	Human Rights	Climate risk and nature protection
Description	Companies that demonstrate high standards of corporate governance should be better positioned to handle the effects of future shocks and stresses and ultimately protect and enhance long-term shareholder value	The long-term legitimacy of sectors and markets depends on companies operating in ways that are acceptable to society. Strong corporate human rights risk management supports efficiency, resilience and long-term value.	Climate and nature related risks can materially affect financial performance. Companies with strong risk management practices are better equipped to handle physical and transition risks, including the added challenges posed by evolving and uncertain regulatory requirements.
Examples	Board effectiveness Accountability Market Standards Disclosure Investor Protections	Child Labour Modern Slavery Land and Housing Rights Occupational Health Conflict Affected High Risk Areas (CAHRA)	Risk and reporting Adaptation/Resilience Strategy Governance Nature impacts and dependencies assessments

Monitoring and Reporting

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.
- LGPS Central reports on the appointment of investment managers, these are not appointed unless they have shown evidence that RI considerations are an integral part of their investment decision-making processes.
- Investment Manager (including LGPS Central) presentations to Committee demonstrate ESG and RI considerations and allow for monitoring and discussions around ESG integration on an ongoing basis.
- Committee monitor forward looking metrics that can help mitigate future risks and enhance long-term performance, for example through the annual Climate Risk Management Report.

- 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. Activities are reported on a quarterly basis.

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 changes linked to the move towards a low-carbon economy, such as new policies, regulations or technologies. If companies fail to adjust they may become less profitable or sold off by market participants. These risks also encompass potential shifts in global regulatory frameworks as governments alter their stance on net-zero objectives.

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 Strategy for 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 Strategy is available here:

https://www.leicspensionfund.co.uk/investments/climate-change-and-investment-risks

The Fund will consider the impact of climate change as part of strategic asset allocation and expects LGPS Central to consider these factors within individual investment decisions to support 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 Strategy 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 and due regard will be given to amendments required within the ISS.

Alongside the Strategy 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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