Public Document Pack

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PUBLIC

To: Members of Pensions and Investments Committee

Tuesday, 29 November 2022

Dear Councillor,

Please attend a meeting of the **Pensions and Investments Committee** to be held at **10.00 am** on **Wednesday, 7 December 2022** in the Council Chamber, County Hall, Matlock, the agenda for which is set out below.

Yours faithfully,

Helen E. Barrington

Helen Barrington
Director of Legal and Democratic Services

A G E N D A

PART I - NON-EXEMPT ITEMS

1. Apologies for Absence

2. To receive declarations of interest (if any)

3. To confirm the non-exempt minutes of the meeting held on 19 October 2022 (Pages 1 - 6)

4. Investment Report (Pages 7 - 76)

5. Stewardship Report (Pages 77 - 162)

6. Actuarial Valuation (Pages 163 - 230)

   To inform PIC of the initial results of the March 2022 actuarial valuation, to seek approval of the draft updated Funding Strategy Statement for consultation, and to seek approval for the draft updated Admission, Cessation and Bulk Transfer Policy.

7. Exclusion of the Public

   To move that under Section 100(a)(4) of the Local Government Act 1972 the public be excluded from the meeting for the following item of business on the grounds that in view of the nature of the business, that if members of the public were present exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 would be disclosed to them and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

PART II - EXEMPT ITEMS

8. To confirm the exempt minutes of the meeting held on 19 October 2022 (Pages 231 - 232)

PUBLIC

MINUTES of a meeting of the **PENSIONS AND INVESTMENTS COMMITTEE** held on Wednesday, 19 October 2022 in the Council Chamber, County Hall, Matlock,.

PRESENT

Councillor D Wilson (in the Chair)

Councillors P Smith, R Ashton, N Atkin, B Bingham, L Care (Derby City Council), M Foster, G Musson and M Yates.

Apologies for absence were submitted for Councillor Carr (Derby City Council).

35/22 TO RECEIVE DECLARATIONS OF INTEREST (IF ANY)

There were no declarations of interest.

36/22 TO CONFIRM THE NON-EXEMPT MINUTES OF THE MEETING HELD ON 7 SEPTEMBER 2022

The minutes of the meeting held on 7 September 2022 were confirmed as a correct record.

37/22 DERBYSHIRE PENSION FUND ANNUAL REPORT

The Council's audited accounts, which included the Fund's Statement of Accounts, would be considered at the meeting of the Audit Committee to be held on 29 November 2022. A pre-audited version of the Pension Fund's Statement of Accounts had already been submitted to the Audit Committee and no issues were expected at this stage.

Approval was sought for the Director of Finance and ICT, in conjunction with the Chairman of the Committee, to approve the publication of the Fund's 2021-22 Annual Report at the first available opportunity following receipt of the external auditor's opinion on the Fund's Statement of Accounts. A copy of the Fund's 2021-22 Annual Report would be circulated to Committee in due course.

RESOLVED:

That approval is given for the Director of Finance & ICT, in conjunction with the Chairman of the Committee, to approve the publication of the Pension Fund's Annual Report for 2021-22 at the first available opportunity after receipt of the external auditor's opinion on the Fund's Statement of Accounts.

38/22 DERBYSHIRE PENSION FUND RISK REGISTER

The Risk Register had the following five high risks:

1) Systems failure/Lack of disaster recovery plan/Cybercrime attack (Risk No.13)
2) Fund assets insufficient to meet liabilities (Risk No.20)
3) LGPS Central Limited related underperformance of investment returns (Risk No.31)
4) Insufficient cyber-liability insurance relating to the pensions administration system (Risk No.42)
5) Impact of McCloud judgement on administration (Risk No.46)

All of the high level risks were discussed. In relation to Risk No. 13 and Risk No. 42 it was noted that a project had been started to map and document the Fund's data to ensure that it was understood where it was held, on what systems, how it was combined and how, and where, it moves; the related activities would be risk assessed as part of this process and a review of the information security arrangements of relevant suppliers to the Fund would be undertaken. When the mapping exercise had been completed, a high-level report would be brought to committee to provide a further update for Members.

It was noted that the risk score for Risk No.38 'Impact of McCloud judgement on funding' has been reduced from 12 (high risk) to 9 (medium risk) following clarity regarding the outcome of the LGPS Cost Cap valuation and confirmation of the treatment of the McCloud remedy in the March 22 triennial valuation.

An update was also provided on Risk No.33 'Failure to maintain liquidity in order to meet projected cashflows' following recent developments related to Thurrock Council. At 31 August 2022, the Pension Fund had loans of £30m to Thurrock Council, made up of six loans of £5m each, out of £80m of loans to Local Authorities at that point. Following the government's appointment of Essex County Council to the role of Commissioner and Best Value Inspector at Thurrock Council in response to concerns about the financial management of the council, a number of press enquires had been received about the loans made by Derbyshire County Council and by the Pension Fund to Thurrock Council and the loans were quoted in a number of press articles.

The Fund had been lending to Thurrock Council for several years and all loans and interest had been repaid when they fell due. Loans to Local Authorities were considered to have minimal credit risk with loans backed by the revenues of the relevant Local Authority and all Local Authorities able to access the Public Works Loan Board lending

facility for the purposes of refinancing. All of the loans to Thurrock Council had now been repaid to fund investment commitments and liquidity requirements.

RESOLVED:

That the Committee notes the risk items identified in the Risk Register.

39/22 **HALF-YEAR PENSION ADMINISTRATION PERFORMANCE REPORT**

A report was received by the Committee which notified them of the administration activity that had been undertaken by the Pension Administration Team and the performance levels that had been achieved.

This report related to the first half of 2022-23 covering the period from 1 April 2022 to 30 September 2022 and provided a summary of the Fund's performance in key areas of pension administration activity.

The administration team had continued to experience consistently high workload levels but had been able to achieve casework turnaround times within the disclosure target timescales in the vast majority of cases.

An ongoing project to reduce and ultimately eliminate the numbers of backlog cases in two key areas (aggregations and deferred membership) of pension administration had continued throughout the first half of 2022-23.

Members found these figures to be very promising, particularly the turnaround times and wished to pass on their appreciation to the administration team for the critical work they undertook.

RESOLVED:

that the Committee notes the workloads and performance levels outlined in the report.

40/22 **LOCAL GOVERNMENT PENSION SCHEME INVESTMENT POOLING**

The Committee were updated on matters in respect of Local Government Scheme (LGPS) investment pooling.

Shareholders' Forum September 2022

The Shareholder's Forum had been held on 27 September 2022 ahead of the LGPSC AGM which would be held later that day.

Following discussions between the shareholders, it was noted that all of the resolutions at the AGM would receive unanimous support. The process for providing feedback to LGPSC's Remuneration Committee on the performance of the company's Executive Directors, a development that had been agreed during the approval of the Executive Director Remuneration & Benefit Policy in April 2022, was also discussed.

LGPSC AGM September 2022

At the LGPSC AGM on 27 September 2022, Joanne Segars, the Chair of the LGPSC Board, had provided an update on the company's key themes: Fund Performance; Recruitment and Retention; Business Maturity; and The Future. An update was also provided on the recruitment of two Non-Executive Directors (NEDs) and on the governance arrangements of the company.

The Chairs of LGPSC's Audit, Risk and Compliance Committee, its Nomination Committee; and its Remuneration Committee had also provided shareholders with updates on the work of their committees.

Mike Weston, the Chief Executive Officer of LGPSC updated shareholders on progress against the company's six focus areas for 2022-23.

Eight resolutions had been presented to shareholders for approval at the LGPSC Annual General Meeting, including the approval of the re-election of Directors, and all of the resolutions had received unanimous approval.

Investments in Collaborative Arrangements

Members were informed of the Fund's investments in LGPSC vehicles as at the end of August 2022 which totalled £839m along with assets that were managed through collaboratively procured arrangements which totalled £2.2bn.

Climate Risk Report

The Fund had received a draft 2022 Climate Risk Report from LGPSC. The report was currently being reviewed and would be presented to Committee in December 2022. Information from this report will contribute to the updating of the Fund's TCFD (Task Force on Climate-related Financial Disclosures) Report.

Members were also provided with details of a meeting between LGPSC and Partner Funds to discuss mid-year business planning and informed of the new LGPS Central Pool cost savings model.

Mike Weston and Matt Jones from the LGPSC attended the meeting to provide an update on:

- The company

- The Fund's investments in LGPSC products and the performance of those products
- Product development, and
- Responsible investment and engagement

Members of the LGPSC team would also be providing a more detailed update on the investment performance of the LGPS Central Global Active Investment Grade Corporate Bond Multi-Manager Fund and the LGPS Central Emerging Market Equity Active Multi-Manager Fund in the exempt part of the meeting.

RESOLVED:

That the Committee notes the contents of the report.

41/22 **EXCLUSION OF THE PUBLIC**

To move that under Section 100(a)(4) of the Local Government Act 1972 the public be excluded from the meeting for the following items of business on the grounds that in view of the nature of the business, that if members of the public were present exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 would be disclosed to them and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

42/22 **TO RECEIVE DECLARATIONS OF INTEREST (IF ANY)**

There were no declarations of interest.

43/22 **LGPS CENTRAL LIMITED INVESTMENT PERFORMANCE**

RESOLVED:

That the Committee notes the contents of the not for publication report.

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FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

PENSIONS AND INVESTMENTS COMMITTEE

WEDNESDAY, 7 DECEMBER 2022

Report of the Director of Finance and ICT

INVESTMENT REPORT

1. Purpose

1.1 To review the Fund's asset allocation, investment activity since the last meeting, long term performance analysis and to seek approval for the investment strategy in the light of recommendations from the Director of Finance & ICT and the Fund's independent external adviser.

2. Information and Analysis

2.1 Report of the External Adviser

A copy of Mr Fletcher's report, incorporating his view on the global economic position, factual information for global market returns, the performance of the Fund and his recommendations on investment strategy and asset allocation, is attached as Appendix 2.

2.2 Asset Allocation and Recommendations Table

The Fund's latest asset allocation as at 31 October 2022 and the recommendations of the Director of Finance & ICT and Mr Fletcher, in relation to the Fund's final strategic asset allocation benchmark (SAAB), which came into effect on 1 January 2022, are set out on page 3.

The table also shows the recommendations of the Director of Finance & ICT, adjusted to reflect the impact of future investment commitments. These commitments relate to Private Equity, Multi-Asset Credit, Property and Infrastructure and currently total around £285m. Whilst the timing of drawdowns will be lumpy and difficult to predict, the In-house Investment Management Team (IIMT) believes that the majority of these are likely to occur over the next 18 to 36 months.

	Benchmark		Fund Allocation	Fund Allocation	Permitted Range	Benchmark Relative Recommendation		Recommendation (1)		Adjusted for Commitments (3)	Benchmark Sterling Return	Benchmark Sterling Return
	Intermediate (1)	**Final (1)**	**31/7/22 (2)**	**31/10/22**	**Final (1)**	**AF 7/12/22**	**DPF 7/12/22**	**AF 7/12/22**	**DPF 7/12/22**	**DPF 7/12/22**	**3 Months to 30/9/22**	**3 Months to 31/10/22**
Growth Assets	**56.0%**	**55.0%**	**55.6%**	**54.9%**	**+/- 8%**	**(1.0%)**	**(0.7%)**	**54.0%**	**54.3%**	**55.1%**	**n/a**	**n/a**
UK Equities	14.0%	12.0%	13.3%	13.2%	+/- 4%	+1.0%	+1.0%	13.0%	13.0%	13.0%	(3.4%)	(4.6%)
Global Equities:	38.0%	39.0%	37.5%	36.7%	+/- 8%	(2.0%)	(2.7%)	37.0%	36.3%	36.3%	n/a	n/a
North America	6.0%	-	1.6%	1.1%	-	-	-	-	-	-	3.4%	(0.5%)
Europe	4.0%	-	0.5%	-	-	-	-	-	-	-	(2.0%)	(2.9%)
Japan	5.0%	5.0%	5.2%	5.2%	+/- 2%	-	-	5.0%	5.0%	5.0%	0.9%	(4.7%)
Pacific ex-Japan	2.0%	-	-	-	-	-	-	-	-	-	(4.5%)	(10.9%)
Emerging Markets	5.0%	5.0%	5.4%	5.1%	+/- 2%	-	-	5.0%	5.0%	5.0%	(2.3%)	(8.2%)
Global Sustainable	16.0%	29.0%	24.8%	25.3%	+/- 8%	(2.0%)	(2.7%)	27.0%	26.3%	26.3%	1.6%	(2.3%)
Private Equity	4.0%	4.0%	4.8%	5.0%	+/- 2%	-	+1.0%	4.0%	5.0%	5.8%	1.8%	(2.1%)
Income Assets	**24.0%**	**25.0%**	**25.2%**	**26.2%**	**+/- 6%**	**+2.0%**	**+1.2%**	**27.0%**	**26.2%**	**30.4%**	**n/a**	**n/a**
Multi-Asset Credit	6.0%	6.0%	6.6%	6.8%	+/- 2%	+2.0%	+0.8%	8.0%	6.8%	8.7%	1.6%	(0.7%)
Infrastructure	9.0%	10.0%	9.7%	10.6%	+/- 3%	-	+0.6%	10.0%	10.6%	12.9%	0.9%	0.9%
Direct Property (5)	5.0%	6.0%	5.9%	6.0%	+/- 2%	-	-	6.0%	6.0%	6.0%	(4.2%)	(4.2%) (4)
Indirect Property (5)	4.0%	3.0%	3.0%	2.8%	+/- 2%	-	(0.2%)	3.0%	2.8%	2.8%	(4.0%)	(4.0%) (4)
Protection Assets	**18.0%**	**18.0%**	**16.0%**	**15.3%**	**+/- 5%**	**(1.0%)**	**(1.5%)**	**17.0%**	**16.5%**	**16.5%**	**n/a**	**n/a**
Conventional Bonds	6.0%	6.0%	4.6%	4.6%	+/- 2%	(1.0%)	(1.0%)	5.0%	5.0%	5.0%	(12.8%)	(12.4%)
Index-Linked Bonds	6.0%	6.0%	5.5%	5.1%	+/- 2%	-	(0.5%)	6.0%	5.5%	5.5%	(9.3%)	(17.7%)
Corporate Bonds	6.0%	6.0%	5.9%	5.6%	+/- 2%	-	-	6.0%	6.0%	6.0%	(8.7%)	(9.7%)
Cash	**2.0%**	**2.0%**	**3.2%**	**3.6%**	**0 – 8%**	**-**	**+1.0%**	**2.0%**	**3.0%**	**(2.0%)**	**0.4%**	**0.4%**

Investment Assets totaled £5,748m at 31 Oct-22.

(1) Intermediate benchmark effective from 1 January 2021 to 31 December 2021. Final benchmark effective from 1 January 2022. Recommendations are relative to the Final benchmark.
(2) Adjusted for trades placed at 31 Jul-22 but yet to trade by 31 Jul-22; MAC -0.4%; and Cash +0.4%.
(3) Adjusted for investment commitments at 31 Oct-22. Presumes all commitments funded from Cash.
(4) Benchmark Return for the three months to 30 Sept-22.
(5) The maximum permitted range in respect of Property is +/- 3%.

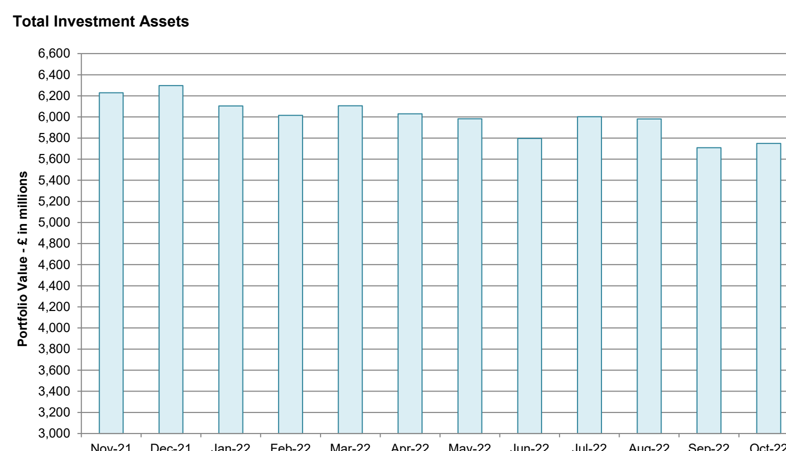
The table above shows the intermediate benchmark, together with the new final benchmark approved by Committee in November 2020. The final benchmark came into effect on 1 January 2022. The table above reflects the following three categorisations:

- **Growth Assets**: largely equities plus other volatile higher return assets such as private equity;
- **Income Assets**: assets which are designed to deliver an excess return, but with more stable return patterns than Growth Assets because income represents a large proportion of the total return of these assets; and
- **Protection Assets**: lower risk government or investment grade bonds.

Relative to the final benchmark, the Fund as at 31 October 2022, was overweight Income Assets (1.2%) and Cash (1.6%) and underweight in Growth Assets (-0.1%) and Protection Assets (-2.7%). However, should all the IIMT recommendations set out in this report be implemented, together with the expected level of commitment draw-downs, the cash balance would reduce to -2.0%. In practice as these commitments are drawn-down, they will be partly offset by new net cash inflows from investment income, distributions from existing investments and changes in the wider asset allocation.

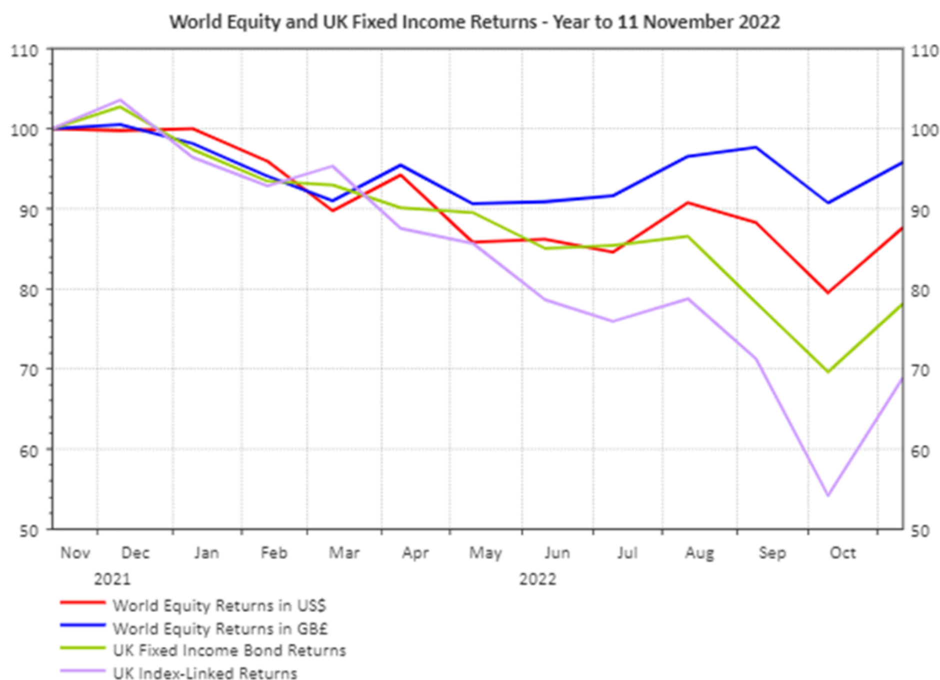
2.3 Total Investment Assets

The value of the Fund's investment assets reduced by £254m (-4.2%) between 31 July 2022 and 31 October 2022 to £5.748bn, comprising a non-cash market loss of around £270m, partly offset by cash inflows from dealing with members and investment income of around £15m. Over the twelve months to 31 October 2022, the value of the Fund's investment assets has fallen £287m (-4.8%), comprising a non-cash market loss of around £350m, and cash inflows from dealing with members & investment income of around £60m.



The Fund's valuation can fluctuate significantly in the short term, reflecting market conditions, and supports the Fund's strategy of focusing on the long term. A copy of the Fund's valuation as at 31 October 2022 is attached at Appendix 3.

2.4 Market returns over the last 12 months



The chart above shows market returns for Global Equities in Sterling and the US dollar, UK Gilts and UK Index Linked bonds for the twelve months to 11 November 2022.

Global Equities have lost around 20% of their value in US dollar terms over the 12-month period, although in Sterling terms Global Equities have only fallen by around 4%. Returns for Sterling investors have been sheltered by a stronger US$ relative to the GB Pound.

The returns from bond markets have also been negative. UK Gilts have lost around 21% of their value over the 12-month period, whereas UK Inflation-Linked Bonds have fallen almost 30%. Bond yields have risen in 2022 as markets have reacted to higher inflation by pricing higher interest rates rises to reduce inflationary pressures. A bond's price moves inversely to its yield, so this has resulted in lower capital values.

There has been considerable volatility in bond markets. The UK Government's 'mini-budget' in September 2022 was poorly received by bond

market investors, resulting in sharply higher Gilt yields as the risk of lending to the UK Government was repriced higher. The rise in yields was also exacerbated by leverage in the Liability Driven Investment market, which forced the Bank of England (BoE) to intervene to prevent market instability.

Since the last Committee meeting, equity market returns have continued to be heavily influenced by the inflation outlook and by expectations for Central Bank policy. Headline inflation in the UK rose by 2% month on month in October with the CPI rising 11.1% on an annual basis, up from 10.1% in September and exceeding economists' expectations of a rise of 10.7%. It was the highest annual CPI rate since the series began in January 1997, with modelling suggesting that the CPI rate would have last been higher in October 1981. The rise was driven by energy and food price inflation, despite the introduction of the Government's energy guarantee scheme. Food price inflation increased sharply to 16.5% year on year (yoy), the highest level for 45 years, due to rising input, energy and labour costs. Core inflation (excluding food and energy) held steady at 6.5% (yoy), although economists had expected core inflation to decline slightly to 6.4%.

Inflation also reached fresh highs in Europe in October, rising above 10.0% for the first time in the Eurozone's history. The inflation reading was pushed higher by German (+10.4%) and Italian (+11.9%) CPI. In the US, there are some tentative signs that inflation may have peaked, although the outlook remains uncertain. Headline inflation in October declined for the fourth consecutive month, and it is now more than one percentage point below its July peak. Core inflation also fell in October after two consecutive months of increases. However, it is too early to know for certain whether US inflation is 'cooling off'. Many of the underlying CPI components are still running 'hot' and significantly above the US Federal Reserve's (US Fed) 2% target. A more persistent and broad-based price decline, which is evidenced over several months, is required before the "cooling" narrative can be confirmed.

As a result of the inflationary environment, Central Bank policy has been hawkish (implementing and signalling a tighter monetary stance). The BoE raised rates by 50 basis points and 75 basis points at its September and November meetings, respectively, the 7th and 8th interest rate increase of this cycle, taking rates to 3.0%. The US Fed implemented its 4th consecutive 75 basis points increase in November and the 6th rise in total in this cycle, taking the upper range for rates to 4.0%. The European Central Bank (ECB) also implemented a 75 basis points increase in November, following previous

increases of 50 basis points and 75 basis points, taking the deposit rate from -50 basis points in July 2022 to 150 basis points (1.5%) in November 2022.

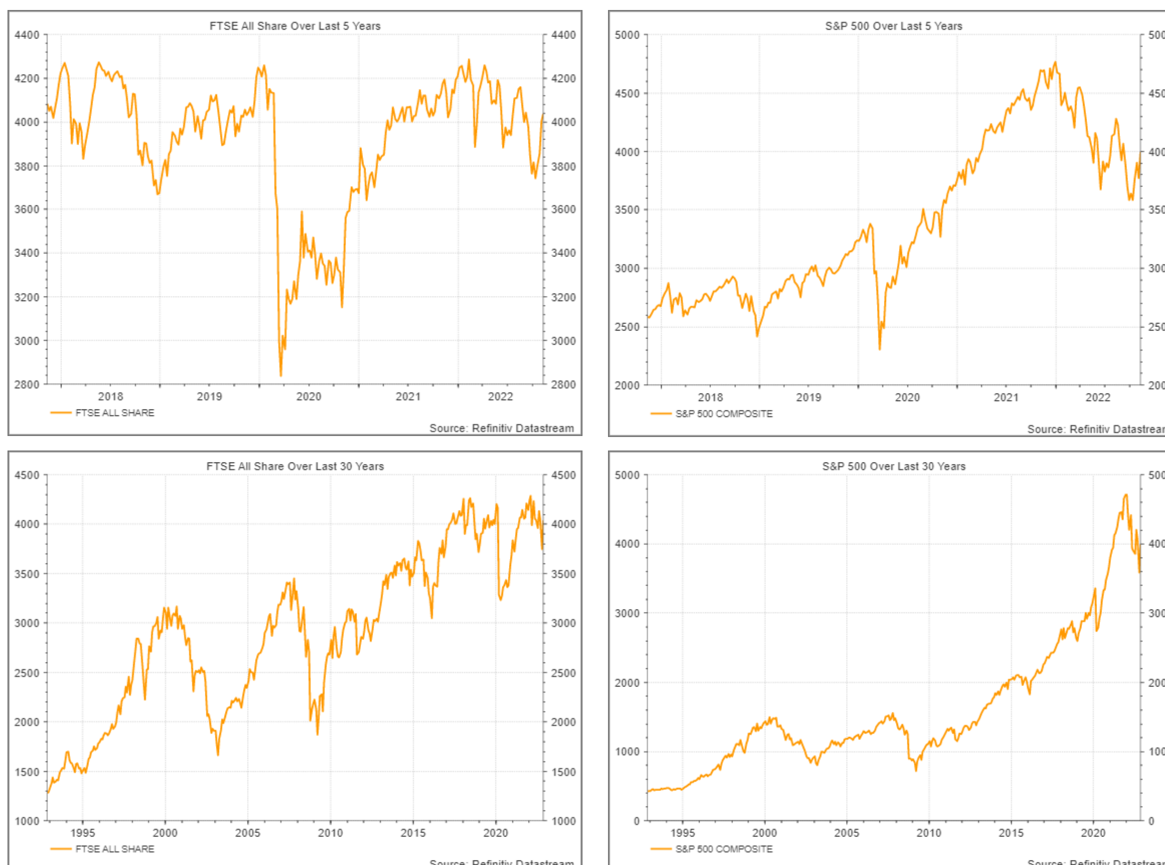
Notwithstanding the sizeable rate increases, the BoE, US Fed and ECB each highlighted the growing risk of recession from higher interest rates. The BoE is now forecasting that the UK fell into recession in Q3-22, which seems to have been confirmed by the initial Office for National Statistics estimate of a quarterly decline in GPD of 0.2%. The BoE is forecasting that the downturn will extend through 2023 and into the first half of 2024. The President of the ECB highlighted the need to weigh the ‘pros and cons’ of further interest rate rises against the increased risk of recession, and the US Fed acknowledged that a ‘soft landing’ (i.e. avoiding a recession) is still possible but the path to achieving it is narrowing.

As a result of the weakening economic outlook, markets appear to be placing greater emphasis on company earnings. Underwhelming Q3-22 earnings have seen analysts cut their expectations for Q4-22. Although the energy sector saw strong earnings growth in Q3-22 of 137%, the rest of the index saw earnings fall by more than 5%, with 7 out of 11 sectors reporting negative growth. Expectations for Q4-22 earnings have now turned negative (-2.1%), having started at +5.1% for the quarter at the beginning of the quarter. The earnings outlook for 2023 is also starting to come under pressure. Two influential global banks have issued revised earnings forecasts indicating that negative earnings growth is now being considered as a possible base case for 2023.

Equity markets are extremely volatile at present and the global economic outlook, the inflationary outlook and the path for Central Bank policy remains uncertain. Recent rallies in equities from perceptions that US inflation may be ‘cooling’, particularly following the release of lower-than-expected US inflation numbers for October 2022, or that Central Banks may pivot away from further interest rate increases, may indicate that markets are keen to build a positive narrative to support price rallies. Whilst the IIMT believes that a cautious approach remains appropriate, flexibility will be required in response to changing economic, inflationary and monetary conditions.

Asset class weightings and recommendations are based on values at the end of October 2022. As shown in the charts below, the UK equity market had largely recovered most of the March 2020 Covid-19 pandemic sell off prior to Russia’s invasion of Ukraine. Equity markets have been volatile in 2022, but UK Equities have performed strongly relative to other markets, returning -

0.9% YTD[1]. In contrast, the US market has been one of the worst performing regions in 2022 in local currency terms, declining by 15.8% YTD.



2.5 Longer Term Performance

Figures provided by Portfolio Evaluation Limited show the Fund's performance over 1, 3, 5 and 10 years to 30 September 2022.

Per annum	DPF	Benchmark Index
1 year	(6.6%)	(5.9%)
3 years	2.8%	2.2%
5 years	4.1%	3.8%
10 years	7.5%	7.0%

The Fund outperformed the benchmark over all time periods other than on a one-year basis. The Fund's equity allocations, in particular, the Fund's Global Sustainable Equity allocation, are tilted towards Growth stocks. Growth stocks have under-performed over the last twelve months, as Value stocks have rallied with investors favouring tangible (or 'real') assets over intangible growth assets.

[1] 1 January 2022 to 11 November 2022

2.6 Category Recommendations

	Intermediate Benchmark	Final Benchmark	Fund Allocation	Permitted Range	Recommendation (1)		Benchmark Relative Recommendation (1)	
			31 Oct-22		AF	DPF	AF	DPF
Growth Assets	56.0%	55.0%	54.9%	± 8%	54.0%	54.3%	(1.0%)	(0.7%)
Income Assets	24.0%	25.0%	26.2%	± 6%	27.0%	26.2%	+2.0%	+1.2%
Protection Assets	18.0%	18.0%	15.3%	± 5%	17.0%	16.5%	(1.0%)	(1.5%)
Cash	2.0%	2.0%	3.6%	0 – 8%	2.0%	3.0%	-	+1.0%

(1) Recommendation relative to the Final benchmark effective 1 January 2022

At an overall level, the Fund was overweight Income Assets and Cash at 31 October 2022, marginally underweight Growth Assets and underweight Protection Assets. As highlighted on page 2, commitments at 31 October 2022 totalled £285m, potentially increasing Growth Assets by 0.8% and Income Assets by 4.2%. The table on page 4 assumes that these commitments will be funded out of the current cash weighting; in practice as these commitments are drawn-down they are likely to be funded partially out of cash and partially by distributions (income and capital) from existing investments and sales of public market assets.

The IIMT recommendations reflected in this report: reduce Growth Assets by 0.6% to 54.3% (0.7% underweight) (UK Equities - 0.2%; North American Equities -1.1%; Japanese Equities –0.2%; Emerging Market Equities –0.1%; and Global Sustainable Equities +1.0%), maintain Income Assets at 26.2%; increase Protection Assets by 1.2% (Conventional Bonds +0.4%; Index-Linked Bonds +0.4%; and Corporate Bonds +0.4%), and reduce Cash by 0.6%.

The IIMT notes that the recommendations are subject to market conditions, liquidity, and product availability. The IIMT continues to recommend a defensive cash allocation, albeit lower than the historic norm, reflecting both the general market uncertainty and cash held to fund existing commitment drawdowns.

2.7 Growth Assets

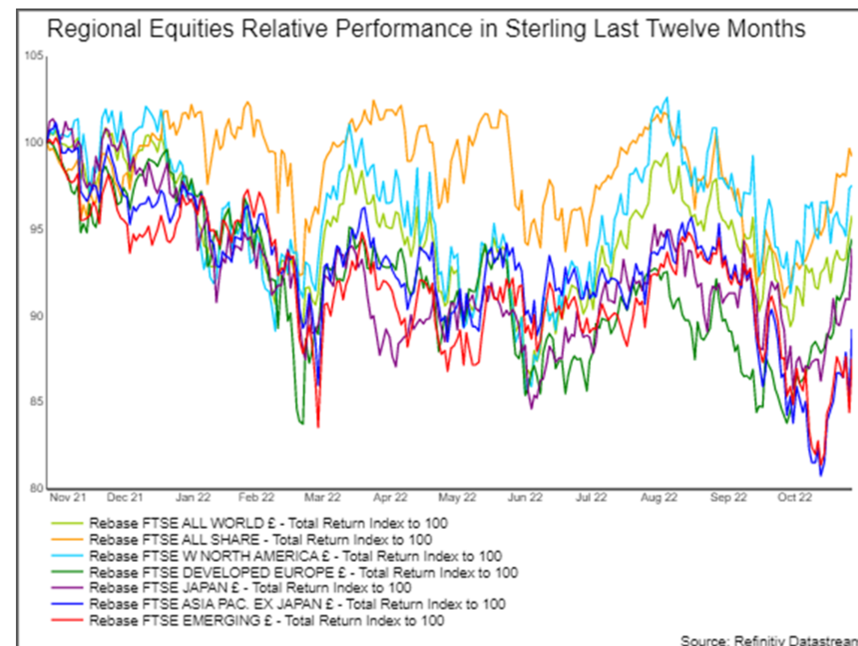
At 31 October 2022, the overall Growth Asset weighting was 54.9%, down from 55.6% at 31 July 2022, principally reflecting net divestment of £64m.

The IIMT recommendations in this report reduce the weighting to 54.3%, 0.7% underweight, reflecting the growth and valuation concerns, albeit flexibility will be required in response to changing economic and market conditions.

Equities have rallied in Q4-22 to date from YTD lows, particularly interest rate sensitive growth stocks, as investors started to price in the possibility of Central Banks adopting less restrictive monetary policy earlier than previously expected, a narrative that has recently been boosted by lower-than-expected US inflation data in October 2022.

However, despite the recent recovery in equities, there are remain some headwinds. In the short term, interest rates are likely to continue to rise, which will place further pressure on consumers who are already facing a cost-of-living crisis. Consumer confidence is already low and a further retrenchment by consumers may impact further on company earnings and economic activity.

The UK economy is already expected to fall into a recession, and revised GDP forecasts for the EU and US indicate that growth is set to stagnate in 2023; the risk of a recession for these economies cannot be ruled out. As a result, the IIMT recommends a cautious stance towards Growth Assets in the short-term.



Benchmark Return	Currency	Q4-22 (*)	Q2-22	CYTD (*)	1 Year (**)	3 Year (**)	5 Year (**)	Since Last Committee (*)	L3M 31-Oct-22
Sterling Returns									
FTSE All World	GB£	6.1%	1.4%	(3.7%)	(3.6%)	7.7%	8.8%	(0.5%)	(2.3%)
FTSE UK	GB£	7.5%	(3.4%)	(0.9%)	(4.0%)	0.8%	2.2%	1.9%	(4.6%)
FTSE North America	GB£	5.7%	3.4%	(3.1%)	0.4%	11.5%	13.0%	(1.9%)	(0.5%)
FTSE Europe	GB£	13.1%	(2.0%)	(8.5%)	(9.5%)	5.1%	4.3%	7.7%	(2.9%)
FTSE Japan	GB£	6.5%	0.9%	(3.3%)	(13.6%)	1.2%	3.4%	5.4%	(4.7%)
FTSE Asia Pacific Ex-Japan	GB£	2.1%	(4.5%)	(7.6%)	(10.2%)	3.5%	4.0%	(4.2%)	(10.9%)
FTSE Emerging Markets	GB£	(0.8%)	(2.3%)	(7.9%)	(8.7%)	2.8%	3.5%	(6.0%)	(8.2%)
Local Currency Returns									
FTSE All World	US$	12.0%	(6.8%)	(16.3%)	(20.2%)	4.2%	4.9%	2.2%	(7.6%)
FTSE UK	GB£	7.5%	(3.5%)	(0.9%)	(4.0%)	0.8%	2.2%	1.9%	(2.3%)
FTSE North America	US$	11.5%	(4.9%)	(15.8%)	(16.9%)	7.9%	8.9%	0.7%	(5.9%)
FTSE Europe	€	13.2%	(4.1%)	(12.4%)	(17.1%)	1.5%	2.7%	6.6%	(5.3%)
FTSE Japan	¥	8.0%	(1.2%)	1.6%	(7.2%)	7.9%	4.8%	4.2%	0.2%
FTSE Asia Pacific Ex-Japan	US$	7.7%	(12.2%)	(19.7%)	(25.7%)	0.2%	0.2%	(1.6%)	(15.7%)
FTSE Emerging Markets	US$	4.7%	(10.1%)	(19.9%)	(24.2%)	(0.4%)	(0.2%)	(3.5%)	(13.1%)

Source: Performance Evaluation Limited & DPF analysis
(*) To 11 Nov-22
(**) To 30 Sept-22
CYTD = Calendar Year to 11 Nov-22

2.8 United Kingdom Equities

DPF Weightings	
Intermediate Neutral	14.0%
Final Neutral	12.0%
Actual 31.10.22	13.2%
AF Recommendation	13.0%
IIMT Recommendation	13.0%
Benchmark Returns (GB£)	
Q3 22/23 to 11 Nov-22	7.5%
Q2 22/23	(3.4%)
1 Year to Sept-22	(4.0%)
3 Years to Sept-22 (pa)	0.8%
5 Years to Sept-22 (pa)	2.2%

The Fund's UK Equity allocation fell from 13.3% at 31 July 2022 to 13.2% at 31 October 2022 (1.2% overweight), reflecting relative market weakness.

Mr Fletcher has increased his UK Equities recommended weight by 1.0% from 12.0% (neutral) to 13.0% (1.0% overweight), reflecting Mr Fletchers assessment of the relative value of UK Equities and Global Sustainable Equities.

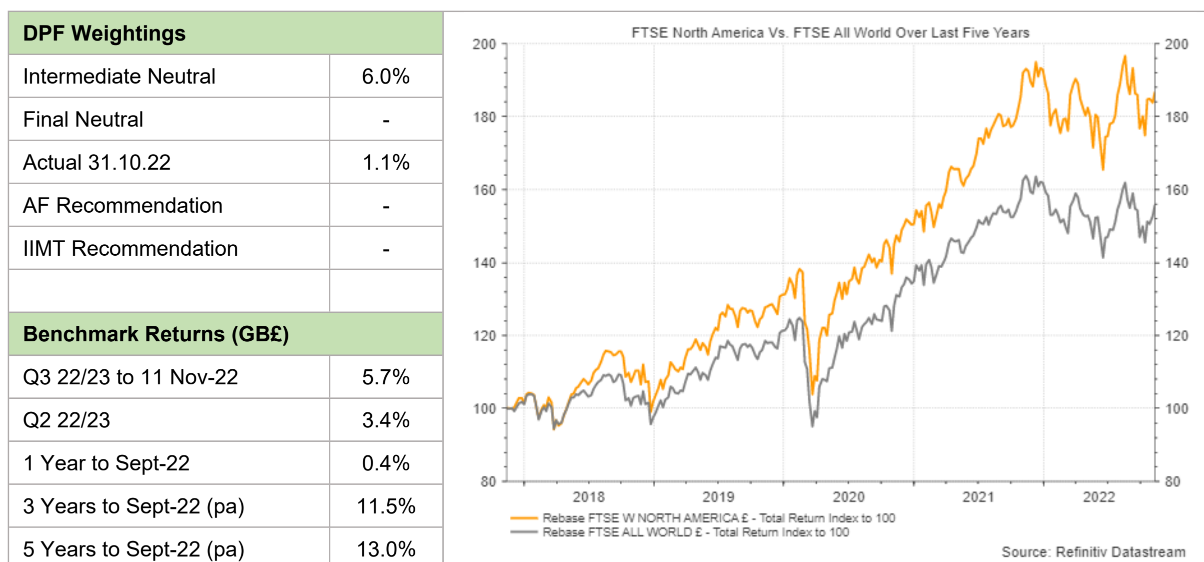
The IIMT continues to favour UK Equities at the present time because of their defensive qualities. Lower valuations have offered a degree of protection against price-multiple compression, which has been experienced in the more expensive Growth focussed areas of the market. The UK index has also benefited from its structural exposure to Value stocks, in particular its overweight allocation to the energy sector, which has benefitted from higher global energy prices.

These characteristics have supported the defensive performance of the FTSE All Share in 2022 against a backdrop of sharply declining equity values globally. UK Equities have only declined by around 0.9% YTD, which compares favourably to the FTSE All World, which has lost over 16% of its value (in US dollar terms).

The IIMT believes that UK Equities still have the potential to outperform in the current environment given the backdrop of increased uncertainty around the inflationary outlook, the path for monetary policy and the increased risk of a global recession.

The IIMT recommends that the current overweight allocation of 1.2% is trimmed by 0.2% to 1.0% to 'lock-in' some of the relative YTD performance.

2.9 North American Equities

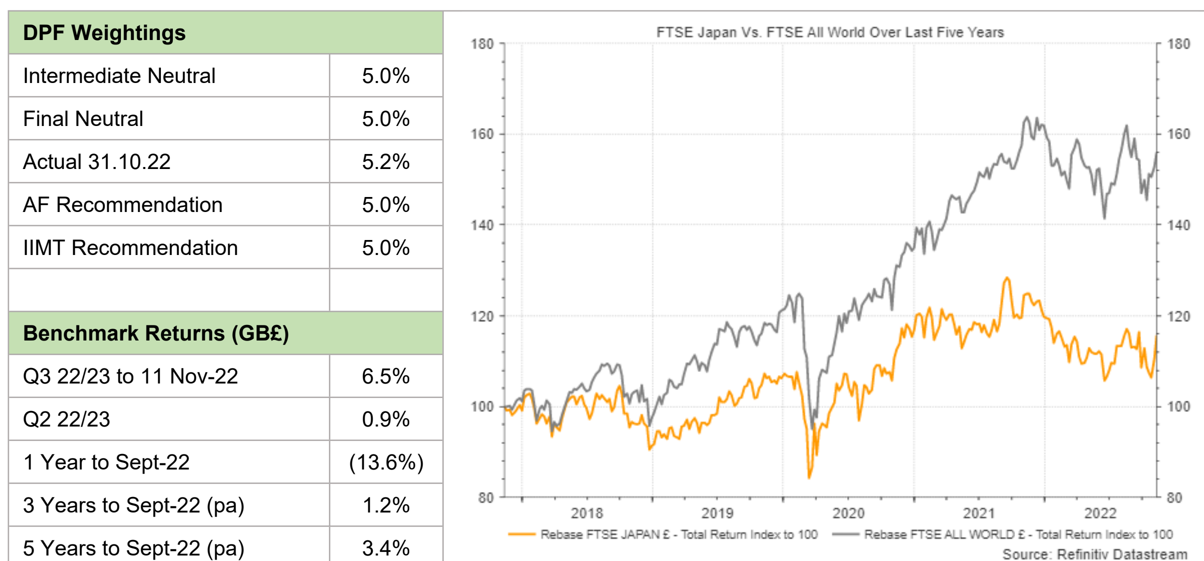


DPF Weightings	
Intermediate Neutral	6.0%
Final Neutral	-
Actual 31.10.22	1.1%
AF Recommendation	-
IIMT Recommendation	-
Benchmark Returns (GB£)	
Q3 22/23 to 11 Nov-22	5.7%
Q2 22/23	3.4%
1 Year to Sept-22	0.4%
3 Years to Sept-22 (pa)	11.5%
5 Years to Sept-22 (pa)	13.0%

The Fund's North American Equity allocation fell from 1.6% at 31 July 2022 to 1.1% at 31 October 2022 (1.1% overweight), principally reflecting net divestment of £34m.

Both Mr Fletcher and the IIMT recommended a zero-weighting to North American Equites in line with benchmark, with the divestment proceeds of around £60m being switched into Global Sustainable Equities. It should be noted that North American Equities account for around 60% of the typical Global Sustainable Equities portfolio.

2.10 Japanese Equities



DPF Weightings	
Intermediate Neutral	5.0%
Final Neutral	5.0%
Actual 31.10.22	5.2%
AF Recommendation	5.0%
IIMT Recommendation	5.0%
Benchmark Returns (GB£)	
Q3 22/23 to 11 Nov-22	6.5%
Q2 22/23	0.9%
1 Year to Sept-22	(13.6%)
3 Years to Sept-22 (pa)	1.2%
5 Years to Sept-22 (pa)	3.4%

The Fund's allocation to Japanese Equities remained flat between 31 July 2022 and 31 October 2022 at 5.2%; 0.2% overweight.

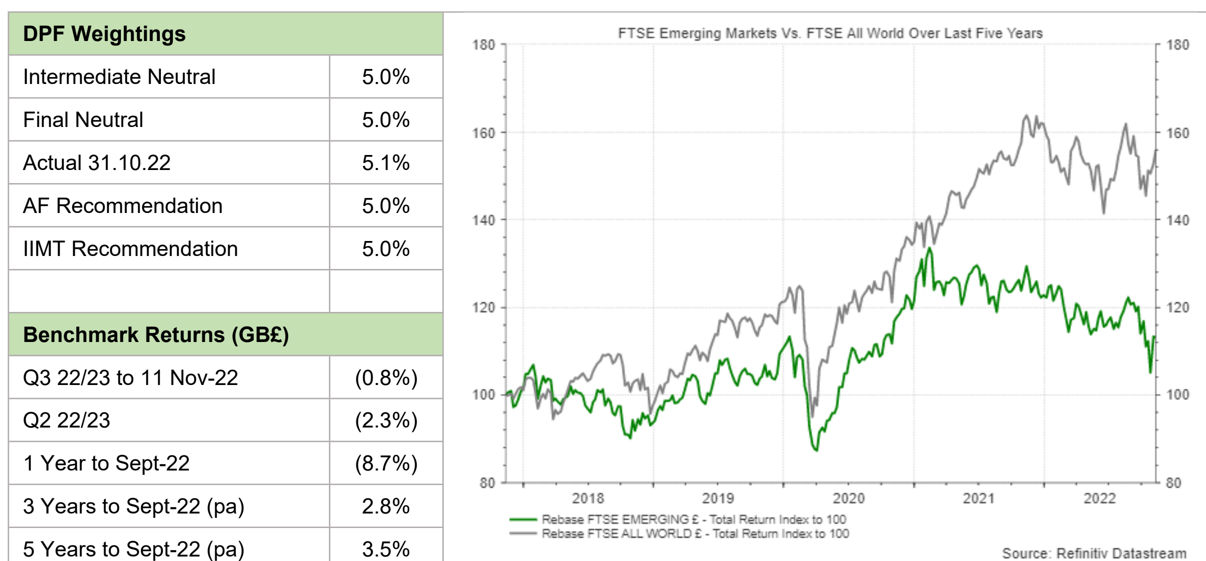
Mr Fletcher recommends a neutral weighting relative to the benchmark.

The IIMT continues to favour Japanese Equities for their sector diversification, lower valuations and defensive performance during periods of increased uncertainty. Japanese Equities have performed well in 2022 YTD against a challenging global backdrop of sharply lower prices. In local currency terms, Japanese Equities have returned +1.6%.

Traditionally, the Japanese Yen has been viewed as a safe-haven asset which rises during periods of uncertainty, which increases the returns for sterling investors in Japanese assets. However, the Bank of Japan has maintained its accommodative monetary policy and yield curve control at a time when US bond yields have risen sharply. The divergence in yields has led to the depreciation of the Yen, as investors have favoured dollar-denominated assets. In sterling terms, Japanese Equities have therefore lost 3.3% YTD.

The IIMT believes that Japanese Equities remain reasonable value. The IIMT recommends that the Fund's 0.2% overweight allocation is reduced to a neutral weight of 5.0%.

2.11 Emerging Market Equities



DPF Weightings	
Intermediate Neutral	5.0%
Final Neutral	5.0%
Actual 31.10.22	5.1%
AF Recommendation	5.0%
IIMT Recommendation	5.0%
Benchmark Returns (GB£)	
Q3 22/23 to 11 Nov-22	(0.8%)
Q2 22/23	(2.3%)
1 Year to Sept-22	(8.7%)
3 Years to Sept-22 (pa)	2.8%
5 Years to Sept-22 (pa)	3.5%

Relative market weakness reduced the Fund's allocation to Emerging Market Equities from 5.4% at 31 July 2022 to 5.1% at 31 October 2022; 0.1% overweight.

Mr Fletcher recommends a neutral allocation of 5.0% to Emerging Market Equities.

In local currency terms, Emerging Market Equities have been the worst performing region so far in 2022, falling by close to 20% YTD. However, due to the relative strength of the US dollar relative to the pound, the index has lost around 8% when translated into Sterling.

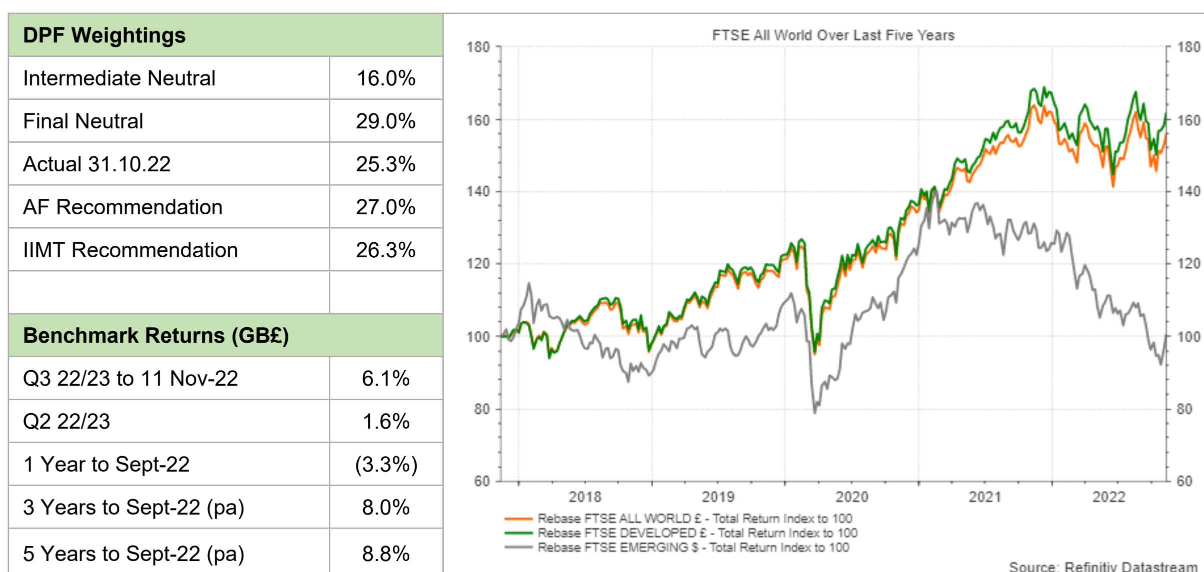
China, which makes up around a third of the index, has fallen more than 21% YTD in Sterling. Low vaccination rates and less effective vaccines have contributed to a new wave of Covid-19 cases in China. As a result, Chinese authorities have reintroduced lockdowns in several major cities, including Shanghai, China's most populous city. Latin American equities have been the best performing region, returning 30% YTD in Sterling. The region is a net exporter of commodities and has been a major beneficiary of the sharp rise in commodity prices.

Russia was removed from the Emerging Markets index shortly after its invasion of Ukraine, with the country being viewed as uninvestable. Russian equities made up approximately 4% of the Emerging Markets index at the start of the year, and over 70% of the Emerging Europe index. There has been a contagion effect from the conflict, with eastern European countries

most heavily affected due to their close proximity and trading ties to Russia and Ukraine. The Emerging Europe index has lost over 70% of its value YTD.

The IIMT continues to believe in the long-term growth potential of Emerging Markets, noting that these markets have accounted for well over half of global growth over the last ten years. The IIMT therefore recommends a neutral allocation of 5%, 0.1% lower than that reported at 31 October 2022.

2.12 Global Sustainable Equities



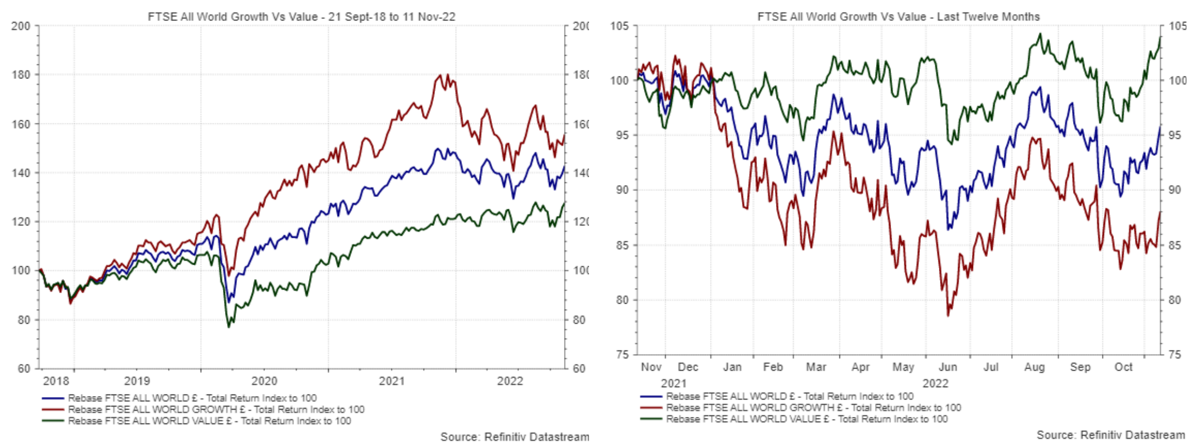
DPF Weightings	
Intermediate Neutral	16.0%
Final Neutral	29.0%
Actual 31.10.22	25.3%
AF Recommendation	27.0%
IIMT Recommendation	26.3%
Benchmark Returns (GB£)	
Q3 22/23 to 11 Nov-22	6.1%
Q2 22/23	1.6%
1 Year to Sept-22	(3.3%)
3 Years to Sept-22 (pa)	8.0%
5 Years to Sept-22 (pa)	8.8%

The Fund's allocation to Global Sustainable Equities increased from 24.8% at 31 July 2022 to 25.3% at 31 October 2022 (3.7% underweight) reflecting relative market strength.

Mr Fletcher recommends a 2.0% underweight allocation of 27.0% to Global Sustainable Equities, down from a neutral weighting recommendation of 29.0% at 31 July 2022. Mr Fletcher believes that while the medium-term outlook for equities has improved following the recent market sell-off, inflation has not yet peaked, interest rates have further to rise and there is growing economic uncertainty. As a result, Mr Fletcher is cautious about equity markets in the short-term, particularly in the more interest rate sensitive growth sectors. As noted earlier, Global Sustainable Equity portfolios are typically tilted towards growth stocks.

The IIMT remains confident about the long-term investment case for the Fund's allocation to Global Sustainable Equities, which typically favour growth stocks relative to value stocks.

The charts below shows that growth stocks have out-performed value stocks since index inception in Sept-18, particularly since the start of the Covid-19 pandemic, as investors favoured quality growth stocks over pro-cyclical stocks, in part supported by low forward interest rate expectations.



However, value stocks rallied over the last twelve months as both economic activity, and in particular, forward interest rate expectations increased, albeit growth stocks started to rally in July and August 2022 as markets began to price in interest rate cuts by the US Fed in 2023 against a weaker growth outlook. The rally faded in September and October 2022 but returned in November 2022, when equity markets responded positively to lower-than-expected US inflation numbers for October 2022, which may suggest that US inflation has peaked. The US Federal Reserve remains relatively hawkish, albeit the US central bank has indicated that the rate of interest rate rises is likely to slow moving forward. The focus is likely to switch to the quantum of the ultimate target interest rate, and it is too early to call the peak in US inflation.

The IIMT recommends that Fund’s allocation to Global Sustainable Equities is increased to 26.3%; 2.7% underweight. As noted earlier, the IIMT recommends an overall underweight allocation of 0.7% to Growth Assets, with the recommended 2.7% underweight in respect of Global Sustainable Equities being used to fund overweight allocations in respect of UK Equities (1.0%) and Private Equity (1.0%).

Any flexibility in the stance on Growth Assets in response to changing economic, inflationary and monetary conditions will likely be reflected in the Fund’s weighting in Global Sustainable Equities.

2.13 Private Equity

DPF Weighting					
Intermediate Netural	Final Neutral	Actual 31.10.22	Committed 31.10.22	AF Recommendation	IIMT Recommendation
4.0%	4.0%	5.0%	5.8%	4.0%	5.0%
Benchmark Returns (GB£)					
Q3 22/23 to 11 Aug-22	Q2 22/23	1 Year to Sept-22	3 Years to Sept-22 (pa)	5 Years to Sept-22 (pa)	
6.4%	1.8%	(4.7%)	1.2%	2.8%	

The Fund's Private Equity weighting increased by 0.2% between 31 July 2022 and 31 October 2022 to 5.0% (1.0% overweight) reflecting relative market strength.

Mr Fletcher recommends a neutral weighting of 4.0% in Private Equity.

The IIMT notes that the Fund is 1.8% overweight to Private Equity on a committed basis at 31 October 2022. As a result, the Fund is not considering any further commitments to the asset class at present.

The IIMT recommends maintaining the current Private Equity allocation of 5.0% (1.0% overweight) (5.8% on a committed basis).

2.14 Income Assets

At 31 October 2022, the overall weighting in Income Assets was 26.2% (1.2% overweight), 1.0% higher than that reported at 31 July 2022, reflecting net investment of around £20m, together with relative market strength. The IIMT recommendations below maintain the weighting at 26.2%; 30.4% on a committed basis.

2.15 Multi Asset Credit

DPF Weighting				
Intermediate Neutral	Final Neutral	Actual 31.10.22	AF Recommendation	IIMT Recommendation
6.0%	6.0%	6.8%	8.0%	6.8%
Benchmark Returns (GB£)				
Q3 22/23 to 11 Nov-22	Q2 22/23	1 Year to Sept-22	3 Years to Sept-22 (pa)	5 Years to Sept-22 (pa)
1.5%	1.6%	(1.7%)	2.2%	2.8%

The Fund's allocation to Multi-Asset Credit increased from 6.6% at 31 July 2022 to 6.8% at 31 October 2022 (0.8% overweight), principally reflecting relative market strength.

Mr Fletcher recommends a 2.0% overweight allocation of 8.0% to Multi-Asset Credit, funded from a 1.0% underweight allocation to both Global Sustainable Equities and Conventional Bonds. Mr Fletcher notes that spreads have narrowed slightly since the end of Q3-22 but the overall yield available combined with the low duration and floating rate nature of many of the assets suggests to Mr Fletcher than Multi-Asset Credit remains attractive, relative to longer duration assets in a rising interest rate environment.

The IIMT continues to be positive about the long-term attractions of the asset class and favours a strong bias towards defensive forms of credit (e.g., senior secured debt and asset backed securities). The IIMT believes that the current running yield available from the Multi-Asset Class asset class is attractive, and offers value over the longer term, albeit there could be volatility in the short-term. As a result, the IIMT recommends that the current allocation of 6.8% is maintained (0.8% overweight); 8.7% on a committed basis.

2.16 Property

DPF Weighting				
Intermediate Neutral	Final Neutral	Actual 31.10.22	AF Recommendation	IIMT Recommendation
9.0%	9.0%	8.8%	9.0%	8.8%
Benchmark Returns (GB£)				
Q3 22/23 to 11 Nov-22	Q2 22/23	1 Year to Sept-22	3 Years to Sept-22 (pa)	5 Years to Sept-22 (pa)
Not Available	(4.1%)	12.2%	6.8%	6.1%

The Fund's allocation to Property fell by 0.1% to 8.8% at 31 October 2022, reflecting net divestment of around £6m, principally in respect of Indirect Property funds in unwind, and relative market weakness. Direct Property accounted for 6.0% (up 0.1%, neutral) and Indirect Property accounted for 2.8% (down 0.2%, 0.2% underweight).

Mr Fletcher recommends a neutral overall allocation of 9.0% to property but notes that he would like to see the Direct Property allocation increased in the medium term, funded from realisations out of the Indirect Property allocation. However, Mr Fletcher believes that there may be a short-term opportunity for the Fund to take advantage of distressed selling by other investors by increasing the Fund's exposure to Indirect Property Assets.

The Fund’s Direct Property manager notes that Q3-22 was a politically turbulent one, which has not helped an already challenging economic landscape. The short-lived Liz Truss premiership and the September 2022 ‘mini-budget’ adversely impacted financial markets’ confidence in the UK’s ability to deal with the economic challenges that have arisen. Whilst a new Prime Minister is now in place, inflation has continued its upward trajectory, and the BoE increased the bank rate by 0.75% to 3.0% on 3 November 2022.

The effect of this political and economic turbulence on the UK commercial property investment market has been a sharp reversal in sentiment compared to the first half of the year and capital values fell over the quarter to the end of September as a result. Capital value growth in Q3-22, as measured by the MSCI Quarterly Index, was -5.1%, with the total return, once income return had been accounted for, being -4.2%. The current void rate within the portfolio is 5.6% (Q2-22: 6.9%), 2.4% lower than the benchmark void rate of 8.0%. The manager believes that with a pricing correction underway, this may provide the Fund with opportunities to invest in good quality assets at pricing levels significantly lower than previously obtainable. Rather than a structural change in the attraction or otherwise of commercial property investment, the market is re-calibrating to changing financial conditions. Those sectors with good underlying occupier market fundamentals will be best placed when positive investor sentiment returns. The manager will continue to focus on those sectors that provide such fundamentals, and these include the industrial, food store and retail warehousing sectors and some alternative sub-sectors.

The IIMT recommends that the Fund’s allocation to Direct Property is maintained at 6.0% (neutral), together with maintaining the Indirect Property weighting at 2.8% (0.2% underweight). The IIMT recommends that further liquidity of up to £60m (1.0%) is made available to the Direct Property manager to make incremental investments at the right time should suitable investment opportunities be identified, funded from matching Indirect Property redemptions.

Notwithstanding the above comments in respect of increasing the Fund’s Direct Property allocation from a lower Indirect Property allocation, the IIMT continues to believe that Indirect Property has a role in the Fund’s overall portfolio and increases the options available to the Fund to deploy capital into a relatively illiquid asset class and increases portfolio diversification, including

exposure to overseas assets, private rented accommodation, student accommodation, development capital and medical centres.

2.17 Infrastructure

DPF Weighting					
Intermediate Neutral	Final Neutral	Actual 31.10.22	Committed 31.10.22	AF Recommendation	IIMT Recommendation
9.0%	10.0%	10.6%	12.9%	10.0%	10.6%
Benchmark Returns (GB£)					
Q3 22/23 to 11 Nov-22	Q2 22/23	1 Year to Sept-22	3 Years to Sep-22 (pa)	5 Years to Sept-22 (pa)	
0.5%	0.9%	2.8%	2.4%	2.6%	

The Fund's allocation to Infrastructure increased from 9.7% at 31 July 2022 to 10.6% at 31 October 2022 (0.6% overweight), largely reflecting net investment of £26m, together with relative market strength.

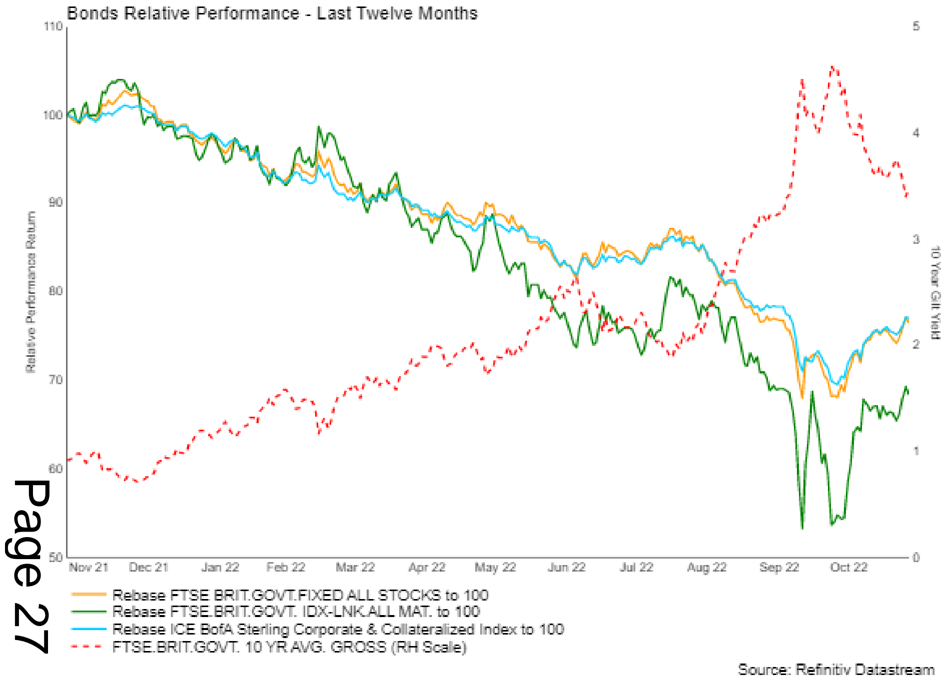
Mr Fletcher recommends a neutral weighting relative to the final benchmark of 10.0% allocation.

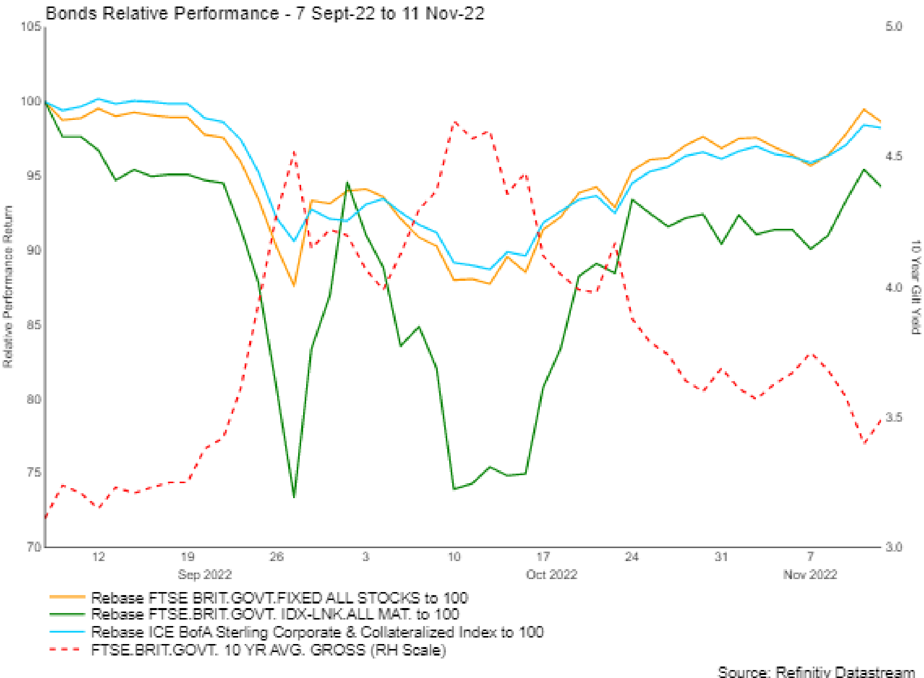
The IIMT continues to view Infrastructure as an attractive long-term asset class and favours a bias towards core infrastructure assets or renewable energy assets. These assets can offer low volatility; low correlation to equity and fixed income markets; and reliable long-term cash flows.

Notwithstanding the noted favourable long-term characteristics of the asset class, the IIMT continues to believe that infrastructure assets are exposed to increased political and regulatory risk, and this risk is best mitigated through asset type and geographical diversification. It should also be noted that the current market valuation of some infrastructure assets, particularly renewable infrastructure assets, are becoming increasingly stretched driven by strong investor demand.

The IIMT recommends that the invested weighting is maintained at 10.6% (0.6% overweight); 12.9% on a committed basis. Given the current committed weight of 12.9%, the IIMT is not reviewing new opportunities at the current time.

2.18 Protection Assets



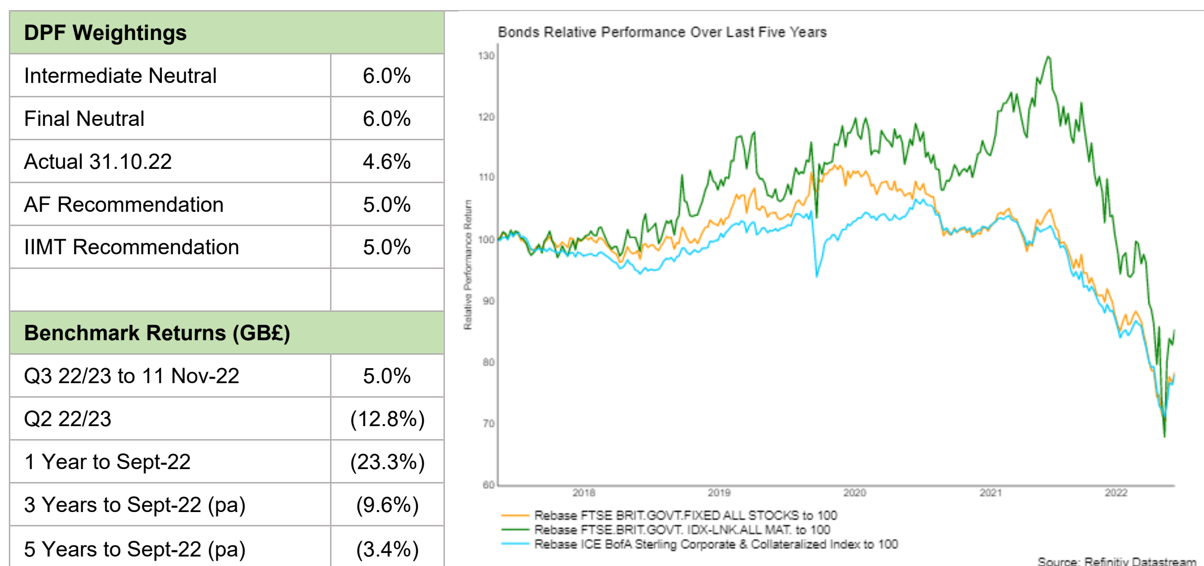


The weighting in Protection Assets at 31 October 2022 was 15.3%, 0.7% lower than that reported at 31 July 2022. Net investment of £20m was offset by relative market weakness. The IIMT recommendations below increase the weighting by 1.2% to 16.5%.

Fixed income returns have come under increasing pressure in 2022 as bond yields have risen (lowering prices), as markets priced in interest rates of well over 2% in both the US and the UK to tackle rising inflation. UK bond yields were extremely volatile in Q3-22, particularly in response to the UK Governments 'mini-budget' in September 2022. The 'mini-budget' was followed by a sharp sell-off in long-dated gilts (pushing up yields), and the BoE was forced into the temporary purchases of government bonds to ensure that the market continued to function properly. Whilst the UK bond markets have subsequently stabilised and prices have risen (pushing down yields), UK investor confidence appears low.

2.19 Conventional Bonds

DPF Weightings	
Intermediate Neutral	6.0%
Final Neutral	6.0%
Actual 31.10.22	4.6%
AF Recommendation	5.0%
IIMT Recommendation	5.0%
Benchmark Returns (GB£)	
Q3 22/23 to 11 Nov-22	5.0%
Q2 22/23	(12.8%)
1 Year to Sept-22	(23.3%)
3 Years to Sept-22 (pa)	(9.6%)
5 Years to Sept-22 (pa)	(3.4%)

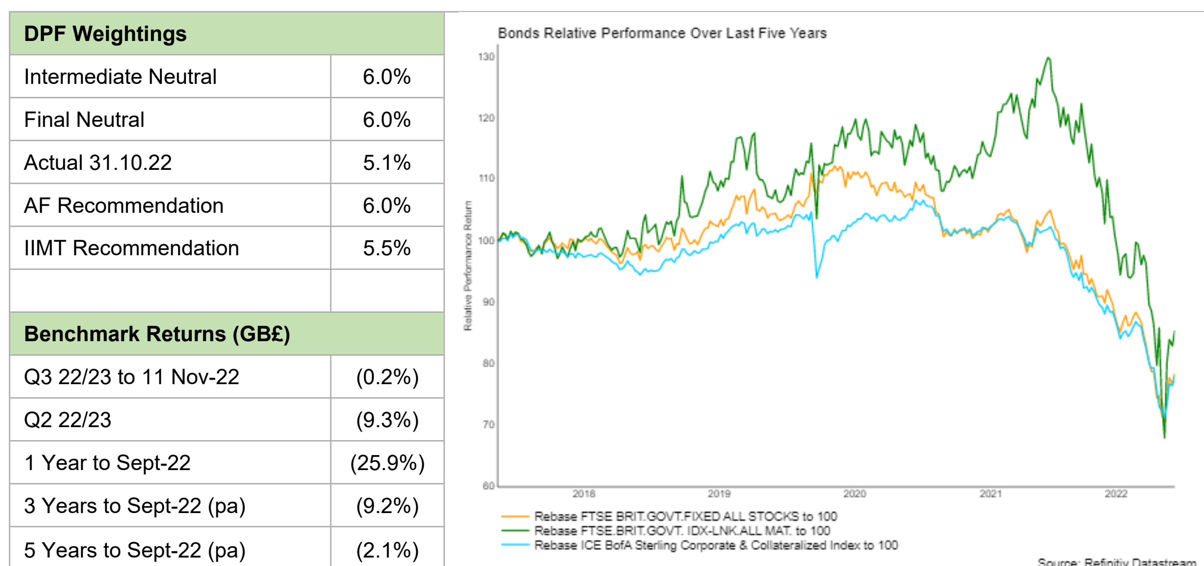


The Fund's allocation to Conventional Bonds remained flat at 4.6% (1.4% underweight) between 31 July 2022 and 31 October 2022, with net investment of £10m being offset by relative market weakness. The Fund's allocation at 31 October 2022 comprised 80% UK Gilts and 20% US Treasuries.

Mr Fletcher has maintained his recommended 1.0% underweight allocation to Conventional Bonds. Despite the increase in bond yields since Mr Fletcher's last report, Mr Fletcher still expects yields to rise as interest rates are increased, albeit noting that in 12 months' time slower growth and lower inflation could mean that bond yields start to fall even if there have been no cuts in interest rates As a result, Mr Fletcher has a negative outlook in respect of Conventional Bonds in the near term, instead favouring Index-Linked Bonds and Corporate Bonds.

The IIMT believes that conventional sovereign bonds offer better value now than they have for some time following the substantial year-to-date rise in yields from historic lows. Sovereign bonds are also diversifying assets which should afford greater protection than other asset classes in periods of market uncertainty, as evidenced by the July fall in bond yields as concerns about the global economy intensified. The IIMT recommends increasing the weighting by 0.4% to 5.0% (1.0% underweight) which is in line with Mr Fletcher's recommendation.

2.20 Index-Linked Bonds



DPF Weightings	
Intermediate Neutral	6.0%
Final Neutral	6.0%
Actual 31.10.22	5.1%
AF Recommendation	6.0%
IIMT Recommendation	5.5%
Benchmark Returns (GB£)	
Q3 22/23 to 11 Nov-22	(0.2%)
Q2 22/23	(9.3%)
1 Year to Sept-22	(25.9%)
3 Years to Sept-22 (pa)	(9.2%)
5 Years to Sept-22 (pa)	(2.1%)

The Fund's allocation to Index-Linked Bonds fell from 5.5% at 31 July 2022 to 5.1% at 31 October 2022; 0.9% underweight. Net investment of £10m was offset by relative market weakness. The Fund's allocation at 31 October 2022 comprised 80% UK Index-Linked Bonds (UK Linkers) and 20% US Treasury Inflation Protected Bonds (US TIPS).

Mr Fletcher has maintained his 6.0% (neutral) allocation to Index-Linked Bonds. Whilst Mr Fletcher still expects yields to rise in the short term, as interest rates are increased, Mr Fletcher believes that Index-Linked Gilts and Corporate Bonds have become more attractive as a medium-term investment.

The IIMT believes that current yields, together with the potential for a longer-term period of elevated inflation, supports the Fund's allocation to Index-Linked Bonds. As a result, the IIMT recommends increasing the weighting to 5.5%; 0.5% underweight.

2.21 Corporate Bonds

DPF Weightings	
Intermediate Neutral	6.0%
Final Neutral	6.0%
Actual 31.10.22	5.6%
AF Recommendation	6.0%
IIMT Recommendation	5.5%
Benchmark Returns (GB£)	
Q3 22/23 to 11 Nov-22	4.3%
Q2 22/23	(8.7%)
1 Year to Sept-22	(21.0%)
3 Years to Sept-22 (pa) (1)	n/a
5 Years to Sept-22 (pa) (1)	n/a

(1) Benchmark returns for the LGPS Central Limited Investment Grade Bonds Sub-Fund only available since the launch of the product in February 2020

There were no transactions in the period and relative market weakness reduced the Fund's weighting in Global Investment Grade Bonds from 5.9% at 31 July 2022 to 5.6% at 31 October 2022.

Mr Fletcher has increased his previous 1.0% underweight allocation to Corporate Bonds to 6.0% neutral. Whilst Mr Fletcher still expects yields to rise in the short term, as interest rates are increased, Mr Fletcher believes that Index-Linked Gilts and Corporate Bonds have become more attractive as a medium-term investment.

The IIMT believes that the spread on investment grade bonds is now relatively attractive and investment grade bonds are likely to be more defensively positioned relative to risk-on assets (e.g. equities), should markets experience further periods of weakness. However, the challenging economic backdrop increases the risk of a rise in corporate defaults. The IIMT recommends increasing the current allocation to Corporate Bonds of 5.6% (0.4% underweight) to 6.0% (neutral).

2.22 Cash

The Cash weighting at 31 October 2022 was 3.6% (1.6% overweight), up from 3.2% at 31 July 2022, principally reflecting net divestment across the total portfolio of around £30m over the period.

Mr Fletcher has maintained his recommended weighting in Cash at 2.0% (neutral).

The IIMT notes that global markets are extremely volatile and whilst investor confidence has shown signs of improvement, several significant headwinds remain which could see this reverse, including a slowdown in global activity, continuing inflationary pressures, rising interest rates, energy security concerns, tight global supply chains, the conflict between Russia and Ukraine, China's zero Covid-19 policy and the outcome of the US mid-term elections, which could result in political gridlock, with the Democrats controlling the Senate and the Republicans controlling the House of Representatives.

The IIMT recommends a defensive cash allocation of 3.0% (1.0% overweight) due to the uncertain economic outlook. This will also ensure that the Fund has sufficient operational headroom after adjusting for term-loan maturities (i.e., short-term loans provided by the Fund to other public sector bodies) to cover upcoming investment commitment drawdowns (expected to be in excess of £100m over the course of the next twelve months).

3. Implications

3.1 Appendix 1 sets out the relevant implications considered in the preparation of the report.

4. Background Papers

4.1 Papers held in the Investment Section.

5. Appendices

5.1 Appendix 1 – Implications.
5.2 Appendix 2 – Report of independent external adviser.
5.3 Appendix 3 – Portfolio Valuation Report at 31 October 2022.

6. Recommendation(s)

That Committee:

a) notes the report of the independent external advisor, Mr Fletcher.

b) notes the asset allocations, total assets and long-term performance analysis set out in the report.
c) approves the IIMT recommendations outlined in the report.

7. Reasons for Recommendation(s)

7.1 Both Mr Fletcher's report and the analysis set out in this report in respect of asset allocation, total assets and long-term performance provide an overview of the Fund's investment strategy and performance track-record on which to assess the asset allocation recommendations for the Fund for the upcoming quarter.

7.2 The rationale for each of the IIMT asset allocation recommendations included in this report is set out in Section 2.

Report Author:	**Neil Smith**	**Contact details:**	**neil.smith2@derbyshire.gov.uk**

Appendix 1

Implications

Financial

1.1 None

Legal

2.1 None

Human Resources

3.1 None

Information Technology

4.1 None

Equalities Impact

5.1 None

Corporate objectives and priorities for change

6.1 None

Other (for example, Health and Safety, Environmental, Sustainability, Property and Asset Management, Risk Management and Safeguarding)

7.1 None

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Derbyshire
Pension
Fund

T: 01629 538 900
E: pensions@derbyshire.gov.uk
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Appendix 3
Investment Portfolio Valuation
October 2022

County Hall, Matlock, Derbyshire, DE4 3AH
Administered by Derbyshire County Council

lgps

DERBYSHIRE PENSION FUND

	SAAB	Permitted Range	DCC 31/10/2022 £m	DCC 31/10/2022 %
Growth Assets	**55.0%**	**+/- 8%**	**3154.5**	**54.9%**
UK	12.0%	**+/- 6%**	761.7	13.3%
US	0.0%	**+/- 6%**	61.4	1.1%
Europe	0.0%	**+/- 4%**	0.0	0.0%
Japan	5.0%	**+/- 2%**	296.4	5.2%
Pacific (ex Japan)	0.0%	**+/- 2%**	0.0	0.0%
Emerging Markets	5.0%	**+/- 2%**	291.7	5.1%
Global Sustainable	29.0%	**+/- 16%**	1454.9	25.3%
Private Equity	4.0%	**+/- 2%**	288.4	5.0%
Income Assets	**25.0%**	**+/- 6%**	**1511.0**	**26.3%**
Infrastructure	10.0%	**+/- 3%**	612.2	10.6%
Property	9.0%	**+/- 3%**	508.1	8.8%
Direct	6.0%		345.9	6.0%
Indirect	3.0%		162.2	2.8%
Multi-Asset Credit	6.0%	**+/- 2%**	390.6	6.8%
Protection Assets	**18.0%**	**+/- 5%**	**877.5**	**15.3%**
Government	6.0%	**+/- 2%**	264.6	***4.6%***
UK			219.2	
Overseas			45.4	
Index Linked	6.0%	**+/- 2%**	293.2	***5.1%***
UK			229.4	
Overseas			63.8	
Non Government	6.0%	**+/- 2%**	319.7	***5.6%***
Cash	**2.0%**	**+/- 8%**	**203.7**	**3.5%**
LGPSC Regulatory Capital	**0.0%**		**2.0**	**0.0%**
Total	**100.0%**		**5748.8**	**100.0%**

DERBYSHIRE PENSION FUND
OCTOBER 2022 PORTFOLIO VALUATION - BID

UK EQUITIES	Company name	Number held	Mkt price in local currency	Mkt Price GBP	Value in Sterling £
UK EQUITIES FUND					
LGIM UK EQUITY INDEX FUND					
UK EQUITIE:	LGIM UK EQUITY INDEX FUND	48,456,965.78	**14.67**	**14.67**	710,839,460
UK EQUITIES FUND TOTAL					**710,839,460**

DERBYSHIRE PENSION FUND
OCTOBER 2022 PORTFOLIO VALUATION - BID
NEW SECTORS
UK EQUITIES

Sector	Company Name	Number held	Mkt Price Pence	Total £
HOUSEHOLD GOODS				
UK Hous Gds Txtil	PETER GEESON 2nd PREFERRED OF	16,487	0.00	-
UK Household Goods Total				**-**
EQUITY INVESTMENT COMPANIES				
UK Investment Co's	ABERFORTH SML 1P	789,000	1166.00	9,199,740
UK Investment Co's	LOW CARBON ACCELERATOR LTD	3,868,000	0.00	-
UK Investment Co's	MONTANARO UK SMALLER CO'S 10P	11,996,285	101.50	12,176,229
UK Investment Co's	STRATHDON INVESTMENTS PLC	20	1000.00	20,000
UK Equity Investment Companies Total				**21,395,969**
UNIT TRUSTS & OEICs				
UK Unit Trusts	LIONTRUST UK SMALLER COMPANIE	1,713,693.58	1721.02	29,493,009
UK Unit Trusts & OEICs Total				**29,493,009**
TOTAL UNITED KINGDOM				**50,888,978**

DERBYSHIRE PENSION FUND					
OCTOBER 2022 PORTFOLIO VALUATION - BID					
US EQUITIES					
Sector	Company Name	Number held	Mkt price USD/ CAN$	Mkt Price GBP	Value in Sterling £
OIL & GAS PRODUCERS					
US Oil & Gas	BP PLC-SPONS ADR	30379	33.29	29.03	881,767
US Oil & Gas	CONOCOPHILLIPS	7406	126.14	109.98	814,523
US Oil & Gas	EOG RESOURCES INC	1106	136.56	119.07	131,688
US Oil & Gas	MARATHON PETROLEUM CORP	3543	113.70	99.14	351,235
US Oil & Gas	PIONEER NATURAL RESOURCES CO	732	256.50	223.64	163,706
US Oil & Gas	SHELL PLC-ADR	19167	55.65	48.52	930,007
US Oil & Gas Producers Total					**3,272,926**
OIL & GAS SERVICES					
US Oil & Gas Services	SCHLUMBERGER LTD	7961	52.05	45.38	361,289
US Forestry & Paper Total					**361,289**
CHEMICALS					
US Chemicals	CABOT CORP	3853	73.48	64.07	246,851
US Chemicals	CELANESE CORP	2034	96.15	83.83	170,517
US Chemicals	FMC CORP	3444	118.93	103.70	357,126
US Chemicals	INGEVITY CORP	1426	67.27	58.65	83,639
US Chemicals	LINDE PLC	1859	297.34	259.25	481,947
US Chemicals	PPG INDUSTRIES INC	2767	114.24	99.61	275,609
US Chemicals Total					**1,615,689**
INDUSTRIAL METALS					
US Industrial Metals	LIVENT CORP	3662	31.57	27.53	100,800
US Industrial Metals Total					**100,800**
AEROSPACE					
US Aero defence	BOEING CO/THE	1738	142.58	124.32	216,060
US Aero defence	GENERAL DYNAMICS	1474	249.70	217.71	320,910
US Aero defence	LOCKHEED MARTIN CORP	1027	486.50	424.18	435,632
US Aero defence	RAYTHEON TECHNOLOGIES CORP	6058	94.84	82.69	500,942
US Aerospace Total					**1,473,544**
GENERAL INDUSTRIAL					
US Div Ind	AMETEK INC	1154	129.75	113.13	130,551
US Div Ind	AZEK CO INC/THE	3734	17.50	15.26	56,974
US Div Ind	BALL CORP	1765	49.37	43.05	75,976
US Div Ind	BUILDERS FIRSTSOURCE INC	3337	61.67	53.77	179,431
US Div Ind	CATERPILLAR INC	977	216.45	188.72	184,382
US Div Ind	DANAHER CORP	3066	251.82	219.56	673,177
US Div Ind	EMERSON ELECTRIC CO	970	86.53	75.45	73,182
US Div Ind	FORTUNE BRANDS HOME & SECURITY	1205	60.31	52.58	63,364
US Div Ind	FLOWSERVE CORP	5621	28.75	25.07	140,902
US Div Ind	FLUOR CORP	7887	30.26	26.38	208,088
US Div Ind	HONEYWELL INTERNATIONAL INC	2783	204.00	177.87	495,006
US Div Ind	INGERSOLL-RAND PLC	3451	50.52	44.05	152,011
US Div Ind	JOHNSON CONTROLS INTERNATIONAL	3364	57.85	50.44	169,678
US Div Ind	KENNAMETAL INC	3302	26.80	23.37	77,158
US Div Ind	MIDDLEBY CORP	1308	139.86	121.94	159,503
US Div Ind	PACCAR INC	2296	96.82	84.42	193,822
US Div Ind	UNITED RENTALS INC	119	315.79	275.34	32,765
US Div Ind	WABTEC CORP-WESTINGHOUSE AIR BR	3997	93.28	81.33	325,079
US Div Ind	WESCO INTERNATIONAL INC	1103	137.82	120.17	132,542
US General Industrial Total					**3,523,591**
ELECTRONIC EQUIPMENT					

US Electricity	FORTIVE CORP	1903	63.90	55.71	106,025
US Electronic Equipment Total					**106,025**
INDUSTRIAL TRANSPORT					
US Transportation	FEDEX CORP	951	160.34	139.80	132,950
US Transportation	SOUTHWEST AIRLINES CO	1372	36.36	31.70	43,496
US Industrial Transport Total					**176,446**
SUPPORT SERVICES					
US Support Services	AURORA INNOVATION INC	9300	2.05	1.79	16,623
US Support Services	CLEAN HARBORS INC	684	122.56	106.86	73,092
US Support Services	CERIDIAN HCM HOLDING INC	4031	66.18	57.70	232,598
US Support Services	GENPACT LTD	3675	48.52	42.30	155,469
US Support Services	SCIENCE APPLICATIONS INTL CORP	1827	108.26	94.39	172,454
US Support Services	TRINET GROUP INC	1670	65.03	56.70	94,688
US Support Services	WASTE CONNECTIONS INC	1069	131.95	115.05	122,985
US Support Services Total					**867,910**
AUTOMOBILES & PARTS					
US Automobiles & Par	FORD MOTOR CO	9001	13.38	11.67	105,006
US Automobiles & Parts Total					**105,006**
BEVERAGES					
US Beverages	CONSTELLATION BRANDS INC-A	4533	246.95	215.32	976,026
US Beverages	MONSTER BEVERAGE	4990	93.75	81.74	407,886
US Beverages Total					**1,383,912**
FOOD PRODUCTION/PROCESS					
US Food Prod & Proce	ARCHER-DANIELS-MIDLAND CO	4631	97.00	84.57	391,664
US Food Prod & Proce	HERSHEY CO/THE	2874	238.83	208.24	598,470
US Food Prod & Proce	KELLOGG CO	4394	76.89	67.04	294,575
US Food Production & Processing Total					**1,284,709**
PERSONAL GOODS					
US Personal Care / Hc	DR HORTON INC	536	76.89	67.04	35,934
US Personal Care / Hc	LENNAR CORP-A	432	80.70	70.36	30,397
US Personal Goods Total					**66,330**
TOBACCO					
US Food Prod & Proce	ALTRIA GROUP INC	4603	46.26	40.33	185,658
US Food Prod & Proce	PHILIP MORRIS INTERNATIONAL	6239	91.87	80.10	499,753
US Tobacco Total					**685,411**
HEALTHCARE EQUIPMENT & SERVICES					
US Healthcare Equipm	ABOTT LABORATORIES	2501	98.89	86.22	215,642
US Healthcare Equipm	ABIOMED INC	577	251.37	219.17	126,461
US Healthcare Equipm	AGILON HEALTH INC	16904	19.84	17.30	292,414
US Healthcare Equipm	ALIGN TECHNOLOGY INC	683	194.30	169.41	115,707
US Healthcare Equipm	BOSTON SCIENTIFIC CORP	9598	43.12	37.60	360,850
US Healthcare Equipm	CENTENE CORP	6649	85.09	74.19	493,289
US Healthcare Equipm	DEXCOM INC	1945	120.63	105.18	204,570
US Healthcare Equipm	EDWARDS LIFESCIENCES CORP	3944	72.37	63.10	248,864
US Healthcare Equipm	ELANCO ANIMAL HEALTH INC	7187	13.18	11.49	82,590
US Healthcare Equipm	HCA HOLDINGS INC	1994	217.61	189.73	378,330
US Healthcare Equipm	HUMANA INC	1354	558.43	486.90	659,256
US Healthcare Equipm	INSULET CORP	668	258.81	225.66	150,739
US Healthcare Equipm	LABORATORY CRP OF AMER HLDGS	197	221.89	193.47	38,113
US Healthcare Equipm	MCKESSON CORP	670	389.29	339.42	227,413
US Healthcare Equipm	STRYKER CORP	1767	228.84	199.53	352,562
US Healthcare Equipment & ServicesTotal					**3,946,798**
PHARMACEUTICAL, BIOTECH					
US Healthcare	ACLARIS THERAPEUTICS INC	1222	15.60	13.60	16,621
US Healthcare	AGILIENT TECHNOLOGIES INC	3300	138.41	120.68	398,243
US Healthcare	ALKERMES PLC SHS	1807	22.69	19.78	35,749

US Healthcare	ALNYLAM PHARMACEUTICALS INC	325	207.26	180.71	58,731
US Healthcare	APELLIS PHARMACEUTICALS INC	395	60.46	52.72	20,822
US Healthcare	ASCENDIS PHARMA A/S - ADR	238	115.00	100.27	23,864
US Pharm, Biotech	ASTRAZENECA PLC-SPONS ADR	7906	58.82	51.29	405,460
US Healthcare	BAXTER INTERNATIONAL INC	4345	54.36	47.40	205,938
US Healthcare	BIOGEN INC	492	283.44	247.13	121,589
US Healthcare	BLUEPRINT MEDICINES CORP	207	51.80	45.16	9,349
US Healthcare	BRISTOL-MYERS SQUIBB CO	6420	77.48	67.55	433,702
US Healthcare	CELLDEX THERAPEUTICS INC	673	35.13	30.63	20,614
US Pharm, Biotech	ELI LILLY & CO	3362	362.22	315.82	1,061,786
US Pharm, Biotech	GENMAB A/S-SP ADR	1299	38.51	33.58	43,616
US Pharm, Biotech	GSK PLC-SPON ADR	2551	33.18	28.93	73,800
US Pharm, Biotech	HORIZON THERAPEUTICS PLC COM	382	62.28	54.30	20,743
US Pharm, Biotech	ICON PLC	648	197.83	172.49	111,772
US Pharm, Biotech	ILLUMINA INC	1069	228.83	199.52	213,284
US Pharm, Biotech	INCYTE CORP	777	74.32	64.80	50,349
US Pharm, Biotech	INTRA-CELLULAR THERAPIES INC	1235	45.67	39.82	49,177
US Pharm, Biotech	KARUNA THERAPEUTICS INC	269	219.33	191.23	51,442
US Healthcare	MERCK & CO. INC.	3926	101.15	88.19	346,244
US Healthcare	MIRATI THERAPEUTICS INC	232	67.28	58.66	13,609
US Healthcare	MODERNA INC	510	150.32	131.06	66,843
US Healthcare	NOVARTIS AG-SPONSORED ADR	3491	81.11	70.72	246,883
US Pharm, Biotech	PFIZER INC	19167	46.58	40.61	778,431
US Pharm, Biotech	PTC THERAPEUTICS INC	606	37.76	32.92	19,951
US Pharm, Biotech	REGENERON PHARMACEUTICALS	331	749.17	653.20	216,210
US Pharm, Biotech	REVOLUTION MEDICINES INC	662	20.23	17.64	11,677
US Pharm, Biotech	ROYALY PHARMA PLC	299	42.30	36.88	11,028
US Pharm, Biotech	SAREPTA THERAPEUTICS INC	240	114.01	99.41	23,857
US Pharm, Biotech	SEAGEN INC	513	127.15	110.86	56,872
US Pharm, Biotech	SYNDAX PHARMACEUTICALS INC	635	22.96	20.02	12,712
US Pharm, Biotech	SYNEOS HEALTH INC	4641	50.38	43.93	203,862
US Healthcare	VERTEX PHARMACEUTICALS INC	994	311.67	271.75	270,115
US Healthcare	UNITEDHEALTH GROUP INC	710	555.28	484.15	343,746
US Healthcare	UNITED THERAPEUTICS CORP	163	230.53	201.00	32,763
US Healthcare	ZOETIS INC	2151	150.69	131.39	282,613
US Pharmaceutical, Biotech Total					**6,364,066**
FOOD RETAIL					
US Retail Food & Drug	AIRBNB INC-CLASS A	6773	106.90	93.21	631,285
US Retail Food & Drug	HYATT HOTELS CORP-CL A	2443	94.22	82.15	200,693
US Retail Food & Drug	PERFORMANCE FOOD GROUP CORP	30454	51.97	45.31	1,379,951
US Retail Food & Drug	STARBUCKS CORP	3637	86.57	75.48	274,522
US Retail Food & Drug	SYSCO CORP	8785	86.66	75.56	663,785
US Food Retail Total					**3,150,236**
RETAILERS - GENERAL					
US Retailers Gen	AMAZON.COM INC	28052	102.42	89.30	2,505,044
US Retailers Gen	ETSY INC	4939	93.87	81.85	404,234
US Retailers Gen	NIKE INC	5481	92.78	80.89	443,385
US Retailers Gen	TJX COMPANIES INC	11804	72.08	62.85	741,841
US Retailers - General Total					**4,094,503**
MEDIA					
US Media & Photo	BUMBLE INC	12938	25.39	22.14	286,416
US Media & Photo	CARGURUS INC	14260	14.56	12.69	181,029
US Media & Photo	CHARTER COMMUNICATIONS INC-A	1011	367.41	320.34	323,869
US Media & Photo	ELECTRONIC ARTS INC	790	125.93	109.80	86,741
US Media & Photo	META PLATFORMS INC-CLASS A	5522	93.14	81.21	448,435
US Media & Photo	MATCH GROUP INC	4078	43.17	37.64	153,496
US Media & Photo	NEW YORK TIMES CO-A	6464	28.95	25.24	163,161
US Media & Photo	OMNICOM GROUP	10255	72.71	63.40	650,124
US Media Total					**2,293,269**
TRAVEL & LEISURE					

US Hotels Leisure	JETBLUE AIRWAYS CORP	25547	8.03	7.00	178,864
US Travel & Leisure Total					**178,864**
TELECOMS					
Telecoms	AT&T INC	26732	18.25	15.91	425,364
Telecoms	T-MOBILE US INC	6019	151.57	132.15	795,434
US Telecoms Total					**1,220,798**
ELECTRICITY					
US Electricity	AES CORP	14785	26.16	22.81	337,230
US Electricity	DUKE ENERGY CORP	6737	93.14	81.21	547,103
US Electricity	EDISON INTERNATIONAL	7607	59.97	52.29	397,754
US Electricity	EXELON CORP	11179	38.59	33.65	376,136
US Electricity	FIRSTENERGY CORP	12812	37.70	32.87	421,139
US Electricity Total					**2,079,361**
BANKS, RETAIL					
US Banks Retail	JP MORGAN CHASE & CO	2583	125.95	109.82	283,654
US Banks - Retail Total					**283,654**
NON-LIFE INSURANCE					
US Insurance	ALLSTATE CORP COM	1759	126.25	110.08	193,626
US Insurance	AMERICAN INTERNATIONAL GROUP	10369	57.01	49.71	515,412
US Insurance	ASSURANT INC	1055	135.77	118.38	124,889
US Insurance	ASSURED GUARANTY LTD	4350	59.25	51.66	224,721
US Insurance	CHUBB LTD	2706	214.91	187.38	507,050
US Insurance	HARTFORD FINANCIAL SVCS GRP	3979	72.44	63.16	251,315
US Insurance	MARSH & MCLENNAN COS INC COM	2487	161.53	140.84	350,264
US Insurance	TRUPANION INC	3601	50.42	43.96	158,304
US Non-Life Insurance Total					**2,325,582**
LIFE INSURANCE					
US Insurance	METLIFE INC	3497	73.19	63.81	223,159
US Life Insurance Total					**223,159**
REAL ESTATE					
US Real Estate	AMERICAN TOWER CORP	1617	207.21	180.67	292,138
US Real Estate	AVALONBAY COMMUNITIES INC	927	175.06	152.63	141,492
US Real Estate	REXFORD INDUSTRIAL REALTY IN	6092	55.28	48.20	293,626
US Real Estate	RYMAN HOSPITALITY PROPERTIES	3389	89.08	77.67	263,220
US Real Estate	WELLTOWER INC	5194	61.00	53.19	276,248
US Real Estate Total					**1,266,723**
GENERAL FINANCIAL					
US Special Finance	ARES MANAGEMENT CORP - A	13148	75.84	66.12	869,410
US Special Finance	CHARLES SCHWAB CORP	13256	79.65	69.45	920,587
US Special Finance	EQUITABLE HOLDINGS INC	15609	30.62	26.70	416,722
US Special Finance	FLEETCOR TECHNOLOGIES INC	772	186.17	162.32	125,312
US Special Finance	GLOBAL PAYMENTS INC	5016	114.24	99.61	499,623
US Special Finance	GOLDMAN SACHS GROUP INC	2110	344.69	300.54	634,129
US Special Finance	MORGAN STANLEY	10904	82.20	71.67	781,492
US Special Finance	NASDAQ INC	600	62.24	54.27	32,560
US Special Finance	ONEMAIN HOLDINGS INC	2745	38.52	33.59	92,192
US Special Finance	PAYPAL HOLDINGS INC	4231	83.60	72.89	308,401
US Special Finance	S&P GLOBAL INC	2384	321.33	280.17	667,920
US Special Finance	VISA INC CL A SHS	2139	207.24	180.69	386,501
US Special Finance	VOYA FINANCIAL INC	1783	68.36	59.60	106,272
US Special Finance	WEX INC	1206	164.14	143.11	172,595
US General Financial Total					**6,013,718**
SOFTWARE					
US Software & Comp :	ADOBE SYSTEMS INC	486	318.57	277.76	134,992
US Software & Comp :	ALPHABET INC - CL A SHARES	22212	94.52	82.41	1,830,535

US Software & Comp	BLOCK INC	3387	60.09	52.39	177,453
US Software & Comp	GODADDY INC - CLASS A	3932	80.42	70.12	275,705
US Software & Comp	GUIDEWIRE SOFTWARE INC	1100	59.40	51.79	56,970
US Software & Comp	HASHICORP INC-CL A	2886	30.69	26.76	77,225
US Software & Comp	HUBSPOT INC	153	296.56	258.57	39,561
US Software & Comp	MICROSOFT CORP	18419	232.12	202.39	3,727,737
US Software & Comp	OKTA INC	387	56.12	48.93	18,936
US Software & Comp	PALO ALTO NETWORKS INC	626	171.64	149.65	93,683
US Software & Comp	QUALTRICS INTERNATIONAL-CL A	3388	11.96	10.43	35,330
US Software & Comp	RAPID7 INC	438	45.21	39.42	17,265
US Software & Comp	SALESFORCE.COM INC	3041	162.61	141.78	431,152
US Software & Comp	SENTINELONE INC-CLASS A	1340	22.86	19.93	26,708
US Software & Comp	SERVICENOW INC	748	420.89	366.97	274,497
US Software & Comp	SNOWFLAKE INC-CLASS A	199	160.31	139.77	27,815
US Software & Comp	VERISIGN INC	3388	200.46	174.78	592,158
US Software & Comp	WORKDAY INC-CLASS A	815	155.72	135.77	110,654
US Software Total					**7,948,378**
TECHNOLOGY HARDWARE					
US IT Hardware	ADVANCED MICRO DEVICES	5828	60.07	52.38	305,242
US IT Hardware	APPLE INC	19701	153.45	133.79	2,635,857
US IT Hardware	ARISTA NETWORKS INC	1268	121.00	105.50	133,774
US IT Hardware	INTEL CORP	2514	28.43	24.79	62,317
US IT Hardware	KLA-TENCOR CORP	906	316.28	275.76	249,843
US IT Hardware	MARVELL TECHNOLOGY GROUP LTD	5015	39.68	34.60	173,504
US IT Hardware	MICRON TECHNOLOGY INC	6054	54.08	47.15	285,460
US IT Hardware	NVIDIA CORP	1305	134.97	117.68	153,573
US IT Hardware	ON SEMICONDUCTOR CORP	5385	61.38	53.52	288,190
US IT Hardware	TERADYNE INC	2730	81.35	70.93	193,636
US IT Hardware	TEXAS INSTRUMENTS INC	3965	160.58	140.01	555,138
US Technology Hardware Total					**5,036,535**
TOTAL UNITED STATES					**61,449,232**

DERBYSHIRE PENSION FUND
OCTOBER 2022 PORTFOLIO VALUATION - BID

OTHER EQUITIES Company name		Number held	Mkt price in local currency	Mkt Price GBP	Value in Sterling £
JAPAN					
Investment Companies					
Japan	CC Japan Income & Growth Trust-RIGHTS	1,000,000	**0.05**	**0.05**	500
Japan	JPMF japs smoc	718,000	**317.00**	**317.00**	2,276,060
J Investment Companies Total					**2,276,560**
Unit Trusts & OEICs					
Japan	Baillie Gifford OGF - Japanese B Acc Shares	4,536,014.82	**1,694.00**	**1,694.00**	76,840,091
Japan	JPM JAPAN-C-ACC	5,237,837.84	**278.30**	**278.30**	14,576,903
J Unit Trusts Total					**91,416,994**
Life Policies					
Internatio	LGIM Japan Equity Index Fund	96,556,267.000	**2.10**	**2.10**	202,740,159
International Life Policies					**202,740,159**
JAPAN TOTAL					**296,433,713**
EMERGING MARKETS					
Listed Pooled Vehicles					
Internatio	LGPS Central Emerging Mkt Equity Active Multi M	1,745,534.150	**8,813.00**	**88.13**	153,833,925
Listed Pooled Vehicles					**153,833,925**
Life Policies					
Internatio	LGIM World Emerging Markets Index Fund	26,668,012.940	**3.55**	**3.55**	94,768,784
International Life Policies					**94,768,784**
Investment Entities					
Asian	JPM ASIA GROWTH FD-C ACC	18,932,749	**227.50**	**227.50**	43,072,003
LatAm Investment Entities Total					**43,072,003**
EMERGING MARKETS TOTAL					**291,674,712**
OTHER EQUITIES TOTAL					**588,108,425**

DERBYSHIRE PENSION FUND
OCTOBER 2022 PORTFOLIO VALUATION - BID

GLOBAL SUSTAINABLE FUNDS Company name	Number held	Mkt price in local currency	Mkt Price GBP	Value in Sterling £
GLOBAL SUSTAINABLE FUNDS				
Global Sustanable Unit Trusts-Quoted				
GLOBAL SU: Baillie Gifford positive Change Fund B	34,670,510.12	**293.90**	**2.94**	101,896,629
GLOBAL SU: RBC Global Equity Focus Fund	2,508,591.35	**154.14**	**154.14**	386,674,271
GLOBAL SU: LGPS Central All World Equity Climate	2,334,592.41	**13140.00**	**131.40**	306,765,443
Global Sustanable Unit Trusts				**795,336,343**
Life Policies				
GLOBAL SU: LGIM MSCI World Low Carbon Target	287,584,944.06	**2.29**	**2.29**	659,524,304
International Life Policies				**659,524,304**
GLOBAL SUSTAINABLE FUNDS TOTAL				**1,454,860,646.98**

DERBYSHIRE PENSION FUND
OCTOBER 2022 PORTFOLIO VALUATION - BID

OTHER EQUITIES Company name	Number held	Mkt price in local currency	Value in Sterling £
PRIVATE EQUITY			
Quoted Private Equity			
UK Invest APAX GLOBAL ALPHA LTD	3,018,283	165.80	5,004,313
UK Invest HARBOURVEST GLOBAL PRIVATE	995,906	2155.00	21,461,774
UK Invest HGCAPITAL TRUST PLC	7,453,150	347.00	25,862,431
UK Invest ICG ENTERPRISE TRUST PLC	181,795	1004.00	1,825,222
UK Invest NB PRIVATE EQUITY PARTNERS Ltd	1,500,000	17.65	23,083,553
UK Invest NB PRIVATE EQUITY PARTNERS Ltd	38,173	1575.00	601,225
UK Invest PANTHEON INTERNATIONAL PLC	3,600,601	249.00	8,965,496
UK Invest PRINCESS PRIVATE EQUITY HOLDING LTD	500,000	9.52	4,103,358
UK Invest ABERDEEN PRIVATE EQUITY OPPORTUNITIE	900,000	416.00	3,744,000
UK Invest SCHRODER UK PUBLIC PRIVATE	5,000,000	15.24	762,000
UK Quoted Private Equity Total			**95,413,372**
Unquoted Private Equity			
UK Uncla ADAM STREET PARTNERS (FEEDER) 2017 FU	30,000,000	1.35	35,288,752
UK Uncla CAPITAL DYNAMICS GLOBAL SECONDARIES	20,000,000	0.64	11,137,453
UK Uncla CAPITAL DYNAMICS MID-MARKET DIRECT FE	25,000,000	1.54	33,197,835
UK Uncla CAPITAL DYNAMICS LGPS COLLECTIVE PE V	20,000,000	1.25	25,096,529
UK Uncla CAPITAL DYNAMICS CPEP LGPS	25,000,000	0.82	20,502,699
UK Uncla CATAPULT GROWTH FUND UNITS	3,000,000	0.24	709,892
UK Uncla EAST MIDLANDS VENTURE	3,000,000	0.03	99,928
UK Uncla EPIRIS FUND II	25,000,000	0.92	22,946,064
UK Uncla GRAPHITE CAPITAL PARTNERS FUND 1X A	11,250,000	0.73	8,175,117
UK Uncla GRAPHITE CAPITAL PARTNERS FUND 1X C	11,250,000	0.74	8,274,039
UK Uncla MOBEUS EQUITY PARTNERS IV LP	10,000,000	0.58	5,812,429
UK Invest PANORAMIC ENTERPRISE CAPITAL UNITS	1,387,574	0.44	605,742
UK Invest PANORAMIC GROWTH FUND 2 LP	10,000,000	0.40	4,021,020
UK Invest PARTNERS GROUP GLOBAL VALUE 2008	7,500,000	0.22	1,405,410
UK Invest STAR CAPITAL STRATEGIC ASSETS III LP	12,500,000	0.76	8,210,808
UK Uncla VESPA CAPITAL II LLP	10,000,000	0.75	7,485,299
UK Unquoted Private Equity Total			**192,969,016**
PRIVATE EQUITY TOTAL			**288,382,387**
INFRASTRUCTURE			
UK Infrastructure Quoted			
Closed-er BLUEFIELD SOLAR INCOME FUND	5,778,936	130.50	7,541,511
Closed-er FORESIGHT SOLAR FUND LTD	4,000,000	109.20	4,368,000
Closed-er GREENCOAT UK WIND PLC	13,835,000	145.10	20,074,585
Closed-er HICL INFRASTRUCUTRE CO LTD	13,560,422	162.60	22,049,246
Closed-e INTERNATIONAL PUBLIC PARTNERSHIP LTD	32,014,081.00	150.80	48,277,234.15
Closed-e 3I INFRASTRUCTURE PLC	2,249,999.00	313.00	7,042,496.87
Closed-e RENEWABLES INFRASTRUCTURE GR	8,391,878.00	129.60	10,875,873.89
UK Infrastructure Quoted Total			**120,228,948**
UK Infrastructure Unquoted			
UK Uncla BlackRock Global Renewable Power Fund III LP	65,000,000	0.26	14,947,732
UK Uncla DALMORE CAPITAL 3 LP	25,000,000	1.15	28,668,088
UK Uncla EQUITIX FUND 1 LTD P'SHIP	7,500,000	1.58	11,851,115
UK Uncla Equitix Fund IV Ltd P'ship	25,000,000	1.18	29,445,496
UK Uncla First Sentier Investors EDIF II	20,000,000	1.26	21,691,345
UK Uncla Greencoat Renewable Income Fund	75,000,000	1.03	77,067,266
UK Uncla IMPAX NEW ENERGY INVESTORS II UNITS	10,000,000	0.02	160,000
UK Uncla JP Morgan Infrastructure Investment Fund UK LI	185,000,000	0.78	144,223,823
UK Uncla MEIF 5 Co-Invest LP	12,600,000	0.53	5,773,009
UK Uncla MEIF 6 Co-Invest LP	28,000,000	0.36	8,614,198
UK Uncla MEIF 7 Co-Invest LP	22,500,000	0.00	-
UK Uncla Macquarie European Infrastructure Fund 5 LP	14,400,000	1.17	14,498,884
UK Uncla Macquarie European Infrastructure Fund 6 SCSI	56,000,000	1.03	49,811,878
UK Uncla Macquarie European Infrastructure Fund 7 SCSI	50,000,000	0.00	-
UK Uncla Macquarie GIG Renewable Energy Fund (Euro)	59,000,000	0.56	28,587,629
UK Uncla PIP Multi Strategy Infrastructure LP	25,000,000	0.80	20,037,012
UK Uncla SL CAPITAL INFRASTRUCTURE 1LP	15,000,000	1.31	19,680,681
UK Uncla SL Capital Infratructure II SCSP	25,000,000	0.78	16,916,452
UK Infrastructure Total			**491,974,610**
INFRASTRUCTURE TOTAL			**612,203,558**
ALTERNATIVES TOTAL			**900,585,945**

DERBYSHIRE PENSION FUND
OCTOBER 2022 PORTFOLIO VALUATION - BID

Real Property		**31/10/2022 Valuation £**
Property	Southampton Property	9,150,000
Property	Retail Unit Tamworth	9,450,000
Property	15-17 Jockeys Field London	11,300,000
Property	D'Arblay House, London	13,900,000
Property	Bristol Odeon Development	6,950,000
Property	Caledonia House, London	25,200,000
Property	Chelsea Fields Ind Est, London	21,800,000
Property	Planet Centre, Feltham	24,400,000
Property	Hill St, Mayfair	15,900,000
Property	Birmingham - Travelodge developm't	14,400,000
Property	Saxmundham, Tesco developm't	10,850,000
Property	Roundhay Road, Leeds	7,900,000
Property	Premier Inn, Rubery, Birmingham	5,700,000
Property	South Normanton Warehouse, Alfreton	21,200,000
Property	Loddon Centre, Basingstoke	20,250,000
Property	Parkway, Bury St Edmunds	8,200,000
Property	Waitrose, York	13,550,000
Property	Link 95, Heywood Manchester	12,650,000
Property	Car Park, Welford Rd Leicester	12,250,000
Property	Leamington Spa, Heathcote Industrial Estate	16,300,000
Property	Chalfont Saquare Retail Park, Lowers Earley	10,700,000
Property	Apex Park Leighton Buzzard	15,900,000
Property	Proximity, 4 Parham Drive, Eastleigh	18,600,000
Property	Knight Retail Park Saffron Walden	9,700,000
Property	Knight Premier Inn- Saffron Walden	9,700,000
Total Real Property		**345,900,000**

Property Managed Funds			**Number held**	**Mkt price**	**£**
Property	**Pence**	Assura PLC	6,000,000	55.9000	3,354,000
Property	**GBP**	Aviva Pooled Property Fund - cla	173,351	19.3782	3,359,232
Property	**GBP**	Aviva Pooled Property Fund - cla	158,022	19.5490	3,089,165
Property	**GBP**	Bridges Property Alternatives Fu	10,000,000	0.8381	8,381,071
Property	**GBP**	Bridges Property Alternatives Fu	10,000,000	0.7622	7,622,039
Property	**EUR**	Fidelity Eurozone Select Real Es	4,486	6695.3284	25,893,555
Property	**GBP**	Hearthstone Residential Fund 1	25,000,000	0.9841	24,601,629
Property	**GBP**	Igloo Regeneration P'ship Prope	4,644,493	0.0281	130,719
Property	**EUR**	Invesco Real Estate-European F	44,569	113.9860	4,379,407
Property	**Pence**	Target Healthcare REIT Ltd	4,085,000	86.6000	3,537,610
Property	**GBP**	M&G PP UK Property Fund (Inc)	7,061	829.0500	5,854,049
Property	**EUR**	M&G European Property Fund S	25,000,000	1.0798	23,271,135
Property	**GBP**	Threadneedle Pensions Property	1,647,730	7.1554	11,790,171
Property	**Pence**	Tritax Big Box Indirect Pooled Fu	10,000,000	140.2000	14,020,000
Property	**GBP**	Unite UK Student Accommodatic	15,584,567	1.4720	22,940,483
Total Property Funds					**162,224,265**

				£
Regulatory Capital	LGPS Central	**0.00**		2,000,000

Cash	*Updated to 31 October 2022*		**Mellon USD**	**Exch rate**		
Cash		Northern Trust	*UK-In House*			7,376,376
Cash			*Wellington*			1,446,957
		Colliers Property Managers Cash				2,269,661.38
Cash		Cash - Lloyds bank Superfund				36,398,000
			Units	**Price**		
	GBP	Aegon Global Short Dated Clima	**1,989,897.43**		9.57	19,039,339
	Pence	Royal London Inv Grade Short D	**30,223,655.05**		90.06	27,219,424
			£			
Cash		*Croydon Borough Council 7 D/N*	10,000,000			
		Eastleigh Borough Council 7 D/N	10,000,000			
		Aberdeen Standard Life	30,000,000			
		Federated Hermes	30,000,000			
		Insight MMF	30,000,000			
		Certs of Deposit	0			
		Treasury Bills	0			110,000,000
Total Cash				Total Cash		**203,749,757**

DERBYSHIRE PENSION FUND
OCTOBER 2022 PORTFOLIO VALUATION - BID

	Number held	Mkt Price in local currenc (Clean) use Calc & IL Valuation	Mkt Price in local currenc) (Dirty) use for Non IL Valuation	Mkt Price pence GBP	Total £ GBP
UK GILTS					
TSY 2.25% 7/9/2023	15,400,000	99.08	99.42	99.42	15,310,503
TSY 5% 7/3/2025	5,500,000	103.45	104.21	104.21	5,731,312
TSY 2% 7/9/2025	7,000,000	96.46	96.77	96.77	6,773,611
TSY 1.5% 7/22/2026	5,650,000	93.10	93.51	93.51	5,283,414
TSY 4.25% 7/12/2027	18,000,000	102.48	104.19	104.19	18,754,374
TSY 4.75% 7/12/2030	13,162,000	108.69	110.60	110.60	14,557,144
TSY 4.25% 7/6/2032	12,370,000	105.94	107.64	107.64	13,315,435
TSY 4.5% 7/9/2034	16,373,000	108.05	108.73	108.73	17,802,314
TSY 4.25% 7/3/2036	11,400,000	104.77	105.42	105.42	12,017,848
TSY 1.75% 7/9/2037	17,500,000	76.32	76.58	76.58	13,402,180
TSY 4.75% 7/12/2038	7,934,000	110.54	112.44	112.44	8,921,369
TSY 4.25% 7/9/2039	8,980,000	104.36	105.00	105.00	9,429,064
TSY 1.125% 31/01/2039	12,770,000	67.10	67.39	67.39	8,605,359
TSY 1.25% 22/10/2041	18,000,000	65.44	65.47	65.47	11,784,841
TSY 3.25% 1/22/2044	11,920,000	91.66	92.56	92.56	11,033,249
TSY 0.875% 31/1/2046	20,000,000	55.70	55.92	55.92	11,183,426
TSY 4.25% 7/12/2046	8,900,000	107.12	108.83	108.83	9,685,689
TSY 0.625% 22/10/2050	26,100,000	47.98	48.00	48.00	12,527,783
TSY 1.5% 31/07/2053	21,100,000	61.43	61.81	61.81	13,041,504
001 UKGB Total					**219,160,420**
US GOVERNMENT BONDS					
T 2.75% 31/8/2023	26,191,000	98.49	98.96	86.28	22,598,274
T 2.25% 15/11/2024	21,000,000	95.63	96.66	84.28	17,699,155
T 2.75% 15/11/2042	7,500,000	77.17	78.44	68.39	5,129,535
004 USGB Total					**45,426,964.37**
NON GOVERNMENT BONDS					
LGPS Central Global Active Corp Bı	3,957,714	8,079.00	8,079.00	8,079.00	319,743,699
Non Govt Bonds Total					**319,743,699**
MULTI ASSET CREDIT					
Ares Infrastructure Debt Fund III (El	17,000,000	0.59	0.59	0.59	8,597,113
Barings Global Private Loan Fund	40,000,000	0.12	0.12	0.12	4,836,344
Barings Global Private Loan Fund 2	40,000,000	0.38	0.38	0.38	15,302,141
Barings Global Private Loan Fund 3	50,000,000	0.89	0.89	0.89	44,619,939
CQS Credit Multi Asset Fund Class	109,353	1,038.06	1,038.06	1,038.06	113,514,536
CVC Credit PARTNERS European I	76,000,000	0.89	0.89	0.89	58,151,576
CVC (Co Inv) Credit Ptnrs Europear	30,000,000	0.75	0.75	0.75	19,512,583
CVC Credit Partners European Dire	45,000,000	0.20	0.20	0.20	9,206,938
CVC (Co Inv) Credit Ptnrs Europear	11,250,000	0.16	0.16	0.16	1,782,748
Janus Henderson Multi Asset Credil	99,489,187	1.07	1.07	1.07	106,670,018
LGPS Central Credit Partnership II I	50,000,000	0.17	0.17	0.17	8,451,598
Multi Asset Credit Total					**390,645,533**
UK INDEX LINKED					
TREAS 4.125% IL STK 22/7/2030	6,510,000	334.34	337.19	337.19	21,950,928
TREAS 2% IL STK 26/1/2035	8,000,000	240.17	241.20	241.20	19,296,098
002 UKGIL Total					**41,247,027**

INDEX LINKED (3 monthers)

	Number held	Clean Price	Index Ratio	Gross	Accrued Interest	Total
UK INDEX LINKED (3monthers)						
TREAS 0.125% IL STK 22/3/2024	9,230,000	104.3950	1.423980	13,720,984.99	1,274.86	13,722,260
TREAS 1.25% IL STK 22/11/2027	7,400,000	107.7200	1.778770	14,179,073.73	40,971.47	14,220,045
TREAS 0.125% IL STK 22/3/2029	5,325,000	101.2110	1.453960	7,836,096.70	735.50	7,836,832
TREAS 1.25% IL STK 22/11/2032	2,777,000	112.8670	1.589810	4,982,967.86	15,375.37	4,998,343
TREAS 0.75% IL STK 22/3/2034	11,465,000	107.4540	1.486460	18,312,594.25	9,501.38	18,322,096
TREAS 1.125% IL STK 22/11/2037	5,580,000	113.4570	1.706860	10,805,961.00	27,805.23	10,833,766
TREAS 0.625% IL STK 22/3/2040	5,600,000	106.1060	1.594290	9,473,169.15	3,867.40	9,477,037
TREAS 0.625% IL STK 22/11/2042	5,950,000	107.0680	1.624740	10,350,480.91	16,471.64	10,366,953
TREAS 0.125% IL STK 22/3/2044	11,470,000	96.1900	1.423960	15,710,540.71	1,584.25	15,712,125
TREAS 0.125% IL STK 22/3/2046	8,730,000	96.0260	1.339070	11,225,517.28	1,205.80	11,226,723
TREAS 0.75% IL STK 22/11/2047	6,500,000	110.1720	1.661480	11,898,157.35	21,593.07	11,919,750
TREAS 0.125% IL STK 10/08/2048	5,300,000	95.2270	1.256220	6,340,181.28	1,494.23	6,341,676
TREAS 0.5% IL STK 22/3/2050	5,000,000	105.3570	1.617620	8,521,379.52	2,762.43	8,524,142
TREAS 1.25% IL STK 22/11/2055	9,205,000	134.1490	1.796050	22,178,371.57	50,965.18	22,229,337
TREAS 0.375% IL STK 22/03/2062	13,850,000	110.5000	1.463770	22,401,902.02	5,738.95	22,407,641
UK INDEX LINKED (3monthers) TOTAL						**188,138,725**

DERBYSHIRE PENSION FUND
OCTOBER 2022 PORTFOLIO VALUATION - BID

	Number held	Mkt Price in local currenc (Clean) use	Mkt Price in local currency (Dirty)	Mkt Price pence GBP			Total £ GBP
US INDEX LINKED	**Number held**	**Clean Price**	**Index Ratio**	**Gross $**	**Accrued Interest $**	**Total $**	**Total £**
TII0.125% 15/1/2023	7,000,000	99.773438	1.283110	8,961,420.68	2,591.71	8,964,012	7,815,722.40
TII3.625% 15/4/2028	4,045,000	109.570313	1.831150	8,115,874.96	6,848.16	8,122,723	7,082,202.29
TII1.750% 15/1/2028	5,550,000	100.257813	1.413730	7,866,429.99	28,768.00	7,895,198	6,883,823.13
TII2.5% 15/1/2029	7,000,000	104.632813	1.379470	10,103,647.81	51,834.24	10,155,482	8,854,564.80
TII2.125% 15/2/2040	4,095,000	104.851563	1.370280	5,883,532.16	18,444.19	5,901,976	5,145,933.18
TII0.75% 15/2/2042	20,300,000	82.406250	1.310720	21,926,338.56	32,270.38	21,958,609	19,145,711.14
TII0.625% 15/2/2043	10,000,000	79.125000	1.288200	10,192,882.50	13,247.28	10,206,130	8,898,724.56
0045 USGB IL Total							**63,826,681**

TOTAL BONDS	**1,268,189,050**
Index linked-total	**293,212,433**
Conventional-total	**264,587,385**
Non gov-total	**710,389,232**

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APPENDIX 2

MJ HUDSON
Allenbridge

Third Quarter 2022 Investment Report

PREPARED FOR:

Derbyshire County Council Pension Fund: Pensions and Investment Committee Meeting

DECEMBER 2022

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MJ HUDSON
Allenbridge

Investment Report for Derbyshire County Council Pension Fund

This report has been prepared by Anthony Fletcher "External Investment Advisor" of Derbyshire County Council Pension Fund (the Fund). At the request of the Pension and Investment Committee the purpose of the report is to fulfil the following aims: -

- Provide an overview of market returns by asset class over the last quarter and 12 months.
- An analysis of the Fund's performance by asset class versus the Fund specific benchmark for the last quarter and the last 12 months.
- An overview of the economic and market outlook by major region, including consideration of the potential impact on the Fund's asset classes
- An overview of the outlook for each of the Funds asset classes for the next two years; and recommend asset class weightings for the next quarter together with supporting rationale.

The report is expected to lead to discussions with the in-house team on findings and recommendations as required. The advisor is expected to attend quarterly meetings of the Pensions and Investment Committee to present his views and actively advise committee members. To the extent this report contains advice it is intended as strategic advice to inform the investment strategy statement rather than investment advice.

Meeting date 7th December 2022
Date of paper 18th November 2022

1. Market Background (Third quarter 2022)

The third quarter proved to be challenging for most investors, with only temporary optimism that Central Banks would soon end their rate hikes. Markets continued to grapple with high inflation, slowing economic growth, a strong US dollar, and accelerated interest rate hikes.

Equity and bond market prices went up in the first half of the quarter, until the US Fed reminded investors that they were focussed on reducing inflation with a speech by the Fed Chair at Jackson Hole and 2 additional 0.75% rate hikes. As a result, global equities declined by -6.1% over the course of the quarter. Emerging market performance was even worse down -11.5%, impacted by the dual headwinds of slowing Chinese growth and a strong US dollar. In local currency terms US equities fell -4.9%; followed by European and UK equities at -3.7% and -3.4% respectively.

In Sterling terms as can be seen in table 1 below over 3 months to the end of September all bond market returns were negative, whereas equity prices were mixed the result of a strong US dollar. Over 12 months only US equity and Property markets have delivered a positive return. Global corporate and government bond indices also fell sharply with the worst performance coming from UK Gilts and UK investment grade credit falling by -12.8% and -12.6% respectively, while global government bond returns were down -6.7% and emerging market bonds in hard currency terms only fell by -4.6%.

The period since July has been very difficult for global bond markets with rising inflation and more aggressive than expected increases in interest rates from the world's major central banks. But it was an almost perfect storm for the UK government bond markets. Gilts with their very long duration are especially vulnerable to rising interest rates and inflation. This was compounded by the decisions taken by the short-lived Conservative government under Liz Truss. The successive announcements of a more generous than expected Energy Price Guarantee and then the un-funded tax cuts in Kwasi Kwarteng's "Fiscal Event", were sufficient to send an already fragile government bond market into a tailspin.

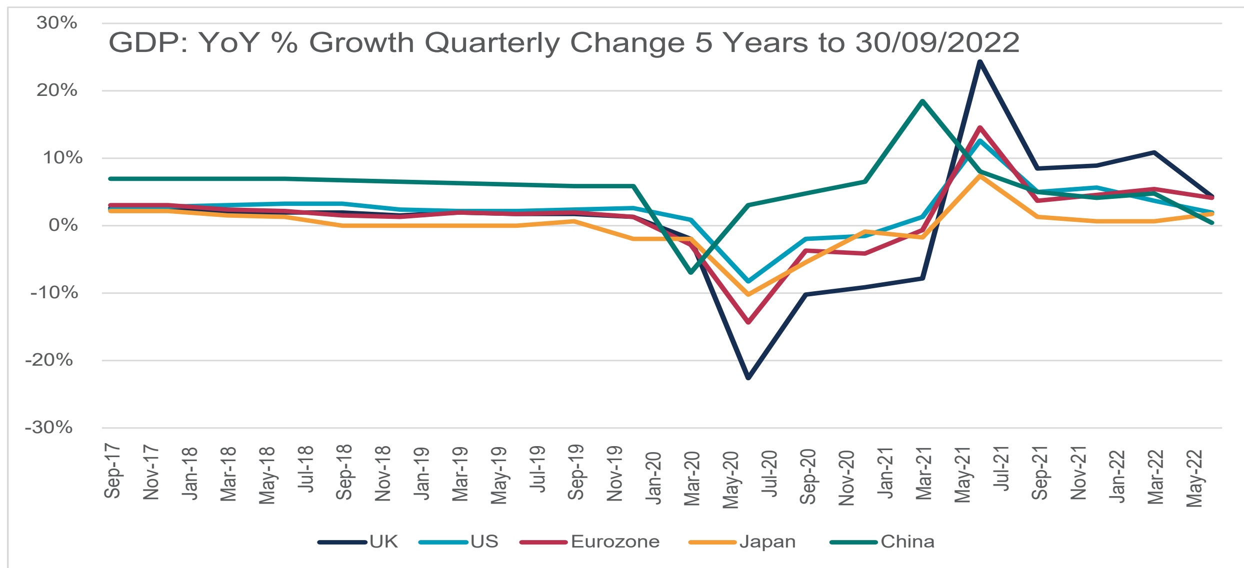
In the run up to its Communist party congress in October, China maintained its Zero Covid policy resulting in lockdowns and a marked slowing of economic activity, which called for further easing of fiscal and monetary policy. Tensions over Taiwan with the US were not helped by the Speaker of the US House of Representatives Nancy Pelosi, deciding to visit Taiwan during her tour of Asia and Japan in early August.

The US dollar continued to strengthen against all currencies, most notably versus the Yen but also against the Pound and the Euro, by virtue of its safe haven status and higher US bond yields and interest rates.

Most commodity prices continued to decline over the quarter as demand slowed on weaker expected economic growth. Oil and agricultural commodity prices continued to fall following the substitution of Russian supplies and the deal to re-open the flow of grains from Ukraine, by sea. The pressure on goods prices may have also been eased by shorter delivery times and falling shipping costs.

I do not believe we have seen the peak in interest rates or bond yields nor the low in equity prices in this cycle, but it is true that longer term forecast returns are beginning to look more attractive and volatility is potentially opening up opportunities especially in bond markets for long term investors.

Chart 1: - Annualised rates of quarter on quarter GDP growth.



Source: - Bloomberg

Table 1, below shows the total investment return in pound Sterling for the major asset classes, using FTSE indices except where noted; for the month of October 2022 and the 3 and 12 months to the end of September 2022.

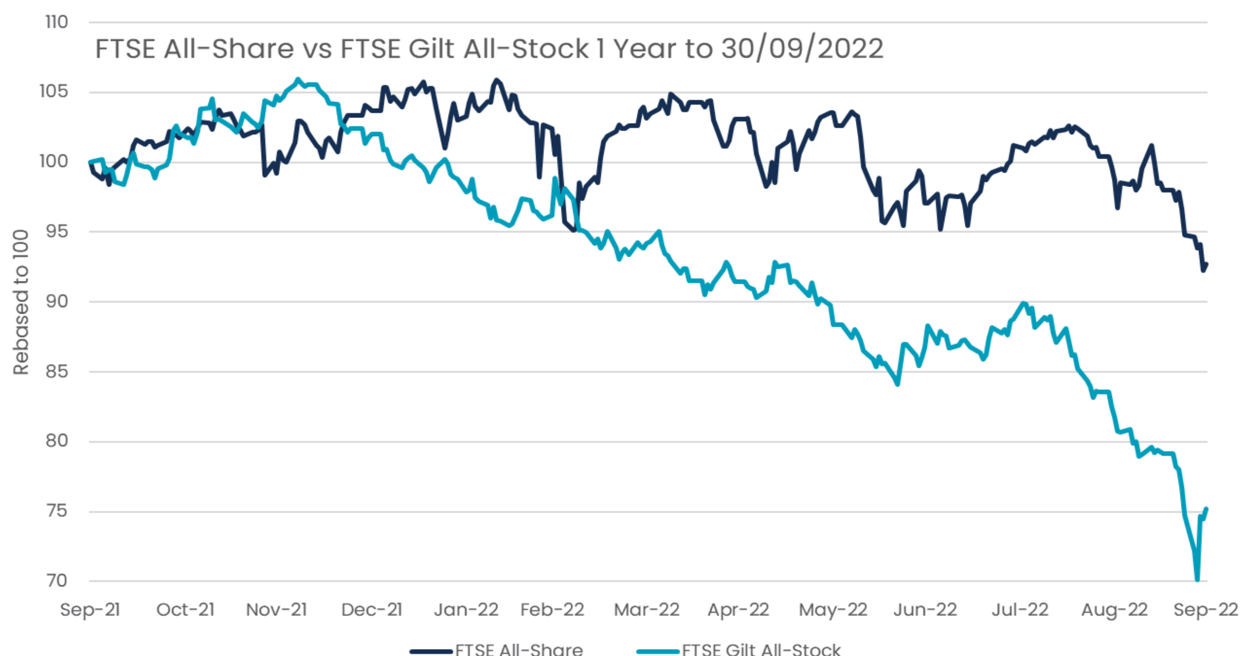
% TOTAL RETURN DIVIDENDS REINVESTED

MARKET RETURNS

		Period end 30th September 2022	
	October 2022	**3 months**	**12 months**
Global equity FTSE All-World	+2.7	+1.6	-3.3
Regional indices			
UK All Share	+3.1	-3.4	-4.0
North America	+4.6	+3.4	+0.4
Europe ex UK	+4.4	-2.0	-9.5
Japan	-0.6	+0.9	-13.6
Emerging Equity Markets	-7.0	-2.3	-8.7
UK Gilts - Conventional All Stocks	+3.3	-12.8	-23.3
UK Gilts - Index Linked All Stocks	-4.6	-9.3	-25.9
UK Corporate bonds*	+5.0	-12.6	-24.5
Overseas Government Bonds**	-0.7	-6.7	-11.9
UK Property quarterly^	-	-2.5	+11.6
Sterling 7 day SONIA	+0.2	+0.4	+0.7

^ MSCI indices * ICE £ Corporate Bond, UC00; **ICE global government ex UK LOC, N0L1

Chart 2: - UK bond and equity market returns - 12 months to 30th September 2022



Source: - Bloomberg

Table 2: - Change in Bond Market yields over the quarter and 12 months.

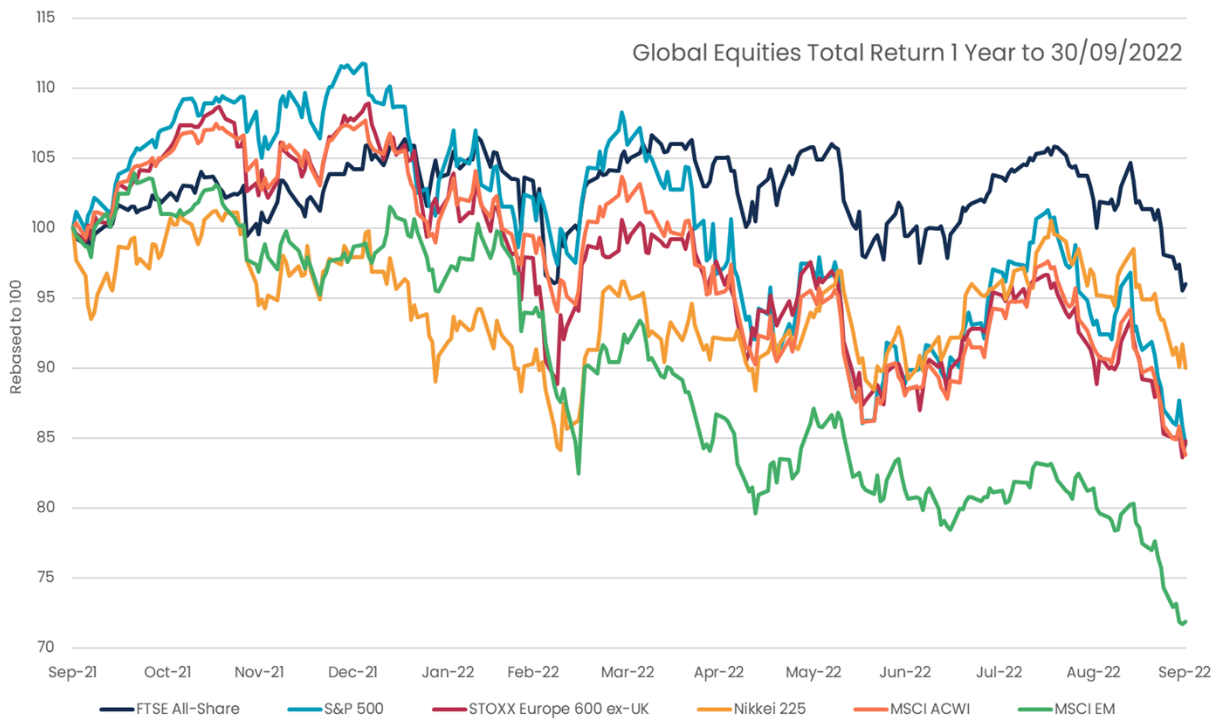
BOND MARKET % YIELD TO MATURITY	30th June 2022	30th September 2022	Quarterly Change %	30th September 2021	Current 18th November 2022
UK GOVERNMENT BONDS (GILTS)					
10 year	2.24	4.09	**+1.85**	1.02	**3.24**
30 year	2.58	3.83	**+1.25**	1.37	**3.39**
All Stocks ILG	-1.14	-0.15	**+0.99**	-2.54	**-0.40**
OVERSEAS 10 YEAR GOVERNMENT BONDS					
US Treasury	2.97	3.80	**+0.83**	1.49	**3.83**
Germany	1.37	2.11	**+0.74**	-0.19	**2.02**
Japan	0.23	0.25	**+0.02**	0.07	**0.25**
NON-GOVERNMENT BOND INDICES					
Global corporates	4.22	5.28	**+1.06**	1.66	**5.09**
Global High yield	9.00	9.79	**+0.79**	4.43	**8.94**
Emerging markets	7.03	7.82	**+0.79**	3.77	**7.23**

Source: - Trading economics and ICE Indices G0LI, G0BC, HW00, EMGB, 18th November 2022.

Chart 3: - UK Bond index returns, 12 months to 30th September 2022.

Source: - Bloomberg

Chart 4: - Global equity market returns in local currency, 12 months to 30th September 2022.



Source: - Bloomberg

Recent developments (October till the 18th November 2022)

Central banks have remained hawkish quarter to date with the ECB, followed by the US Fed and the Bank of England (BoE) all increasing interest rates by 0.75%. While their statements continue to refer to the need to combat inflation, once again markets have chosen to ignore what they say and focus on the increasing weakness of economic activity in the face of rising inflation, interest rates and falling real incomes. As a result, asset markets have rallied with the prices of bonds and equities higher at the time of writing. Which means that once again I am of the view that returns could be lower rather than higher for the rest of the quarter.

In the UK we have a new conservative government led by Rishi Sunak and he has sought to try and heal the splits within the conservative party by appearing to be more inclusive in his appointments to the Cabinet, including keeping Jeremy Hunt as Chancellor and Suella Braverman at the Home Office. As a result, the radical tax cutting, pro-growth agenda of the Liz Truss government has been replaced with the austerity of tax hikes and further spending cuts. Admittedly the UK is a poorer country post Covid and we need to accept that. But we are the only developed economy that is pursuing this policy and arguably the austerity agenda of the Cameron / Osbourne period has been proven not to have worked.

In the US the Mid-term elections did not lead to the Red Wave that Mr Trump was hoping for but nonetheless he has chosen to run for the Republican nomination for President in 2024. At the time of writing the Democrats have lost the House of Representatives by 1 seat giving the Republicans a majority of 2 seats. The Senate has still to be decided, because the result in Georgia was so close that there needs to be a "run off" vote in December, if this seat goes to the Democrats, they may still optically have control of the Senate and the legislative agenda.

In China, however Mr Xi secured himself another historic, un-opposed and previously unconstitutional in the post Mao period, third term as President. The tragedy of the war in Ukraine continues.

2. Investment Performance

Table 3 shows the performance of the Derbyshire Pension Fund versus the Fund specific benchmark for the quarter and year to 30th September 2022. Over 12 months, Growth assets underperformed whereas Income and Protection assets outperformed. All the individual active Growth asset managers underperformed their respective benchmarks, with the exception of the US and Private Equity managers.

Over 10 years the Fund has achieved a total return of 7.5% per annum, net of fees.

Table 3: - Derbyshire Pension Fund and Benchmark returns

% TOTAL RETURN (NET) 30TH SEPTEMBER 2022	3 MONTHS		12 MONTHS	
	Derbyshire Pension Fund	**Benchmark**	**Derbyshire Pension Fund**	**Benchmark**
Total Growth Assets	**+0.2**	**+0.1**	**-7.1**	**-5.0**
UK Equity	-3.7	-3.4	-6.2	-4.0
Total Overseas Equity	**+1.1**	**+1.0**	**-10.0**	**-5.4**
North America	+4.7	+3.4	+0.4	+0.4
Europe	-2.0	-2.0	-9.3	-9.5
Japan	+1.4	+0.9	-16.7	-13.6
Emerging markets	-3.8	-2.3	-14.0	-8.7
Global Sustainable Equity	+2.0	+1.5	-9.9	-3.4
Global Private Equity	+3.9	+1.8	+14.1	-4.7
Total Protection Assets	**-9.4**	**-10.3**	**-22.2**	**-23.3**
UK & Overseas Government	-11.3	-12.8	-20.5	-23.3
UK & Overseas Inflation Linked	-8.6	-9.3	-22.8	-25.9
Global Corporate bonds	-8.7	-8.7	-22.6	-21.0
Total Income Assets	**+0.2**	**-0.4**	**+5.8**	**+5.1**
Multi-asset Credit	+0.3	+1.6	-3.2	-1.7
Infrastructure	+2.3	+0.9	+9.7	+2.8
Property (all sectors)	-2.2	-3.0	+9.8	+12.2
Internal Cash	+0.3	+0.4	+0.4	+0.7
Total Fund	**-1.3**	**-1.9**	**-6.6**	**-5.9**

Total fund value on 30th September 2022 £5,702 million

At the end of September, the Fund was broadly neutral growth assets, within equity the Fund was underweight Global sustainable with a small overweight to the UK and a residual position in US Equity. The Fund was also 3% underweight protection assets and just over 1% overweight income

assets relative to the strategic benchmark. Over the third quarter of 2022, the Fund outperformed with both asset allocation and stock selection decisions making a positive contribution. The underweight allocation to Protection assets made the largest contribution. As the Fund holds a significant portion of its growth assets outside of the UK, the strength of the US dollar made a significant contribution to returns over the three and twelve months to the end of September.

Over 3 years to the end of September, each of the broad asset categories in the Fund has outperformed the benchmark and the total return of the whole Fund, net of fees was 2.8% p.a. compared to the benchmark return of 2.2% p.a.

Growth assets – Equity performance

Growth asset aggregate performance in the third quarter was slightly ahead of the strategic benchmark with the only UK and Emerging market portfolios delivering both a negative absolute and relative returns. Over the quarter the residual European equity exposure was sold out completely. All the other managers delivered both a positive absolute return and outperformed their respective benchmarks. Over 12 months, at the aggregate level, the active equity portfolio delivered a negative absolute return that was worse than the benchmark. The Private Equity portfolio strongly outperformed its benchmark, the performance of the US was positive and in-line with its benchmark.

While the third quarter performance of growth assets has improved, year to date the most significant contribution to the Fund's underperformance comes from the recent relative performance of global sustainable equity, despite its underweight allocation. Over 10 years growth assets have returned on average 9.3% p.a. compared to 8.9% p.a. for the benchmark.

Protection assets - Fixed Income Performance

The Fund remains underweight its allocation to UK government bonds and has less interest rate sensitivity than the benchmark. As a result, the government bond portfolio significantly outperformed the benchmark over 3 and 12 months. Global corporate bonds underperformed as yields increased and credit spreads also widened. The recent aggressive sell-off in government bonds means over 10 years protection assets have on average only returned +0.4% each year compared to the benchmark return of +0.7% p.a.

Income assets – Property, Infrastructure and MAC

Over the quarter and the year, the combined portfolio of income assets has outperformed the benchmark, due to the strong performance of Infrastructure. Over 12 months a better period for measuring returns only Infrastructure outperformed and while MAC and the aggregate property portfolio underperformed, on a relative basis the direct property portfolio significantly outperformed the funds in the in-direct portfolio. Over 10 years Income assets have on average returned 10.1% each year compared to the benchmark return of 4.8% p.a.

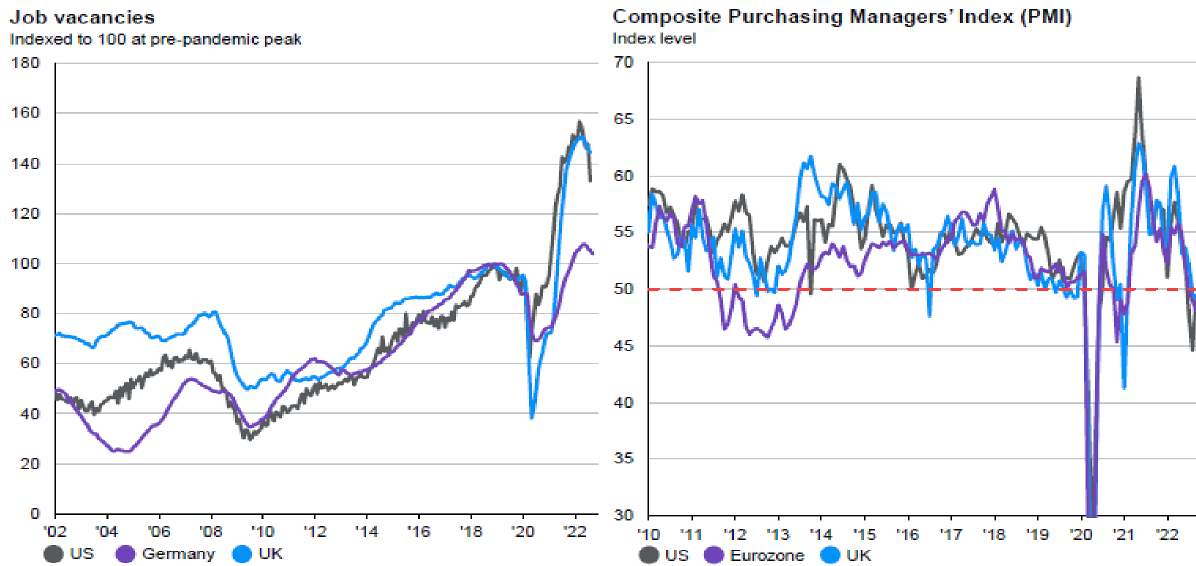
3. Economic and Market outlook

Economic outlook

The global economy is widely expected to slow over the next 12 months and fall into recessionary territory either in the fourth quarter of 2022 or the first quarter of 2023. The negative macro-economic influences are much higher inflation and interest rates than expected earlier in the year. Caused by the strength and dis-locations of the post covid recovery and in hind-sight the slow removal of super easy monetary and fiscal policy, compounded by higher energy and food prices as a result of the war in Ukraine. However, at the same time, the residual tail winds of tight labour markets, excess household savings and reasonable corporate earnings continue to provide a diminishing but positive support for growth. As a result, countries are experiencing weakness in different parts of their economies. In the US, the housing market is in recession, due to higher mortgage rates. In Europe and the UK, the higher cost of energy is probably the main factor and in China their zero covid policy is having a significant dampening effect on domestic consumption.

While labour markets remain tight and vacancies are still above pre-pandemic levels they have started to fall and more importantly real earnings growth is negative due to higher inflation. The outlook for manufacturing has also worsened with composite leading indicators suggesting economic activity is contracting.

Chart 5: - Job Vacancies and composite PMI's (leading indicators of growth)



Source: - JPMorgan Asset management October 2022

Inflation

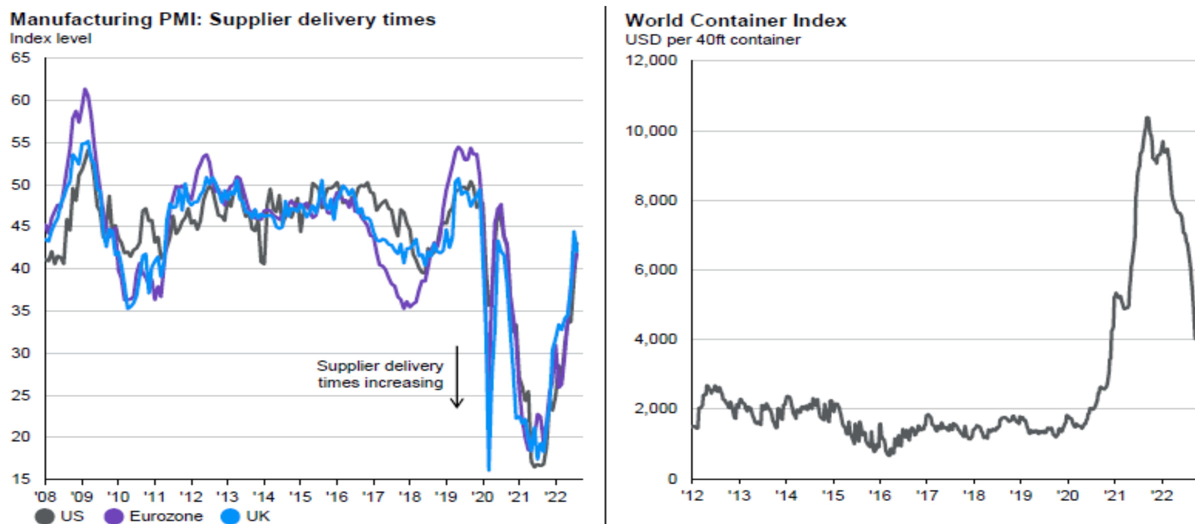
As I mentioned last time inflation is going to be higher but different depending on where you live and the vulnerability of your respective economy. Hence, I expect the rate of inflation to vary significantly between regions. Energy prices are going to be the biggest driver of the outcome

everywhere, and it is how the countries deal with the shock and the underlying resilience of their economy and energy policy that will cause the variance.

The US is relatively immune to higher gas prices because of its abundant supply enabling it to be a net exporter. The UK and then Europe are probably most exposed to higher energy prices. The UK, because of its reliance on gas fired power stations for "base load" electricity generation and the lack of any meaningful storage means it is dependent on the spot market price of gas. Europe because of its reliance on supply of gas from Russia. The good news is, thus far the UK and Europe has experienced a mild start to winter, which has enabled Europe to fill its huge storage capacity. While the UK doesn't have any significant storage it has benefitted from a fall in the spot price as demand has been lower than the market expected. UK energy prices are still more than double what they were this time last year. The main problem from here is that higher energy prices feed into the rest of the economy pushing up costs, which in turn leads to higher wage demands, not a great outcome when unemployment is low and demand for workers high.

As I mentioned last quarter there is good news on inflation, as chart 6 shows Supplier delivery times and world container rates are falling, as global supply chains repair themselves.

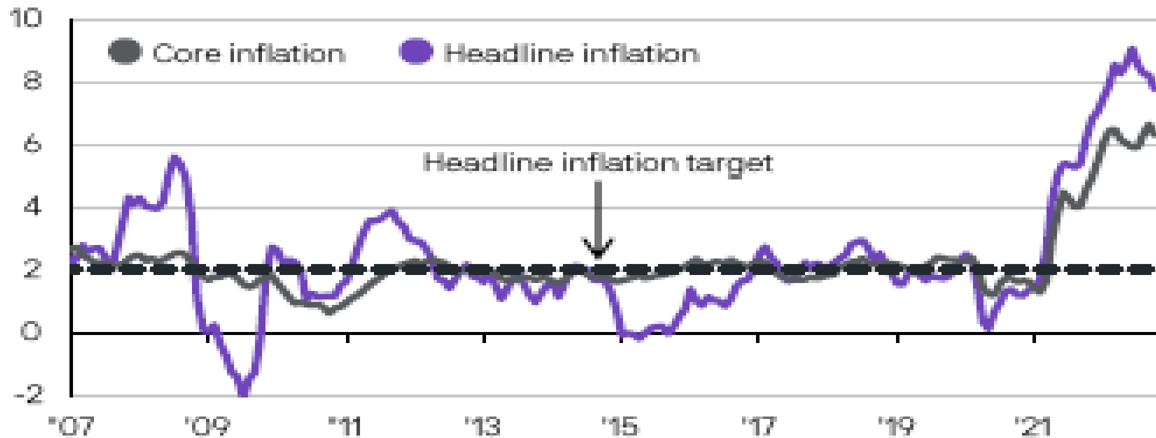
Chart 6: - Global supply chains.



Commodity prices are also falling from elevated levels, Industrial metal prices are down 25% and oil prices are down 40% from their peak in the last year. How much of this is a repair of global production and supply chains and how much is falling demand is uncertain at this stage. More directly related to the war in Ukraine, most agricultural commodities and wheat prices, in particular, have fallen back to where they were before the invasion.

Chart 7 shows the core and headline Inflation data from the US to November, which suggests that headline inflation may now be trending lower after ticking up in the early summer.

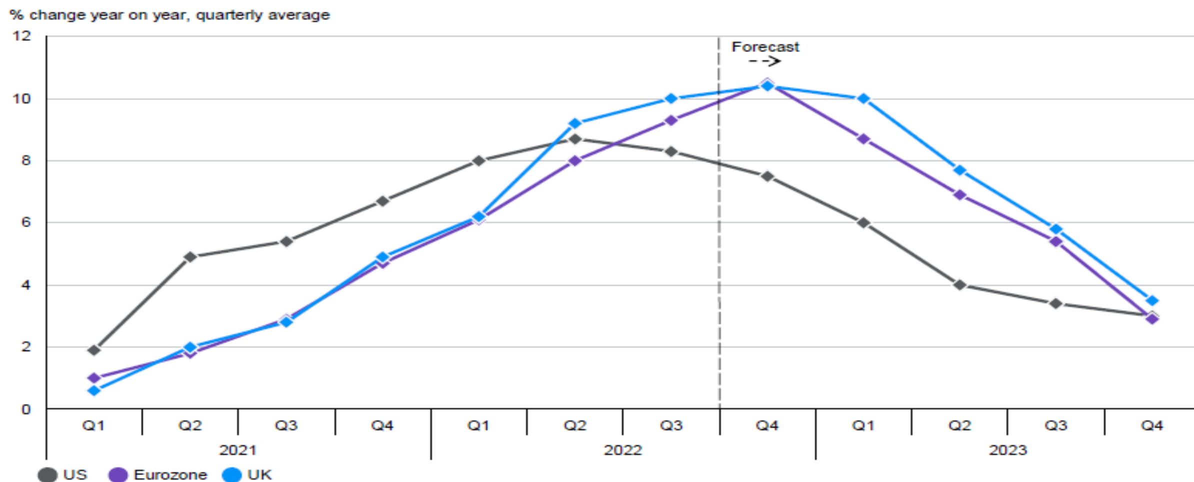
Chart 7: - Inflation – year over year change in US headline and core inflation.



Source: - JPMAM 11th November 2022

Unfortunately, the situation in the UK and Europe is not yet improving, in October headline CPI increased to 11.1% in the UK and 10.6% in the Euro Area. Chart 8 below shows the revised median forecasts for inflation over the next 5 quarters.

Chart 8: - Economists' median forecasts of headline CPI, in the US, UK and Europe

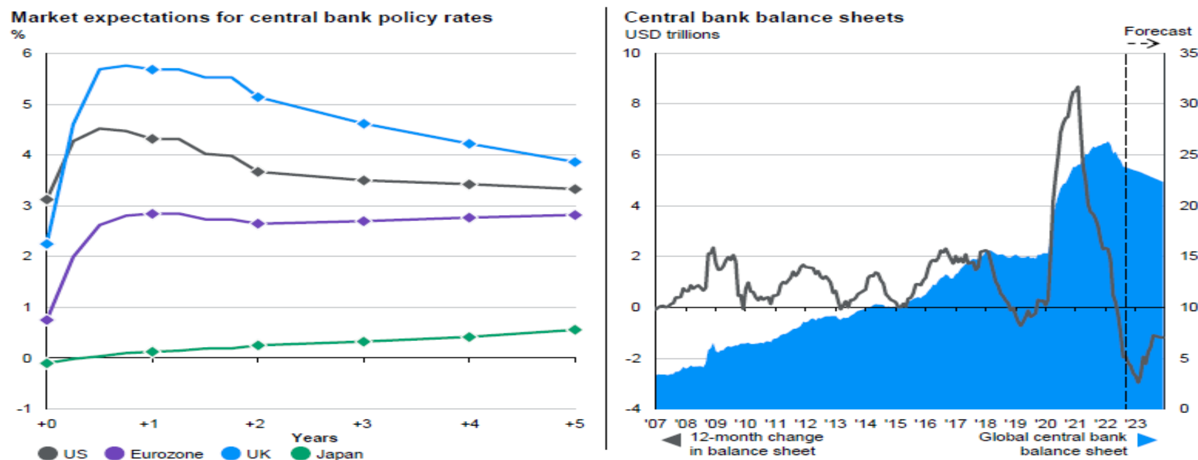


Source: - JPMAM 16th November 2022

Central Banks

The Fed continued its aggressive tightening policy throughout the period and as of November the Fed Funds rate is now 4% and is expected to reach 5% by the middle of 2023. After a late start the ECB has also increased rates from -0.5% to +1.5%, with the 2 most recent changes matching the 0.75% of Fed rate rises, the ECB's Repo rate is expected to hit 3% by June next year. At the moment the ECB is only using interest rates to tighten monetary policy but, in order to maintain an orderly market in peripheral government bond markets, it is still a net buyer. In September the Fed started is QT programme and in November was joined by the BoE. Both central banks are now net sellers of bonds on their balance sheets which will have the effect of further tightening monetary policy.

Chart 9: - LHS - Market expected level of central bank interest rates from October 2022, yearly for the next 5 years. RHS – Change in global central bank balance sheets.



Source: - JPMAM November 2022

As can be seen from chart 9 on the left hand side above the interest rate futures market is expecting US rates to continue to rise in the next 12 months before falling towards the end of 2023. Whereas expectations for UK and Europe suggest rates will not be falling until 2024 and the Bank of Japan is barely expected to change rates! The right hand chart is potentially more interesting. The blue area represents the increased holdings of bonds on central bank balance sheets since the GFC, to facilitate QE (left hand scale). The line represents the annual pace of purchases which was huge in the pandemic (right hand scale). What this chart shows is that central banks are planning to be tightening policy using rate hikes and at the same time selling down the balance sheet. Effectively doubling up on tightening monetary policy. QT as it's known is currently being used by the US Fed and the BoE.

At its meeting in August the Bank of England raised rates by 0.5% to 1.75% and then increased them again by 0.5% in September, when the market was expecting a 0.75% increase given the BoE's own August forecast of inflation later in the year! Despite the imminent announcement by the new Liz Truss government of the "Energy Price Guarantee", that was known to be funded by increased borrowing. Maybe they could be forgiven for not expecting the extreme market response to a further round of un-funded tax cuts announced in Kwasi Kwarteng's "Fiscal Event", but one might have expected the Treasury to have at least let the BoE know in advance so they could be prepared for the chance of increased market volatility. When UK Gilt yields increased dramatically in the days after the "Fiscal Event" the BoE was forced to act to ensure financial stability.

While the ex-post narrative is that no-one has been dis-advantaged by the outcome of the market volatility during the short lived Truss Administration, this is patently not true. The credibility of the UK as a place of financial stability has been undermined, investors have lost money and security, a government has been changed and Taxpayers are worse off. In the aftermath of the volatility many have sought to blame corporate pension funds and their LDI strategies. Strategies that the BoE, the FCA, the Pensions Regulator and the investment consultant community have consistently promoted as prudent and appropriate for pension funds to use when hedging their, interest rate dependent, liabilities. At its meeting in November the BoE announced an even worse economic outlook, weaker growth, higher inflation and interest rates, for longer, and it raised the base rate by 0.75% to 3%.

Government bonds

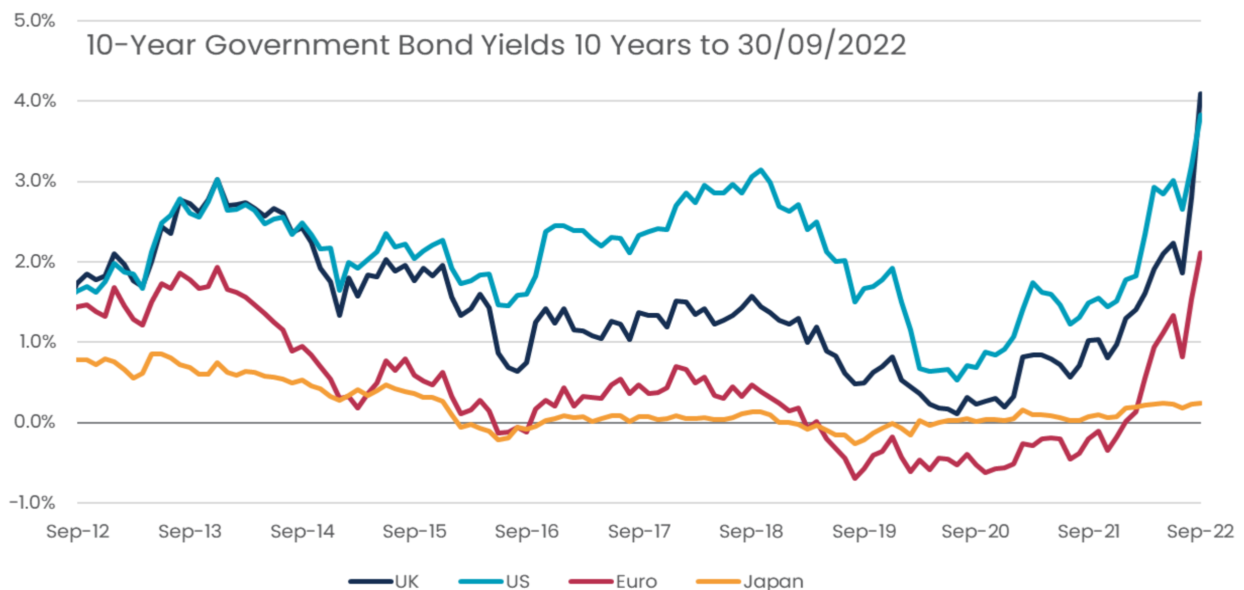
As can be seen in chart 10 below government bond yields except in Japan are higher than they have been for 10 years and indeed the negative return from bonds as shown in table 1 above have been the worst in modern history. Since the end of the quarter yields have again fallen on the false expectation in my opinion that the central banks will not increase rates much further. As can be seen in table 6 below I believe interest rates and bond yields may rise further, for at least another year.

However much of the overvaluation caused by QE and excess demand from UK corporate pension funds may be behind us. The problem going forward is supply, budget deficits are high requiring a high level of government borrowing especially when tax receipts may be lower due to a shrinking economy. On top of this the US Fed and BoE have decided to sell their stock of government bonds acquired via QE back to the market. Finally, especially in the UK, demand for gilts from corporate pension funds is likely to be lower as their LDI strategies will be less levered in future and because, higher yields have lowered their liabilities.

This is probably going to sound counter-intuitive, but the increase in yields may present an opportunity for a long-term investor. The increase in interest rates and risk free government bond yields means that all investments have become potentially more attractive. In recent years investors have had to "hunt for yield" by investing in more risky markets. If they can now invest in bonds with a reasonable level of yield, why would they take the riskier asset? And herein lies the conundrum, if the base level of potential return for all assets has increased, because they have all become cheap, then bonds may still turn out to be the least attractive option in terms of future expected returns.

I believe the opportunity needs to be considered in the context of the risks the Fund needs to take, but accept that relative to other opportunities, government bonds may become cheaper. In the case of non-government bonds, they may already be cheap enough to consider increasing exposure.

Chart 10: - Government bond yields, last 10 years.



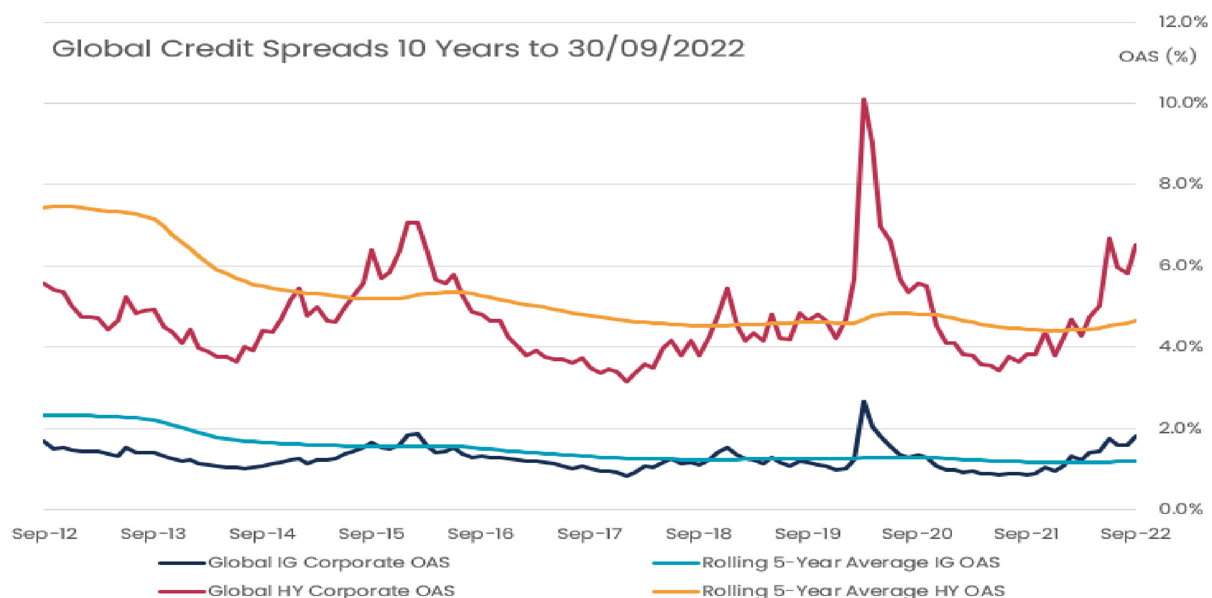
Source: - Bloomberg

Non-government bonds

Chart 11 below, shows the excess yield spread for both investment grade non-government and high yield bonds to the end of the quarter. As can be seen from the chart spreads narrowed and then widened by the end of the quarter. Once again, spreads are lower today than they were at the end of September, and once again I find myself expecting yields to rise. But this time round I believe the total yield of investment grade non-government bonds may be high enough to compensate for their interest rate sensitivity and default risk and may be cheap enough to consider increasing exposure. I still believe that high yield bonds and loans owned as part the Multi-asset Credit allocation can deliver better returns. These assets have much lower interest rate sensitivity (duration), much higher yields, and because many have floating rather than fixed coupons, they can continue to benefit from rising interest rates.

High yield assets are more sensitive to the economy, so the expected slowdown in economic growth has increased the risk of default especially for more leveraged parts of the economy. However, I still expect Multi-asset Credit funds with their mix of low duration bonds and floating rate loans to outperform both government and investment grade non-government bonds in line with their higher risk. Provided the pace of downgrades and defaults does not increase significantly, as the key to success with this asset class, is picking managers with the skill (or luck) to avoid defaults.

Chart 11: - Credit spreads, extra yield over government bonds, last 10 years.



Source: - Bloomberg

Equities

Regional equity market returns were much more mixed in Sterling terms in the third quarter. The strength of the US dollar disguising returns in local currency terms. Hence like bond markets, local currency equity market returns were very poor indeed and many regional indices and sectors are technically in a bear market.

Just as last quarter, since the end of the quarter equity markets have rallied on reasonable earnings reports and as mentioned above the idea that central banks may be close to the end of the tightening cycle. They are also looking at the leading indicators shown in chart 6 above pointing to improvement in global supply chains, and falling US inflation in chart 7, rather than negative implications of charts 5 and 9, which highlight the weakening manufacturing and employment outlook, and the competition for capital, implied by the increased primary and secondary supply of government bonds.

Having said that valuations as shown in chart 12 below, have improved because asset prices are lower and as shown in chart 13 potential 10 year annualised returns have improved compared to last year. However, I am more cautious on the outlook for equity market than I am for bond markets.

GDP

Table 4 shows the consensus forecasts for GDP growth in calendar 2022 and 2023 and my expectations in August and November 2022.

Table 4: - GDP forecasts - Consensus versus Advisor expectations.

% CHANGE YOY								
	2022				2023			
	AUGUST		NOVEMBER		AUGUST		NOVEMBER	
	Consensus	AF	Consensus	AF	Consensus	AF	Consensus	AF
US	1.7	**1.5**	1.8	**1.5**	0.7	**0.5**	0.2	**0.5**
UK	3.4	**3.0**	4.2	**3.0**	0.1	**0.0**	-0.9	**-1.0**
Japan	1.4	**1.4**	1.5	**1.4**	1.6	**1.4**	1.4	**1.2**
EU	2.8	**2.0**	3.1	**2.0**	1.4	**1.0**	0.1	**-0.5**
China	3.7	**5.0**	3.2	**4.0**	5.4	**5.4**	4.5	**4.5**
SE Asia	5.3	**5.3**	5.5	**5.5**	4.6	**4.6**	4.2	**4.2**

Source: - Consensus Economics November 2022

Between August and November consensus forecasts for GDP growth in 2022 have been revised higher as actual growth outcomes have been better than expected. This outcome has been aided by the willingness of households to dip into the savings built up during the covid pandemic to maintain spending despite higher prices. The consensus has also become more pessimistic for growth in 2023 but is only predicting an annual contraction in UK growth, with weak positive year over year growth in the US, Japan and the Euro-Area.

As I have said in the past, I do not know what the growth numbers will actually turn out to be, but I still expect growth in the developed economies in 2022 and 2023 to be generally weaker than the consensus except in the US in 2023 where I expect it to be stronger. I also believe that growth in the

Euro-Area could, like the UK, be negative for all of 2023. The price and the availability of Gas being the main driver of the difference in the growth outcome in these 2 regions.

Growth in developing economies could turn out to be stronger as they generally did not ease monetary policy to the same extent as the developed economies during the pandemic and they were quicker to tighten into the recovery. As a result, they are now in the position to stimulate growth by easier monetary and fiscal policy, this is especially true of China. Also, if the Chinese government could find a "face-saving" way of ending it's Zero Covid policy or accept the use of more effective vaccines, growth in the region could turn out to be much stronger in 2023.

The Chinese economy grew by +3.9% yoy in third quarter of 2022, picking up from a +0.4% growth rate in the second quarter, boosted by new expansionary policy decisions aimed at reviving activity ahead of the Communist party congress in October. The latest figure was released just a day after President Xi Jinping secured a historic third term, however the statistics agency warned that the recovery was still not solid due to domestic and global headwinds. September data showed a mixed recovery in China, with retail sales rising the last in 4 months, but export growth is at a 5-month low, and the jobless rate hitting its highest since June. Meantime, industrial output rose the most in 7 months, due to faster rises in output of both manufacturing and mining. Beijing no longer mentions the target growth rate of 5.5% for 2022 and pledged easier lending and other measures to boost growth in future. The GDP data was originally scheduled for October the 18th but was delayed until the Party Congress ended.

The US economy grew at an annualised rate of +2.6% in the third quarter, rebounding from a contraction in the first half of the year. The biggest positive contribution came from net trade up 2.8%, as the trade deficit narrowed. Imports fell 6.9%, while exports were up 14.4%, led by Exports of LNG, petroleum products, non-automotive capital goods, and financial services. At the same time, non-residential investment jumped 3.7%, boosted by increases in equipment and intellectual property. The housing market remains a drag on activity as mortgage rates rise, residential investment fell for the 6th quarter by -26.4%. Consumer spending, the largest component of US GDP, grew at a slower rate with higher outlays on services, led by health care offset a decrease in goods, namely motor vehicles and food and beverages.

The advanced estimate of UK growth in the third quarter was -0.2% after an upwardly revised growth rate of +0.1% in the second quarter of 2022. The services sector delivered its first contraction since the end of the Covid lockdowns. Industrial production fell for a 7th consecutive quarter, manufacturing was down -2.3%, with mining and quarrying down -1%. In expenditure terms, household spending fell -0.5% and business investment shrank -0.5%. The UK's terms of trade improved with exports up +8% and imports down -3.2%. Compared to a year earlier, the British economy expanded +2.4%. The third quarter growth rate could mark the beginning of what is expected by the BoE to be the country's longest recession since records began. The economy is expected to contract -0.75% in the second half of 2022, continue to fall in 2023 and remain low in first half of 2024, as high inflation and interest rates and higher taxation negatively impact both households and businesses.

Japanese economic activity fell -0.3% in the three months to the end of September, following an upwardly revised +1.1% growth rate in the second quarter, preliminary data showed. This was the first GDP contraction since the third quarter of 2021, caused by global inflationary pressures and a

slump in the value of the Japanese yen. Private consumption grew at a slower pace, hit by another Covid wave in August despite efforts from the government to step up support for households. Meanwhile, business investment growth slowed, and government expenditure was flat after rising in the prior two quarters. Net trade was also a drag on the GDP, as exports rose +1.9% and imports jumped +5.2%.

The Eurozone economy was estimated to have expanded +0.2% in the three months to the end of September. This marks a sixth quarter of expansion, but it is the weakest rate of growth in the last 18 months. The German economy grew faster, while France, Italy and Spain all grew at a slower rate. Like the UK the Euro Area is expected to fall into recession with fourth quarter 2022 and the first quarter of 2023, expected to record negative growth rates, but unlike the UK growth is expected to be recovering in the second quarter of 2023.

Consumer Price Inflation

Table 5 shows the consensus forecasts for Consumer Price Inflation in calendar 2022 and 2023 and my expectations in August and November 2022.

Table 5: - Consumer Price Inflation forecasts - Consensus versus Advisor expectations

% CHANGE YOY								
	2022				2023			
	AUGUST		NOVEMBER		AUGUST		NOVEMBER	
	Consensus	AF	Consensus	AF	Consensus	AF	Consensus	AF
US	8.1	**8.0**	8.1	**8.0**	3.8	**4.0**	4.1	**4.3**
UK	9.1	**10.0**	8.9	**10.0**	6.7	**7.0**	7.1	**7.0**
Japan	2.0	**1.5**	2.3	**1.5**	1.4	**1.5**	1.7	**1.9**
EU	7.8	**9.0**	8.6	**9.2**	4.1	**5.0**	6.1	**6.5**
China	2.4	**2.4**	2.2	**2.2**	2.5	**2.5**	2.4	**2.4**
SE Asia	4.6	**4.6**	4.9	**4.9**	3.5	**3.5**	3.9	**3.9**

Source: - Consensus Economics November 2022

The consensus forecasts for inflation in 2022 have not materially changed since August, but they have been revised higher for 2023. As I said before I do not know what the peak rate of inflation will be, I suspect it may be higher than the consensus this year and next, but most importantly I believe as we can already see in the US, the rate in 2023 should be lower than whatever it turns out to be in 2022. The much milder start to the European Winter and the success of Europe's energy saving tips alongside its aggressive filling of storage capacity has led to falling gas prices. Having said that the gas price is still much higher than it was 12 and 18 months ago. The impact of higher gas prices will be less felt in the US because of abundant supply and in China and Asia because the region is less reliant on the use of gas for electricity generation and household heating.

Outside of energy prices which feed directly into the price of everything the global goods supply chain continues to improve despite covid induced disruption in China, with shipping rates and Container costs continuing to fall. Also as shown in table 4 above global growth is slowing and with much higher inflation real household incomes are falling faster. These factors are taking the heat out the economy and hence should lead to less demand pressure on prices. The outlook for inflation remains uncertain and it will be higher than we have been used to over the last 10 years but I still believe we will be past the current peak in a years' time.

After a false dawn in April, it looks as though US headline CPI is on a steady path downward trajectory. The annual inflation rate slowed for a 4th month in a row to +7.7% in October, the lowest rate since January. The cost of energy remains elevated but with all components advancing a slower pace, food price inflation also slowed slightly as did prices of used cars and trucks. On the other hand, the rate of inflation for shelter, which includes a contribution from rents and mortgages increased because of higher interest rates. Despite the fall in the headline CPI, inflationary pressures remain in the services sector, while the prices of goods have benefited from some improvements in supply chains.

The annual inflation rate in the UK jumped to 11.1% in October up from 10.1% in September, this is the highest inflation rate since October 1981, with main upward pressure coming from housing and energy (gas +129% and electricity +66%). However, the rise was constrained by the Energy Price Guarantee. Inflation would have risen to around 13.8% had the government not intervened to limit the price of household energy bills. Prices for food and non-alcoholic beverages also increased as workers remain in short supply and higher energy costs are passed on. On the other hand, transportation costs slowed as the price of Diesel fuel and Petrol stabilised and second-hand car prices actually fell by -2.7%.

Euro-Area CPI was +10.6% in October 2022, the highest rate on record since the inception of the Euro, caused by surging energy prices and currency weakness. The main upward pressure came from energy, followed by food, alcohol & tobacco, services and non-energy industrial goods. The annual rate of core inflation, which excludes volatile prices of energy, food, alcohol & tobacco, increased to 5.0% as higher energy prices work their way through the rest of the economy.

The annual inflation rate in Japan climbed to 3.7% in October, the highest reading since January 1991, the result of higher prices for imported raw commodities caused by a persistently weak Japanese yen. Upward pressure came from all components, with the largest increases coming from food, gas, electricity and water charges. Core consumer prices increased by 3.6% year-on-year, the most since February 1982.

4. The outlook for the securities markets

Bond Markets

In table 6, below I have set out my expectations for 3 month SONIA interest rates and benchmark 10 year government bond yields, over the next 6 and 12 months. They are not meant to be accurate point forecasts, more an indication of the possible direction of yields from November 2022.

Table 6: - Interest rate and Bond yield forecasts

%	CURRENT	JUNE 2023	DECEMBER 2023
UNITED STATES			
3month SONIA	4.67	5.5	5.5
10 year bond yield	3.83	5.25	5.0
UNITED KINGDOM			
3month SONIA	3.56	5.0	5.0
10 year bond yield	3.24	4.75	4.5
JAPAN			
3month SONIA	-0.04	0.0	0.0
10 year bond yield	0.25	0.25	0.25
GERMANY			
3month SONIA	1.43	3.5	3.5
10 year bond yield	2.02	3.75	3.5

Source: - Trading Economics; 18th November 2022

Over the summer all the major central banks continued their more aggressive pace of rate increases, as they sought to regain credibility and catch up with the rapidly increasing rate of inflation. With growth slowing the central banks find themselves in the difficult position of having to increase rates to tackle rampant inflation thereby running the risk of slowing the economy even more. The rapid change in policy rates has led to the worst ever performance of the developed economies government bond markets, as can be seen in Table 1 above.

After four, 0.75% increases the US Fed Funds rate is 4% and the yield curve is negatively sloped, which means the bond market expects a recession. Despite this at his recent press conference the Chair of the Federal Reserve suggested that “the ultimate level of interest rates will be higher than previously expected”. Hence, as shown in table 6 above, I expect the Fed Funds rate to continue to rise and bond yields to rise with them.

At its meeting in November the Bank of England was pretty much forced to raise rates by 0.75% to 3% as the markets perceived that it had not acted fast enough in the year to date to tackle inflation. This is despite re-iterating its forecast that the UK is likely to enter the longest ever recorded period of

negative growth over the next couple of years. The ECB has acted much faster to increase rates, at the beginning of the year rates in Europe were -0.5%, after two 0.75% rate increases on September and October their equivalent of the base rate was 2%.

In my last report I mentioned that US bond market yields fell after the Fed's first 0.75% rate increase as they anticipated a "dovish tilt" to future increases. But Jerome Powell shot down that particular dove in a speech at the Jackson Hole central bankers meeting over the summer and followed it up with two further 0.75% rate hikes. At the end of September, the US 10 year yield was 0.8% higher at 3.8%. After the Fed's meeting in November the yield increased to 4.2% but yet again bond yields have fallen back to around 3.8%, despite the Fed's actions and speeches as the markets once again anticipate less tightening going forward.

At the end of September, the UK 10 year yield was 4.1%, 1.9% higher than it was at the end of June. While it would be reasonable to suggest that 0.8% of that increase could have been due to the increase in global bond yields, the rest of the increase, 1.1% is solely the responsibility of the short lived Liz Truss Government and her ill-fated Chancellor Kwasi Kwarteng's, "Fiscal Event", which had it not been for the intervention of the Bank of England could have led to much more serious problems for the Financial System. Since the intervention and supported by the actions of the new government under Rishi Sunak and Jeremy Hunt, the 10 year bond yield has fallen back to 3.2%.

Bond Market (Protection Assets) Recommendations

Despite the increase in bond yields since my last report, I still expect yields to rise as interest rates are increased. However, in 12 months' time slower growth and lower inflation could mean that bond yields start to fall even if there have been no cuts in interest rates. As a result, I anticipate negative returns in the short term. However, Protection assets and especially Index Linked Gilts and corporate bonds have become much more attractive as a medium term investment.

Therefore, I propose that the investment grade corporate allocation is increased from 1% underweight to neutral along with the Index Linked Gilt allocation. The increase in allocation would be funded from a reduced allocation to growth assets. I suggest remaining 1% underweight conventional gilts to reflect my negative outlook for interest rates and bond yields.

I would position the allocation in this way because the extra yield spread available from corporate bonds is currently very attractive, having widened dramatically on a weaker economic outlook but also because of forced selling by pension funds with liability driven investment strategies. Another beneficiary of this forced selling has been the Index Linked Gilt market where real yields have moved from an average of -2% to around zero real yield, which means for the first time in more than 10 years long term investors can receive a risk free rate of real return and genuine protection against inflation.

As usual in table 7 below I have updated the data and recalculated my estimates of the total return impact of rising yields for government and non-government bond indices based on their yield and interest rate sensitivity (Duration) over 3 and 12 months. The estimates show that there is very little income protection even for small increases in yield at current durations and spreads except in high yield bonds.

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Table 7: - Total returns from representative bond indices

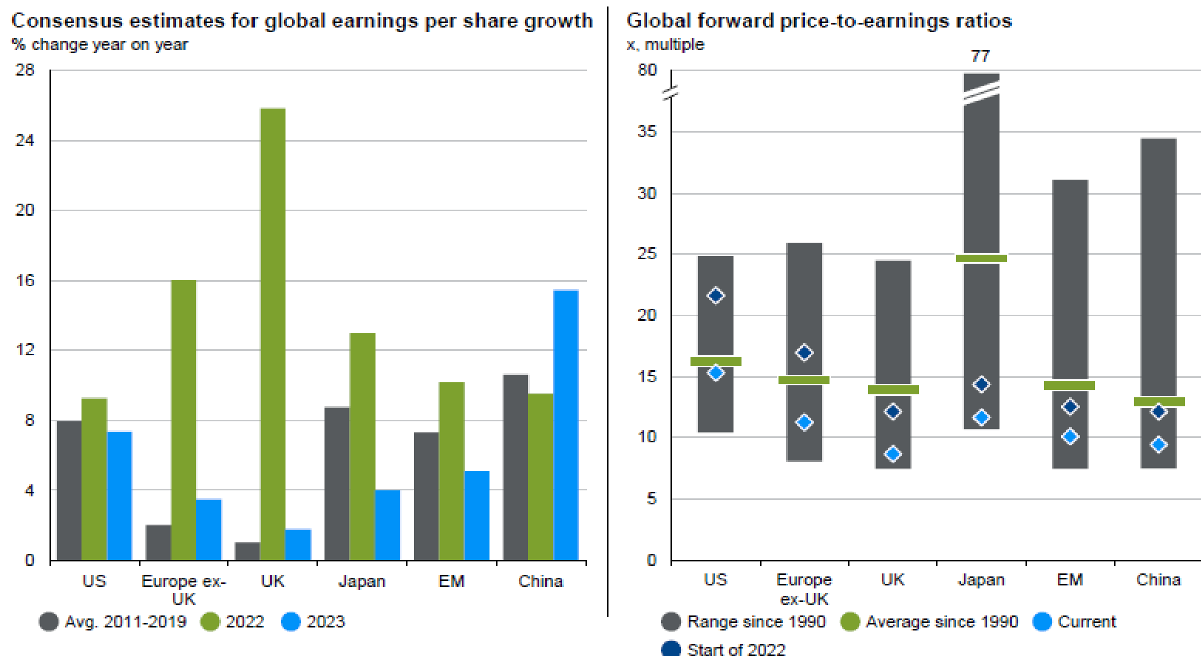
INDEX	YIELD TO MATURITY %	DURATION YEARS	YIELD INCREASE %	% TOTAL RETURN, HOLDING PERIOD	
				3 MONTHS	12 MONTHS
All Stock Gilts	3.31	10.4	0.5	-4.4	-1.9
All Stocks Linkers	-0.40	18.6	0.5	-9.4	-9.7
Global IG Corporate	5.10	8.9	0.5	-3.2	+0.7
Global High Yield	8.94	5.4	0.5	-0.5	+6.2

Source: - ICE Indices 18th November 2022

Equity Markets

Chart 12 below, left hand side, shows the consensus earnings per share growth estimates, for 2022 and 2023 compared to the annual average between 2011 and 2019. The right hand side shows, the current forward looking estimates of the price / earnings (P/E) ratio of the same market indices compared to the range and the average since 1990, except for China where the data only goes back to 1996, provided by JP Morgan Asset Management.

Chart 12: - LHS - Earnings per Share estimates, RHS - Price/Earnings Ratios, since 1990, China 1996



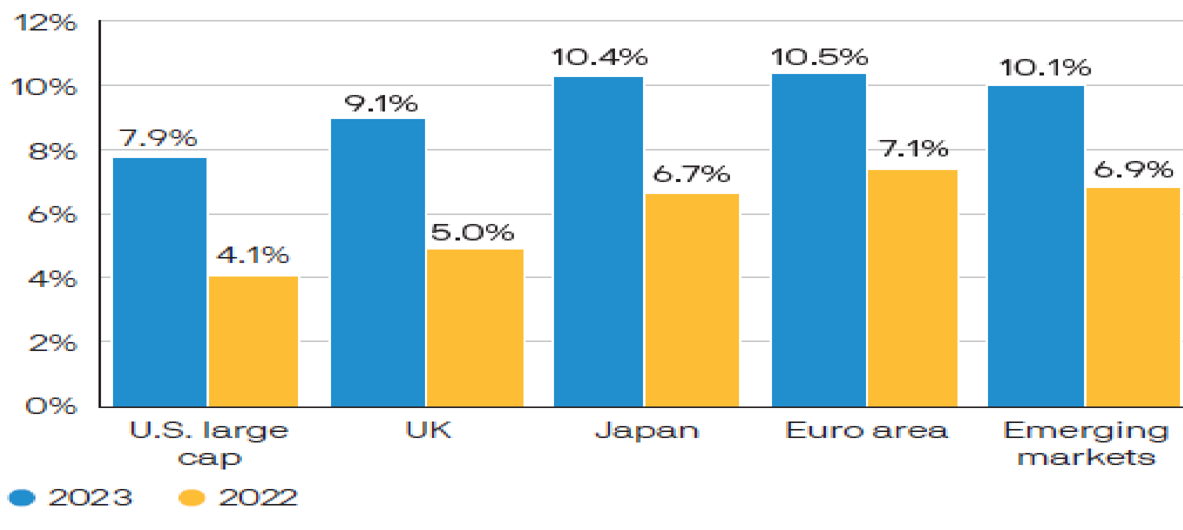
Source: - JPM Asset Management, November 2022

Since June earnings expectations for 2022 have been revised higher in Europe and the UK but lower in the US and China. More importantly earnings expectations for 2023 have been revised quite a bit lower in all regions except in China to reflect the worsening global economic outlook. This suggests to me that these forecasts are more realistic than the optimistic numbers we saw earlier in the year. The sharp year-to-date sell-off in equities has also led to declining valuations, ie markets have become cheaper with even the US below its long term average P/E ratio. As can be seen on the RHS of chart 12 above P/E ratios on most regional indices are close to the lows of the range since 1990.

Looking at sector-level data helps explain some of the variation in 2022 and 2023 earnings expectations especially in Europe and the UK. Surging Oil and Gas prices have boosted 2022 earnings expectations for energy companies and basic materials companies have also benefited significantly from rising commodity prices. Conversely, earnings forecasts for consumer-facing companies have fallen due to growing fears of a squeeze on disposable incomes and some big earnings misses in the US Consumer discretionary sector. As can be seen in the green bars on the LHS of chart 12 above the commodity-heavy UK market is a prime example where, despite earnings downgrades for every other sector, overall earnings expectations are higher, thanks to the significant weighting of energy and materials. Looking at this data another way, in local currency terms the MSCI All Country World index is down -13.3% year to date (11th November), whereas the Value component is only down -3.6% and the Growth component is down -22.7%.

Chart 13, below shows JPMorgan Asset Management's most recent forward looking return forecasts for equity markets over the next 10 years, not surprisingly given the drawdowns (negative returns) we have seen year to date in equity markets these average return forecasts have been revised significantly higher.

Chart 13: - JPMAM Long term capital market return forecasts, regional equity indices



Source: J.P. Morgan Asset Management; data as of September 30, 2022. Please note that we changed our forecasting methodology for MSCI China this year, now treating the market as an asset whose local currency is CNY. The change in our emerging market equity returns reflects this change.

Source: - JPM Asset Management., November 2022

Charts 12 above, suggests that in the equity markets are looking much cheaper in terms of P/E valuations relative to their history since 1990 and earnings expectations may have adjusted to reflect the economic reality especially for 2023. Chart 13 suggests that from where we are priced today based on the work done by JPMorgan Asset Management, average annual returns from equity markets are much more attractive than they were 12 months ago.

The year long sell off in equity markets and the evidence presented above suggests that the medium term outlook for equity returns has improved significantly. Valuations appear more reasonable and earnings estimates may be more realistic, but inflation has not yet peaked, interest rates have further to rise and we do not know how long or deep the expected recession may be. Hence, I am cautious on equity markets, especially in the more interest rate sensitive "growth sectors". I also believe future volatility may be higher, which suggests investors need to see meaningful "cheapness" in asset prices before committing new capital especially when bonds are looking much better value than they have done in a very long time.

Equity Market (Growth Assets), Recommendations

In the last quarter the Fund had legacy overweight's in European, US and UK equities and an underweight to Global sustainable equity due to risk and performance concerns with the managers selected to run the strategy. The relative performance of bonds and equity over the last quarter and the more attractive relative value of some sectors of the bond markets have led me to suggest that the Fund should consider a 1% underweight position in Growth assets.

Given the strong performance of US equity in both market and currency terms and the legacy nature of the position I would suggest that the Fund should sell this position and use the money to top up the Investment grade credit allocation to neutral from underweight. For now, I am happy to remain underweight global sustainable equity and overweight UK equity due to relative valuations and because I believe interest rates will continue to rise for some time increasing the pressure on "growth equity sectors" which are more highly represented in the global sustainable strategy than they are in the UK equity indices.

Income Assets

Once again, I have made no changes to the allocation to Income Assets but I would now fund the 2% over allocation to MAC 1% each from Growth and Protection Assets. Spreads have narrowed slightly since the end of the third quarter but the overall yield available combined with the low duration and floating rate nature of many of the asset classes suggests to me that MAC remains attractive, relative to longer duration assets in a rising interest rate environment.

Over the quarter the overall allocations to Infrastructure and Property have been increased closer to neutral for Property and overweight Infrastructure, mainly due to the denominator effect of other asset classes in the Fund performing poorly and the delayed nature of valuations in these asset classes.

As mentioned, before over the long term I would like to see the direct property allocation increase funded using net sales from the in-direct exposure. However, at the moment I believe there is an opportunity for the Fund to take advantage of distressed selling by other investors to increase its

exposure to in-direct property funds at a discount to NAV and thereby increase the overall property exposure to neutral.

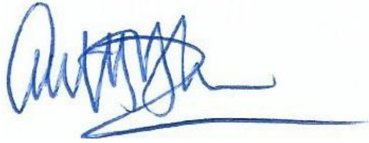
Asset Allocation

The asset allocation set out in table 8 below, shows the Strategic Asset Allocation Benchmark and my suggested asset allocation weights relative to this benchmark as of the 15th August and the 18th November 2022. These allocations represent an ideal objective for the Fund based on my expectations for economic growth and market performance, but they do not take into consideration the difficulty and costs in reallocating between asset classes and the time needed by the In-house Team, their Pooling partner and investment managers to find correctly priced assets for inclusion in the Fund.

Table 8: - Recommended asset allocation against the Strategic Benchmark.

The 2 righthand columns show my suggested allocations relative to the new strategic benchmark that came into effect on the 1st January 2022.

% ASSET CATEGORY	NEW DERBYSHIRE STRATEGIC WEIGHT 1ST JANUARY 2022	ANTHONY FLETCHER 15TH AUGUST 2022	ANTHONY FLETCHER 18TH NOVEMBER 2022
Growth Assets	**55**	**0**	**-1.0**
UK Equity	**12**	**0**	**+1.0**
Overseas Equity	**43**	**0**	**0**
North America	**0**	**0**	**0**
Japan	5	**0**	**0**
Emerging markets	5	**0**	**0**
Global Sustainable	**29**	**0**	**-2**
Private Equity	4	**0**	**0**
Income Assets	**25**	+2	+2
Property	9	**0**	**0**
Infrastructure	**10**	**0**	**0**
Multi-asset Credit	6	+2	+2
Protection Assets	**18**	**-2**	**-1**
Conventional Gilts	6	**-1**	**-1**
UK index Linked	6	**0**	**0**
US TIPS	0	**0**	**0**
Investment grade credit	6	**-1**	**0**
Cash	2	**0**	**0**



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Appendix

References

Source material was provided by, including but not limited to, the following suppliers: -

- Derbyshire Pension Fund, PEL performance services
- FTSE and ICE Indices
- JP Morgan, Asset Management
- Bank of England, UK Debt Management Office, UK OBR, UK Treasury, ONS
- US Bureau of Labour Statistics, US Commerce Dept. The US Federal Reserve.
- Bank of Japan, Japan MITI
- ECB, Eurostat
- Bloomberg, FactSet, Markit and Trading Economics
- Financial Times, Daily Telegraph, Wall Street Journal, New York Times, Washington Post

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FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

PENSIONS AND INVESTMENTS COMMITTEE

WEDNESDAY, 7 DECEMBER 2022

Report of the Director - Finance and ICT

STEWARDSHIP REPORT

1. Purpose

1.1 To provide the Pensions and Investments Committee with an overview of the stewardship activity carried out by Derbyshire Pension Fund's (the Fund) external investment managers in the quarter ended 30 September 2022.

1.2 To note the Fund's submission to the Department for Levelling Up, Housing & Communities' consultation on proposals to require LGPS administering authorities in England and Wales to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate-related Financial Disclosures.

2. Information and Analysis

2.1 Stewardship Activity

This report attaches the following two reports to ensure that the Pensions and Investments Committee is aware of the engagement activity being carried out by Legal & General Investment Management (LGIM) and by LGPS Central Limited (the Fund's pooling company) (LGPSC):

- Q3 2022 LGIM ESG Impact Report (Appendix 2)
- Q2 2022/23 LGPSC Quarterly Stewardship Report (Appendix 3).

LGIM manages around £1.7bn of assets on behalf of the Fund through passive products covering: UK Equities; Japanese Equities; Emerging Market Equities; and Global Sustainable Equities. LGPSC currently manages around £0.8bn of assets on behalf of the Fund through its All-World Equity Climate Multi Factor Fund, Global Active Emerging Market Equities Sub-Fund, Global Active Investment Grade Corporate Bond Multi Manger Sub-Fund and Credit Partnership II (Private Debt) Fund. It is expected that LGPSC will manage a growing proportion of the Fund's assets going forward as part of the LGPS pooling project.

These two reports provide an overview of the investment managers' current key stewardship themes and voting and engagement activity.

2.2 DLUHC Consultation Submission

The Department for Levelling Up, Housing & Communities (DLUHC) launched a consultation on 1 September 2022 seeking views on proposals to require LGPS administering authorities in England and Wales to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). The deadline for consultation submissions was 24 November 2022. A copy of the DLUHC consultation document is attached at Appendix 4.

The Fund has proactively reported on its management of climate-related risks and opportunities for a number of years. The Fund published a Climate Strategy in November 2020, which includes support for the ambitions of the Paris Agreement and the aim to achieve a portfolio of assets with net zero emissions by 2050. The Fund has also set initial decarbonisation and sustainable investment targets. The Fund published its first TCFD in March 2020, followed by a second TCFD Report in November 2021. The Fund expects to publish its third TCFD Report in early 2023.

LGPS Central Limited formulated a response from the pooling company that all Partner Funds could also potentially use. Whilst the Fund concurs with a sizeable proportion of LGPSC's response, a Fund response has been prepared to reflect the fact that Derbyshire County Council as the Administering Authority for the Derbyshire Pension Fund is responsible for the Fund's governance, strategies, policies and assets.

The Fund also had sight of several other submissions, including the submissions of the Local Authority Pension Fund Forum and of the Scheme Advisory Board, which were considered during the formulation of the Pension Fund's response.

A copy of the Fund's consultation response is attached at Appendix 5. Submission of the response was approved by both the Director of Finance & ICT and the Chair of the Pensions and Investments Committee.

3. Implications

3.1 Appendix 1 sets out the relevant implications considered in the preparation of the report.

4. Background Papers

4.1 Papers held in the Investment Section.

5. Appendices

5.1 Appendix 1 – Implications
5.2 Appendix 2 – Q3 2022 LGIM ESG Impact Report.
5.3 Appendix 3 – Q2 2022/23 LGPSC Quarterly Stewardship Report.
5.3 Appendix 4 – DLUHC Consultation on Governance and Reporting of Climate Change Risks
5.4 Appendix 5 – Derbyshire Pension Fund Consultation Submission

6. Recommendation(s)

That Committee:

a) notes the stewardship activity of LGIM and LGPSC.
b) notes the Fund's response to the DLUHC consultation on proposals to require LGPS administering authorities in England and Wales to assess, manage and report on climate-related risks, in line with the recommendations of the TCFD.

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Appendix 1

Implications

Financial

1.1 None

Legal

2.1 None

Human Resources

3.1 None

Information Technology

4.1 None

Equalities Impact

5.1 None

Corporate objectives and priorities for change

6.1 None

Other (for example, Health and Safety, Environmental, Sustainability, Property and Asset Management, Risk Management and Safeguarding)

7.1 None

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Q3 2022

ESG Impact Report

Global engagement to deliver positive change

In this quarter's report on LGIM's investment stewardship activities, we delve into deforestation, act against antimicrobial resistance and engage with emerging market diversity, among other themes.

LGIM

Our mission

We aim to use our influence to ensure:

1. Companies integrate environmental, social and governance (ESG) factors into their culture and everyday thinking

2. Markets and regulators create an environment in which good management of ESG factors is valued and supported

In doing so, we seek to fulfil LGIM's purpose: to create a better future through responsible investing.

Our focus

Holding boards to account

To be successful, companies need to have people at the helm who are well-equipped to create resilient long-term growth. By voting and engaging directly with companies, we encourage management to control risks while seeking to benefit from emerging opportunities. We aim to safeguard and enhance our clients' assets by engaging with companies and holding management to account for their decisions. Voting is an important tool in this process, and one which we use extensively.

Creating sustainable value

We believe it is in the interest of all stakeholders for companies to build sustainable business models that are also beneficial to society. We work to ensure companies are well-positioned for sustainable growth, and to prevent market behaviour that destroys long-term value. Our investment process includes an assessment of how well companies incorporate relevant ESG factors into their everyday thinking. We engage directly and collaboratively with companies to highlight key challenges and opportunities, and support strategies that seek to deliver long-term success.

Promoting market resilience

As a long-term investor for our clients, it is essential that markets (and, by extension, the companies within them) are able to generate sustainable value. In doing so, we believe companies should become more resilient amid change and therefore seek to benefit the whole market. We use our influence and scale to ensure that issues affecting the value of our clients' investments are recognised and appropriately managed. This includes working with key policymakers, such as governments and regulators, and collaborating with asset owners to bring about positive change across markets as a whole .

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Action and impact

As we move into the second half of the year, we provide an update on some of our campaigns on our core themes, including deforestation and emerging market diversity, and we include an overview of some of our significant votes, and of our global policy engagement over the quarter.

Environmental | Social | Governance

ESG: Environment

CDP SBT campaign

In 2021, LGIM supported the Carbon Disclosure Project's (CDP) Science-Based Targets (SBTs) Campaign which saw 220 signatories, representing nearly US$30 trillion in assets, asking 1,600 high-impact companies to set a 1.5°C-aligned science-based emissions reduction target.

Science-based targets provide a roadmap for reducing emissions at the pace and scale that science tells us is necessary to avoid the most catastrophic effects of climate change.[1] This is why, when we set out expectations of companies within our Climate Impact Pledge and 'Say on Climate' votes, we place such an emphasis on transition plans and targets being aligned with science.

By joining forces with collaborative organisations, we aim to broaden our reach, and strengthen our voice. Following the previous year's campaign, over 154 new companies, with emissions equal to that of Germany, joined the Science Based Targets Initiative (SBTi) – 8% of all those targeted by the campaign.[2] In 2022, we have again joined other financial institutions in backing the 2022 CDP campaign.

1. CDP Science-Based Targets Campaign - CDP
2. Financiers with $29 trillion ask 1600 companies for science-based targets ahead of COP26 - CDP

Deforestation

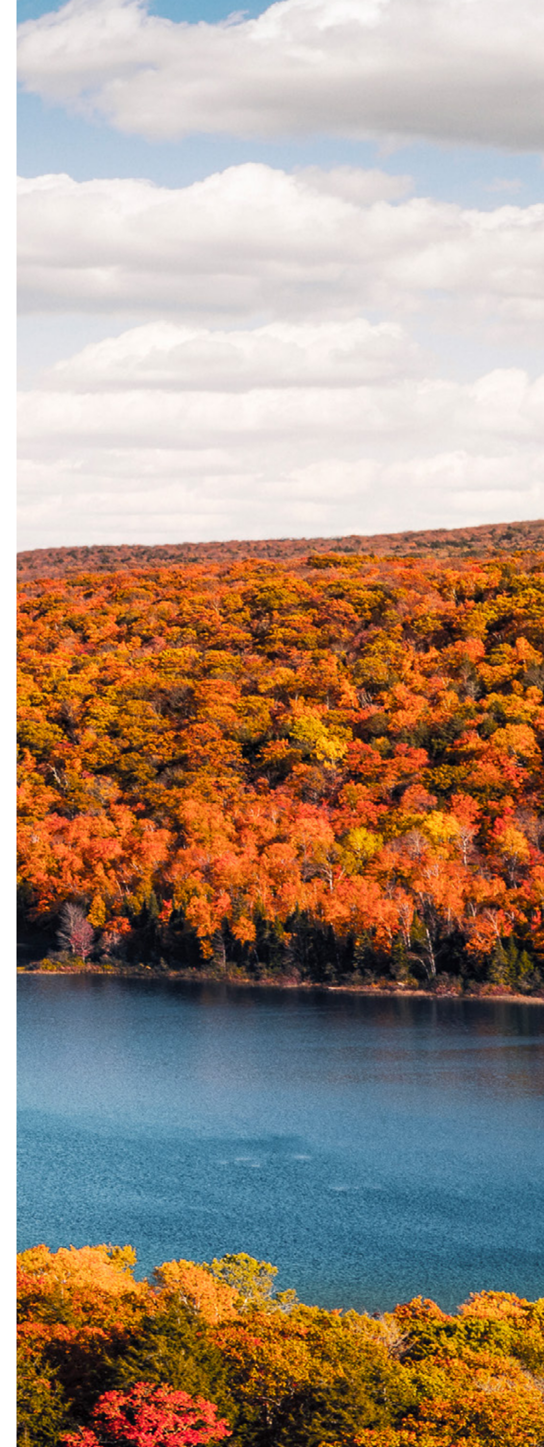
As mentioned in our last Quarterly Impact Report, we are continuing to take steps to meet our COP26 Commitment on Eliminating Agricultural Commodity Driven Deforestation from Investment Portfolios, which we signed in 2021. By publishing our deforestation policy, setting our expectations for companies, and placing milestones to measure our achievements, we are stepping up our efforts to limit deforestation in portfolios.

Why is deforestation so important?

An estimated 22% of total anthropogenic greenhouse gas (GHG) emissions comes from agriculture, forestry and other land use.[3] Around half of this comes from deforestation and land conversion driven by commodities providing food, fibre, feed and fuel. In light of this, and the role of natural carbon sinks in climate mitigation, we believe a credible pathway to net zero must include actions on deforestation, as well as biodiversity loss, and nature more broadly.

Between 1990 and 2020, around 420 million hectares of forest were lost due to conversion to other land uses;[4] a significant contributor was agricultural production, which is expected to increase by about 50% by 2050.[5] From 1970 to 2016, there was on average a 68% decrease in population sizes of mammals and birds, as well as amphibians, reptiles and fish;[6] such declines are occurring at an unparalleled rate.

We believe the interdependencies between nature and climate are of critical importance. A changing climate threatens natural ecosystems, and nature loss amplifies climate change by reducing the ability of ecosystems to store carbon.



3. SPM_Updated-Jan20.pdf (ipcc.ch), page 8
4. https://www.fao.org/3/cb9360en/cb9360en.pdfto%20eliminate%20deforestation%20across%20supply%20chains.
5. WRI, 2019
6. https://www.worldwildlife.org/press-releases/68-average-decline-in-species-population-sizes-since-1970-says-new-wwf-report

What steps have we taken so far to act on our commitments?

1 **Commitment one: to assess exposure to deforestation risk, with a focus on 'forest-risk' agricultural commodities (palm oil, soy, beef, leather, pulp and paper)**

- We have been assessing credit and equity exposure to deforestation risk in our portfolios, through a focus on select industries with high exposure to commodity-driven deforestation through their direct operations and/or supply chain
- The key commodities within these sectors that are major drivers of deforestation could include beef and leather, palm oil, soybeans, timber and pulp, rubber, cocoa and coffee
- We have initially focused on sectors outlined in the Ceres Investor Guide to Deforestation and Climate Change[7] and have drawn on external sources of data and research, such as SPOTT, Forest 500 and Sustainalytics, as well as our investment and stewardship engagement expertise and findings
- Our findings will be integrated into the ESG tools that LGIM has developed to support the assessment of ESG risks at a sector and issuer level

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7. Part of the supplementary guidance provided by the Deforestation Free Finance Sector Roadmap: Roadmap – Deforestation-Free Finance (globalcanopy.org)
8. https://climatechampions.unfccc.int/leading-financial-institutions-commit-to-actively-tackle-deforestation/#:~:text=Financial%20institutions%20will%20focus%20on%20sustained%20engagement%20with,catalyse%20actions%20to%20eliminate%20deforestation%20across%20supply%20chains.

Advancing deforestation data

While metrics related to deforestation are increasingly available, we recognise that more needs to be done to improve the standardisation and increase the scope and coverage of this data to support assessment across investors' portfolios. That is why, in collaboration with other Finance Sector Deforestation Action (FSDA) signatories,[8] we have written to data providers to engage and work with them on further developing of their offering, particularly in relation to an increased set of key commodities.

2

Commitment two: to establish investment policies addressing exposure to agricultural commodity-driven deforestation
We have recently published LGIM's deforestation policy, which outlines our approach to assessing and integrating deforestation considerations into investment tools, expanding our stewardship activities and reporting to clients.

This includes implementing a new voting policy to hold companies in deforestation-critical sectors to account for not meeting our minimum standard expectations with regards to action on deforestation. From 2023, companies in critical sectors[9] for which we have data and without a deforestation policy or programme in place will be subject to a vote against. Voting will be escalated in subsequent years, and in line with our voting policies, we will continue to vote on shareholder resolutions related to deforestation.

This policy builds on the work we have been doing since 2016 under LGIM's Climate Impact Pledge to engage with companies in the food and apparel sectors on deforestation within their supply chains. Through this programme, we have acted by voting against, and in certain cases divesting from, companies we engage with that have not met our minimum expectations on deforestation. We are now setting minimum standard expectations across a broader scope of companies and sectors for which we have data and will be using our voice to hold them to account.

3

Commitment three: to deepen engagement of the highest-risk holdings on deforestation
We have launched LGIM's deforestation engagement campaign, writing to around 300 companies from a set of deforestation-critical sectors within our portfolios for which we have data, outlining our expectations, their current performance against these, and explaining LGIM's new deforestation voting policy. Drawing on available data, as well as our in-house research, expertise and engagement, we will be assessing their progress ahead of the 2023 annual general meeting (AGM) season.

In addition, we will also be working collaboratively with other signatories of the Finance Sector Deforestation Action (FSDA) to lead in-depth company engagements and to speak with the weight of a critical mass of investors to accelerate progress across key sectors and value chains.

Finally, through our Climate Impact Pledge, we will continue to carry out direct engagement with large and influential companies within the apparel and food sectors, and soon also with companies in the forestry and paper and pulp sector, on their approach and actions in relation to deforestation, holding those to account that do not meet our red lines.

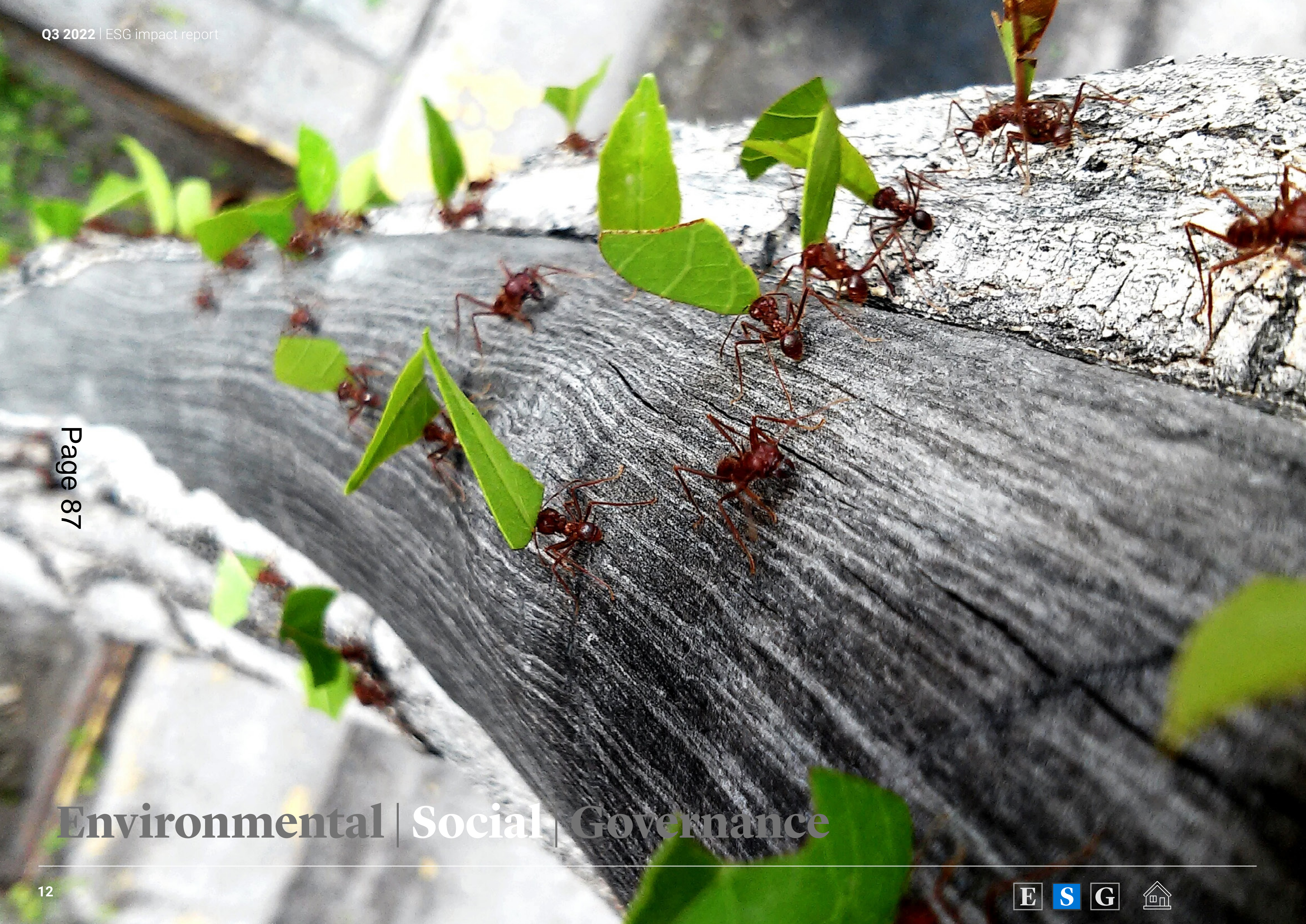
Future milestones in relation to our COP 26 deforestation commitment:

- By 2023, we commit to disclosing deforestation risk and mitigation activities in portfolios, including due diligence and engagement
- By 2025, we commit to publicly reporting credible progress, in alignment with peers, on eliminating agricultural commodity-driven deforestation in the underlying holdings in our investment portfolios through company engagement

Company name	Ninety One Plc.*
ISIN	GB00BJHPLV88
Market Cap	£1.143 billion (07 October 2022, source: London Stock Exchange)
Sector	Financials – investment banking & brokerage services
Issue identified	This was a management-proposed 'Say on Climate' vote, relating to the net zero transition. At the beginning of the year, we published our expectations for management-proposed 'Say on Climate' votes on our blog.
Summary of the resolution	Resolution 11: Approve Climate Strategy AGM date: 26 July 2022
How LGIM voted	Against
Rationale for the vote decision	A vote against was applied as LGIM expects companies to introduce credible transition plans, consistent with the Paris goals of limiting the global average temperature increase to 1.5°C. This includes the disclosure of scope one, two and material scope three GHG emissions and short-, medium- and long-term GHG emissions reduction targets consistent with the 1.5°C goal.
Outcome	97.6% shareholder voted in favour of the resolution. LGIM will continue to engage with our investee companies, publicly advocate our position on this issue and monitor company and market-level progress.
Why is this vote 'significant'?	LGIM considers this vote significant as it is an escalation of our climate-related engagement activity and our public call for high quality and credible transition plans to be subject to a shareholder vote.

*Case study shown for illustrative purposes only.
The above information does not constitute a recommendation to buy or sell any security.

9. Consumer staples, consumer discretionary, materials and energy. Our voting policy does not at this time cover the two other sectors of the Ceres Investor Guide, utilities and financials – due to insufficient data.



ESG: Social

Building healthy food systems

As part of the Investor Coalition on UK Food Policy, led by Rathbone-Greenbank and Guy's & St Thomas's Foundation, we lent our support to a public statement on the importance of the UK government maintaining its strategy to tackle obesity. Amid speculation that the current strategy could be scaled back under the new leadership, we joined our peers in emphasising that combatting obesity is vital not only to social health, but also the economic health of the country. The total economic impact of obesity equalled £58 billion in 2022,[10] and the cost of obesity-related disease now costs UK businesses £27 billion per year.[11] The broader implications for healthcare services, workforce participation and productivity, and welfare payments are clear. LGIM therefore strongly recommends the UK government continues to lead globally by implementing its anti-obesity strategy.

Our collaborative efforts on policy engagement continue and are complemented by our collaborative company engagements with the Access to Nutrition Initiative. Both public policy and the private sector have crucial roles to play in improving the health of individuals and of the broader economy.

Emerging diversity in emerging markets

Identify

The LGIM Investment Stewardship team has long promoted diversity across its investee companies, but the focus has so far been placed largely on developed markets such as the UK, US, Europe and Japan. Diversity (for example, of gender or ethnicity) in emerging markets has not yet been widely explored or advocated in the asset management industry. We are now expanding our engagement to strategic and representative emerging markets: Brazil, India, China and, South Africa.

Engage

We began by setting up meetings with key stakeholder groups in each market, such as corporate governance groups and proxy voting firms, to better understand the lay of the land. We then sent a letter to the chair of the board at the 10 largest companies in each of these markets, requesting to engage on organisational diversity, as well as any market-specific drivers of diversity. Our aim this year is to identify how these companies are thinking about diversity, and if any improvements in diversity have been driven by external forces – such as regulation, investor pressure, societal norms; or internal forces – such as employee engagement, corporate culture, leadership of the board or executive team, etc. Along with observing what leads to improvements in diversity, we also want to identify what is hindering progress on diversity in each market.

Through our engagements, we reaffirmed that diversity expectations cannot be applied in the same way across all markets, and that the specifics and maturity of conversations and practices vary significantly among emerging market countries. We would like to be cognisant of cultural and historical dynamics in each of these markets as we begin to expand our policies and consider our minimum expectations.
Another company-specific takeaway is to know your workforce diversity data, and if/how that reflects the population of where you live. At the same time, board directors of our investee companies need to have oversight of these issues and understand the importance of diversity in achieving their strategic and business objectives, regardless of where a company operates. We ultimately believe that improving demographic diversity at the helm of these large corporations will lead to cognitive diversity and improve the quality of board and senior executive discussions.

10. Annual obesity costs may soar to £58bn - PharmaTimes
11. Health matters: obesity and the food environment - GOV.UK (www.gov.uk)

Significant votes

Company name	Royal Mail Plc*
ISIN	GB00BDVZYZ77
Market Cap	*£1.9 billion (International Distributions Services plc. Source: Reuters, as at 10 October 2022)
Sector	Industrials: Transportation & Logistics
Issue identified	A lack of gender diversity on the executive committee. LGIM has expanded our gender diversity policy in the UK to include the executive committee, as well as the company board.
Summary of the resolution	Resolution 4: Re-elect Keith Williams as director at the AGM on 20 July 2022.
How LGIM voted	Against
Rationale for the vote decision	Diversity: A vote against was applied as the company has an all-male executive committee. From 2022, we have applied voting sanctions to the FTSE 100 companies that do not have at least one woman on their executive committee, with the expectation that there should be a minimum of 33% over time.
Outcome	92.7% of shareholders voted for the resolution. LGIM will continue to engage with companies on gender diversity, and to implement our global and regional voting policies on this issue.
Why is this vote 'significant'?	This vote is significant as it relates to the escalation of our activities on one of our core stewardship themes, gender diversity.

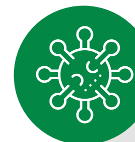
*Case study shown for illustrative purposes only.
The above information does not constitute a recommendation to buy or sell any security.

Escalate
While our engagements have been taking place at the organisational level, we plan to engage with regulators and other identified influential groups in each market to see how we as investors can impact the progression of this topic. In essence, we believe both external forces (e.g. policy, regulations, investor pressure) as well as internal forces (e.g. company-specific diversity measures) are needed to raise market standards on diversity. We acknowledge that these factors influence one another and that raising market standards on this issue cannot be achieved in isolation. In addition to using our voice as an investor through engagements and voting, we will look to establish which avenues may be most effective in raising market standards in each market.

Working together on AMR

As our regular readers will know, in recent years we have been focusing on the topic of antimicrobial resistance (AMR). But how do we raise the profile of this issue and encourage key protagonists to act to mitigate this risk? In this case study, we demonstrate the importance of collaboration. We're serious about this issue and we know that the louder our voice is, and the more that our peers also speak up, the more likely it is that policymakers and companies will take action.

What is it?
The term 'antimicrobial resistance' sums up the damaging effect of bacteria increasing its resistance to antibiotics. A few examples of what this results from include: the overuse of antibiotics in a number of industries (such as food production); the discharge from pharmaceutical manufacturing; and the uncontrolled release of antibiotic agents into the ecosystem, for example through waste-water.



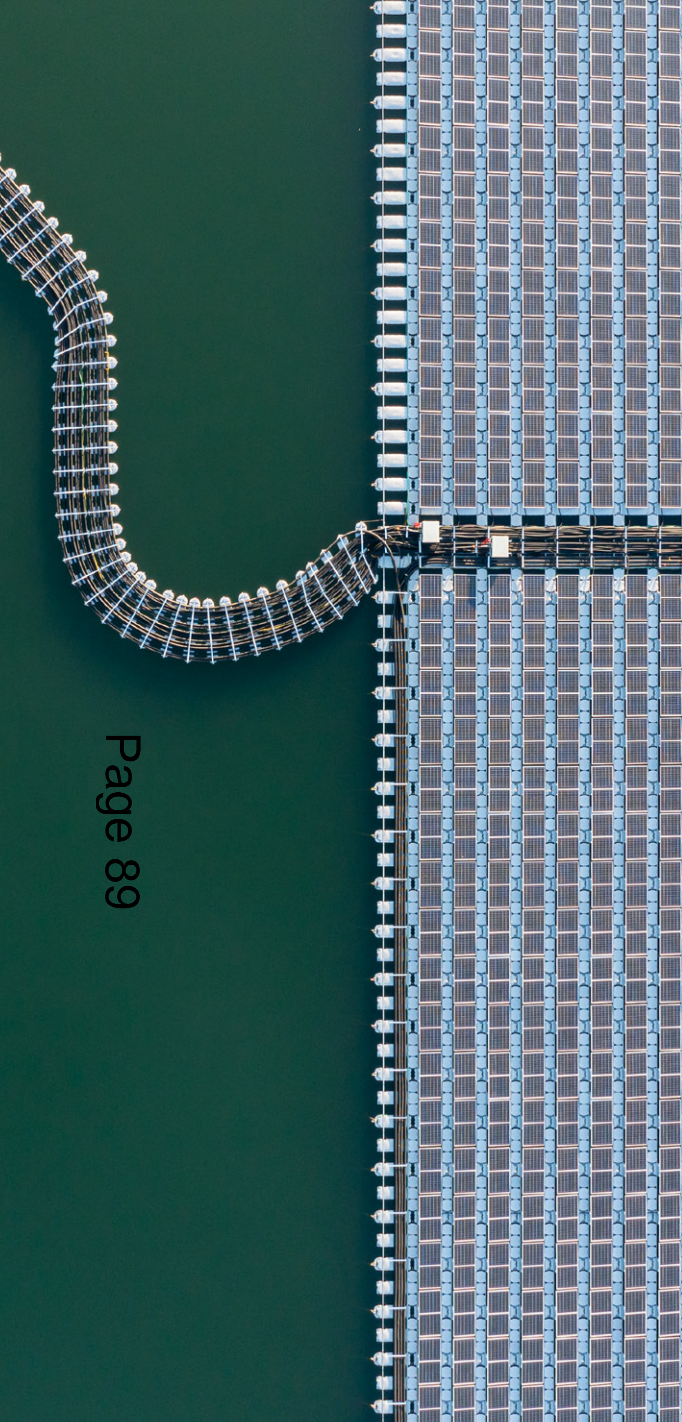
Key AMR facts:

- In 2019, 1.27 million deaths were directly attributable to bacterial AMR,[12] more than HIV/ AIDS and malaria[13]
- If no mitigating actions are taken, this could rise to as much as 10 million per year by 2050...[14]
- ... and could cause a 3.8% reduction in annual gross domestic product (GDP)[15]

AMR isn't a hypothetical or potential problem – it's already causing damage.

Who are we engaging with?
We have been collaborating with policymakers and peers, amplifying our voice. Writing a letter ensures we receive acknowledgement and a response, and forms the platform for future engagement with policymakers and peers at conventions, research events and policy groups. For example, we are members of Investor Action on AMR. The group was founded by the United Nations Principles for Responsible Investment (UNPRI), the UK Department of Health & Social Care, the Access to Medicine Foundation, and Farm Animal Investment Risk and Return (FAIRR). In collaboration with them we have gained access and signed letters to the G7, and supported the UN General Assembly Call to Action on AMR. These collaborations enable us to reach higher and further than we would alone, and are vital to garnering support among our peers, at national and international levels.

12. The Lancet. (2022). 'Global burden of bacterial antimicrobial resistance in 2019: a systematic analysis'. (Global burden of bacterial antimicrobial resistance in 2019: a systematic analysis - The Lancet accessed 11 May 2022).
13. An estimated 1.2 million people died in 2019 from antibiotic-resistant bacterial infections | University of Oxford
14. WHO. (2019). 'No time to Wait: Securing the future from drug-resistant infections.' (no-time-to-wait-securing-the-future-from-drug-resistant-infections-en.pdf (who.int), accessed 11 May 2022).
15. Antimicrobial Resistance (AMR) (worldbank.org)



Company engagements

As a large investor, we meet companies on a regular basis to talk about a range of material E, S and G issues. This enables us to raise new topics, based on the strength of our existing relationships.

For example, our focus for company meetings has been on the water utilities sector. We have written to more than 25 water utility companies globally and so far have been able to speak to some within this group.

Acting through voting

The ability to take action to mitigate AMR is industry-specific, so we wouldn't expect to see resolutions outside the main industries. We have yet to see a management-proposed resolution on AMR, however, we have supported relevant shareholder resolutions where they have been proposed.

We have supported shareholder resolutions related to AMR at Hormel Foods Corporation*, McDonald's* and Abbot Laboratories*.

Preventing the pandemics of the future

Like many significant issues, change won't happen overnight. But as with climate change, we know from experience that once momentum builds, change can happen at a surprising rate, across individual industries, and around the world.

We are continuing to engage with policymakers and relevant companies around AMR. Forming realistic but ambitious expectations of companies and developing recommendations for policymakers are crucial steps in our engagement. On the basis of these, we can consult policymakers and engage with companies so that they meet our expectations.

By working with policymakers and companies and continuing to increase the prominence of this issue, we want to make sure that AMR doesn't become the next pandemic.

Environmental | Social | Governance

One share, one vote: escalating our policy on unequal voting rights

We believe equal voting is an essential right for shareholders to promote market efficiency and hold company boards accountable. However, the prevalence of unequal share class structures, also called 'dual class' shares (i.e. two or more types of shares with different voting rights) continues to be an impediment to shareholder rights. We are strong proponents of the 'one share, one vote' standard, based on the principle that control of a company should be commensurate with the interests of investors generally.

In our recent blog All shares are equal, but some are more equal than others (lgimblog.com), we provide more details on the history of dual-class share structures, on the arguments for and against, and on the evidence of what effect they can have on a company and its performance.

We have long been advocates of equal voting rights. From 2023, we will be voting against the re-election of the board chair at US-incorporated companies with dual-class structures, when the company has not provided a plan to set a time limit on a dual-class structure (where it exists), or given shareholders the opportunity to vote on it.

At the moment, this policy applies only in the US, where we have seen notable companies go public with dual-class share structures. In the future, we may extend it to other jurisdictions where we feel similar action is appropriate.

Significant votes

Company name	Twitter, Inc*
ISIN	US90184L1026
Market Cap	US$39.2 billion (as at 07 October 2022, source: Reuters)
Sector	Technology
Issue identified	'Golden parachute' payments are lucrative settlement payments to top executives in the event that their employment is terminated. This is an issue we assess across all companies, and is particularly pertinent for Twitter at the moment as the proposed takeover by Elon Musk continues to evolve.
Summary of the resolution	Resolution two: Advisory Vote on Golden Parachutes EGM date: 13 September 2022
How LGIM voted	LGIM voted against the resolution (against management recommendation).
Rationale for the vote decision	As a long-term and engaged investor, we entrust the board to ensure executive directors' pay is fair, balanced and aligned with the strategy and long-term growth and performance of the business. It is also worth noting that in Twitter's 2022 AGM, we voted against their 'say on pay' proposal, as did 42% of shareholders, which is significant.
Outcome	4.8% shareholders voted against.
Why is this vote 'significant'?	Remuneration: termination: A vote against is applied as LGIM does not support the use of 'golden parachutes'.

*Case study shown for illustrative purposes only. The above information does not constitute a recommendation to buy or sell any security.

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As a member of the ACGA Japan Working Group, LGIM engages with Japanese companies, including Toyota Motor Corporation (TMC)*, to improve their corporate governance and sustainability practices.

The ACGA: generating good governance

As mentioned in the 'Policy' section of this report, we are longstanding members of the Asia Corporate Governance Network (ACGA). Below, we provide a recent case study of our engagement alongside the ACGA with Toyota.

Identify

As a member of the ACGA Japan Working Group, LGIM engages with Japanese companies, including Toyota Motor Corporation (TMC)*, to improve their corporate governance and sustainability practices.

At Toyota, we have identified their key issues to be:

I. capital allocation decisions (cross-shareholdings and insufficient investments in zero-emissions vehicles and related infrastructure)

II. board independence, diversity and effectiveness

Q3 2022 | ESG impact report

Engage

We originally started our engagement with Toyota in September 2021, alongside fellow shareholders. Our second meeting was held earlier this year to discuss climate change, board composition and capital allocation. We spoke with TMC's Chief Sustainability Officer.

Throughout these meetings, which were attended by Toyota's investor relations team and chief sustainability officer, we expressed our concerns around the company's cross shareholdings, the lack of supervisory function at the board level given the low level of independence, and the company's climate transition strategy and related public policy engagements.

Escalate

In September 2022, we spoke with one of the outside directors on the board and were able to have a candid conversation about how outside directors add value to the board and the quality of board discussions.

Given the company's size and influence at Japan's largest business federation and in industry associations, we have always questioned the company's lobbying stance and its alignment with a 1.5°C world (this is also one of our red lines under sector guides for the auto sector in the Climate Impact Pledge). We are delighted to see improved transparency from the company as they published their views on climate public policy in December 2021. Nonetheless, we view corporate transparency to be the first step and we hope that this will enable us to have more in-depth conversations on its views on climate and how the company plans to shift its strategy.

Given a recent controversy at one of Toyota's group companies (Hino*), we will continue to engage with the company on corporate governance issues and push for better practices both in terms of corporate governance and climate strategy.

Public policy update

As a significant global investor, our aim is to raise global ESG standards across the markets in which our clients are invested. In this regard, our engagement and dialogue with policymakers forms a vital underpinning for our global stewardship approach.

Designing, implementing, and monitoring an effective and coherent policy, including a regulatory and legislative system that governs society, the environment, and the economy is not a simple task. Governments must also take transformative steps to accelerate progress against the complex and interrelated global challenges that we face. As a long-term investor with universal coverage, LGIM is well positioned to constructively engage with policymakers to help them identify and address these systemic market failures and help strengthen the global regulatory and legislative environment. We are aware that change does not happen overnight or with one discussion. LGIM is therefore committed to engaging with policymakers consistently and over the long term.

In this section, we provide examples of some of the work we've been doing across E, S and G topics around the world. Many of the external partners that we work with are international, reflecting the shared responsibility and common interest of stakeholders from around the world working together to combat the most pressing E, S and G issues.

Making agriculture work for everyone

Ahead of COP27, we have been engaging with policymakers internationally, primarily the UN FAO (UN Food and Agriculture Organization), coordinated by FAIRR (Farm Animal Investment Risk and Return), to develop a roadmap for decarbonising the Agriculture and Land Use sector. Existing pathways to net zero only scratch the surface of agriculture and land use – we therefore believe that more detailed, far-reaching plans and actions are needed so that this sector, which is so crucial in achieving net zero. Geopolitical tensions in 2022 have also highlighted the issue of food security which, again, is an interconnected issue. We believe that policymakers need to address these challenges holistically and comprehensively. More detail can be found in our recent blog post, here: Why we need a roadmap for the global Agriculture and Land-Use sector (lgimblog.com)

Shoring up the world's water

Following a long, hot summer and World Water Week in September, we have been highlighting how policymakers can work towards achieving water security, an issue which is likely to become more pressing as global warming increases around the world. Water security is complex – it spans countries, industries and societies, and requires co-ordinated efforts. In our two-part blog, we explain what we believe policymakers can do to improve water security not only in their own countries, but around the world: LGIM Blog - Four steps to avoid a water crisis.

Boosting British green finance

We are continuing to engage with the UK government to implement a full package of sustainable finance regulation, including the review of their net zero plan, which has come under much scrutiny. As we transition to new leadership, our persistence on credible planning and implementation of the net zero strategy is even more important to ensure that this crucial issue remains at the top of the Government's agenda. But we have not been addressing net zero in isolation – we believe it is vitally important that the government implements a coherent sustainable finance strategy, covering not only green finance, but also human rights due diligence provisions.

Mitigating microplastic damage in the UK

Awareness of the damage caused by microplastics entering our water systems is increasing. In order to put pressure on the UK Government to take action, we have joined a collaboration led by First Sentier Investors, and comprising some 29 investors, with assets under management (AUM) of £5 billion. As part of this collaboration, we co-signed a letter to the UK Department of Environment, Food and Rural Affairs (DEFRA), emphasising our support for the 2021 recommendations of the All Party Parliamentary Group on Microplastics. These stipulate that microfibre filters must be installed in new washing machines by 2025, which will help to reduce the amount of microplastics entering the water system. Our collaborative engagement group has also met with the DEFRA team and will continue to work over the coming months. We will monitor further steps taken on legislative action regarding the recommendations which have already been made.

Strengthening the foundations globally with the ISSB

The International Sustainability Standards Board (ISSB), which is part of the International Financial Reporting Standards foundation (IFRS), aims to create 'a comprehensive global baseline of sustainability-related disclosure standards that provide investors and other capital market participants with information about companies' sustainability-related risks and opportunities'.

LGIM has long been a supporter of the ISSB because we believe it is essential that data on ESG factors is coherent, comparable and high-quality.

Along with our parent company, L&G, we have responded to the recent ISSB consultation, recognising and supported the building-block approach of the standard as the best way to achieve wide adoption. This would mean the ISSB would set out the minimum required standard – to be built up and added to by country and regional regulators. Ultimately, we want to see high quality, consistent, comparable, and verifiable sustainability disclosures that are widely adopted. While we are generally supportive of the focus on a materiality based on users' assessment of enterprise value, we believe the definition and expectations of 'materiality' need further clarification.

Curtailing methane emissions in the US

In August, we were delighted to announce the anniversary of our partnership with the Environmental Defense Fund (EDF), a US-based NGO with a reputation for pragmatism and expertise, and a goal of working with companies to address the risks posed by the climate transition. One extremely important focus of our collaborative work has been on methane emissions. Despite the significance of methane as a risk factor, it has not been a priority for the oil and gas industry, and many companies don't reliably know how much methane they are emitting. We met with several large oil and gas companies urging them to join the Oil & Gas Methane Partnership (OGMP), which provides a robust framework for improving methane emissions disclosure. Having written to the Environmental Protection Agency (EPA) earlier this year, we also met with them to highlight shortcomings of existing disclosure regulations. We also submitted a comment letter to the International Sustainability Standards Board (ISSB), urging the adoption of key OGMP features. If implemented, these could have a sweeping impact on system wide disclosure practices.

Championing human rights in the UK

At LGIM, we aim to create a better world through responsible investment. This relates not only to the environment, but also to the management of social and governance factors, including human rights. Alongside 39 investors with AUM of over £4.5 trillion, we co-signed a letter to the UK government in support of a 'Business, Human Rights and Environment Act' which would require business to undertake human rights and environmental due diligence across their operations and value chains. We believe such legislation would ingrain a higher and measurable standard of human rights and environmental behaviours across the UK market, exerting a positive influence in global markets throughout the value chain. Further information can be found here: https://www.business-humanrights.org/en/latest-news/investor-letter-for-uk-human-rights-due-diligence/

Antimicrobial Resistance has also been high on our agenda, as has nutrition and obesity. Updates on these topics can be found in the 'S' section of this report, above.

Gaining good governance in Japan

We continue our collaborations with the Asian Corporate Governance Association ('ACGA'), with whom we have longstanding membership. The ACGA believes that good corporate governance is essential to the operation of Asian markets, and focuses on three areas: research, advocacy and education, in seeking to achieve its aims. A summary of our recent work with Toyota as part of the ACGA can be found in the 'Governance' section of this report.

Regional updates

UK - Q3 2022 voting summary

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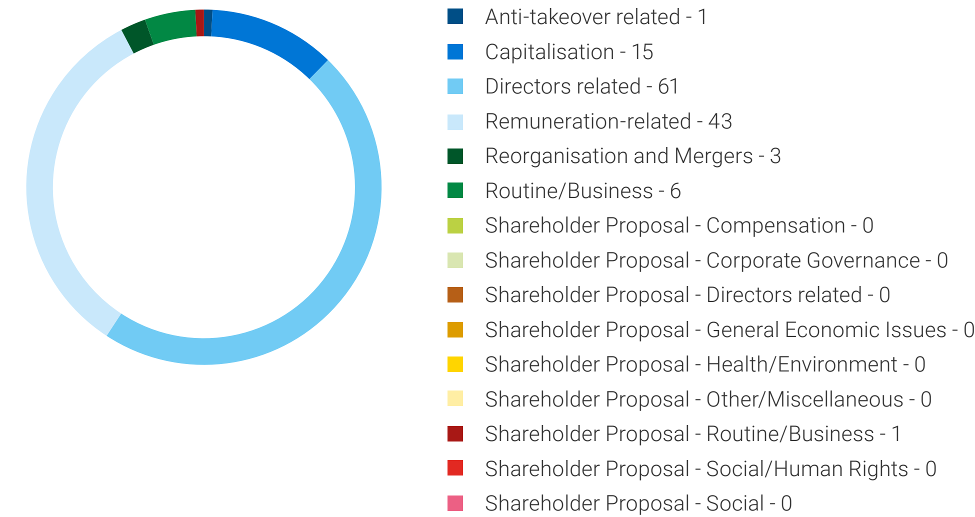
Proposal category	Total for	Total against	Total abstentions
Anti-takeover related	96	1	0
Capitalisation	530	15	0
Directors related	985	61	0
Remuneration related	188	43	0
Reorganisation and Mergers	29	3	0
Routine/Business	637	6	0
Shareholder Proposal - Compensation	0	0	0
Shareholder Proposal - Corporate Governance	0	0	0
Shareholder Proposal - Directors Related	0	0	0
Shareholder Proposal - General Economic Issues	0	0	0
Shareholder Proposal - Health/Environment	0	0	0
Shareholder Proposal - Other/Miscellaneous	0	0	0
Shareholder Proposal - Routine/Business	0	1	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	2465	130	0
Total resolutions		2595	
No.		144	
No. EGMs		36	
No. of companies voted		168	
No. of companies where voted against management /abstained at least one resolution		59	
% no. of companies where at least one vote against management (includes abstentions)		35%	

Votes against management



Number of companies voted for/against management

- No. of companies where we supported management
- No. of companies where we voted against management

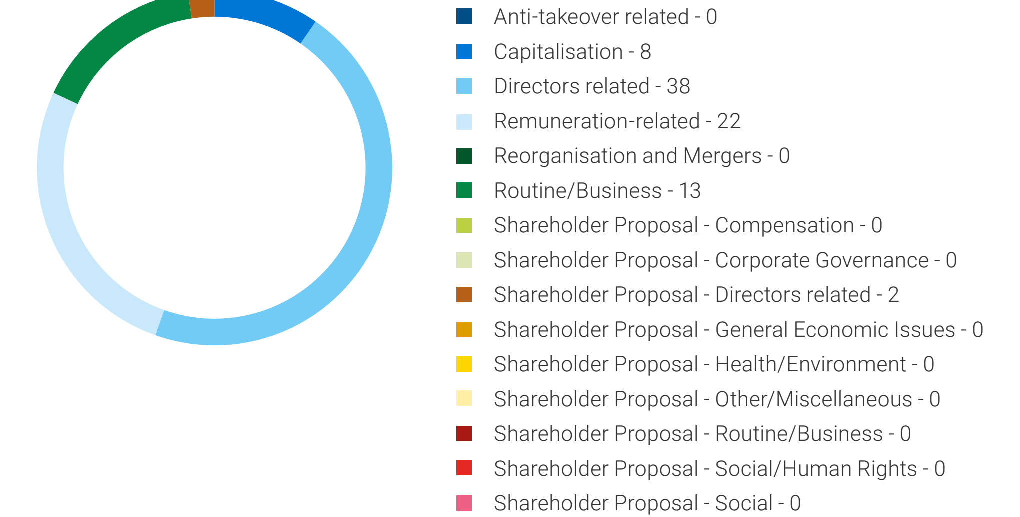
LGIM voted against at least one resolution at 35% of UK companies over the quarter.

Source for all data: LGIM as at 31 March 2022. The votes on this page and in the pages that follow represent voting instructions for our main FTSE pooled index funds.

Europe - Q3 2022 voting summary

Proposal category	Total for	Total against	Total abstentions
Anti-takeover related	0	0	0
Capitalisation	45	8	0
Directors related	101	38	0
Remuneration related	47	22	0
Reorganisation and Mergers	8	0	0
Routine/Business	104	13	0
Shareholder Proposal - Compensation	1	0	0
Shareholder Proposal - Corporate Governance	0	0	0
Shareholder Proposal - Directors Related	6	2	0
Shareholder Proposal - General Economic Issues	0	0	0
Shareholder Proposal - Health/Environment	0	0	0
Shareholder Proposal - Other/Miscellaneous	0	0	0
Shareholder Proposal - Routine/Business	3	0	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	315	83	0
Total resolutions		398	
No. AGMs		16	
No. EGMs		13	
No. of companies voted		29	
No. of companies where voted against management /abstained at least one resolution		17	
% no. of companies where at least one vote against management (includes abstentions)		59%	

Votes against management



Number of companies voted for/against management

- No. of companies where we supported management
- No. of companies where we voted against management

LGIM voted against at least one resolution at 59% of European companies over the quarter.

North America - Q3 2022 voting summary

Proposal category	Total for	Total against	Total abstentions
Anti-takeover related	10	1	0
Capitalisation	11	1	0
Directors related	189	70	0
Remuneration related	11	37	0
Reorganisation and Mergers	8	0	0
Routine/Business	16	20	0
Shareholder Proposal - Compensation	0	1	0
Shareholder Proposal - Corporate Governance	3	3	0
Shareholder Proposal - Directors Related	1	4	0
Shareholder Proposal - General Economic Issues	1	1	0
Shareholder Proposal - Health/Environment	0	4	0
Shareholder Proposal - Other/Miscellaneous	0	4	0
Shareholder Proposal - Routine/Business	2	3	0
Shareholder Proposal - Social/Human Rights	1	2	0
Shareholder Proposal - Social	0	0	0
Total	253	151	0
Total resolutions		404	
No. AGMs		32	
No. EGMs		9	
No. of companies voted		38	
No. of companies where voted against management /abstained at least one resolution		35	
% no. of companies where at least one vote against management (includes abstentions)		92%	

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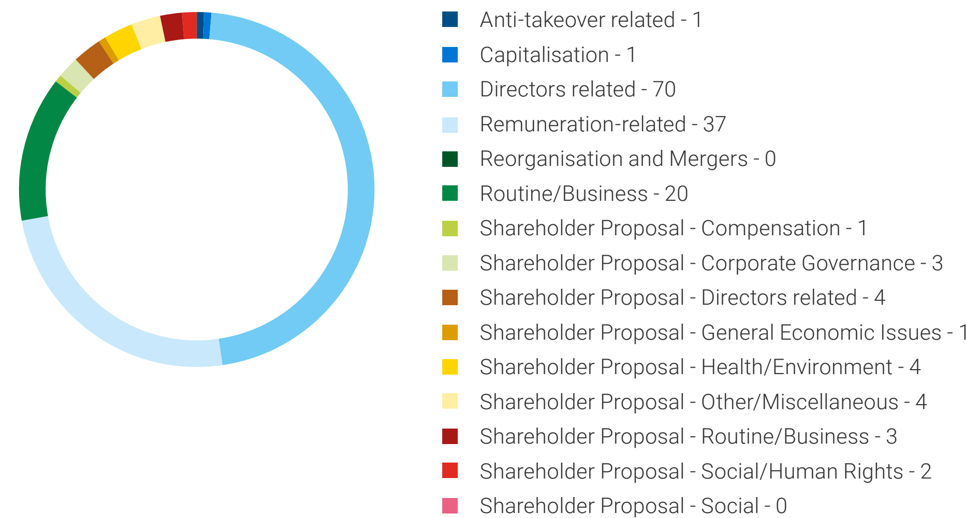
Votes against management



Number of companies voted for/against management

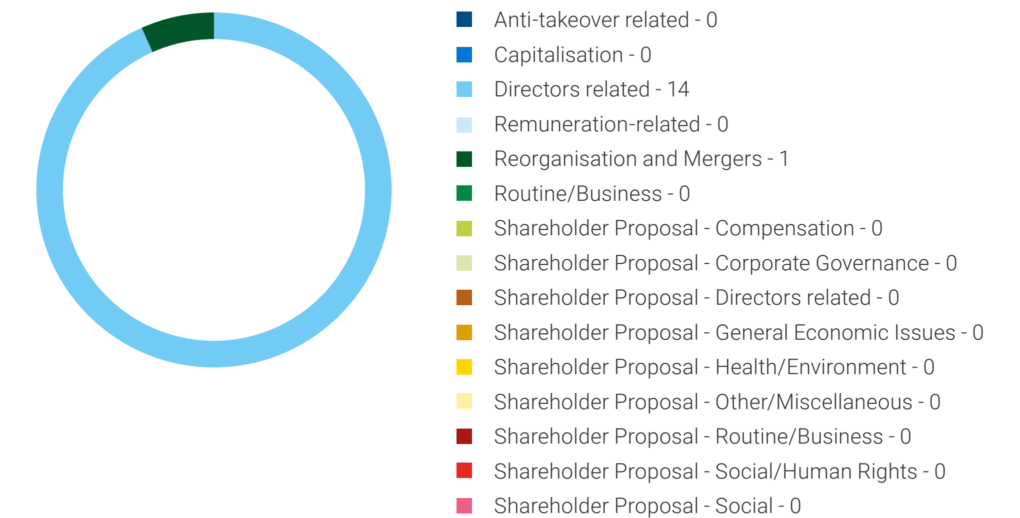
No. of companies where we supported management
No. of companies where we voted against management

LGIM voted against at least one resolution at 92% of North American companies over the quarter.

Japan - Q3 2022 voting summary

Proposal category	Total for	Total against	Total abstentions
Anti-takeover related	0	0	0
Capitalisation	0	0	0
Directors related	125	14	0
Remuneration related	8	0	0
Reorganisation and Mergers	18	1	0
Routine/Business	11	0	0
Shareholder Proposal - Compensation	0	0	0
Shareholder Proposal - Corporate Governance	0	0	0
Shareholder Proposal - Directors Related	0	0	0
Shareholder Proposal - General Economic Issues	0	0	0
Shareholder Proposal - Health/Environment	0	0	0
Shareholder Proposal - Other/Miscellaneous	0	0	0
Shareholder Proposal - Routine/Business	0	0	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	162	15	0
Total resolutions		177	
No. AGMs		14	
No. EGMs		4	
No. of companies voted		18	
No. of companies where voted against management /abstained at least one resolution		10	
% no. of companies where at least one vote against management (includes abstentions)		56%	

Votes against management



Number of companies voted for/against management

No. of companies where we supported management
No. of companies where we voted against management

LGIM voted against at least one resolution at 56% of Japanese companies over the quarter.

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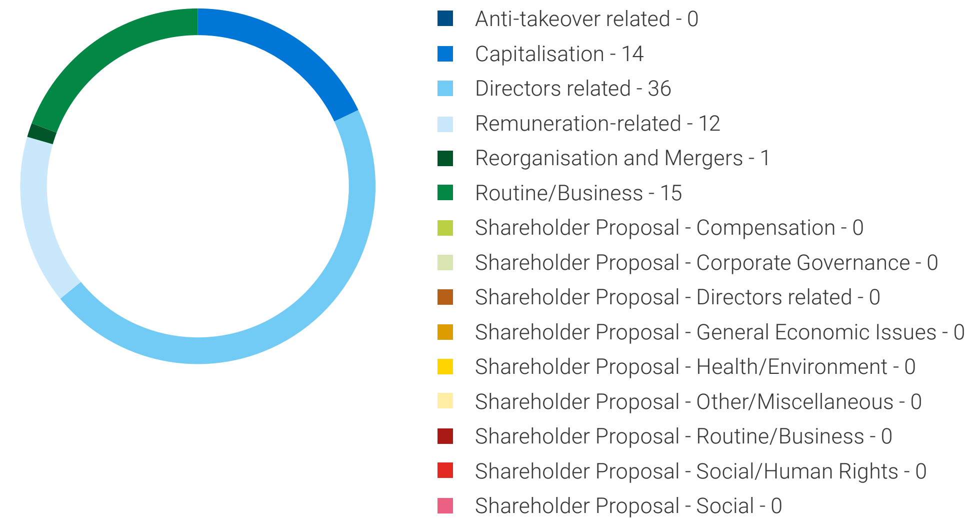
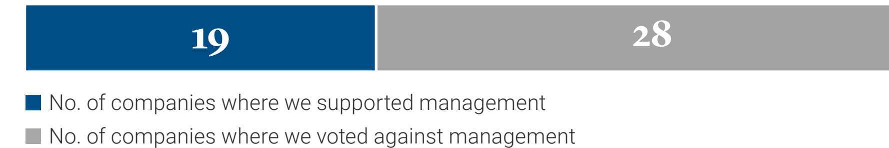
Asia Pacific - Q3 2022 voting summary

Proposal category	Total for	Total against	Total abstentions
Anti-takeover related	2	0	0
Capitalisation	28	14	0
Directors related	92	36	0
Remuneration related	16	12	0
Reorganisation and Mergers	15	1	0
Routine/Business	54	15	0
Shareholder Proposal - Compensation	0	0	0
Shareholder Proposal - Corporate Governance	0	0	0
Shareholder Proposal - Directors Related	0	0	0
Shareholder Proposal - General Economic Issues	0	0	0
Shareholder Proposal - Health/Environment	0	0	0
Shareholder Proposal - Other/Miscellaneous	0	0	0
Shareholder Proposal - Routine/Business	0	0	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	207	78	0
Total resolutions		285	
No. AGMs		31	
No. EGMs		17	
No. of companies voted		47	
No. of companies where voted against management /abstained at least one resolution		28	
% no. of companies where at least one vote against management (includes abstentions)		60%	

Votes against management



Number of companies voted for/against management

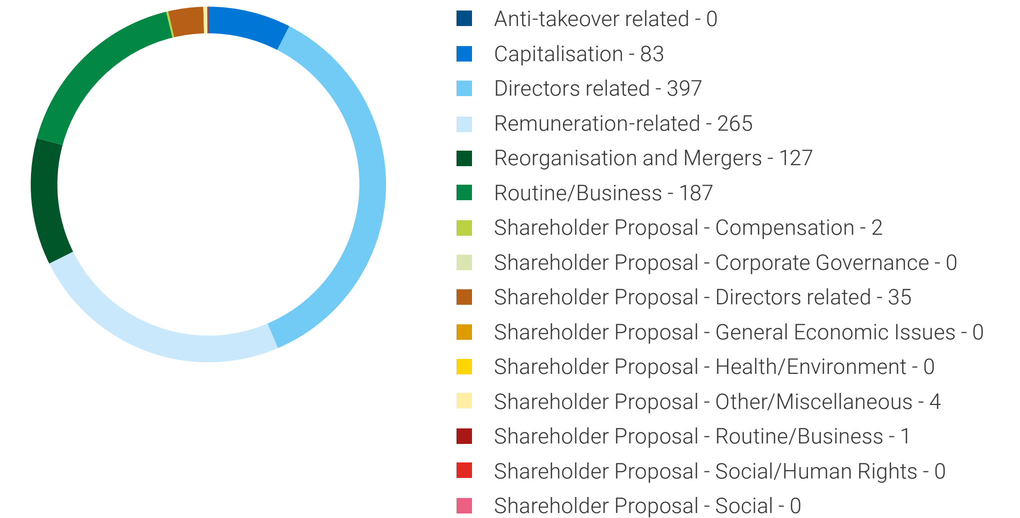


LGIM voted against at least one resolution at 60% of Asia Pacific companies over the quarter.

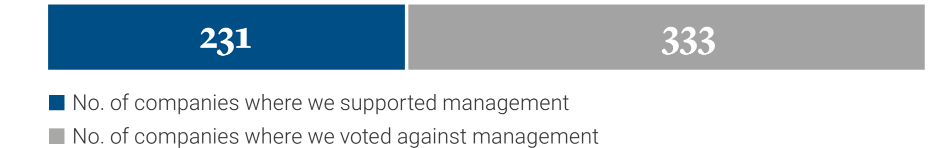
Emerging markets - Q3 2022 voting summary

Proposal category	Total for	Total against	Total abstentions
Anti-takeover related	2	0	0
Capitalisation	1126	83	0
Directors related	833	397	48
Remuneration related	82	265	0
Reorganisation and Mergers	333	127	0
Routine/Business	980	187	0
Shareholder Proposal - Compensation	0	2	0
Shareholder Proposal - Corporate Governance	1	0	0
Shareholder Proposal - Directors Related	141	35	0
Shareholder Proposal - General Economic Issues	0	0	0
Shareholder Proposal - Health/Environment	0	0	0
Shareholder Proposal - Other/Miscellaneous	0	4	0
Shareholder Proposal - Routine/Business	34	1	0
Shareholder Proposal - Social/Human Rights	0	0	0
Shareholder Proposal - Social	0	0	0
Total	3532	1101	48
Total resolutions		4681	
No. AGMs		212	
No. EGMs		390	
No. of companies voted		564	
No. of companies where voted against management /abstained at least one resolution		333	
% no. of companies where at least one vote against management (includes abstentions)		59%	

Votes against management



Number of companies voted for/against management



LGIM voted against at least one resolution at 59% of emerging market companies over the quarter.

Global - Q3 2022 voting summary

Proposal category	Total for	Total against	Total abstentions	Total
Anti-takeover related	110	2	0	112
Capitalisation	1740	121	0	1861
Directors related	2325	616	48	2989
Remuneration related	352	379	0	731
Reorganisation and Mergers	411	132	0	543
Routine/Business	1802	241	0	2043
Shareholder Proposal - Compensation	1	3	0	4
Shareholder Proposal - Corporate Governance	4	3	0	7
Shareholder Proposal - Directors Related	148	41	0	189
Shareholder Proposal - General Economic Issues	1	1	0	2
Shareholder Proposal - Health/Environment	0	4	0	4
Shareholder Proposal - Other/Miscellaneous	0	8	0	8
Shareholder Proposal - Routine/Business	39	5	0	44
Shareholder Proposal - Social/Human Rights	1	2	0	3
Shareholder Proposal - Social	0	0	0	0
Total	6934	1558	48	8540
Total resolutions				8540
No. AGMs				449
No. EGMs				469
No. of companies voted				864
No. of companies where voted against management /abstained at least one resolution				482
% no. of companies where at least one vote against management (includes abstentions)				56%

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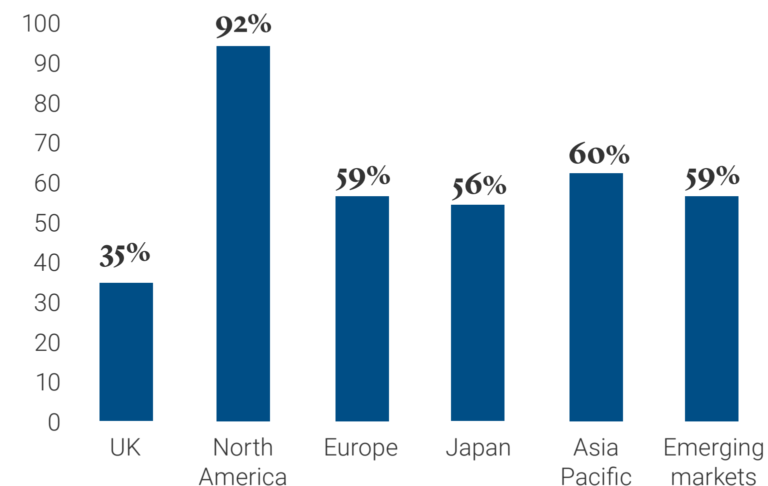
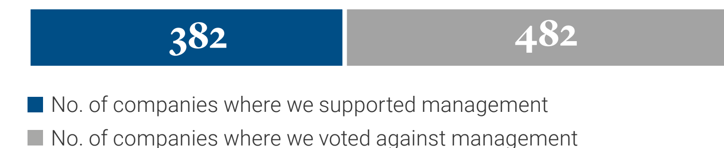
% of companies with at least one vote against (includes abstentions)



Number of companies voted for/against management



Global engagement summary

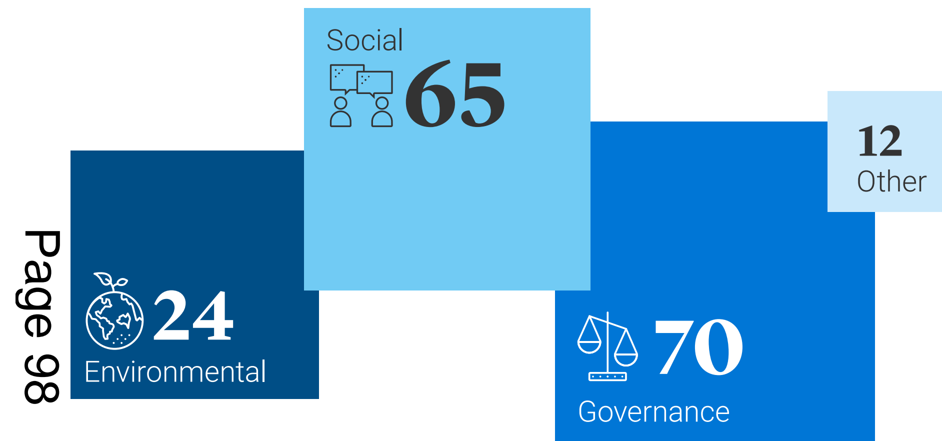
In Q3 2022, the Investment Stewardship team held

137 engagements with **114** companies

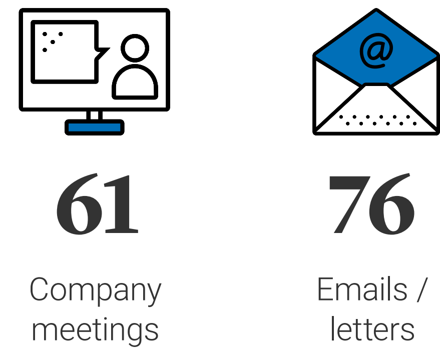
(vs. 122 engagements with 103 companies last quarter)

Breaking down the engagement numbers - Q3 2022

Breakdown of engagement by themes



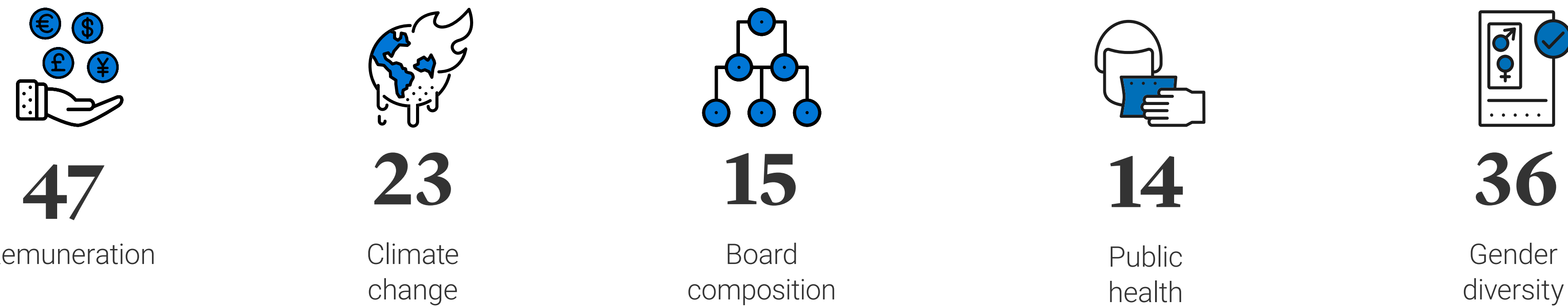
Engagement type



61
Company meetings

76
Emails / letters

Top five engagement topics*



47
Remuneration

23
Climate change

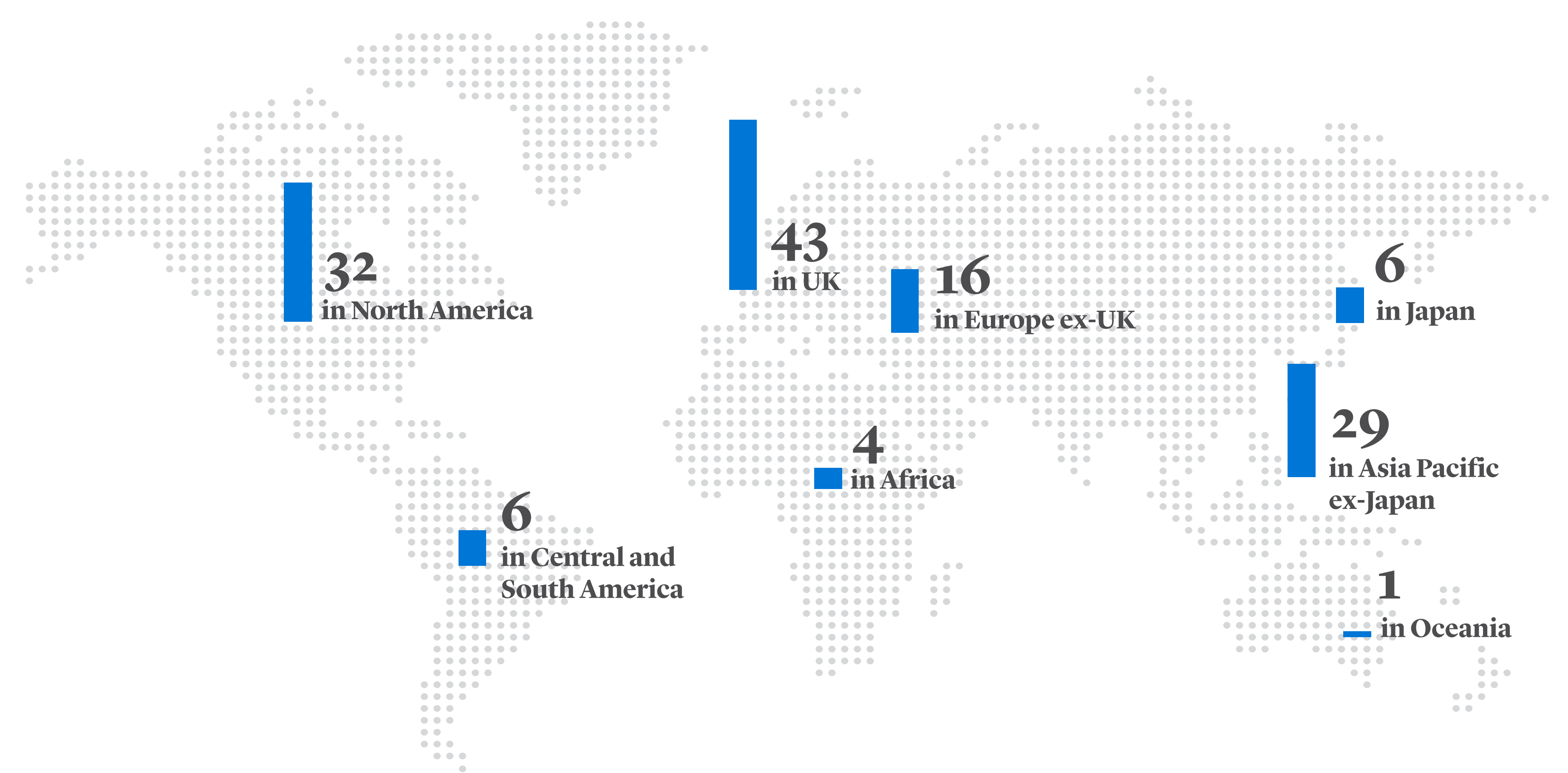
15
Board composition

14
Public health

36
Gender diversity

*Note: an engagement can cover more than a single topic

Regional breakdown of engagements



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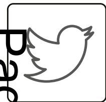
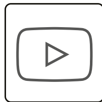
For further information about LGIM, please visit lgim.com or contact your usual LGIM representative





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LGPS Central Limited

Stewardship Update

SECOND QUARTER · 2022-23 (JULY – SEPTEMBER 2022)

LGPS Central Limited is authorised and regulated by the Financial Conduct Authority.

Responsible Investment & Engagement:

LGPS Central's approach

LGPS Central's approach to Responsible Investment & Engagement carries two objectives:

OBJECTIVE #1

Support investment objectives

OBJECTIVE #2

Be an exemplar for RI within the financial services industry, promote collaboration and raise standards across the marketplace

These are met through three pillars:

This update covers LGPS Central's *stewardship* activity. Our stewardship efforts are supplemented by global engagement and voting services provided by EOS at Federated Hermes. For more information, please refer to our Responsible Investment & Engagement Framework and Annual Stewardship Report.

ADDITIONAL DISCLOSURES

- Responsible Investment & Engagement Framework
- Annual Stewardship Report
- Voting Principles
- Voting Disclosure
- Voting Statistics

Signatory of: PRI Principles for Responsible Investment

UK STEWARDSHIP CODE

employers network for equality and inclusion Member

LGPS ADVISORY BOARD CODE OF TRANSPARENCY

01 Summary of engagement and voting activity

Below is a high-level summary of key engagements and voting that have taken place during Q2 of the financial year 2022-23. These and other engagements and voting examples will be covered in more detail later in this update.

ENVIRONMENTAL

We sent a letter to **Barclays** to explain our vote at the May AGM, as well as to engage on Barclay's Climate Strategy, Targets and Progress 2022 report. As a positive development, Barclays has started using the IEA's Net Zero by 2050 Roadmap for Energy sector analysis as a reference and has set specific 2030 sector emissions intensity targets. We have expressed concern over the target ranges for these targets, which do not appear fully aligned with IEA's NZE analysis and will continue engagement on this. While the company initially set a 2035 timeline for phasing out financing of US thermal coal power generation, we greatly welcome their recent commitment to prepone this deadline from 2035 to 2030 taking effect year-end 2022.

Our external stewardship partner EOS at Federated Hermes participated in a Principles for Responsible Investment (PRI) **working group on plastics** with the **Ellen MacArthur Foundation (EMF)**. EMF leads an initiative called The Global Commitment, in collaboration with the UN Environment Programme, which has more than 500 organisations committed to develop the circular economy by reusing, recycling and composting plastics. Discussion was done on the topics of best practices in plastic reporting, strategies to eliminate plastic, concerns regarding flexible packaging and the impact of the forthcoming UN treaty on plastic pollution.

SOCIAL

LGPSC sent a letter to **Meta** after the AGM in May, on the human rights impact of the Metaverse, and Meta acknowledges significant investor interest on the same. Our stewardship provider EOS at Federated Hermes also sent a letter to Meta to share feedback on the company's new human rights report and requested a follow-up meeting. The report provides some helpful information on policies and procedures, but we would like to see improvement regarding user privacy rights. We welcome the company taking actions to enhance disclosure on human rights, however, there could be more disclosure on Meta's content moderation.

Together with Rathbones Group Plc, we held a meeting with **ITV**, discussing the company's management of modern slavery risks. ITV has shown strong practice in setting policies on modern slavery risks, and we wanted to get more disclosure of its framework. We discussed ITV's corporate governance, whistleblowing practices, modern slavery training as well as supplier-risk mapping. We appreciate ITV's commitment to mitigate modern slavery risk. The company is compliant with the Modern Slavery Act and has published its sixth Modern Slavery Act Transparency Statement.

GOVERNANCE

We have, together with fellow 30% Investor Club members, and led by Royal London Asset Management, continued engagement with a **Japanese financial services company** to encourage better diversity and to seek more disclosure on diversity-related policies and targets. Over a two-year period of engagement, we have valued the company's willingness to engage on the topic (which is still a challenge in the Japanese market) and we have seen some promising progress. The company has increased the level of female representation on the board to 13.3%. Furthermore, the company has joined the Japanese chapter of the 30% club which should help support its own ambitions regarding diversity and inclusion. We were also pleased to note the company's initiative in developing human resource policies aimed at empowering women across the organisation. We encourage the company to set and/or increase targets for diversity at all levels of the organisation and to provide more information to investors on how these targets will be met going forward.

Voting highlights

TESLA

J Sainsbury plc

TESLA INC.

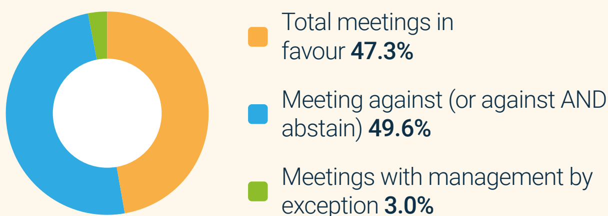
We supported all the eight shareholder proposals at Tesla's AGM on 4 August. The proposal to report climate lobbying in line with the Paris Agreement corresponded to our stewardship theme of **climate change** and received 34.3% support. The proposal to report on eradicating child labour in the company's battery supply chain was directly linked to our **human rights** theme and received 10.4% votes. Both these resolutions were unable to pass, but the notable shareholder support sends a strong message to Tesla management of investor concern and will be conducive to ongoing investor engagement. See further detail on page 13.

J SAINSBURY PLC

With respect to our stewardship theme of **human rights**, we supported a shareholder proposal at Sainsbury's AGM on 7 July. The proposal was on Living Wage accreditation, which included paying the real living wage to indirect workers. Sainsbury's has already been proactive in paying the minimum wages. However, the company has made no commitment that pay will continue to increase in line with the cost of living in future years; hence we would like the company to set an industry example in being Living Wage accredited. The proposal received 16.7% support, and was backed by institutions including LGIM, Fidelity International, and HSBC Asset Management. See further detail on page 13.

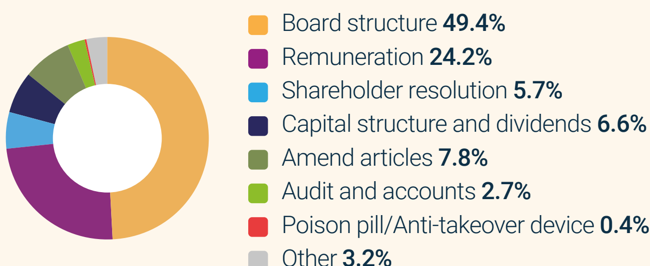
GLOBAL VOTING

We voted at **395** meetings (**4,168** resolutions) over the last quarter.

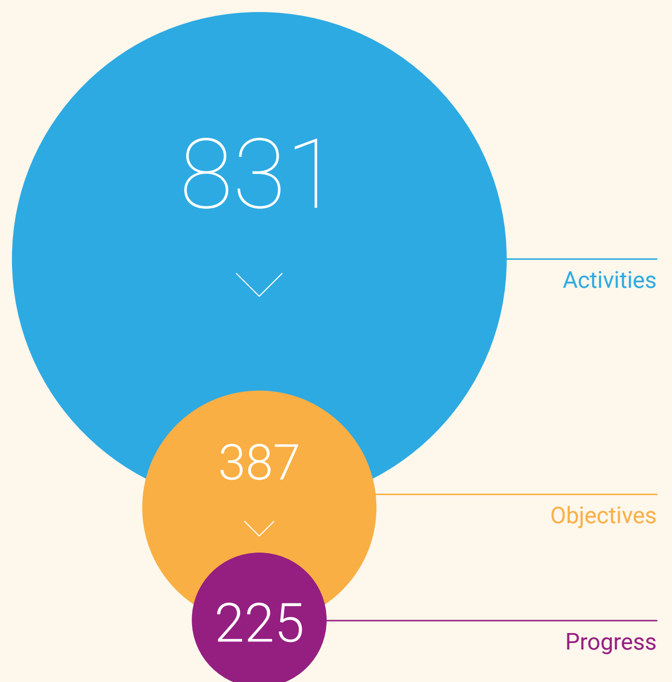


GLOBAL VOTING

We voted against or abstained on **561** resolutions over the last quarter.



ENGAGEMENT ACTIVITY DURING THE QUARTER



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02 Engagement case studies

Below, we give more detailed examples of ongoing or new engagements which relate to the four Stewardship Themes that have been identified in collaboration with our Partner Funds.

Our Stewardship Themes are:

- Climate change
- Plastic
- Fair tax payment and tax transparency
- Human rights risks

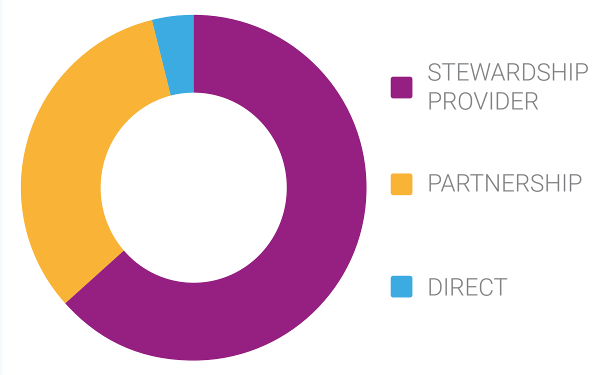
This quarter our engagement set[1] comprised 313 companies. There was engagement activity on 831 engagement issues and objectives[2]. Against 387 specific objectives, there was achievement of some or all on 225 occasions. Most engagements were conducted through letter issuance or remote company meetings, where we, our partners or our stewardship provider in a majority of cases met or wrote to the Chair, a board member or a member of senior management.

[1] This includes engagements undertaken directly, in collaboration, and via our contracted Stewardship Provider.
[2] There can be more than one engagement issue per company, for example board diversity and climate change.

CLIMATE CHANGE ENGAGEMENTS

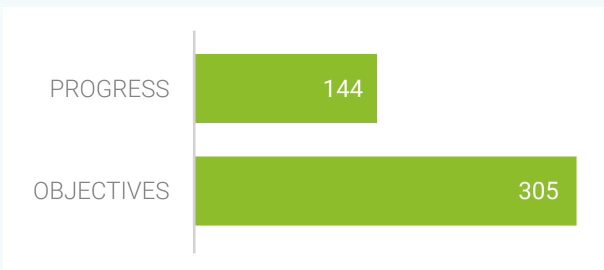
This quarter, our climate change engagement set comprised 191 companies with 310 engagement issues and objectives[3]. There was progress on 144 specific engagement objectives against a total of 305 objectives.

ENGAGEMENT VOLUME BY TYPE



- 310 engagements during the quarter
- Majority of engagements undertaken via CA100+
- Barclays brings forward the phase-out date for financing thermal coal power in the US

ENGAGEMENT VOLUME BY OUTCOME



BARCLAYS GROUP PLC

Theme: Climate Change

Objective: We expect companies to set clear, reasonable, and measurable climate action targets aligned with the Paris Agreement. We also compare those targets with the company's industry peers, as well as Paris-aligned sector pathways, and engage with the company in case of any major deviations.

Engagement: During the quarter, we sent a letter to Barclays explaining why we voted against their Climate Strategy, Targets and Progress 2022 report at the May 2022 AGM and subsequently engaged on the same alongside a group of other investors. The company has been open to shareholder engagement and has made efforts to establish a net zero pathway for its business. Barclays has started using the International Energy Agency's Net Zero by 2050 Roadmap for the Energy Sector (IEA NZE2050) analysis as a reference and has set specific 2030 sector emissions intensity targets for energy, power generation, cement, and steel. These are very welcome developments. However, the target ranges for emissions intensity for these sectors are not fully aligned with IEA's NZE analysis. Analysis has also shown that despite setting a robust net zero ambition, some of Barclays' restrictive policies are insufficient. For example, the bank does not exclude financing for oil sands production, making the bank an outlier among European peers.

Outcome: We appreciate Barclays' positive approach towards engagement. While the company initially set a 2035 timeline for phasing out financing of US thermal coal power generation, we greatly welcome their recent commitment to prepone this deadline from 2035 to 2030. This will take effect at the time of Barclays' year-end climate update and aligns with the company's approach in the UK and the EU. We will continue our engagement with the company on their climate transition efforts, including on targets to reduce absolute emission in the period to 2030.

[3] There can be more than one climate-related engagement issue and/or objective per company.

NEXTERA ENERGY, INC.

Theme: Climate Change

Objective: We expect companies, across sectors, to present a climate transition plan with an explicit net zero by 2050 target to shareholders for advisory voting at three-year intervals, as a minimum. Net zero strategies should be expressed in absolute emissions, not emissions intensity only, and cover the full lifecycle of emissions, as well as establish short and medium-term targets that demonstrate how net zero by 2050 can be achieved.

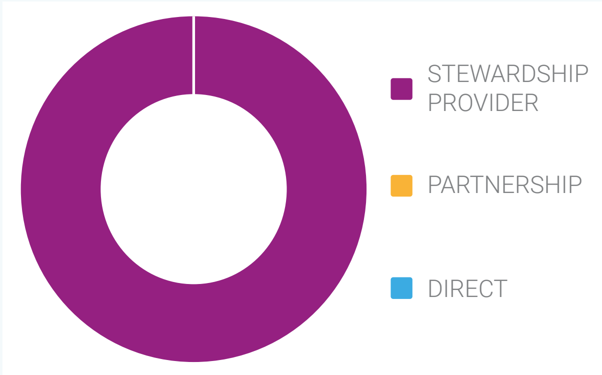
Engagement: As part of CA100+, we are engaging NextEra Energy (NEE) on their climate risk management and energy transition efforts. Considering our vote against the Chair at NEE's AGM in May, due amongst others to inadequate management of climate-related risks, it was very pleasing to see NEE announce a goal to achieve net zero by no later than 2045. This is presented in NEE's Real Zero plan which does not rely on offsets for Scope 1 and 2 emissions. CA100+ investors have expressed support for the plan, but we are seeking a meeting at board level to discuss gaps. Gaps include a clear pathway for absolute emission reductions, capex alignment with the Real Zero target and policy advocacy that directly supports the company's own net zero ambition.

Outcome: Lead investors for CA100+ held a meeting with the Company Secretary of NEE in August asking to discuss these gaps with the Lead Independent Director of the board. While NEE remains reluctant to allow dialogue with the board, CA100+ will continue pushing for this and a letter has gone out reiterating our request to discuss investor concerns directly with the board.

PLASTIC ENGAGEMENTS

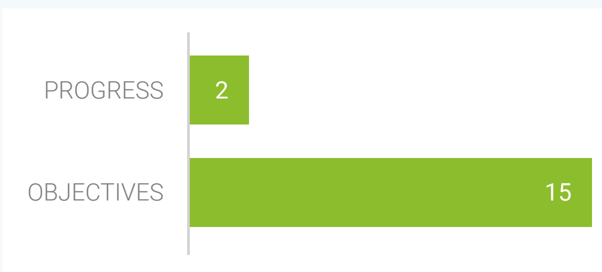
This quarter our plastic-related engagement set comprised 11 companies with 15 engagement issues and objectives[4]. There was progress on 2 specific engagement objectives against a total of 15 objectives.

ENGAGEMENT VOLUME BY TYPE



- 15 engagements during the quarter
- Engagement with Ellen MacArthur Foundation (EMF) on companies' commitments to develop the circular economy by reusing, recycling and composting plastics

ENGAGEMENT VOLUME BY OUTCOME



PRI WORKING GROUP ON PLASTICS WITH ELLEN MACARTHUR FOUNDATION (EMF)

Theme: Plastic pollution

Objective: We seek to engage with companies that are directly or indirectly involved in plastic pollution or with companies that could contribute to the path of a circular economy. Apart from companies, we also engage with various working groups, and our stewardship provider, EOS at Federated Hermes participated in a Principles for Responsible Investment (PRI) working group on plastics with the Ellen MacArthur Foundation (EMF). The EMF is a charity that provides research and engages with companies, on matters related to creating a circular economy, in order to solve global challenges like climate change and biodiversity loss.

Engagement: The Global Commitment is an initiative led by the EMF in collaboration with the UN Environment Programme. This has united more than 500 organisations in a commitment to develop the circular economy by reusing, recycling and composting plastics. However, the progress to date towards eliminating plastic has been driven by recycling, with more effort needed in terms of redesign and reuse. The EMF explained that best practice in plastics reporting is to disclose the full scope of plastic packaging and the weight. From the investor side, we view it as critical that companies establish robust strategies to eliminate plastic. There are concerns around flexible packaging, a growing plastic type that is not easily recyclable and is a big source of ocean pollution. EOS asked the EMF if targets beyond the Global Commitment for 2025 had been developed and understood that it needs to do more work on this. EOS also asked about the impact of the forthcoming UN treaty on plastic pollution.

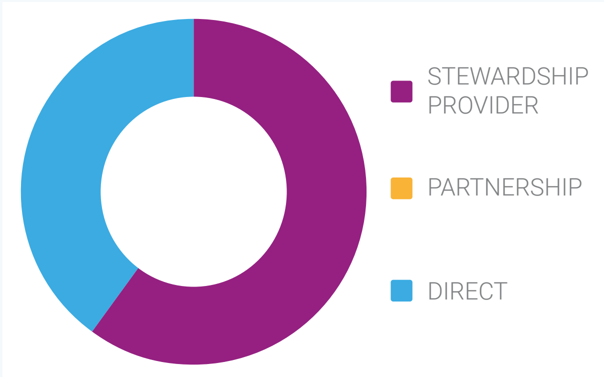
Outcome: The EMF has a positive outlook on this treaty because it analyses the lifecycle of plastics, and its legally binding aspect will have an impact. It was reassuring to hear that the use of virgin plastics has peaked for the companies that signed up to the Global Commitment. Investors will continue to expect clear strategies from companies on plastic, monitor plastic reporting, and push for companies to replace flexible packaging with more sustainable materials.

[4] There can be more than one plastic-related engagement issue and/or objective per company.

FAIR TAX PAYMENT AND TAX TRANSPARENCY ENGAGEMENTS

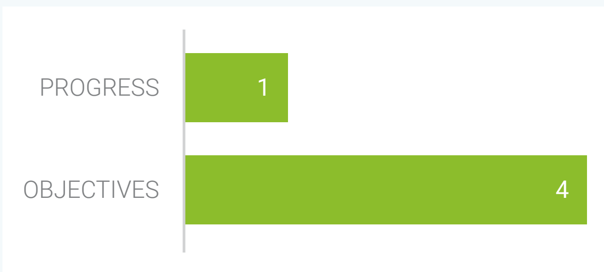
This quarter, our tax transparency engagement set comprised 5 companies with 5 engagement issues and objectives. There was progress on one specific engagement objective against a total of four objectives.

ENGAGEMENT VOLUME BY TYPE



- 5 engagements during the quarter
- Constructive engagement with Experian on their inaugural tax report following
- Increased focus on the Global Reporting Initiative Tax Standard (GRI 207) in ongoing tax-transparency related engagements

ENGAGEMENT VOLUME BY OUTCOME



EXPERIAN LTD.

Theme: Responsible tax behaviour

Objective: We aim for positive interactions at senior levels of target companies encouraging robust tax governance and acknowledgement of lack of tax transparency as a business risk, along with commitments to strategies or targets to manage those risks.

Engagement: In Q2 2022, Experian published its first standalone tax report following engagement with LGPS Central and four other institutional investors over the last year. We provided feedback to Experian on the report during this quarter. We expect companies to disclose tax-relevant Country-by-Country-Reporting (CBCR), which would facilitate our analysis of their tax behaviour. The report should show jurisdiction-wise activities of a company and disclose how the activities correspond to tax paid. The underlying aim is to ensure that multinational enterprises are taxed where their economic activities take place, and value is created. We encouraged Experian to disclose a tax contribution report, including CBCR, which would enhance the company's practice of reporting. We suggested that they consider using the Global Reporting Initiative (GRI) Tax Standard 207, which provides guidance on approach to tax, tax governance/controls/risk management, stakeholder engagement and CBCR. We think that the company is well on its way to meet core elements of the standard, while there is further scope related to CBCR.

Outcome: We appreciate the company's effort in disclosing a tax contribution report. Experian has found our collective feedback constructive and has expressed its plans to take our feedback into account in their tax report next year.

In its engagements on our behalf, EOS at Federated Hermes is also raising the same expectations when assessing company tax practices and disclosure and looks for tax transparency, including reporting under GRI's 207 tax criteria. During the quarter, EOS engaged with **Marathon Oil** and encouraged the company to publish the taxes it pays in Equatorial Guinea in line with the standards of the Extractive Industries Transparency Initiative (EITI). EOS urged the Danish healthcare company, **GN Store Nord**, to improve its tax reporting in 2021 and to provide a country-by-country reporting. We expect to see improvements in the company's disclosure in 2023.

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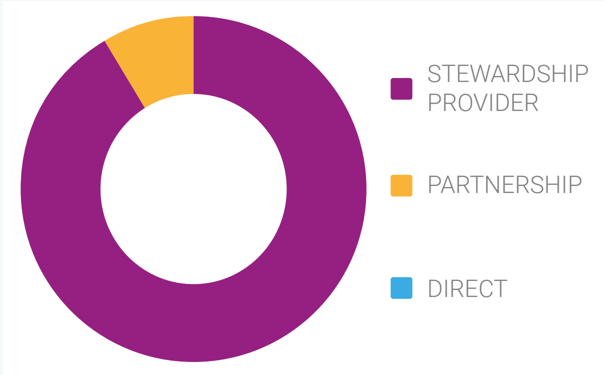
HUMAN RIGHTS

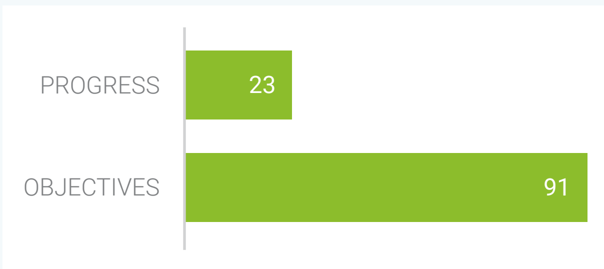
This quarter our human rights related engagements comprised 54 companies with 93 engagements issues and objectives. There was progress on 23 specific engagement objectives against a total of 91 objectives.

ENGAGEMENT VOLUME BY TYPE



- 93 engagements during the quarter
- Meta publishes its first Human Rights Policy following engagement with investor group
- Engagement with ITV on modern slavery risk

ENGAGEMENT VOLUME BY OUTCOME



META PLATFORMS, INC.

Theme: Human rights

Objective: We ask companies to make adequate disclosures of their human rights policies, as well as to follow best practices to ensure that those policies are effectively implemented. For technology companies, we require that they manage a broad spectrum of human rights related risks including freedom of expression, data protection, content moderation and other industry-specific issues.

Engagement: During the quarter, LGPSC's stewardship provider EOS at Federated Hermes sent a letter to share feedback on the company's new human rights report and requested a follow-up meeting. The report provides some helpful information on policies and procedures, but we would like to see improvement in the user privacy rights. Following this interaction, EOS participated in a joint investor call in which investors asked about eliminating emotional bias from artificial intelligence. As the company's revenue is highly corelated with the amount of clicks, likes, and shares, we asked how its algorithms determine the dissemination of paid and labelled political content throughout its user base and address any related "echo chamber" effects. We encourage Meta to acknowledge tensions between freedom of expression and issues like hate speech, bullying, misinformation, as well as to enhance its child safety practices to also include protection from mental health, device addiction, and other emerging issues.

Outcome: We welcome the company taking actions to enhance disclosure on human rights, however, there could be more disclosure on whether its business model contributes to the spread of problematic content on its platforms. In EOS' view, the report falls short of the highest standard for user privacy rights. Meta acknowledges significant interest from investors on the human rights impacts of the metaverse, which LGPS Central has expressed directly to the company in a letter after the AGM in May. Meta has improved disclosure on children's rights, which we requested, but we still lack metrics and targets that show the effectiveness of its substantial efforts.

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ITV PLC

Theme: Modern Slavery

Objective: We engage with companies for which we would like to get in-depth understanding of their approach to modern slavery risks, including modern slavery governance, policies, and mitigation. This helps us assess the underlying modern slavery risks of companies as well as its suppliers.

Engagement: Alongside Rathbones Group Plc, we held a meeting with ITV discussing the company's management of modern slavery risks. ITV has shown strong practice in setting policies on modern slavery risks, and we wanted to get more disclosure of its framework, which would allow us to engage with other related companies on issues of modern slavery more effectively. We discussed ITV's corporate governance process and asked whether there are any plans to link modern slavery targets to executive pay. We also discussed the company's practices on whistleblowing, past whistleblowing instances due to modern slavery, training, and the company's collaboration efforts to tackle the issue. We also asked the company about its supply chain and oversight for its suppliers, including identification of high-risk suppliers and conducting unannounced audits.

Outcome: We appreciate ITV's commitment to mitigate modern slavery risk. The company is compliant with the Modern Slavery Act and has published its sixth Modern Slavery Act Transparency Statement. In terms of modern slavery risk governance, the company's General Counsel is the executive sponsor and heads the steering committee which meets on an ad-hoc basis. The new Chair is also the chair of another company, which is generally more exposed to modern slavery, bringing relevant experience for robust risk management. ITV also provides appropriate modern slavery training to staff. The company has disclosed a comprehensive procurement policy 2021, stating that the company conducts supplier-risk mapping, due diligence questionnaires and periodic assessments.

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03 Voting

POLICY

For UK listed companies, we vote our shares in accordance with a set of bespoke LGPSC UK Voting Principles. For other markets, we consider the recommendations and advice of our third-party proxy advisor, EOS at Federated Hermes.

COMMENTARY

Between July – September 2022, we:

- Voted at 395 meetings (4,168 resolutions) globally
- Opposed one or more resolutions at 196 meetings
- Voted with management by exception at 12 meetings
- Supported management on all resolutions at the remaining 187 meetings.

A full overview of voting decisions for securities held in portfolios within the Company's Authorised Contractual Scheme (ACS) – broken down by market, issues and reflecting number of votes against and abstentions – can be found here.

The voting season in developed Asia and global emerging markets saw renewed attempts to improve board diversity and independence – as well as some surprising and positive shareholder action in Japan and Brazil. We were pleased to see some companies performing well this year. The board of India's Tech Mahindra, for example, is now 60% independent and 40% female. Developments in shareholder activism in Brazil are positive signs that this could spread to other emerging markets.

Climate-related shareholder proposals were filed at three power utilities and two financial groups. In some markets, we now seek higher proportions of independent directors, such as 40% in Mexico. In Japan, we were pleased to see progress on gender diversity in companies such as Chubu Electric Power and retailer Seven & i.

However, there is still room for improvement on independence, diversity, and climate commitments. At a national level there has been progress on gender diversity requirements, but some backsliding in other areas. For example, the Indian regulator has revoked a requirement to separate the roles of CEO and chair, after pressure from major companies. Through voting and engagement, we will continue to scrutinise board effectiveness and vote accordingly. We have recently tightened expectations on independence and diversity in some markets, such as Brazil. We will now focus on enforcing these tighter expectations.

EXAMPLES OF VOTING DECISIONS

Company: Reliance Industries Ltd.

Theme: Climate Change, Executive Remuneration

Rationale: We voted against management on the resolution to approve reappointment and remuneration of Mr Nikhil R. Meswani as a whole-time Director. As a member of the Governance committee, his role has been prominent in the company's climate action. However, the company's performance on climate change was below our expectations for the oil and gas sector, specifically in its failure to disclose Scope 3 emissions. Mr Meswani's remuneration structure has significant board discretion and the lack of a cap on the total level of pay is concerning given that the company has historically shown restraint in awarding executive pay.

We also voted against management on the resolution to elect Mr K. V. Chowdary as Director. This was due to Mr Chowdary's membership of the nomination committee as well as the board's below-than expected gender diversity. Currently, only two out of the twelve board members are female.

Result: Neither of the proposals met the required shareholder support to be passed. However, we continue to raise our concerns and engage with the company on climate change and governance themes.

J Sainsbury plc

Company: J Sainsbury Plc

Theme: Human Rights (Living Wage Accreditation)

Rationale: We voted in favour of the shareholder resolution on Living Wage accreditation, against management recommendation. Fifty of the FTSE 100 companies are Living Wage accredited. Sainsbury's has already been proactive in paying the minimum wages; however, we would like the company to set an industry example in being Living Wage accredited, including paying the real living wage to indirect workers such as cleaners, security staff etc. Sainsbury's has made no commitment that pay will continue to increase in line with the cost of living in future years. Accrediting as a Living Wage employer would remove this uncertainty and enable the company to show its commitment towards staff and broader society while we are in an inflationary economic crisis. In terms of competitiveness and profitability, in the long-term, we think seeking Living Wage accreditation would help to create shareholder value due to increased employee loyalty and productivity, leading to decreased employee turnover. This would also contribute to the company's brand image.

Result: Even though the proposal received 16.7% support and failed to pass, it was supported by entities like LGIM, Fidelity International, and HSBC Asset Management.

Company: Tesla Inc.

Theme: Climate Change, Human Rights/Child Labour

Rationale: We voted in favour of the shareholder resolution to Report on Corporate Climate Lobbying in line with the Paris Agreement, against management recommendation. The company has set climate change related objectives and provides information on these matters in the Environmental Impact section of its 2021 Impact Report. Tesla states that information on its political and lobbying activities is available to shareholders through publicly available federal lobbying reports.

While there is currently no evidence of misalignment between Tesla's lobbying and the Paris Agreement objectives, additional disclosure on all parts of its advocacy (direct, indirect, and grassroots lobbying), would facilitate better management of climate opportunities and risks. Overall, this would enable shareholders to better evaluate Tesla's risk related to its policy and advocacy activities and whether these positively support the company's own climate objectives and aligns with the Paris Agreement.

We supported the resolution to Report on Eradicating Child labour in Battery Supply Chain. The Management did not support this resolution stating that it prohibits all forms of child labour by suppliers in its Supplier Code of Conduct. The proposal required the company to disclose risks regarding the company's policies and practices about battery materials in its supply chain with respect to child labour. The company, in its 2021 Impact Report, had reported its risk mitigation through its supply chain and found no evidence of child labour.

We believe that as Tesla already commits to have adequate policies in terms of child labour in its supply chain, the company could provide a detailed report on its risk management for the same. This additional disclosure would promote better management of ESG risks and opportunities while enhancing the company's human rights practices.

Result: Even though neither of the resolutions received the required number of votes to pass, both received notable shareholder support. The resolution on climate lobbying received 34.3% votes, which shows that shareholders would like to know in detail about the company's lobbying in line with the Paris Agreement. The resolution on child labour received 10.4% votes.

Company: General Mills

Theme: Plastic Pollution

Rationale: We supported a shareholder proposal on Absolute Plastic Packaging Use Reduction. The proposal required the company to report absolute reduction in its use of plastic packaging. In the company's 2022 Global Responsibility Report, it has set a 2030 goal for 100 percent of its packaging to be recyclable or reusable, and it reports that 89 percent of its packaging by weight currently meets this goal. It has also been invested in a flexible film recycling facility, expected to open in spring 2023.

However, the company is lagging its peers like Kellogg's and Mondelez International, which have established goals to reduce absolute plastic use and have joined the Ellen MacArthur New Plastics Economy Global Commitment. Multiple states in the US have started enacting legislation requiring companies to be responsible for post-consumer package waste handling and describes adopting minimum recycled content standards.

We believe that additional disclosure from General Mills as per the proposal would assist shareholders to assess the risk management with regards to its plastic packaging.

Result: This resolution passed with 56.5% votes which signifies the concerns of shareholders related to plastic packaging risks that the company faces. Apart from plastic pollution, our external stewardship provider EOS at Federated Hermes is engaging with the company for it to be deforestation-free by 2025.

Company: Ashtead Group plc

Theme: Executive pay

Rationale: We voted against two management proposals at the company's 2022 AGM. One was to approve the Remuneration report. The remuneration report as well as the remuneration policy resolutions received dissent of 36% in the company's 2021 AGM. Those proposals were attributed to the company's Strategic Plan award and a significant increment to the CFO's salary, as a part of target setting under bonus. The company did engage with shareholders after the 2021 AGM and did act on some issues, but no significant changes have been made to the remuneration arrangements, specifically with respect to the drastic increase in long-term incentive award levels and the one-off Strategic Plan award.

The other management proposal we voted against was the re-election of Ms Lucinda Riches, who also chairs the Remuneration committee. As the chair of the committee, Ms Riches is considered to be responsible for the inaction of the company on the shareholder dissent for the Remuneration policy resolution in 2021.

Result: Both the resolutions were passed, however, with 32.7% shareholder dissent for the Remuneration report proposal and 25.1% dissent for the proposal to re-elect Ms Lucinda Riches. We have raised our concerns and the company has committed to developing a more appropriate response for the next AGM.

LGPS CENTRAL LIMITED'S

Partner Organisations

LGPS Central actively contributes to the following investor groups

LGPS Central Limited

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All information is prepared as of **08/11/2022**.

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Department for Levelling Up, Housing & Communities (https://www.gov.uk/government/organisations/department-for-levelling-up-housing-and-communities)

Open consultation

Local Government Pension Scheme (England and Wales): Governance and reporting of climate change risks

Published 1 September 2022

Applies to England and Wales

Contents

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This publication is available at https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-governance-and-reporting-of-climate-change-risks/local-government-pension-scheme-england-and-wales-governance-and-reporting-of-climate-change-risks

Scope of the consultation

Topic of this consultation:

This consultation seeks views on proposals to require Local Government Pension Scheme (LGPS) administering authorities in England and Wales to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).

Scope of this consultation:

DLUHC is consulting on proposals for new requirements on LGPS administering authorities.

Geographical scope:

This consultation applies to England and Wales.

Impact assessment:

The proposed interventions affect the investment of assets by local government pension scheme administering authorities. These authorities are all public sector organisations, so no impact assessment is required.

Body responsible for the consultation:

Department for Levelling Up, Housing and Communities (DLUHC)

Duration:

This consultation will last for 12 weeks from 1 September 2022 to 24 November 2022.

Enquiries:

For any enquiries about the consultation please contact:
LGPensions@levellingup.gov.uk

How to respond:

Please respond by completing an online survey (https://consult.levellingup.gov.uk/local-government-finance/lgps-england-and-wales-climate-risk/).

Alternatively, please email your response to the consultation to LGPensions@levellingup.gov.uk.

Alternatively, please send postal responses to:

> LGF Pensions Team
> Department for Levelling Up, Housing and Communities
> 2nd Floor
> Fry Building
> 2 Marsham Street
> London
> SW1P 4DF

When you reply it would be very useful if you could make it clear which questions you are responding to. Additionally, please confirm whether you are replying as an individual or submitting an official response on behalf of an organisation and include:

- your name
- your position (if applicable)
- the name of organisation (if applicable)
- an email address

1. Introduction and summary of proposals

1. Addressing climate change is one of the major challenges we face in the UK and globally. The UK government is a world leader in commitments to transition to a low carbon economy and in 2019 set the target of achieving net-zero greenhouse gas emissions by 2050.

2. Investment in more sustainable projects and activities is essential in order to reduce climate change and to mitigate its impacts. Investors will also need to understand and manage the financial risks and opportunities arising from climate change in order to protect and grow their assets and cashflow.

3. To enable investors to make high-quality decisions and to encourage better pricing and capital allocation in markets, high quality disclosures will be needed regarding how their assets will affect and be affected by climate change.

4. The international Taskforce on Climate-related Financial Disclosures (TCFD) published a set of recommendations in 2017 with the aims of improving assessment, management, and disclosure of climate-related financial risks. In November 2020, the government announced the UK's intention to make TCFD-aligned disclosures mandatory in the UK across the economy by 2025, with a significant portion of mandatory requirements in place by 2023. The joint Government Regulators Taskforce's Interim Report, and accompanying roadmap

(https://www.gov.uk/government/publications/uk-joint-regulator-and-government-tcfd-taskforce-interim-report-and-roadmap), published alongside the announcement, sets out an indicative pathway to achieving that ambition.

5. In July 2021, the government went further by announcing its new, economy-wide Sustainability Disclosure Requirements (SDR) regime. This regime will build on the UK's world-leading implementation of the TCFD recommendations and streamline UK sustainability reporting. SDR will be broader than financial risk, extending to environmental impact (including disclosures based on definitions contained in the UK Green Taxonomy), and over time, to factors beyond climate, including broader sustainability factors such as environmental and social considerations.

6. In October 2021, the government published details of the regime, along with an implementation pathway, in its publication Greening Finance: A Roadmap to Sustainable Investing (https://www.gov.uk/government/publications/greening-finance-a-roadmap-to-sustainable-investing). This announced the intention to set up an endorsement and adoption function in the UK for standards issued by the International Sustainability Standards Board (ISSB). Standards issued by the ISSB will not have any legal force in the UK until they have been endorsed and adopted to ensure that the Standards applied in the UK reflect UK circumstances. The government will consult on proposals for a framework to introduce reporting against IFRS Sustainability Disclosure Standards in the UK in due course. SDR for the LGPS is not covered in this consultation but we will work with the Scheme Advisory Board to develop proposals.

Role of the LGPS

7. The LGPS is one of the largest pension schemes in the UK with 6.2 million members and a significant UK and global investor with £342 billion of assets in 2022. It is locally managed and funded by 86 administering authorities (AAs). The primary purpose of LGPS investments is to meet the scheme's long-term pension liabilities by balancing risk and return appropriately. However, the LGPS's scale and market power give it an opportunity to drive change through the investment chain through asset managers to investee companies.

8. AAs are already required to consider factors that are financially material to the performance of their investments, including environmental, social, and corporate governance considerations. They also must have a policy stating how such considerations will be considered in setting their investment strategy (https://www.legislation.gov.uk/uksi/2016/946/contents). The aim of the proposals in this consultation document is to build on that position by ensuring that the financial risks and opportunities arising specifically from climate change are properly understood and effectively managed by AAs, and that they report transparently on their approach in line with broader UK policy.

9. The government's view is that the requirements for the LGPS should set as high a standard as for private schemes. We have therefore made the requirements for private schemes (https://www.gov.uk/government/consultations/taking-action-on-climate-risk-improving-governance-and-reporting-by-occupational-pension-schemes-response-and-

consultation-on-regulations/taking-action-on-climate-risk-improving-governance-and-reporting-by-occupational-pension-schemes) the starting point for our proposals but have aimed to take account of the unique features of the LGPS including its local administration and democratic accountability through the AAs.

10. The UK Energy Security Strategy (https://www.gov.uk/government/publications/british-energy-security-strategy) was published in April 2022 and emphasises the importance of investment in energy by the private sector to improve energy security and support the transition to clean energy. The LGPS has an important role to play as a major investor with a commitment to stewardship and engagement. These proposals seek to support that approach to addressing high carbon emissions and discourage any pursuit of lower emissions through withdrawing investment from energy companies.

Summary of proposals

11. The new requirements on which we are consulting are discussed throughout this document. For ease, we have summarised the key proposals below.

Area	Proposal
Overall	Each LGPS AA must complete the actions listed below and summarise their work in an annual Climate Risk Report.
Scope and Timing	The proposed regulations will apply to all LGPS AAs. The first reporting year will be the financial year 2023/24, and the regulations are expected to be in force by April 2023. The first reports will be required by December 2024.
Governance	AAs will be expected to establish and maintain, on an ongoing basis, oversight of climate related risks and opportunities. They must also maintain a process or processes by which they can satisfy themselves that officers and advisors are assessing and managing climate-related risks and opportunities.
Strategy	AAs will be expected to identify climate-related risks and opportunities on an ongoing basis and assess their impact on their funding and investment strategies.
Scenario Analysis	AAs will be required to carry out two sets of scenario analysis. This must involve an assessment of their investment and funding strategies. One scenario must be Paris-aligned (meaning it assumes a 1.5 to 2 degree temperature rise above pre-industrial levels) and one scenario will be at the choice of the AA. Scenario analysis must be conducted at least once in each valuation period.

Area	Proposal
Risk Management	AAs will be expected to establish and maintain a process to identify and manage climate-related risks and opportunities related to their assets. They will have to integrate this process into their overall risk management process.
Metrics	AAs will be expected to report on metrics as defined in supporting guidance. The proposed metrics are set out below. Metric 1 will be an absolute emissions metric. Under this metric, AAs must, as far as able, report Scope 1, 2 and 3 greenhouse gas (GHG) emissions. Metric 2 will be an emissions intensity metric. We propose that all AAs should report the Carbon Footprint of their assets as far as they are able to. Selecting an alternative emissions intensity metric such as Weighted Average Carbon Intensity (WACI) will be permitted, but AAs will be asked to explain their reasoning for doing so in their Climate Risk Report. Metric 3 will be the Data Quality metric. Under the Data Quality metric, AAs will report the proportion the value of its assets for which its total reported emissions were Verified*, Reported**, Estimated or Unavailable. Metric 4 will be the Paris Alignment Metric. Under the Paris Alignment Metric, AAs will report the percentage of the value of their assets for which there is a public net zero commitment by 2050 or sooner. Metrics must be measured and disclosed annually.
Targets	AAs will be expected to set a target in relation to one metric, chosen by the AA. The target will not be binding. Progress against the target must be assessed once a year, and the target revised if appropriate. The chosen metric may be one of the four mandatory metrics listed above, or any other climate related metric recommended by the TCFD.
Disclosure	AAs will be expected to publish an annual Climate Risk Report. This may be a standalone report, or a section in the AA's annual report The deadline for publishing the Climate Risk Report will be 1 December, as for the AA's Annual Report, with the first Climate Risk Report due in December 2024. We propose that scheme members must be informed that the Climate Risk Report is available in an appropriate way.

Area	Proposal
Scheme Climate Report	We propose that the Scheme Advisory Board (SAB) should prepare an annual Scheme Climate Report including a link to each individual AA's Climate Risk Report (or a note that none has been published) and aggregate figures for the four mandatory metrics. We also propose that a list of the targets which have been adopted by AAs. We are open to views as to whether any other information should be included in the Scheme Climate Report.
Proper advice	We propose to require that each AA take proper advice when making decisions relating to climate-related risks and opportunities and when receiving metrics and scenario analysis.

*This refers to reported emissions calculated in line with the GHG Protocol and verified by a third-party.
**This refers to reported emissions calculated in line with the GHG Protocol without verification by a third-party.

12. The remainder of this chapter sets out the background to the proposals. In chapter 2, the proposed actions to be undertaken by LGPS AAs are discussed, and chapter 3 sets out the disclosure requirements. Chapter 4 discusses other issues, including our proposal for a Scheme Climate Report and the role of the LGPS asset pools. A summary of the consultation questions is at the end of the document.

Background

The TCFD recommendations

13. The TCFD is a global, private sector led group assembled in December 2015 at the instigation of the Financial Stability Board (FSB), an international body that monitors and makes recommendations about the global financial system. Following extensive public consultation, they published their recommended disclosures in June 2017.

14. The recommendations were designed to be adoptable by all organisations, including those inside and outside the financial industry, from asset managers to asset owners, including banks, insurers and pension schemes.

15. The TCFD designed the set of recommendations as a flexible framework for these organisations. The framework is meant to produce decision-useful, forward-looking information on the financial impacts of climate change. It is also meant to accommodate continued rapid evolution in climate-related modelling, management, and reporting.

16. The final report included 11 recommendations. These are split into Governance, Strategy, Risk Management, and Metrics and Targets.

Core elements of recommended climate-related financial disclosures

Governance: The organisation's governance around climate-related risks and opportunities.

Strategy: The actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.

Risk Management: The processes used by the organisation to identify, assess and manage climate-related risks.

Metrics and Targets: The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

Benefits of the TCFD recommendations for the LGPS

17. A TCFD-aligned approach to climate risks will offer the opportunity for LGPS AAs to build on the relatively high-level requirements of the Local Government Pensions Scheme (Management and Investment of Funds) Regulations 2016 (https://www.legislation.gov.uk/uksi/2016/946/contents). It permits them to demonstrate how the consideration of climate change risks and opportunities are integrated into the AA's entire decision-making process.

18. Carrying out scenario analysis, reporting on appropriate metrics that include greenhouse gas emissions, and setting appropriate targets, would provide valuable inputs to inform an AA's investment strategy. It would also allow AAs to monitor

and review progress and to make amendments to the investment strategy where necessary. Disclosing this information would provide greater transparency to members and taxpayers about how their money is being managed.

19. The flexible structure of the TCFD recommendations also allows AAs to continuously improve climate risk governance and reporting in the light of rapidly increasing data quality and completeness and emerging best practice.

20. Many aspects of the tools and data used for climate-related analysis are still in development, but AAs can take substantive action now to address climate risk and to report on it as part of their duties to scheme members, employers and the public. There are already enough data, analysis and tools to effect real change when AAs use the data to manage risks and opportunities.

Comparison with regime for private pension schemes

21. The Department for Work and Pensions (DWP) has already introduced requirements on climate risk management and reporting for private pension schemes, in regulations which came into force on 1 October 2021. Implementation will be staged for private pension schemes. Private schemes with £5 billion or more in assets were immediately in scope, with those with £1 billion or more to follow in October 2022. Schemes with less than £1 billion in assets are not currently covered. The DWP has published statutory guidance on the requirements (https://www.gov.uk/government/publications/governance-and-reporting-of-climate-change-risk-guidance-for-trustees-of-occupational-schemes).

22. DWP's intention to implement the UK's new Sustainability Disclosure Requirements (SDR) regime for private pension scheme is outlined in Greening Finance: A Roadmap to Sustainable Investing (https://www.gov.uk/government/publications/greening-finance-a-roadmap-to-sustainable-investing). SDR requirements for the LGPS are not covered by this consultation.

23. The proposals set out in this consultation are broadly similar to the requirements for private pension schemes, and encompass the same four areas of governance, strategy, risk management and metrics and targets. However, a key difference is that our proposed requirements will apply to all LGPS AAs from 2023/24 regardless of fund size. Currently the assets held by LGPS funds range from around £0.5 billion to £25 billion with 65 funds holding less than £5 billion and 8 funds holding less than £1 billion.

24. We recognise that larger LGPS funds are likely to have more capacity to meet new requirements than smaller funds. However, our view is that it would not be right to stage implementation within a single pension scheme in which all funds face climate risks, are democratically accountable and subject to high external scrutiny. We also believe that the LGPS asset pools can play a key role in supporting implementation (see discussion in Chapter 4).

25. Another key difference is the proposed requirement to report data quality as a mandatory metric. This aims to help the LGPS use its scale and market power to drive improvements in the quality of emissions data, which will be a critical factor in

raising the quality of climate risk management.

Other relevant regulated areas

26. Pension schemes sit at the top of an investment chain, whereby the assets are usually invested in products via a financial intermediary, who may then invest directly in products such as equities. Therefore, schemes rely on high quality data being provided up the chain to produce meaningful climate related disclosures. In preparing these proposals we have been mindful of regulation in other areas which may impact the ability of LGPS AAs to carry out the requirements.

27. The Department for Business, Energy and Industrial Strategy (BEIS) has consulted on TCFD-aligned regulations for certain publicly quoted companies, large private companies, and Limited Liability Partnerships (LLPs). The requirements came into effect in April 2022[footnote 1].

28. The Financial Conduct Authority (FCA) have introduced a new listing rule and guidance (https://www.handbook.fca.org.uk/instrument/2022/FCA_2022_6.pdf) which requires commercial companies with a UK premium listing to include a compliance statement in their annual financial report. This statement must indicate whether the company has made disclosures consistent with the recommendations of the TCFD or provide an explanation if it has not done so.

29. In addition, the FCA has introduced TCFD related rules and guidance at the portfolio and entity level for asset managers, life insurers, and FCA-regulated pension providers. This is particularly relevant to the LGPS as some of the LGPS asset pools will be subject to these requirements in their capacity as asset managers.

30. The Pensions Regulator (TPR) also has a role in this area. It has published guidance intended to help trustees of private sector occupational pension schemes (https://www.thepensionsregulator.gov.uk/en/document-library/scheme-management-detailed-guidance/funding-and-investment-detailed-guidance/climate-related-governance-and-reporting). While TPR has no remit regarding the investments of LGPS funds, their advice and guidance may be useful for LGPS AAs wishing to adopt best practice. In addition, TPR has a role in overseeing the governance of LGPS AAs, which would include the governance requirements outlined here.

31. Our proposals are intended to facilitate consistency across the investment chain and take account of these consultations and requirements by other regulators.

32. Finally, we view these proposals as the first step on the journey to implementing in full the new UK Sustainability Disclosures Regime, announced by the then Chancellor in July 2021 (https://www.gov.uk/government/news/chancellor-sets-out-how-uk-financial-services-can-create-prosperity-at-home-and-project-values-abroad-in-first-mansion-house-speech).

2. Proposed requirements

33. The TCFD recommendations cover requirements in four areas: governance, strategy, risk management, and metrics and targets. In this chapter, we discuss how these recommendations can be implemented in the LGPS, taking account of its existing structure and framework. We also set out our proposed requirements for AAs. Proposals on disclosure in relation to each area are discussed in Chapter 3.

34. The proposed requirements relate only to the assets and liabilities in respect of the pension scheme and not to other AA activity. For example, emissions caused by travel to meetings, or office provision, would not need to be disclosed as they are not directly attributable to the assets of the LGPS.

Governance

35. The TCFD recommendations on governance aim to place development of a robust climate governance framework at the centre of an organisation's operations. The framework itself is designed to be adoptable by all organisations and easily translatable into sector-specific arrangements.

36. For LGPS AAs, however, we believe that the governance requirements in particular may require some adjustment in order to reflect the nature of their existing governance.

37. The role of the AA's scheme manager is broadly similar to that of the board, as described in the TCFD recommendations. The scheme manager of an LGPS AA usually takes the form of a pensions committee, and is assisted by the local pensions board. The scheme manager is accountable for funding strategy, investment strategy, asset allocation, and overall risk management. It will therefore be responsible for the assessment and management of climate risks and opportunities in relation to the investments. The LGPS asset pool in which the AA is a partner, in turn, is responsible for implementation of the investment strategy except in respect of non-pooled assets which remain with the fund.

38. Decisions on investment matters may therefore be taken by the scheme manager, informed by advice from external advisers and officers, or delegated to an officer or to the pool. All have important roles in effectively assessing and managing climate change risk and opportunities, and all will be central to the AA's efforts to fully embed climate risks into their governance processes.

39. The scheme manager will need to appoint properly qualified advisers, fully consider their advice, and take appropriate action in order to address these risks. The committee's officers and advisers and the pool, where appropriate, will need to provide advice which is accessible for non-specialists and adequately addresses climate risks to the fund, bringing in additional expertise where needed. We propose to provide statutory guidance to assist AAs. The role of the LGPS asset pools and knowledge and skills requirements are discussed further in Chapter 4.

40. However, we are not proposing to place any legal duties on individuals, whether officers or advisers, or on the pool. Our proposal is to place new duties on AAs to:

- establish and maintain, on an ongoing basis, oversight of climate related risks and opportunities
- establish and maintain processes by which they can, on an ongoing basis, satisfy themselves that those who undertake climate-related governance activities, advisors, and those who assist the AA (including officers and advisors) with respect to climate related governance are doing so effectively.

Question 1: Do you agree with our proposed requirements in relation to governance?

Strategy

41. The TCFD's recommendations on strategy are intended to promote continuous assessment of the implications of climate change for an organisation's strategy.

42. For AAs, climate risks will be relevant to both their investment and funding strategies. AAs will need to consider what physical and transition risks and opportunities may affect both strategies and over what time periods. These may include a wide range of factors, including carbon pricing, adoption of new technology or lower carbon alternatives, and extreme weather events.

43. AAs will also need to assess the impacts of the identified risks and opportunities over the same time periods on their strategies. They also need to consider what actions to take in response. The assessment will need to take account of the materiality of the risks, and the liquidity and time horizon of the assets, as well as the cashflow and liabilities of the fund. It will be for the AA to determine the appropriate time periods and to take a view on materiality of risks taking account of these factors.

44. We propose to provide statutory guidance to assist AAs to identify risks and opportunities, and to assess the impacts, including consideration of factors to be taken into account.

45. Our proposal is to place new duties on AAs to:

- identify, on an ongoing basis, climate-related risks and opportunities that will impact the investment and funding strategy of the AA, over the short, medium and long term.
- assess, on an ongoing basis, the impact of the identified risks and opportunities on the AA's investment and funding strategy.

Question 2: Do you agree with our proposed requirements in relation to strategy?

Scenario analysis

46. The TCFD recommends that organisations undertake scenario analysis in order to improve the quality of strategies. It recommends that organisations consider credible, distinctive, and relevant scenarios for the future path of climate change and that they test the assessment of impacts and the proposed actions against these scenarios.

47. Scenario analysis is particularly relevant to AAs seeking to assess the medium- and long-term impacts of climate change on their assets, liabilities and strategies. These longer-term potential impacts, as well as sudden events such as climate tipping points, may not be captured by traditional risk management, particularly where there are high levels of uncertainty. Scenario analysis can also help to create and maintain strategies which take full account of climate risks and opportunities.

48. We recognise that at present the use of climate scenarios is still new and that current assumptions and methodologies vary. Data quality and availability may also be a problem particularly for some asset classes. Nevertheless, we expect the development of expertise, methodologies, and data to accelerate rapidly in the next few years and hope to see greater consensus in the future.

49. We therefore propose that regulations would require AAs to conduct scenario analysis as far as they are able to. This analysis may be qualitative or quantitative, but we would expect AAs to carry out quantitative analysis where possible and to expand the assets covered by quantitative analysis as quickly as possible.

50. We also propose to provide statutory guidance on scenario analysis to assist AAs, including guidance on dealing with missing or poor-quality data and other barriers. We would expect AAs to aim to do the best scenario analysis that they can, and to aim to improve their scenario analysis over time.

51. The TCFD also recommends that organisations consider a range of climate scenarios, including a scenario based on global temperatures increasing by 2°C or lower over pre-industrial levels. The 2° or lower scenario is important because this level of temperature rise is believed to limit catastrophic physical risks such as flooding and droughts, but there may still be significant short term transition risks due to changes to policy, technology and markets. Scenarios based on higher temperature rises may see more impacts from physical risks both in the short and long term, with lower transition risks.

52. We therefore believe that AAs must consider two or more climate-related scenarios, at least one of which must be a scenario of 2°C or lower temperature rise. AAs will need to assess their assets and liabilities, and their investment and funding strategies against these scenarios.

53. Investment and funding decisions are made triennially in accordance with the valuation cycle. As scenario analysis should feed into these decisions, we recommend that it is incorporated into the valuation cycle and carried out at least every three years. In the interim years, AAs should consider whether a new

scenario analysis should be carried out to reflect any changes in the fund. In a normal year, where there have been only minor changes in the scheme, we would not expect AAs to repeat scenario analysis given it is a substantial piece of work.

54. We propose to place a new duty on AAs to:

- assess their assets, liabilities, investment strategy and funding strategy against climate risks and opportunities in at least two climate scenarios. This assessment must include at least one scenario based on a global temperature rise of 2°C or lower on pre-industrial levels. This assessment must occur at least once every valuation cycle. In interim years, AAs must consider whether any changes in the fund have been substantial enough to require scenario analysis to be repeated.

Question 3: Do you agree with our suggested requirements in relation to scenario analysis?

Risk management

55. The TCFD's recommendations aim to ensure that risk management in relation to climate risks is rigorous, comprehensive, and fully integrated into wider risk management.

56. In line with the TCFD recommendations, we propose that regulations require that AAs identify and assess their fund's exposure to climate-related risks and take action to manage the risks identified. This will include consideration of both physical and transition risks and the materiality of those risks, as well as proximity and likelihood.

57. This means having effective processes for identifying climate-related risks and opportunities, and assessing their likely impact on assets, liabilities, investment and funding strategies. We propose that guidance will support AAs in ensuring they have the most appropriate processes in place and that they consider the full range of relevant factors and types of risk and opportunity.

58. AAs will already have risk management processes in place to manage investment risks. We therefore propose to require AAs to integrate these climate-related processes in their existing risk management processes. AAs may also wish to identify, assess and take action on climate-related opportunities, and integrate the consideration of these opportunities in their risk management. We propose to provide statutory guidance to assist AAs.

59. Our proposed requirements are for AAs to:

- Establish and maintain processes for the purpose of enabling them to identify and assess climate-related risks

- Establish and maintain processes for the purpose of enabling them to effectively manage climate-related risks.
- Ensure, on an ongoing basis, climate-related risk management processes are integrated into their overall risk management.

Question 4: Do you agree with our proposed requirements in relation to risk management?

Metrics

60. The TCFD recommends that organisations select and disclose metrics to assess and monitor climate risks and opportunities over time. This section discusses the various metrics under consideration.

61. We propose to require AAs to measure and disclose four metrics: Total Carbon Emissions, Carbon Footprint, Data Quality and a Paris Alignment Metric. Total Carbon Emissions and Carbon Footprint both use emissions which can be divided into Scope 1, 2 and 3. The metrics relate to assets held by the AA in respect of paying benefits, not to other activity carried out by the AA such as travel.

Scope 1, Scope 2 and Scope 3 emissions

62. Scope 1 emissions are all direct emissions from the activities of an organisation or activities under its control. These emissions include fuel combustion on site such as gas boilers.

63. Scope 2 emissions are indirect emissions from electricity purchased and used by the organisation. Emissions are created during the production of the energy which is eventually used by the organisation.

64. Scope 3 emissions are all other indirect emissions from activities of the organisation, occurring from sources that they do not directly control. These are sometimes the greatest share of a carbon footprint, covering emissions associated with business travel, procurement, production of inputs, use of outputs, waste, and water.

65. Scope 1 and Scope 2 emissions are much more widely available and reliable statistics, which are highly desirable features in understanding an asset's carbon exposure. Scope 3 emissions are less widely reported, and when they are reported, they are often calculated on an approximate basis.

66. For many assets, Scope 3 will be by far the largest single category of emissions, and therefore excluding Scope 3 would significantly underreport total emissions. Excluding Scope 3 emissions will also favour some industries such as online retailers which have low Scope 1 and 2 but high Scope 3 emissions.

67. Therefore, in including Scope 3 emissions in reporting there is a trade-off. Reporting a figure which includes Scope 3 emissions is subject to more inaccuracy than Scopes 1 and 2. However, we propose to require reporting on all three types of emission as this gives the fullest picture of carbon exposure.

Absolute emissions metric: Total carbon emissions

68. Absolute emissions metrics measure the overall carbon emissions attributable to the fund's invested assets. A figure for total carbon emissions enables the AA to set a baseline for climate action and to understand the scale of the climate impact of its investments. Without a clear baseline, AAs cannot assess the impact of different scenarios.

69. We propose to require AAs to obtain, as far as they are able to Scope 1, Scope 2 and Scope 3 GHG emissions for the fund's assets – that is, the pension scheme's financed emissions. These are the emissions referred to as category 15 (investment emissions) in the [Greenhouse Gas (GHG) Protocol Technical guidance (https://ghgprotocol.org/scope-3-technical-calculation-guidance)](https://ghgprotocol.org/scope-3-technical-calculation-guidance). This measure is referred to as Total Carbon Emissions.

70. We propose that Scope 1, Scope 2 and Scope 3 emissions should be recorded separately and that the sum of the three should also be reported. Therefore, four figures should be reported to comply with the Total Carbon Emissions Metric.

71. There are different methodologies for attributing carbon emissions to investments. We propose to clarify the appropriate methodology in supporting guidance.

72. We propose that Total Carbon Emissions is calculated and reported annually via the Climate Risk Report (see Chapter 3).

73. The Total Carbon Emissions should be reported at the level of the whole of the fund. That is, it should be the total of the carbon emissions of all of the investments it holds. If the AA wishes, they may wish to consider the Total Carbon Emissions for each of its investments separately as well, as doing so may give the AA a clearer picture of where its carbon exposures lie. However, investment level reporting is not required in the annal Climate Risk Report.

Emissions intensity metric: Carbon footprint

74. Absolute emissions are a useful baseline to assess the fund's overall carbon exposure. However, they are hard to compare across assets and across funds, because larger investments naturally will have larger emissions.

75. We therefore propose that an Emissions Intensity Metric is calculated in addition. This should be calculated by dividing the Total Carbon Emissions by the total assets held by the fund for which data was available or estimated. This calculation we refer to as Carbon Footprint.

76. Carbon Footprint is easier to interpret as it does not depend on the size of the investment. A disadvantage of this metric however is that an increase in market capitalisation or revenue, all else being equal, will result in a decrease in the AA's emissions per £ million invested.

77. As explained above, using Scope 1 and 2 emissions only produces a more reliable but less complete picture of carbon exposure. We propose that Carbon Footprint is reported for Scope 1, Scope 2 and Scope 3 emissions, in each case calculated as Scope X Emissions divided by Assets for which Scope X emissions were available or estimated.

78. We propose that Carbon Footprint is calculated and reported annually via the Climate Risk Report (see Chapter 3).

79. We propose that only the top-level figure at the whole fund level is required to be produced and reported by AAs.

80. We propose that funds should report Carbon Footprint, however if they cannot do so they should report another similar metric such as Weighted Average Carbon Intensity. In these cases, the administering authority should explain why they have done this.

Data quality and the data quality metric

81. The lack of available data is a commonly reported pitfall when schemes seek to calculate the TCFD's emissions metrics. Few, if any, AAs will be able to obtain full underlying data to allow the calculation of metrics across their whole fund at present.

82. Where gaps in data do exist, it should be regarded as preferable to use modelling or estimation to fill them, rather than to leave them unaddressed or reporting as null. Beginning with estimated or proxy data can help identify carbon-intensive areas within investments. This also serves as a benchmark for asset-specific data points as and when they become available. AAs may choose to calculate metrics and set targets only for assets for which reliable data can be found. AAs may also request that service providers analyse their funds using market average techniques and assumption-based modelling.

83. We regard the inevitable gaps in data as being an important part of the challenge AAs face. We believe that the level of certainty in the data should be understood by those making decisions and should also be visible externally.

84. We also believe that the LGPS can play its part in increasing data availability and quality through increasing transparency on data quality and by adopting metrics consistent across the LGPS and private pension schemes. We therefore propose that regulations require that AAs obtain data on data quality as far as they are able and calculate a data quality metric. We also propose that guidance should set out how AAs should assess and disclose the quality and availability of data.

85. We propose that AAs should state the percentage of the value of their assets for which emissions have been Verified, Reported, Estimated or are Unavailable.

86. “Verified” and “Reported” are defined as data produced using the methodology for reporting and verifying carbon emissions given in the GHG protocol. Data can be verified by an independent third party, not necessarily an audit firm. “Estimated” includes data which has been estimated, for example using industry averages or modelling based on assumptions.

87. Where an asset has associated emissions data but the data quality as defined above cannot be confirmed, then it should be classed as estimated. “Unavailable” means that emissions data was unavailable, not that confirmation of the data quality was unavailable.

88. The data quality metric should be reported for Scope 1, Scope 2 and Scope 3 emissions separately.

89. The data quality metric on its own does not replace proper scrutiny of data. Examples of this include data which is “reported” but may not have been reported recently and it may not be completely clear whether emissions relate to a whole company or a subsection of it. “Unknown” data may be known to the company but not submitted to investors. AAs are encouraged to ask questions of their fund managers to be effective stewards of their data. Third party firms may be used to investigate and summarise issues such as these into an overall narrative to be included in the Climate Risk Report.

90. We propose that only the top-level figure for each Scope of emissions is required to be produced and reported by AAs in the Climate Risk Report.

Paris alignment metric

91. The TCFD’s guidance recommends that financial institutions should describe the extent to which their activities are aligned with a well-below 2°C scenario (i.e. with the goals of the Paris agreement), which is consistent with net zero carbon emissions by 2050. 92. We propose to introduce a requirement that the LGPS AAs should report a Paris Alignment Metric in line with the TCFD’s recommendation.

93. Paris Alignment Metrics look at the future trajectory of emissions, whereas Total Carbon Emissions and Carbon Footprint only measure emissions which have already taken place. Forward-looking metrics such as Paris Alignment are more useful for active decision making than historic ones. They will be key to investors robustly assessing and reporting their portfolios’ alignment with their own climate goals and may help address exposure to transition risk. They are also useful for plotting trends over time.

94. There are multiple ways to report Paris Alignment Metrics, which are explored in the Portfolio Alignment Team’s Measuring portfolio alignment: Technical Considerations (https://www.tcfdhub.org/wp-content/uploads/2021/10/PAT_Measuring_Portfolio_Alignment_Technical_Considerations.pdf), which was commissioned by the TCFD. This states that financial institutions should use whichever portfolio alignment tool best suits their institutional context and capabilities, and describes three main types of portfolio alignment metrics, as follows:

- binary target measurements: This tool measures the alignment of a portfolio with a given climate outcome based on the percentage of investments in that portfolio that either have declared net zero/Paris-alignment targets or are already net zero/Paris-aligned.
- benchmark divergence models: These tools assess portfolio alignment by comparing the forecast emissions performance of investments or counterparties in the portfolio against benchmarks.
- implied temperature rise (ITR) models: these tools translate an assessment of alignment with a benchmark into a measure of the consequences of that alignment in the form of a temperature score.

95. These metrics are ambitious and if calculated reliably can create an extremely useful picture of a fund's climate risks. ITR in particular links a portfolio to a specific climate outcome in a way which is scientific, incentivises action and is comprehensible to the lay audience.

96. The main problem with Paris Alignment Metrics is data, as in most cases only limited or approximate data is available. At best this means only a partial view is possible, and at worst it can create a false picture of the true exposure of a fund by over- or underestimating the metric.

97. However we believe that an imperfect metric will still be useful. Calculating ITR will be useful for funds to understand their carbon trajectories. Moreover, the more funds choose to calculate the ITR the faster the data will improve.

98. The LGPS has a responsibility to its members, employers and the public, and the Government considers it important that publicly accessible data is accurate and as useful as possible. In addition, it is useful for funds to report consistently with each other and for the results to be possible to aggregate into an overall scheme view for the LGPS.

99. We regard the Binary Target Measure to be the most appropriate for the LGPS at this point having taken these factors into account. It is simple to understand while still providing useful insights, and less subject to the data issues which exist for the other metrics. As data improves, the Government may change its approach to reflect this, and we encourage the LGPS and the sector to take a lead in promoting the most useful metrics.

100. Therefore, we propose that all AAs should report the percentage of their total assets with declared net zero or Paris-aligned targets. This is the Binary Target Measurement described above.

101. We also encourage AAs to calculate other Paris Alignment Metrics which they consider to be useful in managing their climate risks. We note that it is not only the commitment to net zero but also the pathway towards net zero which dictates Paris-alignment. For instance, a company may have made a net zero commitment, but still be making insufficient emissions reductions in the short term. For this reason, AAs should consider whether collecting and reporting an additional Paris Alignment Metric would be useful.

102. We propose that only the top-level figure at the whole fund level is required to be produced and reported by AAs.

Other metrics

103. We have proposed requirements for four metrics. However, we do not intend to limit the range of additional and more ambitious metrics AAs may select. The Government encourages AAs to calculate other metrics which are endorsed by the TCFD, such as Climate Value at Risk (VAR)[footnote 2].

Guidance and regulation

104. We propose that the requirement to publish metrics is set out in regulations, but that the metrics themselves are defined in statutory guidance. This has the advantage that as metrics become more available and accurate over time, changes may be made to update the metrics without amending regulations.

Summary of metrics proposals

105. We propose to require AAs to calculate and report the following metrics:

- Metric 1 (absolute emissions metric) - Total Carbon Emissions, which includes the Scope 1, 2 and 3 emissions reported separately, as well as the sum of the three.
- Metric 2 (emissions intensity metric) - Carbon Footprint. This is Carbon Emissions divided by the total assets of the fund to which the data relates. It should be calculated separately for Scope 1, Scope 2 and Scope 3 emissions.
- Metric 3 (data quality metric) – the percentage of assets for which Scope 1, 2 and 3 emissions are verified, reported, estimated or unavailable, in line with the GHG Protocol.
- Metric 4 (Paris Alignment Metric) – the percentage of the fund's assets for which a public Paris aligned commitment has been made, i.e. net zero by 2050.

106. We also propose to recommend in statutory guidance that AAs consider whether they wish to calculate any other climate related metrics recommended by the TCFD in order to inform assessment of climate risks.

Question 5: Do you agree with our proposed requirements in relation to metrics?

Targets

107. The TCFD recommends that organisations set targets based on the metrics they select, including a target date, baseline and performance indicators, in order to focus efforts on managing climate risk.

108. The metrics proposed support AAs to assess the current climate risks and opportunities to their assets. Targets will assist AAs to take the next step to set their strategy for managing climate risks and opportunities to the fund and to measure their progress, as well as increasing accountability.

109. We therefore propose that regulations require at least one target to be set either for one of the mandatory metrics listed above or another TCFD-endorsed metric. This additional metric may be one of the more ambitious climate-related metrics, such as Climate VAR or Implied Temperature Rise, but must be limited to metrics endorsed by the TCFD or any of the mandatory metrics.

110. We also propose that AAs should be required to measure and report performance against their targets annually, as far as they are able, as for the requirement on obtaining data. This recognises that measuring and disclosing performance is dependent on data provided by others in the investment chain, in the same way as the requirement to obtain data for metrics. In order to ensure that targets are used and kept up to date, AAs will also be required to consider annually whether to continue with the target or replace it. We propose to provide statutory guidance to assist AAs.

111. Our proposed requirements for AAs are:

- AAs must set a target for their fund in relation to one of the metrics which they have selected. The target may be in relation to one of the mandatory metrics (absolute emissions, emissions intensity, data quality or Paris alignment), or any other climate-related metric endorsed by the TCFD which the AA chooses.
- AAs must annually measure, as far as they are able, the performance of their fund against the target they have set and taking into account that performance, determine whether the target should be retained or replaced.

112. There is no expectation that AAs should set targets which require them to divest or invest in a given way, and the targets are not legally binding.

Question 6: Do you agree with our proposed requirements in relation to targets?

As far as able

113. We propose that AAs must carry out scenario analysis, obtain data, calculate, and use metrics and measure performance against AA-set targets ‘as far as they are able’. This means that AAs are expected to take all reasonable and proportionate steps given costs and time constraints. However, we recognise that there will inevitably be some gaps in the work produced, and while we would expect AAs to do as much as they can we recognise that some elements are outside of their control. Therefore, where authorities are not able to comply with these proposals, they must include in their report both the areas and reasons where they are not able to comply in full.

114. The requirement for AAs to comply as far as they are able will enable them to produce metrics for only part of the portfolio or using estimation or incomplete data sets. This will still be decision-useful information for AAs. The urgency of climate change means that the AAs cannot wait until they have perfect data before they start putting it to use.

Ongoing and annual duties

115. We distinguish between ongoing and discrete duties. For duties which are regular discrete events such as reporting, we have proposed specific time intervals for AAs to follow. Ongoing duties on the other hand are those which do not take place as a distinct event but a continuous requirement. For example, AAs should always be managing the risks of the fund, and so we would think of risk management as an ongoing requirement. In practice, we recognise that these requirements will be considered at regular intervals as well, but the requirement itself would be ongoing.

116. All duties are ongoing, except requirements to conduct scenario analysis, calculate metrics, and set and review performance against targets.

117. Scenario analysis must be carried out in the reporting year 2023/24 and at least every three years thereafter. In the intervening years, AAs should review whether circumstances have changed enough to refresh their analysis. This decision should take account of availability of data, or a significant change in investment or funding strategy. AAs should explain in their Climate Risk Report whether they have carried out a new analysis, and if not give a short explanation as to why.

118. Underlying data for metrics and targets must be obtained, the metrics calculated, and performance against targets measured, at least annually.

3. Reporting on climate risks

119. High quality reporting on climate risks is central to the TCFD's recommendations. The aim is to enable stakeholders to understand as fully as possible their climate exposures and the AA's approach to addressing those risks, in the short, medium and long term. Transparency will also enable users of the reports to measure and monitor current performance against targets and the planned trajectory and to assess the implications for future performance.

120. To achieve these aims in the LGPS, reporting will need to be clear, comprehensive and consistent, as well as timely, verifiable and comparable across the sector, in line with the TCFD's principles for effective disclosure[footnote 3]. This chapter sets out our proposals ensuring that reporting both at AA and at scheme level meets these standards, and delivers proper accountability to members, locally and across the scheme.

Annual climate risk report

121. We propose that each AA publishes a Climate Risk Report every year, at the same time as the AA's annual report is published – i.e. 1 December for the reporting year which ended the previous 31 March. Once published, the Climate Risk Report must be easily and freely accessible online and members must be informed of where to find it. In addition, links to each AA's Climate Risk Report will be included in the Scheme Climate Report and may be shown on the Scheme Advisory Board's (SAB) website. The Climate Risk Report may be a constituent part of the AA's Annual Report, or a standalone report.

122. This means that the first report for the year 2023/24 must be available by 1 December 2024.

123. The Climate Risk Report should be accessible to two distinct types of user: specialist and non-specialist. The Climate Risk Report will contain detailed and useful data, and we hope that the metrics, targets and scenario analysis in particular will be important resources for specialist audiences. This role of the Climate Risk Report may require it to be technical in content, and dense with information.

124. In addition, various non-specialist stakeholders including scheme members, members of the public and other parties will also need to be considered. The Climate Risk Report should include enough information to be understood by the lay reader.

125. The AA will have to decide on how best to approach these dual requirements. One approach is to split the Climate Risk Report into two sections: a body and a short executive summary. The executive summary would be written to explain the AA's approach and high-level findings to the lay reader. This allows the body of the Climate Risk Report to be technical as is useful to specialist audiences. We regard this as a very effective way to address this balance, although other approaches would also be valid.

126. We would like to stress that the narrative provided in the Climate Risk Report will be as valuable as the data for most audiences. Metrics by themselves are difficult to interpret for the lay reader.

127. For example, differences in an AA's investment allocation, such as its strategic allocations between the main asset types will affect its carbon emissions. Moreover, a high carbon exposure or poor alignment with the Paris climate goals may be managed by effective stewardship and engagement from the AA. AAs should ensure that messages such as these are presented in a way to help the lay reader interpret the report and understand the fund's strategy towards managing the risks from climate change.

128. It is important that the report must be easily accessible to scheme members, on the AA's website and via an internet search. We propose that AAs must at least inform members of the Climate Risk Report and how to find it when they issue their

annual benefit statements. This does not necessarily mean including wording in the annual benefit statement itself.

129. Climate Risk Reports should be produced in line with the Local government transparency code 2015 (https://www.gov.uk/government/publications/local-government-transparency-code-2015/local-government-transparency-code-2015).

130. We propose that the Climate Risk Report must include the following information:

Area	**Disclosure Requirement**
Governance	Describe the AA's oversight of climate-related risks and opportunities Describe the role of any person other than the scheme manager who undertakes relevant governance activities and the process by which the committee satisfy themselves that this is being done Describe the role of any person who (other than a legal advisor) advises the scheme manager on relevant governance activities and the process by which the committee satisfies itself that adequate steps are being taken
Strategy	Describe the climate-related risks and opportunities which the scheme manager has identified Describe the scheme manager's definition of short term, medium term and long term
Scenario Analysis	Describe the most recent scenarios the scheme manager has analysed Describe the impact of the climate-related risks and opportunities on the AA's investment and funding strategies Describe the potential impacts on the AA's assets and liabilities which the AA has identified in the most recent scenarios and the reason for any data which is missing from the analysis Describe the resilience of the AA's investment and funding strategies in the most recent scenarios the AAs have analysed

Area	Disclosure Requirement
Risk Management	Describe the processes which the AA has established for identifying and assessing climate-related risks to their fund Describe the processes which the AA has established for managing climate-related risks to the AA Describe how these processes are integrated into the AA's overall risk management
Metrics	Report the metrics which the AA has calculated (or an explanation as to why these were not possible to calculate)
Targets	Report the target which the AAs have set and the performance of the AA against that target.

Question 7: Do you agree with our approach to reporting?

Scheme climate risk report

131. In addition to the Climate Risk Reports published by each AA, we are proposing an annual Scheme Climate Risk Report to provide an overview of the LGPS and climate risks, produced by the Scheme Advisory Board (SAB). Such an overview would be useful for scheme members and other stakeholders. It would also enable the LGPS to demonstrate progress and impact, and showcase good practice.

132. We therefore propose as a minimum that the Scheme Climate Risk Report would include links to each AA's Climate Risk Report and the four aggregated metrics for the whole LGPS.

133. In relation to metrics, we propose that Total Carbon Emissions and Carbon Footprint should be calculated and reported at an aggregate level. This would involve a simple sum of Total Carbon Emissions for Aggregate Total Carbon Emissions. In order to calculate Aggregate Carbon Footprint, this would be calculated as Aggregate Total Carbon Emissions divided by the overall size of the LGPS investment portfolio for which total emissions are at least estimated. This would be done separately for Scope 1, Scope 2 and Scope 3 emissions.

134. When reporting the data quality metric, each AA must report the proportion of its assets for which overall emissions data is: Verified, Reported, Estimated or Unavailable. One reason that we have proposed this metric is that it can be aggregated across AAs. As risk management is a key objective of TCFD reporting, we believe that visibility of data quality, which is essential to the understanding of

risk, will be a useful way to measure progress. Therefore, we propose to show overall data quality in the Scheme Climate Report, whereby the LGPS's entire assets will be divided into verified, reported, estimated and unknown.

135. We propose that the SAB reports on an aggregate Paris Alignment Metric based on AA level reports. This would show the proportion of the value of the whole LGPS's assets for which there is a net zero commitment in line with the Paris goals.

136. In the above paragraphs we have outlined our minimum proposals for the Scheme Climate Risk Report. In addition, we are inviting views about whether emissions, data quality and Paris-alignment metrics for each AA should be shown in the Scheme Climate Risk Report.

137. Emissions and data quality metrics will already be available in the Climate Risk Reports published by each AA and it will be possible to make comparisons between AAs. AAs may be concerned about being compared unfairly, and may fear that this may lead to pressure to reduce emissions through divestment. There is no expectation from Government that AAs should reduce emissions via divestment.

138. We recognise that transparency is an important feature of the LGPS's approach to managing climate risks. It is important for all those to whom the Scheme is accountable have easy access to climate-related information.

139. We do not propose to include any aggregate data on the scenario analysis requirement. This is because scenario analysis may be very difficult to aggregate in a meaningful way.

Question 8: Do you agree with our proposals on the Scheme Climate Risk Report?

4. Other issues

140. This chapter deals with a number of other issues relevant to the implementation of the TCFD recommendations in the LGPS.

The role of the LGPS asset pools

141. Since 2015, 8 LGPS pools have been set up with the aim of securing the benefits of scale including more professional management, reduced investment costs, increased net returns, improved resilience, and access to a wider range of assets, including infrastructure. Many of the pools have developed significant capabilities in relation to climate risks and responsible investment more broadly.

142. As of March 2021 around 80% of the Scheme's assets are either pooled, in a transition plan to be pooled, or have some oversight by their pool, although the proportion varies widely across AAs and across pools. For pooled assets, we expect that the pools will be able to provide data, calculate metrics and carry out scenario analysis on these assets where that data is available. There are differing views on the extent to which pools will be able to deliver these services for assets that are not held by the pool, especially where there are already contracts with data providers in place. Some pools will already be able to provide advice on data, metrics and scenario analysis and other relevant issues or will wish to develop or jointly commission such advice.

143. In this landscape there is potential for a multiplicity of different analyses and reports to be required on the same LGPS assets. Pool operators are required to report on climate risks in relation to pooled assets by the Financial Conduct Authority. If AAs' strategies significantly differ it will be resource intensive for their pool to produce analysis for them.

144. We expect to see this issue reduce in importance over time as more assets transition into the pools. AAs which have transferred close to 100% of their assets excluding cash to their pools would be able to use the analyses conducted by their pool for their own purposes. AAs could also minimise this issue by aligning their strategies and targets within their pool and ensuring as shareholders that the pool's strategy also aligns with that of the partner AAs. This would enable AAs to commission their pool to conduct analyses for both pooled and non-pooled assets on a consistent basis with the pool's own reporting. Both completing transition and aligning strategies would also have significant wider benefits for costs and performance through delivering greater scale.

Question 9: Do you have any comments on the role of the LGPS asset pools in delivering the requirements?

Guidance and reporting template for administering authorities

145. DLUHC intends to provide high level statutory guidance to accompany changes to regulations. This will include guidance relating to the governance activities required of AAs and the Climate Risk Report. We have also asked the SAB to produce more detailed operational guidance.

146. The SAB will also be asked to produce a standard template which AAs will be required to follow in producing their Climate Risk Report. This will help AAs to comply with the requirements, and help to ensure that the Scheme Climate Risk Report is as comprehensive and consistent as possible.

Question 10: Do you agree with our proposed approach to guidance?

Knowledge, skills and advice

147. It is important that individuals making decisions in response to climate-risk management processes have the adequate skills and information to make choices. While we will not be imposing any legal requirement on an individual's knowledge and skills, we wish to promote best practice in our approach. It is important to note that scheme managers are not expected to be technical experts in climate science or climate finance. However, a base knowledge regarding climate risks will be necessary in order to, for example, interpret the results of scenario analysis.

148. Firstly, we propose to require that AAs must take proper advice regarding assessing and managing climate risks. This should help the scheme manager, who may not be a technical expert to take proper account of climate risks in setting their investment strategy and asset allocation.

149. AAs will need to satisfy themselves that the advice is high quality and provided by appropriately qualified people. We welcome views as to how this may be practically ensured. We welcome responses on whether and how pools could jointly procure expert advice for their partner funds.

Question 11: Do you agree with our proposed approach to knowledge, skills and advice?

Consideration of impact on protected groups

150. Section 149 of the Equality Act 2010 requires Government to have due regard to the potential impact of new decisions, policies or policy changes on particular groups with protected characteristics and to avoid disproportionate negative impacts (the public sector equality duty).

151. We have made an initial assessment under the duty and do not believe there would be impacts on protected groups from the proposals in this consultation, as they do not affect member contributions or benefits. We have considered whether the reporting requirements could give rise to negative impacts on certain groups with protected characteristics and believe they would not. However, administering authorities and the Scheme Advisory Board are also subject to the public sector equality duty and we would expect them to take steps to ensure compliance with the duty, including that their reports under these proposals are available in accessible formats.

Question 12: Do you have any comments on the impact of our proposals on protected groups and on how any negative impacts may be mitigated?

Summary of consultation questions

This section contains a summary of the questions contained above, for ease.

Question 1: Do you agree with our proposed requirements in relation to governance?

Question 2: Do you agree with our proposed requirements in relation to strategy?

Question 3: Do you agree with our suggested requirements in relation to scenario analysis?

Question 4: Do you agree with our proposed requirements in relation to risk management?

Question 5: Do you agree with our proposed requirements in relation to metrics?

Question 6: Do you agree with our proposed requirements in relation to targets?

Question 7: Do you agree with our approach to reporting?

Question 8: Do you agree with our proposals on the Scheme Climate Risk Report?

Question 9: Do you have any comments on the role of the LGPS asset pools in delivering the requirements?

Question 10: Do you agree with our proposed approach to guidance?

Question 11: Do you agree with our proposed approach to knowledge, skills and advice?

Question 12: Do you have any comments on the impact of our proposals on protected groups and on how any negative impacts may be mitigated?

About this consultation

This consultation document and consultation process have been planned to adhere to the Consultation Principles issued by the Cabinet Office.

Representative groups are asked to give a summary of the people and organisations they represent, and where relevant who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Environmental Information Regulations 2004 and UK data protection legislation. In certain circumstances this may therefore include personal data when required by law.

If you want the information that you provide to be treated as confidential, please be aware that, as a public authority, the Department is bound by the information access regimes and may therefore be obliged to disclose all or some of the information you provide. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a

request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

The Department for Levelling Up, Housing and Communities will at all times process your personal data in accordance with UK data protection legislation and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. A full privacy notice is included below.

Individual responses will not be acknowledged unless specifically requested.

Your opinions are valuable to us. Thank you for taking the time to read this document and respond.

Are you satisfied that this consultation has followed the Consultation Principles? If not or you have any other observations about how we can improve the process please contact us via the complaints procedure (https://www.gov.uk/government/organisations/department-for-levelling-up-housing-and-communities/about/complaints-procedure).

Personal data

The following is to explain your rights and give you the information you are entitled to under UK data protection legislation.

Note that this section only refers to personal data (your name, contact details and any other information that relates to you or another identified or identifiable individual personally) not the content otherwise of your response to the consultation.

1. The identity of the data controller and contact details of our Data Protection Officer

The Department for Levelling Up, Housing and Communities (DLUHC) is the data controller. The Data Protection Officer can be contacted at dataprotection@levellingup.gov.uk or by writing to the following address:

> Data Protection Officer
> Department for Levelling Up, Housing and Communities
> Fry Building
> 2 Marsham Street
> London
> SW1P 4DF

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

We will collect your IP address if you complete a consultation online. We may use this to ensure that each person only completes a survey once. We will not use this data for any other purpose.

Sensitive types of personal data

Please do not share special category personal data or criminal offence data if we have not asked for this unless absolutely necessary for the purposes of your consultation response. By 'special category personal data', we mean information about a living individual's:

- race
- ethnic origin
- political opinions
- religious or philosophical beliefs
- trade union membership
- genetics
- biometrics
- health (including disability-related information)
- sex life; or
- sexual orientation.

By 'criminal offence data', we mean information relating to a living individual's criminal convictions or offences or related security measures.

3. Our legal basis for processing your personal data

The collection of your personal data is lawful under article 6(1)(e) of the UK General Data Protection Regulation as it is necessary for the performance by DLUHC of a task in the public interest/in the exercise of official authority vested in the data controller. Section 8(d) of the Data Protection Act 2018 states that this will include processing of personal data that is necessary for the exercise of a function of the Crown, a Minister of the Crown or a government department i.e. in this case a consultation.

Where necessary for the purposes of this consultation, our lawful basis for the processing of any special category personal data or 'criminal offence' data (terms explained under 'Sensitive Types of Data') which you submit in response to this consultation is as follows. The relevant lawful basis for the processing of special category personal data is Article 9(2)(g) UK GDPR ('substantial public interest'),

and Schedule 1 paragraph 6 of the Data Protection Act 2018 (‘statutory etc and government purposes’). The relevant lawful basis in relation to personal data relating to criminal convictions and offences data is likewise provided by Schedule 1 paragraph 6 of the Data Protection Act 2018.

4. With whom we will be sharing your personal data

We will not be sharing your data with any organisation outside of the Department for Levelling Up, Communities and Housing.

5. For how long we will keep your personal data, or criteria used to determine the retention period

Your personal data will be held for two years from the closure of the consultation.

6. Your rights, e.g. access, rectification, restriction, objection

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right:

a. to see what data we have about you

b. to ask us to stop using your data, but keep it on record

c. to ask to have your data corrected if it is incorrect or incomplete

d. to object to our use of your personal data in certain circumstances

e. to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at https://ico.org.uk/ (https://ico.org.uk/), or telephone 0303 123 1113.

Please contact us at the following address if you wish to exercise the rights listed above, except the right to lodge a complaint with the ICO: dataprotection@levellingup.gov.uk or

> Knowledge and Information Access Team
> Department for Levelling Up, Housing and Communities
> Fry Building
> 2 Marsham Street
> London
> SW1P 4DF

7. Your personal data will not be sent overseas

8. Your personal data will not be used for any automated decision making

9. Your personal data will be stored in a secure government IT system

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1. The Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022 (https://www.legislation.gov.uk/uksi/2022/31/contents/made); The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 (https://www.legislation.gov.uk/uksi/2008/1911/contents).
2. Value at Risk measures a funds exposure to a worst-case scenario.
3. TCFD’s principles for effective disclosure: 1. Disclosure should represent relevant information; 2. Disclosure should be specific and complete; 3. Disclosure should be clear, balanced and understandable; 4. Disclosure should be consistent over time; 5. Disclosure should be comparable among companies within a sector industry or portfolio; 6. Disclosure should be reliable, verifiable and objective; and 7. Disclosure should be provided on a timely basis.

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24 November 2022

Dear Sir / Madam

Local Government Pension Scheme (England and Wales): Governance and reporting of climate change risks

Derbyshire Pension Fund (the Fund) has the following comments on the proposals:

Governance

Question 1 – Do you agree with our proposed requirements in relation to governance?

The Fund agrees that the governance of climate risks and opportunities in relation to LGPS investments resides with administering authorities (AAs) and that, in the majority of cases, a pensions committee (in Derbyshire a Pensions and Investments Committee) is responsible for pension fund governance on behalf of the AA, assisted by a local pension board.

It follows that the responsibility for overseeing the identification, assessment and management of climate risks and opportunities in relation to investments resides with the AA/pensions committee (PC) alongside oversight of investment strategy, responsible investment, funding strategy, risk management and investment pooling.

Properly qualified advisers would require broad commercial experience across investments, economics and markets, in addition to possessing climate related knowledge and skills, to ensure that climate advice is provided in the context of the broader range of risk and reward considerations.

The pool operating companies have an important role to play in assessing and managing climate risks and opportunities, overseen by AAs/PCs.

As an increasing percentage of LGPS assets are transitioned to the management of the pools, the importance of LGPS funds receiving independent advice on climate-related investment matters will increase to support AA/PC assessments of the climate related risks and opportunities of products launched and managed by the pools.

Strategy

Question 2 - Do you agree with our proposed requirements in relation to strategy?

The Fund broadly agrees with DLUCH's proposed requirements in relation to strategy which will support the continuous assessment of the implications of climate change on LGPS funds' strategies.

It is logical that any assessment of climate risks and opportunities should be considered at the same time as other strategies such as the investment strategy and the funding strategy and should be considered over the same time horizon as those strategies.

Scenario analysis

Question 3: Do you agree with our suggested requirements in relation to scenario analysis?

The Fund agrees that, at a minimum, two climate related scenarios should be considered.

It would also be beneficial for AAs to have the flexibility to consider a range of different temperature scenarios.

The Fund's latest 2022 Climate Risk Report, produced by LGPS Central Ltd (LGPSC), with Scenario Analysis from Mercer, considers three scenarios:

- A rapid transition (<1.5°C temperature rise)
- An orderly transition (1.6°C temperature rise)
- A failed transition (4°C temperature rise)

The outcome for global warming and the transition to net-zero is highly uncertain. There is, therefore, significant value in considering a range of temperature rises and the Fund broadly supports the approach taken by Mercer to consider 3 scenarios (rapid, orderly and failed transitions).

A requirement to carry out scenario analysis on at least a three-year basis to fit in with the triennial valuation cycle makes sense, as does a requirement to consider whether scenario analysis should be repeated on any material change in strategy.

It is important that the current limitations of climate scenario analysis, which is a relatively new discipline, are recognised, particularly if such analysis is expected to increasingly inform strategic asset allocation and funding decisions.

In its current form, Scenario Analysis is at its most useful when used as a directional indicator. As with any forecasting model, small changes to the methodology, or the underlying assumptions and inputs, can result in significant changes to model outputs. Scenario analysis is likely to be directionally accurate, but with low levels of absolute precision.

It will be vital for the outputs of climate scenario analysis to be caveated when reported to stakeholders.

Further progress on the development of climate scenario expertise and methodologies to reach a position of greater consistency will be welcomed.

The Fund agrees with the consultation response from the Local Authority Pension Fund Forum (LAPFF) on a 1.5°C scenario, which is summarised below:

There is broad consensus around the need to achieve temperature rises of no more than 1.5°C

- A scenario of 1.5°C would more closely align with the UK government's commitment to reduce greenhouse gas emissions by at least 100% by 2050, enshrined in the 2019 Climate Change Act.

- The objective of limiting warming to 1.5 degrees was also the clear message from the UK government after COP26 in Glasgow.

Using 2 degrees would, therefore, seem to undermine the ultimate objective of UK policy and would create transition risks for asset owners if they are not considering the ultimate objective of UK policy (i.e., regulatory risks).

Risk management

Question 4: Do you agree with our proposed requirements in relation to risk management?

The Fund supports TCFD's recommendations that aim to ensure that risk management in relation to climate risks is rigorous, comprehensive and fully integrated into wider risk management.

The Fund also supports the proposal to require AAs to integrate climate-related process in their existing risk management processes.

Metrics

Question 5: Do you agree with our proposed requirements in relation to metrics?

The Fund agrees that a number of metrics should be used to manage climate related risks and opportunities. Each metric used tends to have limitations and should not be assessed in isolation. A range of metrics will allow a Fund to assess the trajectory of its investment portfolio in terms of carbon emissions.

We welcome the flexibility to use alternative metrics to those identified in the consultation document.

Scope 1, Scope 2 and Scope 3 Emissions

The Fund in general supports the principle of expanding the emissions coverage to include Scope 3 emissions. However, the quality and completeness of Scope 3 emissions is very patchy at present, with company reporting outside the control of the Fund. Estimation techniques differ and can result in significantly different carbon metric outputs for the same company, sector or geography depending on the data provider and modelling technique used.

Scope 3 emissions are also complicated by the risk of double counting (i.e., one company's Scope 1 and 2 emissions are another company's Scope 3 emissions).

If Scope 3 emissions are to be reported, they should be reported separately and not combined with Scope 1 and 2 emissions. As an absolute measure, Scope 1, 2 & 3 emissions, take no account of a fund's size or asset allocation. This will need to be considered when comparing different funds with each other.

The requirement to report Scope 1, 2 & 3 emissions at a whole fund level is likely to extremely difficult at present, given the patchy nature of the data disclosures at present. As noted in our response in respect of Data Quality below, disclosures vary significantly by asset class and the Fund believes that the use of estimates to 'fill-in the gaps' is likely to lead to misleading data sets and high levels of volatility.

There might be merit in delaying the requirement to report Scope 3 emissions until more reliable methodologies have been developed, reporting is commonplace, and a specific methodology can be agreed upon for AAs to apply to ensure that the reported figures are consistent and comparable.

Emissions Intensity Metric

The Fund notes the proposed methodology for calculating an Emissions Intensity Metric. The Fund currently uses the widely used Weighted Average Carbon Intensity metric (WACI) to

report the carbon footprint/intensity of the Fund's listed equity and corporate bond portfolio and would welcome the flexibility to continue to use this metric going forward. This would help to ensure that the carbon metrics reported by the Fund are consistent and comparable over time. The Fund has used the WACI metric since the Fund's first TCFD Report was published in 2020. This metric has been used to set the 2020 baseline for monitoring the Fund's progress relative to the targets set out in the Fund's Climate Strategy. It also allows the Fund to monitor the carbon footprint/intensity of the listed equity and corporate bond portfolios relative to the market benchmarks and allows the Fund to assess which parts of the portfolio account for the majority of carbon emissions and target stewardship engagement accordingly.

Data Quality

The Fund agrees that it is important to report data quality wherever possible. However, LGPS funds have limited control over the reporting of data quality by service providers and this may make setting targets for this metric difficult.

It should also be recognised that data quality differs by asset class and the setting of metrics and data quality targets should not result in a situation where LGPS funds are discouraged from investing in asset classes purely to improve the quality of their carbon reporting. For example, disclosures in respect of emerging markets, small cap stocks and unlisted investments (e.g., private equity, infrastructure, private debt) are less well developed than those for large cap listed equities.

The Fund has significant concerns in respect of using estimated data to fill 'gaps' in reporting for asset classes with low coverage. The Fund does not support having to estimate carbon metrics for these asset classes when the accuracy and completeness of the estimates is likely to be low, potentially leading to misleading data sets. As reporting improves and more data becomes available, there could be significant volatility as actual data replaces estimated data, fluctuations over which the Fund has no control.

Paris Aligned Metrics

The IIGCC net zero investment framework asks for aligning/aligned measurement which requires analysis of the quality of the net zero commitment/ target. The Fund considers this to be an insightful indicator of risk and the future trajectory of the portfolio. However, not all Net Zero commitments/ targets are the same, some are more challenging and comprehensive than others. Consideration needs to be given to the detail of the commitment and the company's ability to deliver it. A binary metric could miss this important nuance.

It is important to make a distinction between metrics that are focused on measuring the impact of the portfolio and those metrics that are intended to provide insights into the risk exposure of the portfolio.

Implied temperature rise/ Paris aligned metrics are often a point in time analysis and do not necessarily give a strong indication of how a company or portfolio might look in 3 years' time, for example. They do not necessarily give an indication of the direction of travel for a company or the portfolio in terms of carbon nor do they necessarily assess the potential for a company's product portfolio to contribute to the transition in a positive way. It is important to take a broad set of factors into consideration when making investment decisions looking at a company's strategy, R&D spend, capex plans, the progress of technology innovation and the pipeline of regulation and legislation.

It is important to be clear and transparent about the limitations of these metrics when presenting results.

Targets

Question 6: Do you agree with our proposed requirements in relation to targets?

The Fund generally agrees with the proposals to set and measure progress against carbon reduction related targets.

The Fund has already made substantial progress in this area, including publishing a Climate Strategy in November 2020, including supporting the ambitions of the Paris Agreement and aiming to achieve a portfolio of assets with net zero emissions by 2050. The Fund has also set initial decarbonisation and sustainable investment targets.

Consistent with its wider governance responsibilities, the Fund believes that the targets should be set by the AA. The AA has a fiduciary duty to the beneficiaries of the scheme. Targets should be set by AAs to reflect the specific characteristics and investment strategy of the relevant Fund, rather than being set at a pool level.

Whilst the Fund agrees that progress against any targets should be monitored and reported on an annual basis through the Fund's Annual Report and TCFD report, the Fund does not believe that the targets should be reviewed on an annual basis. The targets should be longer-term in nature, and it would be more appropriate to review targets every three to five years, with the targets aligned to achieving net zero by 2050.

Carbon metrics can be volatile, impacted by multiple factors including changing and evolving data sets, manager stock selection, regional performance, sector performance, monetary policy, geopolitical events, one off events (e.g., the Covid-19 pandemic), etc. Reviewing targets on an annual basis increases the risk of short-term and reactionary decision making, an approach which is inconsistent with the general LGPS fund investment philosophy of being a long-term investor. Furthermore, some asset classes (e.g., private equity and infrastructure) are illiquid, with capital being invested for several years, and investment changes take time.

The Fund is also concerned that the implementation of a target across all asset classes may be challenging, as in some cases carbon data is neither accurate nor complete. A target that is specific to asset classes such as listed equity and corporate credit assets only, may be more

achievable, albeit the Fund expects that the accuracy and completeness of carbon data in respect of other asset classes will improve over time and become reportable.

The Fund welcomes the comment that AAs should not set targets which require them to divest or invest in a given way, and the targets should not be legally binding. The Fund believes that divestment does not make a problem disappear (e.g., selling oil and gas stocks to improve a fund's carbon emissions does not reduce emissions in the real world) and that engagement is a valuable tool in reducing investment risk and encouraging investee companies during the transition to a net zero economy.

Any reporting against targets should be accompanied by the data coverage of AUM.

Reporting on climate risks

Question 7: Do you agree with our approach to reporting?

The Fund broadly agrees with the proposals for reporting, including having an annual Climate Risk Report. The focus should be on the long-term management and reporting of climate related matters.

The Fund already publishes an annual TCFD report and receives an annual Climate Risk Report from the Fund's pooling company, LGPSC. LGPSC has a schedule for preparing each Partner Fund's Climate Risk Report, and the preparation of the Climate Risk Reports is spread over the financial year. Setting a deadline in line with the annual report will concentrate all the work carried out by LGPSC into a short timeframe and it is likely to be difficult for the Partner Funds and LGPSC to meet these deadlines without additional resources. Furthermore, the external service provider used by LGPSC to prepare the underlying carbon metrics, has imposed confidentiality clauses on much of the granular carbon metric data contained in the full Climate Risk Report. These confidentiality restrictions may limit the ability of the Fund to comply fully with any content guidance issued.

Scheme Climate Risk Report

Question 8: Do you agree with our proposals on the Scheme Climate Risk Report?

The Fund supports the principle of having a Scheme Climate Risk Report but believes that it would be difficult to implement in practice at present because of the different methodologies used by LGPS funds to calculate carbon metrics and carbon metrics are not available for all asset classes, potentially increasing the level of estimation required.

The Fund believes that there is a risk that any Scheme Climate Risk report could potentially lead to inaccurate high-level comparisons between LGPS funds, which fail to take into account each LGPS fund's maturity profile, funding position, asset allocation strategy, or approach to managing climate related risks and opportunities.

The role of the LGPS asset pools

Question 9: Do you have any comments on the role of the LGPS asset pools in delivering the requirements?

The AA is responsible for an LGPS fund's governance, strategy, policies and assets. This role cannot be outsourced to a third party, including the LGPS Asset Pool companies. Investments strategies and targets should be specific to the characteristics of the relevant LGPS fund, and not simply aligned within pools for the ease of climate risk reporting.

The Fund believes that the Fund's pool company has an important role to play in supporting the Fund's carbon risk reporting, including the preparation of an annual Climate Risk Report, and the provision of general assistance with investment engagement and stewardship services.

We refer to our earlier comments in Question 1 in respect of governance requirements and the need for independent advice on climate-related investment matters as a growing percentage of assets are transitioned into products managed by the pools.

Guidance and reporting template for administering authorities

Question 10: Do you agree with our proposed approach to guidance?

The Fund agrees that there should be statutory guidance to accompany the regulations. This guidance will need to be clear and comprehensive. The guidance should be subject to a consultation process.

Knowledge, skills and advice

Question 11: Do you agree with our proposed approach to knowledge, skills and advice?

As mentioned in the response to Question 1, the Fund believes that properly qualified advisers would require broad commercial experience across investments, economics and markets, in addition to possessing climate related knowledge and skills to ensure that climate advice is provided in the context of the broader range of risk and reward considerations.

As an increasing percentage of LGPS assets are transitioned to the management of the pools, it will be important that LGPS funds receive independent advice on the investment products offered by the pools, and that these advisors are able to monitor and assess the pools' ability to manage climate related risks, together with generating the investment returns required by LGPS funds to meet member pension obligations.

The Fund believes that these services could be procured through the use of an LGPS national framework to reduce procurement time and costs.

Consideration of impact on protected groups

Question 12: Do you have any comments on the impact of our proposals on protected groups and on how any negative impacts may be mitigated?

The Fund does not believe that the proposals in this consultation would impact on protected groups.

Yours faithfully,

Dawn Kinley

Head of Pension Fund

For and behalf of Derbyshire County Council as Administrating Authority for Derbyshire Pension Fund

FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

PENSIONS AND INVESTMENTS COMMITTEE

WEDNESDAY, 7 DECEMBER 2022

Report of the Director of Finance and ICT

DERBYSHIRE PENSION FUND 2022 ACTUARIAL VALUATION

1. Purpose

To inform the Committee of the initial whole fund results of the actuarial valuation (the Valuation) of Derbyshire Pension Fund (the Fund/Pension Fund) at 31 March 2022 and to seek approval of the Fund's draft updated Funding Strategy Statement, attached as Appendix 2, for consultation with relevant stakeholders.

To seek approval for the Fund's draft updated Admission, Cessation and Bulk Transfer Policy attached as Appendix 3.

2. Information and Analysis

2.1 The Regulations

Under Regulation 58 of the Local Government Pension Scheme (LGPS) Regulations 2013 (2013 Regulations), administering authorities of LGPS funds are required to prepare, maintain and publish a funding strategy statement following consultation with 'such persons as it considers appropriate'.

Under Regulation 62 of the 2013 Regulations, administering authorities of LGPS funds are required to obtain an actuarial valuation of the assets and liabilities of the pension fund on 31 March every three years.

The 2013 Regulations (Parts 1, 2 & 3 of Schedule 2) set out the various types of employers who participate/are eligible to participate in the LGPS and the different requirements that apply to each category of employer.

2.2 The Purpose of the Actuarial Valuation

The Valuation is a planning exercise for the Fund to determine:

- The expected cost of providing the benefits built up by members at the valuation date in today's terms (the liabilities) compared to the investments held by the Pension Fund (the assets).
- The contributions needed over an appropriate time horizon to cover the cost of the benefits that active members will build up in the future (the Primary Contribution Rate).
- An adjustment for the difference between the Primary Contribution Rate above, and the actual contribution the employer needs to pay over the time horizon, referred to as the Secondary Contribution Rate. In broad terms, payment of the Secondary Contribution Rate is in respect of benefits already accrued at the valuation date.

The actuary determines the information above for individual employers, or pools of employers, as well as for the Pension Fund as a whole in order to determine the appropriate contribution rates for each employer, or pool of employers.

The Valuation is calculated as at 31 March 2022 and will set the contribution rates payable from 1st April 2023 to 31 March 2026, which will be detailed in the Rates and Adjustments Certificate appended to the actuary's final Valuation report.

2.3 The Funding Level

The funding level of the Pension Fund is the ratio of assets to liabilities at the valuation date. The market value of the Fund's assets (investments) is compared to the value placed on the Fund's accrued liabilities in today's terms. The accrued liabilities cover the expected cost of members' benefits in respect of scheme membership completed before the valuation date (past service).

2.4 Experience Since the March 2019 Valuation & Future Expectations

Since the last actuarial valuation, the Fund achieved investment returns of 24.3% over the three year period to 31 March 2022, compared to an anticipated investment return over that period of 11.2%, leading to a larger than expected increase in the value of the assets of the Fund.

Based on a forecast of slightly higher investment returns going forward, the assumed future investment return is 3.8% p.a., compared to an assumed return of 3.6% p.a. at the last valuation. The future investment return is used to discount future benefit payments to a present value of the Fund's liabilities and, everything else being equal, a higher investment return assumption results in a lower present value of the Fund's liabiities.

Pension benefit increases (both in payment and deferment) and the revaluation of career-average earnings are in line with CPI inflation; a higher level of CPI, therefore, results in an increase in the forecast costs of the benefits to be paid from the Fund. In the three years to March 2022, the inflationary increase in benefits was 1.8% p.a. against a forecast increase of 2.3% p.a, however, longer term inflation expectations have increased to 2.7% p.a.reflecting the significant increase in short term inflation expectations over the past year.

A greater than expected increase in salaries in the three years to March, 4.4% p.a. against 3.7% p.a., and an increase in expected salary increases going forward (CPI +1%), reflecting the strong job market, higher inflation and pressure from National Living Wage increases, has also increased the forecast cost of future benefit payments.

In line with guidance issued by the Department for Levelling Up, Housing and Communities (DLUHC), the Fund's actuary, Hymans Robertson LLP (Hymans), has made an allowance for the cost of the potential improvements in benefits accrued by certain members between 2014 and 2022 who may benefit from the implementation of the remedy to the McCloud 'age discrimination' case when the necessary amendments to the LGPS 2013 regulations are introduced.

The membership experience was largely in line with expectations over the period, although sadly there was a slightly higher number of deaths than expected. Overall, the impact of more positive actual and expected investment returns on the funding position of the Pension Fund, has outweighed the negative impact of higher future inflation expectations.

The valuation assumptions are based on recommendations from the Fund's actuary and have been agreed with the Director of Finance & ICT.

2.5 Initial Whole Fund Results

There has been an improvement in the funding level of the Pension Fund from 97% at 31 March 2019 to 100% at 31 March 2022, with the 2019 deficit of £163m moving to a small positive surplus of £3m.

Valuation Date	31 March 2022	31 March 2019
Past Service Liabilities	**(£m)**	**(£m)**
Employees	2,470	2,019
Deferred Pensioners	1,115	923
Pensioners	2,543	2,150
Total Liabilities	**6,128**	**5,092**
Assets	**6,132**	**4,929**
Surplus/(Deficit)	**3**	**(163)**
Funding Level	**100%**	**97%**

The funding level provides a high-level snapshot of the funding position at a particular date and could be very different the following day on a sharp move in investment markets.

2.6 Funding Strategy Statement
As part of the valuation process, the Fund reviews the funding strategy to ensure that an appropriate contribution plan and investment strategy is in place. The funding strategy is set out in the Funding Strategy Statement (FSS) which is the Fund's key governance document in relation to the actuarial valuation.

The FSS sets out the funding policies adopted, the actuarial assumptions used and the time horizons considered for each category of employer.

The draft updated Funding Strategy Statement is attached as Appendix 2. The FSS has been streamlined to make it more accessible to stakeholders. The main changes to the FSS since it was last updated in September 2021 are:

- maximum time horizons for local authorities, the police authority, the fire authority, arm's length management organisations, Peak District National Park and Chesterfield Crematorium, the academies and the town and parish councils, reduced from 19 years to 18 years, in the interests of intergenerational fairness
- stabilisation approach extended to allow contribution rate reductions of up to 1% of pay a year for local authorities, the police authority, the fire authority, arm's length management organisations, Peak District National Park and Chesterfield Crematorium, in recognition of generally stronger funding positions
- low risk exit basis changed from a gilts exit basis to a risk based approach (further information provided below)

- additional detail on the Fund's criteria for considering requests for the prepayment of employer contributions, on the implementation of prepayments and on employer considerations related to prepayments
- section on employer flexibities related to exit payments on cessation (covering debt spreading arrangements and deferrred debt agreements) moved to the Admission, Cessation and Bulk Transfer Policy

When an employer ceases to participate in the Pension Fund, the Fund's actuary carries out an exit valuation to place a value in today's terms on the future benefit payments (liabilities) of the ceasing employer to determine whether the employer has a cessation debt to pay to the Fund or whether there is a potential exit credit for the Fund to pay out. This requires an assumption to be made about the level of future investment returns that will be earned on the Fund's assets.

A low risk exit basis is used to value a ceasing employer's liabilities when there is no guarantor to stand behind ongoing pension liabilities relating to the ceased employer in order to provide an enhanced level of protection to the Fund's remaining employers who would be required to fund any unfunded liabilities. This added protection is allowed for by assessing the ceasing employer's liabilities using a more prudent investment return assumption.

The Fund's current strategy is to use a single investment return assumption based on long term UK government bonds (long term gilts). It is now proposed that the Fund moves to a risk based approach for low risk exit valuations, deriving an investment return assumption based on the Fund's actual investment strategy, with a higher level of prudence than the ongoing funding basis.

It is also proposed that a 'corridor' approach is adopted, with the actuary calculating two target asset values, equal to the liabilities calculated using a minimum and maximum likelihood of success of achieving the investment return. These two values would represent the bounds of the 'cessation corridor'. If the ceasing employer's asset share falls within this corridor, no payment would be required in either direction (i.e. no cessation debt or exit credit) as the employer's asset share would be deemed to be broadly sufficient to cover the calculated liabilities.

The actuary has recommended likelihood of success corridor bounds of 85% and 95% which is forecast to maintain the current level of prudence adopted by the Fund when carrying out low risk exit valuations. The benefits of the proposed new approach include:

- aligning the basis of calulating the valuation of low risk exits with the risk based approach used for reporting liabilities for ongoing employers and

with the invested assets of the ceased employer (a large percentage of the Fund is invested in growth assets)

- reducing the risk of the significant volatility in exit valuations that can arise as a result of market conditions on a particular day, which can increase the difficulty of planning for future cessation events
- reducing the exposure of low risk exit valuations to distortions in the gilts market caused by supply and demand issues

Committee's approval of the draft updated FSS for consultation with the Fund's stakeholders, including scheme employers and Derbyshire Pension Board, is sought.

Subject to Committee's approval, it is intended that the draft updated FSS will be presented to the Fund's employers on 15 December 2022 at an Employer Valuation Meeting attended by Hymans. It is proposed that a consultation will be launched the following week to run for six weeks to 31 January 2023.

Following consideration of the responses received during the consultation, the final FSS will be presented to Committee for approval in early March 2023.

2.7 Contribution Rate Modelling

The Fund's actuary has carried out contribution rate modelling in respect of some chosen long term, secure employers in the Pension Fund to allow the Fund to consider appropriate future contributions and the interaction of the long term funding strategies for the Fund's stabilised employers. The chosen employers included a select number of councils and a pool of the worst funded academies.

2.8 Remaining Actuarial Valuation Timetable

	2022
Draft employer results schedules & draft updated FSS issued to employers	w/c 12 Dec
Employer Valuation Meeting	15 Dec
Commence FSS consultation	w/c 19 Dec
	2023
Individual meetings with actuary available for employers	12 Jan
End of FSS consultation	31 Jan
Committee to consider results of FSS consultation & finalise funding strategy	8 Mrch
Final valuation sign-off by the actuary	31 Mrch

The final actuarial valuation report will be presented to Committee for noting in due course.

2.9 Admission,Cessation and Bulk Transfer Policy
The draft updated Admission, Cessation and Bulk Transfer Policy (the Policy), attached at Appendix 3, sets out the Fund's approach to the admission of new employers to the Pension Fund, how it deals with possible bulk transfers of members, and employers ceasing their participation in the Fund. The Policy also includes the Fund's approach to dealing with exit credits which LGPS regulations introduced in 2018 allowed to be paid for the first time.

Employers are responsible for any surplus or deficit arising with respect to their members during the period of participation in the Fund so that if or when the participation ceases, they are 100% funded. However, if an employer fails or ceases to exist and any deficit cannot be met by the employer or claimed from any bond, indemnity or guarantor, the liability would fall to other employers in the Fund.

The purpose of the Policy is to ensure that only appropriate bodies are admitted to the Fund and that the financial risk to Fund, and to other employers, associated with employers' participation in the Fund is identified, minimised and managed accordingly. The Policy also seeks to ensure that bulk transfers out of the Fund do not allow a deficit to remain behind and that bulk transfers into the Fund are sufficient to pay for the associated benefits being awarded to the members transferring into the Fund.

The main changes to the Policy since it was last approved by Committee in July 2021 are:

- Clarification that academies which outsource services to an admission body must comply with Education and Skills Funding Agency requirements in order for the Department of Education's (DfE) guarantee in respect of LGPS funding to apply (the DfE provides a guarantee for any shortfall in the payment of LGPS liabilities in the event of an academy closure to ensure that any outstanding liabilities do not revert to LGPS funds).
- Recognition of the ability of a Multi Academy Trust (MAT) to apply to DHULC for a Direction Order to substitute a different administering authority for academies which a MAT is seeking to consolidate into a single Fund.
- Clarification that the Fund reserves the right to request a secure and financially durable bond or other form of security from a scheduled body, depending on the employer's financial circumstances.
- The addition of the basis for calculating an employer's liabilities on exit, according to the category of employer.
- The addition of the Fund's approach to the employer flexibilities related to exit payments on cessation (covering debt spreading arrangements and deferrred debt agreements).

- The updating of the Fund's approach to dealing with exit credits to reflect the inclusion of the basis for calculating an employer's pension liabilities on exit in the Policy and to reflect the new low risk exit basis.
- Clarification of the roles and responsibilities of ceasing employers, the administering authority and the Fund's actuary in relation to exits from the Pension Fund.

2.10 Hymans Robertson LLP - Attendance at Committee
The Fund's actuary is attending Committee to present on the initial whole fund results, the proposed updates to the Funding Strategy Statement and the conclusions of the contribution rate modelling.

3. Implications

Appendix 1 sets out the relevant implications considered in the preparation of the report.

4. Background Papers

Papers held by the Pension Fund.

5. Appendices

5.1 Appendix 1 – Implications

5.2 Appendix 2 – Draft Updated Funding Strategy Statement

5.3 Appendix 3 – Draft Updated Admission, Cessation and Bulk Transfer Policy

6. Recommendations

That Committee:

a) Notes the initial whole fund results of the actuarial valuation of Derbyshire Pension Fund.
b) Approves the Fund's draft updated Funding Strategy Statement, attached as Appendix 2, for consultation with relevant stakeholders.
c) Approves the Fund's draft updated Admission, Cessation and Bulk Transfer policy, attached as Appendix 3.

7. Reasons for Recommendations

It is the role of Committee is to review and approve the Fund's statements, strategies and policies and to receive and consider the Fund's actuarial valuation report.

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Appendix 1

<u>Implications</u>

Financial

1.1 None

Legal

2.1 None

Human Resources

3.1 None

Information Technology

4.1 None

Equalities Impact

5.1 None

Corporate objectives and priorities for change

6.1 None

Other (for example, Health and Safety, Environmental, Sustainability, Property and Asset Management, Risk Management and Safeguarding)

7.1 None

Derbyshire
Pension
Fund

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Draft Funding Strategy Statement

December 2022

County Hall, Matlock, Derbyshire, DE4 3AH
Administered by Derbyshire County Council

lgps

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Welcome to our Funding Strategy Statement

This document sets out the Funding Strategy Statement (FSS) for Derbyshire Pension Fund.

Derbyshire Pension Fund is administered by Derbyshire County Council, known as the administering authority. Derbyshire County Council worked with the fund's actuary, Hymans Robertson, to prepare this FSS which is effective from [DATE POST CONSULTATION].

There's a regulatory requirement for Derbyshire County Council to prepare a FSS. You can find out more about the regulatory framework in Appendix A. If you have any queries about the FSS, contact Derbyshire Pension Fund at Pensions.Regs@derbyshire.gov.uk.

1.1 What is Derbyshire Pension Fund?

Derbyshire Pension Fund is part of the Local Government Pension Scheme (LGPS). You can find more information about the LGPS at www.lgpsmember.org.or at www.derbyshirepensionfund.org.uk. The administering authority runs the Fund on behalf of participating employers, their employees and current and future pensioners. You can find out more about roles and responsibilities in Appendix B.

1.2 What are the funding strategy objectives?

The funding strategy objectives are to:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- where appropriate, ensure stable employer contribution rates
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

1.3 Who is the FSS for?

The FSS is mainly for employers participating in the Fund, because it sets out how money will be collected from them to meet the Fund's obligations to pay members' benefits.

Different types of employers participate in the Fund:

Scheduled bodies

Employers who are specified in a schedule to the LGPS regulations, including councils and employers like academies and further education establishments. Scheduled bodies must give employees access to the LGPS if they can't accrue benefits in another pension scheme, such as another public service pension scheme.

Designating employers

Employers like town and parish councils can join the LGPS through a resolution. If a resolution is passed, the Fund can't refuse entry. The employer then decides which employees can join the scheme.

Admission bodies

Other employers can join through an admission agreement. The Fund can set participation criteria for them and can refuse entry if the requirements aren't met. This type of employer includes contractors providing outsourced services like cleaning or catering to a scheduled body.

Some existing employers may be referred to as community admission bodies (CABs). CABs are employers with a community of interest with another scheme employer. Others may be called transferee admission bodies (TABs), that provide services for scheme employers. These terms aren't defined under current regulations but remain in common use from previous regulations.

1.4 How does the funding strategy link to the investment strategy?

The funding strategy sets out how money will be collected from employers to meet the Fund's obligations. Contributions, assets and other income are then invested according to an investment strategy set by the administering authority. You can find the investment strategy at https://www.derbyshirepensionfund.org.uk/publications/policies-strategies-and-statements/investment-strategy.aspx

The funding and investment strategies are closely linked. The Fund must be able to pay benefits when they are due – those payments are met from a combination of contributions (through the funding strategy) and asset returns and income (through the investment strategy). If investment returns or income fall short the Fund won't be able to pay benefits, so higher contributions would be required from employers.

1.5 Does the funding strategy reflect the investment strategy?

The funding policy is consistent with the investment strategy. Future investment return expectations are set with reference to the investment strategy, including a margin for prudence which is consistent with the regulatory requirement that funds take a 'prudent longer-term view' of funding liabilities (see Appendix A)

1.6 How is the funding strategy specific to Derbyshire Pension Fund?

The funding strategy reflects the specific characteristics of the Fund employers and its own investment strategy.

2 How does the Fund calculate employer contributions?

2.1 Calculating contribution rates

Employee contribution rates are set by the LGPS regulations.

Employer contributions are made up of three elements:

- **the primary contribution rate** – contributions payable towards future benefits
- **the secondary contribution rate** – the difference between the primary rate and the total employer contribution
- **an allowance for the Fund's expenses** – usually added into the primary contribution rate.

The Fund actuary uses a model to project each employer's asset share over a range of future economic scenarios. More information on this model can be found in Appendix D. The contribution rate takes each employer's assets into account as well as the projected benefits due to their members. The value of the projected benefits is worked out using employer membership data and the assumptions in Appendix D.

The total contribution rate for each employer is then based on:

- **the funding target** – how much money the Fund aims to hold for each employer
- **the time horizon** – the time over which the employer aims to achieve the funding target
- **the likelihood of success** – the proportion of modelled scenarios where the funding target is met

This approach takes into account the maturing profile of the membership when setting employer contribution rates.

2.2 The contribution rate calculation

Table 2: contribution rate calculation for individual or pooled employers

Type of employer	Scheduled bodies				Designating employers	CABs		TABs
Sub-type	**Local authorities, police, fire**	**Arm's Length Management Organisations, Peak District National Park and Chesterfield Crematorium**	**Academies**	**Colleges & universities**	**Town and Parish Councils (pooled)**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Funding target*	Ongoing, assumes long-term Fund participation					Ongoing, but may move to low risk exit basis where no guarantor in place		Ongoing, assuming fixed-term contract in the fund
Minimum likelihood of success	70%	70%	70%	75%	70%	85% if ongoing (a lower likelihood may be applied where a guarantor is in place), 50% if low risk exit basis	85% if ongoing (a lower likelihood may be applied where a guarantor is in place), 50% if low risk exit basis	75%
Maximum time horizon	18 years	18 years	18 years	15 years	18 years	12 years	12 years	Lower of 12 years and outstanding contract term
Primary rate approach	The contributions must be sufficient to meet the cost of benefits earned in the future with the required likelihood of success at the end of the time horizon							

Type of employer	Scheduled bodies				Designating employers	CABs		TABs
Sub-type	**Local authorities, police, fire**	**Arm's Length Management Organisations, Peak District National Park and Chesterfield Crematorium**	**Academies**	**Colleges & universities**	**Town and Parish Councils (pooled)**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Secondary rate	% of payroll or monetary amount	% of payroll or monetary amount	% of payroll	% of payroll or monetary amount	% of payroll	% of payroll or monetary amount	% of payroll or monetary amount	% of payroll or monetary amount
Stabilised contribution rate?	Yes	Yes	Yes	No	No	No	No	No
Treatment of surplus	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Reduce contributions by spreading the surplus over 15 years	Reduce contributions by spreading the surplus over 18 years	Preferred approach: contributions kept at primary rate. Reductions may be permitted by the administering authority		Reduce contributions by spreading the surplus over the lower of 12 years and remaining contract term
Phasing of contribution changes	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Covered by stabilisation arrangement	3 years	3 years	3 years	3 years	None

Where the Administering Authority recognises a fixed contribution rate agreement between a letting employer and a contractor, the certified employer contribution rate will be derived in line with the methodology specified in the risk sharing agreement. Additionally, in these cases, upon cessation the contractor's assets and liabilities will transfer back to the letting employer ordinarily with no crystallisation of any deficit or surplus.

The Fund reserves the right to use a different likelihood of success for these bodies than stated in the table above if there are concerns in relation to their individual circumstances. In addition, a deterministic approach may be used for employers with a relatively short time horizon.

See Appendix D for further information on funding targets.

2.3 Making contribution rates stable

Making employer contribution rates reasonably stable is an important funding objective. Where appropriate, contributions are set with this objective in mind. The Fund adopts a stabilised approach to setting contributions for the employers noted in the table below, which keeps contribution variations within a pre-determined range from year-to-year. These employers are large, secure, long term employers who can better absorb the short term funding level volatility over the longer term.

After taking advice from the Fund actuary, the administering authority believes a stabilised approach can still be viewed as a prudent longer-term strategy for these employers. For other employers, contribution increases or decreases may be phased.

Table 1: current stabilisation approach

Type of employer	Local authorities, Police and Fire	Arm's Length Management Organisations, Peak District National Park and Chesterfield Crematorium	Academies
Maximum contribution increase per year	+1% of pay	+1% of pay	+1% of pay
Maximum contribution decrease per year	-1% of pay	-1% of pay	-1% of pay

Stabilisation criteria and limits are reviewed during the valuation process. The administering authority may review them between valuations to respond to membership or employer changes.

2.4 Reviewing contributions between valuations

The Fund may review and subsequently amend contribution rates between formal valuations where there has been 'significant change' to the liabilities or covenant of an employer. The purpose of any review is to establish the most appropriate contributions. A review may be instigated by the Fund or at the request of a participating employer and may lead to an increase or decrease in contributions.

The Fund would consider the following circumstances as a potential trigger for a review:

- in the opinion of the Administering Authority there are circumstances which make it likely that an employer (including an admission body) will become an exiting employer sooner than anticipated at the last valuation
- an employer is approaching exit from the Fund within the next two years and before completion of the next triennial valuation
- there are changes to the benefit structure set out in the LGPS Regulations which have not been allowed for at the last valuation
- it appears likely to the Administering Authority that there has been a significant change in the ability of an employer or employers to meet their obligations, such as a material change in employer covenant
- it appears to the Administering Authority that the membership of the employer has changed materially due to events such as bulk transfers, significant reductions to payroll or large-scale restructuring

- where an employer has failed to pay contributions or has not arranged appropriate security as required by the Administering Authority

The costs of any review of an employer's funding position and contribution rate will be met by the employer.

Requests for an interim review of an employer's contribution rate will normally be limited to one per employer over a rolling twelve-month period and the proximity to the next formal valuation will be considered. Except in circumstances such as an employer nearing cessation, market volatility or changes to asset values will not be considered as a basis for an interim review of contributions.

The administering authority will require additional information to support a contribution rate review, which is likely to include:

- a copy of the employer's latest accounts and financial forecasting information
- sources of funding/details of any additional security being offered

The decision on whether to amend an employer's contribution rate rests with the Administering Authority following consultation with the Fund's actuary. The Administering Authority may need to consult with other fund employers as part of any review.

2.5 What is pooling?

The administering authority operates contribution rate pools for similar types of employers. Contribution rates can be volatile for smaller employers that are more sensitive to individual membership changes – pooling across a group of employers minimises this. In a contribution rate pool, contributions are set to target full funding for the pool as a whole, rather than for individual employers.

With the exception of the Town and Parish Councils pool, employers in a pool maintain their individual funding positions, tracked by the Fund actuary. That means some employers may be better funded or more poorly funded than the pool average. If pooled employers used stand-alone funding rather than pooling, their contribution rates could be higher or lower than the pool rate. Setting contributions in this way means that while the Fund receives the contributions required, the risk that employers develop a surplus or deficit increases.

Pooled employers are identified in the Rates and Adjustments certificate and only have their pooled contributions certified. Individual contribution rates aren't disclosed to pooled employers, unless agreed by the administering authority.

CABs that are closed to new entrants aren't usually allowed to enter a pool.

If an employer leaves the Fund, except in the case of an employer in a full funding pool (such as the Town and Parish Council pool), the required contributions are based on their own funding position rather than the pool average. Cessation terms also apply, which means higher contributions may be required at that point.

2.6 What are the current contribution pools?

- **Town and Parish Councils** – sharing experience and smoothing the effects of costly but rare events like ill-health retirement or deaths in service. The Town and Parish Council pool operates a full funding pool, i.e. there is one pool of assets covering all of the Town and Parish Councils, with experience shared across the entire pool.
- **Schools** – generally pool with their funding council, although there may be exceptions for specialist or independent schools or academies (for example, the academies within a Multi Academy Trust may operate as a contribution pool or a full funding pool).

- **Smaller TABs** – may be pooled with the letting employer.

2.7 Administering authority discretion

Individual employers may be affected by circumstances not easily managed within the FSS rules and policies. If this happens, the administering authority may adopt alternative funding approaches on a case-by-case basis.

Additionally, the administering authority may allow greater flexibility to the employer's contributions if added security is provided. Flexibility could include things like a reduced contribution rate, extended time horizon, or permission to join a pool. Added security may include a suitable bond, a legally binding guarantee from an appropriate third party, or security over an asset.

2.8 Prepayment of employer contributions

The Fund will consider requests from large, secure employers, with stable active memberships, to pre-pay certified primary and secondary contributions for a discounted sum calculated by the Fund's actuary. The discount will reflect the investment return that is assumed to be generated by the Fund over the period of the prepayment.

Employers considering making a prepayment should be aware that future investment returns are not guaranteed, and it is possible that the investment returns generated on prepayment amounts may be lower than the return that could be generated by the employer.

Where contributions expressed as a percentage of pay have been prepaid, the Fund will carry out an annual check to make sure that the actual amounts paid are sufficient to meet the contribution requirements set out in the Rates & Adjustments certificate. If the actual experienced payroll is higher than estimated when calculating the prepayment amount, additional contributions may be required from the employer.

If the actual experienced payroll is lower than estimated when calculating the prepayment amount, no refund would be payable to the employer, the 'excess' would instead remain allocated to the employer's assets within the Fund.

The accounting treatment of any prepayment agreement should be agreed in advance between the employer and its auditor.

3 What additional contributions may be payable?

3.1 Pension costs – awarding additional pension and early retirement on non ill-health grounds

If an employer awards additional pension as an annual benefit amount, they pay an additional contribution to the Fund as a single lump sum. The amount is set by guidance issued by the Government Actuary's Department and updated from time to time.

If an employee retires before their normal retirement age on unreduced benefits, employers may be asked to pay additional contributions called strain payments.

Employers typically make strain payments as a single lump sum in the year in which the strain is incurred.

3.2 Pension costs – early retirement on ill-health grounds

If a member retires early because of ill-health, their employer must pay a funding strain, which may be a large sum.

To mitigate this, employers may choose to use external insurance made available by the Fund.

4 How does the Fund calculate assets and liabilities?

4.1 How are employer asset shares calculated?

The Fund adopts a cashflow approach to track individual employer assets.

Each Fund employer has a notional share of the Fund's assets, which is assessed yearly by the actuary. The actuary starts with assets from the previous year-end, adding cashflows paid in/out and investment returns to give a new year-end asset value. The Fund actuary makes a simplifying assumption, that all cashflow and investment returns have been paid uniformly over the year. This assumption means that the sum of all employers' asset values is slightly different from the whole Fund asset total over time. This minimal difference is split between employers in proportion to their asset shares at each valuation.

If an employee moves one from one employer to another within the Fund, assets equal to the cash equivalent transfer value (CETV) will move from the original employer to the receiving employer's asset share.

Alternatively, if employees move when a new academy is formed or an outsourced contract begins, the Fund actuary will calculate assets linked to the value of the liabilities transferring (see section 4.2).

4.2 How are employer liabilities calculated?

The Fund holds membership data for all active, deferred and pensioner members. Based on this data and the assumptions in Appendix D, the Fund actuary projects the expected benefits for all members into the future. This is expressed as a single value – the liabilities – by allowing for expected future investment returns.

Each employer's liabilities reflect the experience of their own employees and ex-employees.

4.3 What is a funding level?

An employer's funding level is the ratio of the market value of asset share against liabilities. If this is less than 100%, the employer has a shortfall: the employer's deficit. If it is more than 100%, the employer is in surplus. The amount of deficit or surplus is the difference between the asset value and the liabilities value.

Funding levels and deficit/surplus values measure a particular point in time, based on a particular set of future assumptions. While this measure is of interest, for most employers the main issue is the level of contributions payable. The funding level does not directly drive contribution rates. See section 2 for further information on contribution rates.

5 What happens when an employer joins the Fund?

5.1 When can an employer join the Fund

Employers can join the Fund if they are a new scheduled body or a new admission body. New designated employers may also join the Fund if they pass a designation to do so.

On joining, the Fund will determine the assets and liabilities for that employer within the Fund. The calculation will depend on the type of employer and the circumstances of joining.

A contribution rate will also be set. This will be set in accordance with the calculation set out in Section 2, unless alternative arrangements apply (for example, the employer has agreed a pass-through arrangement). More details on this are in Section 5.3 below.

5.2 New academies

New academies (including free schools) join the Fund as separate scheduled employers. Only active members of former council schools transfer to new academies. Free schools do not transfer active members from a converting school but must allow new active members to transfer in any eligible service.

Liabilities for transferring active members will be calculated (on the ongoing basis) by the Fund actuary on the day before conversion to an academy. Liabilities relating to the converting school's former employees (ie members with deferred or pensioner status) remain with the ceding council.

New academies will be allocated an asset share based on the estimated funding level of the ceding council's active members, having first allocated the council's assets to fully fund their deferred and pensioner members. This funding level will then be applied to the transferring liabilities to calculate the academy's initial asset share, capped at a maximum of 100%.

The council's estimated funding level will be based on market conditions on the day before conversion. The Fund treats new academies as separate employers in their own right, who are responsible for their allocated assets and liabilities. The new academy will pay contributions initially linked to council contribution rates. If they are part of a MAT, the new academy may be combined with the other MAT academies to set contribution rates at the subsequent triennial valuation. Alternatively, they may be fully pooled with the other MAT academies to share risks and costs.

If an academy leaves one MAT and joins another, all active, deferred and pensioner members transfer to the new MAT.

The Fund's policies on academies may change based on updates to guidance from the Department for Levelling Up, Housing and Communities or the Department for Education. Any changes will be communicated and reflected in future funding strategy statements.

5.3 New admission bodies as a result of outsourcing services

New admission bodies usually join the Fund because an existing employer (usually a scheduled body like a council or academy) outsources a service to another organisation (a contractor). This involves TUPE transfers of staff from the letting employer to the contractor. The contractor becomes a new participating Fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership. At the end of the contract, employees typically revert to the letting employer or a replacement contractor.

Liabilities for transferring active members will be calculated by the Fund actuary on the day before the outsourcing occurs.

New contractors will be allocated an asset share equal to the value of the transferring liabilities. The admission agreement may set a different initial asset allocation, depending on contract-specific circumstances.

There is flexibility for outsourcing employers when it comes to pension risk potentially taken on by the contractor. You can find more details on outsourcing options from the administering authority or in the contract admission agreement.

5.4 Other new employers

There may be other circumstances that lead to a new admission body entering the Fund, e.g. set up of a wholly owned subsidiary company by a Local Authority. Calculation of assets and liabilities on joining and a contribution rate will be carried out allowing for the circumstances of the new employer.

New designated employers may also join the Fund. These are usually Town and Parish councils. Contribution rates will be set using the same approach as other designated employers in the Fund.

5.5 Risk assessment for new admission bodies

Under the LGPS regulations, a new admission body must assess the risks it poses to the Fund if the admission agreement ends early, for example if the admission body becomes insolvent or goes out of business. In practice, the Fund actuary assesses this because the assessment must be carried out to the administering authority's satisfaction.

After considering the assessment, the administering authority may decide the admission body must provide security, such as a guarantee from the letting employer, an indemnity or a bond.

This must cover some or all of the:

- strain costs of any early retirements, if employees are made redundant when a contract ends prematurely
- allowance for the risk of assets performing less well than expected
- allowance for the risk of liabilities being greater than expected
- allowance for the possible non-payment of employer and member contributions
- admission body's existing deficit

Community Admission Bodies: The Administering Authority will only consider requests from CABs (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, which also guarantees their liabilities.

The Fund's Admission, Cessation and Bulk Transfer policy is available at

https://www.derbyshirepensionfund.org.uk/publications/policies-strategies-and-statements/admissions-cessations-and-bulk-transfer-policy.aspx

6 What happens if an employer has a bulk transfer of staff?

Bulk transfer cases will be looked at individually, but generally:

- the Fund won't pay bulk transfers greater in value than either the asset share of the transferring employer in the Fund, or the value of the liabilities of the transferring members, whichever is lower
- the Fund won't grant added benefits to members bringing in entitlements from another Fund, unless the asset transfer is enough to meet the added liabilities
- a bulk transfer in may result in a shortfall when assessed using the Fund's ongoing funding basis. This may require the receiving employer's Fund contributions to increase between valuations.

Where members transfer between employers within Derbyshire Pension Fund, the assets that will be transferred from the transferring employer's asset share to the receiving employer's asset share will depend on the circumstances of the member(s)' transfer. In particular:

- Section 5.2 explains how assets will be allocated to new academy schools when members transfer from the ceding employer at the academy conversion date.
- Section 5.3 explains how assets will be allocated to new transferee admission bodies when services are outsourced from a scheduled body.
- If an individual member changes his/her employment from one employer in the Fund to another employer in the Fund, assets equal to the individual's cash equivalent transfer value (using standard Club factors) will be transferred from the transferring employer to the receiving employer.
- For all other cases, the Fund's default approach will be to transfer assets equal to the transferring liabilities (assessed on the Fund's ongoing funding basis) from the transferring employer's asset share to the receiving employer's asset share, unless there are specific circumstances which would merit an alternative approach.

The Fund's Admission, Cessation and Bulk Transfer policy is available at

https://www.derbyshirepensionfund.org.uk/publications/policies-strategies-and-statements/admissions-cessations-and-bulk-transfer-policy.aspx

7 What happens when an employer leaves the Fund?

7.1 What is a cessation event?

Triggers for considering cessation from the Fund are:

- the last active member stops participation in the Fund. The administering authority, at their discretion, can defer acting for up to three years by issuing a suspension notice. That means cessation won't be triggered if the employer takes on one or more active members during the agreed time
- insolvency, winding up or liquidation of the admission body
- a breach of the agreement obligations that isn't remedied to the Fund's satisfaction
- failure to pay any sums due within the period required
- failure to renew or adjust the level of a bond or indemnity, or to confirm an appropriate alternative guarantor
- termination of a deferred debt arrangement (DDA).

If no DDA exists, the administering authority will instruct the Fund actuary to carry out a cessation valuation to calculate if there is a surplus or a deficit when the Fund leaves the scheme.

7.2 What happens on cessation?

The administering authority must protect the interests of the remaining Fund employers when an employer leaves the scheme. The actuary aims to protect remaining employers from the risk of future loss. The funding target adopted for the cessation calculation is below. These are defined in Appendix D.

(a) Where there is no guarantor, cessation liabilities and a final surplus/deficit will usually be calculated using a low-risk basis, which is more prudent than the ongoing participation basis. The low-risk exit basis is defined in Appendix D.

(b) Where there is a guarantor, the guarantee will be considered before the cessation valuation. Where the guarantor is a guarantor of last resort, this will have no effect on the cessation valuation. If this isn't the case, cessation may be calculated using the same basis that was used to calculate liabilities (and the corresponding asset share) on joining the Fund.

(c) Depending on the guarantee, it may be possible to transfer the employer's liabilities and assets to the guarantor without crystallising deficits or surplus. This may happen if an employer can't pay the contributions due and the approach is within guarantee terms.

However, when carrying out the cessation valuation on the low-risk basis, the administering authority recognises the balance between protecting the Fund and the potential for being overly prudent. In addition, the Fund acknowledges the long-term and uncertain nature of pension funding. Therefore, if appropriate, when considering the amount of assets a ceasing employer must leave behind in the Fund to pay for its members' benefits, the Fund will consider an upper and lower amount (or "corridor"). In other words, an employer will be deemed to have a deficit if the assets are below the lower amount and a surplus if the assets are above the higher amount (i.e. there will be no deficit or surplus if a ceasing employer's assets fall within the "corridor").

If the Fund can't recover the required payment in full, unpaid amounts will be paid by the related letting authority (in the case of a ceased admission body) or shared between the other Fund employers. This may require an immediate revision to the Rates and Adjustments certificate or be reflected in the contribution rates set at the next formal valuation.

The Fund actuary charges a fee for cessation valuations [and there may be other cessation expenses]. Fees and expenses are at the employer's expense and are recharged to employers via an invoice by the Fund. In exceptional cases, depending on an employer's circumstances, the Fund reserves the right to collect these costs using alternative means, for example, via adjustment to an employer's cessation surplus or cessation deficit, as appropriate.

The cessation policy is contained within the Admission, Cessation and Bulk Transfer policy which is available at https://www.derbyshirepensionfund.org.uk/publications/policies-strategies-and-statements/admissions-cessations-and-bulk-transfer-policy.aspx

7.3 What happens if there is a surplus?

If the cessation valuation shows the exiting employer has more assets than liabilities (after allowing for the 'corridor' approach in section 7.2 if appropriate) – an exit credit – the administering authority can decide how much will be paid back to the employer based on:

- the surplus amount
- the proportion of the surplus due to the employer's contributions
- any representations (like risk sharing agreements or guarantees) made by the exiting employer and any employer providing a guarantee or some other form of employer assistance/support
- any other relevant factors.

The exit credit policy is contained within the Admission, Cessation and Bulk Transfer policy which is available at https://www.derbyshirepensionfund.org.uk/publications/policies-strategies-and-statements/admissions-cessations-and-bulk-transfer-policy.aspx

7.4 How do employers repay cessation debts?

If there is a deficit, and again after allowing for the 'corridor' approach in section 7.2 if appropriate, full payment will usually be expected in a single lump sum or:

- spread over an agreed period, if the employer enters into a Debt Spreading Agreement (DSA)
- if an exiting employer enters into a deferred debt agreement, it stays in the Fund and pays contributions until the cessation debt is repaid. Payments are reassessed at each formal valuation.

The employer flexibility on exit policy is contained within the Admission, Cessation and Bulk Transfer policy which is available at https://www.derbyshirepensionfund.org.uk/publications/policies-strategies-and-statements/admissions-cessations-and-bulk-transfer-policy.aspx

7.5 What if an employer has no active members?

When employers leave the Fund because their last active member has left, they may pay a cessation debt, receive an exit credit or enter a DDA or DSA at the discretion of the Fund. Beyond this they have no further obligation to the Fund and either:

a) their asset share runs out before all ex-employees' benefits have been paid. In the event that an employer is not absorbed into another Fund employer's funding pool, the other Fund employers will

be required to contribute to the remaining benefits. The Fund actuary will apportion the liabilities as set out in the Fund's Admission, cessation and bulk transfer policy.

b) the last ex-employee or dependant dies before the employer's asset share is fully run down. The Fund actuary will *apportion the remaining assets to the other Fund* employers.

8 What are the statutory reporting requirements?

8.1 Reporting regulations

The Public Service Pensions Act 2013 requires the Government Actuary's Department to report on LGPS funds in England and Wales after every three-year valuation, in what's usually called a section 13 report. The report should include confirmation that employer contributions are set at the right level to ensure the Fund's solvency and long-term cost efficiency.

8.2 Solvency

Employer contributions are set at an appropriate solvency level if the rate of contribution targets a funding level of 100% over an appropriate time, using appropriate assumptions compared to other funds. Either:

(a) employers collectively can increase their contributions, or the Fund can realise contingencies to target a 100% funding level

or

(b) there is an appropriate plan in place if there is, or is expected to be, a reduction in employers' ability to increase contributions as needed.

8.3 Long-term cost efficiency

Employer contributions are set at an appropriate long-term cost efficiency level if the contribution rate makes provision for the cost of current benefit accrual, with an appropriate adjustment for any surplus or deficit.

To assess this, the administering authority may consider absolute and relative factors.

Relative factors include:

1. comparing LGPS funds with each other
2. the implied deficit recovery period
3. the investment return required to achieve full funding after 20 years.

Absolute factors include:

1. comparing funds with an objective benchmark
2. the extent to which contributions will cover the cost of current benefit accrual and interest on any deficit
3. how the required investment return under relative considerations compares to the estimated future return targeted by the investment strategy
4. the extent to which contributions paid are in line with expected contributions, based on the rates and adjustment certificate
5. how any new deficit recovery plan reconciles with, and can be a continuation of, any previous deficit recovery plan, allowing for fund experience.

These metrics may be assessed by GAD on a standardised market-related basis where the funds' actuarial bases don't offer straightforward comparisons.

Appendix A – The regulatory framework

A1 Why do funds need a funding strategy statement?

The Local Government Pension Scheme (LGPS) regulations require funds to maintain and publish a funding strategy statement (FSS). According to the Department for Levelling Up, Housing and Communities (DLUHC) the purpose of the FSS is to document the processes the administering authority uses to:

- establish a **clear and transparent fund-specific strategy** identifying how employers' pension liabilities are best met going forward
- support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**
- ensure the fund meets its **solvency and long-term cost efficiency** objectives
- take a **prudent longer-term view** of funding those liabilities.

To prepare this FSS, the Administering Authority has used guidance by the Chartered Institute of Public Finance and Accountancy (CIPFA).

A2 Consultation

Both the LGPS regulations and most recent CIPFA guidance state the FSS should be prepared in consultation with "*persons the authority considers appropriate*". This should include '*meaningful dialogue… with council tax raising authorities and representatives of other participating employers*'.

In practice, for the Fund, the consultation process for this FSS was as follows:

a) A draft version of the FSS was published on Derbyshire Pension Fund's website on dd month 20XX, with comments invited from all of the Fund's stakeholders; a link to the website was issued to all participating employers and to members of Derbyshire Pension Board.

b) Comments were requested by dd month 20XX.

c) Following the end of the consultation period, the FSS was updated where required and then published on the Derbyshire Pension Fund website in Month 2023.

A3 How is the FSS published?

The FSS is made available via the following routes:

- It is published on the Fund's website.
- A copy is sent by e-mail to each participating employer in the Fund.
- A copy is sent by e-mail to the members of Derbyshire Pension Board.
- The FSS is included in the Fund's Annual Report.
- A copy is sent by email to the Fund's independent investment adviser.
- Copies are available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the valuation. Amendments may be made before then if there are regulatory or operational changes. Any material amendments will be consulted on, agreed by the Pensions and Investment Committee and included in the Committee meeting minutes.

A5 How does the FSS fit into the overall Fund documentation?

The FSS is a summary of the Fund's approach to funding liabilities. It isn't exhaustive – the Fund publishes other statements like the:

- Investment Strategy Statement
- Admission, Cessation and Bulk Transfer Policy
- Governance Policy and Compliance Statement
- Communications Policy

The Fund's Annual Report also includes up-to-date Fund information.

You can see all Fund documentation at www.derbyshirepensionfund.org.

Appendix B – Roles and responsibilities

B1 The administering authority:

1 operates the Fund and follows all Local Government Pension Scheme (LGPS) regulations

2 manages any conflicts of interest from its dual role as administering authority and a Fund employer

3 collects employer and employee contributions, investment income and other amounts due

4 ensures cash is available to meet benefit payments when due

5 pays all benefits and entitlements

6 invests surplus money like contributions and income which isn't needed to pay immediate benefits, in line with regulation and the investment strategy

7 communicates with employers so they understand their obligations

8 safeguards the Fund against employer default

9 works with the Fund actuary to manage the valuation process

10 provides information to the Government Actuary's Department so they can carry out their statutory obligations

11 consults on, prepares and maintains the funding and investment strategy statements

12 tells the actuary about changes which could affect funding

13 monitors the Fund's performance and funding, amending the strategy statements as necessary

14 enables the local pension board to review the valuation process

B2 Individual employers:

15 deduct the correct contributions from employees' pay

16 pay all contributions by the due date

17 have appropriate policies in place to work within the regulatory framework

18 make additional contributions as agreed, for example to augment scheme benefits or early retirement strain

19 tell the administering authority promptly about any changes to circumstances, prospects or membership which could affect future funding.

20 make any required exit payments when leaving the Fund

B3 The Fund actuary:

1 prepares valuations, including setting employers' contribution rates, agreeing assumptions, working within FSS and LGPS regulations and appropriately targeting fund solvency and long-term cost efficiency

2 provides information to the Government Actuary's Department so they can carry out their statutory obligations

3 advises on Fund employers, including giving advice about and monitoring bonds or other security

4 prepares advice and calculations around bulk transfers and individual benefits

5 assists the administering authority to consider changes to employer contributions between formal valuations

6 advises on terminating employers' participation in the Fund

7 fully reflects actuarial professional guidance and requirements in all advice

B4 Other parties:

1 internal and external investment advisers ensure the Investment Strategy Statement (ISS) is consistent with the Funding Strategy Statement

2 investment managers, custodians and bankers play their part in the effective investment and dis-investment of Fund assets in line with the ISS

3 auditors comply with standards, ensure Fund compliance with requirements, monitor and advise on fraud detection, and sign-off annual reports and financial statements

4 governance advisers may be asked to advise the administering authority on processes and working methods

5 internal and external legal advisers ensure the Fund complies with all regulations and broader local government requirements, including the Administering Authority's own procedures

6 the Department for Levelling Up, Housing and Communities, assisted by the Government Actuary's Department and the Scheme Advisory Board, work with LGPS funds to meet Section 13 requirements

Appendix C – Risks and controls

C1 Managing risks

The administering authority has a risk management programme to identify and control financial, demographic, regulatory and governance risks.

Details of the key fund-specific risks and controls are set out in the Fund's Risk Register which is available from Pensions.Regs@derbyshire.gov.uk.

The role of the local pension board is set out in the Board's terms of reference available at
https://www.derbyshirepensionfund.org.uk/about-the-fund/governance/derbyshire-pension-board.aspx

C2 Employer covenant assessment and monitoring

Many of the employers participating in the Fund, such as admitted bodies (including TABs and CABs), have no local tax-raising powers. The Fund has put in place an Employer Risk Management Framework to identify, manage and monitor the risks associated with employers with the aim of reducing the exposure of all Fund employers to risk of the failure, wind-up or cessation of a scheme employer with an unpaid funding deficit.

C3 Climate risk and TCFD reporting

The Fund has considered climate-related risks when setting the funding strategy. To consider the resilience of the strategy, the Fund has included climate scenario stress testing in the contribution modelling exercise for the local authority employers at the 2022 valuation. The modelling results under the stress tests were slightly worse than the core results but were still within risk tolerance levels, particularly given the severity of the stresses applied. The results provide assurance that the modelling approach does not significantly underestimate the potential impact of climate change and that the funding strategy is resilient to climate risks. The results of these stress tests may be used in future to assist with disclosures prepared in line with Task Force on Climate-Related Financial Disclosures (TCFD) principles.

The same stress tests were not applied to the funding strategy modelling for smaller employers. However, given that the same underlying model is used for all employers and that the local authority employers make up the vast majority of the Fund's assets and liabilities, applying the stress tests to all employers was not deemed proportionate at this stage and would not be expected to result in any changes to the agreed contribution plans.

The Fund has a Responsible Investment Framework and a separate Climate Strategy, both of which were agreed by the Pensions and Investments Committee in November 2020.

Appendix D – Actuarial assumptions

The Fund's actuary uses a set of assumptions to determine the strategy, and so assumptions are a fundamental part of the Funding Strategy Statement.

D1 What are assumptions?

Assumptions are used to estimate the benefits due to be paid to members. Financial assumptions determine the amount of benefit to be paid to each member, and the expected investment return on the assets held to meet those benefits. Demographic assumptions are used to work out when benefit payments are made and for how long.

The funding target is the money the Fund aims to hold to meet the benefits earned to date.

Any change in the assumptions will affect the funding target and contribution rate, but different assumptions don't affect the actual benefits the Fund will pay in future.

D2 What assumptions are used to set the contribution rate?

The Fund doesn't rely on a single set of assumptions when setting contribution rates, instead using Hymans Robertson's Economic Scenario Service (ESS) to project each employer's assets, benefits and cashflows to the end of the funding time horizon.

ESS projects future benefit payments, contributions and investment returns under 5,000 possible economic scenarios, using variables for future inflation and investment returns for each asset class, rather than a single fixed value.

For any projection, the Fund actuary can assess if the funding target is satisfied at the end of the time horizon.

Table: Summary of assumptions underlying the ESS, 31 March 2022

		Annualised total returns															
		Cash	Index Linked Gilts (medium	Fixed Interest Gilts (medium)	UK Equity	Private Equity	Property	Emerging Markets Equity	Listed Infrastructure Equity	Unlisted Infrastructure Equity	Developed World Equity	Multi Asset Credit (sub inv grade)	Corp short BBB	Corp Medium BBB	Inflation (CPI)	17 year real yield (CPI)	17 year yield
10 years	16th %'ile	0.8%	-1.9%	-0.3%	-0.4%	-1.2%	-0.6%	-2.5%	-1.1%	0.7%	-0.6%	1.7%	1.3%	0.0%	1.6%	-1.7%	1.1%
	50th %'ile	1.8%	0.2%	1.1%	5.7%	9.4%	4.4%	5.8%	4.9%	5.9%	5.6%	3.5%	2.7%	1.9%	3.3%	-0.5%	2.5%
	84th %'ile	2.9%	2.4%	2.4%	11.6%	20.1%	9.5%	14.4%	10.9%	11.2%	11.6%	5.2%	3.9%	3.6%	4.9%	0.7%	4.3%
	16th %'ile	1.0%	-1.5%	0.7%	1.7%	2.4%	1.4%	0.1%	1.2%	2.6%	1.6%	2.8%	2.2%	1.3%	1.2%	-0.7%	1.3%
	50th %'ile	2.4%	0.1%	1.5%	6.2%	10.0%	5.0%	6.3%	5.6%	6.55	6.1%	4.4%	3.5%	2.5%	2.7%	1.1%	3.2%
	84th %'ile	4.0%	1.9%	2.2%	10.6%	17.6%	8.9%	12.8%	10.1%	10.6%	10.8%	6.0%	5.0%	3.6%	4.3%	2.7%	5.7%
40 years	16th %'ile	1.2%	-0.3%	1.5%	3.2%	4.7%	2.6%	2.1%	2.6%	3.9%	3.2%	3.6%	2.6%	2.3%	0.9%	-0.6%	1.1%
	50th %'ile	2.9%	1.2%	2.3%	6.7%	10.3%	5.5%	6.8%	6.1%	7.0%	6.6%	5.3%	4.2%	3.4%	2.2%	1.3%	3.3%
	84th %'ile	4.9%	3.1%	3.5%	10.2%	16.1%	8.8%	11.7%	9.8%	10.3%	10.2%	7.1%	6.2%	4.9%	3.7%	3.2%	6.1%
	Volatility (Disp) (5 yr)	2%	7%	6%	18%	30%	15%	26%	18%	15%	18%	6%	4%	7%	3%		

D3 What financial assumptions were used?

Future investment returns and discount rate

The Fund uses a risk-based approach to generate assumptions about future investment returns over the funding time horizon, based on the investment strategy.

The discount rate is the annual rate of future investment return assumed to be earned on assets after the end of the funding time horizon. The discount rate assumption is set as a margin above the risk-free rate.

Assumptions for future investment returns depend on the funding objective.

	Employer type	Margin above risk-free rate
Ongoing basis	All employers except closed community admission bodies	1.8% (or margin consistent with treatment on joining the Fund for transferee admission bodies)
Low-risk exit basis	Community admission bodies closed to new entrants (See D5 below)	A margin consistent with the investment return achievable with a 90% likelihood over the next 20 years

Discount rate (for funding level calculation as at 31 March 2022 only)

For the purpose of calculating a whole fund funding level at the 2022 valuation, a discount rate of 3.8% pa applies. This is based on a prudent estimate of investment returns, specifically, that there is an 77% likelihood that the Fund's assets will achieve future investment returns of 3.8% pa over the 20 years following the 2022 valuation date.

For certain employers that will cease based on a different discount rate from above, the funding levels have been calculated with reference to the relevant discount rate approach.

Pension increases and CARE revaluation

Deferment and payment increases to pensions and revaluation of CARE benefits are in line with the Consumer Price Index (CPI) and determined by the regulations.

The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.

Salary growth

The salary increase assumption at the latest valuation has been set to 1.0% above CPI pa plus a promotional salary scale.

D4 What demographic assumptions were used?

Demographic assumptions are best estimates of future experience. The Fund uses advice from Club Vita to set demographic assumptions, as well as analysis and judgement based on the Fund's experience.

Demographic assumptions vary by type of member, so each employer's own membership profile is reflected in their results.

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Life expectancy

The longevity assumptions are produced by detailed analysis and tailored to fit the Fund's membership profile.

Allowance has been made for future improvements to mortality, in line with the 2021 version of the continuous mortality investigation (CMI) published by the actuarial profession. The starting point has been adjusted by +0.25% to reflect the difference between the population-wide data used in the CMI and LGPS membership. A long-term rate of mortality improvements of 1.5% pa applies.

The smoothing parameter used in the CMI model is 7.0. There is little evidence currently available on the long-term effect of Covid-19 on life expectancies. To avoid an undue impact from recently mortality experience on long-term assumptions, no weighting has been placed on data from 2020 and 2021 in the CMI.

Other demographic assumptions

Retirement in normal health	Members are assumed to retire at the earliest age possible with no pension reduction.
Promotional salary increases	Sample increases below
Death in service	Sample rates below
Withdrawals	Sample rates below
Retirement in ill health	Sample rates below
Family details	A varying proportion of members are assumed to have a dependant partner at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 80% for females. Beyond retirement the proportion is adjusted for assumed dependant mortality. Males are assumed to be 3 years older than females, and partner dependants are assumed to be opposite sex to members.
Commutation	60% of maximum tax-free cash
50:50 option	0.5% of members will choose the 50:50 option.

Males

Incidence per 1000 active members per year								
Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
		FT &PT	FT	PT	FT	PT	FT	PT
20	105	0.17	343.66	731.71	0.00	0.00	0.00	0.00
25	117	0.17	227.00	483.32	0.00	0.00	0.00	0.00
30	131	0.20	161.06	342.88	0.00	0.00	0.00	0.00
35	144	0.24	125.84	267.86	0.10	0.07	0.02	0.01
40	150	0.41	101.32	215.59	0.16	0.12	0.03	0.02
45	157	0.68	95.17	202.46	0.35	0.27	0.07	0.05
50	162	1.09	78.45	166.70	0.90	0.68	0.23	0.17
55	162	1.70	61.78	131.34	3.54	2.65	0.51	0.38
60	162	3.86	55.06	117.02	6.23	4.67	0.44	0.33

Females

Incidence per 1000 active members per year									
Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
		FT &PT	FT	PT	FT	PT	FT	PT
20	105	0.10	264.32	373.90	0.00	0.00	0.00	0.00
25	117	0.10	177.85	251.55	0.10	0.07	0.02	0.01
30	131	0.14	149.09	210.83	0.13	0.10	0.03	0.02
35	144	0.24	128.67	181.90	0.26	0.19	0.05	0.04
40	150	0.38	107.09	151.34	0.39	0.29	0.08	0.06
45	157	0.62	99.94	141.21	0.52	0.39	0.10	0.08
50	162	0.90	84.26	118.92	0.97	0.73	0.24	0.18
55	162	1.19	62.87	88.83	3.59	2.69	0.52	0.39
60	162	1.52	50.67	71.50	5.71	4.28	0.54	0.40

D5 What assumptions apply in a cessation valuation following an employer's exit from the Fund?

Low-risk exit basis

Where there is no guarantor, the low-risk exit basis will apply.

The financial and demographic assumptions underlying the low-risk exit basis are explained below:

1. The discount rate used for calculating the exit position will be on a lower-risk basis than the ongoing funding basis, specifically additional prudence will be applied to the assumption. This will be determined via a higher likelihood that the Fund's assets will achieve the required future investment returns over the 20 years following the date of the calculation.
2. The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.
3. Life expectancy assumptions are those used to set contribution rates, with one adjustment. A higher long-term rate of mortality improvements of 1.75% pa is assumed.

When the 'corridor' approach (as described in Section 7.2) is being used to determine the final cessation valuation, an upper and lower amount is required. The actuary will calculate these amounts by changing the discount rate to reflect the Fund's views of the maximum and minimum amount of assets required to pay for the benefits of the ceasing employer's members and will represent the bounds of the corridor. As above, these two values will be based on the likelihood of the Fund's assets achieving certain future investment returns over the 20 years. The likelihoods used for the lower and upper bounds of the 'corridor' are 85% and 95% respectively.

Ongoing basis

Where there is a guarantor (e.g. in the case of contractors where the local authority guarantees the contractor's admission in the Fund), the ongoing basis will apply.

The financial and demographic assumptions underlying the ongoing basis are equal to those set for calculating contribution rates. Specifically, the discount rate is set equal to the risk-free rate at the cessation date, plus a margin equal to that set to allocate assets to the employer on joining the Fund.

Derbyshire Pension Fund

Appendix 3

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Draft Admission, Cessation and Bulk Transfer Policy

December 2022

Prepared in collaboration with Hymans Robertson LLP

Approved by Pensions and Investments Committee
[ ]

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Administered by Derbyshire County Council

lgps

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Admission, Cessation and Bulk Transfer Policy

Introduction

Derbyshire Pension Fund's Admission, Cessation and Bulk Transfer Policy (the Policy) is made up of policies on admissions, cessations, bulk transfers and exit credits. Derbyshire County Council's Pensions and Investments Committee (the Committee), in its role as the Administering Authority of Derbyshire Pension Fund (the Fund) approved the Fund's inaugural distinct policy on admissions, cessations and bulk transfers at its meeting on 22 January 2020.

The Committee subsequently approved the Fund's Exit Credits Policy, which is included in this Policy, at its meeting on 9 September 2020. A minor revision to the Exit Credits Policy was approved by the Committee at its meeting on 21 July 2021.

Further minor adjustments have been made to improve the accessibility of the document.

Further changes are proposed, subject to approval by the Pensions and Investments Committee to reflect the position relating to the funding position of academies in certain situations, [*note – this statement will be adjusted to the past tense, subject to the Committee's approval, prior to publication].*

This Policy has been prepared in compliance with The Local Government Pension Scheme Regulations 2013 and subsequent amendments and in conjunction with the Fund's actuary, Hymans Robertson LLP. It will be reviewed at least every three years as part of the triennial valuation process or following any relevant changes in the LGPS Regulations.

Interaction with Funding Strategy Statement (FSS)

The FSS sets out high level policies in several areas relating to the treatment of scheme employers. The keys areas covered by the FSS are: -

- purpose of the FSS
- aims and purpose of the Fund
- responsibilities of the key parties
- calculation of funding positions and individual employer contribution rates
- link to investment policy set out in the Investment Strategy Statement
- key risks and controls

The information contained with the FSS applies equally to admission bodies as to other participating employers within the Fund.

Admission and cessation policy context

Introduction

It is essential for the Administering Authority to establish its fundamental approach to the risks involved in the admission of new employers to the Fund.

The purpose of this policy is to ensure that only appropriate bodies are admitted to the Fund and that the financial risk to the Fund and to other employers in the Fund is identified, minimised, and managed accordingly.

Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013, ('LGPS Regulations') sets out the various types of employer that can participate in the scheme and the different requirements that apply to each. These can be summarised as:

Bodies listed in Part 1 to Schedule 2 – the county council, city council, district and borough councils, further education colleges, academies, police and fire services. These bodies must provide access to the LGPS to their employees (assuming they are not eligible to be members of other pension schemes)

Bodies listed in Part 2 to Schedule 2 – often referred to as designating employers, as they have the right to decide which of their employees are eligible to join the scheme. Includes town and parish councils, as well as entities connected to bodies in Part 1. If a relevant designation is made, the Administering Authority cannot refuse entry into the scheme in respect of that employer.

Bodies listed in Part 3 to Schedule 2 – admission bodies, who can apply to participate in the scheme. Admission bodies can encompass a variety of different types of employer. These are:

- a body which provides a public service in the United Kingdom which operates otherwise than for the purposes of gain and has sufficient links with a Scheme employer for the body and the Scheme employer to be regarded as having a community of interest (whether because the operations of the body are dependent on the operations of the Scheme employer or otherwise);
- a body, to the funds of which a Scheme employer contributes;
- a body representative of any Scheme employers, or local authorities or officers of local authorities;
- a body that is providing or will provide a service or assets in connection with the exercise of a function of a Scheme employer as a result of:
    - the transfer of the service or assets by means of a contract or other arrangement (outsourcing),
    - a direction made under section 15 of the Local Government Act 1999,
    - directions made under section 497A of the Education Act 1996;
- a body which provides a public service in the United Kingdom and is approved in writing by the Secretary of State for the purpose of admission to the Scheme.

When an administering authority is considering permitting a body to become an admission body, the LGPS Regulations include some discretions relating to the creation and management of admission agreements. These discretions are considered within this Policy. The discretionary areas are:

- Part 3 of Schedule 2 (para 1) – Whether or not to proceed with admission agreements;
- Part 3 of Schedule 2 (para 9(d)) – Whether to terminate the admission agreement
- Regulation 54(1) – If the Fund will set up separate pension funds in respect of admission agreements.

Background

A scheme employer is responsible for any surplus or deficit arising during the period of participation in the Fund so that if or when that participation ceases, it is 100% funded.

Triggers for considering cessation from the Fund are:

- the last active member leaves their eligible employment or opts out of the Fund. The Administering Authority, at its discretion, can defer acting for up to three years by issuing a suspension notice. That means cessation will not be triggered if the employer takes on one or more active members during the agreed time
- insolvency, winding up or liquidation of the admission body
- a breach of the agreement obligations that isn't remedied to the Fund's satisfaction
- failure to pay any sums due within the period required
- failure to renew or adjust the level of a bond or indemnity, or to confirm an appropriate alternative guarantor
- termination of a deferred debt arrangement (DDA)

If an employer fails or ceases to exist and any deficit cannot be met by the employer or claimed from any bond, indemnity or guarantor (where appropriate), the liability will fall to other employers in the Fund (either the awarding authority on the failure of a service provider, any guarantor employer or all other employers, depending on the circumstances and the type of body). It is prudent, therefore, for the Fund to ensure any such risks are minimised and mitigated.

Although the risks may not be able to be eliminated completely, there are a number of options that can be considered to try and mitigate these risks. These are summarised in this section, with the policy positions set out in Appendix A and Appendix B:

- **Entry conditions** – to what extent, if any, the Administering Authority can determine entry conditions for any new employer and the manner in which those applications will be considered and approved.
- **Requirements for a bond/indemnity or guarantor** – understanding the risk that a new employer might place on the Fund, usually through underfunding on exit from the Fund, and the mitigations that can be put in place (in the form of a bond/indemnity or guarantor) to reduce or remove that risk.
- **Risk sharing** – more often adopted with admission bodies, and while not changing the full cost of the pension benefits, the Administering Authority can decide its approach to the sharing of

risk with an established sponsoring employer (for example, fixed employer contribution rates, pooling the admission body with the scheme employer, etc.).

- **Allocating assets on entry** – on admission each new employer will notionally be allocated assets in the Fund, from which time they will be tracked and employer contributions set with a view to achieving solvency should the employer leave the scheme. Depending on the type of employer concerned the Administering Authority will need to decide how that initial asset allocation should be handled (for example, given assets equal to 100% of the liabilities transferred or required to take on a share of any funding deficit at the outset).
- **Matched investment strategy** – the flexibility to offer an employer an investment strategy matched to its participation can reduce the risk of underfunding at exit. This can, however, be a time-consuming exercise, and so the Administering Authority must balance the risk of underfunding on exit with the additional time and cost associated with the matched strategy.
- **Contribution rates and other costs** – the Administering Authority will need to decide how the initial contribution rate is set for any new scheme employers on joining the scheme. Decisions may also be required in relation to other costs, for example, legal or actuarial costs.
- **Pooling** – There may be circumstances where a new employer has strong links to an existing employer, or where there is homogeneity amongst certain groups of employers. In these circumstances there may be a desire on the part of the employers to share some of the pension risk, which can be achieved via a pooling agreement. In simple terms, this will allow the bodies to effectively be treated as if it were one employer. As a result, the same employer contribution rate and other funding arrangements will apply (generally equally) in relation to all members.
- **Ongoing monitoring** – it is important that monitoring of scheme employers is carried out throughout their term of participation and, where considered necessary, appropriate remedial action taken to safeguard all employers within the Fund. This can be achieved via various methods, such as regular funding level reviews, risk assessments and requirements to notify the Administering Authority of any changes in circumstances.
- **Termination/exit requirements** – one of the greatest risks to the Fund (and its participating employers) is that a body ceases to exist with an outstanding deficit that it cannot pay and which will not be met by any bond, indemnity or guarantor. Under the terms of the LGPS Regulations a termination valuation is required to be carried out at the point a scheme employer ceases to participate (for example, as a result of the last active member leaving or the termination of a contractual arrangement with another scheme employer) in order to ascertain the exit payment due in relation to any deficit or payable on account of a funding surplus.
- **Future cessations** – When a scheme employer ceases to participate in the scheme its assets should be equal to its liabilities on an appropriate basis. In these circumstances, the Administering Authority may seek to increase or reduce the scheme employer's contributions to the Fund in the period leading up to its expected exit (if known) in order to target a position where the employer's assets are equal to its liabilities on an appropriate basis. To a limited degree, this can also reduce any overfunding at exit.
- **Basis of termination valuation** – as with any actuarial valuation, the purpose of a termination valuation is not so much to predict the cost of providing the Fund benefits of the relevant members (which will not be known until the last benefit payment is made), but to assess how much the Fund should hold now to meet the future expected benefit payments. The amount required is heavily influenced by the basis used for the calculation of the liabilities, which in turn will ultimately depend on the circumstances of the cessation. The range of bases can include the ongoing funding basis, a low risk exit basis and a buy-out basis.

- **Payment of cessation debt or exit credit –** When the fund actuary carries out a cessation valuation, they are also required to certify the contributions due to the Fund, or any surplus that might need to be refunded to the exiting employer. The LGPS regulations specify the way in which an exit credit should be made and allows the Administering Authority to determine the level of any exit credit payment, which may be nil, to the exiting employer. The regulations also allow the Administering Authority discretion on whether the payment of any deficit should be paid as a lump sum or whether it can be paid in instalments. There is also a provision which clarifies what should happen if it is not possible to recover the cessation payment, for example due to the exiting employer going into liquidation and no assets being available.

Statement of principles

The drafting of the admission and cessation policies has been based on the following key principles:

- to ensure the long-term solvency of the Fund as a whole and the solvency of each of the notional sub-funds allocated to the individual employers
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment
- not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk
- to ensure employers recognise the impact of their participation in the Local Government Pension Scheme, helping them manage their pension liabilities as they accrue and understanding the effect of those liabilities on the ongoing operation of their business
- to minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so
- to use reasonable measures to reduce the risk to other employers and ultimately to the council taxpayer from an employer ceasing participation or defaulting on its pension obligations
- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective
- to maintain the affordability of the Fund to employers as far as is reasonable over the longer term

There is also an overriding objective to ensure that the LGPS Regulations and any supplementary guidance (The Best Value Authorities Staff Transfer (Pensions) Direction 2007 and Fair Deal guidance) as they pertain to admission agreements are adhered to.

Policies

The Administering Authority's policies in relation to the admission of new scheme employers and the treatment of scheme employers on cessation are set out in Appendix A and Appendix B respectively.

Bulk transfer policy context

Introduction

The purpose of this policy is to set out the Administering Authority's approach to dealing with the bulk transfer of scheme member pension rights into and out of the Fund in prescribed circumstances.

Bulk transfer requests will be considered on a case by case basis, ensuring that:

- transfers out of the Fund do not allow a deficit to remain behind unless a scheme employer is committed to repairing this; and
- bulk transfers received must be sufficient to pay for the added benefits being awarded to the members, again with the scheme employer making good any shortfall where necessary.

When considering any circumstances where bulk transfer provisions might apply, however, the Administering Authority will always ensure adherence to any overriding requirements set out in the Local Government Pension Scheme Regulations and/or any supplementary or statutory guidance (for example The Best Value Staff Transfers (Pensions) Direction 2007).

Bulk transfer circumstances

Bulk transfers into and out of the Fund can occur for a variety of reasons, namely:

- where an outsourcing arrangement is entered into and active scheme members leave the LGPS to join a broadly comparable scheme;
- where an outsourcing arrangement ceases and active scheme members re-join the LGPS from a broadly comparable scheme;
- where there is a reorganisation of central government operations (transfers in from, or out to, other government sponsored schemes);
- where there is a reorganisation or consolidation of local operations (bought about by, for example, local government shared services, college mergers or multi academy trust consolidations); or
- a national restructuring resulting in the admission of an employer whose employees have LGPS service in another LGPS fund, or vice versa.

Unlike bulk transfers out of the LGPS, there is no specific provision to allow for bulk transfers into the LGPS. As a result, any transfer value received into the LGPS, whether on the voluntary movement of an individual or the compulsory transfer of several employees, must be treated the same way as individual transfers.

Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 contain relevant provisions regarding transfers (including bulk transfers) to and from the scheme, and include the following:

- Regulation 98 – applies on transfer out to non-LGPS schemes. It allows for the payment of a bulk transfer value where at least two active members of the LGPS cease scheme membership and join another approved pension arrangement.
- Regulation 99 - gives the LGPS actuary discretion as to the choice of method of calculation used to calculate the bulk transfer value.

- Regulation 100 – allows an individual who holds relevant pension rights under a previous employer to request to be admitted for past service into the LGPS. Members wishing to transfer in accrued rights from a Club scheme, who request to do so within 12 months of joining their new LGPS employment must be granted their request. For members with non-Club accrued rights the LGPS Fund does not have to grant the request. Any request must be received in writing from the individual within 12 months of active employment commencing or longer at the discretion of the employer and the administering authority.

  Regulation 103 - states that any transfer between one LGPS fund and another LGPS fund (in England and Wales) where 10 or more members elect to transfer will trigger bulk transfer negotiations between Fund actuaries.

Best Value authorities

The Best Value Authorities Staff Transfers (Pensions) Direction 2007, which came into force on 1 October 2007, applies to all 'Best Value Authorities' in England. Best Value Authorities include all county, district, and borough councils in England, together with police and fire and rescue authorities, National Park Authorities and waste disposal authorities. The Direction:

- requires the contractor to secure pension protection for each transferring employee through the provision of pension rights that are the same as or are broadly comparable to or better than those they had as an employee of the authority, and
- provides that the provision of pension protection is enforceable by the employee.

The Direction also requires similar pension protection in relation to those former employees of an authority, who were transferred under TUPE to a contractor, in respect of any re-tendering of a contract for the provision of services (second and subsequent rounds of outsourcing).

Academies and Multi-Academy Trusts

New Fair Deal, introduced in October 2013, applies to academies and multi academy trusts. It requires that, where they outsource services, they ensure pension protection for non-teaching staff transferred is achieved via continued access to the LGPS. As a result, it would not be expected that the Fund would have any bulk transfers out of the LGPS in respect of outsourcings from academies or multi academy trusts.

Other employers

For all scheme employers that do not fall under the definition of a Best Value Authority or are not an academy (town and parish councils, arms-length organisations, further and higher education establishments, charities and other admitted bodies) and, therefore, are not subject to the requirements of Best Value Direction or New Fair Deal, there is no explicit requirement to provide pension protection on the outsourcing or insourcing of services, although any successful contractor is free to seek admission body status in the Fund, subject to complying with the Administering Authority's requirements (for example, ,having a bond or guarantor in place).

It is our understanding that there is no specific provision giving protection to past pension accrual in either the Direction or new Fair Deal (albeit if the individual remains in their original scheme then their past service rights are automatically protected). In the absence of a bulk transfer agreement, therefore, the Administering Authority would not expect to pay out more than individual cash equivalent transfer amounts, in accordance with appropriate guidance from the Government Actuary's Department (GAD)

Statement of Principles

The drafting of the bulk transfer has been based on the following key principles:

- Where a group of active scheme members joins (or leaves) the Fund, the Administering Authority's objective is to ensure that sufficient assets are received (or paid out) to meet the cost of providing those benefits.
- Ordinarily the Administering Authority's default approach for bulk transfers out (or in) will be to propose (or accept) that the transfer value is calculated using ongoing assumptions based on the share of fund assets (capped at 100% of the value of the liabilities). The Fund will retain the discretion to amend the bulk transfer basis to reflect the specific circumstances of each transfer (for example, the use of a low-risk exit basis where unsecured liabilities are being left behind, or where transfer terms are subject to commercial factors).
- The Administering Authority will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members.
- A bulk transfer in may result in a shortfall when assessed using the Fund's ongoing funding basis. This may require the receiving employer's Fund contributions to increase between valuations.
- A bulk transfer out which is greater than the value of the past service liabilities of the transferring members assessed on the Fund's ongoing funding basis, may require the transferring employer's Fund contributions to increase between valuations.
- The Administering Authority will not grant added benefits to members bringing in entitlements from another LGPS Fund or other scheme unless the asset transfer is sufficient to meet the added liabilities.
- Service credits granted to active scheme members should fully reflect the value of the benefits being transferred, irrespective of the transfer value paid or received.

Notes about the bulk transfer policy

There may be situations where a transfer amount accepted in respect of a transfer in is less than is required to fully fund the transferred in benefits on the Fund's ongoing basis. In such cases the Fund reserves the right to require the receiving employer to fund this deficit (either by lump sum or increase in ongoing employer contributions) ahead of the next formal valuation.

Any shortfall between the bulk transfer payable by the Fund and that which the receiving scheme is prepared to accept must be dealt with outside of the Fund, for example by a top up from the employer to the receiving scheme or through higher ongoing contributions to that scheme.

For transfers out, in exceptional circumstances the Fund's policy may be altered to reflect specific issues of the transferring employer (for example, the cessation of the transferring scheme employer).

- **Format of transfer payment**
  Ordinarily payment will be in cash, with discretion delegated to Derbyshire County Council's Section151 officer to agree alternatives.

  A deduction to the bulk transfer will be made for any administration, legal and transaction costs incurred by the Fund on account of having to disinvest any assets to meet the form of payment that suits the receiving scheme.

- **Impact on transferring employer**
  Any transfer of pension rights may impact on the valuation position of the employer and consequently their individual contribution rate.

  The Fund will agree with the transferring authority how this change is dealt with. Though it is likely this will be through adjustments to its employer contribution rate, the Fund may require a lump sum payment or instalments of lump sums to cover this relative change in deficit, for example where the deficit is a large proportion of the total remaining notional assets and liabilities. Where the transfer is small relative to the employer's share of the Fund, any adjustment may be deferred to the next valuation.

- **Consent**
  Where required within the Regulations, for any bulk transfer the Administering Authority will ensure the necessary consent is obtained from each individual eligible to be part of the transfer.

- **Approval process**
  Under the principles of good governance, it is important that a clear and robust approval process is in place when determining whether to pay or receive a bulk transfer.

  The Fund will normally agree to bulk transfers into or out of the Fund where this policy is adhered to.

- **Non-negotiable**
  It should be noted that, as far as possible, the Fund's preferred terms on bulk transfers are non-negotiable. Any differences between the value the Fund is prepared to pay (or receive) and that which the other scheme involved is prepared to accept (or pay) should be dealt with by the employers concerned outside the Fund.

Bulk Transfer Policy

The Administering Authority's policy in relation to bulk transfers is set out in Appendix C.

Appendix A – Admission policy

The following table sets out a summary of the various scenarios that may exist for the admission of scheme employers into the Fund, along with its approach to their on-going monitoring.

A1. Entry conditions and requirements of the Fund

	Scheduled bodies (Part 1 of schedule 2)	**Designating employers (Part 2 of schedule 2)**	**Admission bodies (Part 3 of schedule 2)**
Entry conditions	All new Part 1 employers (including academies) must ensure Fund is aware of their creation.	A designating employer must provide the Fund with a signed copy of its resolution, confirming who is eligible for membership of the Fund.	Will consider applications from bodies: - with links to a scheme employer; or - that provides services or assets on behalf of a scheme employer Agreements can be open or closed, so long as necessary protections are in place. Academies which outsource services to an admission body must comply with Education and Skills Funding Agency (ESFA) requirements in order for the Department for Education's guarantee in respect of LGPS funding to apply.
Bond / indemnity / guarantor	The Fund reserves the right to request a secure and financially durable bond, or other form of security, depending on the employer's financial circumstances. Any bond must be reviewed and renewed on an annual basis. Bonds are not required for academies as a result of the Department for Education's guarantee.		Secure and financially durable bond or guarantor in place (generally with a scheme employer and/or government department). Must be reviewed and renewed on an annual basis.
Risk sharing	Not applicable		Ordinarily the Fund will not be party to any risk sharing arrangements. Any such arrangements would not be included within the admission agreement and managed by the relevant parties. To protect the interests of the Fund, however, it would request sight of any risk sharing arrangements that have been put in place.

A2. Financial aspects of entry

	Scheduled bodies (Part 1 of schedule 2)	Designating employers (Part 2 of schedule 2)	Admission bodies (Part 3 of schedule 2)
Asset allocation	Assets for any new employer will be calculated using the Fund's ongoing funding basis, as set out in the FSS. Academies may be pooled with other academies as part of a Multi Academy Trust (MAT), including, subject to a Direction from DLUHC, those within a different administering authority. Where a new employer is created from an existing scheme employer the initial asset allocation will be based on a share of the ceding employer's assets, with consideration taken of the ceding employer's estimated deficit as at the date of transfer.		Dependent on type of admission body For new service providers = 100% of past service liabilities For all others – to be agreed on a case by case basis In all cases, based on Fund's on-going funding basis and tracked and adjusted during period of admission at each formal valuation.
Investment strategy	Set for the Fund as a whole		
Contributions	Set in accordance with Funding Strategy Statement Will be required to pay additional amounts (strain) in respect of: - non-ill health early retirements; and - employer award of additional pension. Ordinarily payments must be made to the Fund within the year in which the strain cost was incurred		
Other employer costs	May require payment of actuarial. legal and other justifiable costs incurred due to participation in the Fund, together with any additional costs incurred by administering authority resulting from an employer's poor performance		
Pooling	Ordinarily pooling will not be available. The only exception would be academies who can be pooled as part of a MAT or Town and Parish Councils that are currently pooled.		Where it is believed to be advantageous and all parties agree, the administering authority may agree to pooling with contracting scheme employer. Multi-Academy Trusts which operate academies in multiple administering authorities may only consolidate all of their academies into the Fund as a result of a Direction provided by DLUHC.

A3. Employer monitoring

	Scheduled bodies (Part 1 of schedule 2)	Designating employers (Part 2 of schedule 2)	Admission bodies (Part 3 of schedule 2)
Ongoing monitoring	The Fund reserves the right to review a scheme employer's funding position annually, or more frequently. Where it appears that liabilities have increased by more than expected at the last funding valuation the employer contribution rate may be subject to review during the inter-valuation period.		The Fund will ensure the ongoing assessment of risk related to each admitted body, to ensure the level of bond/indemnity cover remains appropriate. Employer contribution reviewed no less frequently than as part of formal valuations (inter-valuation may be undertaken if required if it appears liabilities have increased by more than allowed for at preceding formal valuation, or where the employer may become an exiting employer).

Appendix B – Cessation and exit credit policy

B1. Introduction

The purpose of these policies is to set out the Administering Authority's approach to dealing with circumstances where a scheme employer leaves the Fund and becomes an exiting employer (a cessation event).

It should be noted that this policy is not exhaustive. Each cessation will be treated on a case-by-case basis, however certain principles will apply as governed by the regulatory framework (see below) and the Fund's discretionary policies (as described in Section 3 - Policies).

B2. Aims and Objectives

The Administering Authority's aims and objectives related to these policies are as follows:

- To confirm the approach for the treatment and valuation of liabilities for employers leaving the Fund.
- To provide information about how the Fund may apply its discretionary powers when managing employer cessations.
- To outline the responsibilities of (and flexibilities for) exiting employers, the administering authority, the actuary and, where relevant, the original ceding scheme employer (usually a letting authority).

B3. Background

As described early, a scheme employer may become an exiting employer when a cessation event is triggered, e.g. when the last active member stops participating in the Fund. On cessation from the Fund, the Administering Authority will instruct the Fund actuary to carry out a valuation of assets and liabilities for the exiting employer to determine whether a deficit or surplus exists. The Fund has full discretion over the repayment terms of any deficit, and the extent to which any surplus results in the payment of an exit credit.

B4. Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) contain relevant provisions regarding employers leaving the Fund (Regulation 64) and include the following:

- Regulation 64 (1) – this regulation states that, where an employing authority ceases to be a scheme employer, the administering authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the termination date. Further, it requires the Rates & Adjustments Certificate to be amended to show the revised contributions due from the exiting employer

- Regulation 64 (2) – where an employing authority ceases to be a scheme employer, the administering authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the exit date. Further, it requires the Rates & Adjustments Certificate to be amended to show the exit payment due from the exiting employer or the excess of assets over the liabilities in the Fund.

- Regulation 64 (2ZAB) – the administering authority must determine the amount of an exit credit, which may be zero, taking into account the factors specified in paragraph (2ZC) and must:
  a) Notify its intention to make a determination to-
     (i) The exiting employer and any other body that has provided a guarantee to the Exiting Employer
     (ii) The scheme employer, where the exiting employer is a body that participated in the Scheme as a result of an admission agreement
  b) Pay the amount determined to that exiting employer within six months of the exit date, or such longer time as the administering authority and the exiting employer agree.

- Regulation (2ZC) – In exercising its discretion to determine the amount of any exit credit, the administering authority must have regard to the following factors-
  a) The extent to which there is an excess of assets in the fund relating to that employer in paragraph (2)(a)
  b) The proportion of this excess of assets which has arisen because of the value of the employer's contributions
  c) Any representations to the administering authority made by the exiting employer and, where that employer participates in the scheme by virtue of an admission agreement, any body listed in paragraphs (8)(a) to (d)(iii) of Part 3 to Schedule 2 of the Regulations: and
  d) Any other relevant factors

- Regulation 64 (2A) & (2B)– the administering authority, at its discretion, may issue a suspension notice to suspend payment of an exit amount for up to three years, where it reasonably believes the exiting employer is to have one or more active members contributing to the fund within the period specified in the suspension notice.

- Regulation 64 (3) – in instances where it is not possible to obtain additional contributions from the employer leaving the Fund or from the bond/indemnity or guarantor, the contribution rate(s) for the appropriate scheme employer or remaining fund employers may be amended.

- Regulation 64 (4) – where it is believed a scheme employer may cease at some point in the future, the administering authority may obtain a certificate from the fund actuary revising the contributions for that employer, with a view to ensuring that the assets are expected to be broadly equivalent to the exit payment that will be due.

- Regulation 64 (5) – following the payment of an exit payment to the Fund, no further payments are due to the fund from the exiting employer.

- Regulation 64 (7A-7G) – the administering authority may enter into a written deferred debt agreement, allowing the employer to have deferred employer status and to delay crystallisation of debt despite having no active members.

- Regulation 64B (1) – the administering authority may set out a policy on spreading exit payments.

In addition to the 2013 Regulations summarised above, Regulation 25A of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the

Transitional Regulations") give the Fund the ability to levy a cessation debt on employers who have ceased participation in the Fund (under the previous regulations) but for whom a cessation valuation was not carried out at the time. This Policy document describes how the Fund expects to deal with any such cases.

This Policy also reflects **statutory guidance** from the Department for Levelling Up, Housing and Communities on preparing and maintaining policies relating to employer exits. Interested parties may want to refer to an accompanying **guide** that has been produced by the Scheme Advisory Board.

These regulations relate to all employers in the Fund.

B5. Statement of Principles

This Statement of Principles covers the Fund's approach to exiting employers. Each case will be treated on its own merits but in general:

- It is the Fund's policy that the determination of any surplus or deficit on exit should aim to minimise, as far as is practicable, the risk that the remaining, unconnected employers in the Fund have to make contributions in future towards meeting the past service liabilities of current and former employees of employers leaving the Fund.
- The Fund's preferred approach is to request the full payment of any exit debt (an exit payment), which is calculated by the actuary on the appropriate basis (as per Section 7 of the FSS and Section B6.1 below). This would extinguish any liability to the Fund by the exiting employer.
- The Fund's key objective is to protect the interests of the Fund, which is aligned to protecting the interests of the remaining employers. A secondary objective is to consider the circumstances of the exiting employer in determining arrangements for the recovery of the exit debt.

B6. Policies

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus as defined in Section 4.3 of the FSS.

Where there is a deficit, payment of this amount in full would normally be sought from the exiting employer. The Fund's normal policy is that this cessation debt is paid in full in a single lump sum within 28 days of the employer being notified.

However, the Fund will consider written requests from employers to spread the payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation (see B6.2 Repayment flexibility on exit payments below).

In circumstances where there is a surplus, the administering authority will determine, at its sole discretion, the amount of exit credit (if any) to be paid to the exiting employer (see B6.3 Exit credits below).

B6.1 Approach to cessation calculations

Cessation valuations are carried out on a case-by-case basis at the sole discretion of the Fund depending on the exiting employer's circumstances. However, in general the following broad

principles and assumptions may apply, as described in Section 7.2 of the FSS and summarised below:

Type of employer	Cessation exit basis	Responsible parties for unpaid or future deficit emerging
Local Authorities, Police, Fire	Low risk basis[1]	Shared between other Fund employers
Arm's Length Management Organisations, Peak District National Park and Chesterfield Crematorium	Low risk basis or ongoing basis (depending on each employer's security or guarantee position)	Shared between other Fund employers or dependent on each employer's security or guarantee position
Colleges & Universities	Low risk basis	Shared between other Fund employers
Academies	Low risk basis	DfE guarantee may apply, otherwise see next section below this table
Admission bodies (TABs)	Ongoing basis[2]	Letting authority (where applicable), otherwise shared between other Fund employers
Admission bodies (CABs)	Low risk basis	Shared between other Fund employers (if no guarantor exists)
Designating employers	Low risk basis	Shared between other Fund employers (if no guarantor exists)

[1]Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (e.g. machinery of Government changes), these cessation principles would apply.

[2]Where a TAB has taken, in the view of the administering authority, action that has been deliberately designed to bring about a cessation event (e.g. stopping future accrual of LGPS benefits), then the cessation valuation will be carried out on a low-risk basis.

B6.1.1 Risk-based cessation approach

The Fund uses a risk-based approach to set employer funding strategy, including within cessation calculations. In particular, the likelihood of the Fund's assets achieving particular future investment returns is analysed.

Where appropriate, the Fund will use this approach to set an upper and lower amount (or "corridor") in order to consider the amount of assets a ceasing employer must leave behind to pay for its members' benefits.

Under this approach, an employer is deemed to have a deficit if its assets are below the lower amount and a surplus if its assets are above the higher amount (i.e. there will be no deficit or surplus if a ceasing employer's assets fall within the "corridor").

B6.1.2 Cessation of academies and multi-academy trusts (MATs)

A cessation event will occur if a current academy or MAT ceases to exist as an entity or as an employer in the Fund.

The cessation treatment will depend on the circumstances:

- If the cessation event occurs due to an academy or MAT merging with another academy or MAT within the Fund, all assets and liabilities from each of the merging entities will be combined and will become the responsibility of the new merged entity.
- If the MAT is split into more than one new or existing employers within the Fund, the actuary will calculate a split of the assets and liabilities to be transferred from the exiting employer to the new employers. The actuary will use their professional judgement to determine an appropriate and fair methodology for this calculation in consultation with the administering authority.
- In all other circumstances, and following payment of any cessation debt, section 7.5 of the FSS would apply.

B6.2 Repayment flexibility on exit payments

B6.2.1 Debt spreading arrangement (DSA)

Where there is a debt, payment of this amount in full would normally be sought from the ceasing employer. The Fund's normal policy is that this cessation debt is paid in full as a single lump sum and this remains the Fund's default position. However, subject to actuarial, covenant, legal and any other advice as necessary, in line with the Regulations and when in the best interests of all parties, the Fund may agree for this payment to be spread over an agreed period.

The decision on whether to enter into an exit debt spreading agreement with an employer rests with the Administering Authority; it will be evidence based and take into account advice from the Fund's actuary and any other relevant professional advice.

Repayments may be subject to an interest charge and any spreading would always be discussed in advance and agreed with the employer. Such agreement would only be permitted at the Fund's discretion, where the employer can demonstrate that payment of the debt in a single immediate lump sum could be shown to be materially detrimental to its normal operations.

The employer would need also to provide all the necessary information requested by the Administering Authority to determine the strength of the employer's covenant over the term of the Debt Spreading Agreement.

The Fund will provide a timetable for carrying out a debt spreading review on receipt of the relevant evidence from the employer.

In cases where payment is spread, the Fund reserves the right to require that the ceasing employer provides some form of security (such as a charge over assets, bond indemnity or guarantee) relating to the unpaid amount of debt at any given time. The length of any spreading period will depend on the employer's financial circumstances and on the strength of any security provided, and ordinarily would not exceed 5 years. The Fund will confirm the spreading period, annual repayments including

any interest, and any other costs (for example, actuarial or legal) payable by the employer prior to the repayments starting. The Fund will monitor the employer's circumstances regularly during the spreading period and may request updated financial information that could trigger a review of the arrangement and repayments.

B6.2.2 Deferred debt agreement (DDA)

As an alternative, where the ceasing employer is continuing in business, the Administering Authority may enter into a written agreement with the employer to defer its obligations to make an exit payment and continue to make Secondary contributions (a 'Deferred Debt Agreement' as described in Regulation 64 (7A)). The adoption of this approach will continue to expose the employer to stock market and other funding risks during the deferment period, leading to changes in the size of the debt, rather than crystallising the size of the debt at the point of cessation.

The deferred employer must meet all requirements on Scheme employers and pay the Secondary rate of contributions as determined by the Fund Actuary until the termination of the DDA. Any such agreement would always be discussed in advance with any letting employer or guarantor and the ceasing employer, whether at its request or not.

The decision on whether to enter into a deferred debt agreement with an employer rests with the Administering Authority; it will be evidence based and take into account advice from the Fund's Actuary and any other relevant professional advice.

The Fund will provide a timetable for considering a DDA on receipt of all relevant evidence from the employer as outlined below.

The Administering Authority will consider DDA's in the following circumstances:

- The employer requests the Fund to consider a DDA;
- The employer is expected to have a deficit when the cessation valuation is carried out;
- The employer is expected to be a going concern; and
- The covenant of the employer is considered sufficient by the Administering Authority. Evidence may be required from the employer to back this up for example, report and accounts, financial forecasts and budgets.

The Administering Authority will normally require:

- Security to be put in place covering the employer's deficit on its cessation basis;
- Regular monitoring of the contribution requirements and security requirements;
- All costs of the arrangement to be met by the employer, such as the cost of actuarial or legal advice to the Fund, ongoing monitoring of the arrangement and correspondence on any ongoing contribution and security requirements. Estimates of these would be notified to the employer.

A DDA will normally terminate on the first date on which one of the following events occurs:

- the deferred employer enrols new active Fund members;
- the period specified, or as varied, under the DDA elapses;
- the take-over, amalgamation, insolvency, winding up or liquidation of the deferred employer;
- the Administering Authority serves a notice on the deferred employer that the Administering Authority is reasonably satisfied that the deferred employer's ability to meet the contributions

payable under the DDA has weakened materially or is likely to weaken materially in the next 12 months;

- the Fund Actuary assesses that the deferred employer has paid sufficient secondary contributions to cover all (or almost all) of the exit payment due if the employer becomes an ceasing employer on the calculation date (that is the ceasing employer is now largely fully funded on its cessation basis); or
- The deferred employer requests early termination of the agreement and settles the exit payment in full as calculated by the Fund Actuary on the calculation date (meaning that the employer pays its outstanding cessation debt on its cessation basis).

On the termination of a DDA, the deferred employer will become an exiting employer and a cessation valuation will be completed in line with this FSS.

B6.3 Exit credits

The Local Government Pension Scheme Regulations 2013 (the 2013 Regulations) were amended in 2018 to allow exit credits to be paid for the first time. The amendment came into effect on 14 May 2018 but had retrospective effect back to 1 April 2014. Further amendment regulations came into force on 20 March 2020 which were also deemed to have effect from 14 May 2018.

If an employer becomes an exiting employer under Regulation 64 of the 2013 Regulations, it may be entitled to receive an exit credit if its pension liabilities have been overfunded at its date of exit.

B6.3.1 Exit Valuation

When an employer becomes an exiting employer, Derbyshire Pension Fund (the Fund) must obtain from the Fund actuary:

- an actuarial valuation as at the exit date of the liabilities of the Fund in respect of benefits in respect of the exiting employer's current and former employees
- a revised Rates and Adjustments certificate showing the exit payment due from the exiting employer; or the excess of assets in the Fund relating to that employer over its liabilities as calculated by the valuation

When commissioning the valuation from the actuary, the Fund will also request the actuary to confirm the proportion of any excess of assets which has arisen because of the value of the employer's contributions. This a factor the Fund must have regard to when making its determination as to the amount of the exit credit.

B6.3.2 Notification

The Fund will notify its intention to make a determination on whether to pay an exit credit to:

- the exiting employer
- the scheme employer in connection with that body (the letting authority) where the exiting employer is a ‘transferee’ admission body
- any other body that has given a guarantee in respect of the admission body where the exiting employer is an admission body of any type,

B6.3.3 Determination

In accordance with Regulation 64 (2ZAB) of the 2013 Regulations (as amended), the Fund will determine the amount of any exit credit (which may be zero) taking into account the following factors:

- the extent to which the exiting employer's assets in the Fund are more than its liabilities (in relation to benefits in respect of the exiting employer's current and former employees)
- the proportion of this excess of assets which has arisen because of the value of the exiting employer's contributions
- any representations made by the exiting employer and, where the employer participates in the scheme by virtue of an admission agreement, any organisation which has acted as a guarantor for the employer's pension liabilities (in many cases this will be the letting authority)
- any other relevant factors

In determining whether an exit credit may be payable, Derbyshire Pension Fund will review each case on its own merits and will apply the following guidelines:

1. For admissions before 14 May 2018, the Fund will take into account the fact that original commercial contracts between admission bodies and letting authorities/guarantors could not have been drafted with regard to the May 2018 regulation changes that implemented exit credits retrospectively. Subject to any representations to the contrary, it will be assumed that the employer priced the contract accordingly and that no subsequent agreements covering the ownership of exit credits have been negotiated.
2. The basis for calculating an employer's pension liabilities to determine the level of any exit credit, will generally be as set out in the Fund's Funding Strategy Statement (FSS).
3. An exit credit will not normally be payable to an admission body which participates in the Fund via an agreed fixed contribution rate throughout its participation in the Fund as in this case the pensions risk normally 'passes through' to the letting authority.
4. The Fund may undertake an exit credit calculation which reflects any contractual pension risk sharing provisions between the exiting employer, the letting authority/guarantor and/or any other relevant body with respect to pension risk sharing. This information, including confirmation of which party is responsible for which funding risk should be provided to the administering authority within one month of the exiting employer ceasing participation in the Fund.
5. Where a guarantor or similar arrangement is in place, but no formal risk sharing arrangement exists, the Fund will take into consideration how the approach to setting contribution rates payable by the employer during its participation in the Fund reflects which party is responsible for funding risks. This may inform the determination of the value of any exit credit.
6. If an employer leaves on the 'low-risk exit basis' as set out in the FSS, any surplus will normally be paid in full as an exit credit to the employer, subject to consideration of the individual circumstances (and if the assets are above the upper "corridor" amount – see "Risk-based cessation approach" above).
7. If an admission agreement ends early, the Fund will consider the reason for the early termination, and whether that should have any relevance on the Fund's determination of the value of any exit credit payment.
8. If a scheduled body or resolution body becomes an exiting employer due to a reorganisation, merger or take-over, no exit credit will generally be paid.
9. If there is any doubt about the applicable LGPS benefit structure at the date of exit (for example, McCloud remedy), the Fund's actuary may include an estimate of the possible impact of any resulting benefit changes when calculating an employer's pension liabilities to determine the level of any exit credit.

10. The Fund will take into account whether any outstanding contributions or other payments are due to the Fund at the cessation date. Any outstanding payments will be notified to the exiting employer and will be deducted from any exit credit payment.
11. Costs associated with the determination of an exit credit may be deducted from any exit credit payment at the Fund's discretion.
12. The Fund will consider any representations made by the letting authority and/or any other relevant scheme employer regarding monies owed to them by the exiting employer in respect of the contract that is ceasing. Representations regarding any such outstanding payments should be made to the Fund within one month of the exiting employer ceasing participation in the Fund.
13. The Fund's final decision will be made by the Director of Finance and ICT with advice from the Head of Pension Fund, and where necessary with advice from the Fund's actuary, and/or legal advisors, in consideration of the guidelines set out in this policy.
14. There may be some situations which are bespoke in nature. In these situations, the Fund will take into account the factors it considers to be relevant in determining whether an exit credit is payable, including representations from relevant parties. The Fund's decision on how to make an exit credit determination in these instances will be final.
15. The Fund will inform the exiting employer of any exit credit amount due to be paid and seek to make payment within six months of the exit date. To meet the six-month timeframe, the Fund will require prompt notification of an employer's exit and all data and relevant information as requested. The Fund will be unable to make an exit credit payment until all the requested data and information has been received. Agreement to an extension of the timeframe will be deemed where data and information have not been provided on time.

B6.3.4 Appeals

If a party involved in the exit credit process set out in this Policy wishes to dispute the Fund's determination, this must be routed through the Fund's internal dispute resolution procedure (Application for Adjudication of Disagreements Procedure - AADP). A copy of the AADP is available on the Fund's website: Application for the Adjudication of Disagreements Procedure

If the relevant party is still unhappy with the exit credit determination, having gone through all the stages of the AADP, they may be able to take a complaint to the Pensions Ombudsman.

B6.3.5 Review

This Exit Credits Policy will be reviewed at least every three years as part of the triennial valuation process or following any relevant changes in the LGPS Regulations.

B7. Practicalities and process

B7.1 Responsibilities of ceasing employers

An employer which is aware that its participation in the Fund is likely to come to an end must:

- Advise the Fund, in writing, of the likely ending of its participation (either within the terms of the admission agreement in respect of an admission body (typically a 3 month notice period is required) or otherwise as required by the Regulations for all other scheme employers). It

should be noted that this includes closed employers where the last employee member is leaving (whether due to retirement, death or otherwise leaving employment).

- Provide any relevant information on the reason for leaving the Fund and, where appropriate, contact information in the case of a take-over, merger or insolvency.
- Provide all other information and data requirements as requested by the Administering Authority which are relevant, including in particular any changes to the membership which could affect the liabilities (e.g. salary increases and early retirements) and an indication of what will happen to current employee members on cessation (e.g. will they transfer to another Fund employer, will they cease to accrue benefits within the Fund, etc.).

B7.2 Responsibilities of Administering Authority

The Administering Authority will:

- gather information as required, including, but not limited to, the following:
  - details of the cessation - the reason the employer is leaving the Fund (i.e. end of contract, insolvency, merger, machinery of government changes, etc.) and any supporting documentation that may have an effect on the cessation
  - complete membership data for the outgoing employer and identify changes since the previous formal valuation
  - the likely outcome for any remaining employee members (e.g. will they be transferred to a new employer, or will they cease to accrue liabilities in the Fund)
- identify the party that will be responsible for the employer's deficit on cessation (i.e. the employer itself, an insurance company, a receiver, another Fund employer, guarantor, etc.)
- commission the Fund actuary to carry out a cessation valuation under the appropriate regulation
- where applicable, discuss with the employer the possibility of paying adjusted contribution rates that target a 100% funding level by the date of cessation through increased contributions in the case of a deficit on the cessation basis or reduced contributions in respect of a surplus
- where applicable, liaise with the original ceding employer or guarantor and ensure it is aware of its responsibilities, in particular for any residual liabilities or risk associated with the outgoing employer's membership
- having taken actuarial advice, notify the employer and other relevant parties in writing of the payment required in respect of any deficit on cessation and pursue payment

B7.2.1 Payment of an exit credit

- If the actuary determines that there is an excess of assets over the liabilities at the cessation date, the administering authority will act in accordance with the exit credit policy above. If payment is required, the administering authority will advise the exiting employer of the amount due to be repaid and seek to make payment within six months of the exit date. However, in order to meet the six month timeframe, the administering authority requires prompt notification of an employer's exit and all data requested to be provided in a timely manner. The administering authority is unable to make any exit credit payment until it has received all data requested.

- At the time this policy was produced, the Fund has been informed by HMRC that exit credits are not subject to tax, however all exiting employers must seek their own advice on the tax and accounting treatment of any exit credit.

B7.3 Responsibilities of the actuary

Following commission of a cessation valuation by the administering authority, the Fund actuary will:

- calculate the surplus or deficit attributable to the outgoing employer on an appropriate basis, taking into account the principles set out in this policy
- provide actuarial advice to the administering authority on how any cessation deficit should be recovered, giving consideration to the circumstances of the employer and any information collected to date in respect to the cessation
- where appropriate, advise on the implications of the employer leaving on the remaining Fund employers, including any residual effects to be considered as part of triennial valuations

B8. Related Policies

The Fund's approach to exiting employers is set out in the FSS, specifically 'Section 7 – What happens when an employer leaves the Fund?'

The approach taken to set the actuarial assumptions for cessation valuations is set out in Appendix D of the FSS.

Appendix C – Bulk transfer policy

The following table sets out a summary of the various scenarios for the transfer in to and out of the Fund, together with the Administering Authority's policies relating to bulk transfers. In the remainder of this section the Administering Authority's policies are set out in relation to several subsidiary areas associated with bulk transfers.

Scenario		Bulk transfer mechanism	Policy	Methodology
Machinery of Government from a Club Scheme	Transfer In	Club Memorandum	The Club mechanism ensures the pension credit in the Fund provides actuarially equivalent benefits	The pension credit awarded to members transferring in will be calculated in line with the Club transfer-in formulae.
	Transfer Out	Regulation 98 of the Local Government Pension Scheme Regulations 2013 or Club Memorandum	Where agreement can be reached, the Fund and the receiving scheme (and their two actuaries) may agree to a negotiated bulk transfer arrangement. Or Where agreement cannot be reached, revert to the Club transfer out formulae in accordance with GAD guidance.	The Fund's default policy is to offer the receiving scheme transfers out calculated using ongoing assumptions based on the share of Fund assets (capped at 100% of the liability value). Discretion exists to amend this to reflect specific circumstances of the situation.
Broadly Comparable scheme **Or** **Machinery of Government where scheme is treated as a non-Club scheme**	Transfer In	GAD guidance	Non-Club transfer in formulae in accordance with GAD guidance	The pension credit awarded to members transferring in will be calculated in line with the non-Club transfer-in formulae.
	Transfer Out	< 2 members – GAD guidance	Cash equivalent transfer values (CETV) in accordance with GAD guidance	The transfer value paid to the receiving scheme will be calculated in line with the CETV transfer-out formulae.
		2 or more members – Regulation 98 of the Local Government Pension Scheme Regulations 2013	Where agreement can be reached, the Fund and the receiving scheme (and their two actuaries) may agree to a negotiated bulk transfer arrangement. Or Where agreement cannot be reached, revert to cash equivalent	The Fund's default policy is to offer the receiving scheme transfers out calculated using ongoing assumptions based on the share of Fund assets (capped at 100% of the value of the liabilities). Discretion exists to amend this to reflect specific circumstances of the situation.

Scenario		Bulk transfer mechanism	Policy	Methodology
			transfer values under GAD guidance	
Inter-fund transfer (transfer between the Fund and another LGPS fund)	Transfer In	< 10 members – GAD guidance	Cash equivalent transfer values in accordance with GAD guidance	On receipt of a transfer value (calculated in line with the CETV transfer-out formulae), the Fund will award the member a pension credit on a day-for-day basis.
		10 or more members – Regulation 103 of the Local Government Pension Scheme Regulations 2013	The Fund and the transferring fund (and their two actuaries) should agree to a negotiated bulk transfer arrangement.	The Fund's default policy is to accept an amount calculated using ongoing assumptions based on the share of Fund assets (capped at 100% of the liability value). Discretion exists to amend this to reflect specific circumstances of the situation. Pension credits will be awarded to the transferring members on a day-for-day basis.
	Transfer Out	< 10 members – GAD guidance	Cash equivalent transfer values in accordance with GAD guidance	The transfer value paid to the receiving fund will be calculated in line with the CETV transfer-out formulae.
		10 or more members – Regulation 103 of the Local Government Pension Scheme Regulations 2013	The Fund and the receiving Fund (and their two actuaries) should agree to a negotiated bulk transfer arrangement.	The Fund's default policy is to offer the receiving scheme transfers out calculated using ongoing assumptions based on the share of Fund assets (capped at 100% of the liability value). Discretion exists to amend this to reflect specific circumstances of the situation.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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