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PUBLIC

To: Members of Pensions and Investments Committee

Tuesday, 29 August 2023

Dear Councillor,

Please attend a meeting of the **Pensions and Investments Committee** to be held at **10.30 am** on **Wednesday, 6 September 2023** in 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 7 June 2023 (Pages 1 - 4)

4. Investment Report (Pages 5 - 70)

5. Stewardship Report (Pages 71 - 118)

6. Derbyshire Pension Fund Complaints Policy (Pages 119 - 128)

7. Local Government Pension Scheme Investment Pooling Consultation (Pages 129 - 168)

8. Exclusion of the Public

   To move "That under Regulation 21 (1)(b) of the Local Authorities (Executive Arrangements) (Access to Information) (England) Regulations 2000, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972"

PART II - EXEMPT ITEMS

9. To confirm the exempt minutes of the meeting held on 7 June 2023 (Pages 169 - 170)

PUBLIC

MINUTES of a meeting of **PENSIONS AND INVESTMENTS COMMITTEE** held on Wednesday, 7 June 2023 in the Council Chamber, County Hall, Matlock.

PRESENT

Councillor D Wilson (in the Chair)

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

Also in attendance was S Ambler (Derbyshire Pension Board), A Fletcher (Independent Investment Advisor) and N Read (Trade Union representative).

32/23 **CHAIRMAN'S ANNOUNCEMENT**

The Chairman reported with sadness that Ronald Graham, the Chairman of the Derbyshire Pension Board had died suddenly whilst on holiday. He had been the Chairman of the Board since it was established in 2015 and had recently been appointed for a further term. The Chairman wished to place on record his thanks and gratitude to Mr Graham for his commitment and assistance, not only to this committee and the Pension Board but also his contribution to the governance of Derbyshire Pension Fund.

Mr Graham was very well respected amongst his peers and tributes had been received from other members of the investment pool.

33/23 **TO RECEIVE DECLARATIONS OF INTEREST (IF ANY)**

There were no declarations of interest.

34/23 **MINUTES**

The minutes of the meeting held on 26 April 2023 were confirmed as a correct record.

35/23 **INVESTMENTS REPORT**

The Pension Fund’s independent investment advisor, Anthony Fletcher, took the Committee through a presentation on the market background, the Fund’s performance, the economic and market outlook, and on his asset allocation recommendations.

The Investment Report was then presented by the Fund’s Investments Manager who explained the rationale for the recommendations for each asset class set out in the report.

The IIMT was currently reviewing the options to manage around 25% of the Fund's Japanese Equity allocation through a low carbon vehicle to reduce the portfolio's carbon footprint relative to the FTSE Japan Index. It was proposed that any allocation to a low carbon vehicle should be benchmarked against the product specific benchmark.

RESOLVED:

That the 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; and
d) Notes the proposal to benchmark any allocation to UK and Japanese low carbon vehicles to the relevant specific benchmark.

36/23 **STEWARDSHIP REPORT**

The Committee was provided with an overview of the stewardship activity that had been carried out by the Pension Fund's external investment managers. The following report was presented and would ensure that the Committee was aware of the engagement activity that had been carried out by Legal & General Investment Management (LGIM):

- Q1 2023 LGIM ESG Impact Report

The 2022-23 LGPSC Annual Stewardship Report had not yet been received and would be circulated to Members in due course.

Following Committee approval in April 2023, it was reported that the Fund's application to become a signatory to the UK Stewardship Code 2020 had been submitted to the Financial Reporting Council in May 2023. Members of the Committee would be informed of the outcome in due course.

RESOLVED that the Committee:

a) Notes the stewardship activity of LGIM; and
b) Notes the submission of the Fund's application to become a signatory to the UK Stewardship Code 2020.

37/23 **EXCLUSION OF THE PUBLIC**

RESOLVED that under Regulation 21 (1)(b) of the Local Authorities (Executive Arrangements) (Access to Information) (England) Regulations 2000, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972.

38/23 **LOCAL GOVERNMENT PENSION SCHEME INVESTMENT POOLING**

RESOLVED that the Committee notes the recommendation in the not for publication report.

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FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

PENSIONS AND INVESTMENTS COMMITTEE

WEDNESDAY, 6 SEPTEMBER 2023

Report of the Director - 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 on 31 July 2023 and the recommendations of the Director of Finance & ICT and Mr Fletcher, in relation to the Fund's strategic asset allocation benchmark (SAAB), 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, Infrastructure, Multi-Asset Credit and currently total around £203m. 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		Adjusted for Commitments (1)	Benchmark Sterling Return	Benchmark Sterling Return
		30/4/23	31/7/23		AF 6/9/23	DPF 6/9/23	AF 6/9/23	DPF 6/9/23	DPF 6/9/23	3 Months to 30/6/23	3 Months to 31/7/23
Growth Assets	**55.0%**	**55.5%**	**56.4%**	**+/- 8%**	**(1.0%)**	**-**	**54.0%**	**55.0%**	**55.6%**	**n/a**	**n/a**
UK Equities	12.0%	12.9%	12.5%	+/- 4%	+1.0%	+0.1%	13.0%	12.1%	12.1%	(0.5%)	(1.2%)
Global Equities:	39.0%	37.7%	38.9%	+/- 8%	(2.0%)	(1.0%)	37.0%	38.0%	38.0%	n/a	n/a
Japan	5.0%	5.4%	5.5%	+/- 2%	-	-	5.0%	5.0%	5.0%	3.0%	6.3%
Emerging Markets	5.0%	5.3%	5.5%	+/- 2%	-	-	5.0%	5.0%	5.0%	(2.0%)	5.7%
Global Sustainable	29.0%	27.0%	27.9%	+/- 8%	(2.0%)	(1.1%)	27.0%	27.9%	27.9%	3.3%	5.3%
Private Equity	4.0%	4.9%	5.0%	+/- 2%	-	+1.0%	4.0%	5.0%	5.6%	3.4%	5.5%
Income Assets	**25.0%**	**25.8%**	**25.8%**	**+/- 6%**	**+2.0%**	**+0.8%**	**27.0%**	**25.8%**	**28.7%**	**n/a**	**n/a**
Multi-Asset Credit	6.0%	7.1%	7.4%	+/- 2%	+2.0%	+1.5%	8.0%	7.5%	8.7%	2.4%	2.5%
Infrastructure	10.0%	10.9%	10.7%	+/- 3%	-	+0.9%	10.0%	10.9%	12.6%	1.6%	1.6%
Direct Property (3)	6.0%	5.6%	5.5%	+/- 2%	-	(0.5%)	6.0%	5.5%	5.5%	0.2%	0.2% (2)
Indirect Property (3)	3.0%	2.2%	2.2%	+/- 2%	-	(1.1%)	3.0%	1.9%	1.9%	0.9%	0.9% (2)
Protection Assets	**18.0%**	**15.1%**	**14.6%**	**+/- 5%**	**(1.0%)**	**(2.0%)**	**17.0%**	**16.4%**	**16.4%**	**n/a**	**n/a**
Conventional Bonds	6.0%	4.7%	4.5%	+/- 2%	(1.0%)	(0.8%)	5.0%	5.2%	5.2%	(5.4%)	(3.1%)
Index-Linked Bonds	6.0%	4.7%	4.5%	+/- 2%	-	(0.8%)	6.0%	5.2%	5.2%	(6.6%)	(3.3%)
Corporate Bonds	6.0%	5.7%	5.6%	+/- 2%	-	-	6.0%	6.0%	6.0%	(1.7%)	(0.8%)
Cash	**2.0%**	**3.6%**	**3.2%**	**0 – 8%**	**-**	**+0.8%**	**2.0%**	**2.8%**	**(0.7%)**	**1.1%**	**1.2%**

Investment Assets totaled £6,004m at 31 Jul-23
(1) Adjusted for investment commitments at 31 Jul-23. Presumes all commitments funded from Cash.
(2) Benchmark Return for the three months to 30 Jun-23.
(3) The maximum permitted range in respect of Property is +/- 3%.

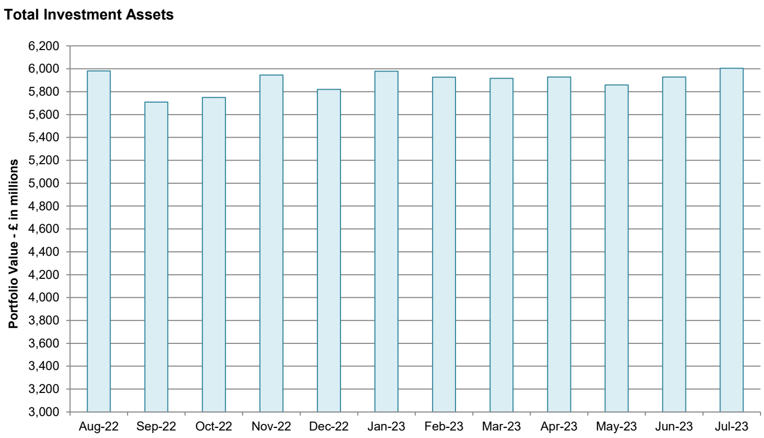
The table above reflects the following three categorisations:

- **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 on 31 July 2023, was overweight Growth Assets (1.4%), Income Assets (0.8%) and Cash (1.2%) and underweight Protection Assets (-3.4%). 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 -0.7%. 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.

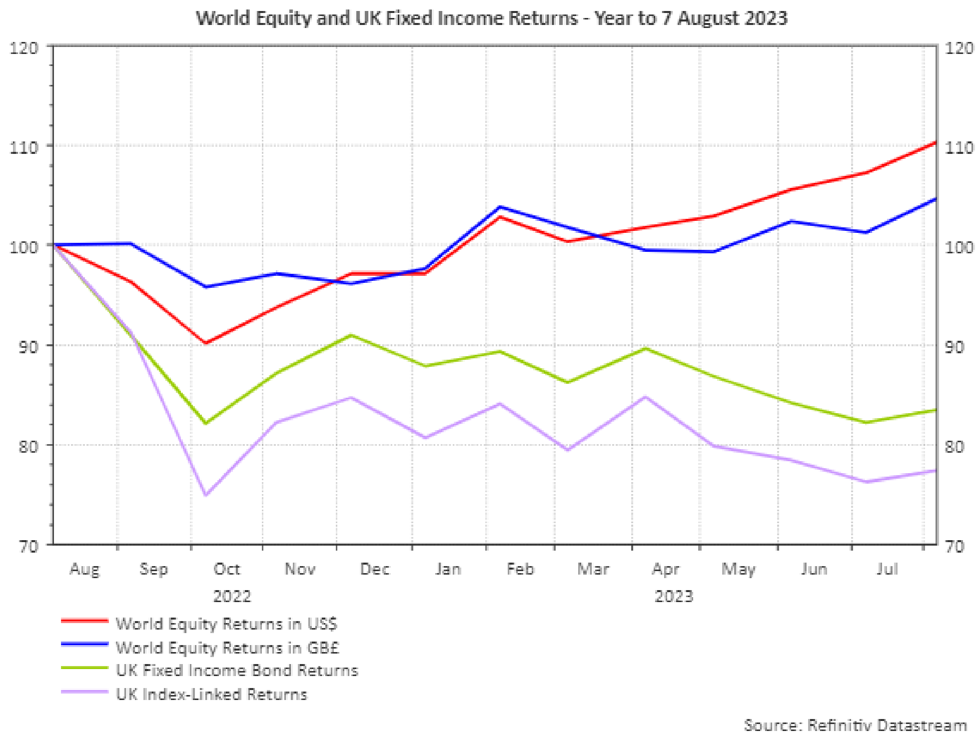
2.3 Total Investment Assets

The value of the Fund's investment assets increased by £76m (+1.3%) between 30 April 2023 and 31 July 2023 to £6.004bn, comprising a non-cash market gain of around £61m and cash inflows from dealing with members and investment income of around £15m. Over the twelve months to 30 April 2023, the value of the Fund's investment assets increased by £2m (+0.1%), comprising cash inflows from dealing with members & investment income of around £60m, largely offset by a non-cash market loss of around £58m.



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 on 31 July 2023 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 7 August 2023.

Global Equities (as measured by the FTSE All World) delivered a positive return of 4.7% in sterling terms over the 12-month period ending 7 August 2023 (10.8% in US dollar terms). However, bond returns have been negative over the comparable period. UK Conventional Gilts experienced a decline in value of 16.5%, while UK Index-Linked Bonds fell by 22.6%. The decline in bond values reflects higher market interest rates, as bond prices move inversely to yields. Central Banks have increased interest rates in response to higher inflation, with tighter financial conditions expected to reduce inflationary pressures.

Year-to-date (YTD)[1], equity markets have continued to deliver positive returns. At a headline level, Global Equities are up 9.1% in sterling terms, with almost half of the return delivered across June and July alone. Investor sentiment has started to improve recently as inflation has started to trend downwards, and contagion risks from US and European banking failures appear to have been effectively contained. Whilst headline figures appear very positive, the returns have primarily been driven by the 'Magnificent

[1] Year to Date 1 Jan-23 to 7 Aug-23

Seven'[2], a small group of US technology / high growth companies which have achieved exceptional YTD returns. The group has an average YTD sterling return of 85%. These seven names now account for around 16% of the global listed equity market, significantly increasing market concentration risk, and are equivalent to the combined market-cap weights of the UK, Japanese, French and Chinese listed equity markets. Excluding these names, YTD equity returns have been much more muted. The narrow focus of YTD equity gains may suggest that investors are still cautious over the prospects for the global economy and corporate earnings.

Bond markets have continued to post negative returns, albeit the losses in 2023 have moderated in contrast to the significant declines experienced in 2022. Conventional Gilts have lost -4.0% of their value YTD, whereas Index-Linked Gilts had declined by -4.7%.

In the US, the rate of inflation has consistently fallen over the last twelve months to stand at 3.0% on 7 Aug-23, only marginally above the US Federal's Reserves (US Fed) 2% target. This is a significant decline from the peak in US inflation of 9.1% in June 2022 and from the rate of 6.5% inflation at the end of 2022. In the UK, inflation has proven to be much stickier, having peaked higher, at 11.1% in October 2022, and subsequently declining at a slower pace. The UK inflation rate currently stands at 7.9%, almost 6% higher than the Bank of England's (BoE) 2% target.

Central Banks have consistently raised interest rates over the last 12 months to push financial conditions into 'restrictive territory'. The aim of restrictive monetary policy is to reduce demand and slow economic activity, reducing price rises. In July 2023, the US Fed raised rates by an additional 0.25%, following a temporary pause in June 2023 to evaluate the impact of previous rate rises and regional US bank failures. This brought rates to a target range of 5.25% to 5.50%, the highest level since August 2007. During the press conference that followed the meeting, US Fed Chair Jerome Powell emphasised the committee's continued attentiveness to inflation risks and that further potential rate increases would be entirely data dependent. While there is a growing consensus that the US Fed has likely completed its tightening cycle, there remains a reasonable possibility of a further 0.25% increase to ensure inflation is fully controlled and returned to the 2% target.

In August 2023, the UK's Monetary Policy Committee (MPC) made its fifth rate increase of 2023, raising rates by 0.25% to 5.25%. This marks the

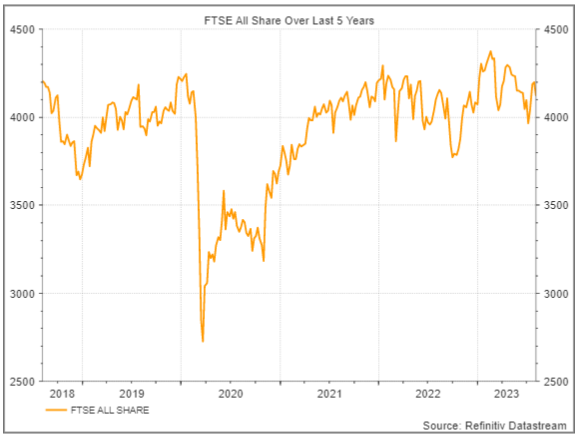
[2] Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla

highest level since September 2008 and the 14th increase in the current cycle. Andrew Bailey, the BoE Governor, emphasised that rates in the UK will potentially need to move higher and remain in restrictive territory for a longer period ‘in order to get inflation back to target’. The MPC does not expect inflation to reach the 2% target until midway through 2025. As such, market pricing currently suggest that UK interest rates could peak at slightly above 6.0% in Q1-24 and that it will take up until Q4-25 for rates to fall back below 5.0%.

Whilst there have been improvements in inflation data, economic data releases have become increasingly negative, highlighting the detrimental impact of higher interest rates on economic activity. A key focus for investors now is whether inflation can be brought under control without tipping economies into recession, which is known as a ‘soft landing’. In the US and Eurozone, weak manufacturing output is weighing on economic growth, particularly in Europe where manufacturing surveys declined for a fourth consecutive month to a hit a 10-month low. The UK economy also appears to be experiencing a notable slowdown, as manufacturing and services purchasing managers’ indices both fell to a year-to-date low in July 2023. Although the BoE is no longer forecasting that the UK economy will fall into a recession, the outlook for growth is subdued, with the Monetary Policy Committee expecting the UK economy to grow at approximately 0.5% per annum over its 3-year projection period, considerably below the pre-Covid trend.

The IIMT is maintaining a relatively cautious stance as it continues to believe that headwinds remain. Although, there is evidence of a downward inflation in inflation, there is still a long way to go in the UK and there are emerging signs that higher interest rates are starting to negatively impact economic activity. It is also unclear how the on-going cost of living crisis, together with ongoing inflation pressures, higher interest rates and tighter financial credit conditions will impact economic activity and corporate earnings over the next twelve months.

Asset class weightings and recommendations are based on values at the end of July 2023. As shown in the charts below, both the UK FTSE All Share and US S&P 500 are now trading towards the top end of their 30-year trading range.



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 June 2023.

Per annum	**DPF**	**Benchmark Index**
1 year	3.1%	2.8%
3 years	4.8%	4.4%
5 years	4.0%	3.7%
10 years	6.8%	6.4%

The Fund outperformed the benchmark over all time periods.

2.6 Category Recommendations

	Benchmark	Fund Allocation	Permitted Range	Recommendation		Benchmark Relative Recommendation	
		31 Jul-23		AF	DPF	AF	DPF
Growth Assets	55.0%	56.4%	± 8%	54.0%	55.0%	(1.0%)	-
Income Assets	25.0%	25.8%	± 6%	27.0%	25.8%	+2.0%	+0.8%
Protection Assets	18.0%	14.6%	± 5%	17.0%	16.4%	(1.0%)	(1.6%)
Cash	2.0%	3.2%	0 – 8%	2.0%	2.8%	-	+0.8%

At an overall level, the Fund was overweight Growth Assets, Income Assets and Cash on 31 July 2023, and underweight Protection Assets. As highlighted on page 2, commitments on 31 July 2023 totalled around £203m, potentially increasing Growth Assets by 0.6% and Income Assets by 2.9. The table on page 3 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 1.4% to 55.0% (neutral) (UK Equities -0.4%; Japanese Equities –0.5%; and Emerging Market Equities -0.5%), maintain Income Assets at 25.8% (MAC +0.1%; Infrastructure +0.2%: and Indirect Property -0.3%); increase Protection Assets by 1.8% (Conventional Bonds +0.7%; Index-Linked Bonds +0.7% and Corporate Bonds +0.4%), and reduce Cash by 0.4%.

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 recent levels of cash, reflecting both the general market uncertainty and cash held to fund existing commitment drawdowns.

2.7 Growth Assets

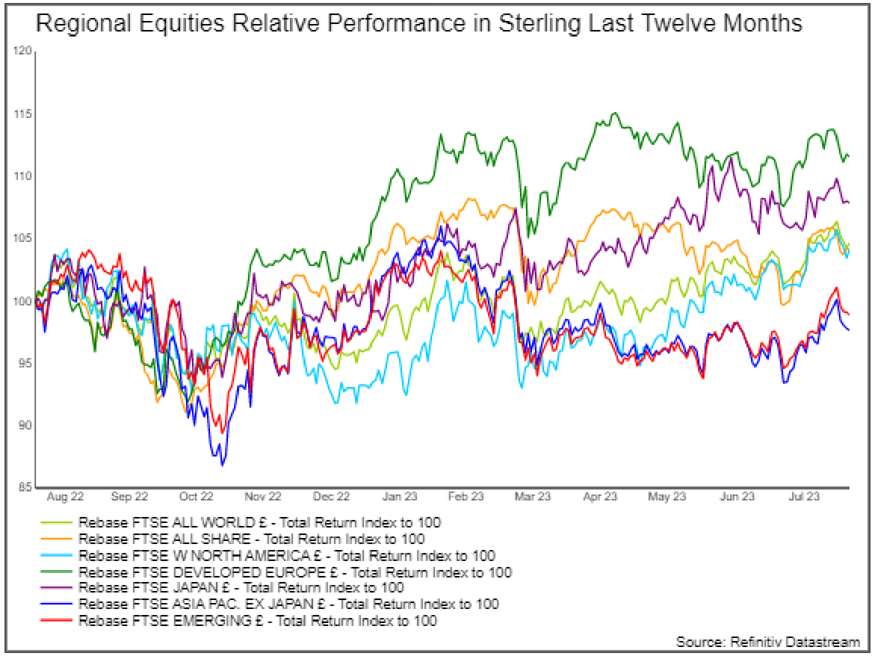
On 31 July 2023, the overall Growth Asset weighting was 56.4%, up from 55.5% on 30 April 2023, reflecting relative market strength.

The IIMT recommendations in this report reduce the weighting to 55.0%, neutral, albeit flexibility will be required in response to changing economic and market conditions. Excluding highly illiquid Private Equity (5.0% on 31 July 2023), the recommended listed equity weight is 50.0%, 1.0% underweight.

Mr Fletcher recommends an unchanged overall 1.0% underweight allocation of 54.0% to Growth Assets. Mr Fletcher notes that he remains cautious on equity markets, especially US Technology stocks which have reported significant YTD price earnings multiple expansion.

The IIMT notes that whilst global equities have returned +9.1% YTD, a significant portion of this return has been driven by the 'Magnificent Seven'. The very narrow focus of this year's rally has increased concentration risk and leaves equities vulnerable to sudden changes in sentiment.

Whilst the IIMT remains optimistic about the long-term potential for Growth Assets, the IIMT recommends a relatively cautious stance at present given the recent deterioration in global economic data as the IIMT assesses the potential short to medium term impact on corporate earnings, which the IIMT believes is one of the most important drivers of long-term equity returns.

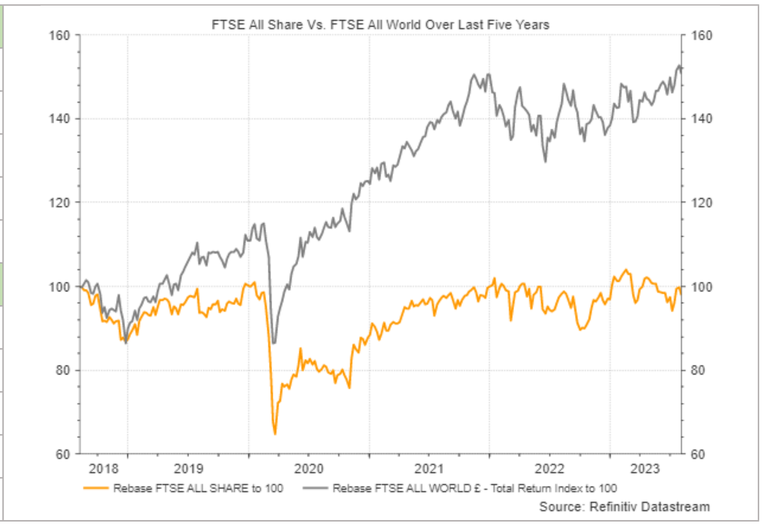


Benchmark Return	Currency	Q3-23 (*)	Q2-23	1 Year (**)	3 Year (**)	5 Year (**)	Since Last Committee (*)	L3M 31-Jul-23	YTD 07-Aug-23	L12M 07-Aug-23
Sterling Returns										
FTSE All World	GB£	1.2%	3.4%	11.7%	10.4%	9.4%	2.2%	6.0%	9.1%	4.7%
FTSE UK	GB£	0.9%	(0.5%)	7.9%	10.0%	3.1%	(0.6%)	(1.2%)	3.5%	4.1%
FTSE Japan	GB£	0.8%	3.0%	12.6%	4.9%	4.0%	(0.8%)	6.3%	7.2%	7.9%
FTSE Emerging Markets	GB£	3.1%	(2.0%)	(3.4%)	2.4%	3.0%	1.5%	5.7%	1.4%	(1.1%)
Local Currency Returns										
FTSE All World	US$	1.6%	6.3%	16.9%	11.5%	8.6%	4.8%	8.5%	15.8%	10.8%
FTSE UK	GB£	0.9%	(0.5%)	7.9%	10.0%	3.1%	(0.6%)	(1.2%)	3.5%	4.1%
FTSE Japan	¥	(0.3%)	15.0%	25.4%	16.7%	8.9%	3.6%	13.5%	22.8%	20.2%
FTSE Emerging Markets	US$	3.6%	0.9%	1.3%	3.6%	2.3%	4.0%	8.2%	7.6%	4.8%

Source: Performance Evaluation Limited & DPF analysis
(*) To 7 Aug-23
(**) To 30 Jun-23

2.8 United Kingdom Equities

DPF Weightings	
Neutral	12.0%
Actual 31.7.23	12.5%
AF Recommendation	13.0%
IIMT Recommendation	12.1%
Benchmark Returns (GB£)	
Q2 23/24 to 7 Aug-23	0.9%
Q1 23/24	(0.5%)
1 Year to Jun-23	7.9%
3 Years to Jun-23 (pa)	10.0%
5 Years to Jun-23 (pa)	3.1%



The Fund's UK Equity allocation fell from 12.9% on 30 April 2023 to 12.5% on 31 July 2023 (0.5% overweight), reflecting relative market weakness.

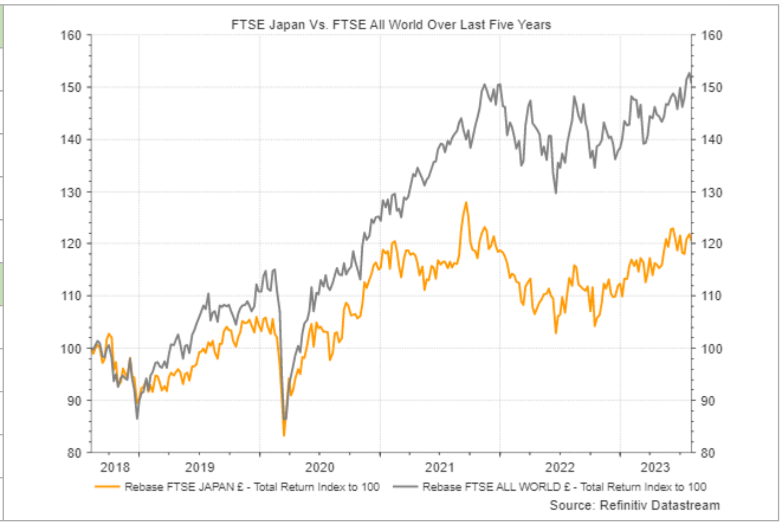
Mr Fletcher has maintained his UK Equities recommended weight of 13.0%, 1.0% overweight, reflecting Mr Fletcher's assessment of the relative value of UK Equities and Global Sustainable Equities.

The IIMT notes that UK Equities have offered strong relative performance against North American Equities during the interest rate tightening cycle due to their structural bias towards Value/Cyclical stocks. In particular, the UK has benefited from the trend of higher energy prices due to a significant overweight in Energy stocks. However, equity markets have recently pivoted away from Value/Cyclical stocks and back into interest rate sensitive Growth stocks, as the equity rally year-to-date has been broadly Technology driven. The lack of a significant UK Technology sector has left the UK index unable to meaningfully participate in this year's rally, and as such the FTSE All Share has only returned 3.5% YTD in sterling terms, less than half of the 9.1% return from the global index.

The IIMT believes that UK Equities are vulnerable to a continued Growth rally on a relative basis. As a result, the IIMT recommends that the Fund's current 12.5% overweight allocation to UK Equities is reduced by 0.4% to 12.1% (0.1% overweight) to 'lock-in' some of the strong relative performance from UK Equities over the last twelve months.

2.9 Japanese Equities

DPF Weightings	
Neutral	5.0%
Actual 31.7.23	5.5%
AF Recommendation	5.0%
IIMT Recommendation	5.0%
Benchmark Returns (GB£)	
Q2 23/24 to 7 Aug-23	0.8%
Q1 23/24	3.0%
1 Year to Jun-23	12.6%
3 Years to Jun-23 (pa)	4.9%
5 Years to Jun-23 (pa)	4.0%



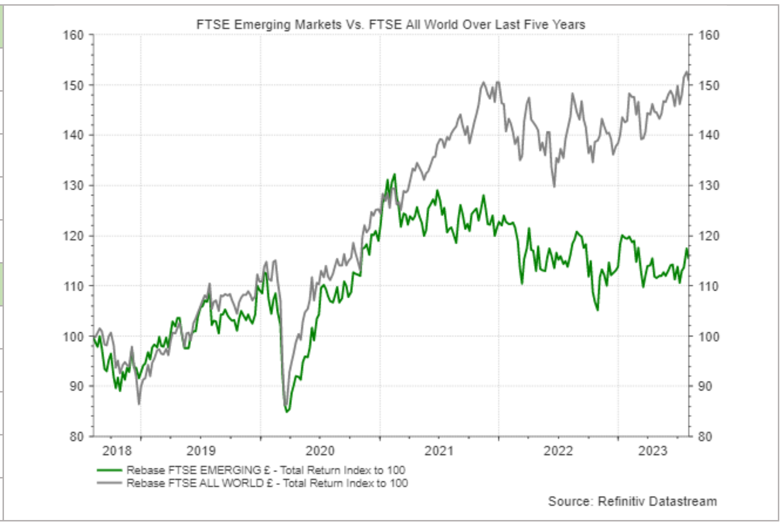
The Fund's allocation to Japanese Equities increased from 5.4% on 30 April 2023 to 5.5% on 31 July 2023, reflecting relative market strength.

Mr Fletcher recommends a neutral weighting relative to the benchmark.

The IIMT recommends that the Fund's Japanese Equity allocation is reduced by 0.5% to 5.0% neutral to 'lock-in' some recent relative outperformance. The IIMT notes that it is currently reviewing the requirement for a standalone Japanese Equity allocation as part of the H2-23 Investment Strategy Statement review.

2.10 Emerging Market Equities

DPF Weightings	
Neutral	5.0%
Actual 31.7.23	5.5%
AF Recommendation	5.0%
IIMT Recommendation	5.0%
Benchmark Returns (GB£)	
Q2 23/24 to 7 Aug-23	3.6%
Q1 23/24	(2.0%)
1 Year to Jun-23	(3.4%)
3 Years to Jun-23 (pa)	2.4%
5 Years to Jun-23 (pa)	3.0%



Relative market strength increased the Fund’s allocation to Emerging Market Equities from 5.3% on 30 April 2023 to 5.5% on 31 July 2023 (0.5% overweight).

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

The IIMT recommends that the Fund’s allocation to Emerging Market Equities is reduced by 0.5% to 5.0% neutral while the IIMT reviews the requirement for a standalone Emerging Market Equity allocation as part of the H2-23 Investment Strategy Statement review.

2.11 Global Sustainable Equities

DPF Weightings	
Neutral	29.0%
Actual 31.7.23	27.9%
AF Recommendation	27.0%
IIMT Recommendation	27.9%
Benchmark Returns (GB£)	
Q2 23/24 to 7 Aug-23	0.8%
Q1 23/24	3.3%
1 Year to Jun-23	12.0%
3 Years to Jun-23 (pa)	10.8%
5 Years to Jun-23 (pa)	9.8%

The Fund’s allocation to Global Sustainable Equities increased from 27.0% on 30 April 2023 to 27.9% on 31 July 2023 (1.1% underweight) reflecting relative market strength.

The IIMT notes that the Fund’s legacy investment in the Baillie Gifford Positive Change Fund of around £110m was transferred in-specie into the LGPS Central Limited Global Sustainable Equity Broad Strategy (managed by Baillie Gifford) in June 2023.

Mr Fletcher continues to recommend a 2.0% underweight allocation of 27.0% to Global Sustainable Equities because of the relatively higher interest rate sensitivity of the asset class.

The IIMT notes that the outlook for Global Sustainable Equities is closely linked to the outlook for inflation and interest rates. Global Sustainable

Equities typically favour interest rate sensitive growth stocks and tend to outperform when interest rates are falling and underperform when interest rates are rising. Whilst global interest rates appear to have peaked (noting that this differs by country), it may take some time before they start to consistently fall on a global basis. Furthermore, the IIMT is also concerned about increasingly expensive valuations in some areas of the Global Sustainable Equity market. For example, on 31 July 2023, the US Technology sector was trading on a forward-looking price earnings multiple of 31 times earnings, significantly higher than the 20-year average of 20 times earnings. The IIMT believes that valuations may mean revert over the long term and there is a risk that significant deviations from long-term averages tend to only be sustainable in the short term. This potentially leaves US Technology stocks (which accounts for around 25% of the global index) vulnerable to valuation downgrades (i.e. lower capital values).

The IIMT recommends that the Fund maintains its current 27.9% (1.1% underweight) allocation to Global Sustainable Equities.

2.12 Private Equity

DPF Weighting				
Netural	Actual 31.07.23	Committed 31.07.23	AF Recommendation	IIMT Recommendation
4.0%	5.0%	5.6%	4.0%	5.0%
Benchmark Returns (GB£)				
Q2 23/24 to 7 Aug-23	Q1 23/24	1 Year to Jun-23	3 Years to Jun-23 (pa)	5 Years to Jun-23 (pa)
1.0%	3.4%	13.0%	9.9%	3.5%

The Fund’s Private Equity weighting increased from 4.9% on 30 April 2023 to 5.0% on 31 July 2023, reflecting relative market strength (1.0% overweight).

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

The IIMT recommends maintaining the Fund’s Private Equity allocation at 5.0% (1.0% overweight), given the committed weight of 5.6% (1.6%).

The IIMT notes that it is reviewing the Fund’s strategic allocation to Private Equity as part of the H2-23 Investment Statement Strategy review (potentially leading to a higher asset class allocation) and the IIMT is currently assessing several private equity opportunities which may lead to future commitments.

2.13 Income Assets

On 31 July 2023, the overall weighting in Income Assets was 25.8% (0.8% overweight), in line with that reported on 30 April 2023. Net investment of around £28m was offset by relative market weakness. The IIMT recommendations below maintain the weighting at 25.8%; 28.7% on a committed basis.

2.14 Multi Asset Credit

DPF Weighting				
Netural	Actual 31.07.23	Committed 31.07.23	AF Recommendation	IIMT Recommendation
6.0%	7.4%	8.7%	8.0%	7.5%
Benchmark Returns (GB£)				
Q2 23/24 to 7 Aug-23	Q1 23/24	1 Year to Jun-23	3 Years to Jun-23 (pa)	5 Years to Jun-23 (pa)
1.3%	2.4%	8.9%	5.0%	3.7%

The Fund’s allocation to Multi-Asset Credit increased from 7.1% on 30 April 2023 to 7.4% on 31 July 2023 (1.4% overweight), principally reflecting net investment of around £28m, partly offset by relative market weakness.

Mr Fletcher has maintained his 2.0% overweight allocation of 8.0% to Multi-Asset Credit. Mr Fletcher notes that global credit spreads have moved sideways over the last quarter, but the overall yield has increased, when combined with the low duration and floating rate nature of many of the asset classes it suggests to Mr Fletcher that Multi-Asset Credit remains attractive, relative to longer duration, more interest rate sensitive assets.

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 7.4% is increased by 0.1% to 7.5% (1.5% overweight) to reflect scheduled private debt draw-down commitments; 8.7% on a committed basis.

2.15 Property

DPF Weighting				
Netural	Actual 31.07.23	Committed 31.07.23	AF Recommendation	IIMT Recommendation
9.0%	7.7%	7.7%	9.0%	7.4%
Benchmark Returns (GB£)				
Q2 23/24 to 7 Aug-23	Q1 23/24	1 Year to Jun-23	3 Years to Jun-23 (pa)	5 Years to Jun-23 (pa)
Not available	0.2%	(15.0%)	2.5%	1.6%

The Fund's allocation to Property fell by 0.1% to 7.7% on 31 July 2023, reflecting relative market weakness. Direct Property accounted for 5.5% (0.5% underweight) and Indirect Property accounted for 2.2% (0.8% 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 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.

The Fund's Direct Property manager notes that the UK economy remains weak (GDP growth Q1-23: +0.1%) and a technical recession is still possible whilst interest rates and inflation remain high. The manager notes that the latest increase in the base rate on 3 Aug-23 raised the rate from 5.0% to 5.25%. On a more positive note, although further increases cannot be ruled out it appears that with inflation now on a firm downward trajectory interest rates are at or are near their peak. The current economic difficulties have kept the UK commercial property market subdued. Although the significant erosion in value experienced in H2-22 appears to be over, capital values are currently flat rather than rebounding. At present, investor sentiment is weak and transaction volumes have consequently fallen sharply over the last year. Occupationally, rental value growth remains at healthy levels overall (+3.5% per annum, June 2023), but mainly because of continued strong industrial sector rental value growth.

The total return for all UK commercial property for Q2-23, as measured by the MSCI Quarterly Index, was +0.2%, comprising an income return of +1.1% and a capital value fall of -1.0%. For the 12-month period to 30 Jun-23, the sharp capital value falls in the second half of 2022 continues to have an impact. The total return for this period was -15.0%, comprising an income return of +4.3% and a capital value fall of -18.5%. In comparison, the total return for the Fund's property portfolio was +0.7% for the quarter and -11.7% for the 12 months to 30 June 2023. The current void rate within the portfolio is 4.3% (last quarter: 4.4%). This compares to the MSCI benchmark void rate of 8.2%.

As, and when, further Fund liquidity becomes available, the discretionary manager's purchasing strategy will be to invest in sectors and individual properties which offer the best opportunities for rental growth and total returns in the medium term. The manager will continue to focus on assets that provide strong core fundamentals in terms of location, quality of tenant and lease length. At present, the sectors that look most attractive in relative terms are the retail warehousing and industrial sectors where occupational vacancy rates remain low and consequently future rental value growth is most likely. The discretionary manager expects property yields and property total returns to remain impacted by elevated interest rates, bond yields and swap rates during the remainder of 2023, but with an improvement coming through in 2024 as investor confidence and buying activity increases.

The IIMT recommends that the Fund's allocation to Direct Property is maintained at 5.5%, albeit 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. The IIMT recommends reducing the Indirect Property weighting by 0.3% to 1.9% (1.1% underweight) to reflect scheduled redemptions, albeit redemption timing is uncertain.

2.16 Infrastructure

DPF Weighting				
Netural	Actual 31.07.23	Committed 31.07.23	AF Recommendation	IIMT Recommendation
10.0%	10.7%	12.6%	10.0%	10.9%
Benchmark Returns (GB£)				
Q2 23/24 to 7 Aug-23	Q1 23/24	1 Year to Jun-23	3 Years to Jun-23 (pa)	5 Years to Jun-23 (pa)
0.7%	1.6%	5.2%	3.2%	3.0%

The Fund’s allocation to Infrastructure fell from 10.9% on 30 April 2023 to 10.7% on 31 July 2023 (0.7% overweight), reflecting relative market weakness partly offset by net investment of £8m, of which £3m related to renewable energy assets.

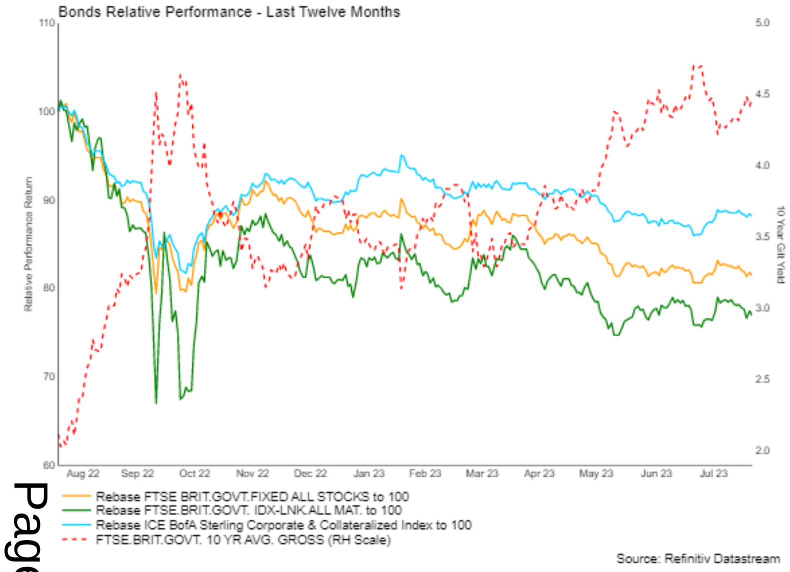
Mr Fletcher recommends a neutral weighting relative the final benchmark.

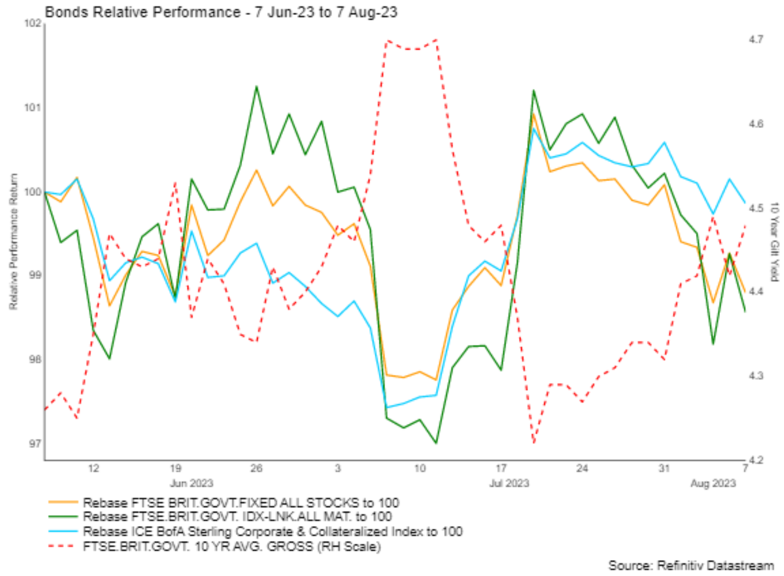
The IIMT continues to view Infrastructure as an attractive long-term asset class and favours a bias towards core infrastructure assets or renewable energy assets. These assets can offer low volatility; low correlation to equity and fixed income markets; and reliable long-term cash flows.

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. The current market valuation of some infrastructure assets is becoming increasingly stretched (driven by strong investor demand) and are vulnerable to the impact of elevated inflation.

The IIMT recommends that the invested weighting is increased by 0.2% to 10.9% (0.9% overweight) to reflect expected commitment drawdowns; 12.6% on a committed basis. Given the current committed weight of 12.6%, the IIMT is not reviewing new opportunities at the current time, albeit this is monitored by the IIMT on an on-going basis.

2.17 Protection Assets



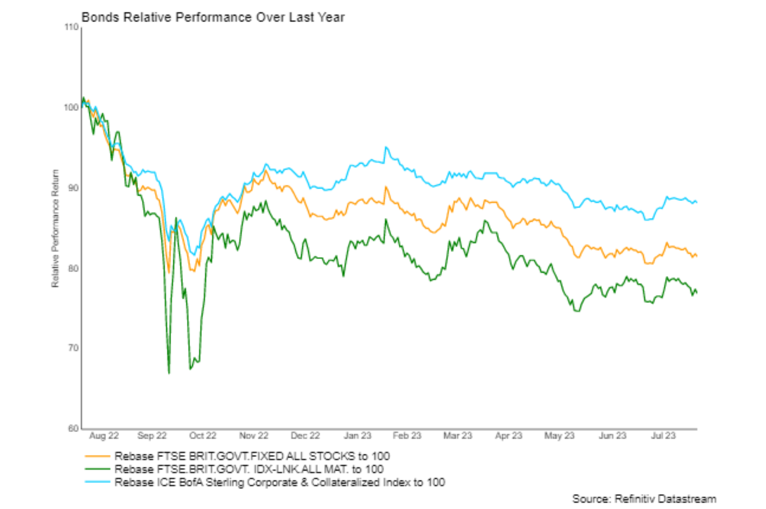


The weighting in Protection Assets on 31 July 2023 was 14.6%, down from 15.1% on 30 April 2023, reflecting relative market weakness. The IIMT recommendations below increase the weighting by 1.8% to 16.4%.

Although the 12 months' return from fixed income markets was sharply negative, the majority of the drawdown in bond markets occurred in 2022 as bond yields initially rose quite rapidly (lowering prices) to adjust for the higher inflation and interest rate environment. The sharp rise in UK bond yields was exacerbated by the UK Government's 'mini-budget' in September 2022, which resulted in a sharp sell-off in long-dated gilts (pushing yields even higher). Bond yields have been relatively volatile YTD as inflation has proven to be more persistent than anticipated (it is taking longer than expected for inflation to decline from its peak and return to trend). As a result, the market is pricing in rates peaking at much higher levels (slightly above 6.0%) and remaining in restrictive territory for a longer period (until at least late 2025), hence yields have risen quite sharply from earlier in the year when inflation was initially expected to decline at a faster rate. The yield on the 10-Year Gilt has increased approximately 80 basis points YTD to reach 4.46%, which is only marginally below where yields peaked following the 'mini-budget' in September 2022.

2.18 Conventional Bonds

DPF Weightings	
Neutral	6.0%
Actual 31.7.23	4.5%
AF Recommendation	5.0%
IIMT Recommendation	5.2%
Benchmark Returns (GB£)	
Q2 23/24 to 7 Aug-23	(0.5%)
Q1 23/24	(5.4%)
1 Year to Jun-23	(14.5%)
3 Years to Jun-23 (pa)	(11.5%)
5 Years to Jun-23 (pa)	(4.2%)



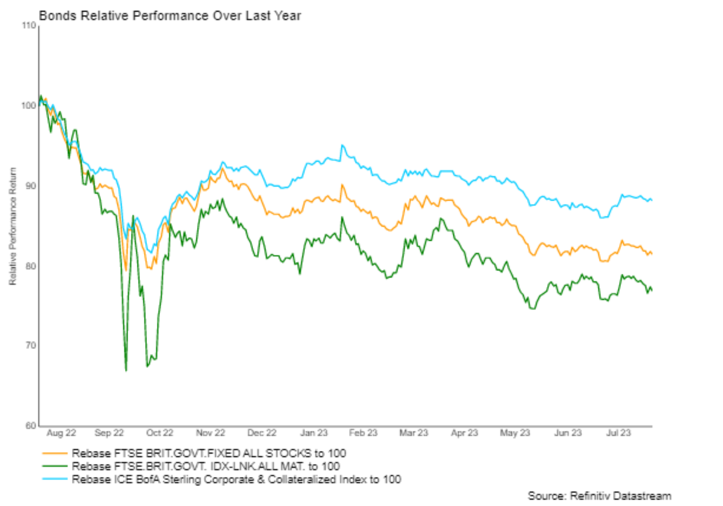
The Fund's allocation to Conventional Bonds reduced from 4.7% on 30 April 2023 to 4.5% on 31 July 2023 (1.5% underweight), reflecting relative market weakness. The Fund's allocation on 31 July 2023 comprised 85% UK Conventional Gilts and 15% US Treasuries.

Mr Fletcher has maintained his 1.0% underweight allocation to Conventional Bonds. Mr Fletcher notes that he is 'somewhat torn' between the allocation to Conventional Bonds and Index-Linked Bonds. Whilst Mr Fletcher has not changed his recommendation to be underweight Conventional Bonds and neutral Index-Linked Bonds, Mr Fletcher notes that he could just as easily be underweight Index-Linked Bonds and neutral Conventional Bonds.

The IIMT believes that conventional sovereign bonds offer better long term value now than they have for many years following the substantial rise in yields over the last twelve months. 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 2022 fall in bond yields as concerns about the global economy intensified. The IIMT recommends increasing the weighting by 0.7% to 5.2% (0.8% underweight) in line with Mr Fletcher's recommendation.

2.19 Index-Linked Bonds

DPF Weightings	
Neutral	6.0%
Actual 31.7.23	4.5%
AF Recommendation	6.0%
IIMT Recommendation	5.0%
Benchmark Returns (GB£)	
Q2 23/24 to 7 Aug-23	(2.1%)
Q1 23/24	(6.6%)
1 Year to Jun-23	(17.0%)
3 Years to Jun-23 (pa)	(12.6%)
5 Years to Jun-23 (pa)	(4.3%)



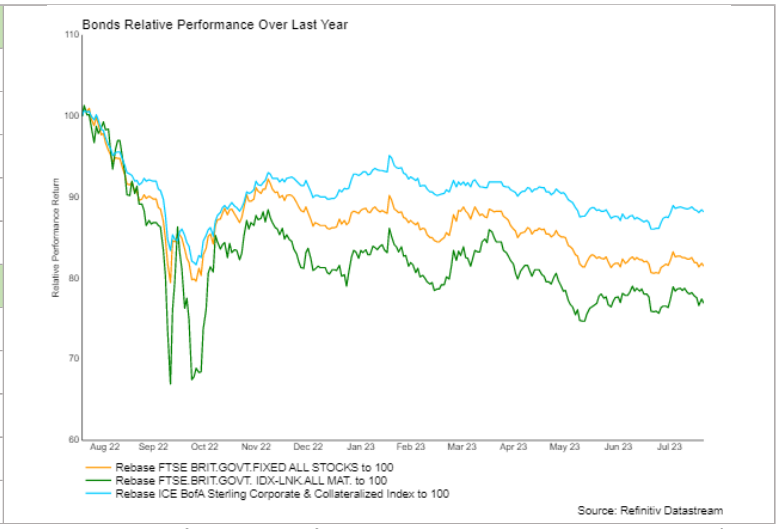
The Fund's allocation to Index-Linked Bonds fell from 4.7% on 30 April 2023 to 4.5% on 31 July 2023 (1.5% underweight), reflecting relative market weakness. The Fund's allocation on 31 July 2023 comprised 77% UK Index-Linked Bonds (UK Linkers) and 23% US Treasury Inflation Protected Bonds (US TIPS).

Mr Fletcher has maintained his 6.0% (neutral) allocation to Index-Linked Bonds. Mr Fletcher believes Index-Linked Bonds are expensive in the short term and is more pessimistic about the longer-term fall in demand and potential increased supply of Index-Linked Bonds, albeit Mr Fletcher notes that Index-Linked Bonds are much cheaper than they were at the beginning of last year, with the real yield increasing from around -2%, 18 months ago to +1.1% currently.

The IIMT believes that current yields, together with the potential for a longer-term period of elevated inflation, supports a small increase in the Fund's current allocation to Index-Linked Bonds. As a result, the IIMT recommends increasing the weighting to 5.2%; 0.8% underweight.

2.20 Corporate Bonds

DPF Weightings	
Neutral	6.0%
Actual 31.7.23	5.6%
AF Recommendation	6.0%
IIMT Recommendation	6.0%
Benchmark Returns (GB£)	
Q2 23/24 to 7 Aug-23	0.7%
Q1 23/24	(1.7%)
1 Year to Jun-23	(3.3%)
3 Years to Jun-23 (pa) (1)	(5.0%)
5 Years to Jun-23 (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 the Fund's weighting in Global Investment Grade Bonds fell from 5.7% on 30 April 2023 to 5.6% on 31 July 2023 (0.4% underweight), reflecting relative market weakness.

Mr Fletcher has maintained his neutral allocation to Corporate Bonds at 6.0%.

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. The IIMT recommends increasing the Corporate Bonds allocation by 0.4% to 6.0% (neutral).

2.21 Cash

The Cash weighting on 31 July 2023 was 3.2% (1.2% overweight), down from 3.6% on 30 April 2023, 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 remain 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, persistent high interest rates (relative to recent years), energy security concerns, tight global supply chains and the continuing conflict between Russia and Ukraine.

The IIMT recommends a relatively defensive cash allocation of 2.8% (0.8% overweight) due to the uncertain economic and political 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 on 31 July 2023.

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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Appendix 2

Second Quarter 2023 Investment Report

PREPARED FOR:

Derbyshire County Council Pension Fund: Pensions and Investment Committee Meeting

SEPTEMBER 2023

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 6th September 2023
Date of paper 18th August 2023

1. Market Background (Second quarter 2023)

Global macroeconomic data was generally stronger than expected over the quarter, with headline inflation falling in the US, Europe, remaining steady in Japan and finally falling in the UK. Labour markets remained surprisingly robust and GDP growth while weak and below trend, was generally positive. Chinese and European manufacturing data softened over the quarter leading to some concern over the anticipated post-COVID rebound for China.

Despite falling inflation, the US Fed, ECB and the BoE all continued to hike rates and maintain a hawkish posture because of tight labour markets and stubborn core inflation data. The Bank of Japan also changed policy allowing 10 year yields to increase towards 1% from their previous ceiling of 0.5%.

The US banking crisis appears to have been contained, but there are signs of consumer credit card defaults starting to tick up, and it is likely that the effects of the interest rate increases will take time to come through into the real economy. In aggregate consumers still seem to have excess savings which is supporting aggregate demand even as prices continue to rise.

The second quarter was another strong period for global equities with the FTSE World index rising +3.4% over 3 months and +11.7% over 12 months in Sterling terms. Equity markets were led by growth-oriented stocks as investors jumped on board the new innovation of Artificial Intelligence (AI). The best performing companies in the AI induced rally were a narrow set of US companies, now being referred to as the “Magnificent 7”. These stocks are Apple, Alphabet, Amazon, Meta, Microsoft, Tesla and Nvidia.

UK equities delivered -0.4% over three months reducing the 12 months return to +7.9%, the UK index has a large weight to undervalued defensive companies that benefited from last year’s rotation from Growth to Value. The economy is also seen as a higher recession and inflation risk than other developed markets.

Bond markets had another bad quarter as stronger growth, higher interest rates and stubborn core inflation caused bond yields to rise and prices to fall. Highly interest rate sensitive UK government bond markets delivered the worst returns, at around -6% with global governments and non-government bonds returns at -3%. Over 12 months UK government bond returns were around -16% again roughly twice as bad as other global bond markets.

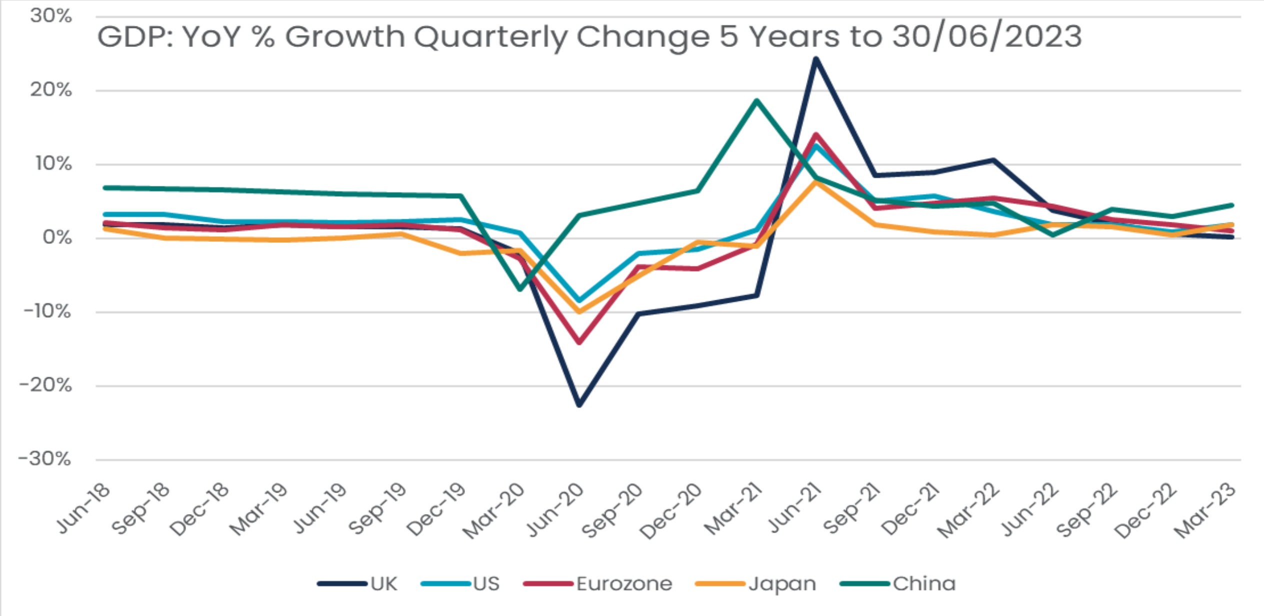
Property markets had another poor quarter with both UK and Global property markets delivering small returns which did little to offset their negative annual return. Returns from other real and private market assets like Private Equity and Infrastructure were lower and much more mixed over the quarter but remain strong and positive over the year.

The US dollar weakened a bit further over the quarter and again Sterling was stronger against most currencies retracing a lot of its weakness in 2022. Commodity prices were again mixed, the prices of oil, gas and electricity are now back the level seen at the end of 2021 Agricultural and industrial commodity prices were fairly stable over the quarter.

We may be closer to the end of the period of increases but, I believe interest rates and core inflation will remain higher, for longer than equity and bond markets have priced in. Expect more volatility!

MJ HUDSON Allenbridge

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 July 2023 and the 3 and 12 months to the end of June 2023.

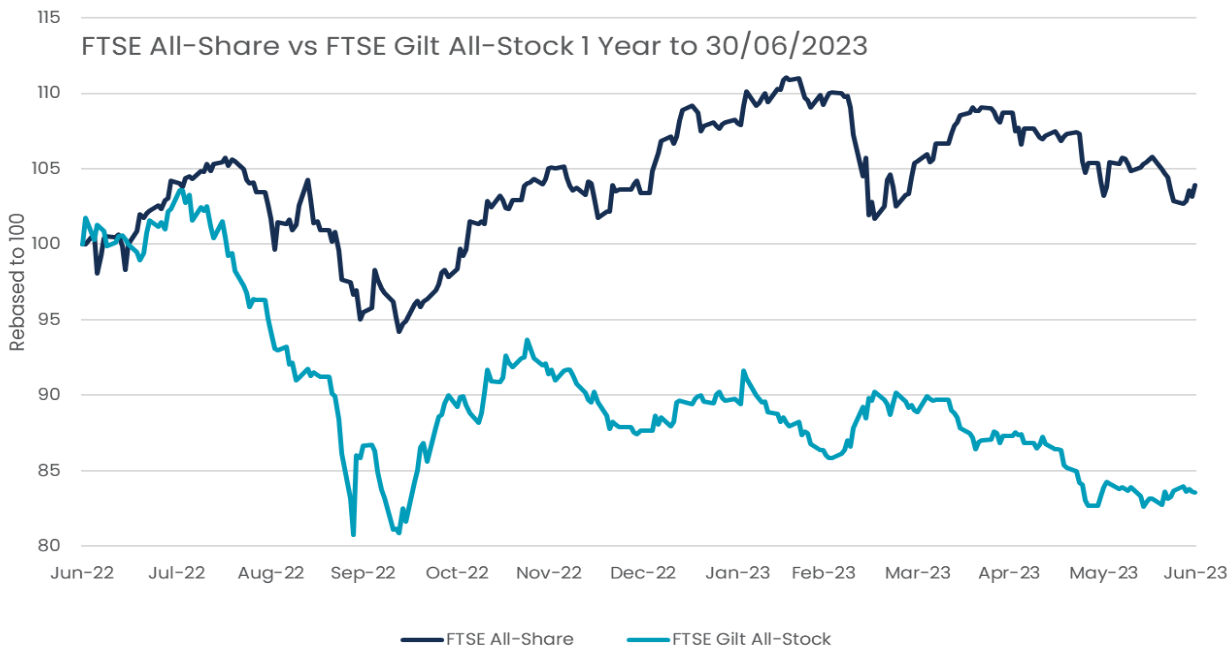
% TOTAL RETURN DIVIDENDS REINVESTED

MARKET RETURNS

		Period end 30th June 2023	
	July 2023	**3 months**	**12 months**
Global equity FTSE All-World	+2.5	+3.4	+11.7
Regional indices			
UK All Share	+3.4	-0.4	+7.9
North America	+2.1	+5.6	+13.7
Europe ex UK	+2.0	+0.6	+19.6
Japan	+2.0	+2.9	+12.6
Emerging	+5.0	-1.9	-3.2
UK Gilts - Conventional All Stocks	+0.8	-6.0	-15.5
UK Gilts - Index Linked All Stocks	-0.5	-6.9	-17.6
UK Corporate bonds*	+2.3	-3.4	-7.1
Overseas Government Bonds**	-0.5	-0.3	-1.8
UK Property quarterly^	-	+0.2	-15.0
Sterling 7 day SONIA	0.3	1.1	3.1

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

Chart 2: - UK bond and equity market returns - 12 months to 30th June 2023



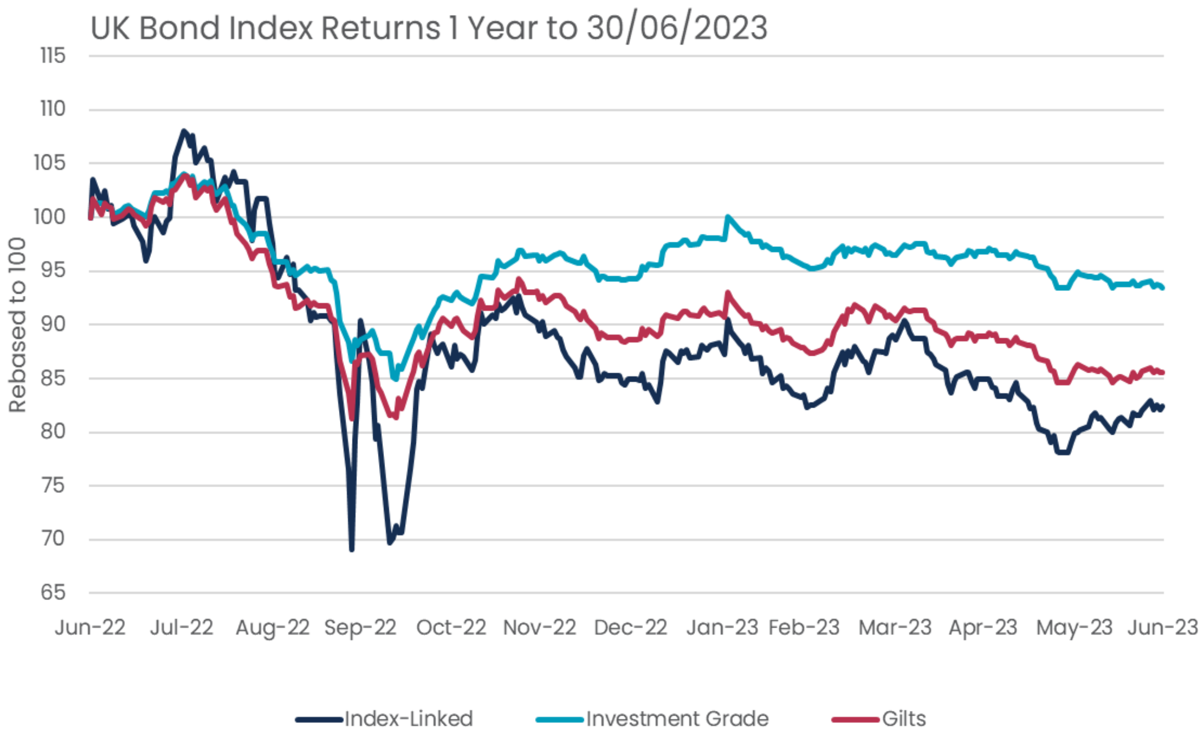
Source: - Bloomberg

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

BOND MARKET % YIELD TO MATURITY	31st March 2023	30th June 2023	Quarterly Change %	30th June 2022	Current 18th August 2023
UK GOVERNMENT BONDS (GILTS)					
10 year	3.49	4.39	**+0.90**	2.08	**4.68**
30 year	3.84	4.42	**+0.58**	2.45	**4.87**
All Stocks ILG	+0.13	+0.98	**+0.85**	-1.14	**+1.23**
OVERSEAS 10 YEAR GOVERNMENT BONDS					
US Treasury	3.49	3.82	**+0.33**	2.90	**4.26**
Germany	2.31	2.39	**+0.08**	1.23	**2.62**
Japan	0.32	0.40	**+0.08**	0.22	**0.63**
NON-GOVERNMENT BOND INDICES					
Global corporates	4.92	5.22	**+0.30**	4.22	**5.40**
Global High yield	8.50	8.52	**+0.02**	9.00	**8.61**
Emerging markets	7.00	7.05	**+0.05**	7.03	**7.31**

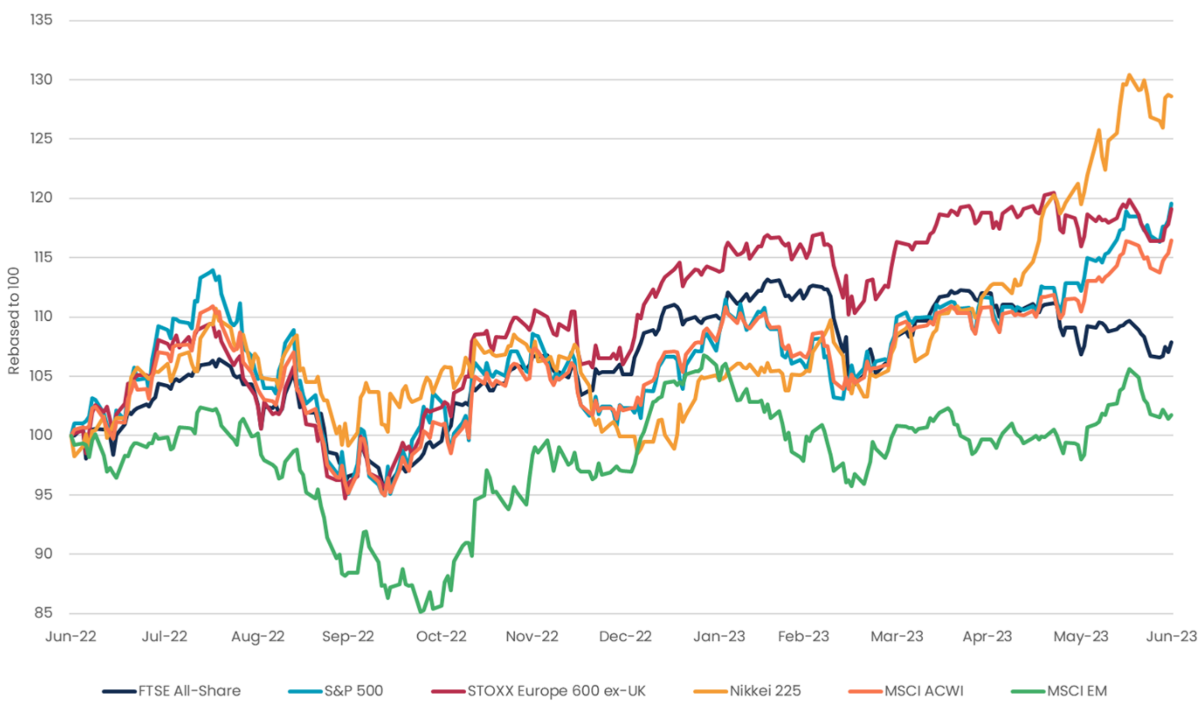
Source: - Trading economics and ICE Indices G0LI, G0BC, HW00, EMGB, 18th August 2023.

Chart 3: - UK Bond index returns, 12 months to 30th June 2023



Source: - Bloomberg

Chart 4: - Global equity market returns in local currency, 12 months to 30th June 2023



Source: - Bloomberg

Recent developments (July and 18th August 2023)

Market sentiment remained positive in July, buoyed by a drop in developed market inflation and resilient GDP data, raising hopes for a soft landing and supporting a broad rally across most asset classes and regions. Global stocks performed well, with the FTSE World Index up 2.5% over the month in Sterling terms. But the narrow nature of this rally is becoming an increasing concern. Within equities, small cap stocks and the Emerging Markets delivered strong returns.

Fixed income markets recorded mixed but positive returns overall, a better than expected fall in the June consumer price index (CPI) supported Gilts, with 10-year yields down a little to 4.3%. However, US Treasuries and European government bonds lost some ground as second-quarter GDP data was relatively strong, UK linker real yields also continued to rise. Commodity prices reversed some of their year-to-date losses, with the broad Bloomberg Commodity Index rising 6.3% over July. The price of oil rallied, and Russia's cancellation of the Black Sea grain export deal contributed to price rises in certain agricultural commodities. However, European natural gas prices continued to fall as storage inventories reached the highest seasonal levels in 10 years.

Quarter to date has seen another round of interest rate increases from the main central banks as growth, inflation and employment have remained stronger than expected. At their most recent meetings the central banks all increased rates by 0.25% the US Fed to 5.5%, the BoE to 5.25% and the ECB to 4.25%. In their press statements, after the increases, all continued to indicate that they are concerned about the tightness of labour markets and the risks this poses to core inflation. In their most recently published minutes, the Fed seemed more hawkish than expected.

Much of July's positive sentiment has been reversed in August and markets have fallen possibly more sharply on lower summer trading volumes. Having said that there has been a number of potentially worse than expected news announcements. The ratings agency, Fitch has downgraded US government debt from AAA to AA+, on increased political uncertainty following the Debt ceiling negotiations and their assessment of the stability of US political institutions after the January 2022 Washington riots. The US treasury also increased the size of its monthly debt auctions. Economic data from China indicated that its economy has not achieved a post covid rebound, with prices falling into deflation and a slowdown in global demand leading to a 14.5% fall in exports and a 12.5% fall in imports. There was also further bad news from their property markets with Evergrande filing for Bankruptcy protection in the US and another large developer Country Garden likely to default on some of it debt.

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 June 2023. Over 12 months, Growth assets underperformed whereas Income and Protection assets outperformed. All the individual active Growth asset managers underperformed their respective benchmarks over 3 months and over 12 months, except the UK where returns were ahead over 3 months and in line with the benchmark over 12 months. Once again protection assets outperformed in both periods, as did income assets over 12 months, but over 3 months the revaluation of infrastructure assets dragged down returns.

Over 10 years the Fund has achieved a total return of 6.8% per annum, net of fees.

Table 3: - Derbyshire Pension Fund and Benchmark returns

% TOTAL RETURN (NET) 30TH JUNE 2023	3 MONTHS		12 MONTHS	
	Derbyshire Pension Fund	**Benchmark**	**Derbyshire Pension Fund**	**Benchmark**
Total Growth Assets	**1.3**	**2.0**	**8.0**	**10.0**
UK Equity	-0.1	-0.5	7.9	7.9
Total Overseas Equity	**1.5**	**2.6**	**7.6**	**10.2**
North America	-0.5	1.6	8.5	9.4
Japan	1.8	3.0	10.7	12.6
Emerging markets	-2.5	-2.0	-4.6	-3.4
Global Sustainable Equity	2.3	3.3	9.6	12.0
Global Private Equity	3.3	3.4	10.8	13.0
Total Protection Assets	**-4.2**	**-4.6**	**-9.0**	**-11.6**
UK & Overseas Government	-5.4	-5.4	-11.7	-14.5
UK & Overseas Inflation Linked	-6.1	-6.6	-12.4	-17.0
Global Corporate bonds	-1.4	-1.7	-3.3	-3.3
Total Income Assets	**0.7**	**1.4**	**0.7**	**-1.8**
Multi-asset Credit	2.7	2.4	8.2	8.9
Infrastructure	-0.3	1.6	5.3	5.2
Property (all sectors)	0.4	0.4	-10.2	-15.6
Internal Cash	0.5	1.1	2.1	3.1
Total Fund	**0.3**	**0.6**	**3.1**	**2.8**

Total fund value on 30th June 2023 £5,928 million

At the end of June, the Fund was slightly overweight growth assets, within equity the Fund remains underweight Global sustainable with an overweight to the UK, over the quarter the residual exposure to US Equity was sold completely. Due to market movements the Fund became further underweight protection assets at -3%. It remains 1% overweight income assets relative to the strategic benchmark.

Over the second quarter of 2023, the Fund slightly underperformed with stock selection decisions in growth assets predominantly responsible for the negative contribution. Over 12 months the total return of the Fund was +3.1% but this was better than the +2.8% return of the benchmark, with both asset allocation and stock selection decisions making a positive contribution.

Over 3 years to the end of March, each of the broad asset categories in the Fund have outperformed the benchmark and the total return of the whole Fund, net of fees was +4.8% p.a. compared to the benchmark return of +4.4% p.a. The largest contribution to this outperformance comes from stock selection in all asset classes and asset allocation to protection and income assets, with a small negative contribution coming from the asset allocation to growth assets.

Growth assets – Equity performance

The aggregate performance of growth assets in the second quarter and the year was lower than the strategic benchmark. Over three months only the UK equity portfolio delivered an outperformance compared to its benchmark. Over 12 months the UK equity portfolio performed in line with the benchmark and all other regional portfolios including private equity underperformed.

Over 10 years growth assets have returned on average 8.5% p.a. compared to 8.4% 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 aggregate return of the government bond portfolio was ahead of benchmark over 3 months and significantly outperformed the benchmark over 12 months. Over the quarter, the global corporate bond portfolio outperformed the benchmark and was in line with the benchmark over 12 months.

Over 10 years protection assets have on average returned +1.8% p.a. compared to the benchmark return of +1.5% p.a.

Income assets – Property, Infrastructure and MAC

Over the quarter, the combined portfolio of income assets has underperformed the benchmark, due to an underperformance from Infrastructure assets. Over 12 months a better period for measuring returns, both property and Infrastructure outperformed while the MAC portfolio slightly underperformed.

Over 10 years Income assets have on average returned 8.2% p.a. compared to the benchmark return of 4.0% p.a.

3. Economic and Market outlook

Economic outlook

Outside of China the developed economies are experiencing more growth than expected. Growth is not very strong but it is not recessionary. Chart 5 below shows upwardly revised growth expectations for 2023 and weakening Composite PMI's. Drilling down into the PMI data it shows manufacturing has suffered through the combination of weaker demand for goods and soaring costs, but service sector activity remains remarkably robust. Strong labour markets and higher wages, pent-up savings and a continued desire to make up for the experiences missed during covid appear to be offsetting some of the drag from higher inflation and interest rates.

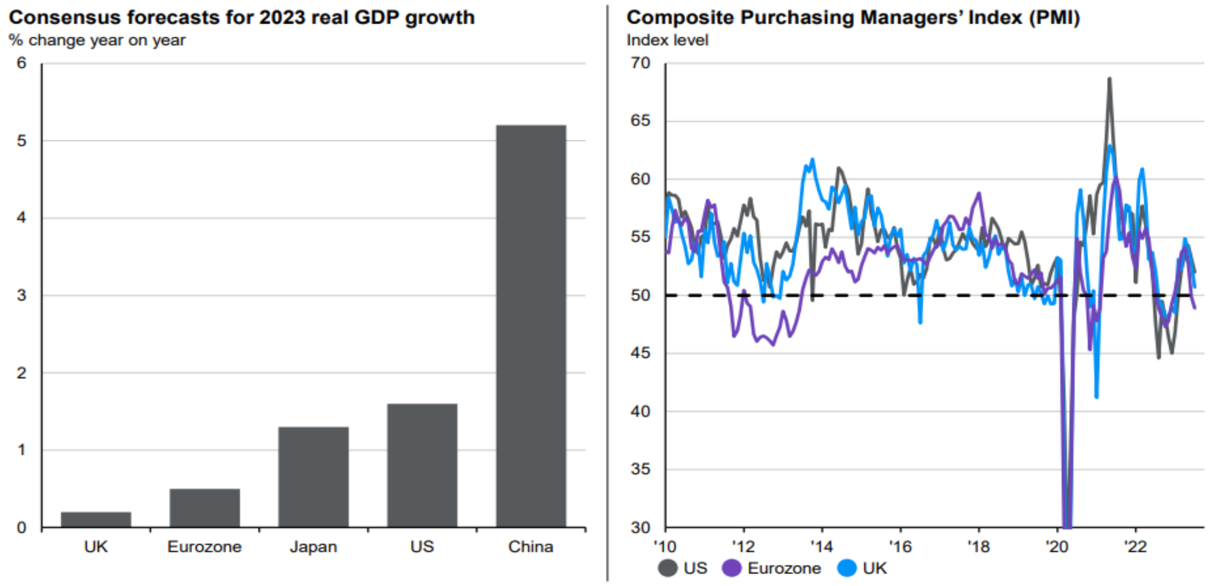
Despite the resilience of growth, as observed here before, markets have failed to realise that these causes of stronger growth are the same indicators the central banks are looking at when determining how much higher they may need to increase rates by and for how long they will remain high. Instead, markets are hopeful that the economy can experience a soft landing, avoid recession and that once headline inflation has fallen back to target, central banks will be quick to cut rates to support growth.

This seems rather optimistic to me, even if headline inflation falls, core inflation remains stubborn and is likely to be high for another year as the lagged effect of higher costs work their way through the economy. Monetary policy remains accommodative even after the recent rapid interest rate increases and fiscal policy is also expansionary. Again, as mentioned here before the era of emergency rates and ZIRP is over and the cost of capital is only returning the kind of levels that were normal prior to covid and the GFC.

The expected post covid Chinese economic recovery seems to be stalling weighed down by a consumer that has chosen to save more and not rush out and release pent-up demand on consumption of retail goods and leisure services as we did in the West. However, the largest impact on the Chinese economy has come from an overbuild and over investment in their property market. We saw the first indication of this with the default of Evergrande in 2021. During the covid lockdown this problem went un-remarked but now it is clear the weakness of property markets has been spreading with County Garden another large developer on the verge of default. In the last few days Evergrande has filed for bankruptcy protection in the US with estimated debts of US$300billion.

This has all the hallmarks of the excess property investment prior to the GFC, but unlike the GFC it is largely confined to China. That is not to say that there will be no contagion, international investors have been willing participants, but I believe it is more of a domestic rather than a global issue. The global impact will come from the overall weakness of the Chinese economy and investment markets as it tries to deal with the problem. The economy is already experiencing price deflation, in addition falling global demand for goods has caused both imports and exports to fall. Unlike the central banks of developed economies, that are still fire-fighting the impacts of higher inflation, growth and tight labour markets. the Chinese authorities have the flexibility to help by cutting interest rates and relaxing fiscal policy.

Chart 5: - Consensus GDP forecasts and PMI's (leading indicators of growth)



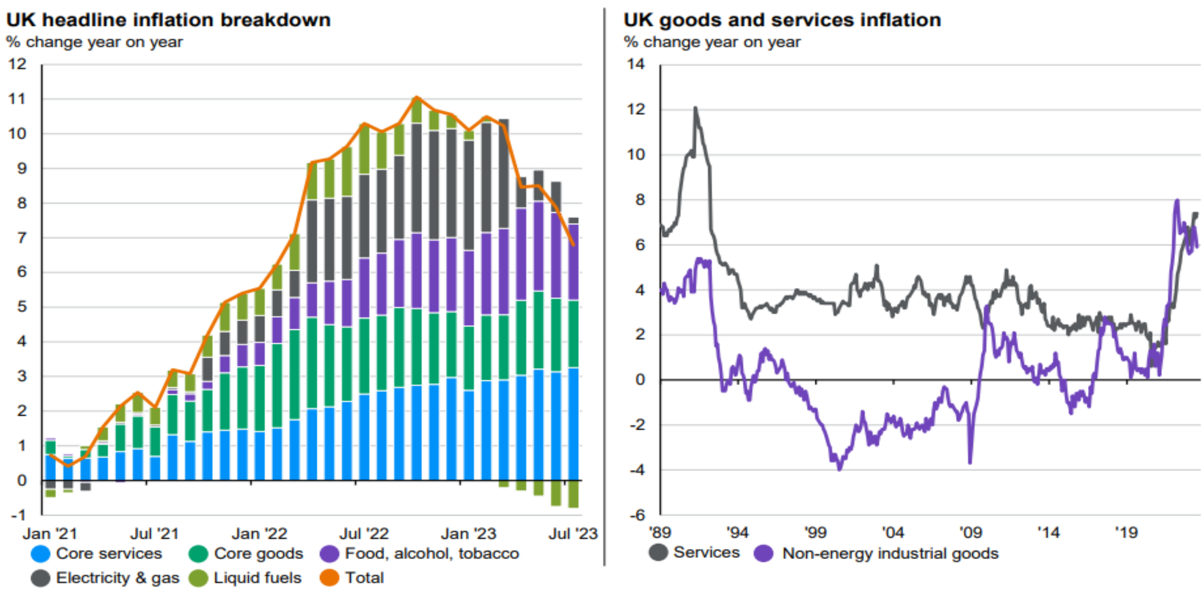
Source: - JPMorgan Asset management July 2023

Inflation

Headline inflation rates continue to fall in the US, Europe and the UK driven by year over year base effects and falls in energy prices. Core inflation on the other hand remains sticky in all regions and broadly for the same reasons, tight labour markets and higher wages.

The left hand side of Chart 6 shows, as UK headline inflation falls, core inflation has remained stubbornly high. While headline inflation fell to 6.8% in July, the lowest since February 2022, the core inflation was unchanged at 6.9%. The right hand side shows that while core goods prices seem to have peaked services inflation may still be trending higher.

Chart 6: - UK headline and core inflation and the components of headline inflation.

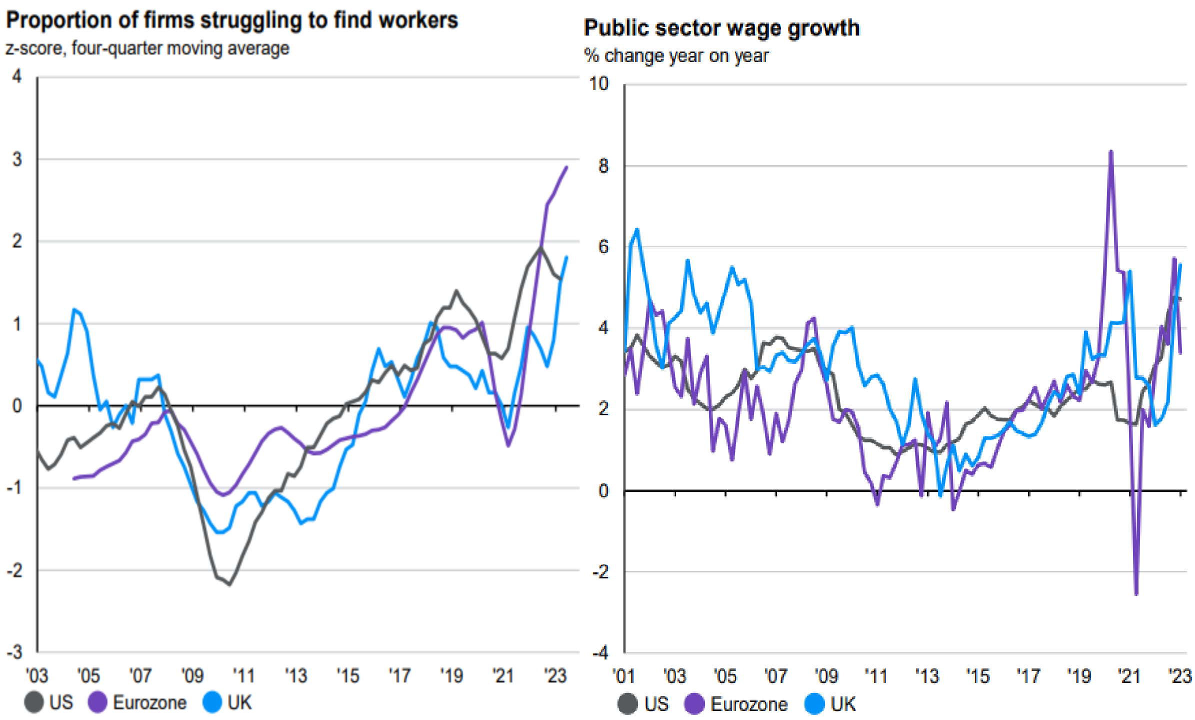


Source: - JPMAM August 2023

Chart 7 below shows how demand for new labour remains high on the left hand side and how public sector wages continue to rise albeit at rates below inflation. The chart shows public sector wages, in the more open public sector they are growing at an even faster rate.

I have not changed my view that the period of low inflation following the global financial crisis (GFC) is behind us and inflation rates could return to levels we were more familiar with before the GFC and this may require higher for longer levels of interest rates and a more conservative monetary policy approach from central banks.

Chart 7: - Tight labour markets and strong wages growth are keeping pressure on Core CPI.



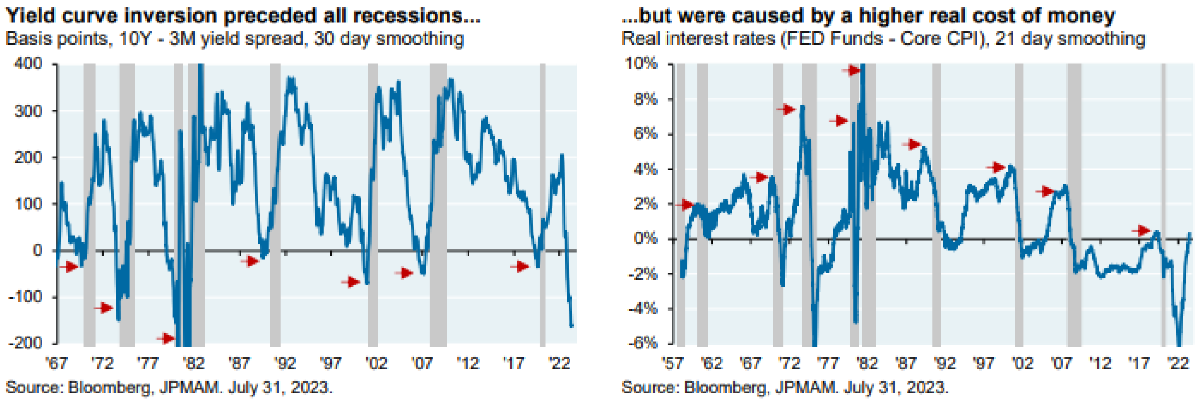
Source: - JPMAM August 2023

Central Banks

In June the Fed decided to pause their rate hiking cycle as headline inflation continued to decline. However, in July they raised rates by 0.25% citing strong growth and tight labour markets as the reason even suggesting that they may have more to do. At each of its June and July meetings, the ECB raised rates by 0.25%, because of high inflation despite a weakening economic outlook. The BoE raised rates by 0.5% in June and 0.25% at its meeting in August for the same reasons. In July the BoJ's newly appointed governor Kazuo Ueda, chose to make his first change in monetary policy. He announced that 10 year government bond yields will be allowed to rise to a ceiling of 1%, in a range defined as 0.5% to 1%, although the official target is still zero. For now, there will be no change to short term rates which remain below zero and the monetary base will be allowed to continue to expand until inflation is sustainably above 2%. It is not clear yet, what these changes to Japanese monetary policy could lead to, but when the overnight rate starts to move into positive territory as well a major source of money to the global credit system could go into reverse as the nearly 20 years Japanese ZIRP comes to an end.

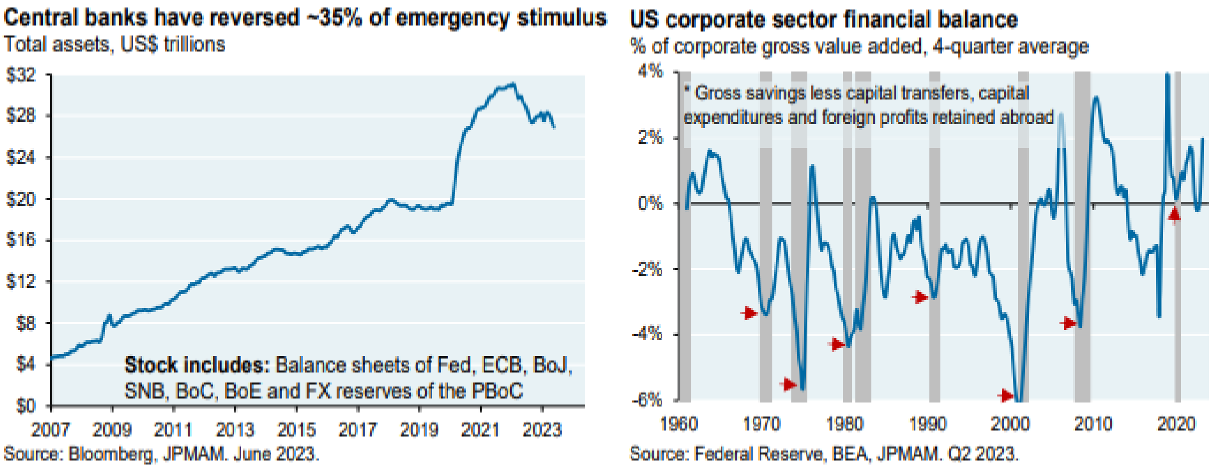
The increases in interest rates, the pressure on costs caused by inflation and signs of slower manufacturing growth suggest developed economies may be closer to recession. Inverted government bond yield curves have in the past been a precursor for recession. Indeed, the US curve is experiencing one of its longest and deepest periods of inversion since the Volker period 40 years ago. But the recessions that followed these inversions were caused by higher real rates, in other words rates are not yet high enough on their own to cause a recession, see Chart 8.

Chart 8: - LHS - US yield curve and RHS - the real cost of money.



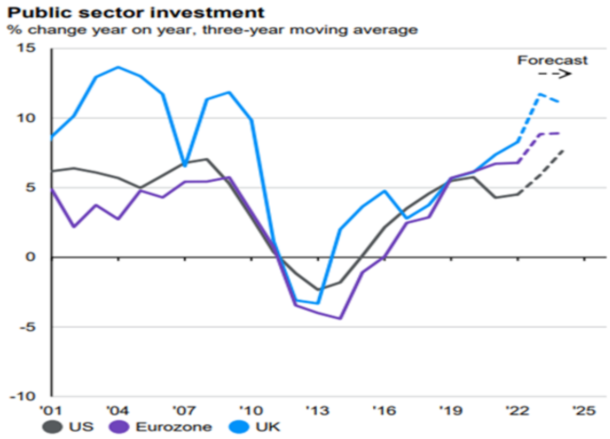
Looking at other evidence, while reduced, the consumer still has some excess savings left over from covid and they are enjoying good returns on cash and equity, central banks have only reversed 35% of the covid emergency stimulus, see LHS, Chart 9, and the US corporate financial balance remains in surplus, a situation that has never preceded a recession, RHS Chart 9.

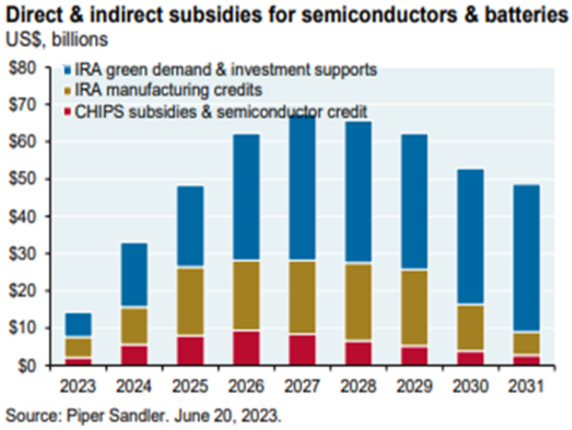
Chart 9: - LHS – Global Central bank balances sheets. RHS – US corporate balance sheets



When you look at fiscal policy, it is increasingly expansionary. Chart 10, the left hand side shows that there are further increases in direct government spending are planned in the US and Europe and to a lesser extent in the UK. Aimed at increasing investment in the green economy, energy transition and resilience in semi-conductor and Lithium battery manufacture. The right hand side shows the magnitude of direct spending as well tax incentives that US Inflation Reduction Act (IRA) is planning, with increases out to 2027 which are supporting growth even as monetary policy is tightening.

Chart 10: - LHS – Public Sector spending. RHS – US IRA spending plans.



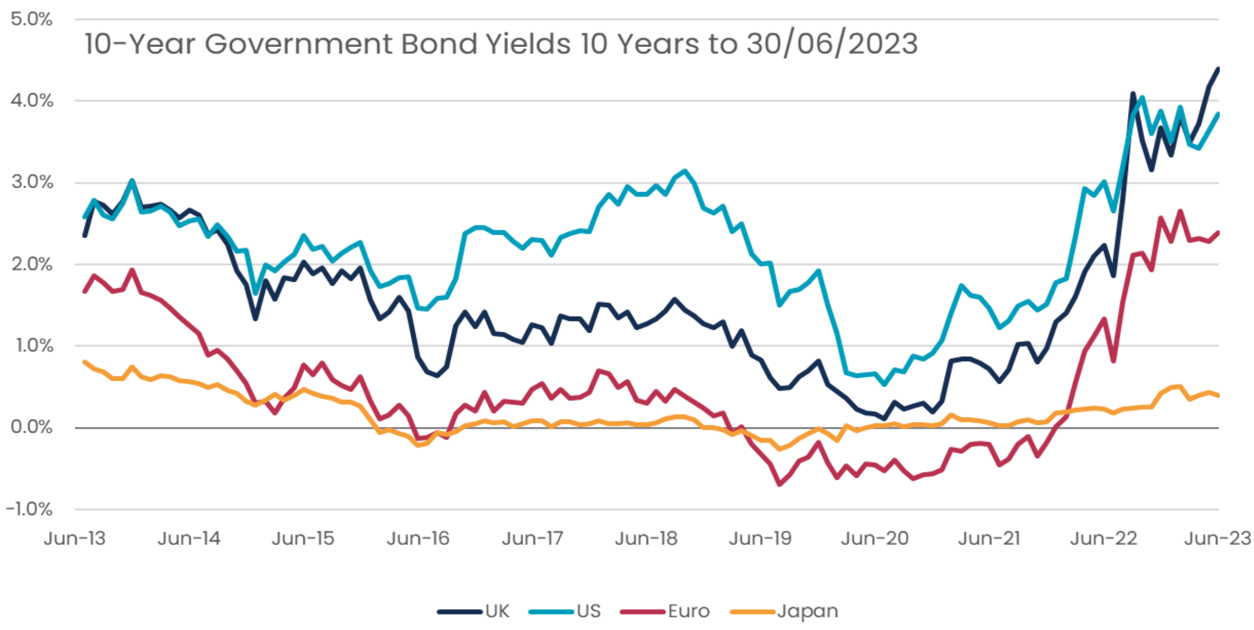


Source: - JPMAM August 2023

As mentioned above this all suggests to me that interest rates may have further to rise but that they will not be falling sharply unless the impact of China property market retrenchment is deeper and unsupported by Chinese government action.

Government bonds

Chart 11: - Government bond yields, last 10 years.



Source: - Bloomberg

Unfortunately Chart 11, above is somewhat out of date, because since the end of the quarter all 10 year government bond yields have moved 0.2% to 0.4% higher. US 10 year yields are 4.25%, UK 4.68%, Germany 2.6% and Japan 0.65%, the universal increase is as discussed above and in last quarter's report, being driven by the realisation that interest rates may have further to rise. The trigger in recent days has been stronger US retail sales and employment data, a more hawkish than realised set of US Fed minutes and the actual increased supply of government bonds combined with the downgrade of US debt by Fitch, and finally the lower trading volumes seasonal effect, of the summer holidays. Possibly the more important effect has been the Bearish flattening of the US yield curve (long dated yields increasing more than short, dated yields).

In my opinion, the bearish flattening is long overdue and could have further to go. It may be indicative that the market has finally realised that governments have more debt to issue, inflation and interest rates may be higher for longer and the realisation that after nearly 20 years the BoJ's is close to ending ZIRP allowing 10 year JGB yield to rise and possibly in the near future raising the overnight rate to positive territory.

I haven't changed my view on the direction of government bond yields but they are becoming more interesting after years of being highly over valued and may be worthy of consideration in the context of the liabilities that the Derbyshire Pension Fund needs to meet. I accept that relative to other opportunities, government bonds may not yet be cheap enough to merit an increased strategic allocation, but like non-government bonds, they may already be cheap enough to consider tactically increasing exposure.

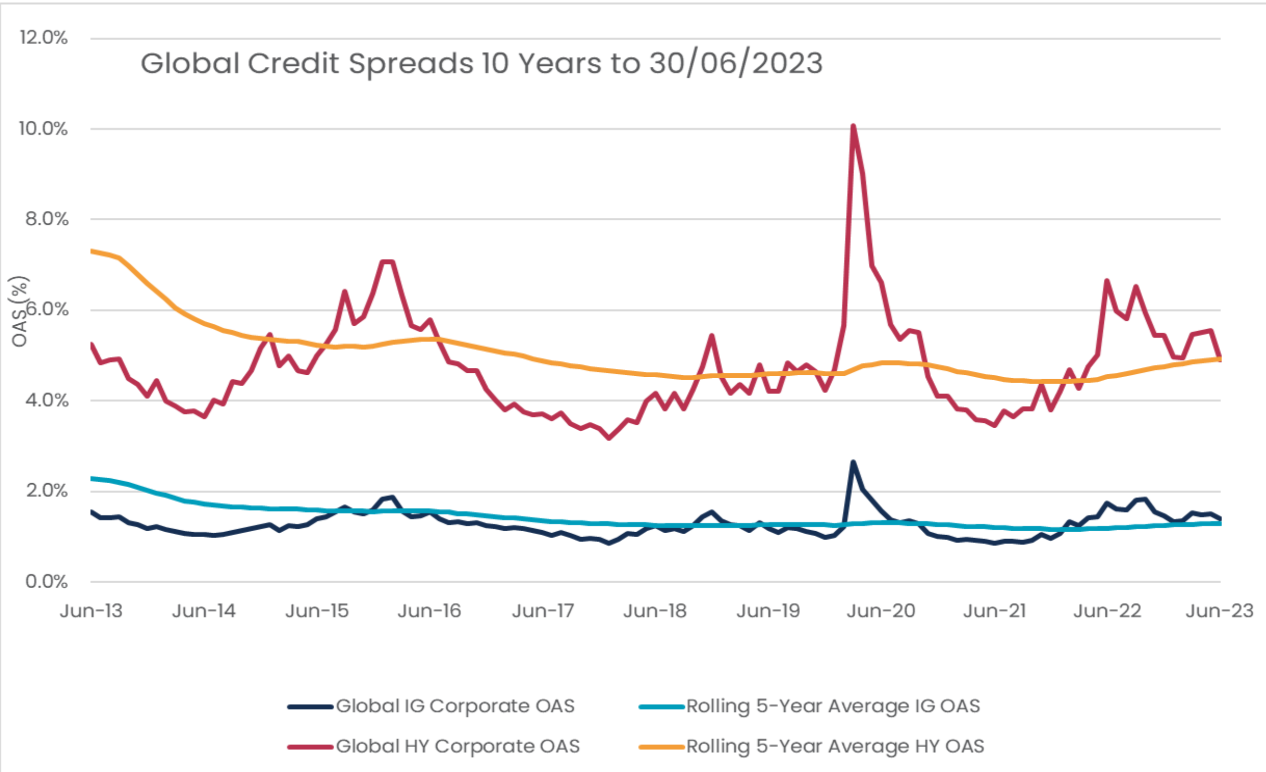
Non-government bonds

Chart 12 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 over the quarter and given the recent moves in government yields mentioned above, they have narrowed further, while at the same time the total yield has increased.

I still believe the total yield of investment grade non-government bonds may be high enough to compensate for their interest rate sensitivity and may be cheap enough to consider increasing exposure. I also 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 whilst the monthly carry provides an attractive source of income.

High yield assets are more sensitive to the economy, so slower economic growth and tighter credit conditions has increased the risk of default especially for more leveraged parts of the economy. Depending on how widespread the default of Chinese property companies turns out to be there may be a contagion effect impacting other types of property related debt. 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. 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 to avoid defaults.

Chart 12: - Credit spreads, extra yield over government bonds, last 10 years.



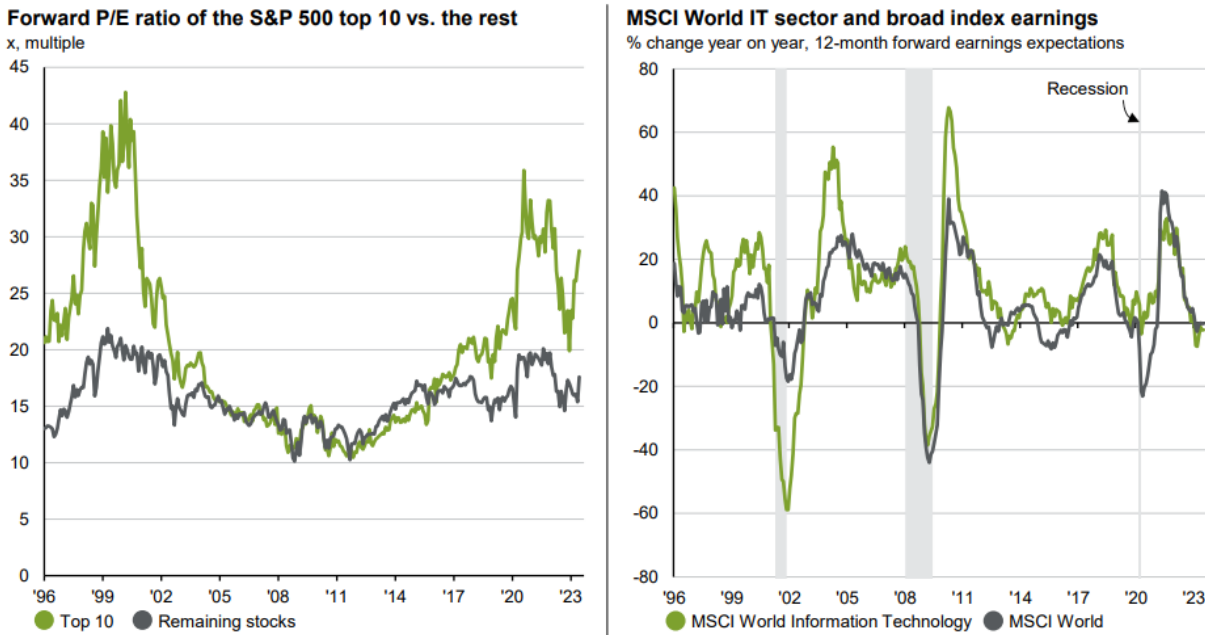
Source: - Bloomberg

Equities

Since my last report most equity markets have moved sideways in a fairly wide range, except the US and global indices which have gone higher, even with the recent fall on concerns about China and its property market. The rally in US and global indices has been driven by the "magnificent 7" or what used to be referred to as the "FAANG". The magnificent 7 stocks are Apple, Alphabet, Amazon, Meta, Microsoft, Tesla and Nvidia. Year to date these 7 companies are responsible for almost 95% of the performance of the US stock markets, and because the US represents 65% of typical market cap weight global equity indices, the vast majority of the performance of those indices. The performance leadership is so narrow and extreme that if you did not hold these stocks in your US equity portfolio, your performance may have been negative year to date.

I have covered this is more detail in section 4 of this report where I have highlighted how narrow this rally has been and how overvalued it leaves the US and global equity indices. Chart 13 below focuses on how expensive these stocks have become on a P/E basis and how there is no extra earnings growth to support it.

Chart 13: - S&P broad market P/E vs top 10 constituents and IT sector earnings compared to the whole index.



Source: - JPMAM August 2023

The message of the global macro-economic factors and maybe the overly generous bail out of Silicon Valley bank seem to have been ignored by investors willing to overly "bet" on the AI revolution. But it has not helped that so many investors now use a specialist passive index based approach to investment in equity. This perpetuates trends as there are no circuit breakers on how big a single stock can be in an index strategy unless the index provider chooses to set one. Recently the US Tech dominated index provider the NASDAQ has chosen to place a ceiling on the % allocation a single stock can have in its indices to prevent distortion and over concentration.

In my last report I highlighted a risk to equities was that consensus 12-month forward earnings expectations were too high. Once again as can be seen chart 14 below, earnings estimates have been revised lower despite a better economic performance but again these probably do not take into consideration the stickiness of recent inflation data. All this suggests to me that the outlook for developed equity markets is more consolidation and volatility, and that growth stocks should come under pressure as core inflation and interest rates remain higher for longer than previously expected.

My optimism for the outlook for Emerging markets and China now appears misplaced. The re-opening of the Chinese economy and the removal of all covid restrictions has not led to the explosion of consumption that was experienced in the West. With consumers choosing to hold on their savings rather than spend them on increased consumption. The latest problem with China's economy appears to be more the result of over investment in residential real estate than excess industrial capacity.

China's home ownership rate is close to 90%, outstripping the UK and the US and 20% of Chinese households own more than one home. The building boom has led to vacant properties amounting to more than two years of sales, and consumer confidence remains low despite low mortgage rates designed to boost leverage and homebuying. China relies on large amounts of trapped domestic savings to finance itself. Rather than a balance of payments or banking crisis, the housing situation in China is leading to weaker growth and less money for investment in the equity market despite the much cheaper 10-12x valuation. The Chinese central bank recently cut interest rates but this seems to have had the opposite result to what was expected.

GDP

Table 4 shows the consensus forecasts for GDP growth in calendar 2023 and 2024 in July and my expectations in May and August 2023.

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

% CHANGE YOY								
	2023				2024			
	MAY		AUGUST		MAY		AUGUST	
	Consensus	AF	Consensus	AF	Consensus	AF	Consensus	AF
US	1.1	**0.5**	1.6	**2.0**	0.6	**0.6**	0.5	**1.0**
UK	-0.1	**-0.5**	0.1	**0.5**	0.8	**0.0**	0.4	**0.5**
Japan	1.0	**0.8**	1.2	**1.5**	1.1	**1.0**	1.0	**1.0**
EU	0.7	**0.0**	0.7	**1.0**	1.4	**1.0**	1.3	**1.5**
China	5.8	**6.0**	5.5	**5.0**	4.9	**5.0**	4.8	**5.0**
SE Asia	4.1	**5.0**	4.2	**4.0**	4.6	**5.0**	4.6	**5.0**

Source: - Consensus Economics July 2023

The consensus forecasts for GDP growth in 2023 have again been revised higher in August as actual growth outcomes have been better than expected. This may be the last hurrah for consumers who have thus far continued to spend their savings in the face of higher inflation and interest rates. But consumption is being supported by tight labour markets, higher earnings and now by falling energy prices. While the outlook for growth remains anaemic, with estimates in developed markets only a little greater than the rounding error in the calculations. I have decided to revise my estimates for GDP growth to above consensus for this year and next as I believe growth will continue to surprise to the upside. This does however have implications for central bank policy rates, if growth does turn out to be better than expected then interest rates may have to go higher and stay higher for longer than the markets currently expect to combat inflation.

The Chinese economy expanded by 6.3% year-on-year in the second quarter, compared to the 4.5% recorded in the first quarter. The latest figures were distorted by a low base of comparison to last year when Shanghai and other major cities were under strict lockdowns. During the first half of the year the economy grew by 5.5%. China had set a GDP growth target of around 5% for this year, following a 3% expansion in 2022. Beijing remains cautious about launching substantial stimulus measures, due to the large inventory of unsold housing and very high level of local government debt which financed the boom in home building.   Economic indicators are mixed with retail sales growing at slower pace, while industrial output growth accelerated. The urban jobless rate remained unchanged at 5.2%, but youth unemployment reached a new high of 21.3%. Exports declined due to high inflation in key markets and geopolitical factors affecting foreign demand.

The advance estimate of US economic growth showed an annualised rate of 2.4% in the second quarter of 2023, higher than the first quarters 2% rate and above market expectations of 1.8%. Non-residential fixed investment accelerated sharply, led by a strong rebound in equipment and intellectual property products. Private inventories added to growth after a sharp contraction in the first quarter. While consumer spending on goods slowed sharply, consumption of services remained strong and labour markets remained tight. Public expenditure increased at a softer pace, net trade was also weaker as exports fell faster than imports and residential investment remains negative.

The UK economy expanded 0.4% year-on-year in the second quarter of 2023, following a 0.2% rise in the first three months of the year, preliminary estimates showed. On the production side, the services sector rose 0.5%, manufacturing rebounded 0.8% vs -1.8%, while mining declined again. On the expenditure side, household consumption rose 0.7%, government spending rebounded +2.6% versus -2.2% and gross fixed capital formation increased at faster rate. While exports were down 1.1%, imports declined at a faster rate down 6%.

The Eurozone economy grew by 0.3% in the second quarter of 2023 after a flat first quarter, the preliminary estimate showed. The recovery in demand was bolstered by a moderation in inflationary pressures. However, higher interest rates and falling confidence indicators continued to weigh on the European economy. Among the largest economies in the bloc, France and Spain sustained their positive growth rates, whereas Germany's economy continues to stagnate, and Italy unexpectedly experienced a contraction. On a yearly basis, the Eurozone grew by 0.6 percent, the weakest pace of expansion since the 2020-21 covid induced recession.

The Japanese economy grew by 2.7% on an annualised basis during the first quarter of 2023, compared with the preliminary figure of a 1.6% rise. An acceleration in private consumption following the removal of all pandemic measures was the main positive contribution to growth. Although business activity rebounded strongly and government spending continued to rise. Net exports, remain a drag on growth amid persistent uncertainty from global trade due to higher inflation and interest rates.

Consumer Price Inflation

Table 5 shows the consensus forecasts for Consumer Price Inflation in calendar 2023 and 2024 in July and my expectations in May and August 2023.

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

% CHANGE YOY								
	2023				2024			
	MAY		AUGUST		MAY		AUGUST	
	Consensus	AF	Consensus	AF	Consensus	AF	Consensus	AF
US	4.2	**5.0**	4.1	**3.5**	2.6	**3.0**	2.6	**2.6**
UK	6.7	**7.0**	7.4	**7.0**	2.8	**4.0**	3.2	**3.5**
Japan	2.6	**3.0**	2.9	**2.5**	1.4	**1.9**	1.7	**1.5**
EU	6.3	**7.0**	6.3	**6.0**	2.9	**3.8**	2.9	**3.0**
China	1.8	**2.2**	1.0	**1.0**	2.4	**3.0**	2.1	**2.1**
SE Asia	2.8	**3.2**	3.6	**3.6**	2.8	**3.2**	2.8	**2.8**

Source: - Consensus Economics July 2023

The consensus forecasts for inflation in August have been revised higher in all developed economies for both 2023 and 2024 other than in the US. US inflation is more subdued than other economies because of its self-sufficiency in oil and particularly gas. The tax and regulatory element of these prices in the US is also much lower than in the UK, Europe and Japan. While I expect inflation in 2024 could be lower than it will be in 2023, I believe it may be higher that consensus expectations, because as mentioned above, growth although anaemic may be stronger than expected. Tight labour markets and the willingness of consumers to spend especially on services may also be another factor that could keep core inflation higher for longer than expected. I also mentioned in my last report that we are returning to a period where cash has a real cost. At the moment that cost is still negative in real terms because of high inflation, but I expect it to be higher than we have experienced over the last 15 years and that should also have an impact on core inflation over the next year or so.

The Chinese economy has not experienced the explosion of service price inflation that the developed economies saw after the covid re-opening. In June headline consumer prices fell for the fifth month in a row mainly due to a fall in transportation and non-food prices. As a result, annual headline inflation is zero, but the core rate is +0.4%.

The annual headline inflation rate in the US slowed to +3% in June, the lowest since March 2021, falling from +4% in May. The primary driver of the fall was the high base effect from last year when a surge in energy and food prices pushed the headline inflation rate to +9.1%. Year over year energy costs fell -16.7%, with the price of fuel oil falling -36.6%, gasoline -26.5% and -18.6% for utility gas service, while Electricity prices increased this was only by +5.4%. Food prices also increased at a slower rate, as did the prices of core items such as shelter, new vehicles, apparel, and transportation services. The cost of medical services was down -0.8% and prices of used cars and trucks declined by

-5.2%. The core inflation rate remains well above the headline rate but it also dropped to +4.8%, the lowest increase since October 2021.

Consumer price inflation in the United Kingdom dropped to +7.9% in June and to +6.8% in July, the lowest level since March 2022, mainly due to a slump in fuel prices. Additionally, the core rate, which excludes volatile items such as energy and food, eased to +6.9% in June and July from May's 31-year high of +7.1%. Transportation costs declined -1.8%, driven by a -22.7% fall in the cost of fuels and lubricants. The annual rate of price increases from food and non-alcoholic beverages, furniture and household goods and restaurants and hotels also slowed.

The advance estimate of inflation in the Euro Area slowed for a third consecutive month to +5.3% in July 2023 from +5.5% in June. This is the lowest rate of increase since January 2022 and was mainly due to a further drop -6.1% in energy prices and a slowdown in the increased cost of food, alcohol and tobacco and non-energy industrial goods. Services inflation continued to increase by +5.6% up from +5.4% in June. As a result, core inflation rate which excludes prices for energy, food, alcohol & tobacco was unchanged at +5.5% and is now higher than the headline rate for the first time since 2021.

The annual inflation rate in Japan edged up to +3.3% in June 2023 from +3.2% in May. Cost increases were broad based with food, housing, transport, furniture & household utensils, medical care, culture & recreation, education and miscellaneous all higher. In contrast, the prices of fuel, light, and water decreased for the fifth month in a row, mainly due to falling electricity prices. Core inflation also ticked higher to +3.3% in June from +3.2% in May.

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 August 2023.

Table 6: - Interest rate and Bond yield forecasts

%	CURRENT	DECEMBER 2023	JUNE 2024
UNITED STATES			
3month SONIA	5.63	5.75	5.75
10 year bond yield	4.25	4.75	4.50
UNITED KINGDOM			
3month SONIA	5.55	5.50	5.50
10 year bond yield	4.66	5.00	4.75
JAPAN			
3month SONIA	0.07	0.0	0.0
10 year bond yield	0.63	0.75	1.00
GERMANY			
3month SONIA	3.67	4.0	4.25
10 year bond yield	2.62	4.0	3.75

Source: - Trading Economics; 18th August 2023

The central banks have increased rates by 4% to 5% in a very short period of time and I believe that we are no doubt closer to the end of the tightening cycle but as suggested above real rates may not have risen enough to cause a recession. Headline inflation is falling largely because of base effects as last year's rapid increase in food and energy costs have not been repeated. The pressure on inflation has moved from headline to core and this could persist for at least another year before it too falls out of the calculations. While I believe we may be close to peak of rates, I do not share the markets optimism that they are going to fall quickly and significantly thereafter. As I have said before the period of low inflation and ultra-low emergency interest rates is behind us. Which suggests to me that interest rates will be higher for longer than expected to ensure inflation returns closer to central bank policy levels and that even when this has happened short term interest rates will only come down slowly and will settle at levels similar to those before the GFC, 15 years ago. This has implications for the shape of the yield curve, the ultimate level of bond yields and the valuation of all asset markets as the potentially higher cost of capital is priced in.

UK Government bond yields continued to move higher, peaking 4.65% in early July, just ahead of the Fed's meeting, since then they have fallen to 4.36% on optimism that US short term interest rates may finally have finally peaked. As suggested above I do not completely agree with this view and I wouldn't be surprised to see further rate hikes from the Fed over the rest of this year and I expect them to stay high for longer than the market. I am even more confident that the BoE and the ECB will continue to increase rates. Hence, I see further market volatility and the chance of yet another period of negative return from bonds. If I am right about the longer period of high rates the yield curve especially in the US could flatten with longer dated bonds increasing relative to shorter dated bonds.

The real yield available from Index Linked Gilts continues to increase making them more attractive as a Protection asset, but this trend may have further to go before these bonds become cheap. UK corporate bonds have become more expensive as spreads compress against government bonds; but the all in yield and spread of global corporates is still above the 5 year average.

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 in the short term there is still very little income protection for small increases in yield even as the duration of government bonds falls with rising yields. Over the medium term spreads are sufficiently wide that investment grade non-government and high yield bonds may be attractive providing the risk of default does not increase significantly.

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	4.87	8.9	0.5	-3.2	+0.4
All Stocks Linkers	1.23	12.9	0.5	-6.1	-5.2
Global IG Corporate	5.40	5.9	0.5	-1.6	+2.4
Global High Yield	8.61	3.5	0.5	+0.4	+6.8

Source: - ICE Indices 18th August 2023

Bond Market (Protection Assets) Recommendations

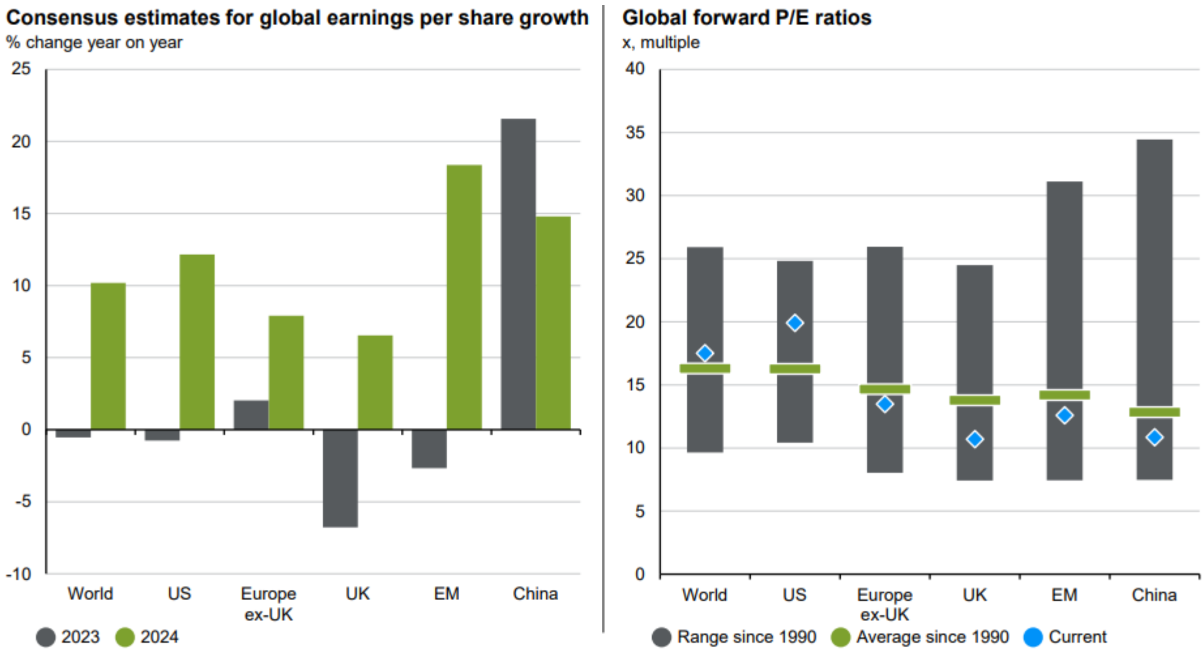
I suggest that the Fund sticks with its current allocation to Protection assets. Remaining neutral investment grade corporate bonds. The extra yield spread available from corporate bonds has been both wider and narrower since my last report, but it is currently still wider than it has been for some years and the total yield remains attractive.

I am somewhat torn between the allocation to Fixed Interest Gilts (FIG) and Index Linked Gilts (ILG). I haven't changed my suggestion to be underweight FIG and neutral ILG, but I could just as easily be underweight ILG and Neutral FIG as I still believe linkers are expensive in the short term and I am more pessimistic about the longer term fall in demand and potential increased supply of Index Linked Gilts. Having said that they are much cheaper than they were at the beginning of last year, with the real yield increasing from around -2%, 18 months ago to +1.07% currently.

Equity Markets

Chart 14 below, left hand side, shows the consensus earnings per share growth estimates, for 2023 and 2024. 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 14: - LHS - Earnings per Share estimates, RHS - Price/Earnings Ratios, since 1990, China 1996



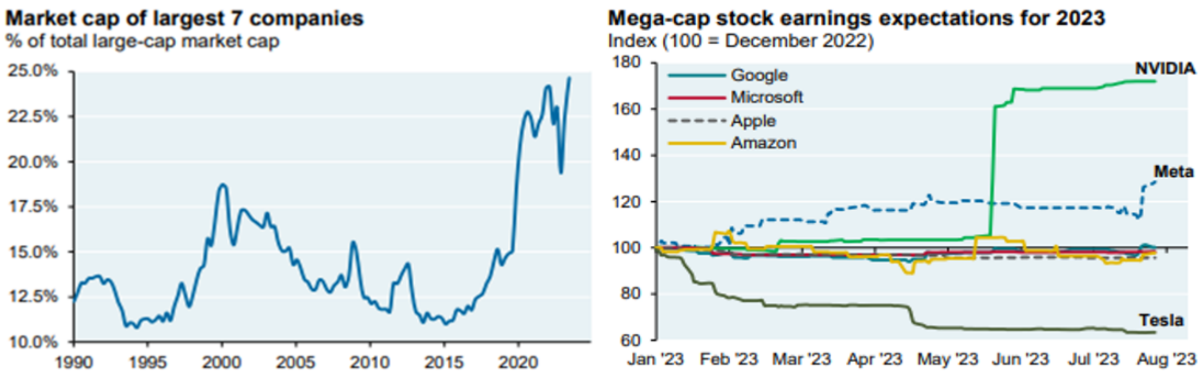
Source: - JPM Asset Management, July 2023

The left-hand side of chart 14 shows the new earnings expectations for 2023 and 2024. Since March analysts have moved their earnings expectations lower, to negative for the world in aggregate and the US and more negative in the UK for 2023, despite the stronger macroeconomic performance experienced year to date. In contrast they have revised up their earnings expectations for China despite its sluggish post lockdown recovery. Interestingly they have left 2024 more or less unchanged.

The updated right hand chart shows the world and US P/E ratios in particular have become even more expensive in this quarter with the aggregate world P/E ratio moving above average. This P/E expansion is largely confined to the US, making the US market look very expensive relative to history. This is even more of a concern when further analysis shows that the P/E expansion is confined to the very narrow set of "Tech stocks" now being referred to as the "Magnificent 7" namely Apple, Alphabet, Amazon, Microsoft, Meta, Nvidia and Tesla. The left-hand side of Chart 15 below shows that these 7 largest stocks in the S&P 500 represent nearly 25% of the market cap. They are also responsible for more than 50% of the market's gain year to date. This is despite the right-hand chart showing that Nvidia and Meta are the only companies expected to increase their earnings in 2023, with the others flatlining or in the case of Tesla falling by 30%.

Because the US makes up 65% of the typical global equity index, much of this year's global equity performance and P/E expansion can be explained by these same US Mega-cap companies.

Chart 15: - S&P 500 – LHS Market cap of the Magnificent 7; RHS - Their earnings expectations for 2023.



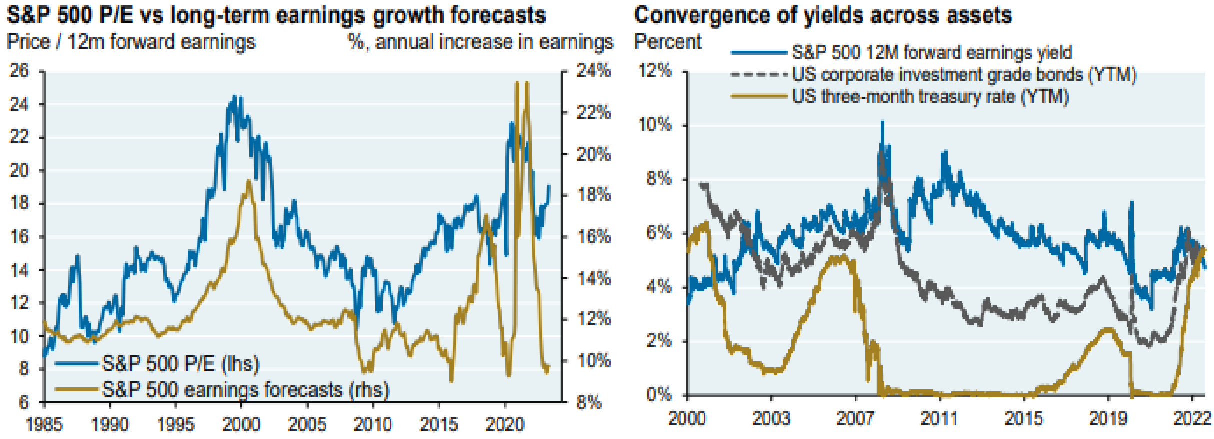
Source: - JPM Asset Management. August 2023

The market cap concentration of these companies is the highest since the 1970's and the market leadership even narrower than it was in the Tech Bubble of 2000. Market performance when measured by the "growth" factor is in the 97th percentile, the only time this was higher was during the Tech bubble of 2000.

A number of factors could be responsible for this, more conservative positioning last year, due the war in Ukraine and the unexpected rate hikes from the central banks; stronger than expected growth and falling headline inflation this year; over optimism about the prospective earnings potential of AI. I also see the influence of index / passive investing, where these funds are forced to buy these companies just because of their weight in the index. Which means that active investors who would have made the reasonable observation that these companies are already expensive and their earnings growth did not look good, will have underperformed because they would have been underweight.

In the past when these events happen, they are usually followed by a couple of years of poorer performance of market cap weighted indices and relative better performance of active managers and equal weight indices. I believe equity markets and the US in particular could also struggle over the next couple of years because so much good news is already in the price and as the LHS side of chart 16 below shows earnings expectations are low and as the RHS shows cash and bonds are now attractive alternative sources of yield.

Chart 16: - S&P 500 – LHS forward looking P/E ratios and earnings forecasts; RHS US Asset class yields.



Source: - JPM Asset Management. August 2023

Inflation may have peaked but it is likely to remain higher than expected and I believe central banks are likely to keep rates higher for longer than expected. As I have suggested above, I expect the cost of capital to rise and as the RHS of chart 16 above shows there are now safer places for investors to get reasonable risk adjusted returns without having to invest in equities. Hence, I remain cautious on equity markets, especially the more interest rate sensitive "growth sectors" which have rallied much more aggressively this year. 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

I have not changed my suggestions for how the growth asset allocation of the Fund should be distributed. I still believe the Fund should consider an overall 1% underweight position in Growth assets with this money being made available to part pay for the overweight in Income assets.

I remain comfortable with a 2% underweight allocation to global sustainable equity because of the strategy's higher interest rate sensitivity and overweight UK equity due to relative valuations of the World and UK equity indices.

Income Assets

I have made no changes to the allocation to Income Assets funding the 2% over allocation to MAC 1% each from Growth and Protection Assets. Global credit spreads have moved sideways, but the overall yield has increased, when combined with the low duration and floating rate nature of many of the asset classes it suggests to me that MAC still remains attractive, relative to longer duration, more interest rate sensitive assets.

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 may be 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 May and 18th August 2023. 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 MAY 2023	ANTHONY FLETCHER 18TH AUGUST 2023
Growth Assets	**55**	**-1.0**	**-1.0**
UK Equity	**12**	**+1.0**	**+1.0**
Overseas Equity	**43**	**0**	**0**
North America	**0**	**0**	**0**
Japan	5	**0**	**0**
Emerging markets	5	**0**	**0**
Global Sustainable	**29**	**-2**	**-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**	**-1**	**-1**
Conventional Gilts	6	**-1**	**-1**
UK index Linked	6	**0**	**0**
US TIPS	0	**0**	**0**
Investment grade credit	6	**0**	**0**
Cash	2	**0**	**0**

Anthony Fletcher

Independent External Adviser to the Derbyshire Pension Fund

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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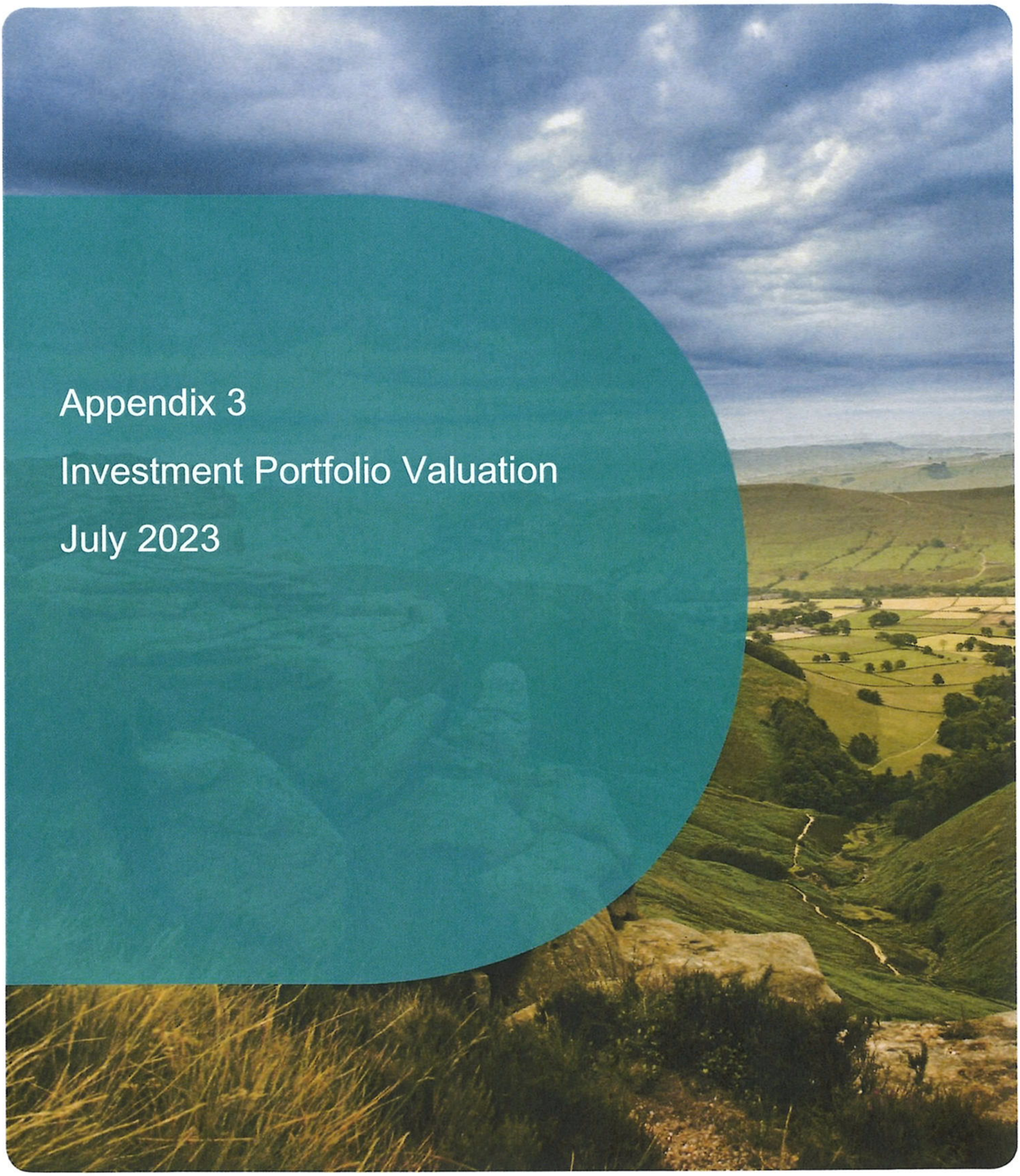

Appendix 3

Investment Portfolio Valuation

July 2023

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

lgps

DERBYSHIRE PENSION FUND

31-Jul-23

	SAAB	Permitted Range	DCC 31/07/2023 £m	DCC 31/07/2023 %
Growth Assets	**55.0%**	**+/- 8%**	**3,384.4**	**56.4%**
UK	12.0%	**+/- 6%**	753.1	12.5%
Japan	5.0%	**+/- 2%**	332.6	5.5%
Emerging Markets	5.0%	**+/- 2%**	329.8	5.5%
Global Sustainable	29.0%	**+/- 16%**	1,667.0	27.8%
Private Equity	4.0%	**+/- 2%**	301.9	5.0%
Income Assets	**25.0%**	**+/- 6%**	**1,549.3**	**25.8%**
Infrastructure	10.0%	**+/- 3%**	641.5	10.7%
Property	9.0%	**+/- 3%**	460.7	7.7%
Direct	6.0%		330.8	5.5%
Indirect	3.0%		129.9	2.2%
Multi-Asset Credit	6.0%	**+/- 2%**	447.1	7.4%
Protection Assets	**18.0%**	**+/- 5%**	**874.4**	**14.6%**
Government	6.0%	**+/- 2%**	266.6	***4.4%***
UK			225.5	*3.8%*
Overseas			41.2	*0.7%*
Index Linked	6.0%	**+/- 2%**	269.5	***4.5%***
UK			218.1	*3.6%*
Overseas			51.5	*0.9%*
Non Government	6.0%	**+/- 2%**	338.2	***5.6%***
Cash	**2.0%**	**+/- 8%**	**193.9**	**3.2%**
LGPSC Regulatory Capital	**0.0%**		**2.0**	**0.0%**
Total	**100.0%**		**6,004.0**	**100.0%**

DERBYSHIRE PENSION FUND
JULY 2023 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 EQUITIES FUND	LGIM UK EQUITY INDEX FUND	42,993,121.27	**16.32**	**16.32**	701,768,120
UK EQUITIES FUND TOTAL					**701,768,120**

DERBYSHIRE PENSION FUND
JULY 2023 PORTFOLIO VALUATION - BID
NEW SECTORS
UK EQUITIES

Sector	Company Name	Number held	Mkt Price Pence	Total £
EQUITY INVESTMENT COMPANIES				
UK Investment Co's	ABERFORTH SML 1P	789,000	1272.00	10,036,080
UK Investment Co's	MONTANARO UK SMALLER CO'S 10P	11,996,285	99.40	11,924,307
UK Investment Co's	STRATHDON INVESTMENTS PLC	20	1000.00	20,000
UK Equity Investment Companies Total				**21,980,387**
UNIT TRUSTS & OEICs				
UK Unit Trusts	LIONTRUST UK SMALLER COMPANIES FUND1	1,713,693.58	1714.63	29,383,504
UK Unit Trusts & OEICs Total				**29,383,504**
TOTAL UNITED KINGDOM				**51,363,891**

DERBYSHIRE PENSION FUND
JULY 2023 PORTFOLIO VALUATION - BID

OTHER EQUITIES	Company name	Number held	Mkt price in local currency	Mkt Price GBP	Value in Sterling £
JAPAN					
Investment Companies					
Japan	JPMF japs smoc	718,000	**316.00**	**316.00**	2,268,880
J Investment Companies Total					**2,268,880**
Unit Trusts & OEICs					
Japan	Baillie Gifford OGF - Japanese B Acc Shares	4,539,435.97	**18.13**	**1,813.00**	82,299,974
Japan	JPM JAPAN-C-ACC	5,237,837.84	**306.10**	**306.10**	16,033,022
J Unit Trusts Total					**98,332,996**
Life Policies					
International	LGIM Japan Equity Index Fund	96,528,073.090	**2.40**	**2.40**	231,966,612
International Life Policies					**231,966,612**
JAPAN TOTAL					**332,568,488**
EMERGING MARKETS					
Listed Pooled Vehicles					
International	LGPS Central Emerging Mkt Equity Active Multi Manager Fund A ACC	1,745,534.150	**9,955.00**	**99.55**	173,767,925
Listed Pooled Vehicles					**173,767,925**
Life Policies					
International	LGIM World Emerging Markets Index Fund	26,660,267.150	**3.97**	**3.97**	105,795,672
International Life Policies					**105,795,672**
Investment Entities					
Asian	JPM ASIA GROWTH FD-C ACC	18,932,749	**265.10**	**265.10**	50,190,716
LatAm Investment Entities Total					**50,190,716**
EMERGING MARKETS TOTAL					**329,754,313**
OTHER EQUITIES TOTAL					**662,322,801**

DERBYSHIRE PENSION FUND
JULY 2023 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 SUSTAINABLE FUND	RBC Global Equity Focus Fund	2,512,350.23	**153.59**	**153.59**	385,871,872
GLOBAL SUSTAINABLE FUND	LGPS Central All World Equity Climate Multi Factor Fund	2,334,592.41	**13841.00**	**138.41**	323,130,935
GLOBAL SUSTAINABLE FUND	LGPS Central Global Sustainable Equity Active Broad Strategy Fund	596,643.65	**10493.00**	**104.93**	62,605,818
GLOBAL SUSTAINABLE FUND	LGPS Central Global Sustainable Equity Active Targeted Fund	1,142,620.26	**9748.00**	**97.48**	111,382,623
Global Sustanable Unit Trusts					**882,991,249**
Life Policies					
GLOBAL SUSTAINABLE FUND	LGIM MSCI World Low Carbon Target Index Fund	312,884,138.11	**2.51**	**2.51**	784,006,300
International Life Policies					**784,006,300**
GLOBAL SUSTAINABLE FUNDS TOTAL					**1,666,997,549**

DERBYSHIRE PENSION FUND
JULY 2023 PORTFOLIO VALUATION - BID

OTHER EQUITIES	Company name	Number held	Mkt price in local currency	Value in Sterling £
PRIVATE EQUITY				
Quoted Private Equity				
UK Investment Co's	APAX GLOBAL ALPHA LTD	3,018,283	173.20	5,227,666
UK Investment Co's	HARBOURVEST GLOBAL PRIVATE	995,906	2250.00	22,407,885
UK Investment Co's	HGCAPITAL TRUST PLC	7,453,150	390.00	29,067,285
UK Investment Co's	ICG ENTERPRISE TRUST PLC	181,795	1174.00	2,134,273
UK Investment Co's	NB PRIVATE EQUITY PARTNERS Ltd	1,500,000	19.76	23,092,524
UK Investment Co's	NB PRIVATE EQUITY PARTNERS Ltd	38,173	1548.00	590,918
UK Investment Co's	PANTHEON INTERNATIONAL PLC	3,600,601	262.50	9,451,578
UK Investment Co's	PRINCESS PRIVATE EQUITY HOLDING LTD	500,000	10.30	4,412,520
UK Investment Co's	ABERDEEN PRIVATE EQUITY OPPORTUNITIES TRUST PLC	900,000	436.00	3,924,000
UK Quoted Private Equity Total				**100,308,649**
Unquoted Private Equity				
UK Unclassified	ADAM STREET PARTNERS (FEEDER) 2017 FUND	30,000,000	1.33	31,013,203
UK Unclassified	CAPITAL DYNAMICS GLOBAL SECONDARIES IV	20,000,000	0.59	9,157,726
UK Unclassified	CAPITAL DYNAMICS MID-MARKET DIRECT FEEDER LP	25,000,000	1.47	31,556,503
UK Unclassified	CAPITAL DYNAMICS LGPS COLLECTIVE PE VEHICLE 2017/18	20,000,000	1.31	26,122,169
UK Unclassified	CAPITAL DYNAMICS CPEP LGPS	25,000,000	0.96	24,074,528
UK Unclassified	CATAPULT GROWTH FUND UNITS	3,000,000	0.26	778,665
UK Unclassified	EAST MIDLANDS VENTURE	3,000,000	0.03	99,028
UK Unclassified	EPIRIS FUND II	25,000,000	1.33	33,359,118
UK Unclassified	GRAPHITE CAPITAL PARTNERS FUND 1X A	11,250,000	0.81	9,092,923
UK Unclassified	GRAPHITE CAPITAL PARTNERS FUND 1X C	11,250,000	0.82	9,208,638
UK Unclassified	MOBEUS EQUITY PARTNERS IV LP	10,000,000	0.65	6,455,739
UK Investment Co's	PANORAMIC ENTERPRISE CAPITAL UNITS	1,387,574	0.44	606,799
UK Investment Co's	PANORAMIC GROWTH FUND 2 LP	10,000,000	0.38	3,803,196
UK Investment Co's	PARTNERS GROUP GLOBAL VALUE 2008	7,500,000	0.16	1,032,384
UK Investment Co's	STAR CAPITAL STRATEGIC ASSETS III LP	12,500,000	0.70	7,521,824
UK Unclassified	VESPA CAPITAL II LLP	10,000,000	0.77	7,710,869
UK Unquoted Private Equity Total				**201,593,311**
PRIVATE EQUITY TOTAL				**301,901,960**
INFRASTRUCTURE				
UK Infrastructure Quoted				
Closed-end Funds	BLUEFIELD SOLAR INCOME FUND	5,778,936	118.00	6,819,144
Closed-end Funds	FORESIGHT SOLAR FUND LTD	4,000,000	98.10	3,924,000
Closed-end Funds	GREENCOAT UK WIND PLC	13,835,000	146.20	20,226,770
Closed-end Funds	HICL INFRASTRUCUTRE CO LTD	13,560,422	131.20	17,791,274
Closed-end Funds	INTERNATIONAL PUBLIC PARTNERSHIP LTD	32,014,081.00	131.60	42,130,530.60
Closed-end Funds	3I INFRASTRUCTURE PLC	2,249,999.00	312.00	7,019,996.88
Closed-end Funds	RENEWABLES INFRASTRUCTURE GR	8,391,878.00	113.60	9,533,173.41
UK Infrastructure Quoted Total				**107,444,889**
UK Infrastructure Unquoted				
UK Unclassified	BlackRock Global Renewable Power Fund III LP	65,000,000	0.61	30,916,578
UK Unclassified	DALMORE CAPITAL 3 LP	25,000,000	1.15	28,751,016
UK Unclassified	EQUITIX FUND 1 LTD P'SHIP	7,500,000	1.59	11,893,951
UK Unclassified	Equitix Fund IV Ltd P'ship	25,000,000	1.06	26,554,944
UK Unclassified	First Sentier Investors EDIF II	20,000,000	1.42	24,361,042
UK Unclassified	Greencoat Renewable Income Fund	75,000,000	1.04	77,642,236
UK Unclassified	IMPAX NEW ENERGY INVESTORS II UNITS	10,000,000	0.01	55,207
UK Unclassified	JP Morgan Infrastructure Investment Fund UK LP	185,000,000	0.80	147,167,503
UK Unclassified	MEIF 5 Co-Invest LP	12,600,000	0.45	4,904,825
UK Unclassified	MEIF 6 Co-Invest LP	28,000,000	0.37	8,826,519
UK Unclassified	MEIF 7 Co-Invest LP	22,500,000	0.19	3,733,981
UK Unclassified	Macquarie European Infrastructure Fund 5 LP	14,400,000	1.09	13,461,936
UK Unclassified	Macquarie European Infrastructure Fund 6 SCSp	56,000,000	1.12	53,830,935
UK Unclassified	Macquarie European Infrastructure Fund 7 SCSp	50,000,000	0.07	2,973,440
UK Unclassified	Macquarie GIG Renewable Energy Fund (Euro)	59,000,000	0.68	34,325,754
UK Unclassified	PIP Multi Strategy Infrastructure LP	25,000,000	0.79	19,765,517
UK Unclassified	SL CAPITAL INFRASTRUCTURE 1LP	15,000,000	1.36	20,463,453
UK Unclassified	SL Capital Infratructure II SCSP	25,000,000	1.14	24,443,432
UK Infrastructure Total				**534,072,267**
INFRASTRUCTURE TOTAL				**641,517,156**
ALTERNATIVES TOTAL				**943,419,116**

				31/07/2023
DERBYSHIRE PENSION FUND				**Valuation**
JULY 2023 PORTFOLIO VALUATION - BID				**£**
Direct Property				
Property	Southampton Property			8,400,000
Property	Retail Unit Tamworth			8,200,000
Property	15-17 Jockeys Field London			9,000,000
Property	D'Arblay House, London			12,400,000
Property	Bristol Odeon Development			6,350,000
Property	Caledonia House, London			22,750,000
Property	Chelsea Fields Ind Est, London			16,550,000
Property	Planet Centre, Feltham			19,800,000
Property	Hill St, Mayfair			15,500,000
Property	Birmingham - Travelodge developm't			13,200,000
Property	Saxmundham, Tesco developm't			9,950,000
Property	Roundhay Road, Leeds			7,250,000
Property	Premier Inn, Rubery, Birmingham			5,150,000
Property	South Normanton Warehouse, Alfreton			18,350,000
Property	Loddon Centre, Basingstoke			16,700,000
Property	Parkway, Bury St Edmunds			7,400,000
Property	Waitrose, York			11,875,000
Property	Link 95, Heywood Manchester			10,450,000
Property	Car Park, Welford Rd Leicester			11,700,000
Property	Leamington Spa, Heathcote Industrial Estate			14,250,000
Property	Chalfont Saquare Retail Park, Lowers Earley			9,900,000
Property	Apex Park Leighton Buzzard			12,800,000
Property	Proximity, 4 Parham Drive, Eastleigh			15,150,000
Property	Knight Retail Park Saffron Walden			8,850,000
Property	Knight Premier Inn- Saffron Walden			9,100,000
Property	Frameworks Richmond			19,350,000
Property	Ashford Trade Centre, Ashford			10,450,000
Total Direct Property				**330,825,000**
Indirect Property		**Number held**	**Mkt price**	**£**
Property	Aviva Pooled Property Fund - class A	26,891	17.2967	465,132
Property	Aviva Pooled Property Fund - class B	24,513	17.4539	427,855
Property	Bridges Property Alternatives Fund III LP	10,000,000	0.6522	6,522,253
Property	Bridges Property Alternatives Fund IV LP	10,000,000	0.8197	8,197,309
Property	Fidelity Eurozone Select Real Estat Fund - price in Euro's	4,486	6306.6820	24,241,960
Property	Hearthstone Residential Fund 1 LP	25,000,000	0.9762	24,404,071
Property	Igloo Regeneration P'ship Property Unit Trust	4,644,493	0.0252	117,264
Property	Invesco Real Estate-European Fund FCP - SIF	44,569	108.4660	4,141,946
Property	M&G PP UK Property Fund (Inc)	5,560	791.4100	4,399,910
Property	M&G European Property Fund SICAV-FIS (Class X)	25,000,000	0.9657	20,686,358
Property	Tritax Big Box Indirect Pooled Fund	10,000,000	138.1000	13,810,000
Property	Unite UK Student Accommodation Fund	15,584,567	1.4430	22,488,530
Total Indirect Property				**129,902,589**
				£
Regulatory Capital	LGPS Central			2,000,000
Cash				
Cash	Northern Trust	*UK-In House*		13,331,862
Cash		*USD-In House*		0
Cash		*Wellington*		347
Cash	Colliers Property Managers Cash			2,350,336.48
Cash	Cash - Lloyds bank Superfund			20,408,274
	Adjustments for timing differences			
		Units	**Price**	
	Aegon Global Short Dated Climate Transition Fund CLS S GBP Acc-Commitment 29.9.21	1,991,086.48	9.83	19,571,981.88
	Royal London Inv Grade Short Dated-Z Accum GBP	30,223,655.05	93.44	28,240,983.28
		£		
Cash	Cash Temporary Loans	0		
	Stockport Metrolpolitan Borough Council- 7 D/N	10,000,000		
	Lancashire County Council 7 D/N	10,000,000		
	Hull City Council 7 D/N	10,000,000		
	Leeds City Council 7 D/N	10,000,000		
	West Mids Combined Auth 7 D/N	10,000,000		
	Cornwall Council 7 D/N	10,000,000		
	Aberdeen Standard Life	10,000,000		
	BlackRock - DERA	10,000,000		
	Federated Hermes	10,000,000		
	DWS	10,000,000		
	Insight MMF	10,000,000		
	Certs of Deposit	0		
	Treasury Bills	0		110,000,000
Total Cash			Total Cash	**193,903,785**

DERBYSHIRE PENSION FUND
JULY 2023 PORTFOLIO VALUATION - BID

	Number held	Mkt Price in local currenc (Clean) use for Hedge Calc & IL Valuation	Mkt Price in local currency (Dirty) use for Non IL Valuation	Mkt Price pence GBP	Total £ GBP
UK GILTS					
TSY 2.25% 7/9/2023	15,400,000	99.68	100.58	100.58	15,488,978
TSY 5% 7/3/2025	5,500,000	99.91	101.90	101.90	5,604,736
TSY 0.25% 31/1/2025	8,500,000	93.12	93.12	93.12	7,914,918
TSY 2% 7/9/2025	7,000,000	94.05	94.85	94.85	6,639,564
TSY 1.5% 7/22/2026	8,500,000	91.20	91.24	91.24	7,755,295
TSY 4.25% 7/12/2027	18,000,000	98.65	99.29	99.29	17,872,319
TSY 4.75% 7/12/2030	13,162,000	103.04	103.75	103.75	13,655,943
TSY 4.25% 7/6/2032	12,370,000	100.16	100.80	100.80	12,468,423
TSY 0.875% 31/7/2033	12,500,000	72.40	72.40	72.40	9,050,547
TSY 4.5% 7/9/2034	16,373,000	101.35	103.15	103.15	16,889,004
TSY 4.25% 7/3/2036	11,400,000	98.67	100.36	100.36	11,441,347
TSY 1.75% 7/9/2037	17,500,000	71.91	72.60	72.60	12,705,709
TSY 4.75% 7/12/2038	7,934,000	103.13	103.84	103.84	8,238,808
TSY 4.25% 7/9/2039	8,980,000	97.32	99.02	99.02	8,891,609
TSY 1.125% 31/01/2039	12,770,000	62.84	62.84	62.84	8,024,931
TSY 1.25% 22/10/2041	18,000,000	60.19	60.53	60.53	10,895,570
TSY 3.25% 1/22/2044	11,920,000	83.21	83.30	83.30	9,929,159
TSY 0.875% 31/1/2046	20,000,000	49.25	49.26	49.26	9,851,076
TSY 4.25% 7/12/2046	11,000,000	96.09	96.73	96.73	10,639,933
TSY 0.625% 22/10/2050	26,100,000	40.38	40.55	40.55	10,583,673
TSY 1.5% 31/07/2053	21,100,000	51.82	51.83	51.83	10,935,302
001 UKGB Total					**225,476,843**
US GOVERNMENT BONDS					
T 2.75% 31/8/2023	26,191,000	99.78	100.93	78.63	20,594,803
T 2.25% 15/11/2024	21,000,000	96.22	96.70	75.34	15,820,472
T 2.75% 15/11/2042	7,500,000	80.48	81.07	63.16	4,736,962
004 USGB Total					**41,152,237.48**
NON GOVERNMENT BONDS					
LGPS Central Global Active Corp B(	3,957,714	8,546.00	8,546.00	8,546.00	338,226,222
Non Govt Bonds Total					**338,226,222**
MULTI ASSET CREDIT					
Ares Infrastructure Debt Fund III (EU	17,000,000	0.44	0.44	0.44	6,383,757
Barings Global Private Loan Fund	40,000,000	0.13	0.13	0.13	5,118,064
Barings Global Private Loan Fund 2	40,000,000	0.37	0.37	0.37	14,622,847
Barings Global Private Loan Fund 3	50,000,000	0.91	0.91	0.91	45,709,156
CQS Credit Multi Asset Fund Class	109,353	1,130.08	1,130.08	1,130.08	123,577,160
CVC Credit PARTNERS European I	76,000,000	0.88	0.88	0.88	57,535,179
CVC (Co Inv) Credit Ptnrs Europear	30,000,000	0.76	0.76	0.76	19,514,456
CVC Credit Partners European Dire	45,000,000	0.72	0.72	0.72	32,199,181
CVC (Co Inv) Credit Ptnrs Europear	11,250,000	0.67	0.67	0.67	7,583,291
Janus Henderson Multi Asset Credit	99,840,177	1.15	1.15	1.15	115,045,935
LGPS Central Credit Partnership II l	50,000,000	0.40	0.40	0.40	19,785,312
Multi Asset Credit Total					**447,074,339**
UK INDEX LINKED					
TREAS 4.125% IL STK 22/7/2030	6,510,000	336.48	336.79	336.79	21,924,924
TREAS 2% IL STK 26/1/2035	8,000,000	241.88	241.95	241.95	19,355,800
002 UKGIL Total					**41,280,724**

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	97.7230	1.548140	13,963,964.11	4,138.45	13,968,103
TREAS 1.25% IL STK 22/11/2027	7,400,000	101.3690	1.933870	14,506,550.63	17,846.47	14,524,397
TREAS 0.125% IL STK 22/3/2029	5,325,000	96.3890	1.580740	8,113,486.72	2,387.57	8,115,874
TREAS 1.25% IL STK 22/11/2032	2,777,000	106.5330	1.728440	5,113,453.90	6,697.25	5,120,151
TREAS 0.75% IL STK 22/3/2034	11,465,000	100.7020	1.616080	18,658,426.27	30,843.34	18,689,270
TREAS 1.125% IL STK 22/11/2037	5,580,000	103.9830	1.855690	10,767,179.90	12,111.48	10,779,291
TREAS 0.625% IL STK 22/3/2040	5,600,000	95.0230	1.733310	9,223,441.70	12,554.35	9,235,996
TREAS 0.625% IL STK 22/11/2042	5,950,000	93.4920	1.766410	9,826,139.62	7,174.76	9,833,314
TREAS 0.125% IL STK 22/3/2044	11,470,000	82.5950	1.548120	14,666,341.62	5,142.80	14,671,484
TREAS 0.125% IL STK 22/3/2046	8,730,000	80.6380	1.455840	10,248,673.06	3,914.27	10,252,587
TREAS 0.75% IL STK 22/11/2047	6,500,000	92.6200	1.806350	10,874,768.91	9,405.57	10,884,174
TREAS 0.125% IL STK 10/08/2048	5,300,000	79.1080	1.365750	5,726,212.80	3,147.79	5,729,361
TREAS 0.5% IL STK 22/3/2050	5,000,000	86.7760	1.758670	7,630,517.40	8,967.39	7,639,485
TREAS 1.25% IL STK 22/11/2055	9,205,000	106.4690	1.952650	19,136,890.58	22,199.56	19,159,090
TREAS 0.375% IL STK 22/03/2062	13,850,000	82.5080	1.591410	18,185,611.79	18,629.76	18,204,242
UK INDEX LINKED (3monthers) TOTAL						**176,806,820**

DERBYSHIRE PENSION FUND
JULY 2023 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 £**
TII3.625% 15/4/2028	4,045,000	107.367188	1.880340	8,166,321.76	43,268.24	8,209,590	6,396,091.57
TII1.750% 15/1/2028	5,550,000	99.023438	1.451700	7,978,253.99	4,486.75	7,982,741	6,219,353.32
TII2.5% 15/1/2029	7,000,000	103.250000	1.416520	10,237,898.30	8,084.24	10,245,983	7,982,645.00
TII2.125% 15/2/2040	4,095,000	105.445313	1.407090	6,075,794.28	40,144.01	6,115,938	4,764,927.52
TII0.75% 15/2/2042	20,300,000	83.406250	1.345930	22,788,571.73	70,236.88	22,858,809	17,809,297.79
TII0.625% 15/2/2043	10,000,000	80.203125	1.322800	10,609,269.38	28,832.87	10,638,102	8,288,145.46
0045 USGB IL Total							**51,460,461**

TOTAL BONDS	**1,321,477,645**
Index linked-total	**269,548,004**
Conventional-total	**266,629,080**
Non gov-total	**785,300,561**

FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

PENSIONS AND INVESTMENTS COMMITTEE

WEDNESDAY, 6 SEPTEMBER 2023

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 June 2023.

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):

- Q2 2023 LGIM ESG Impact Report (Appendix 2)
- Q1 2023/24 LGPSC Quarterly Stewardship Report (Appendix 3).

LGIM manages around £1.8bn 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 £1.1bn of assets on behalf of the Fund through its All-World Equity Climate Multi Factor Fund, Global Sustainable Equities Broad Strategy Sub-Fund, Global Sustainable Equities Targeted Strategy, 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.

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 – Q2 2023 LGIM ESG Impact Report.
5.3 Appendix 3 – Q1 2023/24 LGPSC Quarterly Stewardship Report.

6. Recommendation(s)

That Committee:

a) notes the stewardship activity of LGIM and LGPSC.

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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For professional investors only.
All investing involves risk.

Q2 2023

ESG impact report

Global engagement to deliver positive change

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

In this report, we highlight some of our key activity in the Investment Stewardship team, including updates on the climate-related shareholder resolutions that we co-filed at Exxon Mobil* and Glencore*, our work on diversity, and some voting highlights from the most recent AGM season.

* For illustrative purposes only. Reference to a particular security is on a historic basis and does not mean that the security is currently held or will be held within an LGIM portfolio. The above information does not constitute a recommendation to buy or sell any security.

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Environmental | Social | Governance

ESG: Environment

Nature
Squaring the circular economy: GREGs update

Mind the gap: Circular economy engagement

While the basic premise of the 'circular economy' appears well known, its interpretation varies widely. For us as LGIM, the circular economy represents a system-wide solution to challenges such as climate change and nature loss. Circularity manifests itself in all levels of operations from sourcing of materials, asset utilisation and eco-product design to business model execution, capital deployment, cost mitigation and unlocking new revenue streams.

From the stewardship angle, we are pursuing two lines of action:

1. Policy engagement: Engaging with policymakers to improve related policy and regulation (for example, standardising corporate disclosure)

2. Company engagement: Improving overall data disclosures and circularity of products from our investee companies – both collaboratively and with other investors as well as through LGIM's annual climate engagement campaign, called the Climate Impact Pledge

More details on our engagement approach can be found on our blog: Mind the gap… Circularity in action.

Turning ideas into actions

From an investment perspective, how can companies embed the circular economy into their day-to-day operations? We share some insights from our Active Equity team's engagements on company approaches:

- Ashtead's* asset rental business is just one example of prolonging the life of products by increasing utilisation and reducing both production and consumption of new goods

- As a fibre-based packaging business, DS Smith* is pursuing a closed-loop model on cardboard recycling, and improving recovery rates of valuable resources

- Equipment aftermarket focused business Weir Group* saw record orders for its spares and expendable parts in 2022 as customers attempted to meet market demand for resources, while looking to reduce emissions intensity of operations

- In construction, Genuit Group's* recycling capability allows it to convert waste into products with a design life of over 100 years

For more detail on business models that we believe are finding opportunities in the circular economy, please read our blog post: How companies are incorporating the circular economy concept into their business models.

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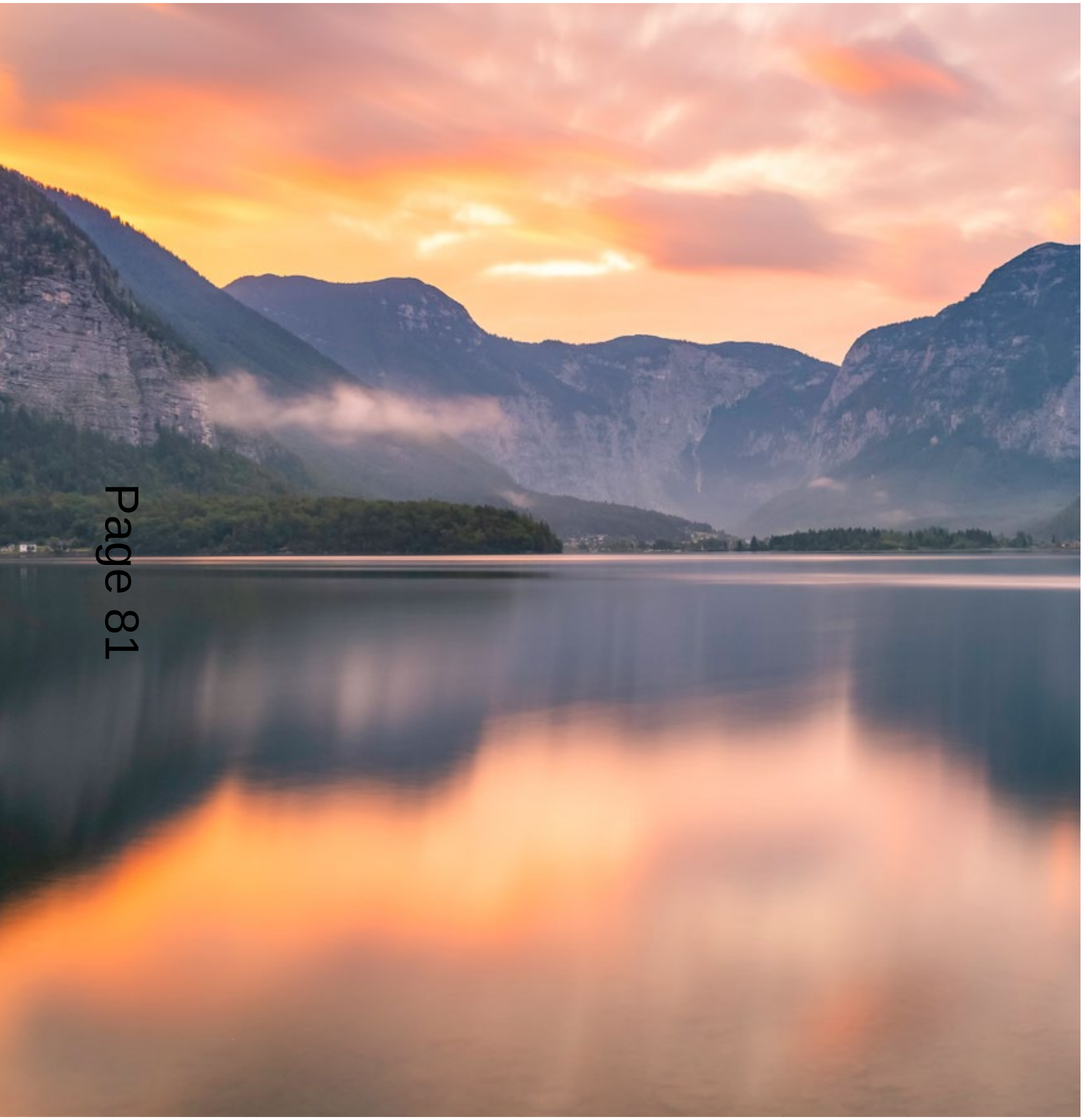

Water

As concerns have mounted over Thames Water*, our Fixed Income team has been keeping our investors updated via our LGIM blog. In summary, while the company has been under pressure from rising costs and inflation, consumers have simultaneously been voicing concerns about leaks, pollution and a lack of investment in infrastructure. At the time of writing, a number of scenarios are possible, and until a solution for the financial position for the company is agreed, the situation will, in our view, remain unstable.

We are members of the Ceres Valuing Water Finance Initiative, which aims to engage with companies to value and take action on water as a financial risk, and drive large-scale change to better protect water systems. In addition to this collaborative initiative targeting companies, we also believe that policy action is vital in achieving the systemic improvements we need to see in order to combat water-based threats such as pollution and antimicrobial resistance. For more details on our policy activities in this area, please see our policy section.

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Climate

UK stakeholder event: Climate voting to 2025 and beyond

The Investment Stewardship team reviews its policies regularly. As part of our forthcoming review of our approach to climate and voting, we were delighted to welcome 30 key stakeholders to our London offices for a roundtable event for a lively debate on three key climate voting topics: management 'say-on-climate' votes, climate-related shareholder resolutions, and the future of new fossil fuels. These three areas are critical to LGIM as we look to assess the alignment of our policies with our clients' and stakeholders' views, and to further develop our policies so that they can remain suitably ambitious and market-leading into the future.

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LGIM's Climate Impact Pledge: Latest results

In June, we released the results of our latest expanded Climate Impact Pledge engagement programme. Having extended the pledge to cover 5,000+ companies across 20 climate-critical sectors, incorporating in-depth engagement with around 100 dial-mover companies, we announced that:

- We have removed one company, *China Mengniu Dairy, from our divestment list, following improvements including publishing a new deforestation policy and setting a carbon neutrality commitment by 2050, covering all scopes of emissions

- We have added two companies to our divestment list (*Air China and *Cosco Shipping Holdings) following lack of improvement versus our minimum expectations[1]

For a full update, please read our Climate Impact Pledge report: LGIM's Climate Impact Pledge 2023.

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1. Companies are divested from selected funds with £158 billion in assets under management (as at 31 December 2022), including funds in the Future World fund range, LGIM's ESG fund ranges and all auto-enrolment default funds in L&G Workplace Pensions and the L&G Mastertrust. Companies are divested up to a pre-specified tracking-error limit. If the tracking error limit is reached, holdings are reduced rather than fully divested. LGIM's total AUM was £1.2 trillion as at 31 December 2022.

Significant votes

Company name	Yum! Brands Inc*
ISIN	US9884981013
Market cap	$38.44bn (as at 30 June 2023, source: MarketWatch)
Sector	Consumer, cyclical: retail
Issue identified	The issue at stake in this resolution was plastic pollution and transparency around the company's efforts to reduce plastic use. LGIM believes that improving the recyclability of products will have a positive impact on climate change and biodiversity.
Summary of the resolution	Resolution 5 – Report on Efforts to Reduce Plastic Use AGM date: 18 May 2023
How LGIM voted	For Resolution 5 (against management recommendation)
Rationale for the vote decision	As the filer of this resolution noted, the company has not aligned its packaging targets with key initiatives such as the Pew Report, which suggests that companies should commit to reducing plastic demand by at least a third through elimination, reuse and new delivery models. Although the company published its Sustainable Packaging Policy, the policy does not make any reference to single-use plastics (but rather mentions "unnecessary packaging") and its disclosures do not seem to sufficiently address the regulatory risks and the risk of higher costs in case of inaction. Therefore, a vote for this resolution was warranted.
Outcome	Over a third of shareholders supported the resolution, which is a significant level of support for a shareholder proposal. This demonstrates that investors are increasingly putting pressure on companies to take action to tackle plastic pollution, and at LGIM we will continue our engagement on these issues with companies and policymakers.
Why is this vote 'significant'?	The circular economy is a key component of LGIM's approach to nature, and we believe solving plastic pollution is critical in a just transition to net-zero and nature-positive economies.

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Significant votes

Company name	Toyota Motor Corp*
ISIN	JP3633400001
Market cap	$218.12bn (6 July, source: Toyota (TM) - Market capitalization (companiesmarketcap.com))
Sector	Consumer, cyclical: auto manufacturers
Issue identified	Climate lobbying: we believe all economic actors must use their influence positively and advocate for public policies that would support the delivery of a net-zero economy
Summary of the resolution	Resolution 4 – Amend Articles to Report on Corporate Climate Lobbying Aligned with Paris Agreement AGM date: 14 June 2023
How LGIM voted	For resolution 4 (i.e. against management recommendation)
Rationale for the vote decision	We acknowledge the progress that Toyota Motor Corp has made in relation to its climate lobbying disclosure in recent years, and we welcome planned improvements to expand the number of trade associations in scope of assessment and intentions to seek third-party alignment reviews. However, we believe that additional transparency is necessary with regards to the process used by the company to assess how its direct and indirect lobbying activity aligns with its own climate ambitions, and what actions are taken when misalignment is identified. Furthermore, we expect Toyota Motor Corp to improve its governance structure to oversee this climate lobbying review. We believe the company must also explain more clearly how its multi-pathway electrification strategy translates into meeting its decarbonisation targets, and how its climate lobbying practices are in keeping with this.
Outcome	15% of shareholders voted in favour of the proposal. We will continue to engage with the company on the alignment of its climate lobbying practices with its climate ambitions, and on governance.
Why is this vote 'significant'?	LGIM views climate lobbying as a crucial part of enabling the transition to a net-zero economy, and we have disclosed our expectations across all companies in our blog.

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Climate shareholder resolutions

As a large investor, we believe we have a responsibility to urge companies to achieve their climate goals by escalating our engagement, in collaboration with our peers and key industry bodies. Our engagement process with companies is structured: we have a number of different 'levers' we can pull to escalate an issue. We use different tools depending on the company, market and topic that needs addressing. Filing a resolution puts pressure on a company and encourages management to discuss and resolve issues with us. This may encourage the company to propose and take action long before the shareholder meeting, thereby potentially avoiding the topic being included on their meeting agenda, which in turn could avoid a shareholder showdown and eventual public vote. This means our sought-after change can occur without the resolution ever being tabled. For the 2023 AGM season, we filed climate-related shareholder resolutions at Exxon Mobil* and Glencore*.

Exxon Mobil

At Exxon Mobil, our shareholder proposal, co-filed by LGIMA with Christian Brothers Investment Services ('CBIS'), called on the company to provide full disclosure on their asset retirement obligations (AROs). In our view, this is a highly relevant and financial material matter, and by filing this proposal we are seeking greater clarity into the potential costs Exxon may incur to retire its assets in the event of an accelerated energy transition. Such information is currently not factored into the company's financials.

The proposal received over 16% support from shareholders, which, although lower than we would have liked, demonstrated an increasing recognition of the importance of this issue for investors. In terms of our next steps, we will continue our direct engagements with the company under our Climate Impact Pledge and separately, to better understand and challenge Exxon on their approach to the energy transition, where financial material issues such as disclosure and the potential costs to retire their long-lived assets and decarbonisation levers being some of the key discussion points. We will also be engaging with proxy advisers and fellow investors to better understand their voting rationale.

Glencore

Our shareholder proposal at *Glencore was co-filed together with the Ethos Foundation on behalf of Pensionskasse Post and Bernische Pensionskasse, Vision Super, HSBC Asset Management, the Australasian Centre for Corporate Responsibility (ACCR) and ShareAction. This proposal called for Glencore to disclose how the company's thermal coal production plans and capital allocation decisions are aligned with the Paris objectives. This proposal received 29.2% support from shareholders, which is significant for a shareholder proposal, and we are pleased that the company has published its intention to continue to engage with shareholders and improve understanding on this matter.

* For illustrative purposes only. Reference to a particular security is on a historic basis and does not mean that the security is currently held or will be held within an LGIM portfolio. The above information does not constitute a recommendation to buy or sell any security.

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Environmental | Social | Governance

ESG: Social

Ethnic diversity

Identify and engage

At LGIM, we believe cognitive diversity in business – the bringing together of people of different ages, experiences, genders, ethnicities, sexual orientations, and social and economic backgrounds – is a crucial step towards building a better economy and society.

Continuing our ethnic diversity campaign,[2] since 2022, we have voted against companies in the FTSE 100 and S&P 500 indices where the board does not include at least one person from an ethnic minority background. In 2023, so far, we have voted against three companies for this reason: Caesars Entertainment*, Dish Network Corporation* and The UNITE Group Plc*. We pre-declared these votes on our pre-declaration blog in order to be transparent about the application of our voting policy and increase public pressure on these companies to meet our minimum expectations.

Escalate

Ethnic diversity will be an ongoing campaign – as board membership refreshes, we may see fluctuations in companies meeting or falling behind our minimum expectations.

We have also widened our scope for ethnic diversity to include the FTSE 250 and Russell 1000 indices. Our expectation for the companies in these additional indices is identical (one ethnically diverse board member) but, in line with the UK's Parker Review, we allow these smaller companies more time to meet our expectations and will therefore expect compliance by 2024.

Diversity disclosure in the US

As part of the Midwest Investors Diversity Initiative (MIDI), LGIM is leading on engagement with three companies within the Russell 3000 that are not meeting expectations around diversity disclosure. We sent letters to three companies requesting to meet and discuss strengthening their policy regarding the consideration of women and people of colour as board candidates, and adopting disclosure best practice regarding the demographic make-up of the companies' workforces.

Emerging markets diversity

Having recently published our research and findings from expanding our diversity campaign work into Brazil, India, China and South Africa, we have kicked off our engagement with stock exchanges to improve market standards on diversity – starting in Asia.

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2. For a full summary, please see p.69 of our Active Ownership report, here: Active Ownership report 2022 (lgim.com)

Diversity in Japan

Through our membership of and collaboration with the Asian Corporate Governance Association ('ACGA'), we have joined their discussions with the Japan Financial Services Authority (FSA) about corporate governance reform and about diversity. Last year, we helped to draft, and co-signed, an open letter to FSA and Tokyo Stock Exchange (TSE), which was shared with the Cabinet Office. It was confirmed during our engagement with FSA that our view in the letter has fed into government's broader announcement on diversity at Japanese companies. The letter touched on the importance of strengthening the female talent pipeline internally and expanding the pool of female executives.

On 5 June, the Japanese Government's Gender Equality Bureau of the Cabinet Office announced the draft of the 2023 Main Policy for Women's Empowerment and Joint Gender Participation. The Policy includes the following three measures:

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I. Promote initiatives to realise a virtuous cycle of women's empowerment and economic growth, with the following targets:

    (1) Strive to appoint at least one female officer by 2025
    (2) Aim to increase the ratio of female officers to 30% or more by 2030
    (3) At the same time, we will further enhance training for female leaders who will be responsible for corporate management and support skill improvement through re-skilling

II. Strengthening efforts to improve women's income and economic independence
III. Realisation of a society where women can live with dignity and pride

We are pleased to see the commonality between the recommendations set out in our joint letter and the steps announced by the Japanese government. We firmly believe in the value of collaborative engagements such as this, which enable us to tackle systemic market issues at the policy level.

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Significant votes

Company name	McDonald's Corp*
ISIN	US5801351017
Market cap	$217.86bn (as at 3 July 2023; source: McDonald (MCD) - Market capitalization (companiesmarketcap.com))
Sector	Consumer cyclical, retail
Issue identified	LGIM considers antimicrobial resistance (AMR) to be a systemic risk. The overuse of antibiotics, one form of antimicrobial, is known to exacerbate AMR. The majority of antibiotics used globally are consumed by animals, not humans. It is essential to limit the use of antimicrobials, and in particular antibiotics, to stem the speed at which AMR is occurring. The World Bank estimates that AMR could result in a 3.8% loss in global GDP, an impact comparable to that of the 2008 financial crisis, and in an AMR worst-case scenario, additional healthcare expenditures could amount to $1.2 trillion globally on an annual basis. Further, in a study published in January 2022 in the Lancet it was established that in 2019 1.27 million deaths occurred due to bacterial AMR, and 4.95 million deaths were indirectly linked to AMR.
Summary of the resolution	Resolution 6: Comply with World Health Organization Guidelines on Antimicrobial Use Throughout Supply Chains AGM date: 25 May 2023
How LGIM voted	For resolution 6 (i.e. against management recommendation)
Rationale for the vote decision	For the last two years we supported AMR shareholder proposals filed at McDonald's, pre-declared our votes in relation to these resolutions, and engaged with the company. We also signed a collaborative investor letter under the leadership of ICCR asking the company to publish targets related to the reduction of medically important antibiotics for the routine prevention of disease in its global beef supplies, which in 2018 they had announced that they would do by end of 2020. Given insufficient progress on these issues, we decided it was time to further escalate our concerns. During the autumn of 2022, we were approached by The Shareholder Commons to co-file a shareholder proposal asking McDonald's to apply the World Health Organization Guidelines on Use of Medically Important Antimicrobials in Food-Producing Animals throughout its supply chains. We co-filed the shareholder proposal on 1 December 2022. The company has since released its antibiotics reduction targets, two years after the initial deadline. However, we do not deem that to be sufficient progress within the company's AMR activities.
Outcome	The proposal received 18% votes in favour, which, although slightly lower than we had hoped, still draws attention to the issue and has put pressure on the company to acknowledge it. LGIM is looking forward to working with the company, both individually and collaboratively with other shareholders over the course of 2023 and beyond, to meet our request.
Why is this vote 'significant'?	This vote is significant because it relates directly to antimicrobial resistance, an area of focus for us and a core 'sub-theme' under our 'health' 'super theme'.

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Case study: Amazon*

As predicted, Amazon received another host of shareholder proposals in their 2023 AGM, covering a cross-section of ESG issues, although social issues continue to dominate. Given the size and influence of the company, and continued interest from stakeholders, we again pre-declared our voting intentions for some of the proposals on our blog, and we provide below a brief update of some of the more significant vote results.

Environment-focused proposals

Resolution 10 – Report on impact of climate change strategy consistent with just transition guidelines
This is the first year that Amazon has received this proposal, and it's interesting to see that proponents are now starting to move towards some environmentally focused proposals. We supported the proposal as more transparency around how Amazon is understanding the just transition and how its actions as a business will have impact and how they could be beneficial. The proposal gained 26% of support from shareholders, which is significant for a first-time proposal.

Resolution 12 – Report on climate lobbying
Amazon has had general lobbying proposals in the past, but this is the first time that the company has received a proposal related specifically to climate lobbying. We supported the proposals, as the ask is consistent with those under our Climate Impact Pledge and currently the company only reports details of contributions, not what the company would do if their beliefs don't align with those of lobbying organisations with which they are involved. 23% of shareholders supported the proposal, which again is significant support for a first-time proposal.

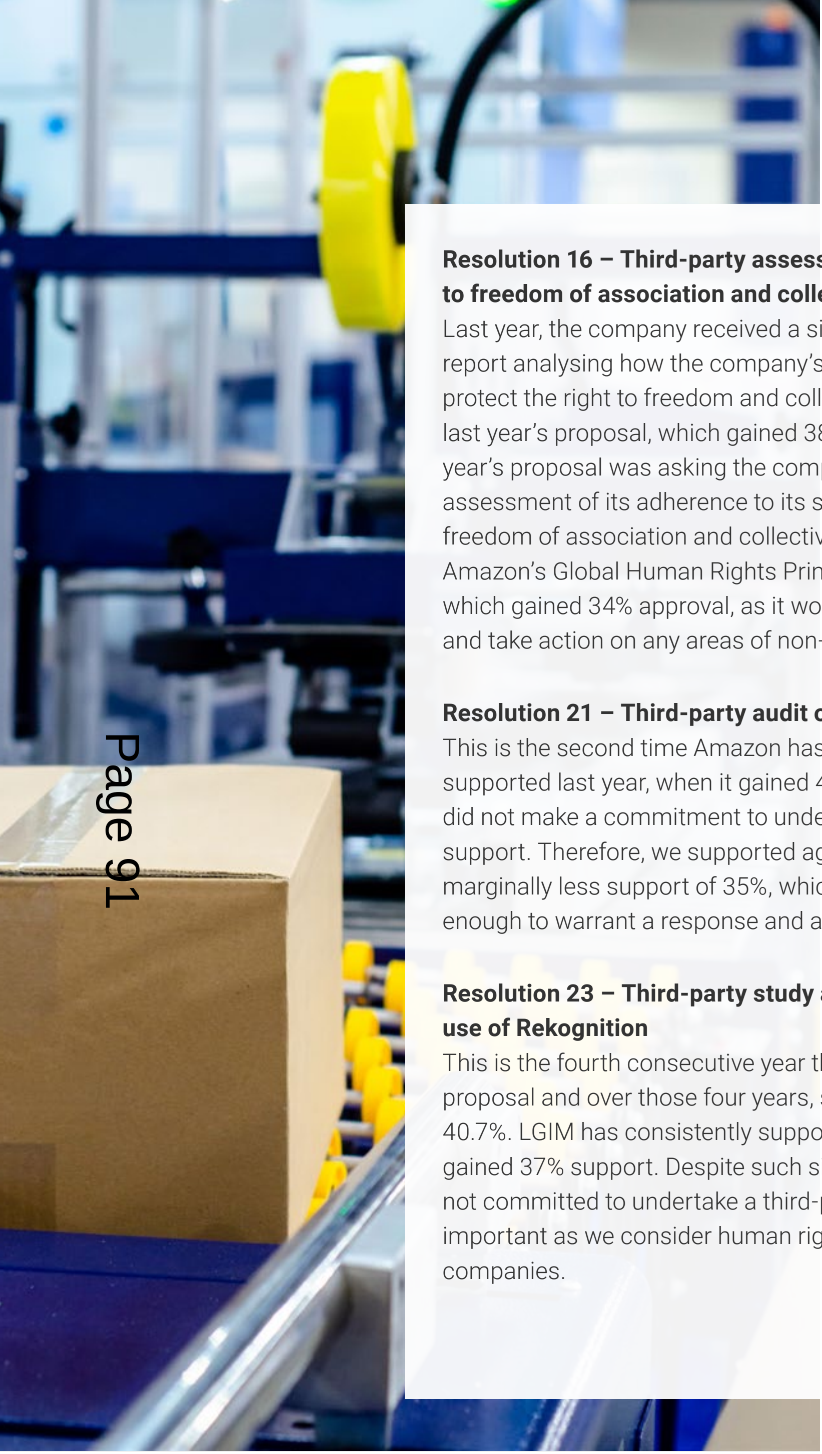
Resolution 22 – Report on efforts to reduce plastic waste
This is the third time that Amazon has received this proposal. LGIM supported it last year, and it gained 48.9% support. We supported again this year as Amazon hasn't set any forward-looking targets to reduce plastic waste, which the Ellen McArthur foundation does. All the information that Amazon provide is backward-looking and doesn't include targets to maintain progress. 31% of shareholders supported.

Social-focused proposals

Resolution 7 – Report on customer due diligence
Amazon has received similar proposals for the last two years, asking the company to disclose a third-party report on whether the company's customer use of its products and services with surveillance, computer vision, or cloud storage capabilities contributes to human rights violations. The proposal gained 35% and 40% support previously, and LGIM also voted in favour. Given we couldn't see any evidence of a due diligence exercise on human rights violations relating to products and services, or a commitment to undertaking one, we supported the proposal again, and it gained 33% shareholder support.

Resolution 13 – Report on median and adjusted gender/racial pay gaps
This is the fifth year Amazon has received a proposal on the issue of pay equity, and for the last three years it has gained upwards of 25% support. We supported the proposal again this year as we expect companies to disclose meaningful information on the gender pay gap. On engagement with the company we have consistently asked the company to provide disclosure, although the company continues to explain that they don't believe shareholders will find this information useful. This year, the proposal gained marginally greater support of 29%.

*For illustrative purposes only. This is not a recommendation to buy or sell any security.



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Resolution 16 – Third-party assessment on company's commitment to freedom of association and collective bargaining

Last year, the company received a similar proposal that asked for a report analysing how the company's human rights policies and practices protect the right to freedom and collective bargaining. We supported last year's proposal, which gained 38.5% support. The nuance to this year's proposal was asking the company to commission a third-party assessment of its adherence to its stated commitment to workers' freedom of association and collective bargaining rights as outlined in Amazon's Global Human Rights Principles. We supported the proposal, which gained 34% approval, as it would help the company to understand and take action on any areas of non-compliance with their policies.

Resolution 21 – Third-party audit on working conditions

This is the second time Amazon has received this proposal. We supported last year, when it gained 44% support. However, the company did not make a commitment to undertake an audit, despite such strong support. Therefore, we supported again this year where it received marginally less support of 35%, which we would still consider significant enough to warrant a response and action plan from the company.

Resolution 23 – Third-party study and report on risks associated with use of Rekognition

This is the fourth consecutive year that Amazon has received this proposal and over those four years, support has gone from 32% to 40.7%. LGIM has consistently supported this proposal, and this year it gained 37% support. Despite such significant support, the company has not committed to undertake a third-party report, which we believe to be important as we consider human rights issues to be a material risk to companies.

Governance-focused proposals

Resolution 3 – Advisory vote to ratify named executive officers' compensation

After low support for the company's say-on-pay vote last year – 43% of shareholders, including LGIM, voted against – the company undertook company engagement on the programme's elements, but did not make any material changes. During engagement, we explained the reasons why we still could not support the programme and we voted against. The proposal was voted down by 31% of shareholders.

Next steps: Onsite visit

One of our Investment Stewardship team in Chicago took a tour of the OXR1 Amazon Fulfilment Center (FC) in Oxnard, California. This FC is a newer 'ninth' generation, which features extensive use of robotics and is earmarked for future innovation in handling tremendous volumes of order processing. We would make a few favourable observations from a human capital management perspective: there appeared to be a sense of order, calm and cleanliness given the sheer volume of packages handled at the facility; robot/ human interactions have been optimised to create highly efficient exchanges; and there is a commitment to radical transparency of feedback with a public display of all member comments. Our understanding is that after many years of a more secretive culture, across the world Amazon is beginning to open its doors to the community to encourage an understanding of what they do. We view this as a positive step, and will continue to engage with the company.

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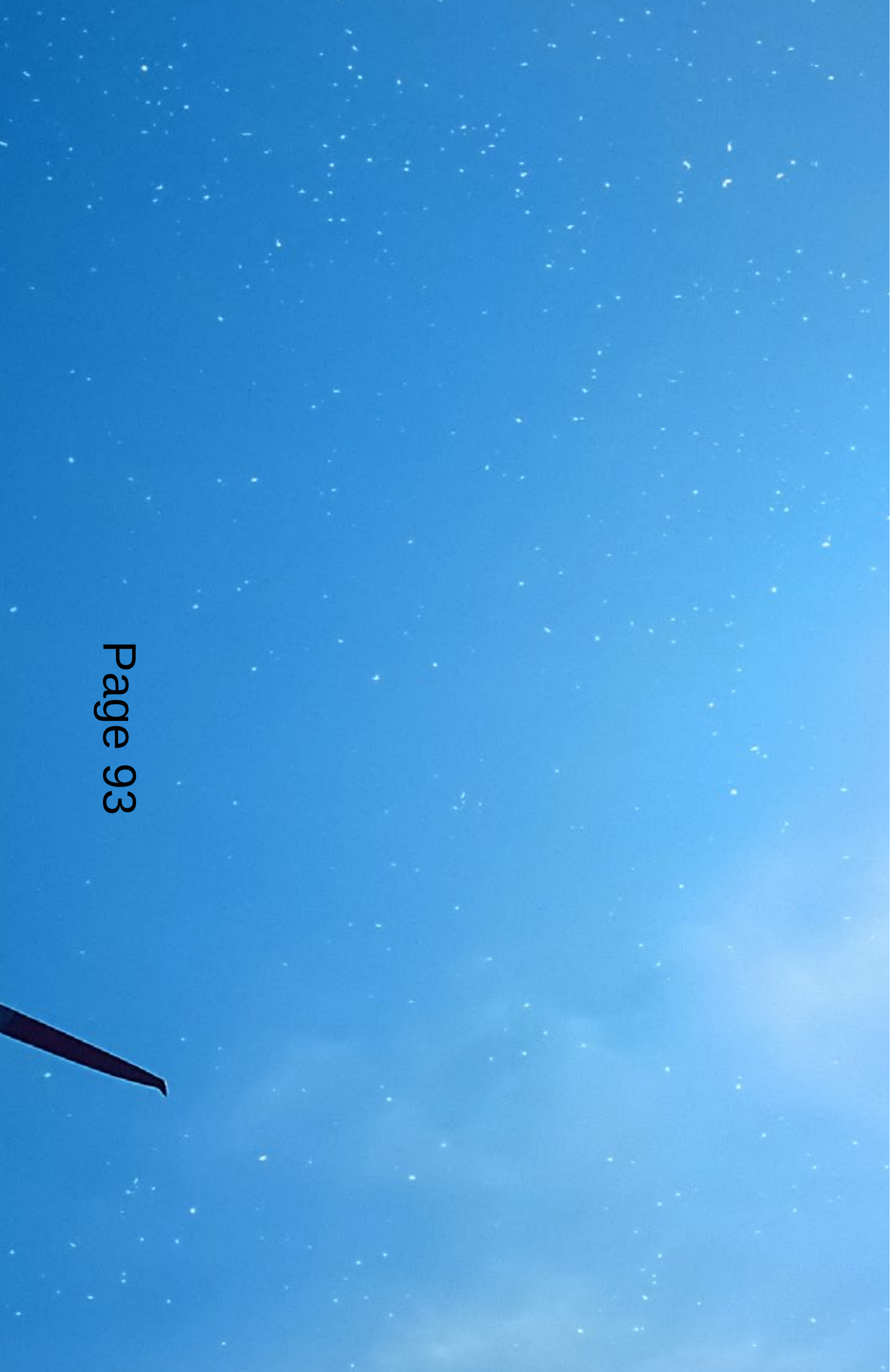
Environmental | Social | Governance



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ESG: Governance

Investor rights: dual-class shares campaign update

Identify

We believe voting is an essential right for shareholders to promote market efficiency and to hold company boards accountable. 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 economic interests of investors.

Engage and escalate

As part of our campaign initiated in 2022, we announced that from 2023, we will be voting against the re-election of the board chair at US-incorporated companies with dual-class structures, where:

- The company does not have a plan to set a time limit on a dual-class structure
- Shareholders have not been given the opportunity to regularly vote on its continuation

Up to the end of May 2023, we have voted against 95 companies under this campaign, demonstrating how widespread this issue has become. We have also been looking at whether there is any overlap with any other areas of governance issues: looking at the overlap between these votes and those against combined chair/CEO roles, we can see that there is commonality in about a third of cases. We will return to this analysis later in the year for more insight into potential governance trends.

Significant votes

Company name	Mastercard Inc*
ISIN	US57636Q1040
Market cap	$370bn (03 July 2023, source: Mastercard (MA) - Market capitalization (companiesmarketcap.com))
Sector	Financials: diversified financial services
Issue identified	The prevalence of unequal share class structures, also called 'dual-class' shares (i.e. two or more types of share, with different voting rights) continues to impede shareholders' rights.
Summary of the resolution	1.a Elect Director Merit E Janow AGM date: 27 June 2023
How LGIM voted	LGIM voted for this resolution (i.e. in line with management recommendation).
Rationale for the vote decision	Our vote policy would ordinarily be to vote against this resolution, due to the dual-class share structure at this US company. However, following engagement with the company, a vote for this resolution was applied because, while we note the dual-class share structure with A and B shares outstanding, the company has confirmed that the legacy B shares do not confer any rights and therefore do not negatively affect the rights attached to the commonly traded A shares.
Outcome	98.1% of shareholders voted in favour of the resolution.
Why is this vote 'significant'?	This vote was significant because it demonstrates the value of engagement in situations where an individual company's circumstances or structural elements may be unclear.

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Public policy update

As a long-term investor, we share a responsibility to ensure that global markets operate efficiently to protect the integrity of the market and address systemic risks, foster sustainable and resilient economic growth, and aim to protect the value of our clients' assets. Part of how LGIM acts on these responsibilities is by engaging in global policy dialogue, providing practical advice to policymakers and regulators on the key systemic issues.

Nature: EU Nature Restoration Law

LGIM signed an open letter to European Policy leaders in support of the proposed EU Nature Restoration Law, urging them to:

- Urgently adopt regulations that promote nature protection, restoration and sustainable use of natural resources, with clear implementation roadmaps
- Uphold, strengthen and enforce existing environmental legislation to address the nature and climate crises together

Alongside not just our financial peers, but also large organisations from across a range of sectors, from food and fashion to chemicals and construction, we emphasised the vital role of robust regulatory systems in supporting businesses to take vital action to combat deforestation.

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Sadly, the law has not passed, although scope for negotiation among the European policymakers remains, and there is reason to be hopeful that, as part of the European 'Green Deal', further regulations supporting the nature should be forthcoming. Support from a range of industry executives is clearly strong, and through continued policy engagement and public pressure we join those voices to call for a robust regulatory framework to remove barriers to industry progress towards restoring and protecting the natural world.

Deforestation

We have publicly stated our support for an amendment to the UK Financial Services & Markets Bill, which would introduce compulsory due diligence to prevent the financing of deforestation. Alongside other investors with £2.7 trillion in assets, we believe that introduction of this amendment is a necessary step in holding the financial sector accountable for its role in financing deforestation. As Michael Marks, LGIM Head of Investment Stewardship, says, "The UK has a real opportunity to demonstrate global leadership and accelerate action on ending deforestation by strengthening the Financial Services and Markets Bill to include mandatory deforestation due diligence in the financial sector."

Circular economy: Collaborative action on microfibres

We continue to be active members of the collaboration on microfibres, organised by First Sentier Investors, which recently won the Environmental Finance ESG engagement initiative of the year award, EMEA. Through this collaboration, alongside 30 of our peers, we have put pressure on governments around the world to introduce legislation for compulsory microfibre filters on new washing machines. While France leads the way, the movement appears to be gaining traction in California. Disappointingly, the Microplastic Filters (Washing Machines) Bill making its way through the UK parliamentary system appears to have been delayed, against a backdrop of policy developments on water and eco design standards. We place a high value on collaborations, which enable us, with and guided by our peers, to strengthen our voice on important issues and bring them forward in policy dialogue to encourage a robust regulatory response. The different paces at which countries are adopting legislation in this area and the twists and turns that may happen along the way (as currently evident in the UK) illustrate the particular nature of policy engagement, where progress may be non-linear, and may develop over extended timeframes, with inputs from numerous stakeholders and angles.

Our focus on the circular economy stems from our belief in its fundamental importance to nature, and the systems and ecosystems upon which our world depends, and upon which much of the global economy is dependent. Further on this theme, during the quarter, we also signed a collaborative investor letter, co-ordinated by the VBDO (Dutch Association of Investors for Sustainable Development), calling for accelerated corporate action on plastics and emphasising the urgent need to reduce plastic waste. By collaborating with our international peers, being public about our commitments, and showing a collective expectation for action amongst the companies in which we invest, we aim to increase the pressure on companies failing to take commit to reducing single-use plastics, including eliminating use of the hazardous chemicals used to make these plastics.

Health: AMR field trip: Groundswell Regenerative Agriculture Festival

At LGIM, we engage across the value chain – we seek to structure our engagements so that we are using our voice as effectively as we can as investors, by engaging with companies, policymakers and broader stakeholders on financially material ESG issues.

Regular readers will have been following our engagement on antimicrobial resistance. In June, a member of our investment stewardship went on an AMR field trip to speak at the Groundswell Regenerative Agriculture Festival in Hertfordshire. Taking place over two days, the festival attracts attendees not only from the farming community, but also politicians, scientists, representatives from the fashion industry and, through LGIM, from finance. Panels covered a range of topics, from soil health and potato production, lessons learned from establishing agroforestry systems, and certification of regenerative agriculture, to crop rotation and climate-friendly sheep farming.

Our stewardship team member was one of three headline speakers on a session titled Nutrition, human health and soil: Antimicrobial resistance (AMR) and farming. How deep is the problem and what can we do about it?

The visit brought together our two 'health' sub-themes and provided an opportunity to engage directly with not only the farming community, but other key stakeholders vital to the food production industry (including the Chief Executive of the Soil Association, the Programme Director for Defra's Future Farming and Countryside Programme, the Defra shadow minister, to name but a few). Explaining LGIM's position and ability to influence as a responsible investor, and using this platform to communicate and connect with these crucial stakeholders at very different parts of the value chain, is a powerful way not only to raise awareness of problems such as AMR and what we believe different stakeholders could be doing to mitigate and monitor the threat, but also to learn about the challenges and barriers each of these stakeholders may be facing when it comes to taking action on these topics. Participating in these events is also a way for LGIM to galvanise action and show that engagement isn't just restricted to the boardroom.

Keeping up the pressure on the policy side, together with our peers and as representatives of Investor Action on AMR, we again co-signed letters to some of the finance ministers of the G7 countries in light of in-person meetings taking place. We emphasised the crucial need for them to expedite action to mitigate AMR, including taking the appropriate steps to address the antibiotic market failure and create the right economic conditions to preserve essential existing antibiotics. Through meaningful collaborations with our industry peers, we are able to command the attention of prominent decision-makers in governments around the world, putting pressure on them to improve the policy and regulatory backdrop to mitigate systemic risks.

Nutrition: Good Food Finance

Bookworms among our readers may have noticed a recent proliferation of works proposing serious critiques not just of the UK food system, but also the actual food (or 'food') that we eat.

At LGIM, we continue to believe that nutrition is fundamentally important to society as a whole and that we can use our voice as a large investor to put pressure on both food producers and governments to improve the nutritional quality of food available on our grocery store shelves. As highlighted in our Active Ownership report, we are members of both the Access to Nutrition Initiative and the ShareAction Healthy Markets Initiative.

A member of our Investment Stewardship team, through our membership of ATNI, participated in a panel discussion during the Good Food Finance Week on Delivering food systems transformation to meet nutrition and finance returns - challenges and opportunities for evidence-based investing. The Good Food Finance Network brings together leaders from a cross-set of industries and the public sector, with the aim of promoting investment and providing solutions for sustainable food systems. The debate was lively and, like all good discussions, could have extended far beyond the time allotted. Topics covered included nutrition and its role in transformation of food systems, the critical role of metrics, and how to engage investors and increase public sector accountability. The session was opened by the CEO and Founder for Food Systems for the Future (and former executive director of the UN World Food Programme and former US Ambassador to the UN Agencies for Food and Agriculture), and was closed by the WHO Director of the department of Nutrition for Health & Development.

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Governance: Response to FCA consultation on proposed changes to the listing regime

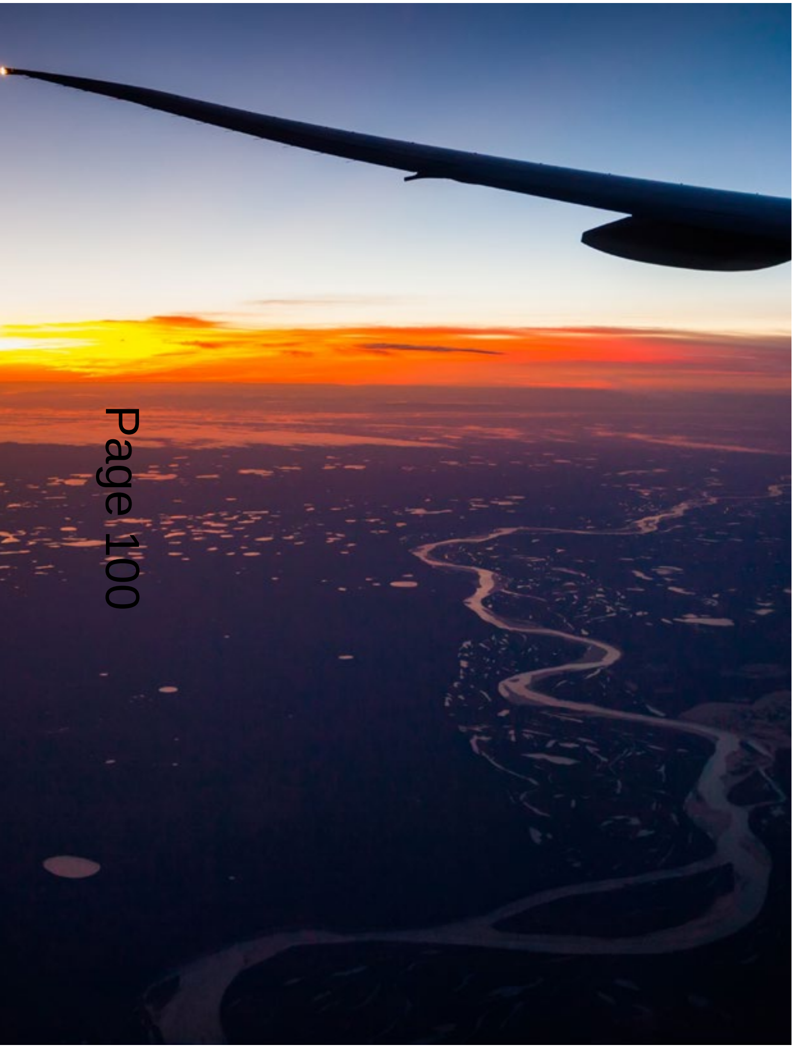
LGIM has been working with the Investment Association and other groups (e.g. FTSE Committees) on the response to the FCA proposals. We also submitted our own response. In summary, we believe the changes in the FCA proposals have the potential to dilute shareholder rights, with a shift of responsibility and control from investors (except if you are a controlling shareholder) to management.

The three key issues in the proposed changes centre on the intended permissive approach to:

- Dual-class share structures (DCSS)
- Significant transactions
- Related-party transactions

Overall, our concerns relate to the combined effect of deregulation, loss of sponsor oversight, and the impact upon corporate accountability. We are longstanding advocates for equal voting rights and have been conducting a campaign on dual-class shares at US companies.[3] In these proposals, we also see potential for constraints on effective stewardship, and in our view, the alternative accountability mechanisms or suggested market responses may not be practical. Our feedback has reflected both our general and more specific concerns.

3. Please see p.88: Active Ownership report 2022 (lgim.com)



Regional updates

Global - Q2 2023 voting summary

Management proposed resolutions:						
Proposal category	**Total for**	**Total against**	**Total abstentions**	**For %**	**Against %**	**Abstain %**
Management (total)	**70979**	**22403**	**390**	**74%**	**23%**	**0%**
Routine Business	13366	1140	0	81%	7%	0%
Director Election	29361	10431	270	73%	26%	1%
Director Related	6148	1411	9	81%	19%	0%
Audit Related	4897	1057	98	81%	17%	2%
Non-Routine Business	1952	238	0	86%	11%	0%
Compensation	5956	5434	5	52%	48%	0%
Capitalization	5224	1280	0	80%	20%	0%
Miscellaneous	225	70	0	53%	16%	0%
Company Articles	2081	504	0	79%	19%	0%
Strategic Transactions	1079	558	0	64%	33%	0%
Takeover Related	402	57	0	87%	12%	0%
No Research	29	166	8	9%	53%	3%
E&S Blended	58	0	0	97%	0%	0%
Social	179	47	0	74%	19%	0%
Mutual Funds	11	0	0	100%	0%	0%
Environmental	11	10	0	46%	42%	0%

Global - Q2 2023 voting summary

Shareholder proposed resolutions:						
Proposal category	**Total for**	**Total against**	**Total abstentions**	**For %**	**Against %**	**Abstain %**
Shareholder (total)	**1487**	**672**	**17**	**67%**	**30%**	**1%**
Director Election	517	204	16	68%	27%	2%
Routine Business	15	81	0	16%	84%	0%
Miscellaneous	107	51	0	67%	32%	0%
Corporate Governance	49	10	0	80%	16%	0%
Audit Related	215	56	0	79%	21%	0%
Social	166	45	0	78%	21%	0%
Company Articles	12	26	0	30%	65%	0%
Environmental	102	67	0	60%	39%	0%
Director Related	187	29	0	85%	13%	0%
E&S Blended	22	32	0	41%	59%	0%
Compensation	63	51	1	55%	44%	1%
Non-Routine Business	32	20	0	62%	38%	0%

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How LGIM Voted	Number of Votes	% Alignment with Management Recommendations
For	72466	74%
Against	23075	74%
Abstain	407	69%

Number of	Values
Resolutions	98751
AGM resolutions	95291
EGM resolutions	3458

Number of companies where LGIM voted:	Values
In Total	7927
For in all resolutions	1307
Against or Abstain in at least one resolution	6620

UK - Q2 2023 voting summary

Management proposed resolutions:						
Proposal category	**Total for**	**Total against**	**Total abstentions**	**For %**	**Against %**	**Abstain %**
Management (Total)	**5603**	**358**	**0**	**94%**	**6%**	**0%**
Routine Business	573	6	0	99%	1%	0%
Compensation	457	124	0	79%	21%	0%
Director Election	2351	168	0	93%	7%	0%
Audit Related	629	6	0	99%	1%	0%
Capitalization	1176	35	0	97%	3%	0%
Takeover Related	226	0	0	100%	0%	0%
Strategic Transactions	16	13	0	55%	45%	0%
Social	120	0	0	100%	0%	0%
Mutual Funds	10	0	0	100%	0%	0%
Company Articles	33	3	0	92%	8%	0%
No Research	2	1	0	20%	10%	0%
Director Related	5	0	0	100%	0%	0%
Miscellaneous	2	0	0	50%	0%	0%
Environmental	2	2	0	50%	50%	0%
Non-Routine Business	1	0	0	100%	0%	0%

UK - Q2 2023 voting summary

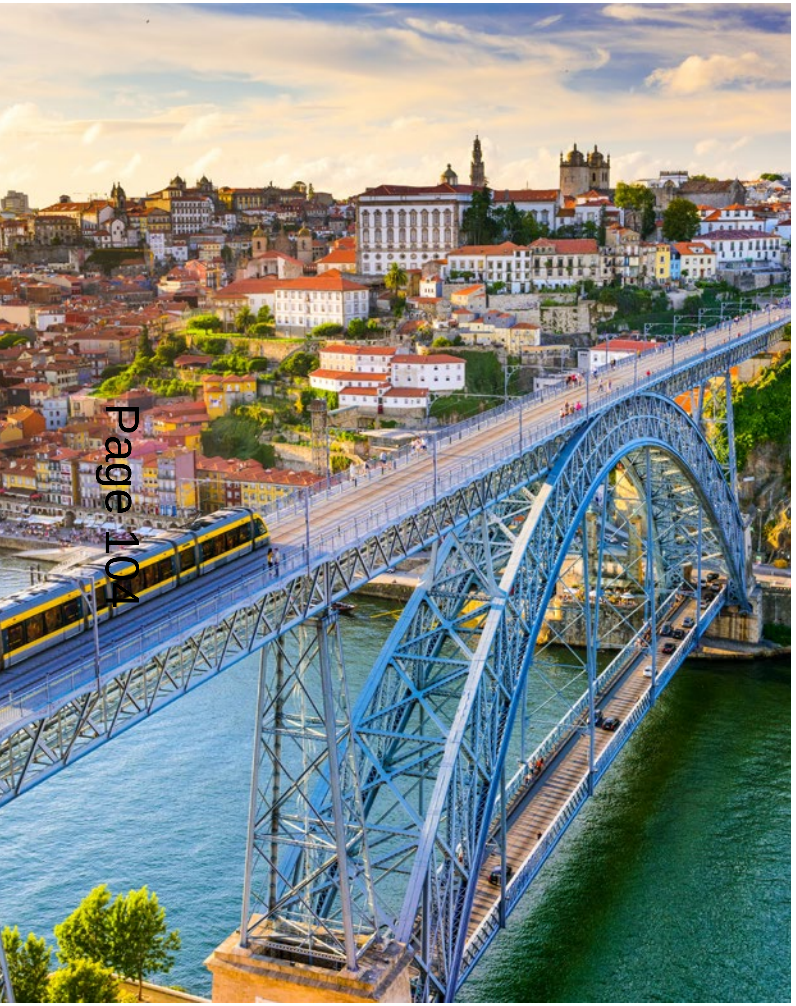
Shareholder proposed resolutions:						
Proposal category	**Total for**	**Total against**	**Total abstentions**	**For %**	**Against %**	**Abstain %**
Shareholder (Total)	**1**	**7**	**0**	**12%**	**88%**	**0%**
Director Election	0	2	0	0%	100%	0%
Environmental	1	2	0	33%	67%	0%
Compensation	0	2	0	0%	100%	0%
Miscellaneous	0	1	0	0%	100%	0%

How LGIM Voted	Number of Votes	% Alignment with Management Recommendations
For	5604	94%
Against	365	91%
Abstain	0	0%

Most Popular Shareholder Resolutions	Values
GHG Emissions	3
Company-Specific--Compensation-Related	2
Elect a Shareholder-Nominee to the Board (Proxy Access Nominee)	2
Company-Specific -- Miscellaneous	1

Number of	Values
Resolutions	5984
AGM resolutions	5940
EGM resolutions	42

Number of companies where LGIM voted:	Values
In Total	343
For in all resolutions	180
Against or Abstain in at least one resolution	163



EU - Q2 2023 voting summary

Management proposed resolutions:						
Proposal category	**Total for**	**Total against**	**Total abstentions**	**For %**	**Against %**	**Abstain %**
Management (total)	**13615**	**4292**	**26**	**69%**	**22%**	**0%**
Routine Business	3154	311	0	63%	6%	0%
Director Election	2300	1278	21	64%	36%	1%
Director Related	3167	373	0	89%	10%	0%
Audit Related	783	105	4	88%	12%	0%
Non-Routine Business	148	24	0	68%	11%	0%
Compensation	1723	1620	1	51%	48%	0%
Capitalization	1540	335	0	82%	18%	0%
Miscellaneous	47	7	0	34%	5%	0%
E&S Blended	51	0	0	98%	0%	0%
No Research	25	159	0	9%	59%	0%
Company Articles	595	55	0	92%	8%	0%
Takeover Related	23	14	0	62%	38%	0%
Strategic Transactions	45	3	0	94%	6%	0%
Social	7	0	0	100%	0%	0%
Environmental	7	8	0	39%	44%	0%

EU - Q2 2023 voting summary

Shareholder proposed resolutions:						
Proposal category	**Total for**	**Total against**	**Total abstentions**	**For %**	**Against %**	**Abstain %**
Shareholder (total)	**177**	**148**	**0**	**54%**	**45%**	**0%**
Social	0	3	0	0%	100%	0%
Environmental	1	11	0	8%	85%	0%
E&S Blended	0	2	0	0%	100%	0%
Director Election	50	44	0	53%	47%	0%
Audit Related	43	38	0	53%	47%	0%
Director Related	79	12	0	87%	13%	0%
Miscellaneous	2	25	0	7%	89%	0%
Non-Routine Business	0	4	0	0%	100%	0%
Compensation	0	7	0	0%	100%	0%
Company Articles	2	2	0	50%	50%	0%

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Number of	Values
Resolutions	20058
AGM resolutions	19625
EGM resolutions	433

Number of companies where LGIM voted:	Values
In Total	1012
For in all resolutions	57
Against or Abstain in at least one resolution	955

How LGIM Voted	Number of Votes	% Alignment with Management Recommendations
For	13792	68%
Against	4440	69%
Abstain	26	54%

Most Popular Shareholder Resolutions	Values
Elect Supervisory Board Members (Bundled)	69
Appoint Alternate Internal Statutory Auditor(s) [and Approve Auditor's/Auditors' Remuneration]	67
Company-Specific Board-Related	66
Elect a Shareholder-Nominee to the Board (Proxy Access Nominee)	24
Company-Specific -- Miscellaneous	23

North America - Q2 2023 voting summary

Management proposed resolutions:						
Proposal category	**Total for**	**Total against**	**Total abstentions**	**For %**	**Against %**	**Abstain %**
Management (total)	**16509**	**9834**	**137**	**62%**	**37%**	**1%**
Director Election	12115	6080	23	66%	33%	0%
Compensation	1628	2807	4	37%	63%	0%
Audit Related	1847	802	94	67%	29%	3%
Capitalization	229	58	0	80%	20%	0%
Director Related	330	40	8	87%	11%	2%
Routine Business	74	12	0	85%	14%	0%
Miscellaneous	15	7	0	68%	32%	0%
Company Articles	75	11	0	85%	12%	0%
Takeover Related	144	10	0	93%	6%	0%
Mutual Funds	1	0	0	100%	0%	0%
Strategic Transactions	43	2	0	96%	4%	0%
Social	3	0	0	100%	0%	0%
Environmental	2	0	0	100%	0%	0%
No Research	2	5	8	9%	23%	36%
Non-Routine Business	1	0	0	100%	0%	0%

North America - Q2 2023 voting summary

Shareholder proposed resolutions:

Proposal category	Total for	Total against	Total abstentions	For %	Against %	Abstain %
Shareholder (total)	**464**	**154**	**10**	**70%**	**23%**	**2%**
Routine Business	1	0	0	100%	0%	0%
Corporate Governance	49	10	0	80%	16%	0%
Social	164	42	0	78%	20%	0%
Company Articles	1	16	0	5%	84%	0%
Environmental	85	19	0	81%	18%	0%
Director Related	85	9	0	88%	9%	0%
Compensation	33	22	0	60%	40%	0%
E&S Blended	22	30	0	42%	58%	0%
Non-Routine Business	6	3	0	67%	33%	0%
Director Election	16	0	10	32%	0%	20%
Miscellaneous	2	3	0	40%	60%	0%

Number of	Values
Resolutions	27300
AGM resolutions	26968
EGM resolutions	332

Number of companies where LGIM voted:	Values
In Total	2777
For in all resolutions	40
Against or Abstain in at least one resolution	2737

How LGIM Voted	Number of Votes	% Alignment with Management Recommendations
For	16973	61%
Against	9988	61%
Abstain	147	55%

Most Popular Shareholder Resolutions	Values
Require Independent Board Chairman	77
Elect Director (Dissident)	50
Amend Articles/Bylaws/Charter - Call Special Meetings	37
Submit Severance Agreement (Change-in-Control) to Shareholder Vote	36
GHG Emissions	32

Japan - Q2 2023 voting summary

Management proposed resolutions:						
Proposal category	**Total for**	**Total against**	**Total abstentions**	**For %**	**Against %**	**Abstain %**
Management (total)	**9947**	**1492**	**0**	**87%**	**13%**	**0%**
Routine Business	685	4	0	99%	1%	0%
Director Election	7892	1073	0	88%	12%	0%
Audit Related	18	0	0	100%	0%	0%
Director Related	847	289	0	75%	25%	0%
Company Articles	167	36	0	82%	18%	0%
Compensation	311	52	0	86%	14%	0%
Takeover Related	5	33	0	13%	87%	0%
Capitalization	5	3	0	62%	38%	0%
Non-Routine Business	6	1	0	86%	14%	0%
Strategic Transactions	11	1	0	92%	8%	0%

Japan - Q2 2023 voting summary

Shareholder proposed resolutions:						
Proposal category	**Total for**	**Total against**	**Total abstentions**	**For %**	**Against %**	**Abstain %**
Shareholder (total)	**116**	**196**	**1**	**37%**	**63%**	**0%**
Miscellaneous	0	5	0	0%	100%	0%
Director Election	14	48	0	23%	77%	0%
Compensation	25	11	1	68%	30%	3%
Environmental	13	35	0	27%	73%	0%
Non-Routine Business	26	13	0	67%	33%	0%
Director Related	22	6	0	79%	21%	0%
Routine Business	12	78	0	13%	87%	0%
Audit Related	2	0	0	100%	0%	0%
Social	2	0	0	100%	0%	0%

Number of	Values
Resolutions	11752
AGM resolutions	11689
EGM resolutions	63

Number of companies where LGIM voted:	Values
In Total	1074
For in all resolutions	289
Against or Abstain in at least one resolution	785

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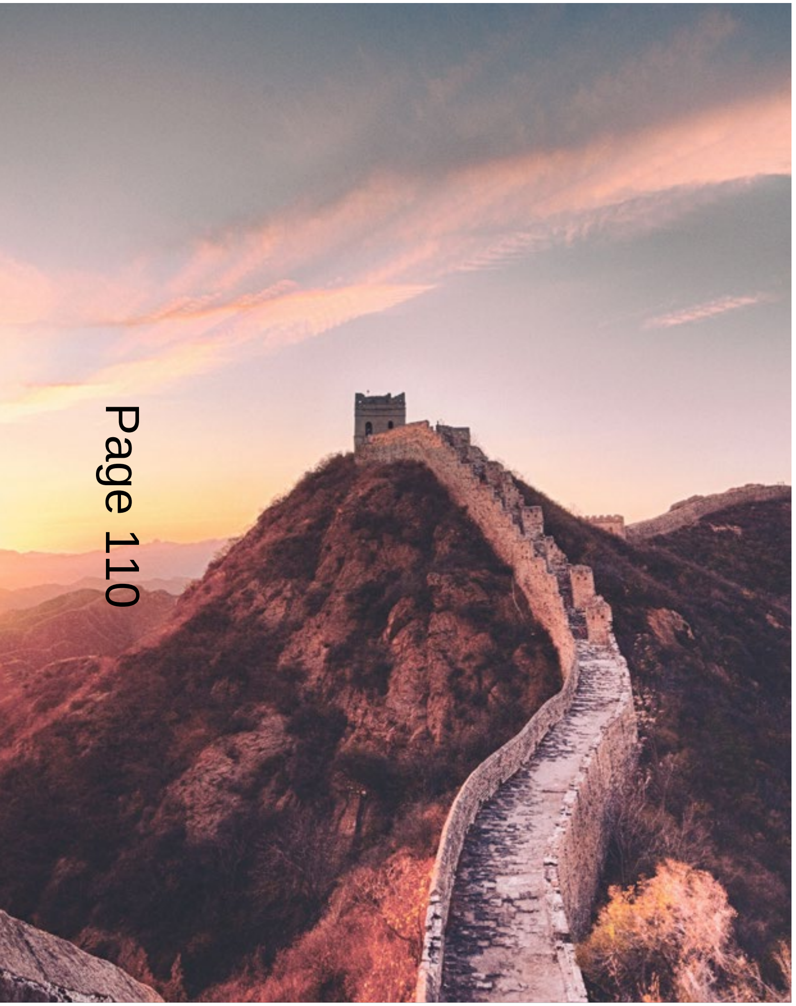
How LGIM Voted	Number of Votes	% Alignment with Management Recommendations
For	10063	86%
Against	1688	86%
Abstain	1	100%

Most Popular Shareholder Resolutions	Values
Amend Ordinary Business Items	85
Removal of Existing Board Directors	32
Phase Out Nuclear Facilities	27
Elect Director (Dissident)	23
Initiate Share Repurchase Program	22



Asia Pacific ex Japan - Q2 2023 voting summary

Management proposed resolutions:						
Proposal category	**Total for**	**Total against**	**Total abstentions**	**For %**	**Against %**	**Abstain %**
Management (total)	**5504**	**1817**	**1**	**75%**	**25%**	**0%**
Routine Business	1475	72	0	95%	5%	0%
Non-Routine Business	200	12	0	94%	6%	0%
Audit Related	524	73	0	88%	12%	0%
Director Election	1457	482	1	75%	25%	0%
Compensation	567	283	0	67%	33%	0%
Capitalization	852	730	0	54%	46%	0%
Company Articles	161	87	0	65%	35%	0%
Strategic Transactions	112	55	0	67%	33%	0%
Director Related	117	18	0	87%	13%	0%
Miscellaneous	28	4	0	88%	12%	0%
Social	8	0	0	100%	0%	0%
Takeover Related	3	0	0	100%	0%	0%
No Research	0	1	0	0%	100%	0%

Asia Pacific ex Japan - Q2 2023 voting summary

Shareholder proposed resolutions:						
Proposal category	**Total for**	**Total against**	**Total abstentions**	**For %**	**Against %**	**Abstain %**
Shareholder (total)	**125**	**19**	**0**	**86%**	**13%**	**0%**
Miscellaneous	17	0	0	100%	0%	0%
Audit Related	38	0	0	100%	0%	0%
Director Election	64	17	0	78%	21%	0%
Compensation	0	2	0	0%	100%	0%
Director Related	1	0	0	100%	0%	0%
Company Articles	3	0	0	100%	0%	0%
Environmental	2	0	0	100%	0%	0%

Number of	Values
Resolutions	7483
AGM resolutions	7161
EGM resolutions	322

Number of companies where LGIM voted:	Values
In Total	636
For in all resolutions	78
Against or Abstain in at least one resolution	558

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How LGIM Voted	Number of Votes	% Alignment with Management Recommendations
For	5629	76%
Against	1836	79%
Abstain	1	100%

Most Popular Shareholder Resolutions	Values
Elect Director (Cumulative Voting or More Nominees Than Board Seats)	57
Appoint Alternate Internal Statutory Auditor(s) [and Approve Auditor's/Auditors' Remuneration]	38
Elect a Shareholder-Nominee to the Board (Proxy Access Nominee)	25
Company-Specific -- Miscellaneous	15
Amend Articles/Bylaws/Charter -- Non-Routine	3

Emerging Markets - Q2 2023 voting summary

Management proposed resolutions:						
Proposal category	**Total for**	**Total against**	**Total abstentions**	**For %**	**Against %**	**Abstain %**
Management (total)	**19717**	**4565**	**226**	**78%**	**18%**	**1%**
Routine Business	7376	735	0	86%	9%	0%
Company Articles	1047	312	0	75%	22%	0%
Non-Routine Business	1588	201	0	88%	11%	0%
Capitalization	1421	119	0	91%	8%	0%
Director Election	3228	1324	225	66%	27%	5%
Director Related	1680	679	1	71%	29%	0%
Audit Related	1089	68	0	93%	6%	0%
Compensation	1256	545	0	69%	30%	0%
Strategic Transactions	851	483	0	61%	35%	0%
No Research	0	0	0	0%	0%	0%
Miscellaneous	132	52	0	58%	23%	0%
E&S Blended	7	0	0	88%	0%	0%
Social	41	47	0	39%	45%	0%
Takeover Related	1	0	0	100%	0%	0%

Emerging Markets - Q2 2023 voting summary

Shareholder proposed resolutions:						
Proposal category	**Total for**	**Total against**	**Total abstentions**	**For %**	**Against %**	**Abstain %**
Shareholder	**604**	**148**	**6**	**80%**	**19%**	**1%**
Director Election	373	93	6	79%	20%	1%
Audit Related	132	18	0	88%	12%	0%
Miscellaneous	86	17	0	83%	16%	0%
Compensation	5	7	0	42%	58%	0%
Routine Business	2	3	0	40%	60%	0%
Company Articles	6	8	0	43%	57%	0%
Director Related	0	2	0	0%	100%	0%

Number of	Values
Resolutions	26037
AGM resolutions	23771
EGM resolutions	2266

Number of companies where LGIM voted:	Values
In Total	2072
For in all resolutions	662
Against or Abstain in at least one resolution	1410

How LGIM Voted	Number of Votes	% Alignment with Management Recommendations
For	20321	79%
Against	4713	78%
Abstain	232	81%

Most Popular Shareholder Resolutions	Values
Elect Director (Cumulative Voting or More Nominees Than Board Seats)	358
Appoint Alternate Internal Statutory Auditor(s) [and Approve Auditor's/Auditors' Remuneration]	119
Elect a Shareholder-Nominee to the Board (Proxy Access Nominee)	68
Company-Specific -- Miscellaneous	62
Miscellaneous -- Equity Related	42

Global engagement summary

In Q2 2023, the Investment Stewardship team held

167 engagements **with** **146** companies

(vs. 535 engagements with 491 companies last quarter)

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Breaking down the engagement numbers - Q2 2023

Breakdown of engagement by themes

Social
41

28
Other

85
Environmental

145
Governance

Engagement type

67
Company meetings

100
Emails / letters

Top five engagement topics*

73
Climate Impact Pledge

58
Remuneration

16
Board composition

16
Strategy

14
Diversity

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

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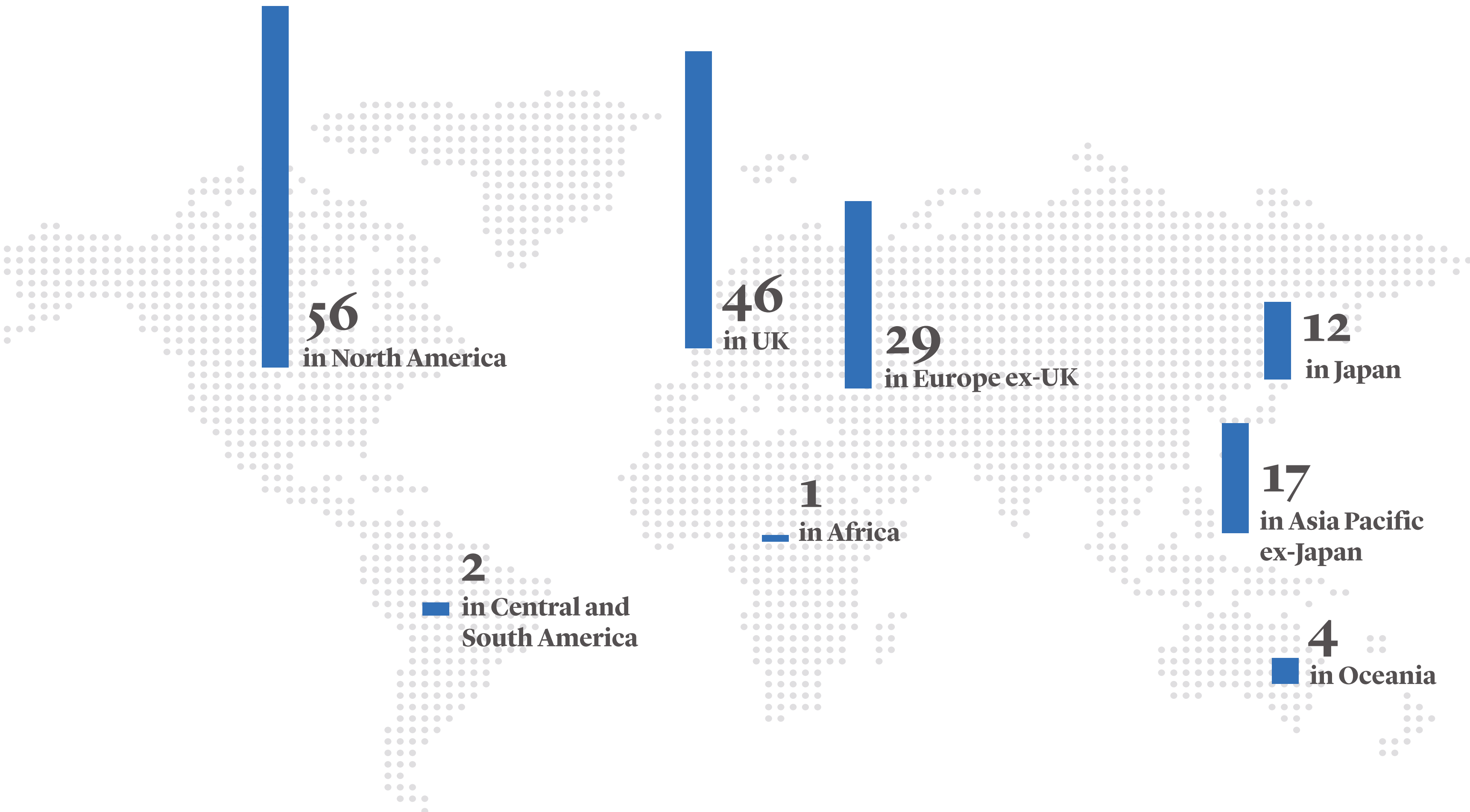
Regional breakdown of engagements



Contact us

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

Key Risks
The value of an investment and any income taken from it is not guaranteed and can go down as well as up; you may not get back the amount you originally invested. Assumptions, opinions and estimates are provided for illustrative purposes only. There is no guarantee that any forecasts made will come to pass. Reference to a particular security is on a historic basis and does not mean that the security is currently held or will be held within an LGIM portfolio. The above information does not constitute a recommendation to buy or sell any security.

D006103

FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

PENSIONS AND INVESTMENTS COMMITTEE

WEDNESDAY, 6 SEPTEMBER 2023

Report of the Director - Finance and ICT

Derbyshire Pension Fund Complaints Policy

1. Purpose

1.1 To seek Committee approval for the draft updated Complaints Policy for Derbyshire Pension Fund attached as Appendix 2.

2. Information and Analysis

2.1 Background

2.1.1 Derbyshire Pension Fund (the Pension Fund/Fund) and each of the Fund's employing authorities, operate the Applications for the Adjudication of Disagreements Procedure (AADP) in line with the Local Government Pension Scheme Regulations 2013.

However, the Pension Fund endeavours to resolve complaints received in relation to its administration of the LGPS before they reach the stage of an appeal under the AADP. Committee approved the Pension Fund's inaugural Complaints Policy (the inaugural Policy) in January 2020. The inaugural Policy was developed to provide assurance to members of the Pension Fund that all complaints would be considered properly and in a consistent manner. It was also developed to ensure that complaints are recorded consistently and that the Fund's effectiveness in dealing with complaints is monitored, with member feedback supporting the continued improvement of services.

2.1.2 The operation of the Fund's policy for complaints is underpinned by guidance for officers, and the Altair pension administration system provides the functionality to record, escalate and monitor the progress of complaints within Fund members' individual records.

2.2 Complaints Experience

2.2.1 The Fund received 24 complaints during 2022/23 (excluding 7 initial complaints classed as requiring clarification of scheme regulations). All 24 complaints received a response within 10 working days.

Two of the above complaints progressed to the Application for Adjudication of Disagreements (AADP) procedure.

2.3 Review of Complaints

2.3.1 All complaints are reviewed on a monthly basis by the Fund's Performance & Backlog Group to ensure that they are being dealt with appropriately and to identify any trends in complaints which require addressing.

The number of complaints received by the Fund, together with a brief description of the subject of complaints, is included in the Half Year Pension Administration Performance Report to Committee (Administration Performance Report).

In the Administration Performance Report considered by Committee in April 2023, it was reported that complaints received during 2022/23 covered:

- Delays with payments of Additional Voluntary Contributions (AVCs) paid to the Fund's in-house AVC provider, Prudential
- Delays with completion of transfers out of the Fund to alternative schemes
- Problems experienced by members following the transfer of their employment to an external contractor
- Requirement for evidence of interdependence with deceased scheme member to determine eligibility for co-habiting partner pension
- Incorrect estimated figures provided to member

The number of AADP appeals against Fund decisions is included in either the Half Year Pension Administration Performance Report or the annual Summary of AADP's & Ombudsman Escalations Report to Committee, with a detailed narrative on each of the appeals and escalations included in the annual summary report.

2.4 Draft Updated Complaints Policy

2.4.1 The Fund's policy on complaints has been reviewed and updated to take into account the ability of members to submit complaints via My Pension Online and to reflect the Fund's complaints' experience over the last three years. The step by step guide for Pension Fund members on how to complain has also been made clearer in the draft updated Complaints Policy.

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 by the Pension Fund.

5. Appendices

5.1 Appendix 1 – Implications

5.2 Appendix 2 – Draft updated Derbyshire Pension Fund Complaints Policy.

6 Recommendation(s)

That Committee:

a) Approves the draft updated Derbyshire Pension Fund Complaints Policy attached as Appendix 2.

7 Reasons for Recommendation(s)

7.1 The Pensions and Investments Committee is responsible for approving the Pension Fund's policies.

Report Author:	**Dawn Kinley**	**Contact details:**	**dawn.kinley@derbyshire.gov.uk**

Appendix 1

Implications

Financial

1.1

Legal

2.1 The Pensions and Investments Committee has responsibility for reviewing and approving the Fund's strategy and policy statements in line with best practice under the terms of the Council's Constitution. The Committee must also ensure arrangements are in place for the Adjudication of Disagreements Procedure.

Human Resources

3.1

Information Technology

4.1

Equalities Impact

5.1

Corporate objectives and priorities for change

6.1

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

7.1

Derbyshire Pension Fund

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Complaints Policy

AUGUST 2023

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

lgps

Contents

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Aims of the Complaints Policy..3
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Making a complaint 4
Dealing with complaints 5
Applications for the Adjudication of Disagreements Procedure (AADP) 5
Concerns and complaints: A step by step guide for pension fund members 6

Derbyshire Pension Fund
County Hall, Matlock, DE4 3AH
pensions@derbyshire.gov.uk

Introduction

There may be a time when a member of Derbyshire Pension Fund (the Pension Fund/Fund) is unhappy with the service provided by the Fund or disagrees with a decision made about their membership or benefits. The Pension Fund will seek to clarify, or put right, any misunderstandings or inaccuracies as quickly and efficiently as possible.

The Derbyshire Pension Fund Complaints Policy has been developed to provide assurance that, if a member of the Fund does wish to make a complaint, it will be dealt with promptly, respectfully and in a consistent manner.

The management of complaints is important to the Pension Fund. In addition to providing Fund members with assurance that their complaints will be properly considered, it ensures that feedback from members supports the continued improvement of services.

In general, complaints will usually relate to one of the following:

- Problems with the standard/quality of services provided
- Failure to provide responses or information within agreed timescales
- Disagreement with a decision
- Disagreement with how a policy/regulations have been applied
- Incorrect use or storage of data
- Inaccurate data
- Inaccurate payments

Aims of the Complaints Policy

The application of the Complaints Policy aims to:

- Support members with a straightforward, appropriate, and effective process for the prompt resolution of complaints
- Take complaints seriously and deal with them in a manner that is appropriate to the nature of the issue
- Guarantee that complaints are dealt with on the basis of evidence and proper investigation
- Ensure that every issue raised in a complaint receives an appropriate explanation
- Operate in a respectful and sensitive way, having due respect for confidentially
- Ensure that the consideration and monitoring of complaints supports the improvement of services received by members
- Ensure that all complaints are handled fairly and consistently

What is a complaint?

Many queries and minor disagreements can be resolved quickly and without being escalated to the level of a complaint. Members should, in the first instance, contact the Pension Fund, either via:

- The Pension Fund Help Line (01629 538900)
- The feedback form on the Fund's website: derbyshirepensionfund.org.uk/feedback
- Letter to Derbyshire Pension Fund, County Hall, Matlock, Derbyshire DE4 3AH.
- My Pension Online

Pension Fund staff receiving a query from a dissatisfied Fund member will, wherever possible, attempt to resolve the issue within 5 working days.

A complaint arises if the Fund member still feels that the processing of their pension benefits/calculation/query has been dealt with in an unsatisfactorily manner and should be investigated.

Making a complaint

If a member of the Pension Fund wishes to make a complaint, it should be submitted in writing via:

- The online complaint form on the Pension Fund's website: derbyshirepensionfund.org.uk/complaint
- By letter, clearly marked complaint to ensure that all the details of the complaint are correctly recorded.
- My Pension Online

When making a complaint, a Fund member should provide all the information requested on the complaint form, specifying all of the issues requiring a response and providing specific details, such as relevant dates. Members contacting the Fund by letter should ensure that they include the following information:

- Full name
- Address
- Contact details
- Date of birth
- National insurance number

Any information provided will always be treated in accordance with the Fund's privacy notice.

Complaints made via a third party, such as a Union Member or Councillor, will only be investigated if consent to share information has been received from the relevant Fund member. Once the Pension Fund has received consent to share information, a complaint will be subject to the normal process and timescales. A summary response will be provided to the Union Member or Councillor in accordance with the privacy notice and any consent to share information.

Dealing with complaints

Complainants will be listened to and reassured that their issue is being taken seriously. Complaints will be considered by a suitable member of staff and will be escalated to a more senior member of staff where appropriate.

Complaints submitted via the Fund's website, My Pension Online or by letter, will be resolved as promptly as possible; when a complaint is not resolved within 5 working days of receipt, the complaint will be acknowledged, and an anticipated response timescale provided. In circumstances where it is not possible to provide a response within 5 working days, Derbyshire Pension Fund will aim to provide a response within 10 working days.

Depending on the nature of the complaint, the Pension Fund may need to request information from a 3rd party, usually a member's employer or payroll provider. Complaints will be dealt with confidentially and information regarding the complaint will not be shared with the 3rd party unless is absolutely necessary to do so.

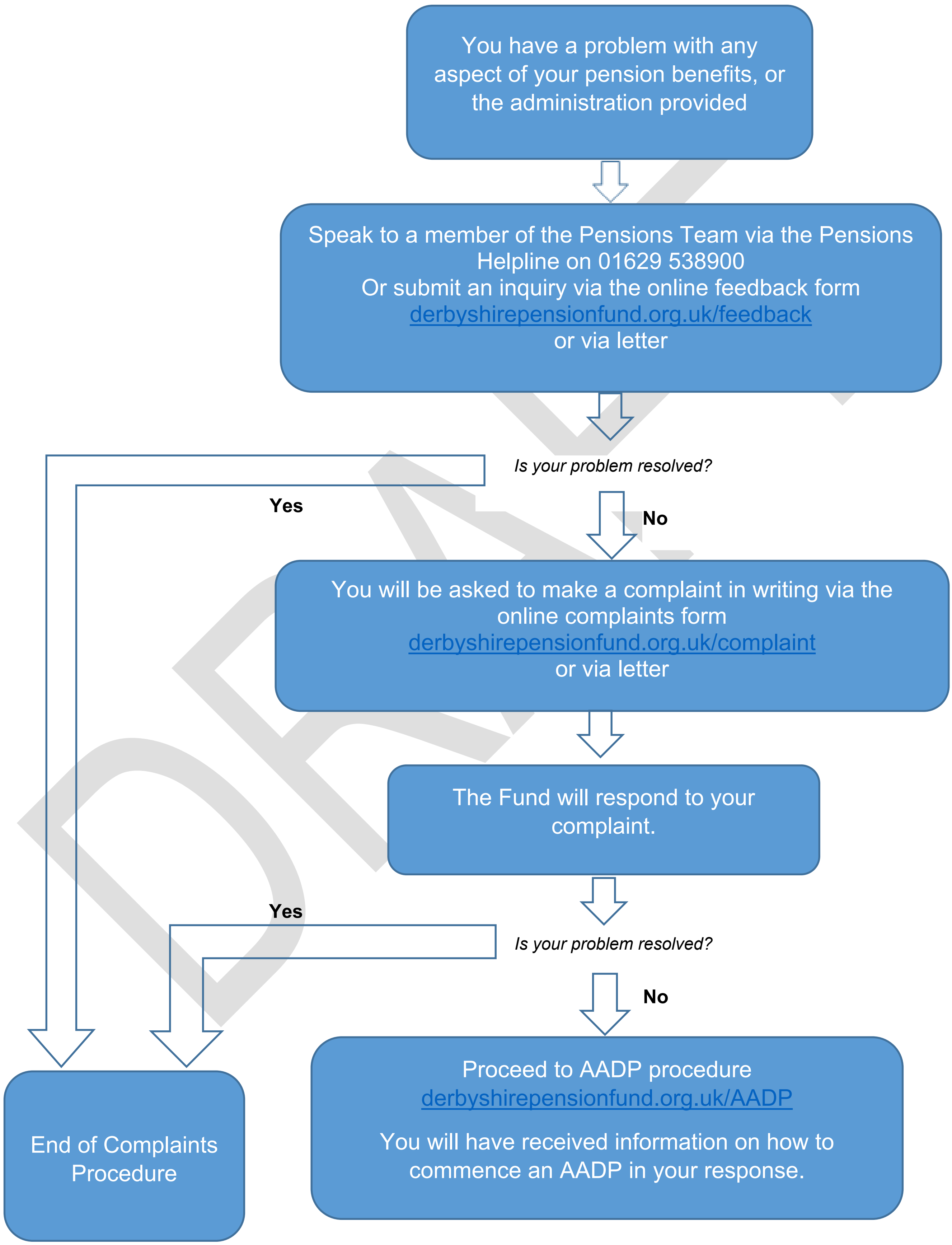
To ensure that all of the relevant facts are available, and to enable a full investigation to be carried out, the target date for responding to a complaint may need to be extended. The complainant will be informed of any extension and provided with a new target date for the full response.

Anonymised summaries of complaints may be made available to the Pensions and Investments Committee and to Derbyshire Pension Board for monitoring purposes.

Applications for the Adjudication of Disagreements Procedure (AADP)

If a member of the Pension Fund is still dissatisfied after the procedure set out in the Complaints Policy has been completed, they have the right to appeal under the Applications for the Adjudication of Disagreements Procedure (AADP). For further information please visit derbyshirepensionfund.org.uk/AADP.

Concerns and complaints: A step by step guide for pension fund members



Derbyshire Pension Fund
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FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

PENSIONS AND INVESTMENTS COMMITTEE

WEDNESDAY, 6 SEPTEMBER 2023

Report of the Director - Finance and ICT

Local Government Pension Scheme Investment Pooling Consultation

1. Purpose

1.1 To inform Committee about the publication by the Department for Levelling Up, Housing and Communities (DLUHC) of the 'Local Government Pension Scheme (England and Wales): Next steps on investments' consultation (the Consultation).

To seek delegation to the Director of Finance & ICT, in consultation with the Chair of the Pensions and Investments Committee, of the approval of the Pension Fund's response to the Consultation.

2. Information and Analysis

2.1 Background

2.1.1 At a meeting of Council in February 2017, it was agreed that Derbyshire County Council would enter into an Inter-Authority agreement with Cheshire West and Chester Council, Leicestershire County Council, Nottinghamshire County Council, Shropshire County Council, Staffordshire County Council, Wolverhampton City Council and Worcestershire County Council to establish a joint pension fund investment pool.

2.1.2 LGPS Central Limited (LGPSC/the Company) has been established to manage investments on behalf of the pool of the eight LGPS funds across the Midlands, administered by the authorities listed above, known as the LGPS Central Pool (the Pool). The eight LGPS funds are referred to in this report as the Partner Funds.

2.1.3 The formation of the Pool was a response to the UK Government's November 2015 LGPS Investment Reform Criteria and Guidance, which followed a long period of information gathering and the Chancellor's announcement in the Summer 2015 Budget of the government's intention to invite LGPS Administrating Authorities to bring forward proposals for pooling LGPS investments, to deliver significantly reduced costs while maintaining overall investment performance.

The UK Government set out four criteria:

- Asset Pool(s) that achieve benefit of scale (i.e., AUM of at least £25bn)
- Strong governance and decision making
- Reduced costs and excellent value for money
- An increased capacity to invest in infrastructure

The government's expectation with respect to LGPS investment pooling is set out in The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, which include that administering authorities must set out their approach to pooling investments, including the use of collective investment vehicles and shared services.

2.1.4 In January 2019, the Ministry of Housing, Communities and Local Government (now DLUHC) published an informal consultation on draft updated statutory guidance on asset pooling, 'building on previous Ministerial communications and guidance on investment strategies and taking account of the current state of progress on pooling'. This draft updated guidance included the requirement for pool members to appoint an FCA regulated pool company to implement their investment strategies and the requirement for pool members to transition existing assets into the pool as quickly and cost effectively as possible, with the transition of listed assets expected to take place over a relatively short time.

Existing assets invested in life funds for the purpose of passive equity investment, some infrastructure investments and existing direct property assets were noted as assets that could be retained in existing arrangements subject to regular review.

A formal consultation on the draft updated asset pooling guidance has been expected for the last two years.

2.2 The Consultation

2.2.1 An investment pooling consultation, ‘Local Government Pension Scheme (England and Wales): Next steps on investments’ (attached as Appendix 2), was finally published on 11 July 2023. Publication of the consultation followed the inclusion in the 2023 Spring Budget book (published in March 2023) of a statement that the government was challenging the LGPS in England and Wales to move further and faster on consolidating assets, flagging that a forthcoming consultation would propose LGPS funds transfer all listed assets into their pools by March 2025 and set direction for the future (which might include moving to a smaller number of pools in excess of £50bn). It was also flagged, that the government would consult on requiring LGPS funds to consider investment opportunities in illiquid assets ‘such as venture and growth, thereby seeking to unlock some of the £364bn of LGPS assets into long term productive assets’.

2.2.2 The Consultation seeks views on government proposals in five areas:

- An acceleration and expansion of pooling, with administering authorities confirming how they are investing their funds and why. The Consultation notes that while pooling has delivered substantial benefits so far, the government believes that the pace of transition should accelerate to deliver further benefits which include: ‘improved net returns, more effective governance, increased savings and access to more asset classes’. A deadline for asset transition by March 2025 is proposed, noting that the government will consider action if progress is not seen, including making use of existing powers to direct funds. Going forward, the government wants to see a transition towards fewer pools to maximise benefits of scale.
- A requirement to have a plan to invest up to 5% of assets to support levelling up in the UK, as announced in the February 2022 Levelling Up White Paper. The Consultation sets out in more detail how the government proposes to implement this requirement and seeks views on its plans.
- An ambition to increase investment into high growth companies via unlisted equity, including venture capital and growth equity, noting the government believes there are real opportunities in this area for institutional investors with a long-term outlook, such as the LGPS.
- Proposed amendments to the LGPS’s regulations to implement requirements on pension funds that use investment consultants.

Noting these amendments are needed to implement the requirements of an order made the Competition and Markets Authority in respect of the LGPS.

- A technical change to the definition of investments within LGPS regulations.

2.3 Consultation Response

2.3.1 The Partner Funds within the LGPS Central Pool intend to submit individual responses to the Consultation. A joint response (potentially more high level) is expected to be submitted from the Partner Funds and from LGPS Central Limited.

Fund officers have discussed the Consultation with the other Partner Funds of the LGPS Central Pool and with LGPSC. A further series of discussions are planned with the Partner Funds, with LGPSC, with the Fund's Independent Investment Advisor and with other LGPS funds.

2.3.2 The response from Derbyshire Pension Fund is currently expected to include:

- support for the principle of pooling investment management
- a recognition that there are a range of pooling models
- an emphasis on net performance and value for money
- a reminder that the LGPS exists to pay benefits for its members when they become due
- a reminder that local taxpayers largely stand behind the liabilities of the LGPS
- support for administering authorities remaining responsible for setting investment strategies and for asset allocation
- an ambition to see greater collaboration between the LGPS pools

2.3.3 The closing date for the Consultation is 2 October 2023. It is proposed that approval of Derbyshire Pension Fund's response to the Consultation is delegated to the Director of Finance & ICT in consultation with the Chair of 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 by the Pension Fund.

5. Appendices

5.1 Appendix 1 – Implications

5.2 Appendix 2 – Local Government Pension Scheme (England and Wales): Next steps on investments.

6. Recommendation(s)

That Committee:

a) delegates approval of Derbyshire Pension Fund's response to the 'Local Government Pension Scheme (England and Wales): Next steps on investments' consultation to the Director of Finance & ICT in consultation with the Chair of Committee.

7. Reasons for Recommendation(s)

7.1 To ensure that Fund officers have sufficient time to consult relevant parties and develop a well-informed response to the Consultation.

7.2 To provide assurance that the Fund's response to the Consultation will go through an appropriate governance process.

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Appendix 1

<u>Implications</u>

Financial

1.1

Legal

2.1

Human Resources

3.1

Information Technology

4.1

Equalities Impact

5.1

Corporate objectives and priorities for change

6.1

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

7.1

GOV.UK

Home > Local Government Pension Scheme (England and Wales): Next steps on investments

Department for Levelling Up, Housing & Communities

Open consultation

Local Government Pension Scheme (England and Wales): Next steps on investments

Published 11 July 2023

Applies to England and Wales

Contents

Scope of the consultation

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Chapter 2: Asset pooling in the LGPS

Chapter 3: LGPS investments and levelling up

Chapter 4: Investment opportunities in private equity

Chapter 5: Improving the provision of investment consultancy services to the LGPS

Chapter 6: Updating the LGPS definition of investments

Chapter 7: Public sector equality duty

Annex A: List of consultation proposals

Annex B List of consultation questions

About this consultation

Personal data

OGL

This publication is available at https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-next-steps-on-investments/local-government-pension-scheme-england-and-wales-next-steps-on-investments

Scope of the consultation

Topic of this consultation:

This consultation seeks views on proposals relating to the investments of the Local Government Pension Scheme (LGPS). It covers the areas of asset pooling, levelling up, opportunities in private equity, investment consultancy services and the definition of investments.

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.

Basic Information

Body/bodies responsible for the consultation:

Department for Levelling Up, Housing and Communities (DLUHC)

Duration:

This consultation will last for 12 weeks from 11 July 2023 to 2 October 2023.

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/local-government-pension-scheme-england-and-wales/).

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

Chapter 1: Introduction

1. The Local Government Pension Scheme England and Wales (LGPS) is one of the world's largest funded pension schemes and a key player in global markets, investing around £364 billion (excluding Environment Agency funds) worldwide. Its scale enables it to have a significant impact through its investments and gives it the potential to lead the market in innovation and transparency. While long term stable returns in order to pay pensions for its members are the primary purpose of the investments, the government believes that there is scope to deliver substantial benefits to the UK as a whole at the same time. Good management of the LGPS is important for the financial stability of local councils, and ultimately is in the interests of local taxpayers.

2. The government also recognises that pension funds are under substantial pressure on a number of fronts. There is growing scrutiny of institutional investors on environmental issues and in the light of geo-political risks such as Russia's aggressive and illegal invasion of Ukraine. In addition, recent volatility in gilt and bond markets has underlined the need for the highest standards in managing financial risk. The LGPS as a public sector scheme is rightly subject to particularly high expectations and must keep pace with the best in managing these demands.

3. This consultation seeks views on proposals in 5 areas:

- First, the government sets out proposals to accelerate and expand pooling, with administering authorities confirming how they are investing their funds and why.

While pooling has delivered substantial benefits so far, we believe that the pace of transition should accelerate to deliver further benefits which include improved net returns, more effective governance, increased savings and access to more asset classes. We propose a deadline for asset transition by March 2025, noting we will consider action if progress is not seen, including making use of existing powers to direct funds. Going forward, we want to see a transition towards fewer pools to maximise benefits of scale.

- Second, the government proposes to require funds to have a plan to invest up to 5% of assets to support levelling up in the UK, as announced in the Levelling Up White Paper (LUWP) (https://www.gov.uk/government/publications/levelling-up-the-united-kingdom). This consultation sets out in more detail how the Government proposes to implement this requirement and seeks views on its plans.
- Third, the government is proposing an ambition to increase investment into high growth companies via unlisted equity, including venture capital and growth equity. The government believes there are real opportunities in this area for institutional investors with a long-term outlook, such as the LGPS.
- Fourth, the government is seeking views about proposed amendments to the LGPS's regulations to implement requirements on pension funds that use investment consultants. These amendments are needed to implement the requirements of an order made by the Competition and Markets Authority (CMA) in respect of the LGPS.
- Finally, the government is proposing to make a technical change to the definition of investments within LGPS regulations.

4. The following chapters set out the government's proposals in more detail and provide the rationale for its proposals. Chapter 2 addresses the proposals regarding LGPS pooling, Chapter 3 outlines the plans for implementing the LUWP commitment, and Chapter 4 sets out a proposal to encourage the LGPS to contribute growth equity to the development of the UK. Chapter 5 explains the government's proposals in relation to the use of external investment consultants by LGPS funds and Chapter 6 sets out its proposal to update the definition of investments. Finally, Chapter 7 sets out our initial assessment of potential equalities impacts and invites views.

5. To assist those wishing to respond to the consultation, Annex A lists the proposals and Annex B lists the consultation questions.

Chapter 2: Asset pooling in the LGPS

6. The reform of investment management in the Local Government Pension Scheme (LGPS) for England and Wales began in 2015 with the publication of criteria and guidance on pooling of LGPS assets, following extensive consultation with the sector. The aims were to deliver the benefits of scale, improved governance and decision making, reduced costs and excellent value for money, and capacity and capability to invest in infrastructure to help drive growth. LGPS administering authorities responded by coming together in groups of their own choosing to form 8 asset pools.

7. Those 8 pools are now operational, in most cases for over 4 years. Their scale makes them significant players at European and global level. Set up and running costs of around £400 million to 2022 have been fully covered by savings. Net savings of over £380 million have already been delivered, with annual savings of £180 million, and total net savings are forecast to be over £1 billion by 2025 (based on data provided by pools and administering authorities). Significant expertise and capacity have been developed in private markets and infrastructure investment, giving funds access to the higher returns in these markets. In particular, UK and global infrastructure investment has grown from below £1 billion to around £27 billion (based on data collected by the pools).

8. While pooling has delivered substantial benefits so far, progress has varied across the scheme. Accelerating consolidation of assets in the LGPS is crucial for ensuring the scheme is delivering value for money in the interests of scheme members, employers and local taxpayers. Stronger pools can also ensure the LGPS punches its weight on responsible investment, management of climate risks, investment in levelling up, and investment in unlisted equities in support of UK growth. To meet these challenging ambitions, the LGPS pools and their partner funds will need to strengthen their existing partnerships and work together to deliver outstanding net performance, risk management and transparency. This will enable the LGPS to provide long term finance for pensions for millions of low paid workers, and deliver for the UK through investment in the UK, while retaining local control and accountability. Government proposals, set out below, cover increased scale, governance and decision making, as well as transparency and accountability.

Delivering increased scale

Background

9. Across the scheme as at March 2022 £145 billion or 39% of assets have been transferred to the pools with the percentage varying by pool from under 30% (LGPS Central) to over 80% (LPP). A further £114 billion, or 31%, is under pool management and £34bn or 9% is covered by plans to transition into the pools. We make a distinction throughout this document between pooled assets and assets which are under pool management. Pooled assets are owned by the pool in their capacity as asset manager while assets under pool management are assets where the pool has some management or oversight arrangement without ownership.

10. The current scale of the individual pools (based on AUM pooled and assets under pool management) is in the range £16 billion to £60 billion. This covers a variety of arrangements including passively managed assets held by external managers under insurance contracts, and the pool's oversight and monitoring of these may be limited. However, excluding assets under pool management, the pools range in size from £2 billion to £30 billion. The pools therefore remain significantly below the scale which they could achieve with all assets transferred from their partner funds, rather than remaining under pool management.

11. A further substantial increase in effective scale is a key priority to enable delivery of the benefits of pooling. Increased scale would allow the pools to deliver further savings and efficiencies, including through negotiating lower fees from external investment managers and service providers, and developing internal capacity for investment management. Increased scale would also enable the pools to invest in larger projects which would help the LGPS to take advantage of attractive opportunities in alternative assets.

12. The government therefore wishes to see the existing pools build scale as quickly as possible by accelerating the pace of transition of liquid assets from the funds into the pools, building on and expanding on successes so far. The approach to date has been to encourage funds through guidance to transition their assets into the pools, and substantial progress has been made over the last 4 to 7 years. However, progress is not consistent across the scheme and some pools have secured a much higher proportion of assets of their partner funds than others. We consider that the time is right for action to accelerate the delivery of savings and other benefits of pooling, and our proposals are set out in paragraphs 17 to 21.

Driving greater scale through fewer pools

13. In due course all assets including less liquid assets should be fully transferred to the pools. We recognise that this may need to take place over a longer period to minimise the costs including the costs of breaking existing arrangements. This would include passively managed insurance contracts which may be under some form of pool management. There may be some exceptions such as some types of local property investments. Once this was complete, 5 of the 8 pools would be around £50 billion or higher at current values and the remaining 3 pools would occupy the £25 billion - £40 billion range.

14. Completing the transition of assets would be a major step forward. However, we do not believe that this alone will deliver the full benefits of pooling in the long term. Our view is that the benefits of scale are present in the £50-75 billion range and may improve as far as £100 billion. As such, we should in future look towards a smaller number of pools in the region of or in excess of £50 billion in directly invested assets through merger. The benefits of scale were a key finding of 2021 research (https://www.brunelpensionpartnership.org/wp-content/uploads/2021/09/LGPS-in-the-UK-Learnings-from-International-Peers.pdf) (PDF, 5.7 MB) based on interviews with large international comparators. Respondents confirmed that scale had improved bargaining power with asset managers, enabled access to a wider set of opportunities such as private markets, and had allowed them to build internal capacity.

15. As well as making better use of expertise in managing external managers, there is potential to grow in-house investment management within the pools to reduce or replace the use of external private sector investment managers. This should offer substantial reductions in cost. A small number of larger funds have existing in house capacity and expertise in some areas of investment, and we would like to see this expertise fully shared within their pools. In due course there

should be scope for all pools to access in house capacity and expertise in specific areas of investment within other pools.

16. In the short to medium term, we believe there are benefits which could be secured through joint working without incurring the costs of merger. Some joint vehicles such as the London Fund (London CIV and LPP) and GLIL (LPP and Northern) already exist. We would like to see the pools move towards greater collaboration where this makes sense, and to consider specialisation, building on existing strengths in particular areas of investment, in order to deliver further benefits of scale and limit unnecessary duplication. Areas where specialisation or collaboration may be particularly attractive include infrastructure and other alternative investments including private equity, private debt and venture capital, as well as investments in levelling up projects and social investments.

Question 1: Do you consider that there are alternative approaches, opportunities or barriers within LGPS administering authorities' or investment pools' structures that should be considered to support the delivery of excellent value for money and outstanding net performance?

A timetable for transition

17. Current statutory guidance relating to regulations on the management and investment of LGPS assets currently requires each fund to set out the proportion of its assets which it intends to pool in its Investment Strategy Statement (ISS). Funds are also required to provide in their ISS a summary of the assets which they do not intend to pool, with a rationale including value for money, and to review this at least every 3 years, including consideration of continuing value for money. This should be greatly assisted by the development of the LGPS Code of Transparency (https://lgpsboard.org/index.php/the-code) by the Scheme Advisory Board. This has enabled funds to access transparent cost data from 150 asset managers as of November 2022. However, current guidance sets no timetable for change and provides funds with limited assistance in considering rationale and value for money.

18. The government now seeks views on the setting a deadline for funds to transition all listed assets, as a minimum, to their pool within a reasonable timeframe. We consider a reasonable timeframe for liquid assets to be by 31 March 2025, which is the end of the current local fund valuation period. Transition of all assets should be considered in this timeframe, especially as pooling of illiquid investments may offer the greatest opportunities for reducing savings combined with higher returns.

19. If this is taken forward, funds would need to work with their pool to ensure that they have fully considered all the opportunities available through the pool for their assets. A detailed rationale for each asset remaining outside the pool including value for money considerations would need to be provided in the ISS in line with existing guidance if the asset is not intended to be pooled by 2025.

20. The government seeks views on setting out the transition timetable in statutory guidance on ISS, and requiring funds to review and revise their ISS in line with this expectation. Where funds have concluded that the asset should not be transitioned, the government will expect a rationale to explain why this is the case. We also propose to provide fuller guidance on the existing requirements for ISS in relation to pooling, including guidance on rationale, value for money and review for assets which it is not intended to pool.

21. For further proposals on annual reporting of progress against the plan set out in the ISS see paragraph 41.

> **Question 2:** Do you agree with the proposal to set a deadline in guidance requiring administering authorities to transition listed assets to their LGPS pool by March 2025?

Governance and decision making

Background

22. Administering authorities are responsible for setting the investment strategy of their funds, having taken proper advice. This includes setting the asset allocation to achieve a diversified portfolio of investments which overall is suitable to meet liabilities, as well as describing the approach to pooling and responsible investment, in line with statutory guidance.

23. Once the investment strategy has been chosen, the expectation set (https://www.gov.uk/government/publications/local-government-pension-scheme-investment-reform-criteria-and-guidance) when the funds were invited to form pools in 2016 was that as a minimum, the selection of external fund managers and the implementation of the investment strategy would take place at the pool level, in order to streamline decision making, reduce the number of external managers and deliver reduced fees.

24. In practice, funds have adopted a range of approaches. A small number of funds have transferred most of their assets to the pool and delegated strategy decisions below a very broad asset allocation as well as all implementation decisions to their pool, including for assets remaining outside the pool. Some funds have delegated manager selection and other implementation decisions to the pool for their pooled assets only, as well as agreeing broad mandates for some pool vehicles. The pool partnerships which have a higher degree of delegation, closer alignment of strategy and larger proportion of assets pooled have the conditions in place to deliver significantly higher savings compared to pools less advanced in their pooling journey.

25. Some funds have transferred some assets to the pool but only where the pool provides their preferred external manager or mix of assets within a pool vehicle. In these circumstances pools may respond by creating different products for each

partner fund or for small groups of funds, leading to a high number of pool sub-funds or vehicles, which limits the savings which can be achieved.

26. A very small number of funds have joined a pool but pooled no or very few assets. They may have benefited from a wider reduction in fees in the market, in part driven by pooling, but have chosen not to take up the other potential opportunities to date.

27. More effective and consistent governance and decision making is therefore the second key priority for the future of LGPS pooling. Research (https://www.brunelpensionpartnership.org/wp-content/uploads/2021/09/LGPS-in-the-UK-Learnings-from-International-Peers.pdf) (PDF, 5.7 MB) suggests that asset pools internationally are more effective with modern governance structures which enable delegation with accountability and allow decisions to be taken quickly on behalf of partner funds. This will include in particular effective delegation of strategy implementation to the pools by administering authorities.

28. It is the government 's view that the experience of the last 4 years has demonstrated that funds participating in a strong partnership with their pool and with other partner funds, in which they delegate effectively to their pool and align their strategies where possible, are likely to see the most gains, as these approaches allow the pool to deliver the benefits of scale. Others have moved more slowly but in order to maximise the benefits the full participation of all is essential. We want to see all funds moving in this direction in order to deliver the benefits of pooling for all.

Improving governance

29. Setting the investment strategy and asset allocation is a central responsibility for administering authorities, which gives them the most significant degree of influence on returns. It is generally accepted that the strategy accounts for most of the difference in net returns between portfolios, with implementation decisions such as manager selection having a relatively small impact. We do not propose any change to the responsibility of funds for setting investment strategies.

30. We therefore propose revised guidance on pooling to confirm and strengthen the existing guidance on delegation of manager selection and strategy implementation. It would also provide revised guidance on governance, including member representation, transition of assets and new investments outside the pool. We also propose to include guidance on investments in levelling up. This is discussed in Chapter 3.

31. Government recognises that each model has its own benefits. In order to move forward more quickly with the benefits of pooling, we regard the following aspects as being key to progress.

- Pools should operate as a single entity which acts on behalf of and in the sole interests of the partner funds. For this reason, we do not see inter-pool competition as a desirable progression. This does not preclude the potential for inter-pool collaboration, which is encouraged by government.

- Pools should be actively advising funds regarding investment decisions, including investment strategies.
- Pools should be equipped to implement an investment strategy as instructed by their partner fund. An investment strategy should be interpreted to mean a broad instruction regarding asset classes and level of risk. It should not include an excessive number of classes, or choice of specific assets.
- Pools should expect funds to invest via their existing sub-funds where possible. This avoids an unfavourable scenario whereby an excessive number of similar sub-funds undermine the purposes and benefits of pooling.
- Pool governance structures should be equipped to take quick decisions as opportunities present themselves, within the delegated remit of the fund.

Question 3: Should government revise guidance so as to set out fully how funds and pools should interact, and promote a model of pooling which includes the characteristics described above?

32. Pensions expertise is an important criterion for decision making, and there are some factors which may make it harder to acquire that expertise under current structures. Firstly, pensions committees generally have high levels of turnover. Second, members of such committees are not required to complete training and may have no specific expertise in pensions. The outcome of these factors is that expertise may be lower than an equivalent panel of trustees for a private sector scheme, with higher reliance on advisors. Some targeted requirements, specifically on training, would help administering authorities to manage these issues.

33. We propose that each administering authority sets a training policy for committee members. We propose that the administering authority should report regularly on the training undertaken by committee members and whether this is in line with their training policy.

Question 4: Should guidance include a requirement for administering authorities to have a training policy for pensions committee members and to report against the policy?

Transparency and accountability

Background

34. Current reporting relevant to the assets of the LGPS comprises the following:

- **Official statistics** - The annual LGPS statistics collected on the SF3 form by the Department and published in September contain only the overall asset value for the scheme and each fund, with no data on asset classes or other information.
- **Annual reports.** Annual reports are required by CIPFA guidance (https://www.cipfa.org/policy-and-guidance/publications/p/preparing-the-annual-report-

guidance-for-local-government-pension-scheme-funds-2019-edition) to include the value and percentage of pooled and non-pooled assets, the costs and performance of pooled and non- pooled assets, the progress of transition during the reporting year and the plans for transition of non-pooled assets. Annual reports are required to be published by 1 December for the preceding financial year. Funds are also required by guidance on ISS to report annually to the SAB on the progress of asset transition to the pool against implementation plans (https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/627030/Guidance_on_preparing_and_maintaining_an_investment_strategy_statement.pdf) (PDF, 150 KB). Pool annual reports provide some additional information but vary considerably in level of detail.

- **Scheme Advisory Board (SAB) annual report.** The SAB produces a report which summarises data from published fund annual reports on governance, funding, membership, financial position, investments and stewardship. It does not currently include data on the progress of asset transition or other data or commentary on pooling. With respect to investments, the Scheme Annual Report reports the proportion of the scheme which is invested in pooled investment vehicles, public markets, bonds, direct property, derivatives, cash and other asset classes. This is based on data in the Net Asset Statement in the annual accounts of administering authorities. Authorities do not report their asset breakdown in a consistent way, and a degree of judgement is exercised by the SAB in interpreting their reports. The commentary on investment performance is based on data provided by PIRC which covers around two thirds of funds. The Annual Report is published in the spring following the end of the financial year to which it relates.

35. In addition, the government recently consulted (https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-governance-and-reporting-of-climate-change-risks) on new requirements for funds to report on climate-related risks to their assets. We will publish the government's response in due course.

36. The current reporting regime provides a substantial quantity of data but does not provide transparency on progress of pooling by fund, by pool or across the scheme. It also does not provide an overall view of asset allocation across the scheme.

37. It is the long-standing view of government, whatever the subject, that transparency should be welcomed. The government seeks views on increasing transparency of asset allocation, pooling, return and savings.

Annual Reports and LGPS statistics

38. We therefore propose to require a single standard set of data on investments across annual reports and LGPS statistics. This would consist of:

- data on the broad asset classes into which LGPS investments fall in a consistent way, for example equities, bonds, private equity, private debt, property. We would work with the SAB to define the asset classes to be chosen and seek the agreement of the Central-Local Information Partnership (Finance) in the normal way for the necessary changes to the data collected from funds for LGPS official statistics. In designing this table, we will take account of requirements for defined contribution schemes and the reporting requirements which apply to private defined benefit schemes via the scheme return (https://www.thepensionsregulator.gov.uk/en/trustees/submit-reports-payments-and-requests-to-us/scheme-return/db-and-mixed-benefit-scheme-return) (an annual return required by The Pensions Regulator).

- for each asset class, data on the assets which are pooled, under pool management and not pooled and that the definitions are clarified. This will include the allocation to infrastructure and levelling up.
- net savings achieved as a result of investing via the pool.

39. We also propose to define the categories as set out in paragraph 9. Pooled assets would mean that the assets are directly owned and managed by the pool. Assets under pool management would cover assets which are managed or overseen but not owned by the pool. Neither category would include any assets which are held by collective investment vehicles other than those managed by the 8 LGPS pools.

40. We propose that the requirements to report on asset allocation and pooling data would be set out in revised guidance on pooling and in revised guidance on annual reports which is under consideration by the SAB.

41. We also propose to introduce a requirement to include commentary in the annual report on the progress of asset transfer against implementation plans and the approach to pooling set out in the ISS, in order to ensure funds are transparent and accountable on the progress of asset transition.

42. We also view it as desirable that each fund report the returns achieved by assets invested in each asset class against an appropriate benchmark, in a way that is consistent across funds, and easily comparable between pooled and non-pooled assets. We welcome views on how such a regime may work in practice.

43. We believe that these measures would ensure that data and commentary on the progress of pooling and on asset allocation is available earlier, is consistent across the scheme and between LGPS statistics and annual reports. We recognise there may be increased costs arising from a change to the asset classes reported, but these can be met from the fund, and costs should be reduced by having a single standard set of data. We consider some additional costs can be justified to ensure better public accountability.

Question 5: Do you agree with the proposals regarding reporting? Should there be an additional requirement for funds to report net returns for each asset class against a consistent benchmark, and if so how should this requirement operate?

Scheme Annual Report

44. The SAB produces a Scheme Annual Report which aggregates information from fund annual reports. The purpose of the Annual Report is to provide a single source of information for members, employers and other stakeholders. Continual improvement of this report is a key priority of the SAB and is supported by the government. We intend the proposals in this consultation to assist the SAB in this goal.

45. We believe that the single standard set of data discussed above will make it easier to provide a clear overview of the scheme's asset allocation and of the progress of pooling. We have agreed with the SAB that they will incorporate this change into the Scheme Annual Report in future years by including a table which divides assets by category (equity, bonds, property etc) as well as by pooled status (pooled, not-pooled or under pool management).

Question 6: Do you agree with the proposals for the Scheme Annual Report?

Directions by the Secretary of State

46. Under Regulation 8 the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the "2016 regulations" (https://www.legislation.gov.uk/uksi/2016/946/regulation/8/made)) the Secretary of State has power, after consultation, to make directions to a fund where that fund is in breach of statutory guidance. Directions can cover the fund's investment strategy statement, its assets, the running of the fund's investment function, or any other instruction in relation to its investment function.

47. No such directions have been issued by the Secretary of State under Regulation 8.

48. Government will expect administering authorities to act in accordance with statutory guidance once issued. Where funds do not comply with guidance, government will consider whether a direction is appropriate. Examples of activities which could result in this include: withdrawing pool membership, failing to transition assets in line with the timetable or failing to provide adequate justification for non-pooled assets.

49. The Secretary of State also has power under section 3(2)(a) and Schedule 3 of the Public Service Pensions Act 2013 to make regulations on the administration, management and winding-up of LGPS pension funds, subject to consultation and the consent of HM Treasury.

Summary of proposals

50. The proposals are:

- To revise ISS guidance to include requirements to transfer listed assets to the pool by 31 March 2025, and to set out in the ISS:

- assets which are pooled, under pool management and not pooled, and
- to provide a rationale, value for money and date for review for assets which are under pool management or not pooled
- To revise pooling guidance so as to set out fully how funds and pools should interact, and promote a model of pooling which includes the characteristics described above including on delegation of manager selection, strategy implementation, advice, governance, transition of assets, new investments outside the pool and reporting.
- To implement a requirement in guidance for administering authorities to have a training policy for pensions committee members and to report against the policy
- To revise guidance on annual reports to require greater clarity on progress of pooling including a summary asset allocation (including investment in infrastructure and levelling up), a comparison between actual and strategic asset allocation and a report of the net savings from pooling. We also seek views on whether there should be an additional requirement for funds to report net returns for each asset class against a consistent benchmark, and if so how this requirement should operate.
- For the Scheme Advisory Board to expand their Scheme Annual Report to provide a report on the progress on pooling and on asset allocation across the LGPS.
- To make changes to LGPS official statistics to provide greater transparency on asset allocation and the proportion of assets which have been pooled.

51. Should this be taken forward, we intend to monitor progress over the current valuation period (to 31 March 2025), based on fund annual reports, LGPS statistics, the Scheme Annual Report and other evidence. This monitoring will include progress on transition, governance and reporting and how effective these are in delivering improvements in efficiency, cost and performance.

52. Whilst reserving our ultimate position, the government's strong preference is to see progress continue on a voluntary basis within a strengthened framework. This will maintain local management and accountability in the LGPS, while delivering significant savings and better risk management, and avoiding waste and duplication. But we will consider action to ensure progress if necessary, including making use of existing powers to direct funds.

Chapter 3: LGPS investments and levelling up

Background

53. In the Levelling Up White Paper (LUWP) (https://www.gov.uk/government/publications/levelling-up-the-united-kingdom) the government set out its mission to tackle the uneven distribution of opportunity in the United Kingdom (UK). The aim is to level up the UK by spreading opportunity more equally across the country and bring left behind communities up to the level

of more prosperous areas. To do so will mean that the whole country succeeds by growing the economy and realising the potential of places and people across the UK.

54. One of the key ambitions in the levelling up programme is to boost productivity, grow the economy, and raise living standards across the UK. One way in which this mission can be achieved is by ensuring that some of the funds managed by institutional investors flow into projects that help deliver levelling up while also offering attractive returns.

55. The Local Government Pension Scheme (LGPS) with assets of £364 billion, projected to increase to £500 billion by 2030, is a major institutional investor. The government wishes to encourage the LGPS to continue to meet its core fiduciary duty of funding pensions for members while also supporting levelling up by investing in infrastructure, housing, regeneration, and small and medium enterprise (SME) finance across the whole UK, not only in the local area of an authority. Overall, £27 billion of LGPS funds had already been invested in infrastructure in the UK and overseas by March 2022.

56. The government has set an ambition in the LUWP for LGPS funds to invest up to 5% of their assets under management (AUM) in projects which support local areas. To implement this ambition, the Government is asking LGPS funds to work with LGPS asset pools to publish plans for increasing their local investment.

Defining investment in levelling up

57. In developing their plans, LGPS funds will need to consider what types of investments will contribute to levelling up. This section therefore sets out a proposed approach to assessing whether an investment supports levelling up, drawing on the LUWP and its discussion of different forms of capital and levelling up missions. The definition is intended to help LGPS funds and pools in considering how they could invest a share of their AUM in a way that promotes growth, supports levelling up, and meets their fiduciary duty to ensure members' pensions.

58. The ambition of the levelling up agenda is to reduce geographical disparities. While some areas of the UK already benefit from all the conditions for growth, the government is keen to improve productivity, boost economic growth, encourage innovation, create good jobs, and enhance educational attainment in those parts of the UK that have so far had an unequal share of the country's economic success. In pursuing this ambition, the government believes that a boost to productivity, pay, jobs, and living standards can be achieved through targeted interventions that extend opportunities more equally across the UK.

59. Current causes of the UK's spatial disparities include changes in the global economy and their uneven impact on the country's regions, but the key drivers lie in the 6 forms of capital identified in the LUWP (human, intangible, financial, physical, social and institutional). While each capital is important in its own right, it

is their interaction that creates a virtuous cycle that encourages economic growth and the associated societal benefits.

60. To address the imbalances in how the 6 capitals are distributed across the UK, the government has identified 12 medium-term levelling up missions (living standards, research and development, transport, digital connectivity, education, skills, health, well-being, pride in place, housing, crime and local leadership). Institutional investors such as pension funds can contribute to the levelling up missions while also benefitting from such investments. Global investors, including pension funds from Canada and Australia, are already active investors in such projects, but UK institutional investors are under-represented.

61. The government believes that the LGPS should secure the benefits of such investment and can play a key role in building a pipeline of investable UK opportunities without costly deal by deal auctions. With assets of around £364 billion the LGPS has large investable assets, investment expertise in the pools, and local networks. It is well placed to identify investment opportunities and ensure these meet the risk/return profiles demanded by LGPS funds.

62. To help LGPS funds make their plans, the government proposes that an investment would meet the levelling up requirement if

- it makes a measurable contribution to one of the levelling up missions set out in the LUWP; and
- it supports any local area within the United Kingdom.

63. We consider the following existing LGPS investments as examples of investments which would fall within the proposed definition:

- Nottinghamshire Pension Fund invested £1.5 million (https://www.impactinvest.org.uk/case-study/direct-investment-nottinghamshire-community-energy/) in Nottinghamshire Community Energy in 2016 to help construct and manage a solar farm to produce clean energy. The profits help support projects in Nottinghamshire to address climate change mitigation, wildlife conservation, and reducing fuel poverty while delivering a good return on investment.
- Durham County Council Pension fund has committed £18 million (https://www.foresightgroup.eu/private-equity?tab=6) to enable the launch of a new private equity investment fund that supports SMEs across the North East. The fund's purpose is to support economic growth and create high-quality local jobs in the region, while targeting an appropriate rate of return for its investors.
- Greater Manchester Pension Fund has a £50 million (https://www.insidermedia.com/news/north-east/foresight-launches-new-fund-for-smes) Invest 4 Growth portfolio which makes investments that provide a commercial return and have beneficial economic, social, or environmental impacts.The fund also uses its £401 million Impact Portfolio to invest regionally in supported living accommodation, renewable energy, and loans to SMEs.
- South Yorkshire Pension invests around £80 million (https://bdaily.co.uk/articles/2022/12/09/80m-investment-from-south-yorkshire-pensions-

authority-boosts-local-economy) in local development projects and aims to generate commercial return whilst delivering a positive local impact.

64. Funds should ensure that any levelling up investment plan they produce is consistent with their existing overall investment strategy statement and funding strategy statement. We intend to develop guidance working with the Scheme Advisory Board on levelling up investments which meet the requirement announced in the Levelling Up White Paper.

Question 7: Do you agree with the proposed definition of levelling up investments?

Fiduciary duty and investing in levelling up

65. This new requirement would not alter the established fiduciary duty of LGPS funds to make investment decisions in order to pay pensions. Investments that support levelling up may form part of a well-diversified portfolio with a range of risk/return characteristics. As current investment activity across the LGPS underscores, such investments may create attractive risk adjusted returns for pension funds and help deliver economic growth and societal benefits.

66. Under existing environment, social, and governance (ESG) criteria, set out in Guidance on Preparing and Maintaining an Investment Strategy Statement (https://www.gov.uk/government/publications/local-government-pension-scheme-guidance-on-preparing-and-maintaining-an-investment-strategy-statement), funds may also take non-financial considerations into account when making investments, provided that they have good reasons to think the scheme members share the concern for social impact, and there is no risk of significant financial detriment to the fund.

Enabling investment to support levelling up

67. Under these proposals, administering authorities would be expected to evaluate possible levelling up investments and assess their suitability for their fund's investment strategy. There is scope for projects of different scales, risk/return profiles, and geographical concentrations to be considered.

68. Private markets are a principal way through which investments that support levelling up can be made. These markets are particularly important in infrastructure, clean energy and regeneration investing and they are therefore likely to play a role in delivering funds' levelling up investments. This route to investment, however, presents challenges, especially for smaller LGPS funds. The minimum investment may be quite high, and at higher cost than public market investments. Specialist expertise is needed to assess risk and return profiles and source and negotiate opportunities.

69. The LGPS asset pools can offer a route to investing in levelling up through private markets. They can put together an investment of sufficient size with the

participation of their partner funds. Those which are wholly owned companies can also provide investment at lower cost as they are established on a not for profit basis and have developed the expertise and capacity to invest in private markets through intermediaries and in some cases are able to invest directly or to co-invest, which reduces costs.

70. There may also be concerns about local investments. Perceived or potential conflicts of interests may arise between the fund and the administering authority in its wider role as the local authority, if funds invest in inappropriately high-risk projects in the area in which they are located. The LGPS asset pools can assist by ensuring that decisions to invest in a local area can be taken at pool level to avoid any perceived or potential conflict of interest and take advantage of the pool's expertise.

71. Some LGPS asset pools have already created investment vehicles to enable funds to invest in levelling up projects more easily:

- GLIL was established in 2015 by the Greater Manchester Pension Fund and the London Pensions Fund Authority with £500 million in capital commitments. It was expanded in 2016 with the admission of 3 further LGPS funds. GLIL invests in core infrastructure assets predominantly in the UK and focuses on investment opportunities that are backed by physical assets, offer a reliable cash flow, and are isolated from business cycles. It currently has £3.6 billion of committed capital and has deployed £2.1 billion across 13 assets that include offshore windfarms, electric train fleets, and solar farms.
- The London Fund is a collaboration between the Local Pensions Partnership Investments (LPPI) and the London Collective Investment Vehicle (LCIV). The Fund's aim is to invest in the capital, with a focus on developing housing and infrastructure. In making investment decisions, the London Fund is seeking positive contributions to social and environmental issues too. For the fund's partners the London Fund also represents an opportunity to access a greater range of investment opportunities than if they acted alone.
- Brunel Pension Partnership has designed and implemented a portfolio for one of its partner funds, Cornwall Pension Fund, to facilitate local investment in affordable housing and renewable energy in Cornwall. Cornwall Pension Fund made an initial investment of £115 million despite being one of the smaller LGPS funds.

72. The government wishes to see specialist expertise in local investments within pools and their private sector partners continue to evolve, to ensure that funds and the UK as a whole can benefit from investment in levelling up. The scale of the LGPS and a new requirement for the LGPS to set a plan to invest in levelling up should provide an important spur to this development.

73. The government looks to the pools to develop further such solutions in collaboration with their partner funds. This approach will maximise the opportunities to capitalise on administering authorities' local knowledge and asset pools' scale and private market access. Pools may choose to leverage their local networks to work with local partners to develop opportunities and avoid the deal by

deal auctions which can add cost to infrastructure investment. In due course they may also develop the capacity and knowledge to invest in smaller scale local projects which may be too small for private sector intermediaries, and help tackle the capital gap for smaller projects.

74. However, some pools do not currently have internal asset management capacity, or the range of investment vehicles required to meet the needs of their partner funds. To increase the range of options available to funds to deliver investment in levelling up, it may be helpful for funds to invest through their own pool in investment vehicles provided by other pools. The government therefore proposes to set out in guidance that LGPS funds may invest through their pool in another pool's investment vehicle.

Question 8: Do you agree that funds should be able to invest through their own pool in another pool's investment vehicle?

Implementing the requirement to publish plans for increasing local investment

75. The government proposes to amend regulations to require funds to publish a plan on how they will invest up to 5% of their assets under management (AUM) in projects that support levelling up across the UK. The plan may form part of the investment strategy statement. It should take account of the fund's investment and funding strategy statements and be reviewed at least every 3 years in line with the local valuation cycle.

76. It is proposed that the plan should include:

- The fund's current level of investment in levelling up investments
- A plan to increase levelling up investments to deliver an allocation of up to 5% of AUM including the timeline to delivery
- The fund's approach to working with their pool to reach their chosen allocation.

77. Many funds will already have some investments which contribute to levelling up, and in some cases this may exceed 5%. Some funds may wish to increase their investment above 5%. It will be for funds to decide the appropriate level of investment and types of investment.

Question 9: Do you agree with the proposed requirements for the levelling up plan to be published by funds?

78. The government also proposes to require funds to report annually on their progress against their plan in their annual report. This requirement is proposed to provide transparency and accountability on the progress and investments made by funds. The section of the annual report on levelling up would be expected to include:

- The percentage of AUM invested in levelling up projects compared to the fund's plan for that year, the percentage in the previous year, and the ambition set by the fund
- The amount and type of levelling up investments that have been made through the fund's LGPS pool, and outside the pool.
- A narrative account explaining the changes in AUM allocated and the progress against the fund's plan, and the rationale for investing through the pool or outside the pool.

79. The government intends to include guidance on the new requirement and on reporting progress in revised guidance on investment strategy statements and on pooling.

Question 10: Do you agree with the proposed reporting requirements on levelling up investments?

Divestment

80. Many administering authorities are under pressure to divest assets from certain countries or geographical regions, even though the UK government has no sanctions in place against those countries or regions. The government strongly believes that local authority pension funds do not, and should not, have their own foreign policies. The government intends to implement the manifesto commitment to prevent public bodies pursuing boycotts, divestments and sanctions campaigns (BDS) against foreign countries or territories, unless in line with the UK's official foreign policy, through the Foreign Affairs (Economic Activity of Public Bodies) Bill, introduced in June .

Chapter 4: Investment opportunities in private equity

Background

81. The government is launching a package of measures to reform the pensions landscape as part of the government's capital markets strategy, making more capital available to support UK companies and seeking to boost the retirement incomes of UK pension savers. These measures sit alongside legislative and regulatory changes that strengthen the UK's position as a destination for listings, and cement the UK's standing as a global trading hub, attracting world leading companies including tech firms to incorporate, list and grow here. This initiative seeks to support the high-growth, innovative technology companies that often struggle to obtain the scale-up capital they need to reach their potential. British Business Bank (BBB) research suggests that the UK's venture capital financing gap relative to the US is over £5 billion per annum, despite UK funds making similar returns to their US counterparts.

82. The LGPS is largely well funded and has a very long-term time horizon, unlike most private sector defined benefit funds, which are typically closed and much more mature. Investing a higher percentage of LGPS capital into high-growth companies via private equity (particularly venture capital and growth equity), could generate improved returns to pay pensions. This includes but is not limited to innovative UK companies operating in fintech, life sciences, biotech, and green technology sectors.

83. The Scheme Annual Report for 2021-22 indicates the LGPS has a strong investment allocation into private equity of 4.3%, recognising the exact figure will vary across funds and will cover late-stage private equity in addition to venture capital and growth equity. Private reports indicate this is the highest performing asset class across the LGPS.

Ambition of 10% investment allocation in private equity

84. The government wishes to see LGPS funds and pools doubling their current allocation into private equity, with a total ambition of 10% investment allocation, as part of a diversified but ambitious portfolio. This ambition will help drive business investment throughout the country, in a way that allows everyone in the UK to benefit from the growth of our economy, by boosting LGPS investment returns, incentivising companies to grow and list in the UK, and grasping productive opportunities of the future.

85. Each fund will be different and will need to make its own investment decisions based on potential risk and reward appetite. As with any other asset class, it is important for administering authorities to exercise judgement on their exposure to private equity, as with any other asset class, and any investment in these asset classes should be part of a diverse and balanced portfolio.

86. We propose that LGPS funds should complete this consideration of private equity opportunities, including growth equity and venture capital, as part of the regular review of their investment strategy statement, and that the new requirement would be set out in revised guidance on investment strategy statements.

87. As with investments in levelling up, we expect that funds will work with their pool in considering such investments to ensure that they make use of the scale, capacity and expertise of the pool and take advantage of the full range of opportunities in size and type. We welcome views on further opportunities for government to remove any barriers to investment in UK growth equity and venture capital by the LGPS.

Question 11: Do you agree that funds should have an ambition to invest 10% of their funds into private equity as part of a diversified but ambitious investment portfolio? Are there barriers to investment in growth equity and venture capital for the LGPS which could be removed?

British Business Bank

88. The British Business Bank (BBB) is a government-owned economic development bank that makes finance markets for smaller businesses work more effectively, allowing those businesses to prosper, grow and build UK economic activity.

89. One of the BBB's strategic objectives is to back UK innovation by improving the way that equity finance markets work to support the UK's most promising businesses. The BBB has a range of programmes to deliver this objective, including British Patient Capital (https://www.britishpatientcapital.co.uk/) (the BBB's commercial subsidiary with resources of £2.5 billion, which has delivered an internal rate of return of 32.9% since inception and Enterprise Capital Funds programme, which supports earlier stage businesses.

90. In delivering these programmes, the BBB has become the largest domestic investor in UK venture capital with deep expertise to support due diligence and the ability to invest at scale. This could be of benefit to the LGPS in finding attractive opportunities in this space. We support the LGPS, in particular the pools, to explore opportunities to collaborate and capitalise on the Bank's expertise and capabilities in venture capital and growth equity, and will bring forward any changes to secondary legislation which currently inhibit this.

Question 12: Do you agree that LGPS should be supported to collaborate with the British Business Bank and to capitalise on the Bank's expertise?

Chapter 5: Improving the provision of investment consultancy services to the LGPS

Background

91. In 2017 the Financial Conduct Authority (FCA) published its final Asset Management Market Study Report (https://www.fca.org.uk/publication/correspondence/provision-view-uil-mir-investment-consultancy-services.pdf) (PDF, 317 KB). At the same time, the FCA made a reference to the Competition and Markets Authority (CMA) for a market investigation into the supply and acquisition of investment consultancy services and fiduciary management services to and by institutional investors and employers in the UK.

92. The CMA focussed its investigation on pension funds as the core clients for investment consultancy and fiduciary management services, and published its final report (https://assets.publishing.service.gov.uk/media/5c0fee5740f0b60c8d6019a6/ICMI_Final_Re

port.pdf) (PDF, 3.1 MB) in December 2018.This found that for both investment consultancy and fiduciary management services there was a low level of engagement by trustees, a lack of clear and comparable information to assess value for money, and an incumbency advantage for investment consultants in steering clients to their own fiduciary management services.

93. Based on its findings, the CMA made The Investment Consultancy and Fiduciary Management Market Investigation Order 2019 (the Order) (https://assets.publishing.service.gov.uk/media/5cfdfa86e5274a090f9eef8e/Order_investment_consultants.pdf) (PDF, 230 KB) in June 2019 to tackle the adverse effects on competition identified. The Order applies to all registrable pension schemes including the LGPS and came into force on 10 December 2019.

94. The Order was intended as an interim measure to make changes quickly while statutory authorities take steps to implement the remedies in the relevant legislation. DWP has implemented the Order's requirements for private pension scheme trustees through The Occupational Pension Schemes (Governance and Registration) (Amendment) Regulations 2022 (https://www.legislation.gov.uk/uksi/2022/825/note/made).

95. However, LGPS administering authorities fall within the exemption in the Order at Article 3.6 that exempts any pension scheme trustees that are contracting authorities for the purposes of the Public Contracts Regulations 2015. These regulations cover local authorities including administering authorities, which means that administering authorities are exempt from the requirement of the Order to put fiduciary management services out to competitive tender.

96. Further, LGPS pool companies owned by LGPS funds are exempt from the Order under Article 1.7(b) which excludes in house or wholly owned investment consultancy providers and fiduciary management service providers. The exclusion under Article 1.7 of the Order applies to the Order as a whole (see para 15 of the Explanatory Note to the Order). This also puts LGPS pool companies outside the scope of the Order regarding any investment consultancy services they provide.

97. As a result, the only requirement in the Order which requires implementation in the LGPS is the requirement to set strategic objectives for investment consultancy they receive outside the LGPS pool companies. The Order prohibits funds from receiving any investment consultancy services unless they have set strategic objectives for their investment consultancy provider (Art 12). These strategic objectives should also closely relate to the fund's investment strategy and be reviewed at least every 3 years or whenever the investment strategy changes significantly. Further, there is an expectation of regular performance reporting by the investment consultancy provider that measures performance against these strategic objectives (see paragraph 91 of the Explanatory Note to the Order).

Implementing the CMA Order for the LGPS

98. As the responsible authority for the Local Government Pension Scheme, the Department for Levelling Up Housing and Communities (DLUHC) proposes to

amend LGPS regulations and statutory guidance to implement the Order's requirements for the provision of investment consultancy services for the LGPS.

99. Setting strategic objectives for investment consultants is in line with wider ambitions to improve governance and transparency in the LGPS and should encourage administering authorities to better monitor performance and improve the quality and value for money of such services over time.

100. We therefore propose that:

- Where the administering authority uses investment consultancy services in relation to its Investment Strategy Statement or for other matters, it must set strategic objectives for the investment consultancy provider, unless the provider is exempt (such as the LGPS pools);
- Administering authorities must not enter investment consultancy services contracts or continue to receive such services from any provider unless the authority has set strategic objectives for that provider
- Administering authorities must review strategic objectives at least every 3 years or every time the ISS changes substantially
- Strategic objectives must have regard to guidance on setting objectives for providers of investment consultancy services issued by the Pension Regulator in November 2019.

101. Investment consultancy services would include services where the provider advises the administering authority in relation to one or more of the following:

- investments that may be made or retained by or on behalf of the administering authority
- any matters in respect of which the administering authority is required by law to seek advice in relation to the preparation or revision of the investment strategy statement
- strategic asset allocation
- manager selection

102. In line with the definition of investment consultancy services in Article 2.1 of the Order, advice would mean advice on the merits of the administering authority taking or not taking a specific course of action and includes any recommendation or guidance to that effect. It is not intended that the term would cover the high-level commentary provided by actuaries in or in respect of triennial valuation reports and with regard to the link between investment approach and the administering authority's funding objectives.

103. The government proposes to implement these requirements by amending The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the 2016 Regulations) (https://www.legislation.gov.uk/uksi/2016/946/contents/made) and associated guidance (https://www.gov.uk/government/publications/local-government-pension-scheme-guidance-on-preparing-and-maintaining-an-investment-strategy-statement).

Question 13: Do you agree with the proposed implementation of the Order through amendments to the 2016 Regulations and guidance?

Chapter 6: Updating the LGPS definition of investments

104. In making the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (S.I. 2016/946 (https://www.legislation.gov.uk/uksi/2016/946/contents/made)) (the 2016 Regulations), the Government intended to ensure that the definition of investments which were or could be made by LGPS administering authorities included passive insurance contracts, private equity and derivatives.

105. After laying the 2016 Regulations, the Joint Committee on Statutory Instruments (JCSI) identified an issue relating to the drafting of regulation 3(1)(b) and regulation (4) of the 2016 Regulations. Regulation 3(1)(b) was intended to include contributions in an unquoted securities investment partnership within the definition of investment but reads as follows:

> Reg 3(1)(b) a contribution to a limited partnership in an unquoted securities investment

106. Regulation 3(4) defines unquoted securities investment partnerships as a partnership for investing in securities which are normally not quoted on a recognised stock exchange when the partnership buys them.

107. The Department undertook to amend regulation 3(1)(b) of the 2016 Regulations to align it with regulation 3(4) at the earliest available opportunity. We therefore propose to add the word 'partnership' to regulation 3(1)b as follows:

> Reg 3(1)(b) a contribution to a limited partnership in an unquoted securities investment partnership

108. The proposed amendment to regulation 3(1)b would ensure consistency with the language used in regulation 4, where unquoted securities investment partnerships are defined. The proposed amendment should also eliminate any ambiguity in regard to regulation 3(1)b.

Question 14: Do you agree with the proposed amendment to the definition of investments?

Chapter 7: Public sector equality duty

109. The Department's policies, guidance and procedures aim to ensure that the equalities impact of any decisions, new policies or policy changes upon groups with protected characteristics is properly considered, and that in formulating them the Department has had due regard to its obligations under the Public Sector Equality Duty at s.149(1) of the Equality Act 2010.

110. We have made an initial assessment and we believe our proposals on reforms to pooling, investment in levelling up, investment in venture capital, requirements on the use of investment consultants and changes to the definition of investment in chapters 2 to 6 do not affect any particular groups with protected characteristics adversely, as there will be no change to member contributions or benefits as a result. There may be an indirect benefit to protected groups who live in deprived areas which benefit from levelling up investments.

Question 15: Do you consider that there are any particular groups with protected characteristics who would either benefit or be disadvantaged by any of the proposals? If so please provide relevant data or evidence.

Annex A: List of consultation proposals

Pooling

To revise ISS guidance to include requirements to transfer listed assets to the pool by 31 March 2025, and to set out in the ISS:

- assets which are pooled, under pool management and not pooled, and
- to provide a rationale, value for money and date for review for assets which are under pool management or not pooled

To revise pooling guidance so as to set out fully how funds and pools should interact and promote a model of pooling which includes the characteristics described above including on delegation of manager selection, strategy implementation, advice, governance, transition of assets, new investments outside the pool and reporting.

To implement a requirement in guidance for administering authorities to have a training policy for pensions committee members and to report against the policy

To revise guidance on annual reports to require greater clarity on progress of pooling including a summary asset allocation (including investment in infrastructure and levelling up), a comparison between actual and strategic asset allocation, and a report of the net savings from pooling. We also seek views on whether there should be an additional requirement for funds to report net returns for each asset class against a consistent benchmark, and if so how this requirement should operate

For the Scheme Advisory Board to expand their Scheme Annual Report to provide a report on the progress on pooling and on asset allocation across the LGPS.

To make changes to LGPS official statistics to provide greater transparency on asset allocation and the proportion of assets which have been pooled.

Investment in levelling up

To amend regulations to require funds to set a plan to invest up to 5% of assets in levelling up the UK, and to report annually on progress against the plan.

Investment in private equity

To revise ISS guidance to require funds to consider such investments to meet the government's ambition of a 10% allocation to private equity in the LGPS.

Investment consultancy services

To amend regulations to set requirements funds with respect to investment consultants in line with the CMA order.

Definition of investment

To amend investment regulations to correct an inconsistency in the definition of investment.

Annex B List of consultation questions

Chapter 2: Asset pooling in the LGPS

Question 1: Do you consider that there are alternative approaches, opportunities or barriers within LGPS administering authorities' or investment pools' structures that should be considered to support the delivery of excellent value for money and outstanding net performance?

Question 2: Do you agree with the proposal to set a deadline in guidance requiring administering authorities to transition listed assets to their LGPS pool by March 2025?

Question 3: Should government revise guidance so as to set out fully how funds and pools should interact, and promote a model of pooling which includes the characteristics described above?

Question 4: Should guidance include a requirement for administering authorities to have a training policy for pensions committee members and to report against the policy?

Question 5: Do you agree with the proposals regarding reporting? Should there be an additional requirement for funds to report net returns for each asset class against a consistent benchmark, and if so how should this requirement operate?

Question 6: Do you agree with the proposals for the Scheme Annual Report?

Chapter 3: LGPS investments and levelling up

Question 7: Do you agree with the proposed definition of levelling up investments?

Question 8: Do you agree that funds should be able to invest through their own pool in another pool's investment vehicle?

Question 9: Do you agree with the proposed requirements for the levelling up plan to be published by funds?

Question 10: Do you agree with the proposed reporting requirements on levelling up investments?

Chapter 4: Investment opportunities in private equity

Question 11: Do you agree that funds should have an ambition to invest 10% of their funds into private equity as part of a diversified but ambitious investment portfolio? Are there barriers to investment in growth equity and venture capital for the LGPS which could be removed?

Question 12: Do you agree that LGPS should be supported to collaborate with the British Business Bank and to capitalise on the Bank's expertise?

Chapter 5: Improving the provision of investment consultancy services to the LGPS

Question 13: Do you agree with the proposed implementation of the Order through amendments to the 2016 Regulations and guidance?

Chapter 6: Updating the LGPS definition of investments

Question 14: Do you have any comments on the proposed amendment to the definition of investments?

Chapter 7: Public sector equality duty

Question 15: Do you consider that there are any particular groups with protected characteristics who would either benefit or be disadvantaged by any of the proposals? If so please provide relevant data or evidence.

About this consultation

This consultation document and consultation process have been planned to adhere to the consultation principles (https://www.gov.uk/government/publications/consultation-principles-guidance) 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 (https://ico.org.uk/for-organisations/guide-to-data-protection/guide-to-the-general-data-protection-regulation-gdpr/lawful-basis-for-processing/special-category-data/#scd1) 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

DLUHC may appoint a 'data processor', acting on behalf of the Department and under our instruction, to help analyse the responses to this consultation. Where we do we will ensure that the processing of your personal data remains in strict accordance with the requirements of the data protection legislation.

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 2 years from the closure of the consultation, unless we identify that its continued retention is unnecessary before that point.

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.

We use a third-party system, Citizen Space, to collect consultation responses. In the first instance your personal data will be stored on their secure UK-based server. Your personal data will be transferred to our secure government IT system as soon as possible, and it will be stored there for 2 years before it is deleted.

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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