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PUBLIC

To: Members of Pensions and Investments Committee

Tuesday, 28 November 2023

Dear Councillor,

Please attend a meeting of the **Pensions and Investments Committee** to be held at **10.30 am** on **Wednesday, 6 December 2023** in the Council Chamber, County Hall, Matlock, the agenda for which is set out below.

Yours faithfully,

Helen E. Barrington

Helen Barrington
Director of Legal and Democratic Services

A G E N D A

PART I - NON-EXEMPT ITEMS

1. Apologies for Absence

2. To receive declarations of interest (if any)

3. Minutes (Pages 1 - 6)

   To confirm the non-exempt minutes of the meeting of the Pensions and Investments Committee held on 25 October 2023

4. Investment Report (Pages 7 - 68)

5. Stewardship Report (Pages 69 - 148)

6. Strategic Asset Allocation Benchmark and Investment Strategy Statement (Pages 149 - 176)

7. Responsible Investment Framework and Climate Strategy (Pages 177 - 210)

8. Review of the Administering Authority Discretions Policy (Pages 211 - 238)

9. Derbyshire Pension Fund Communications Policy (Pages 239 - 258)

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MINUTES of a meeting of **PENSIONS AND INVESTMENTS COMMITTEE** held on Wednesday, 25 October 2023 at Council Chamber, County Hall, Matlock.

PRESENT

Councillor D Wilson (in the Chair)

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

Also in attendance was D Kinley, M Fairman, A Nelson, and N Smith.

Apologies for absence were submitted for N Read.

49/23 TO RECEIVE DECLARATIONS OF INTEREST (IF ANY)

There were no declarations of interest.

50/23 MINUTES

The minutes of the meeting held on 06 September 2023 were confirmed as a correct record.

51/23 PUBLIC QUESTIONS

1) The following question had been received from a member of the public, Sue Owen on behalf of Derbyshire Pensioners Action Group:

"We note that you will be reviewing the targets for the Climate Related Disclosures Report this year.

Will you be revising your targets for reducing the carbon footprint of the Fund's listed equity portfolio, in the light of the increasingly urgent voices from the IPCC and the United Nations that the world must cut the use of fossil fuels in order to avoid climate catastrophe, for example in the new Global Stocktake Report from the UN

https://www.theguardian.com/environment/2023/sep/08/un-report-calls-for-phasing-out-of-fossil-fuels-as-paris-climate-goals-being-missed

and

will you undertake to inform all pension holders of your position on whether the fund can reasonably fulfil obligations to its beneficiaries if the world remains on track for warming beyond 2 degrees?"

3) The following question had been received from a member of the public, Joanna Collins:

Answers to questions to the Pensions Committee on 18 January state the Committee "proactively manages climate-related risks and opportunities". However, the percentage of its equity portfolio invested in "clean technologies" is less than the benchmark, while only 5% of its UK conventional gilt portfolio is in green bonds. This suggests the Committee is not committed to green and ethical investment.

Research* states financial repercussions from the collapse in value of fossil fuel assets could eclipse those of the banking crisis. Investment in fossil fuels could constitute neglect of the Pensions Committee's fiduciary responsibilities.

Will Council members put pressure on the Pension Fund to work proactively with advisers to find safer, environmentally sound investment, for example, by issuing a "Request for proposals" from clean energy fund providers?

*Banking on Bailouts: Sizing the social costs when the fossil fuel bubble bursts", One for One, January 2023.

4) The following question had been received from a member of the public, Michael Pomerantz:

"In reading your Climate-Related Financial Disclosures (TCFD) Report on your website I note the following*:

* Source: https://www.derbyshirepensionfund.org.uk/about-the-fund/latest-news/news-items/2023-climate-related-financial-disclosures-report-published.aspx

British Gas now reports that it sources its 48% of its electricity from renewables. Only 2% of its electricity comes from coal and 20% comes from natural gas. Other energy suppliers do even better to help reduce global warming.

Does your committee have any plans to further increase our low carbon and sustainable investments in the light of improvements seen elsewhere and the fact that the UK is facing a £62billion clean energy investment shortfall?"

Source:
https://www.edie.net/uk-faces-62bn-clean-energy-investment-shortfall-ministers-warned/

The Chairman gave a combined response to Questions 1, 3 & 4:

The Fund's climate related targets are currently under review and will be discussed at December's Pensions and Investments Committee meeting as part of the consideration of an updated Climate Strategy. As previously noted, the targets are expected to increase in line with the Fund's stated ambition of achieving a portfolio of assets with net zero carbon emissions by 2050.

With respect to investments in green bonds, the UK's Debt Management Office has, to date, issued two conventional green bonds which account for around 2.3% of total conventional issuance, in respect of the sixty one conventional bonds in issue. However, the Pension Fund has almost 9% of its UK conventional sovereign bond portfolio invested in green bonds, in a portfolio necessarily diversified across a range of yields and maturities.

In addition, almost 39% of the Pension Fund's listed equities relate to companies classified as 'clean technology' businesses, only fractionally below the benchmark weight, and an increase of almost 30% over the last three years. The Fund also has sizeable clean energy investments across multiple asset classes, including technology, healthcare and business services investments within the private equity portfolio, and over £270m of green energy commitments within the infrastructure portfolio.

It is worth noting that there is a moderate positive correlation between the sectors that have the highest carbon intensity and those that have the highest weight in clean technology. For example, the utilities and gas sectors are some of the sectors with the highest weight in clean technology by market capitalisation due to significant investment into green technology as part of their wider business activities. This correlation means that it can be difficult to achieve a diversified portfolio which is both underweight carbon intensity and fossil fuel reserves, and overweight clean technology at the same time.

Progress continues to be made in decarbonising the Fund's diversified portfolio of assets as part of an investment strategy that aims to maximise returns within acceptable levels of risk. The Pension Fund's investment and funding strategies together aim to ensure that over the long term the Fund will be able to meet all benefit payments when they fall due. Sensitivity analysis on a range of different climate scenarios is carried out every two to three years on the investment strategy, and triennially on the funding strategy as part of the actuarial valuation. This analysis is reported in the Fund's annual Climate-related Financial Disclosures report.

2) The following question had been received from a member of the public, Laura Stevens on behalf of Divest Derbyshire:

Divest Derbyshire, of which I am a member, has been speaking with the Pension Committee since 2018 about wider communication, with many promises of creating a forum. Investment details should be accessible to all. My father is 91 and receives a pension from Norfolk County Council. He is not online nor does he have a mobile phone. I know people here in that boat; elderly friends not online. My father however, receives this impressive 20-page booklet quarterly from his Council pension board. It is packed with useful information with summary accounts published annually. Might it be discriminatory not to enable access to pension investment information to your older members? Could Derbyshire maybe make something like this work? I understand there was once a leaflet published but it was deemed too expensive. I would be happy to contribute to the cost of such information from my pension funds? Maybe others too?

The Chairman responded as follows:

The Fund aims to balance the objective of delivering clear, timely and accessible communications to its stakeholders with the objective of ensuring that communications are cost effective.

The development of My Pension Online, the member self service system, has greatly increased the Fund's ability to communicate with its active and deferred members and the system will be rolled out to pensioner members in due course.

The Pension Fund's website also contains a wide breath of information on the Fund's activities, with content and accessibility being developed on a continuous basis.

Paper copies of all Fund documents, including the Pension Fund's Annual Report are available on request.

Important messages for pensioner members are provided with pension payslips which are issued by post usually three times each year, a recent example being a warning about potential pension-related scams.
The Pension Fund is continually reviewing its communications and engagement with members, and where it has significant information to share, all channels of communication are considered, including the option of sending information by post.

52/23 <u>DERBYSHIRE PENSION FUND 2022-23 ANNUAL REPORT</u>

The Committee were provided with a report, seeking approval for the Director of Finance & ICT, in conjunction with the Chair of the Committee, to approve the publication of Derbyshire Pension Fund's Annual Report for 2022-23.

In accordance with the Local Government Pension Scheme Regulations 2013, the Administering Authority must prepare and publish an Annual Report for the Fund on or before 1 December following the year end.

In line with CIPFA guidance, it was the Fund's standard practice to present a copy of the Fund's Annual Report to Committee and seek approval to publish it on the Fund's website. This had not been possible for the last two years due to a stretched timetable for the completion of the external audit. The Fund's Annual Report for 2021-22 remained a draft publication as the external audit for 2021-22 was yet to be concluded.

The Fund's Statement of Accounts (2022-23) remained ongoing and was unlikely to be complete by 1 December 2023. Approval was, therefore, sought for the Director of Finance & ICT, in conjunction with the Chair of Committee, to approve the publication of the Pension Fund's 2022-23 Annual Report on the Fund's website at the first available opportunity after the receipt of the external auditor's opinion on the Fund's Statement of Accounts.

RESOLVED to

1) Approve the publication of the Pension Fund's Annual Report for 2022-23 on the Fund's website at the first available opportunity after receipt of the external auditor's opinion on the Fund's Statement of Accounts; and

2) Approve the publication of a draft version of the Pension Fund's 2022-23 Annual Report on the Fund's website at an earlier date, if appropriate.

53/23 HALF-YEAR PENSION ADMINISTRATION PERFORMANCE REPORT 1 APRIL 2023 TO 30 SEPTEMBER 2023

The Committee were provided with a report, outlining the pension administration activity undertaken by the Pension Administration Team of Derbyshire Pension Fund, and the performance levels achieved, in the first half of 2023/2024.

The report related to the first half of 2023/2024 covering the period 1 April 2023 to 30 September 2023 and provided a summary of the Fund's performance in key areas of pension administration activity.

RESOLVED to

1) Note the workloads and performance levels outlined in the report.

54/23 DERBYSHIRE PENSION FUND RISK REGISTER

The Committee were provided with a report, outlining the Derbyshire Pension Fund Risk Register.

The Risk Register was kept under constant review by the risk owners, with a quarterly review by the Director of Finance & ICT. Derbyshire Pension Board also undertake a detailed review of the Risk Register on an annual basis. Changes from the Committee's last consideration of the Risk Register were highlighted in the Summary and Main Risk Registers, which were attached to the report as Appendix 2 and Appendix 3 respectively.

RESOLVED to

1) Note the risk items identified in the Risk Register.

FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

PENSIONS AND INVESTMENTS COMMITTEE

WEDNESDAY, 6 DECEMBER 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, and 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 October 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 and Multi-Asset Credit and currently total around £270m. 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
		31/7/23	31/10/23		AF 6/12/23	DPF 6/12/23	AF 6/12/23	DPF 6/12/23	DPF 6/12/23	3 Months to 30/9/23	3 Months to 31/10/23
Growth Assets	**55.0%**	**56.4%**	**55.0%**	**+/- 8%**	**(1.0%)**	**(0.4%)**	**54.0%**	**54.7%**	**56.4%**	**n/a**	**n/a**
UK Equities	12.0%	12.5%	12.1%	+/- 4%	+1.0%	+0.1%	13.0%	12.1%	12.1%	1.9%	(4.8%)
Global Equities:	39.0%	38.9%	37.7%	+/- 8%	(2.0%)	(1.8%)	37.0%	37.3%	37.3%	n/a	n/a
Japan	5.0%	5.5%	5.3%	+/- 2%	-	-	5.0%	5.0%	5.0%	3.1%	(2.9%)
Emerging Markets	5.0%	5.5%	5.1%	+/- 2%	-	-	5.0%	5.0%	5.0%	2.6%	(5.4%)
Global Sustainable	29.0%	27.9%	27.2%	+/- 8%	(2.0%)	(1.8%)	27.0%	27.3%	27.3%	0.7%	(3.6%)
Private Equity	4.0%	5.0%	5.3%	+/- 2%	-	+1.3%	4.0%	5.3%	7.0%	0.9%	(3.4%)
Income Assets	**25.0%**	**25.8%**	**26.5%**	**+/- 6%**	**+2.0%**	**+1.2%**	**27.0%**	**26.2%**	**29.0%**	**n/a**	**n/a**
Multi-Asset Credit	6.0%	7.4%	7.7%	+/- 2%	+2.0%	+1.7%	8.0%	7.7%	8.9%	2.2%	0.8%
Infrastructure	10.0%	10.7%	11.0%	+/- 3%	-	+1.0%	10.0%	11.0%	12.7%	1.8%	1.8%
Direct Property (3)	6.0%	5.5%	5.6%	+/- 2%	-	(0.4%)	6.0%	5.6%	5.6%	(0.7%)	(0.7%) (2)
Indirect Property (3)	3.0%	2.2%	2.2%	+/- 2%	-	(1.1%)	3.0%	1.9%	1.9%	(0.7%)	(0.7%) (2)
Protection Assets	**18.0%**	**14.6%**	**15.7%**	**+/- 5%**	**(1.0%)**	**(1.6%)**	**17.0%**	**16.4%**	**16.4%**	**n/a**	**n/a**
Conventional Bonds	6.0%	4.5%	5.0%	+/- 2%	(1.0%)	(0.8%)	5.0%	5.2%	5.2%	(0.6%)	(1.7%)
Index-Linked Bonds	6.0%	4.5%	5.0%	+/- 2%	-	(0.8%)	6.0%	5.2%	5.2%	(4.7%)	(5.5%)
Corporate Bonds	6.0%	5.6%	5.7%	+/- 2%	-	-	6.0%	6.0%	6.0%	0.2%	(1.9%)
Cash	**2.0%**	**3.2%**	**2.8%**	**0 – 8%**	**-**	**+0.7%**	**2.0%**	**2.7%**	**(1.9%)**	**1.3%**	**1.2%**

Investment Assets totaled **£5,833.7m** at 31 Oct-23
(1) Adjusted for investment commitments at 31 Oct-23. Presumes all commitments funded from Cash.
(2) Benchmark Return for the three months to 30 Sept-23.
(3) The maximum permitted range in respect of Property is +/- 3%.

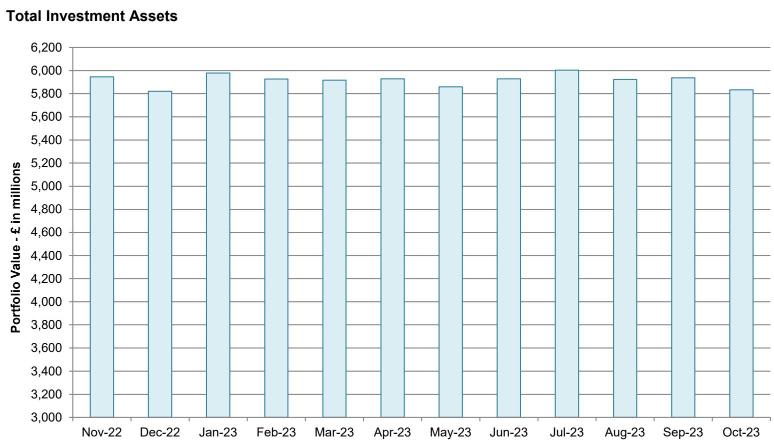
The table above reflects the following three categorisations:

- **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 October 2023, was neutral Growth Assets, overweight Income Assets (1.5%) and Cash (0.8%) and underweight Protection Assets (-2.4%). 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 -1.9%. 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

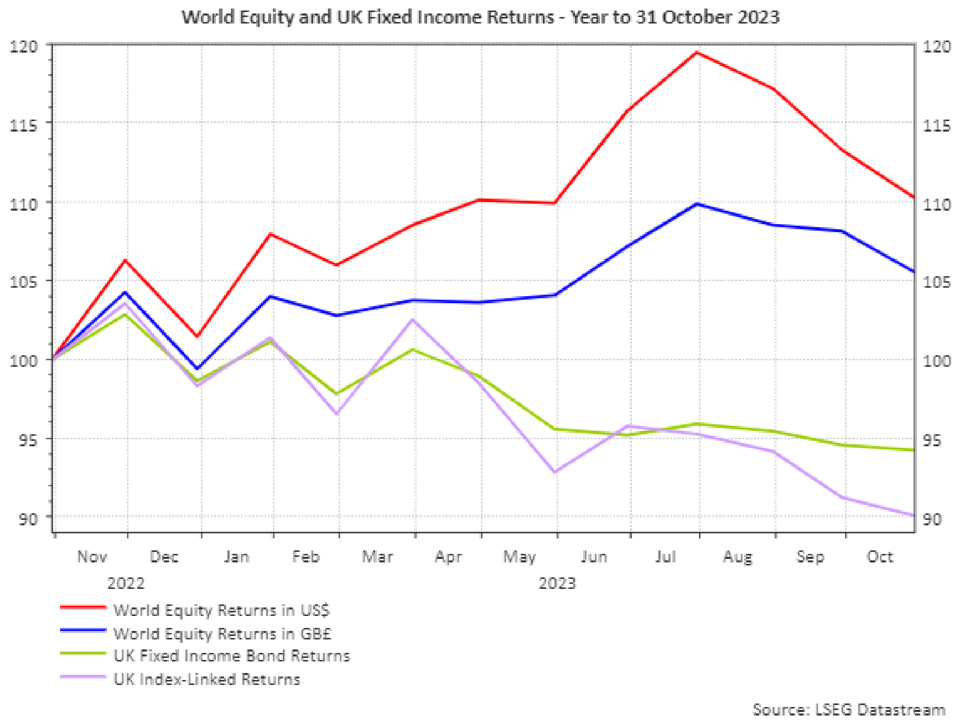
The value of the Fund's investment assets fell by £170m (-2.8%) between 31 July 2023 and 31 October 2023 to £5,833.7m, comprising a non-cash market loss of around £185m, partly offset by a cash inflow from dealing with members and investment returns of around £15m. Over the twelve months to 31 October 2023, the value of the Fund's investment assets increased by £85m (+1.5%), comprising cash inflows from dealing with members & investment income of around £60m and a non-cash market gain of around £25m.



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 October 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 31 October 2023.



Global Equities (as measured by the FTSE All World) delivered a positive return of 11.2% in US dollar terms over the 12-month period ending 31 October 2023.

In sterling terms, the return from Global Equities was lower at 5.5% because sterling appreciated against the US dollar from 1.147 to 1.215. In contrast, the returns from the bond markets have been negative over the comparable period. Bond values move inversely to interest rates, so capital values have declined as the major central banks have raised policy rates during the period in a continued effort to tackle persistent inflation. As a result, UK Conventional Gilts decreased in value by 5.8% over the same period, whereas UK Index-Linked Bonds fell in value by 9.9%.

Over the last 18 months, the US Federal Reserve (US Fed) has consistently cautioned that persistent inflation could require interest rates to be held at elevated levels for some time to tame price pressures. However, up until September 2023, markets had generally been dismissive of these warnings as there was an assumption that higher policy rates would quickly feed through into the economy, reducing demand and consumption. In this scenario, it was expected that the upward pressure on prices would be alleviated without significantly affecting economic growth, leading to a sharp decline in inflation which would then afford the Central Banks sufficient headroom to quickly cut interest rates. The expectation of lower future interest rates supported global equity markets, which had climbed 15% in dollar terms in the year-to-date (YTD) period between January and August 2023.

However, the September meeting of the US Fed's Federal Open Market Committee (FOMC) cast doubt on those expectations, when Jerome Powell (US Fed Chair) firmly reiterated his commitment to keeping interest rates higher for longer and reinforced his comments with hawkish projections for the path of future interest rates. Although Powell conceded that US inflation had initially fallen quite rapidly from its peak in June 2022, he warned that core inflation (which strips out volatile items such as food and energy) had been declining at a much slower rate and it had been stubbornly and persistently running above 4% in 2023, more than double the target of 2%.

Furthermore, the US Fed's median projections of US GDP growth for 2023 had increased by more than a full percentage point (ppt) since June to 2.1%, while growth for 2024 had also been revised upwards by 0.4 ppts. Unemployment was also forecasted to be lower than expected, declining by 0.3ppts in 2023 and 0.4 ppts in 2024, indicating further tightness in the labour market at a time when the unemployment rate hovers near a 50-year low.

Powell's message to markets was that persistent core inflation, coupled with strong economic growth and a hot labour market, risked derailing its efforts to tame price rises and it could lead to a situation where inflation becomes resurgent. Consequently, the US Fed's projection of future interest rates differed quite considerably from investors' previous expectations. Whereas the market had been pricing in a full percentage point of cuts in 2024, the US Fed's projection showed no more than 50 basis point of cuts, with more significant rate reductions delayed until 2025.

In response, the US Treasury yield curve (which has been inverted[1] since July 2022) almost entirely dis-inverted over September and October as long-term yields increased relative to short term yields, suggesting that investors had heeded the US Fed's warnings and were, at that time, more accepting of the *'higher for longer'* narrative.

[1] Under normal circumstances, a bond yield curve is expected to be upward sloping, which means that bonds with longer maturities offer higher returns to investors as compensation for locking money away for a longer period of time. When the yield curve inverts, shorter maturity bonds offer higher returns than longer maturity bonds. This indicates that the market believes that future interest rates will revert to lower levels.

The rise in long term bond yields quickly flowed through into equity markets. In dollar terms, the FTSE All World declined by 6.9% between 31 August and 31 October 2023, reducing the year to date (YTD) return from 15.0% to 7.1%. The more growth oriented and interest rate sensitive ‘Magnificent Seven’[2] group of stocks declined by almost 10% over the same period, having previously risen almost 100% in the YTD period to 31 August 2023.

Subsequently, equity and bond markets have rallied quite strongly, with the FTSE All World Index up 5% in sterling terms and Conventional Gilts up more than 4% to mid-November. The rally was initially triggered by softer rhetoric from Jerome Powell following the late October/early November FOMC meeting which the market interpreted as the Fed having reached a peak in its interest rate cycle. This interpretation was then strengthened by weaker US employment and inflation data; US inflation fell from 3.7% in September to 3.2% in October, fractionally below the consensus expectation and the first decline in four months.

In the UK, headline inflation has declined substantially from its October 2022 peak of 11.1% to 4.6% in October 2023, largely due to falls in utilities, fuel and food inflation. However, core inflation has proved to be stickier, falling from a peak of 7.1% in March 2023 to 5.7% in October 2023, with a tight labour market and strong wage growth putting pressure on service sector pricing.

The Bank of England’s (BOE) Monetary Policy Committee left interest rates at their 15-year high of 5.25% for the second time in a row in November, emphasising again the need to keep policy sufficiently restrictive for a sufficient period of time.

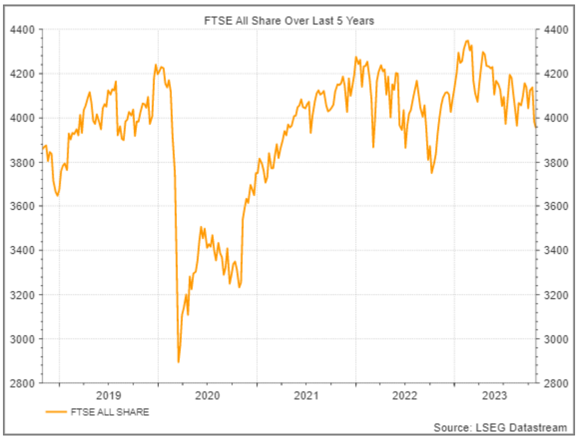
The BOE is facing an increasingly difficult challenge to tame inflation without tipping the UK economy into a recession, against a background of weak GDP growth, rising levels of corporate insolvencies, and depleted levels of consumer savings.

Furthermore, given the significant time delay[3] between an increase in policy rates and its actual impact on the economy, the full consequences of around 500 basis points of tightening in both the US and the UK are yet to fully materialise.

[2] Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, Tesla
[3] The Bank of England expects it to take 18 to 24 months for an increase in interest rates to have its peak effect on economic activity and inflation. Source: Bank of England. Expectations, lags and the transmission of monetary policy (Feb-23). Bank of England. Lags, trade-offs and the challenges facing monetary policy (Dec-21)

The IIMT continues to maintain a relatively cautious stance against a backdrop of sticky core inflation, high interest rates, tight financial conditions and elevated equity markets. The new *'higher for longer'* interest rate regimes, currently in place to combat inflation, risk tipping economies into recession as consumers and corporates struggle to adapt to a prolonged period of high borrowing costs.

Asset class weightings and recommendations are based on values on 31 October 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

The Fund's externally measured 1-, 3-, 5- and 10-year performance returns to 30 September 2023 are not available as the Fund's external investment performance measurement provider, Portfolio Evaluation Limited, ceased trading in September 2023. Whilst the Fund has appointed a new external provider, Northern Trust, and the transition of historic performance data is ongoing, this has yet to be completed and the Fund does not expect to receive a Q3-23 performance report until January 2024. An internal estimate of the one-year performance to 30 September 2023, indicates that the Fund returned 4.7% versus a benchmark return of 5.6%. The table below sets out the Fund's externally measured performance over 1, 3, 5 & 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%

2.6 Category Recommendations

	Benchmark	Fund Allocation	Permitted Range	Recommendation		Benchmark Relative Recommendation	
		31 Oct-23		AF	DPF	AF	DPF
Growth Assets	55.0%	55.0%	± 8%	54.0%	54.7%	(1.0%)	(0.3%)
Income Assets	25.0%	26.5%	± 6%	27.0%	26.2%	+2.0%	+1.2%
Protection Assets	18.0%	15.7%	± 5%	17.0%	16.4%	(1.0%)	(1.6%)
Cash	2.0%	2.8%	0 – 8%	2.0%	2.7%	-	+0.7%

At an overall level, the Fund was overweight Income Assets and Cash on 31 October 2023, in line Growth Assets and underweight Protection Assets. As highlighted on page 2, commitments on 31 October 2023 totalled around £270m, potentially increasing Growth Assets by 1.7% 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 0.3% to 54.7% (0.3% underweight) (Japanese Equities –0.3%; Emerging Market Equities -0.1%; and Global Sustainable Equities +0.1%), reduce Income Assets by 0.3% to 26.2% (Indirect Property -0.3%); increase Protection Assets by 0.7% (Conventional Bonds +0.2%; Index-Linked Bonds +0.2% and Corporate Bonds +0.3%), and reduce Cash by 0.1%.

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

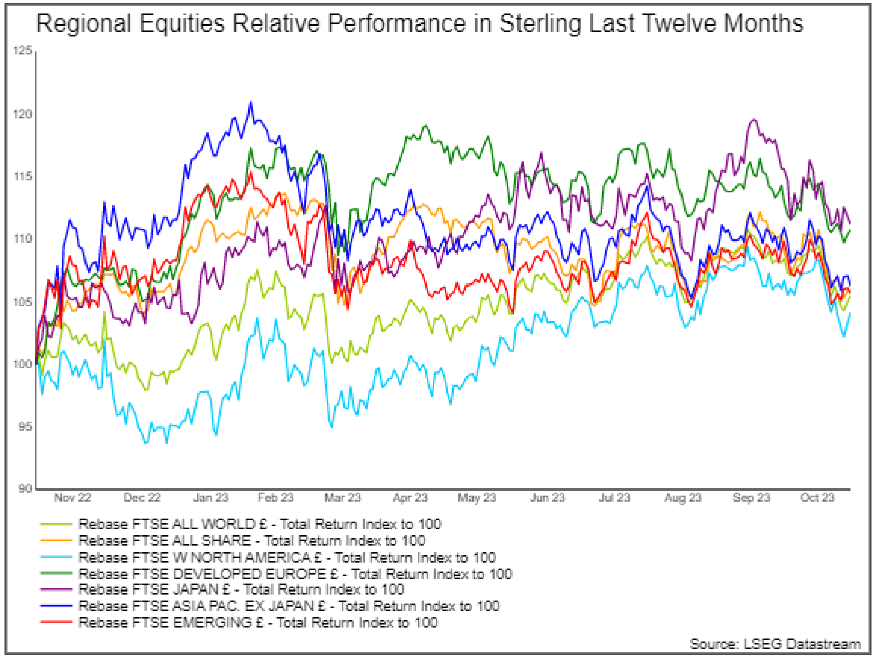
2.7 Growth Assets

On 31 October 2023, the overall Growth Asset weighting was 55.0%, down from 56.4% on 31 July 2023, reflecting net divestment of £30m and relative market weakness.

The IIMT recommendations in this report reduce the weighting to 54.7%, albeit flexibility will be required in response to changing economic and market conditions. Excluding highly illiquid Private Equity (5.3% on 31 October 2023), the recommended listed equity weight is 49.4%, 1.6% underweight.

Mr Fletcher continues to recommend an overall 1.0% underweight allocation of 54.0% to Growth Assets. Mr Fletcher notes that he remains cautious on equity markets, particularly in the US as it is the only major equity market to currently trade at a premium to its long term valuation average. This is primarily due to the YTD performance of Technology stocks, which have rallied significantly.

The IIMT recommends maintaining a relatively cautious stance to Growth Assets. Notwithstanding the recent softening in the guidance from the US Fed, the *'higher for longer'* interest rate policy remains in play and is fundamentally designed to cool economic activity to reduce inflation back towards its 2% target. Markets with attractive valuations relative to historic norms are favoured. Should corporate earnings deteriorate, the companies trading at expensive valuations would be the most vulnerable to repricing and valuation de-ratings.

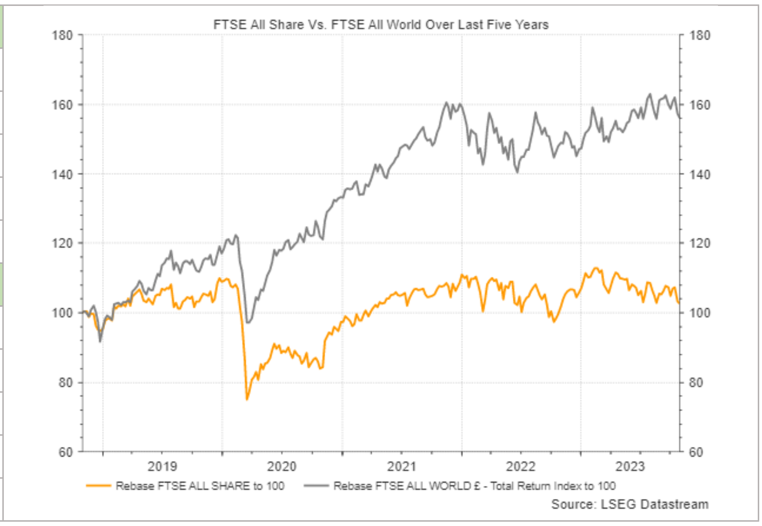


Benchmark Return	Currency	Q3-23 (*)	Q3-23	1 Year (**)	3 Year (**)	5 Year (**)	Since Last Committee (*)	L3M 31-Oct-23	YTD 31-Oct-23	1 Year 31-Oct-23
Sterling Returns										
FTSE All World	GB£	(2.4%)	0.9%	11.2%	9.5%	8.4%	(3.3%)	(3.9%)	6.2%	5.5%
FTSE UK	GB£	(4.1%)	1.9%	13.9%	11.8%	3.7%	(2.1%)	(4.8%)	0.3%	5.9%
FTSE Japan	GB£	(3.9%)	3.1%	15.0%	5.1%	3.6%	(4.8%)	(2.9%)	5.4%	11.2%
FTSE Emerging Markets	GB£	(3.2%)	2.6%	1.6%	2.0%	3.5%	(3.2%)	(5.4%)	(2.4%)	5.7%
Local Currency Returns										
FTSE All World	US$	(3.0%)	(3.2%)	21.6%	7.5%	7.0%	(6.1%)	(9.4%)	7.1%	11.2%
FTSE UK	GB£	(4.1%)	1.9%	13.9%	11.8%	3.7%	(2.1%)	(4.8%)	0.3%	5.9%
FTSE Japan	¥	(3.1%)	2.2%	29.7%	15.7%	8.0%	(5.1%)	(2.4%)	22.0%	19.4%
FTSE Emerging Markets	US$	(3.8%)	(1.5%)	11.1%	0.0%	2.2%	(5.9%)	(10.8%)	(1.6%)	11.4%

Source: Performance Evaluation Limited & DPF analysis
(*) To 31 Oct-23
(**) To 30 Sept-23

2.8 United Kingdom Equities

DPF Weightings	
Neutral	12.0%
Actual 31.10.23	12.1%
AF Recommendation	13.0%
IIMT Recommendation	12.1%
Benchmark Returns (GB£)	
Oct-23	(4.1%)
Q3 23/24	1.9%
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 12.5% on 31 July 2023 to 12.1% on 31 October 2023 (0.1% overweight), reflecting net divestment of £10m and relative market weakness.

Mr Fletcher has maintained his UK Equities' recommended weight of 13.0%, 1.0% overweight, reflecting his assessment of the relative attractiveness of equity valuations in the UK compared to global equity valuations.

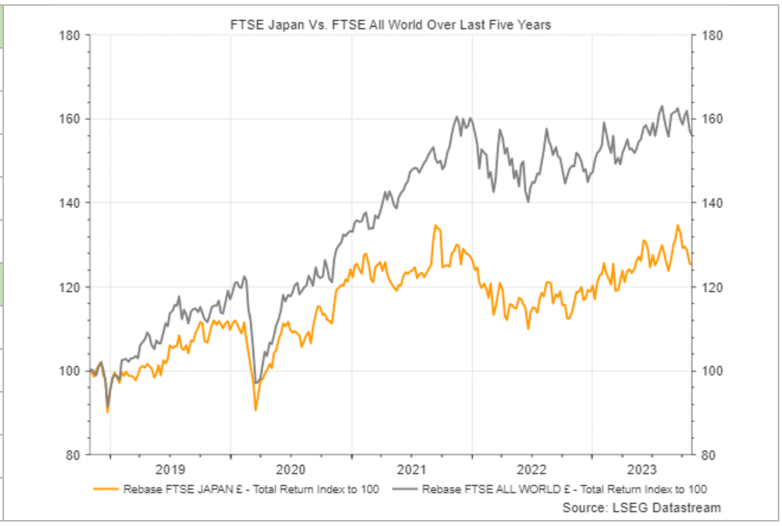
UK Equities offered strong defensive protection as interest rates rose during 2022 due to the exposure of the UK Index to sectors with a value bias and lower interest rate sensitivity such as Energy and Financials. This resulted in relative outperformance of 8.5% in sterling terms in 2022 against the more Technology focussed US S&P 500 index, which has a growth bias with much greater interest rate sensitivity. However, YTD to 31 October almost all of that relative outperformance has been reversed as Technology stocks have been by the far the strongest performing sector, led by the *'Magnificent 7'* group of stocks which have returned almost 80% in sterling against a return of 5.5% for the global index.

The IIMT recommends that the Fund's allocation to UK Equities is maintained at 12.1% (i.e. close to neutral) while Committee considers a potential reduction to the Fund's UK Equity allocation as part of the December 2023 Investment Strategy Statement review.

The relative cheapness of UK equities leaves them less exposed to material valuation downgrades should the outlook for global growth and/or corporate earnings deteriorate.

2.9 Japanese Equities

DPF Weightings	
Neutral	5.0%
Actual 31.10.23	5.3%
AF Recommendation	5.0%
IIMT Recommendation	5.0%
Benchmark Returns (GB£)	
Oct-23	(3.9%)
Q3 23/24	3.1%
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 fell from 5.5% on 31 July 2023 to 5.3% on 31 October 2023 (0.3% overweight), largely reflecting net divestment of £10m.

Mr Fletcher recommends a neutral weighting relative to the benchmark.

The IIMT agrees with the neutral recommendation for Japanese Equities, a reduction of 0.3% to 5.0% while Committee considers the requirement for a standalone Japanese Equity allocation as part of December 2023 Investment Strategy Statement review.

2.10 Emerging Market Equities

DPF Weightings	
Neutral	5.0%
Actual 31.10.23	5.1%
AF Recommendation	5.0%
IIMT Recommendation	5.0%
Benchmark Returns (GB£)	
Oct-23	(3.2%)
Q3 23/24	2.6%
1 Year to Jun-23	(3.4%)
3 Years to Jun-23 (pa)	2.4%
5 Years to Jun-23 (pa)	3.0%

Net divestment of £10m, together with relative market weakness, reduced the Fund's allocation to Emerging Market Equities from 5.5% on 31 July 2023 to 5.1% on 31 October 2023 (0.1% overweight).

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

The IIMT agrees with the neutral recommendation for Emerging Market Equities, a reduction of 0.1% to 5.0% while Committee considers the requirement for a standalone Emerging Market Equity allocation as part of December 2023 Investment Strategy Statement review.

2.11 Global Sustainable Equities

DPF Weightings	
Neutral	29.0%
Actual 31.10.23	27.2%
AF Recommendation	27.0%
IIMT Recommendation	27.3%
Benchmark Returns (GB£)	
Oct-23	(2.3%)
Q3 23/24	0.7%
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 fell from 27.9% on 31 July 2023 to 27.2% on 31 October 2023 (1.8% underweight) reflecting relative market weakness.

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 and the recent increase in valuations for such companies.

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 valuations in some areas of the Global Sustainable Equity market have become increasingly expensive.

The IIMT recommends a 27.3% (1.7% underweight) allocation to Global Sustainable Equities.

It is noted that that Committee is considering the Fund's strategic allocation to Global Sustainable Equities as part of the December 2023 Investment Strategy Statement review with a recommended increase in the Fund's benchmark weight to 36.0%.

2.12 Private Equity

DPF Weighting				
Netural	Actual 31.10.23	Committed 31.10.23	AF Recommendation	IIMT Recommendation
4.0%	5.3%	7.0%	4.0%	5.3%
Benchmark Returns (GB£)				
Oct-23	Q3 23/24	1 Year to Jun-23	3 Years to Jun-23 (pa)	5 Years to Jun-23 (pa)
(2.1%)	0.9%	13.0%	9.9%	3.5%

The Fund's Private Equity weighting increased from 5.0% on 31 July 2023 to 5.3% on 31 October 2023, reflecting relative market strength and net investment of £4m (1.3% overweight).

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

The IIMT recommends maintaining the Fund's Private Equity allocation at 5.3% (1.3% overweight).

The Fund completed two commitments totalling around £70m in the three months to 31 October 2023, increasing the committed weight to 7.0% on 31 October 2023, with £40m committed to a global fund and £30m committed to a UK focussed fund. The Fund also expects to complete a £30m to £50m allocation to a global private equity fund of fund vehicle managed by LGPS Central Limited in Q1-24.

It is noted that Committee is considering the Fund's strategic allocation to Private Equity as part of the December 2023 Investment Strategy Statement review with a recommended increase in the Fund's benchmark weight to 6.0%.

2.13 Income Assets

On 31 October 2023, the overall weighting in Income Assets was 26.5% (1.5% overweight), compared to 25.8% on 31 July 2023. The IIMT recommendations below reduce the weighting to 26.2% (to reflect planned Indirect Property redemptions); 29.0% on a committed basis.

2.14 Multi Asset Credit

DPF Weighting				
Netural	Actual 31.10.23	Committed 31.10.23	AF Recommendation	IIMT Recommendation
6.0%	7.7%	8.9%	8.0%	7.7%
Benchmark Returns (GB£)				
Oct-23	Q3 23/24	1 Year to Jun-23	3 Years to Jun-23 (pa)	5 Years to Jun-23 (pa)
(0.1%)	2.2%	8.9%	5.0%	3.7%

The Fund’s allocation to Multi-Asset Credit increased from 7.4% on 31 July 2023 to 7.7% on 31 October 2023 (1.7% overweight), principally reflecting relative market strength.

Mr Fletcher has maintained his 2.0% overweight allocation of 8.0% to Multi-Asset Credit, noting that global credit spreads have continued to trend sideways over the last quarter, but the overall yield remains attractive. 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 appealing, 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 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. The IIMT recommends that the current allocation of 7.7% is maintained (1.7% overweight) to reflect scheduled private debt draw-down commitments; 8.9% on a committed basis.

It is noted that Committee is considering the Fund’s strategic allocation to Mult-Asset Credit as part of the December 2023 Investment Strategy Statement review with a recommended increase in the Fund’s benchmark weight to 7.0%.

2.15 Property

DPF Weighting				
Netural	Actual 31.10.23	Committed 31.10.23	AF Recommendation	IIMT Recommendation
9.0%	7.7%	7.7%	9.0%	7.4%
Benchmark Returns (GB£)				
Oct-23	Q3 23/24	1 Year to Jun-23	3 Years to Jun-23 (pa)	5 Years to Jun-23 (pa)
Not available	(0.7%)	(15.0%)	2.5%	1.6%

The Fund's allocation to Property marginally increased from 7.7% at 31 July 2023 to 7.8% on 31 October 2023. Direct Property accounted for 5.6% (0.4% underweight) and Indirect Property accounted for 2.2% (0.8% underweight).

Mr Fletcher maintains his recommendation for a neutral overall property allocation of 9.0%. He also continues to note 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 indirect property funds at a discount to NAV and thereby increase the overall property exposure to neutral.

The Fund's Discretionary Direct Property Manager notes that UK economic indicators remain weak, with a shallow recession remaining a threat, and notes the expectation that interest rates will remain higher for longer.

The weak economic backdrop continues to negatively impact on the UK commercial property market, more so on investor sentiment than occupational demand, where rental value growth remains positive (albeit largely from continuing strong industrial sector rental growth). Investment transaction levels are significantly below long-term averages.

The total return for all UK commercial property for the Q3-23, as measured by the MSCI Quarterly Index, was -0.7%, comprising an income return of +1.1% and a capital value fall of -1.8%. The total return for the 12-month period to 30 September 2023 was - 12.0%, comprising an income return of +4.5% and a capital value fall of -15.8%. In comparison, the total return for the Fund's property portfolio was -0.5% for the quarter and -10.5% for the 12 months to 30 September 2023. The current void rate within the portfolio is 5.1%, lower than the MSCI benchmark void rate of 8.3%. The portfolio is currently yielding 4.9%, in line with the MSCI benchmark yield.

The Fund's property manager continues to focus on assets that provide strong core fundamentals in terms of location, quality of tenant, lease length and ESG (environmental, social and governance) credentials.

Following poor returns over the past 12 months, the manager believes that UK commercial property is nearing the end of the period of re-pricing and is, in certain sectors, well positioned for the next growth cycle. 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. However, care is still required in the retail and office sectors, where structural trends continue to have a negative impact on these markets.

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.

It is noted that Committee is considering the Fund's strategic allocation to Property (Direct and Indirect combined) as part of the December 2023 Investment Strategy Statement review with a recommended increase in the Fund's benchmark weight to 10.0%.

2.16 Infrastructure

DPF Weighting				
Netural	Actual 31.10.23	Committed 31.10.23	AF Recommendation	IIMT Recommendation
10.0%	11.0%	12.7%	10.0%	11.0%
Benchmark Returns (GB£)				
Oct-23	Q3 23/24	1 Year to Jun-23	3 Years to Jun-23 (pa)	5 Years to Jun-23 (pa)
0.6%	1.8%	5.2%	3.2%	3.0%

The Fund's allocation to Infrastructure increased from 10.7% on 31 July 2023 to 11.0% on 31 October 2023 (1.0% overweight), principally reflecting net investment of £9m, all of which related to renewable energy assets.

Mr Fletcher recommends a neutral weighting relative to the benchmark.

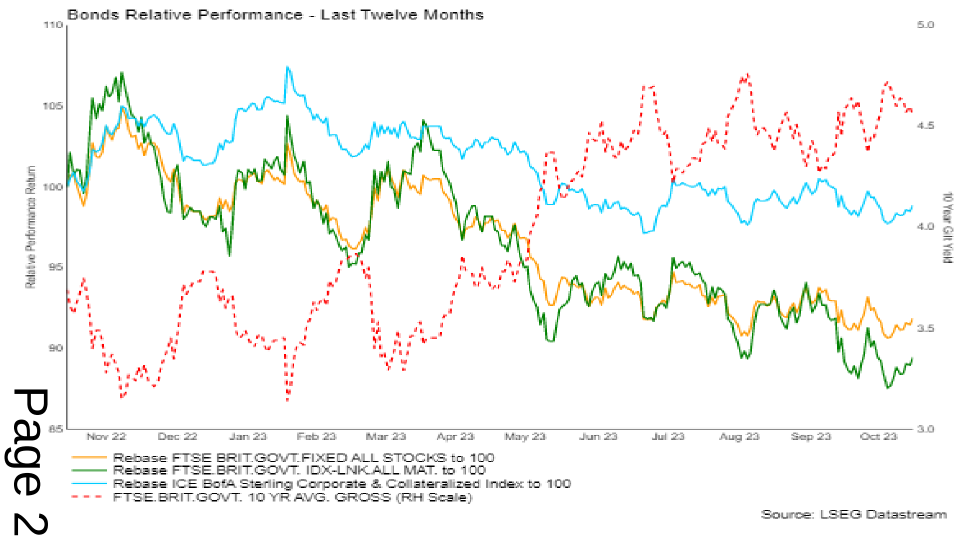
The IIMT continues to view Infrastructure as an attractive long-term asset class and favours a bias towards core infrastructure assets or renewable energy assets. These assets can offer low volatility; low correlation to equity and fixed income markets; and reliable long-term cash flows.

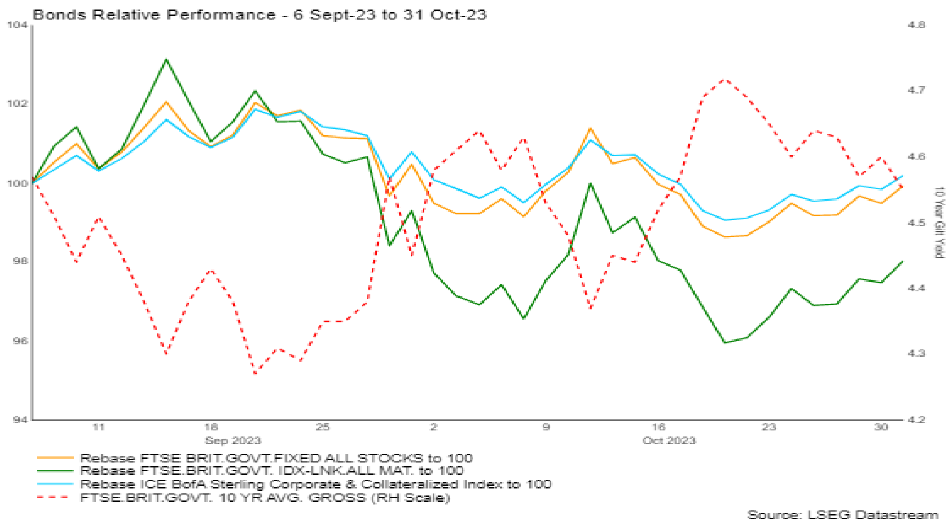
Notwithstanding the noted favourable long-term characteristics of the asset class, infrastructure assets are exposed to increased political and regulatory risk, and this risk is best mitigated through asset type and geographical diversification.

The IIMT recommends maintaining the invested weighting at 11.0% (1.0% overweight); 12.7% on a committed basis. Given the current committed weight of 12.7%, the IIMT is not reviewing new opportunities at the current time, albeit this is monitored on an on-going basis.

It is noted that Committee is considering the Fund's strategic allocation to Infrastructure as part of the December 2023 Investment Strategy Statement review with a recommended increase in the Fund's benchmark weight to 13%.

2.17 Protection Assets





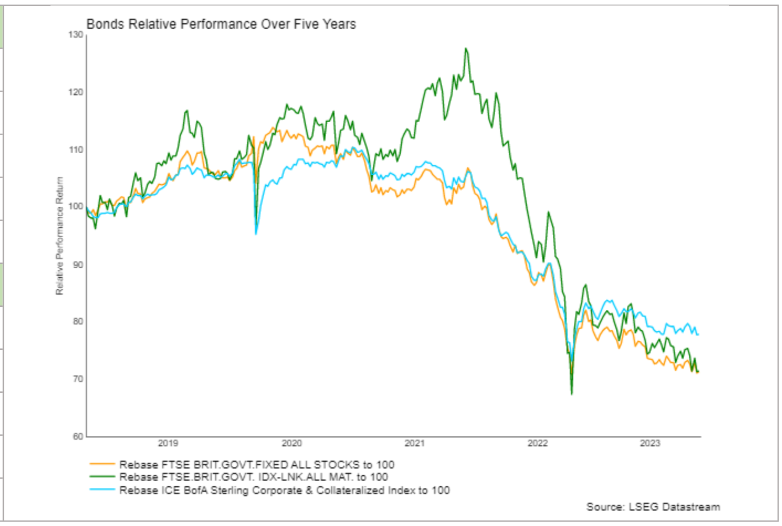
The weighting in Protection Assets on 31 October 2023 was 15.7%, up from 14.6% on 31 July 2023, principally reflecting net investment of £54m. The IIMT recommendations below increase the weighting by 0.7% to 16.4%.

Fixed income returns have been negative over the twelve months to 31 October 2023, with UK Conventional Gilts returning -5.8% and UK Index-Linked Bonds returning -9.9%. This followed significant drawdowns in 2022. On a two-year basis, UK Conventional Bonds have returned -14.6% p.a., with UK Index-Linked Bonds returning -21.9%p.a. Bond yields rose as the market priced interest rates peaking at higher levels and remaining in restrictive territory for a longer period in response to persistent inflation.

Global bond yields have fallen following the softer rhetoric from the US Fed post the late October/ early November FOMC meeting and in reaction to subsequent weaker economic data.

2.18 Conventional Bonds

DPF Weightings	
Neutral	6.0%
Actual 31.10.23	5.0%
AF Recommendation	5.0%
IIMT Recommendation	5.2%
Benchmark Returns (GB£)	
Oct-23	(0.4%)
Q3 23/24	(0.6%)
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 increased from 4.5% on 31 July 2023 to 5.0% on 31 October 2023 (1.0% underweight), largely reflecting net investment of £28m, partly offset by relative market weakness. The Fund's allocation on 31 October 2023 comprised 93% UK Conventional Gilts and 7% US Treasuries.

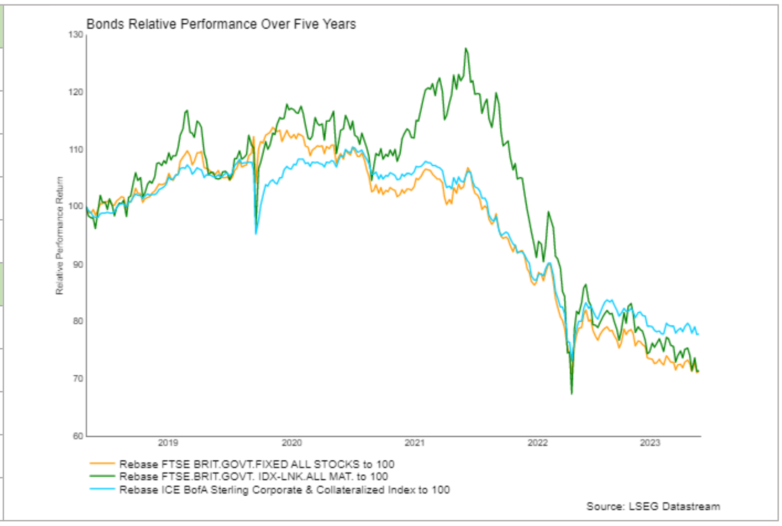
Mr Fletcher notes that, based on market pricing, there is a reasonable chance of the Bank of England implementing one more interest rate increase during the current hiking cycle. He expects Central Banks to maintain rates at their current high levels for some time, before possibly beginning a slow decline in 2025.

Mr Fletcher is also concerned that although long-dated Gilt yields have trended higher during the quarter, this upward trend may have further to run and even relatively small increases in yield can result in meaningful capital losses in the short term. Mr Fletcher has, therefore, maintained his 1.0% underweight allocation to 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. The IIMT recommends increasing the weighting by 0.2% to 5.2% (0.8% underweight), noting that the duration (interest rate sensitivity) of the Fund's Conventional Bonds portfolio has been increased to a neutral position.

2.19 Index-Linked Bonds

DPF Weightings	
Neutral	6.0%
Actual 31.10.23	5.0%
AF Recommendation	6.0%
IIMT Recommendation	5.2%
Benchmark Returns (GB£)	
Oct-23	(1.3%)
Q3 23/24	(4.7%)
1 Year to Jun-23	(17.0%)
3 Years to Jun-23 (pa)	(12.6%)
5 Years to Jun-23 (pa)	(4.3%)



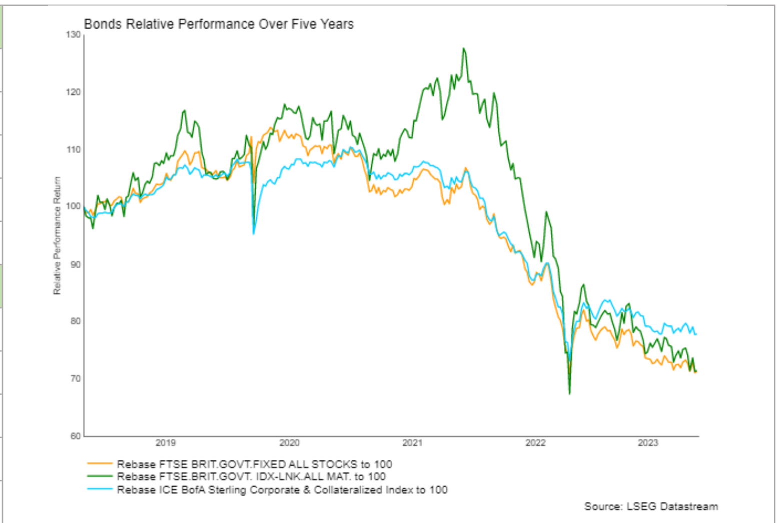
The Fund's allocation to Index-Linked Bonds increased from 4.5% on 31 July 2023 to 5.0% on 31 October 2023 (1.0% underweight), reflecting net investment of £26m, partly offset by relative market weakness. The Fund's allocation on 31 October 2023 comprised 78% UK Index-Linked Bonds (UK Linkers) and 22% US Treasury Inflation Protected Bonds (US TIPS).

Mr Fletcher has maintained his 6.0% (neutral) allocation to Index-Linked Bonds. Mr Fletcher continues to believe that Index-Linked Bonds are expensive in the short term and he 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 20-year real yield increasing from around -2% 18 months ago to +1.3% 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, noting that the duration of the Fund's Index Linked portfolio has been increased to a neutral position.

2.20 Corporate Bonds

DPF Weightings	
Neutral	6.0%
Actual 31.10.23	5.7%
AF Recommendation	6.0%
IIMT Recommendation	6.0%
Benchmark Returns (GB£)	
Oct-23	(0.7%)
Q3 23/24	0.2%
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 increased from 5.6% on 31 July 2023 to 5.7% on 31 October 2023 (0.3% underweight), reflecting relative market strength.

Mr Fletcher has maintained his neutral allocation to Corporate Bonds at 6.0%, noting that the extra yield spread available from corporate bonds has recently narrowed slightly but it remains wider than it has been for some years and the total yield remains attractive.

The IIMT believes that the spread on investment grade bonds offers relatively good value and that this asset class is likely to be more defensively positioned relative to risk-on assets (e.g. equities), should markets experience periods of weakness. The IIMT recommends increasing the Corporate Bonds allocation by 0.3% to 6.0% (neutral).

2.21 Cash

The Cash weighting on 31 October 2023 was 2.8% (0.8% overweight), down from 3.2% on 31 July 2023, principally reflecting net investment across the total portfolio of around £35m 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 investors have recently become slightly more positive about the future path of interest rates leading to an improvement in confidence, a number of headwinds remain which could see this reverse, including a slowdown in global activity, continuing core inflationary pressures, persistent high interest rates (relative to recent years), more complex global supply chains and continuing energy security concerns and geopolitical tensions and conflicts.

The IIMT recommends a relatively defensive cash allocation of 2.7% (0.7% 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 October 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

Third Quarter 2023 Investment Report

PREPARED FOR:

Derbyshire County Council Pension Fund: Pensions and Investment Committee Meeting

DECEMBER 2023

MJ HUDSON
Allenbridge

Investment Report for Derbyshire County Council Pension Fund

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

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

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

Meeting date 6th December 2023
Date of paper 17th November 2023

1. Market Background (Third quarter 2023)

GDP growth while weak and below trend, was again positive, growth continues to be supported by consumers who have continued to spend their savings, but consumption is also being supported by tight labour markets, higher earnings, falling energy prices and falling headline inflation which in recent reports show that wages are now increasing in real terms. While the outlook for growth remains anaemic, with outcomes in the UK and Europe oscillating around zero Japan and the USA seem to be growing relatively strongly. Growth in China especially in the domestic economy remains weak weighed down by excess property investment.

Once again and despite a falling trend in headline inflation, the US Fed, ECB and the BoE all increased rates in the third quarter. Base rates now stand at 5.5% in the US, 5.25% in the UK and 4.5% in Europe. These central banks also reiterated their commitment to hike rates and maintain a hawkish posture in light of tight labour markets and stubborn core inflation data. The Bank of Japan also firmed up its policy on yield curve control, stating that it would not prevent 10 year JGB yields rising towards 1%.

The third quarter saw a reversal in the first half performance of global equities with the MSCI world index falling -3.4% in local currency terms. Not surprisingly after the strong performance of the Magnificent 7 global growth equity was down -5.1%, whereas value only fell -2.5%. Japanese equities outperformed delivering +2.5% in local currency largely due to the weakness of the Japanese yen. UK equities returned +1.8% due to their energy tilt, benefitting from the rising oil prices caused by Russia and Saudi Arabia's extension of voluntary output cuts.

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 again delivered negative returns, but the increase in long bond yields in the rest of the world especially the US meant these markets delivered larger negative returns.

Non-government bonds outperformed governments over the quarter as spreads remained stable and the benefit of the higher yields supported returns. Real Assets had another difficult quarter with the short term impact of funding discount rates adjusting to higher levels of yield, not being offset by higher revenues which will take time to feed through.

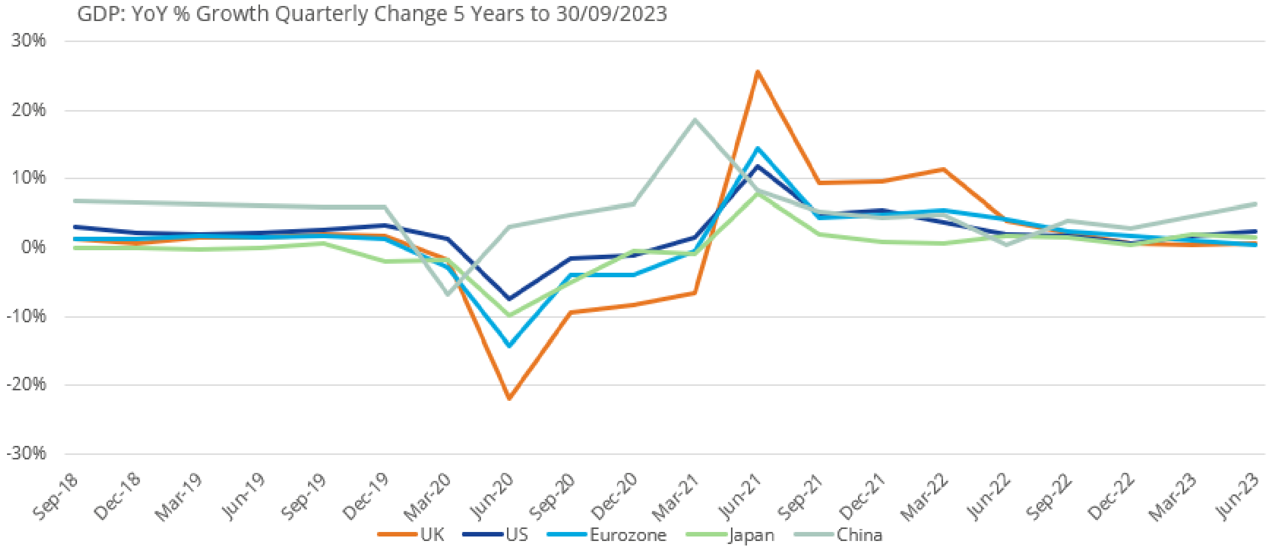
The US dollar strengthened over the quarter on the realisation that US rates are likely to be higher for longer and Sterling, although weaker against the US dollar, was stronger against most other currencies.

Commodity prices were again mixed, with the prices of oil and gas higher on supply cuts by Russia and Saudi Arabia. Gold was lower as fiat currency yields have become more attractive, Copper was also weaker due to weakness in the Chinese housing sector, but other industrial metals prices were higher.

Since the end of the quarter central banks have paused rate hikes, hence we may be closer to the end of the interest rate tightening cycle 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 October 2023 and the 3 and 12 months to the end of September 2023.

% TOTAL RETURN DIVIDENDS REINVESTED

	MARKET RETURNS		
		Period end 30th September 2023	
	October 2023	**3 months**	**12 months**
Global equity FTSE All-World	-2.4	+0.9	+10.9
Regional indices			
UK All Share	-4.1	+1.8	+13.6
North America	-1.8	+1.0	+11.0
Europe ex UK	-3.0	-1.6	+19.3
Japan	-3.9	+2.1	+12.1
Emerging	-3.2	+2.6	+1.6
UK Gilts - Conventional All Stocks	-0.4	-0.6	-2.5
UK Gilts - Index Linked All Stocks	-1.3	-4.7	-12.8
UK Corporate bonds*	-0.2	+2.0	+8.4
Overseas Government Bonds**	-0.8	-2.6	-0.7
UK Property quarterly^	-	+0.2	-12.2
Sterling 7 day SONIA	0.4	1.3	4.1

^ 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 September 2023

Source: - Bloomberg

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

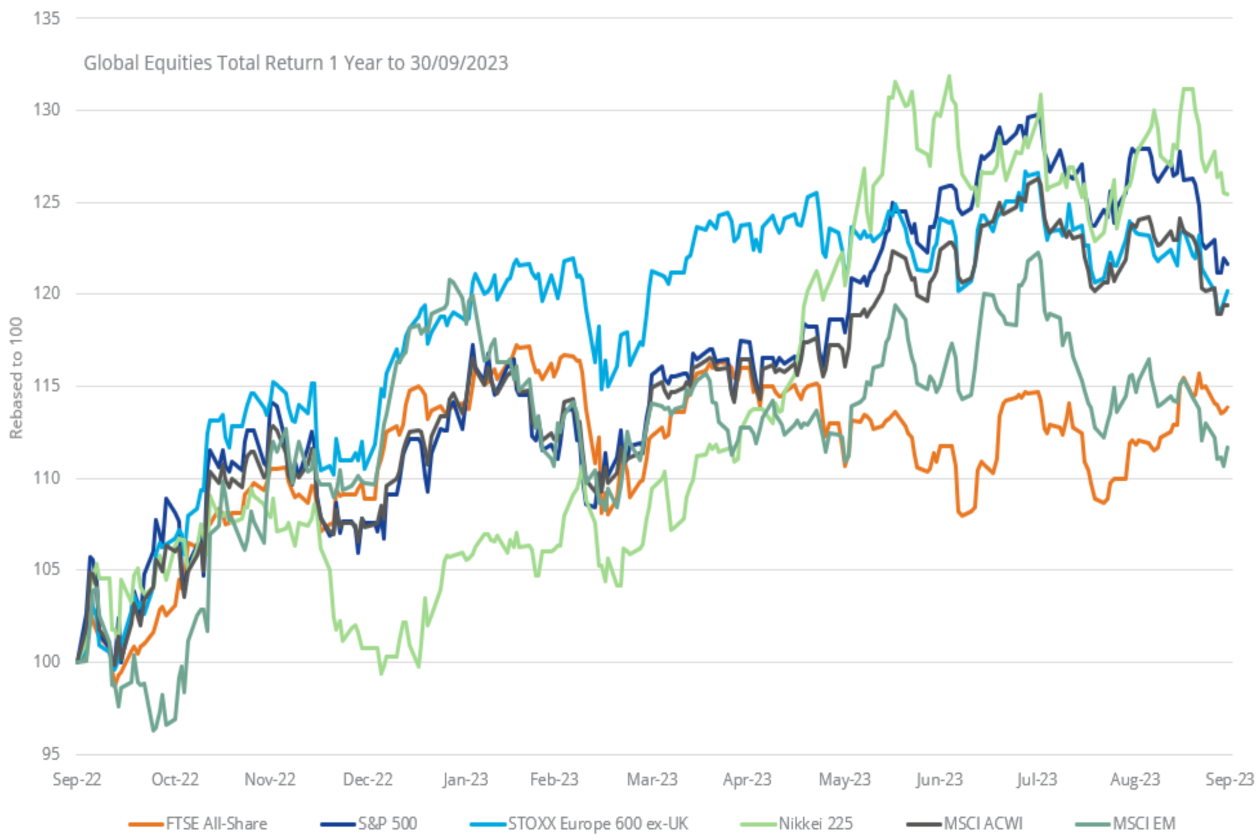
BOND MARKET % YIELD TO MATURITY	30th June 2023	30th September 2023	Quarterly Change %	30th September 2022	Current 17th November 2023
UK GOVERNMENT BONDS (GILTS)					
10 year	4.39	4.44	**+0.05**	4.09	**4.09**
30 year	4.42	4.90	**+0.38**	3.83	**4.53**
All Stocks ILG	+0.98	+1.0	**+0.02**	+0.23	**+0.83**
OVERSEAS 10 YEAR GOVERNMENT BONDS					
US Treasury	3.82	4.57	**+0.75**	3.80	**4.44**
Germany	2.39	2.84	**+0.45**	2.11	**2.58**
Japan	0.40	0.77	**+0.37**	0.25	**0.74**
NON-GOVERNMENT BOND INDICES					
Global corporates	5.22	5.58	**+0.26**	5.25	**5.37**
Global High yield	8.52	8.74	**+0.18**	9.78	**8.60**
Emerging markets	7.05	7.59	**+0.54**	7.81	**7.49**

Source: - Trading economics and ICE Indices G0LI, G0BC, HW00, EMGB, 17th November 2023.

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

Source: - Bloomberg

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



Source: - Bloomberg

Recent developments (October and to 17th November 2023)

Bond and equity prices fell simultaneously in October as bond yields rose sharply and heightened geopolitical uncertainty weighed on market sentiment. Commodities were the notable outperformer, as energy prices rallied and investors fled to gold as a safe haven. The sell off in the bond market continued in October, with global bonds returning -1.2% over the month. US and UK 10-year government bond yields hit the top of their recent range at 5% and 4.7% respectively along with German and Japanese yields that also made new highs. Market performance was driven by a combination of buoyant economic data making 'higher for longer' rates look increasingly likely, and concerns around the sustainability of government finances. The move to higher yields was seen throughout the global government bond and credit markets, where widening spreads dented monthly returns for both investment grade and high yield bonds.

Global equity prices fell as the prospect of 'higher for longer' rates hurt equity multiples and the Israel-Hamas conflict dampened risk appetite. Developed market equities fell -2.9% on the month, while emerging market stocks fell -3.9%. Growth stocks proved relatively resilient versus their value counterparts, returning -2.4% over the month in comparison to -3.4% for value stocks.

Commodity prices reversed some of their year-to-date losses, with the broad Bloomberg Commodity Index rising 0.3% over October. The tragic events that unfolded in the Middle East led to a flight to safety in gold. Oil prices also rallied amid concerns that an escalation into a wider regional conflict could disrupt oil supply, although the price of Brent Crude remained below its September peak. Meanwhile, European gas prices rose due to fears over global supply chain disruptions, exacerbated by the sabotage of a gas pipeline in the Baltic Sea.

Month to date performance in November shows just how data dependent the bond and equity markets have become. With prices higher in both markets after the central banks decided for the second time not to raise rates at their respective policy setting meetings. After the extremely strong economic reports in October, November's were also somewhat softer, with labour markets beginning to show signs of weakness and headline inflation resuming its downward trajectory even though the core rate remains stubbornly high.

2. Investment Performance

The contract for performance evaluation that the Fund had with PEL came to an end on the 30th June. Since then, the Officers have been working hard with the new provider Northern Trust, but sadly at the time of writing my report, the work required to produce an independent valuation had not been completed. The data presented in Table 3 below shows the Officer's reasonable estimate of performance and the value of the Derbyshire Pension Fund versus the Fund specific benchmark for the quarter and a total fund return for the year to 30th September 2023.

It is expected that Northern Trust will be able to provide an independent valuation for the committee to consider by the time of the meeting on the 6th March 2024. Based on the data below the Fund appears to have underperformed the strategic benchmark over the quarter and the year. The continued underperformance of our Growth assets managers is most likely to be responsible for the relative performance. But due to the lack of independent data only high level observations can be made.

Table 3: - Derbyshire Pension Fund and Benchmark returns

% TOTAL RETURN (NET) 30TH SEPTEMBER 2023	3 MONTHS		12 MONTHS	
	Derbyshire Pension Fund	**Benchmark**	**Derbyshire Pension Fund**	**Benchmark**
Total Growth Assets	**0.3**	**0.5**	**-**	**-**
UK Equity	1.6	1.9	-	-
Japan	1.1	3.1	-	-
Emerging markets	0.3	2.6	-	-
Global Sustainable Equity	-0.6	+0.7	-	-
Global Private Equity	3.7	0.9	-	-
Total Protection Assets	**-0.2**	**-0.3**	**-**	**-**
UK & Overseas Government	-1.2	-0.6	-	-
UK & Overseas Inflation Linked	-4.8	-4.7	-	-
Global Corporate bonds	0.7	0.2	-	-
Total Income Assets	**0.1**	**0.3**	**-**	**-**
Multi-asset Credit	1.7	2.2	-	-
Infrastructure	-0.9	+1.8	-	-
Property (all sectors)	-0.2	0.2	-	-
Internal Cash	0.7	1.3	-	-
Total Fund	**0.2**	**0.8**	**4.6**	**5.6**

Total fund value on 30th September 2023 £5,937 million

Growth assets – Equity performance

The aggregate performance of growth assets in the third quarter and the year was lower than the strategic benchmark, mainly due to the underperformance of the Sustainable equity portfolio. Over three months, only Private equity delivered a positive contribution to overall performance, continuing the trend seen over the last year.

Protection assets - Fixed Income Performance

Over the quarter, the global corporate bond portfolio outperformed the benchmark and delivered a positive return. The government bond portfolio continued to deliver negative returns due to their higher interest rate sensitivity.

Income assets – Property, Infrastructure and MAC

Over the quarter, the combined portfolio of income assets delivered a small positive return but all asset classes underperformed their respective benchmark. The most significant negative contribution came from the infrastructure assets. Over the longer term, a better period for measuring returns, both property and Infrastructure may well have outperformed.

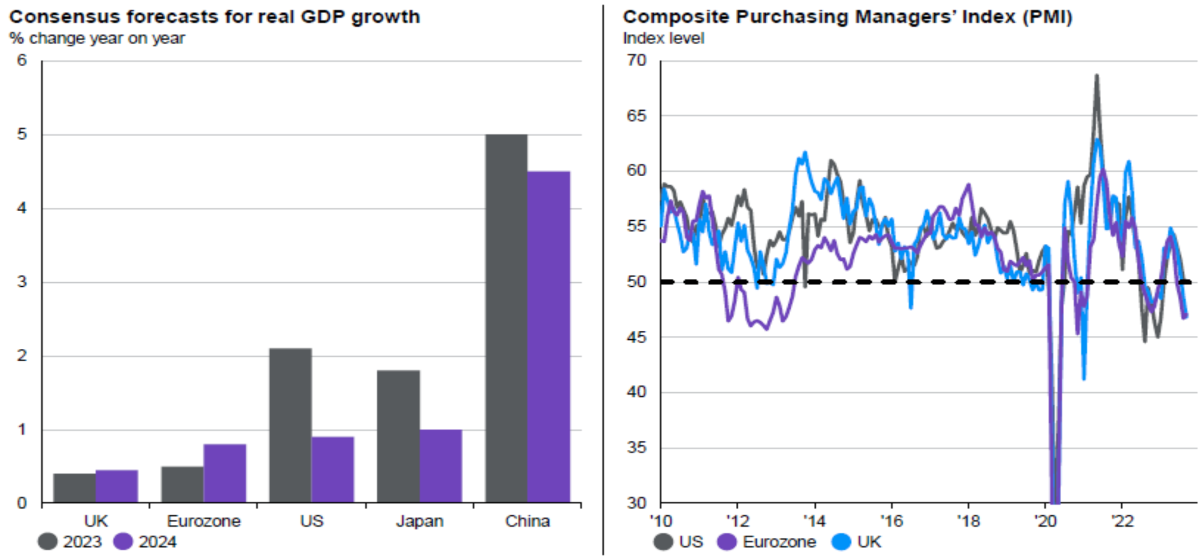
3. Economic and Market outlook

Economic outlook

As I mentioned in my last report outside of China the global economy is experiencing slightly more growth in 2023 than expected, growth remains weak, but it is not recessionary. Chart 5 below shows revised growth expectations for 2023 and 2024 in the left hand graph and composite PMI's on the right hand graph. The much anticipated weakness of growth in 2023 has been transferred to 2024, except in Europe and the UK which have again been revised slightly higher. While I do not have much conviction in my forecast, I believe that growth may be higher than these consensus forecasts suggest. For the following reasons: Fiscal spending in all the developed economies is still increasing, higher interest rates mean savers have more money and while employment data may be softening higher earnings are recurring unless one becomes unemployed. If inflation continues to fall, cost pressures for businesses will stabilise and higher wages and interest income, become real increases in spending power. Once again, the composite leading indicators are not an especially helpful guide to future activity as they are mixed with services negative but manufacturing positive. If the composite PMI is forecasting anything it is that they are likely turn higher from here unless we enter a deep manufacturing led recession.

The resilience of growth does mean that interest rates may rise further to combat inflation and they will in my opinion remain higher for longer than the markets expect in the developed economies. Chinese economic growth on the other hand may continue to disappoint as the domestic economy deals with the overhang left from over-investment in the property market. It is estimated that there is currently over two years of excess inventory of new homes in China. As mentioned in my last report 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 as it tries to deal with the problem. The economy is experiencing deflation, however 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)



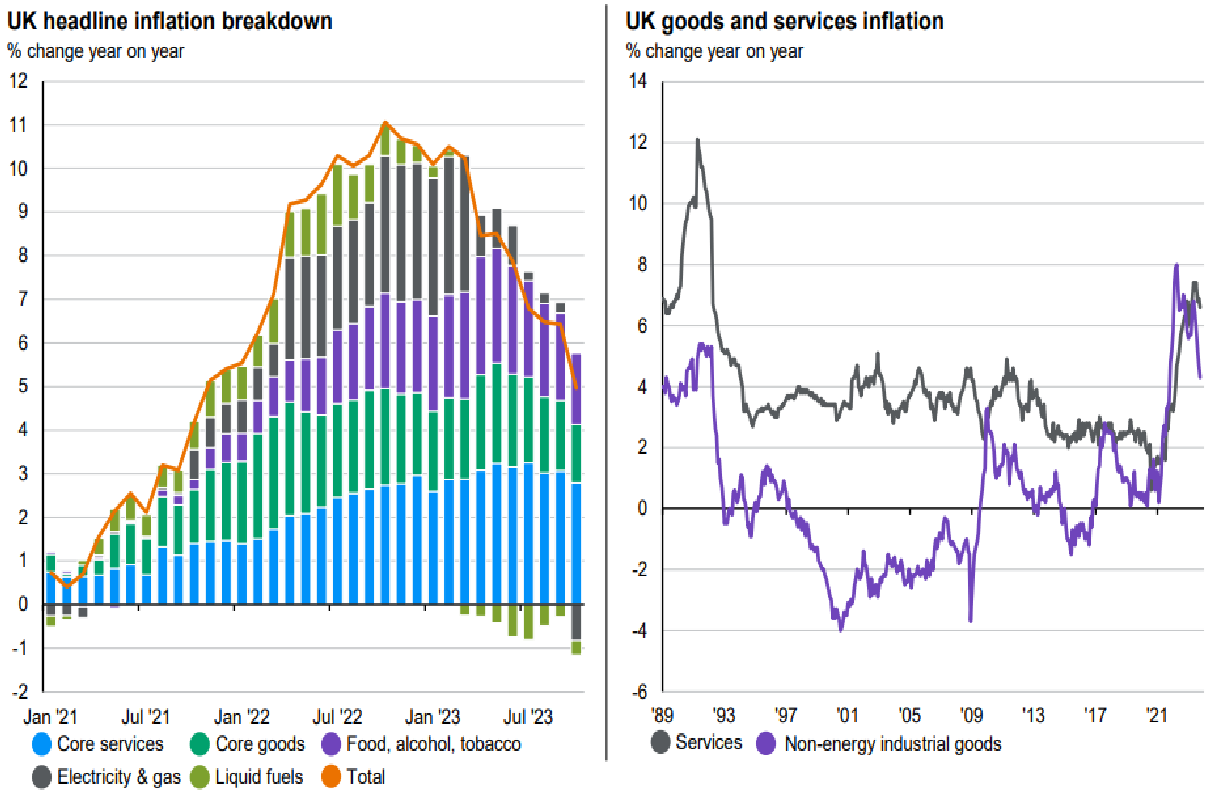
Source: - JPMorgan Asset management October 2023

Inflation

The good news on inflation is the headline rates continue to fall in the US, Europe and the UK driven by year over year base effects and falls in energy prices and in the UK the Electricity and Gas price cap. 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 graph on Chart 6 shows in the orange line, UK headline inflation and in the coloured bars its components. As can be seen in the October report, the Ofgem Energy price cap reduction that came into force in in October had a negative impact as did oil/petrol prices, despite the unrest in the middle east. The right hand graph shows core goods and services, while goods prices continue to fall as the global supply chain disruption following covid fades, services inflation remains stubbornly high.

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

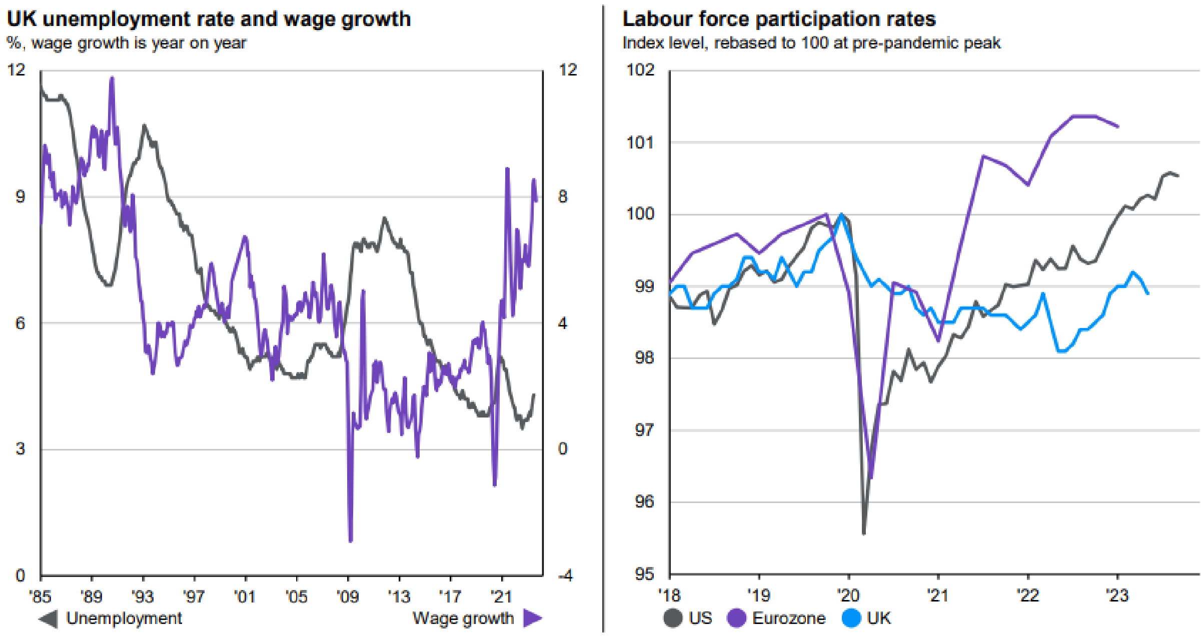


Source: - JPMAM 16th November 2023

Chart 7 below shows how wage growth in the UK is now above headline inflation despite a softening in the employment numbers, the right hand graph shows how Labour participation rates have not shown a meaningful recovery beyond pre-covid levels. This suggests that it will take another year for core inflation to fall provided wage growth stabilises at the current level or more people are encouraged to join the workforce.

I have not changed my view that the period of low inflation and interest rates following the global financial crisis (GFC) is behind us. I expect inflation rates could return to levels we were more familiar with before the GFC and this will also result in a return to higher 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 November 2023

Central Banks

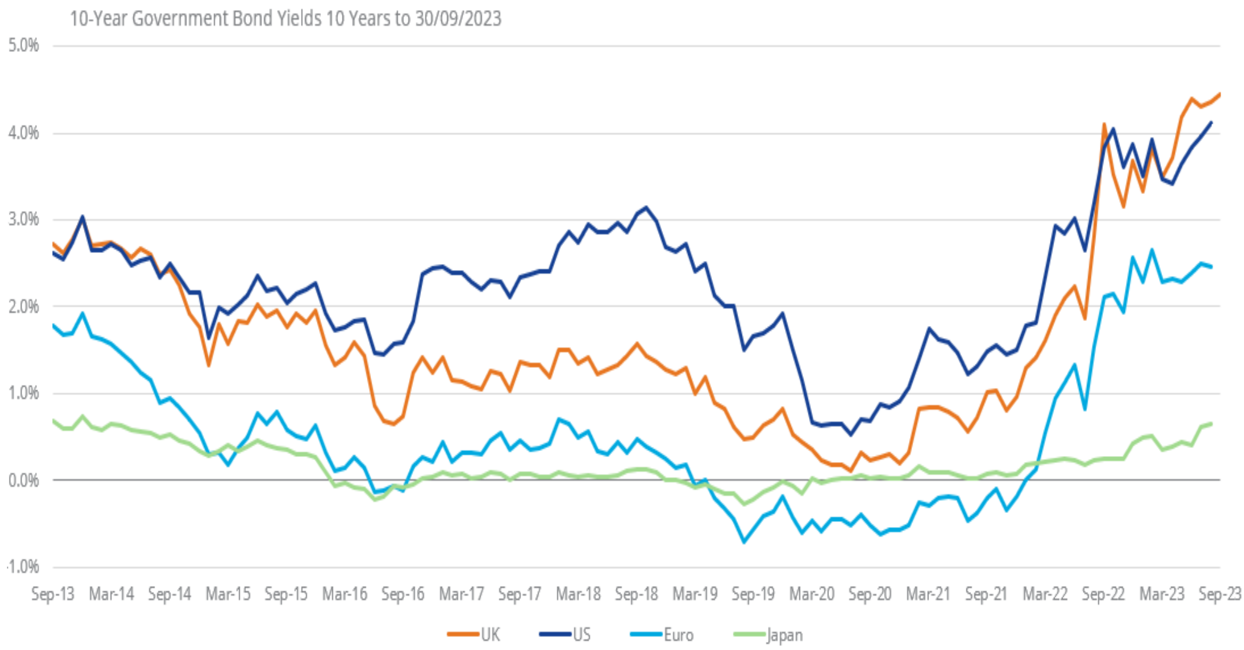
The continued moderation is the rate of inflation has encouraged the Fed to keep interest rates at 5.5% since July. They have maintained their hawkish stance and have stated that they remain willing to increase rates if needed. The ECB raised rates by 0.25%, in September to 4.5%, but made no change at its October meeting. The BoE raised rates by 0.25% in August to 5.25% and like the Fed has left them unchanged. At its October meeting the BoJ announced that 10 year government bond yields will be allowed to rise to an upper bound of 1%, rather than a ceiling and that it would not defend this level through monetary policy. In other words, 10 year JGB yields will be allowed to find a clearing level defined by the market rather than the BoJ. This is another step on the way to the end of ZIRP in Japan and brings forward the decision to increase official overnight rates from -0.1% to zero or even a positive level. When this happens, I believe it could mark a turning point in the flow of cash out of Japan and over time have a globally significant impact on the cost of money.

As explored in my last report I do not believe the central banks have sufficiently tightened monetary policy to cause a deep recession, but the risks of recession and stagnant growth have increased. Provided we do not get any surprises on the trend of inflation we may not see any further interest rate increases. However, I do not believe we will see any rate cuts for at least twelve months in other words until the core rate of inflation moderates.

The Peoples Bank of China, (PBoC), cut rates from 3.8% in March to 3.45% in August but left rates unchanged at its October meeting. Earlier in the month it had significantly eased policy through a medium term lending facility aimed at supporting banks exposed to the domestic property market. The PBoC also made it clear that it was ready to provide support to tackle “unexpected challenges and changes”.

Government bonds

Chart 8: - Government bond yields, last 10 years.



Source: - Bloomberg

Chart 8 above shows the 10 year government bond yields for the major developed markets for the last 10 years to the end of September. In October yields increased to a peak of 5% in the US, 4.7% in the UK, 2.9% in Germany and 0.95% in Japan on stronger than expected economic data and fears of a widening of the crisis in the Middle East following the upsurge in the Israel / Hamas conflict. Since then, yields have fallen back to the levels show above as central banks decided not to raise rates for a second time, raising optimism that the tightening cycle may be over. While growth has continued to upward surprise, Jobs data has been slightly weaker and the trend of falling headline inflation has been maintained, even if the rate of core inflation has remained sticky.

As suggested in my last report the bearish flattening of the yield curve has continued even if the pace has slowed recently. I believe yields may have entered a sideways range roughly between 4% and 5% for the US and the UK, with the yield dependent on economic data and market sentiment around central bank policy. I have not changed my mind about the impact of supply, the end of yield curve control in Japan, or that interest rates will be higher for longer than expected. For me the main driver of falling rates and bond yields will be lower and more stable rates of core inflation and that is still about 6 to 12 months away. If the consensus forecast for growth in 2024 turns out to be wrong and economies fall into recession, this could pull forward rate cuts and deliver strong returns from government bonds. But I would attach a low probability to this outcome and even if rate cuts were brought forward, they would probably be quite small.

Government bond yields have become 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 still be at the low end of expected returns, but it should also be remembered that unlike equity the income is almost guaranteed.

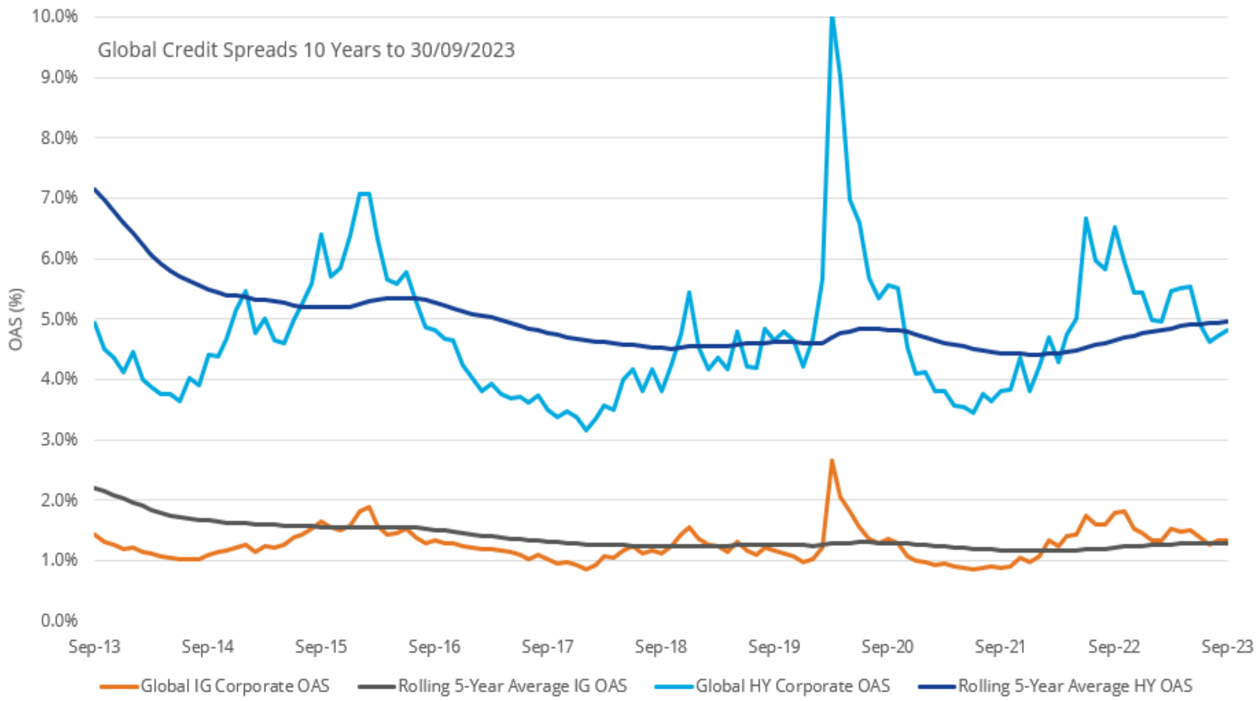
Non-government bonds

Chart 9 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 but given the recent moves in government yields mentioned above, they have widened even though the total yield has fallen slightly.

I still believe the total yield of investment grade non-government bonds is high enough to compensate for their interest rate sensitivity and are probably cheap enough to maintain the Fund's exposure. I also believe that high yield bonds and loans owned as part the Multi-asset Credit allocation can deliver good returns. But if we are close to the end of the interest cycle in the short term higher duration government bonds could outperform in the short term. Non-government bonds have much lower interest rate sensitivity (duration), but much higher yields, and those assets which have floating rather than fixed coupons, can continue to benefit from higher short term interest rates and 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 have increased the risk of default especially for more leveraged parts of the economy. If the consensus growth forecasts turn out to be wrong and economies experience a recession then in the short term this asset class could underperform as the risk of higher defaults is priced in by the market. However, over the medium term I still expect Multi-asset Credit funds, with their mix of low duration bonds and floating rate loans, to provide good returns, as the key to success with this asset class, is picking managers with the skill to avoid defaults.

Chart 9: - Credit spreads, extra yield over government bonds, last 10 years.



Source: - Bloomberg

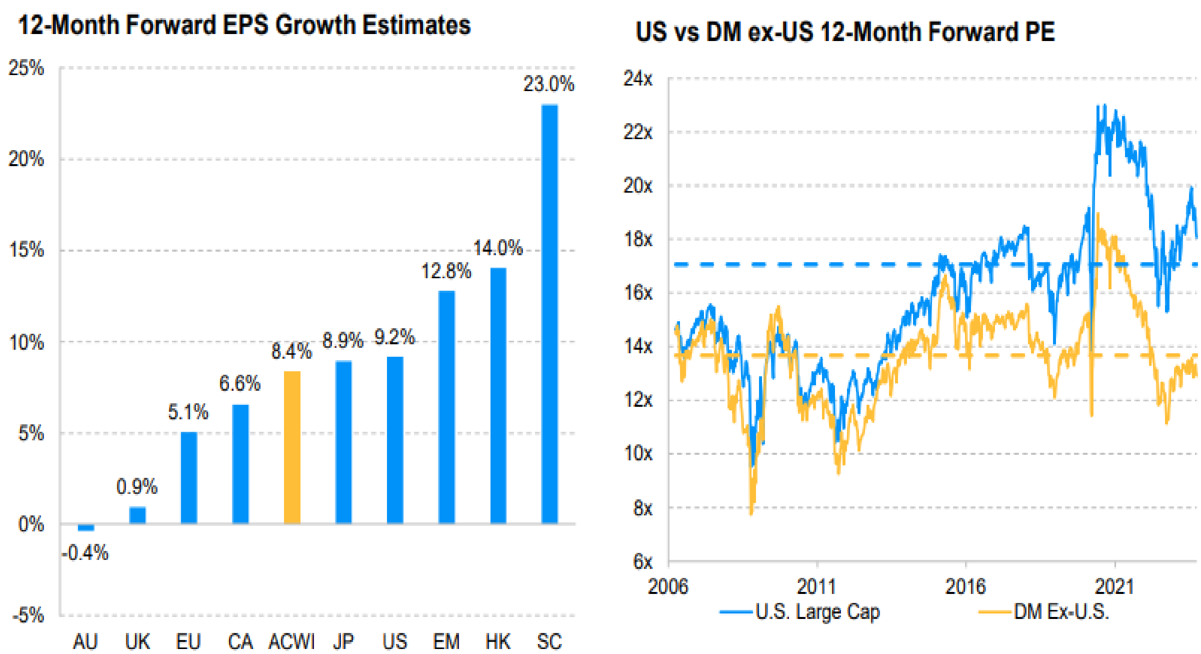
Equities

Over the quarter most equity markets moved sideways in a fairly wide range, but in October they sold off sharply as the prospect of 'higher for longer' rates hurt equity multiples and the Israel-Hamas conflict dampened risk appetite. In November markets have recovered their composure with better performance as economic data was slightly weaker and the central banks did not raise rates as feared in October. Like the bond markets, equity markets have become more sensitive to data releases and fears of central bank activity.

In my last report I wrote about the extreme valuation of the Magnificent 7 and the narrowness of the market leadership performance since March. This is still present as can be seen in the right hand graph of chart 10 below. Where the forward P/E for the US large cap sector is still elevated and well above its long run average as shown by the dashed line. However, the rest of the developed world looks only just in line with its long run average. The left hand graph shows selected country and regional 12 month forward earnings per share estimates. The earnings estimates look reasonable but given the interest rate and economic outlook not hugely attractive, especially when compared to valuations and the fact that over 65% of the global equity (ACWI) earnings will be expected to come from the US. Earnings forecast for emerging equity (EM) looks better than for global equity but even here a lot of hope is pinned on Chinese company earnings (SC) which make up around 30% of the emerging index and again P/E valuations do not look especially cheap.

I believe equity markets could struggle to deliver the strong returns we have become used to from here especially as there is greater competition for capital and bond and cash yields offer a lower risk source of returns. I have covered the outlook for equity markets in more detail in section 4 of this report.

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



Source: - JPMAM November 2023

GDP

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

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

% CHANGE YOY								
	2023				2024			
	AUGUST		NOVEMBER		AUGUST		NOVEMBER	
	Consensus	AF	Consensus	AF	Consensus	AF	Consensus	AF
US	1.6	**2.0**	2.2	**2.2**	0.5	**1.0**	0.9	**1.0**
UK	0.1	**0.5**	0.4	**0.5**	0.4	**0.5**	0.3	**0.5**
Japan	1.2	**1.5**	1.9	**2.0**	1.0	**1.0**	0.9	**1.0**
EU	0.7	**1.0**	0.5	**0.5**	1.3	**1.5**	1.0	**1.0**
China	5.5	**5.0**	5.0	**4.5**	4.8	**5.0**	4.4	**4.0**
SE Asia	4.2	**4.0**	4.0	**4.3**	4.6	**5.0**	4.5	**4.5**

Source: - Consensus Economics October 2023

The consensus forecasts for GDP growth in 2023 have again been revised higher in October as actual growth outcomes have been better than expected. This growth continues to be supported by consumers who have continued to spend their savings, but consumption is also being supported by tight labour markets, higher earnings and now by falling energy prices and falling headline inflation which in recent reports show that wages are now increasing in real terms. While the outlook for growth remains anaemic, with outcomes in the UK and Europe oscillating around zero Japan and the USA seem to be growing relatively strongly. I have decided to stick with my above consensus estimates for GDP growth for this year and next as I believe growth may 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 while nearer to their peak in this cycle may stay higher for longer than the markets currently expect.

The Chinese economy expanded by an annual rate 4.9% in Q3 2023, beating market forecasts of 4.4% and offering hope that it will meet the official annual target of around 5% this year. The property market has become a major drag on the economy and it is likely to take several years to work through the excess inventory. This has required sustained stimulus from government to offset the impact, not helped by a period of weak growth in international trade. The 4.9% growth rate was lower than the 6.3% achieved in Q2, which was supported by a bounce back from strict lockdown measures in 2022.

The advance estimate showed that the US economy grew at an annualised 4.9% in the third quarter of 2023, the highest rate since the fourth quarter of 2021 and well above the 2.1% expansion in Q2. The expansion in growth was broad based. Consumer spending rose 4%, led by consumption of housing and utilities, health care, financial services and insurance, food services and accommodation and nondurable goods, recreational goods and vehicles. Exports soared +6.2%, rebounding from a -9.3% fall in Q2 and imports also increased +5.7% compared to -7.6%. Private inventories added 1.3% to growth, the first gain in three quarters. Residential investment increased for the first time in nearly two years and government spending also increased at a faster rate. Growth fell in non-residential investment for the first time in two years, mainly due to a fall in equipment purchases. The annual growth rate was 2.9%.

The United Kingdom's second quarter economic growth was confirmed at +0.2%, following an upwardly revised expansion of +0.3% in the first quarter of 2023. Household consumption rose by 0.5% driven by spending on housing, water, electricity, gas, transport, and recreation and culture. Fixed investment increased by 0.8% mainly due to an increase in business investment, and government consumption expenditure rose by 2.5%, mainly reflecting higher spending on public administration and defence, and to a lesser extent, on health. On the other hand, net trade contributed negatively to GDP as exports dropped by -0.9% and imports rebounded by +2.2%.

Preliminary estimates showed that growth in the Euro Area fell by -0.1% in the third quarter of 2023, the result was worse than an upwardly revised +0.2% increase in the second quarter. This was the first quarter of negative growth since 2020. Among the bloc's biggest economies, GDP shrank in Germany -0.1%, stalled in Italy and rose modestly in France +0.1% and Spain +0.3%. Year-on-year, the economy advanced a meagre +0.1%. The ECB expects the Euro Area economy to grow +0.7% in 2023, as tighter financial conditions and higher prices slow domestic demand, the ECB noted that foreign demand remains subdued and the industrial sector continues to contract, especially in Germany. The ECB have forecast that GDP growth is expected to pick up to +1% in 2024 and +1.5% in 2025.

The Japanese economy expanded by 1.2% in Q2 of 2023, compared with a downwardly revised 0.8% increase in Q1. Capital spending and private consumption were both weaker in the second quarter and government spending was unchanged. Positive contributions came from net trade as exports rebounded and imports fell for the third quarter in a row. The economy grew by 1.6% in the last year.

Consumer Price Inflation

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

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

% CHANGE YOY								
	2023				2024			
	AUGUST		NOVEMBER		AUGUST		NOVEMBER	
	Consensus	AF	Consensus	AF	Consensus	AF	Consensus	AF
US	4.1	**3.5**	4.1	**3.5**	2.6	**2.6**	2.6	**3.0**
UK	7.4	**7.0**	7.4	**7.0**	3.2	**3.5**	3.1	**4.0**
Japan	2.9	**2.5**	3.2	**2.5**	1.7	**1.5**	2.2	**2.5**
EU	6.3	**6.0**	6.1	**6.0**	2.9	**3.0**	3.0	**3.0**
China	1.0	**1.0**	0.6	**0.6**	2.1	**2.1**	1.7	**1.5**
SE Asia	3.6	**3.6**	3.6	**3.6**	2.8	**2.8**	2.9	**2.5**

Source: - Consensus Economics October 2023

The consensus forecasts for inflation in November have not changed materially in all developed economies for both 2023 and 2024, however Chinese inflation has been marked down presumably reflecting the impact of the deflationary consequences of the domestic Property market. I expect inflation in 2024 to be lower than it will be in 2023, but I am happy to stick with my above consensus expectations, because as mentioned above, growth although anaemic may be stronger than expected. Tight labour markets, rising real incomes 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. Falling headline inflation now means that cash has a real cost and it 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.

China's consumer prices remained unchanged in September 2023 from a year earlier, following a 0.1% rise in the previous month. The latest data indicated persistent deflationary pressures in the world's second-largest economy, raising concerns about the sustainability of the economic recovery due to sluggish demand. Food prices dropped, driven by a steep decline in pork prices, but non-food inflation accelerated slightly driven by price increases in clothing, housing, health and education. The annual core inflation rate, which excludes food and energy prices, remained unchanged at +0.8%.

The US inflation rate remained steady at 3.7% in September 2023, as a softer decline in energy prices offset slowing inflationary pressures in other categories. The decline in the growth rate of headline inflation components was fairly broad based but insufficient the change the rate as energy costs were more or less unchanged. Core CPI, which excludes volatile food and energy prices, slowed to 4.1%, marking its lowest reading since September 2021.

The inflation rate in the United Kingdom remained stable at 6.7% in September 2023, holding at August's 18-month low. Lower price increases in food and non-alcoholic beverages, furniture and household goods, were offset by a smaller decline in energy costs on the back of a monthly rise in motor fuel costs. The core inflation rate, which excludes volatile items such as energy and food, dropped to 6.1%, reaching its lowest level since January 2023.

Preliminary estimates showed the inflation rate in the Euro Area declined to 2.9% year-on-year in October 2023, reaching its lowest level since July 2021. October's data was helped by a sharp fall in energy costs and the rates of inflation also eased for food, alcohol, tobacco and non-energy industrial goods, however services inflation remained relatively stable. The core rate, which filters out volatile food and energy prices, also declined to 4.2% in October, marking its lowest point since July 2022.

The annual inflation rate in Japan fell to 3.0% in September 2023 from 3.2% in August, the lowest reading since September 2022. Price increases eased for furniture & household utensils, clothes, and culture & recreation. Energy costs fell with the prices of fuel, light, and water charges falling due to lower electricity and gas prices. By contrast, food prices, housing and transport costs increased. Core inflation rate dropped to a 13-month low of 2.8%.

4. The outlook for the securities markets

Bond Markets

In table 6, below I have set out my expectations for 3 month SONIA interest rates and benchmark 10 year government bond yields, over the next 6 and 12 months. They are not meant to be accurate point forecasts, more an indication of the possible direction of yields from November 2023.

Table 6: - Interest rate and Bond yield forecasts

%	CURRENT	MARCH 2024	SEPTEMBER 2024
UNITED STATES			
3month SONIA	5.64	5.75	5.75
10 year bond yield	4.44	4.75	4.50
UNITED KINGDOM			
3month SONIA	5.38	5.50	5.50
10 year bond yield	4.09	5.00	4.75
JAPAN			
3month SONIA	0.07	0.25	0.25
10 year bond yield	0.73	1.00	1.25
GERMANY			
3month SONIA	3.94	4.25	4.25
10 year bond yield	2.58	3.5	3.25

Source: - Trading Economics; 17th November 2023

The central banks have paused, deciding not to increase rates at the last 2 meetings in the case of the US Fed and at the most recent meetings of the ECB and the BoE. However, all 3 have emphasised that at the moment this is just a pause while they await further data on the impact of rate increases on the economy, inflation, jobs and wages. Headline inflation continues to decline, but as I have mentioned before core inflation and not yet started to fall. In the US economic growth has turned out to be stronger than expected, while in Europe and the UK it oscillates around zero and jobs and wage growth also remains mixed. There are some signs of a weakening labour market in the "high frequency" data but despite this, there is still robust wage growth. With workers now managing to achieve increases which, because of lower headline inflation are positive in real terms, which at the margin has improved their spending power.

As can be seen from the table above I believe there is a reasonable chance that we could see 1 further rate increase in this cycle. But unlike the markets which are still clinging to the idea of this being followed almost immediately by significant rate cuts, I see rates stable at the highs for some time before possibly starting a slow decline in 2025. As I have mentioned before the era of ZIRP is behind us and even the BoJ have started to respond by allowing 10 year JGB yields to rise.

While long dated (beyond 15 year) UK gilt and linkers yields continue to trend higher, between 5 and 10 years they have moved sideways in a range between 4.25% and 4.75% since my last report and shorter dated yields have started to fall, following the recent central bank rate decisions.

More importantly for the global direction of bond yields the trend in US increases on all points of the yield curve "seems" to have come to an end with the second pause by the Fed. I believe this could herald the beginning of a period of consolidation in government bond markets and a more mixed period of returns with yields moving up and down in a sideways range, driven by economic data and announcements from the central banks.

As mentioned above the yield of long dated UK Gilts continues to trend higher and the real yield available from Index Linked Gilts also continues to increase making them more attractive as a Protection asset, but as mentioned before for various reasons this trend may have further to go before these bonds become cheap. Non-government bonds continue to outperform government bonds due to the lower interest rate sensitivity, some degree of spread compression and as mentioned before the "all in yield" for corporates remains attractive.

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	4.28	9.2	0.5	-3.5	-0.3
All Stocks Linkers	0.83	14.4	0.5	-7.0	-6.4
Global IG Corporate	5.37	5.8	0.5	-1.5	+2.5
Global High Yield	8.60	3.4	0.5	-0.6	+6.9

Source: - ICE Indices 17th November 2023

Bond Market (Protection Assets) Recommendations

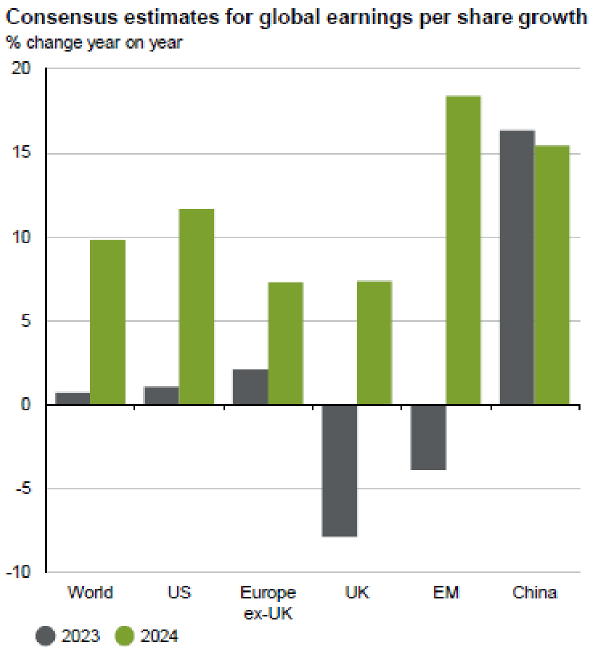
I suggest that the Fund sticks with its current allocation to Protection assets and remains neutral investment grade corporate bonds. The extra yield spread available from corporate bonds has narrowed slightly since my last report, but it remains wider than it has been for some years and the total yield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

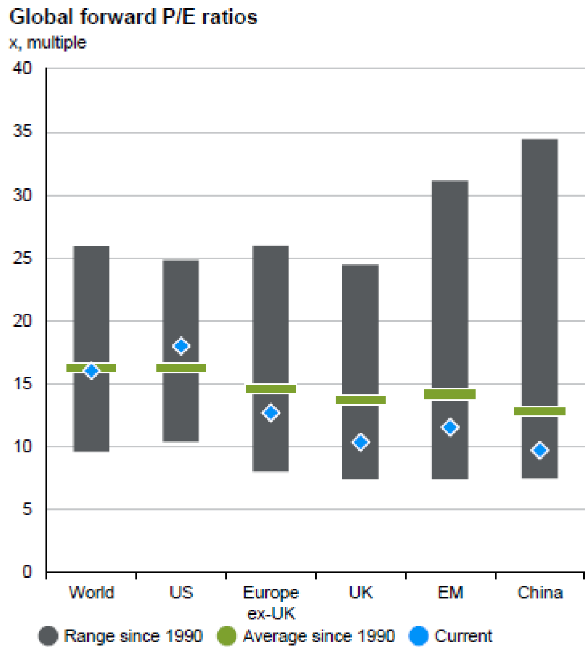
Given that I believe the outlook for returns from Government bonds is mixed it may be worth increasing the duration of the Fund's allocation to fixed interest gilts from underweight to neutral. However, as I have mentioned before Gilts and Index Linked Gilts in particular remain expensive and I am more pessimistic about the longer-term fall in demand and potential increased supply. Since my last report the real yield of 20 year Linkers has been volatile but it has increased by 0.25% to around +1.3%, from around -2%, 18 months ago.

Equity Markets

On chart 11 below, the left hand graph, shows the consensus earnings per share growth estimates, for 2023 and 2024. The right hand graph 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 11: - LHS - Earnings per Share estimates, RHS - Price/Earnings Ratios, since 1990, China 1996





Source: - JPM Asset Management, October 2023

The left-hand graph of chart 11 shows the new earnings expectations for 2023 and 2024. Since July analysts have moved their earnings expectations slightly higher for the world in aggregate and the US and more negative for the UK and Emerging markets in 2023, despite the better than expected macroeconomic performance experienced year to date. China's expected earnings have been revised down significantly reflecting its sluggish post lockdown recovery and the ongoing problems in the domestic property market. Other than the UK, which have been revised slightly higher and China which have been revised down, other regional earnings estimates for 2024 have been left more or less unchanged.

The updated right-hand graph shows the valuation of regional equity markets using P/E ratios, all of which appear to have fallen since July. This is because in local terms equity markets are lower but also earnings outcomes have been broadly better. These two factors have slightly reduced the overvaluation of the US market in particular and as a result the World index. It remains the case that other regional market valuations appear relatively (even more than last quarter) attractive.

In my last report I wrote about the extreme overvaluation of the “magnificent 7” and how the performance of these “growth” stocks had dominated the performance of the US and global market indices in the first half of 2023. As can be seen in the left-hand graph of chart 12 below the valuation of the top 10 stocks in the S&P 500, which contains all these stocks, has fallen somewhat. Equally the right-hand graph of chart 12 shows the valuation of the “growth” stocks in the MSCI World index, which also contains these companies, has also fallen. However, in each case these companies’ valuations have distorted the performance of the US and global indices, suggesting a further correction compared to the rest of the global equity market is required.

This can be achieved either by their prices falling or the rest of the market catching up. Given the more broad-based demand for capital in other areas of the economy, the opportunities provided by fixed income markets and the likelihood that interest rates remain higher for longer, the business plans of these growth companies may come under closer scrutiny and any disappointment with delivery is in my opinion the more likely to lead to a correction of the imbalance.

Chart 12: - S&P 500 – LHS P/E valuation of the top 10 versus the rest of the market; RHS – P/E valuation of “growth” and “value” stocks in the MSCI World indies.

Source: - JPM Asset Management. October 2023

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 remains attractive. 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 increasingly funded using net sales from the indirect 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 indirect 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 18th August and 17th November 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 18TH AUGUST 2023	ANTHONY FLETCHER 17TH NOVEMBER 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

MJ HUDSON
Allenbridge

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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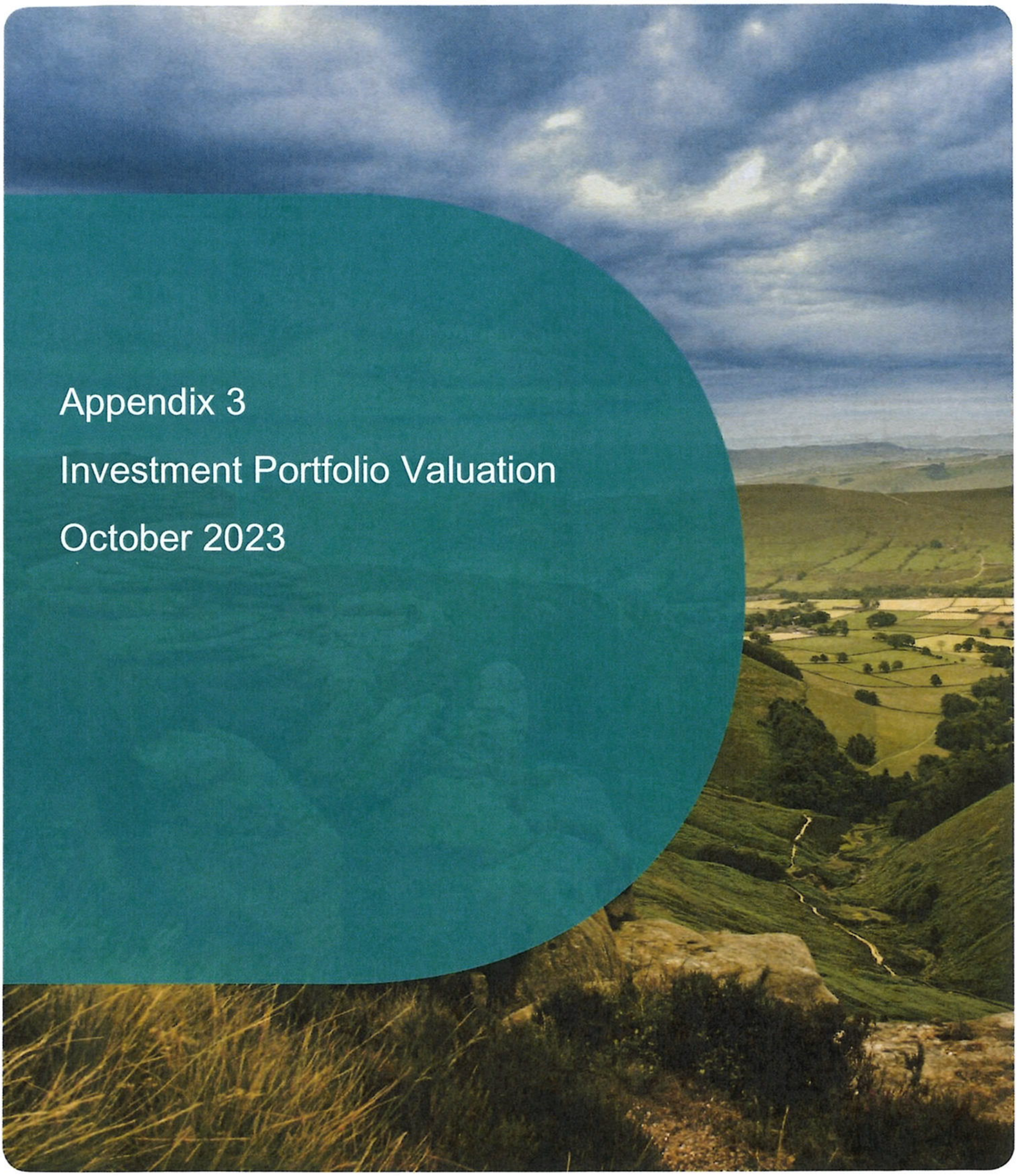

Appendix 3

Investment Portfolio Valuation

October 2023

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

DERBYSHIRE PENSION FUND

	SAAB	Permitted Range	DPF 31/10/2023 £m	DPF 31/10/2023 %
Growth Assets	**55.0%**	**+/- 8%**	**3,208.0**	**55.0%**
UK	12.0%	**+/- 6%**	703.9	12.1%
Japan	5.0%	**+/- 2%**	308.4	5.3%
Emerging Markets	5.0%	**+/- 2%**	299.4	5.1%
Global Sustainable	29.0%	**+/- 16%**	1,588.8	27.2%
Private Equity	4.0%	**+/- 2%**	307.5	5.3%
Income Assets	**25.0%**	**+/- 6%**	**1,546.3**	**26.5%**
Infrastructure	10.0%	**+/- 3%**	643.7	11.0%
Property	9.0%	**+/- 3%**	453.7	7.8%
Direct	6.0%		325.1	5.6%
Indirect	3.0%		128.7	2.2%
Multi-Asset Credit	6.0%	**+/- 2%**	448.9	7.7%
Protection Assets	**18.0%**	**+/- 5%**	**911.9**	**15.6%**
Government	6.0%	**+/- 2%**	289.2	***5.0%***
UK			268.0	*4.6%*
Overseas			21.3	*0.4%*
Index Linked	6.0%	**+/- 2%**	290.2	***5.0%***
UK			225.3	*3.9%*
Overseas			64.9	*1.1%*
Non Government	6.0%	**+/- 2%**	332.4	***5.7%***
Cash	**2.0%**	**+/- 8%**	**165.5**	**2.8%**
LGPSC Regulatory Capital	**0.0%**		**2.0**	**0.0%**
Total	**100.0%**		**5,833.7**	**100.0%**

DERBYSHIRE PENSION FUND
OCTOBER 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	42,343,646.77	**15.55**	**15.55**	658,257,395
UK EQUITIES FUND TOTAL					**658,257,395**

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

Sector	ISIN	SEDOL	Company Name	Number held	Mkt Price Pence	Total £
EQUITY INVESTMENT COMPANIES						
UK Investment Co's	GB0000066554	0006655	ABERFORTH SML 1P	789,000	1144.00	9,026,160
UK Investment Co's	GB00BZ1H9L86	BZ1H9L8	MONTANARO UK SMALLER CO'S 10P	11,996,285	84.00	10,076,879
UK Investment Co's	GB0003808762	0380876	STRATHDON INVESTMENTS PLC	20	1000.00	20,000
UK Equity Investment Companies Total						**19,123,039**
UNIT TRUSTS & OEICs						
UK Unit Trusts	GB00B57TMD12	B57TMD1	LIONTRUST UK SMALLER COMPANIES FUND1	1,713,693.58	1548.38	26,534,489
UK Unit Trusts & OEICs Total						**26,534,489**
TOTAL UNITED KINGDOM						**45,657,528**

DERBYSHIRE PENSION FUND
OCTOBER 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	**289.00**	**289.00**	2,075,020
J Investment Companies Total					**2,075,020**
Unit Trusts & OEICs					
Japan	Baillie Gifford OGF - Japanese B Acc Shares	4,540,648.60	**1,677.00**	**1,677.00**	76,146,677
Japan	JPM JAPAN-C-ACC	5,237,837.84	**286.30**	**286.30**	14,995,930
J Unit Trusts Total					**91,142,607**
Life Policies					
International	LGIM Japan Equity Index Fund	92,180,451.440	**2.33**	**2.33**	215,223,840
International Life Policies					**215,223,840**
JAPAN TOTAL					**308,441,467**
EMERGING MARKETS					
Listed Pooled Vehicles					
International	LGPS Central Emerging Mkt Equity Active Multi M	1,745,534.150	**9,355.00**	**93.55**	163,294,720
Listed Pooled Vehicles					**163,294,720**
Life Policies					
International	LGIM World Emerging Markets Index Fund	23,986,326.990	**3.75**	**3.75**	90,066,499
International Life Policies					**90,066,499**
Investment Entities					
Asian	JPM ASIA GROWTH FD-C ACC	18,932,749	**243.00**	**243.00**	46,006,579
LatAm Investment Entities Total					**46,006,579**
EMERGING MARKETS TOTAL					**299,367,798**
OTHER EQUITIES TOTAL					**607,809,264**

DERBYSHIRE PENSION FUND
OCTOBER 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	2,513,617.94	**145.09**	**145.09**	364,700,827
GLOBAL SUSTAINABLE FUND	LGPS Central All World Equity Climate Multi Factor Fund	2,334,592.41	**13460.00**	**134.60**	314,236,138
GLOBAL SUSTAINABLE FUND	LGPS Central Global Sustainable Equity Active Broad Strategy Fund	596,643.65	**9924.00**	**99.24**	59,210,916
GLOBAL SUSTAINABLE FUND	LGPS Central Global Sustainable Equity Active Targeted Fund	1,142,620.26	**8419.00**	**84.19**	96,197,200
Global Sustanable Unit Trusts					**834,345,081**
Life Policies					
GLOBAL SUSTAINABLE FUND	LGIM MSCI World Low Carbon Target Index Fund	312,849,831.26	**2.41**	**2.41**	754,474,910
International Life Policies					**754,474,910**
GLOBAL SUSTAINABLE FUNDS TOTAL					**1,588,819,991**

DERBYSHIRE PENSION FUND
OCTOBER 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	152.80	4,611,936
UK Investment Co's	HARBOURVEST GLOBAL PRIVATE	995,906	2155.00	21,461,774
UK Investment Co's	HGCAPITAL TRUST PLC	7,453,150	367.50	27,390,326
UK Investment Co's	ICG ENTERPRISE TRUST PLC	181,795	1090.00	1,981,566
UK Investment Co's	NB PRIVATE EQUITY PARTNERS Ltd	1,500,000	18.58	22,931,436
UK Investment Co's	NB PRIVATE EQUITY PARTNERS Ltd	38,173	1572.00	600,080
UK Investment Co's	PANTHEON INTERNATIONAL PLC	3,600,601	283.50	10,207,704
UK Investment Co's	PRINCESS PRIVATE EQUITY HOLDING LTD	500,000	9.70	4,220,810
UK Investment Co's	ABERDEEN PRIVATE EQUITY OPPORTUNITIES TRUST PLC	900,000	432.00	3,888,000
UK Quoted Private Equity Total				**97,293,631**
Unquoted Private Equity				
UK Unclassified	ADAM STREET PARTNERS (FEEDER) 2017 FUND	30,000,000	1.32	32,689,071
UK Unclassified	CAPITAL DYNAMICS GLOBAL SECONDARIES IV	20,000,000	0.55	9,075,012
UK Unclassified	CAPITAL DYNAMICS MID-MARKET DIRECT FEEDER LP	25,000,000	1.32	28,730,399
UK Unclassified	CAPITAL DYNAMICS LGPS COLLECTIVE PE VEHICLE 2017/18	20,000,000	1.27	25,395,741
UK Unclassified	CAPITAL DYNAMICS CPEP LGPS	25,000,000	0.99	24,784,534
UK Unclassified	CATAPULT GROWTH FUND UNITS	3,000,000	0.26	779,099
UK Unclassified	EAST MIDLANDS VENTURE	3,000,000	0.03	98,798
UK Unclassified	EPIRIS FUND II	25,000,000	1.34	33,612,847
UK Unclassified	EPIRIS FUND III (B) LP	30,000,000	0.18	5,263,799
UK Unclassified	GRAPHITE CAPITAL PARTNERS FUND 1X A	11,250,000	0.99	11,151,842
UK Unclassified	GRAPHITE CAPITAL PARTNERS FUND 1X C	11,250,000	1.00	11,273,714
UK Unclassified	MOBEUS EQUITY PARTNERS IV LP	10,000,000	0.72	7,160,197
UK Investment Co's	PANORAMIC ENTERPRISE CAPITAL UNITS	1,387,574	0.44	606,357
UK Investment Co's	PANORAMIC GROWTH FUND 2 LP	10,000,000	0.41	4,109,147
UK Investment Co's	PARTNERS GROUP GLOBAL VALUE 2008	7,500,000	0.15	991,495
UK Investment Co's	STAR CAPITAL STRATEGIC ASSETS III LP	12,500,000	0.71	7,755,873
UK Unclassified	VESPA CAPITAL II LLP	10,000,000	0.67	6,680,557
UK Unquoted Private Equity Total				**210,158,481**
PRIVATE EQUITY TOTAL				**307,452,113**
INFRASTRUCTURE				
UK Infrastructure Quoted				
Closed-end Funds	BLUEFIELD SOLAR INCOME FUND	5,778,936	112.80	6,518,640
Closed-end Funds	FORESIGHT SOLAR FUND LTD	4,000,000	87.00	3,480,000
Closed-end Funds	GREENCOAT UK WIND PLC	13,835,000	134.70	18,635,745
Closed-end Funds	HICL INFRASTRUCUTRE CO LTD	13,560,422	119.00	16,136,902
Closed-end Funds	INTERNATIONAL PUBLIC PARTNERSHIP LTD	32,014,081.00	116.20	37,200,362.12
Closed-end Funds	3I INFRASTRUCTURE PLC	2,249,999.00	299.00	6,727,497.01
Closed-end Funds	RENEWABLES INFRASTRUCTURE GR	8,391,878.00	100.60	8,442,229.27
UK Infrastructure Quoted Total				**97,141,375**
UK Infrastructure Unquoted				
UK Unclassified	BlackRock Global Renewable Power Fund III LP	65,000,000	0.74	39,466,922
UK Unclassified	DALMORE CAPITAL 3 LP	25,000,000	1.15	28,719,842
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	1.01	25,327,476
UK Unclassified	Igneo Infrastructure Partners EDIF	20,000,000	1.45	25,310,436
UK Unclassified	Greencoat Renewable Income Fund	75,000,000	0.98	73,751,177
UK Unclassified	IMPAX NEW ENERGY INVESTORS II UNITS	10,000,000	0.01	57,241
UK Unclassified	JP Morgan Infrastructure Investment Fund UK LP	185,000,000	0.80	148,109,394
UK Unclassified	MEIF 5 Co-Invest LP	12,600,000	0.45	4,930,768
UK Unclassified	MEIF 6 Co-Invest LP	28,000,000	0.38	9,335,078
UK Unclassified	MEIF 7 Co-Invest LP	22,500,000	0.20	3,915,753
UK Unclassified	Macquarie European Infrastructure Fund 5 LP	14,400,000	1.10	13,825,486
UK Unclassified	Macquarie European Infrastructure Fund 6 SCSp	56,000,000	1.12	54,656,686
UK Unclassified	Macquarie European Infrastructure Fund 7 SCSp	50,000,000	0.07	3,039,564
UK Unclassified	Macquarie GIG Renewable Energy Fund (Euro)	59,000,000	0.77	39,638,820
UK Unclassified	PIP Multi Strategy Infrastructure LP	25,000,000	0.78	19,480,145
UK Unclassified	SL CAPITAL INFRASTRUCTURE 1LP	15,000,000	1.39	20,914,153
UK Unclassified	SL Capital Infratructure II SCSP	25,000,000	1.11	24,192,002
UK Infrastructure Total				**546,564,895**
INFRASTRUCTURE TOTAL				**643,706,270**
ALTERNATIVES TOTAL				**951,158,383**

DERBYSHIRE PENSION FUND
OCTOBER 2023 PORTFOLIO VALUATION - BID

	Number held	Mkt Price in local currenc (Clean) use Calc & IL Valuation	Mkt Price in local currency (Dirty) use for Non IL Valuation	Mkt Price pence GBP	Total £ GBP
UK GILTS					
TSY 5% 7/3/2025	11,000,000	100.25	101.00	101.00	11,110,274
TSY 0.25% 31/1/2025	12,000,000	94.54	94.60	94.60	11,352,022
TSY 2% 7/9/2025	11,500,000	95.37	95.67	95.67	11,002,073
TSY 3.5% 22/10/2025	15,450,000	97.62	97.71	97.71	15,096,447
TSY 1.5% 7/22/2026	8,500,000	92.57	92.98	92.98	7,903,535
TSY 4.125% 29/01/2027	14,400,000	98.65	99.72	99.72	14,359,374
TSY 4.25% 7/12/2027	18,000,000	99.52	101.22	101.22	18,220,494
TSY 4.75% 7/12/2030	13,162,000	102.38	104.29	104.29	13,726,359
TSY 4.25% 7/6/2032	12,370,000	98.88	100.58	100.58	12,441,989
TSY 0.875% 31/7/2033	19,500,000	71.47	71.69	71.69	13,979,185
TSY 4.5% 7/9/2034	16,373,000	99.14	99.82	99.82	16,342,865
TSY 4.25% 7/3/2036	11,400,000	95.97	96.61	96.61	11,013,901
TSY 1.75% 7/9/2037	17,500,000	69.54	69.81	69.81	12,216,124
TSY 4.75% 7/12/2038	13,000,000	99.26	101.17	101.17	13,151,942
TSY 4.25% 7/9/2039	8,980,000	93.24	93.88	93.88	8,430,709
TSY 1.125% 31/01/2039	12,770,000	60.15	60.43	60.43	7,716,823
TSY 4.25% 07/12/2040	10,500,000	92.51	94.22	94.22	9,892,782
TSY 1.25% 22/10/2041	18,000,000	56.70	56.73	56.73	10,211,608
TSY 3.25% 1/22/2044	11,920,000	78.12	79.02	79.02	9,419,162
TSY 0.875% 31/1/2046	20,000,000	45.34	45.56	45.56	9,112,626
TSY 4.25% 7/12/2046	11,000,000	89.91	91.61	91.61	10,077,536
TSY 0.625% 22/10/2050	26,100,000	36.12	36.14	36.14	9,431,255
TSY 1.5% 31/07/2053	25,000,000	46.72	47.10	47.10	11,775,019
001 UKGB Total					**267,984,102**
US GOVERNMENT BONDS					
T 2.25% 15/11/2024	21,000,000	96.77	97.81	80.47	16,899,535
T 2.75% 15/11/2042	7,500,000	69.42	70.69	58.17	4,362,419
004 USGB Total					**21,261,954.12**
NON GOVERNMENT BONDS					
LGPS Central Global Active Corp Bı	3,957,714	8,400.00	8,400.00	8,400.00	332,447,960
Non Govt Bonds Total					**332,447,960**
MULTI ASSET CREDIT					
Ares Infrastructure Debt Fund III (El	17,000,000	0.43	0.43	0.43	6,354,170
Barings Global Private Loan Fund	40,000,000	0.12	0.12	0.12	4,934,728
Barings Global Private Loan Fund 2	40,000,000	0.33	0.33	0.33	13,114,856
Barings Global Private Loan Fund 3	50,000,000	0.92	0.92	0.92	45,882,717
CQS Credit Multi Asset Fund Class	109,353	1,137.34	1,137.34	1,137.34	124,371,060
CVC Credit PARTNERS European I	76,000,000	0.83	0.83	0.83	55,089,968
CVC (Co Inv) Credit Ptnrs Europear	30,000,000	0.75	0.75	0.75	19,511,393
CVC Credit Partners European Dire	45,000,000	0.72	0.72	0.72	32,386,871
CVC (Co Inv) Credit Ptnrs Europear	11,250,000	0.68	0.68	0.68	7,634,943
Janus Henderson Multi Asset Credit	99,955,966	1.18	1.18	1.18	117,742,930
LGPS Central Credit Partnership II L	50,000,000	0.44	0.44	0.44	21,855,368
Multi Asset Credit Total					**448,879,004**
UK INDEX LINKED					
TREAS 4.125% IL STK 22/7/2030	6,510,000	335.25	338.42	338.42	22,031,281
TREAS 2% IL STK 26/1/2035	8,000,000	235.39	236.55	236.55	18,923,634
002 UKGIL Total					**40,954,915**

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	99.1380	1.553510	14,215,296.01	1,267.86	14,216,564
TREAS 1.25% IL STK 22/11/2027	7,400,000	102.6120	1.940570	14,735,306.89	40,971.47	14,776,278
TREAS 0.125% IL STK 22/3/2029	8,600,000	97.0000	1.586220	13,232,247.24	1,181.32	13,233,429
TREAS 1.25% IL STK 22/11/2032	2,777,000	104.3410	1.734430	5,025,596.90	15,375.37	5,040,972
TREAS 0.75% IL STK 22/3/2034	11,465,000	98.1810	1.621670	18,254,249.95	9,449.18	18,263,699
TREAS 1.125% IL STK 22/11/2037	5,580,000	99.5950	1.862120	10,348,547.55	27,805.23	10,376,353
TREAS 0.625% IL STK 22/3/2040	5,600,000	89.6820	1.739310	8,735,148.77	3,846.15	8,738,995
TREAS 0.625% IL STK 22/11/2042	5,950,000	86.9050	1.772530	9,165,482.32	16,471.64	9,181,954
TREAS 0.125% IL STK 22/3/2044	11,470,000	75.9050	1.553490	13,525,155.42	1,575.55	13,526,731
TREAS 0.125% IL STK 22/3/2046	8,730,000	73.3050	1.460880	9,348,940.27	1,199.18	9,350,139
TREAS 0.75% IL STK 22/11/2047	6,500,000	84.0040	1.812610	9,897,321.88	21,593.07	9,918,915
TREAS 0.125% IL STK 10/08/2048	12,500,000	70.6230	1.370480	12,098,426.13	3,524.12	12,101,950
TREAS 0.5% IL STK 22/3/2050	10,100,000	76.9600	1.764760	13,717,408.89	5,549.45	13,722,958
TREAS 1.25% IL STK 22/11/2055	9,205,000	93.0390	1.959420	16,780,943.04	50,965.18	16,831,908
TREAS 0.375% IL STK 22/03/2062	13,850,000	68.1370	1.596920	15,070,093.32	5,707.42	15,075,801
UK INDEX LINKED (3monthers) TOTAL						**184,356,647**

DERBYSHIRE PENSION FUND
OCTOBER 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	104.179688	1.898270	7,999,439.54	6,810.74	8,006,250	6,587,542.74
TII1.750% 15/1/2028	5,550,000	96.484375	1.465540	7,847,794.96	28,768.00	7,876,563	6,480,836.00
TII2.5% 15/1/2029	7,000,000	99.679688	1.430030	9,978,146.05	51,834.24	10,029,980	8,252,667.78
TII2.125% 15/2/2040	4,095,000	92.945313	1.420500	5,406,580.03	18,444.19	5,425,024	4,463,709.93
TII0.75% 15/2/2042	20,300,000	71.804688	1.358760	19,805,763.45	32,270.38	19,838,034	16,322,734.23
TII0.625% 15/2/2043	20,000,000	68.726563	1.335410	18,355,627.77	26,494.57	18,382,122	15,124,810.25
TII1% 15/2/2046	10,000,000	71.671875	1.295770	9,287,026.55	21,195.65	9,308,222	7,658,805.23
0045 USGB IL Total							**64,891,106**

TOTAL BONDS	**1,360,775,689**
Index linked-total	**290,202,668**
Conventional-total	**289,246,056**
Non gov-total	**781,326,964**

DERBYSHIRE PENSION FUND
OCTOBER 2023 PORTFOLIO VALUATION - BID

					31/10/2023 Valuation £
Real Property					
Property		Southampton Property			8,200,000
Property		Retail Unit Tamworth			7,800,000
Property		15-17 Jockeys Field London			8,600,000
Property		D'Arblay House, London			12,150,000
Property		Bristol Odeon Development			6,100,000
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			15,700,000
Property		Birmingham - Travelodge developm't			13,200,000
Property		Saxmundham, Tesco developm't			9,950,000
Property		Roundhay Road, Leeds			7,150,000
Property		Premier Inn, Rubery, Birmingham			4,900,000
Property		South Normanton Warehouse, Alfreton			17,650,000
Property		Loddon Centre, Basingstoke			16,300,000
Property		Parkway, Bury St Edmunds			7,100,000
Property		Waitrose, York			11,650,000
Property		Link 95, Heywood Manchester			10,450,000
Property		Car Park, Welford Rd Leicester			11,700,000
Property		Leamington Spa, Heathcote Industrial Estate			13,950,000
Property		Chalfont Saquare Retail Park, Lowers Earley			9,500,000
Property		Apex Park Leighton Buzzard			12,500,000
Property		Proximity, 4 Parham Drive, Eastleigh			14,450,000
Property		Knight Retail Park Saffron Walden			8,550,000
Property		Knight Premier Inn- Saffron Walden			8,800,000
Property		Frameworks Richmond			19,350,000
Property		Ashford Trade Centre, Ashford			10,250,000
Total Real Property					**325,050,000**
Property Managed Funds			**Number held**	**Mkt price**	**£**
Property	**GBP**	Aviva Pooled Property Fund - class A	26,891	17.7763	478,029
Property	**GBP**	Aviva Pooled Property Fund - class B	24,513	17.9403	439,778
Property	**GBP**	Bridges Property Alternatives Fund III LP	10,000,000	0.6263	6,263,289
Property	**GBP**	Bridges Property Alternatives Fund IV LP	10,000,000	0.8692	8,691,930
Property	**EUR**	Fidelity Eurozone Select Real Estat Fund - price in Euro's	4,486	6104.5422	23,833,864
Property	**GBP**	Hearthstone Residential Fund 1 LP	25,000,000	0.9709	24,273,079
Property	**GBP**	Igloo Regeneration P'ship Property Unit Trust	4,644,493	0.0241	112,081
Property	**EUR**	Invesco Real Estate-European Fund FCP - SIF	44,569	104.5780	4,056,259
Property	**GBP**	M&G PP UK Property Fund (Inc)	5,504	784.7100	4,318,974
Property	**EUR**	M&G European Property Fund SICAV-FIS (Class X)	25,000,000	0.9426	20,507,784
Property	**Pence**	Tritax Big Box Indirect Pooled Fund	10,000,000	136.8000	13,680,000
Property	**GBP**	Unite UK Student Accommodation Fund	15,584,567	1.4140	22,036,578
Total Property Funds					**128,691,644**
					£
Regulatory Capital		LGPS Central			2,000,000

Cash	*Updated to 31 October 2023*				
Cash		Northern Trust	*UK-In House*		11,611,414
Cash		Colliers Property Managers Cash			5,187,991.83
Cash		Cash - Lloyds bank Superfund			10,107,263
			Units	**Price**	
	GBP	Aegon Global Short Dated Climate Transition Fund CLS S GBP Acc-Commitment 29.9.21	**1,991,481.47**	9.97	19,861,642.14
	Pence	Royal London Inv Grade Short Dated-Z Accum GBP	**30,223,655.05**	95.14	28,754,785.41
			£		
		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		
		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		90,000,000
Total Cash				Total Cash	**165,523,096**

DERBYSHIRE County Council

FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

PENSIONS AND INVESTMENTS COMMITTEE

WEDNESDAY, 6 DECEMBER 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 September 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):

- Q3 2023 LGIM ESG Impact Report (Appendix 2)
- Q2 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.

2.2 LGPSC Stewardship Themes

LGPSC currently has four stewardship themes, agreed in collaboration with the eight Partner Funds of the LGPS Central Pool, in respect of Climate Change, Plastic, Human Rights Risks, and Fair Tax Payment & Tax Transparency. The Partner Funds and LGPSC believe that identifying material core themes helps direct engagement and sends a clear signal to companies of the areas that Partner Funds and LGPSC are likely to be concerned with during engagement meetings.

The themes are subject to review every three years and LGPS Central Limited is proposing to update the themes to Climate, Natural Capital, Human Rights, and Controversial Activities as set out in LGPSC's 2024-2027 Proposed Stewardship Strategy slides attached as Appendix 4.

LGPSC will continue to engage on Fair Tax Payment and Tax Transparency through the Controversial Activities theme.

The In-House Investment Management Team has discussed the proposed themes with LGPSC and supports the updated choice of stewardship themes and the increased focus on linking engagement to measures of success.

Information on the proposed stewardship themes was recently circulated to members of Committee to provide an opportunity for feedback on the updated themes.

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 Team.

5. Appendices

5.1 Appendix 1 – Implications
5.2 Appendix 2 – Q3 2023 LGIM ESG Impact Report.
5.3 Appendix 3 – Q2 2023/24 LGPSC Quarterly Stewardship Report.
5.4 Appendix 4 – LGPSC 2024-2027 Proposed Stewardship Strategy

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

<u>Implications</u>

Financial

1.1 None

Legal

2.1 None

Human Resources

3.1 None

Information Technology

4.1 None

Equalities Impact

5.1 None

Corporate objectives and priorities for change

6.1 None

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

7.1 None

For professional investors only.
All investing involves risk.

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Q3 2023

ESG impact report

Global engagement to deliver positive change

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.

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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.

Action and impact

This quarter, we look at our continued Climate Impact Pledge engagement, the main driver behind our increased engagement figures. We also include updates from our Global Research and Engagement Groups, discuss our work on income inequality, and highlight our engagement with stock exchanges in Asia.

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Environmental | Social | Governance

ESG: Environment

Climate

Climate Impact Pledge update: our largest written campaign to date

Regular readers will notice that our Q3 engagement statistics have increased substantially compared with last year. The primary reason behind this is the expansion of our Climate Impact Pledge and the continuation of engagement with the 5000+ companies within the programme. In order to count written communication as an engagement, it must include a clear statement of our asks and expectations, a clear timeframe for these to be achieved, and what sanctions will be applied if our expectations are not met.

Identify and engage

In this written campaign, we **aim to write to all 5,000+ companies** (for which we have contacts) covered within our expanded Climate Impact Pledge scoring tool. We are coordinating a written engagement campaign through four batches of letters.

The content of all the letters aims to:

- Communicate our campaign
- Showcase and explain our Climate Impact Pledge score website as an assessment tool against our climate expectations
- Call companies to action to improve indicators flagged as red or amber in our tool, and specially to address and aim to meet our minimum standards
- Communicate the voting implications linked to our minimum standards

The results so far:

1,500
Letters sent

90%
Delivery rate

250+
Companies identified for potential voting sanctions contacted

Next steps

We are currently centralising and streamlining responses from investee companies. We have engaged with technology and telecommunications companies – newly added to the programme as part of our 2022 expansion – as set out in our 2023 Climate impact Pledge update. We aim to understand specifically how climate-related issues are prioritised within the board's discussions and how they are integrated into companies' strategies, including challenges encountered and industry-specific characteristics of which we should be aware with regard to climate transition and reporting on progress.

Our annual climate engagement cycle with the 100+ 'dial-mover' companies begins in October 2023.

CDP non-disclosure campaign and SBTi campaign

During the quarter, we supported two campaigns coordinated by CDP:

1. CDP's Non-Disclosure Campaign (NDC) with the aim to engage with companies that have failed to respond to requests to disclose through CDP's climate change, forests and/or water security questionnaires. This campaign runs alongside the main CDP disclosure request, to boost transparency and drive up rates of corporate disclosure. By participating in this initiative, we aim to promote transparency and accountability from investee companies. We have co-signed letters to all targeted companies that will be engaged by selected leads and the campaign reached a record number of sign-ups with 280+ participants, targeting 1,600 non-disclosing companies

2. This is the third year we have supported CDP's Science-Based Targets Campaign requesting large, impactful companies to set science-based targets. The 2023 campaign called on the 2,100 most impactful companies globally to set science-based targets

We would encourage companies to participate in CDP questionnaires and disclose through them as CDP data is often used by other data providers such as Bloomberg, ISS, GRESB, Sustainalytics and MSCI, as well as asset managers and other investor initiatives. As a large global investor[1], we always seek consistent and comparable information from our investee companies and third-party data providers.

1. LGIM has £1158 billion of assets under management (AUM), (Source: LGIM internal data as at 30 June 2023. The AUM disclosed aggregates the assets managed by LGIM in the UK, LGIMA in the US and LGIM Asia in Hong Kong (2018-2019 only). The AUM includes the value of securities and derivatives positions.)

Climate week: from commitments to accountability

As a large, global investor engaging with companies and policymakers around the world, we want to be part of the discussions shaping global dialogue on stewardship and responsible investment. Climate week took place in New York in the third week of September and our participation in panels and discussions was an opportunity to connect and collaborate with peers, clients and stakeholders on some of the most pressing issues facing asset owners and investors today.

In terms of participation and panels, some highlights included:

- **Global Climate Finance – sharpening up shareholder strategy**, organised by the Australian Centre for Corporate Responsibility (ACCR), Carbon Tracker, As You Sow, and Institute for Energy Economics and Financial Analysis (IEEFA). Our participation in the panel introduced our Climate Impact Pledge programme and our broader investment stewardship philosophy
- **FSDA (Finance Sector Deforestation Action)** meeting of signatories: we are part of the steering committee and the meeting was an opportunity to assess progress across signatories and forthcoming developments in deforestation data
- **Ceres and 'Freedom to Invest':** a talk which we attended, covering rebranding of ESG in the US to 'responsible business'
- **Carbon Disclosure Project:** a roundtable of asset managers and owners, discussing net-zero commitments, reporting on progress and assessing transition risk
- **ClimateArc:** we attended a workshop of NGOs, data providers, activists and consultants, on identifying existing tools (common datasets, scenarios, and understanding levers) to shift the market from net-zero commitments to accountability

In addition to strengthening our ties with the collaborations of which we are already part, and helping to shape their future direction, we were also able to glean more information about newer organisations set up to tackle climate change, and to hear in depth from a variety of stakeholders about challenges and opportunities in climate change.

Two core themes we would identify from the week were:

- A shift among from climate commitment to climate accountability
- The need for more precise language to describe 'ESG'

And we will be looking at how to integrate these considerations into our global stewardship engagement work, both with companies and policymakers.

Nature

NA100 collaboration

We are excited to announce that LGIM is a formal member of Nature Action 100 (NA100), a global investor initiative co-led by Ceres and the IIGCC (with support from Finance for Biodiversity and Planet Tracker). Focused on corporate engagement, NA100 aims to encourage greater corporate ambition and action on nature and biodiversity loss, by setting a common agenda and clear set of expectations for companies. 190 institutional investor participants – representing US$23.6 trillion in assets under management or advice – have joined NA100 and will be participating in direct engagement with 100 companies through the initiative.[2]

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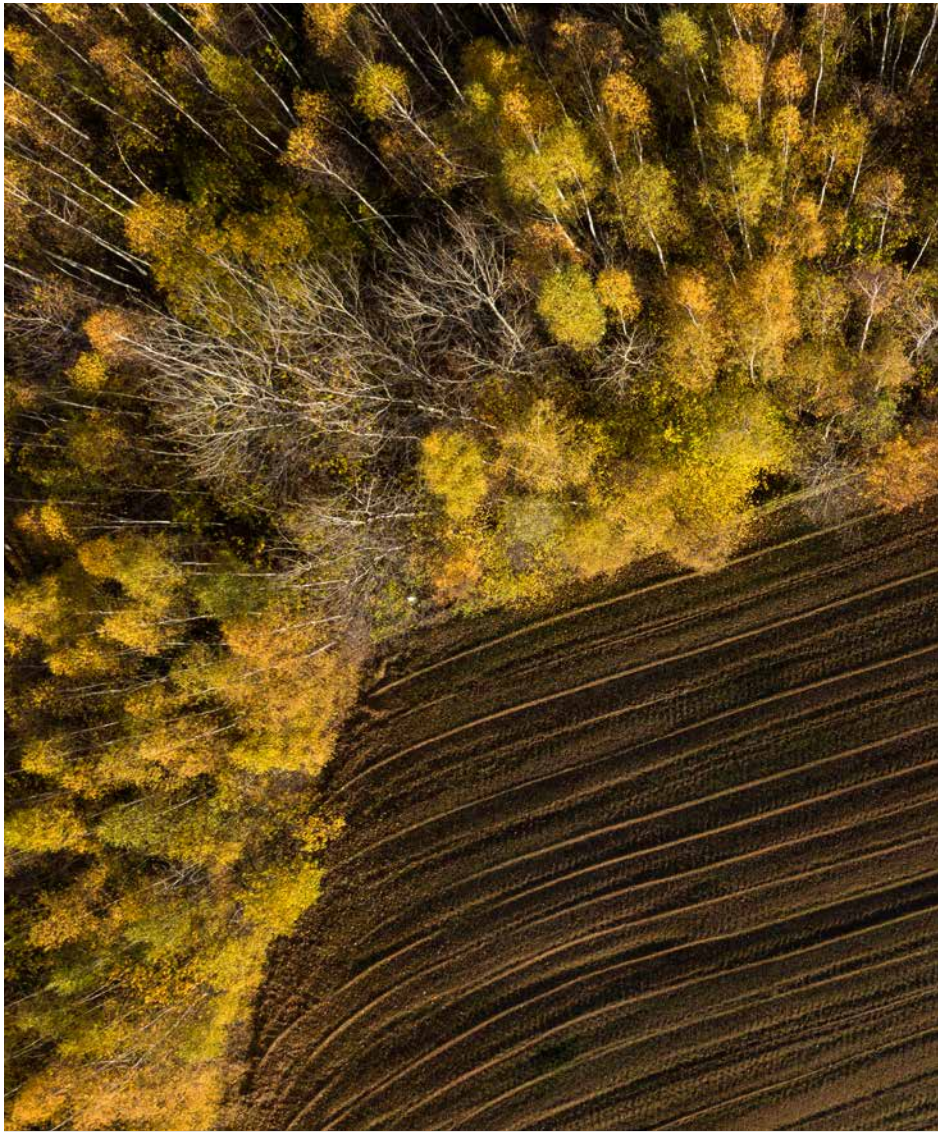
Joining NA100 is an important part of acting on the commitments LGIM has made regarding collaboration and knowledge-sharing under the Finance for Biodiversity Pledge, as set out in our biodiversity policy.

As corporate disclosure and assessments of companies' interactions with nature continue to evolve rapidly, we would hope that NA100 membership will provide both resources and insights that will help us develop our expectations and understanding in this area. We also note that NA100 is being framed broadly through a focus on sectors that are major drivers of nature loss through their impact upon natural habitats, overexploitation of resources, and soil, water and solid waste pollution.

2. Investors – Nature Action 100



Deforestation

Policy update

Having published our deforestation policy initially in the third quarter of 2022, we recently updated it to reflect the progress we have made on the milestones set out, our strengthening expectations of companies, and data improvements which have allowed us to broaden the scope and increase the depth of our assessments and engagement. We have also integrated the social aspects of commodity-driven deforestation and consideration of human rights, including indigenous people and land rights. LGIM has steadily evolved its approach to assessing and engaging on deforestation risk, most recently with a new risk assessment tool and a refresh of our assessment, with voting sanction implications, of deforestation policies and programmes.

Our minimum expectation is that all companies in 'deforestation-critical sectors',[3] for which we have data, have both a deforestation policy and programme.[4]

Additionally, we include some examples of best practice for companies regarding deforestation management and mitigation that we expect increasingly to monitor and engage on.

For further details, please read our updated deforestation policy.

3. 'Deforestation-critical' sectors or 'high-risk' sectors are defined using Ceres' Investor Guide to Deforestation and Climate Change. We also follow Deforestation Free Finance guidance on which GICS sub-industries to cover.
4. As assessed by Sustainalytics, using its criteria. Companies in selected sectors, where we have data, scoring 0 on either deforestation policy or programme will receive a vote against.

Significant votes

Company name	EMS-Chemie Holding AG*
ISIN	CH0016440353
Market cap	US$16.16 billion[5]
Sector	Basic materials: chemicals
Issue identified	EMS-Chemie does not meet our minimum standards with regard to climate risk management, as set out in our net-zero guide for the chemicals sector. According to the International Energy Agency (IEA), the chemicals sector is the largest industrial energy consumer and the third-largest industry subsector in terms of direct CO2 emissions.[6]
Summary of the resolution	Resolution 6.1.1: Elect Bernhard Merki as Director, Board Chair, and Member of the Compensation Committee AGM date: 12 August 2023
How LGIM voted	AGAINST resolution 6.1.1 (i.e. against management recommendation)
Rationale for the vote decision	The company's climate-related disclosures are lacking in the transparency and robustness that we believe is necessary for shareholders to obtain a sound picture of the company's climate transition plans and strategy. We also have concerns with regards to the scope and credibility of its net-zero commitment, as well as its medium-term targets, alignment to a 1.5°C scenario, and reliance on offsets. The company currently does not align executive remuneration with its medium-term emissions targets, which raises governance concerns regarding prioritisation and accountability for climate-related issues. Further, we have been disappointed in the company's lack of response to its shareholders' requests for dialogue regarding its climate strategy and disclosures. Our decision to vote against the re-election of the Chair of the Board, Bernhard Merki, is an escalation of our collaborative engagement with ShareAction and a reflection of our longstanding climate concerns at the company.
Outcome	94.7% votes were in favour of resolution 6.1.
Why is this vote 'significant'?	At LGIM, we believe that the chemicals sector has a crucial role to play in the global transition to net zero and in addition to publishing our sector-specific expectations under the Climate Impact Pledge, we have also joined a collaborative initiative to engage with the largest European chemicals companies, organised by ShareAction.

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* 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.

5. As at 25 September 2023, Ems-Chemie (EMSN.SW) – Market capitalization (companiesmarketcap.com)
6. Source: Chemicals - IEA

Case studies
Heidelberg Cement*: GREGs focus

Identify

Cement production is responsible for around 8% of global carbon emissions per year.[7] Therefore, the cement industry needs to decarbonise significantly for the world to reach net zero; the sector is included within the 'climate critical' sectors of our Climate Impact Pledge. Heidelberg believes it has an industry-leading decarbonisation policy as well as first-mover advantage in carbon capture and storage (CCS).

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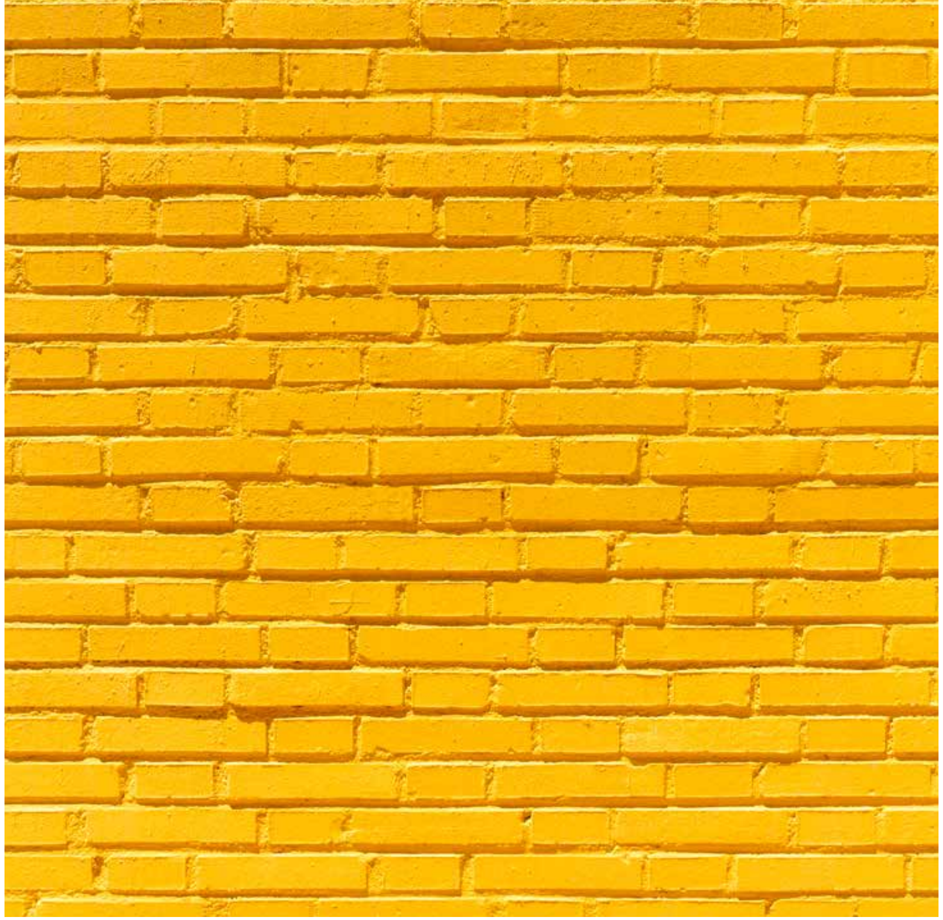
Engage

During the quarter, LGIM participated in discussions with Heidelberg's management team to discuss the progress and economic viability of the company's planned CCS projects. Questions focused on:

1. The economics of CCS (cost of capture, transport and storage versus carbon pricing)
2. The external factors affecting viability of CCS projects (regulation, government subsidies etc.)
3. Demand expectations for 'carbon-free' cement



Next steps

LGIM will continue to engage with Heidelberg as well as other competitors in the cement industry on their decarbonisation targets and trajectory. For Heidelberg, the economics of CCS will only become economical with either an increase in the carbon price or if customers are willing to pay a premium for carbon-free cement. LGIM will continue to monitor these dynamics and discuss with management.

* 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.

7. Concrete needs to lose its colossal carbon footprint (nature.com)

Water: GREGs focus

Identify

Water is a key component within our global stewardship theme of 'Nature'. We believe that water is at the core of resilient, sustainable economic development, and it is linked to a broad spectrum of concerns, from net zero, food and human health, to involuntary migration, and social and political instability.

We believe that in its current form, the water system presents a long-term systemic market risk that is financially material for our clients; it is therefore a specific area where we are focusing our activities in the Investment Stewardship team, and within the Global Research and Engagement Groups (GREGs).

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The water industry in England and Wales, in particular, is facing a number of environmental issues, many of which have received frequent press coverage in recent months. From pollution and monitoring of outflows, water security and infrastructure investment, to high levels of debt and evolving regulation, there are a number of financially material challenges that we have identified for engagement within the GREGs. As a major lender in the sterling corporate bond market, we believe we have a responsibility to push for positive change at underperforming companies.

Engage and escalate

Within the GREGs, members of our Investment Stewardship and investment teams have been forming a sector-wide engagement strategy, incorporating both corporate engagement and policy dialogue.

With regards to engagement, LGIM has joined a collaborative working group that is being led by the Investor Forum focused on short-, medium- and long-term concerns regarding the UK water system. The collaborative engagement is crucially approaching the topic at both a corporate and policy and regulatory level. To date, exploratory meetings have been held with United Utilities*, Severn Trent* and Pennon Group*. Topics discussed with these companies have included UK water infrastructure and investor concerns. We have also met with other large investors in the sector to help us understand broader concerns and formulate expectations. LGIM directly engages when companies are marketing bonds, and also amplifies its voice through its leading role at UK industry body The Investment Association.

The outcomes of our engagements will help to form the basis of our expectations for the sector going forward, enabling us to work with industry stakeholders towards solutions and improvements. For more information about how we believe active credit investors can help flush out UK sewage pollution, please see our blog.

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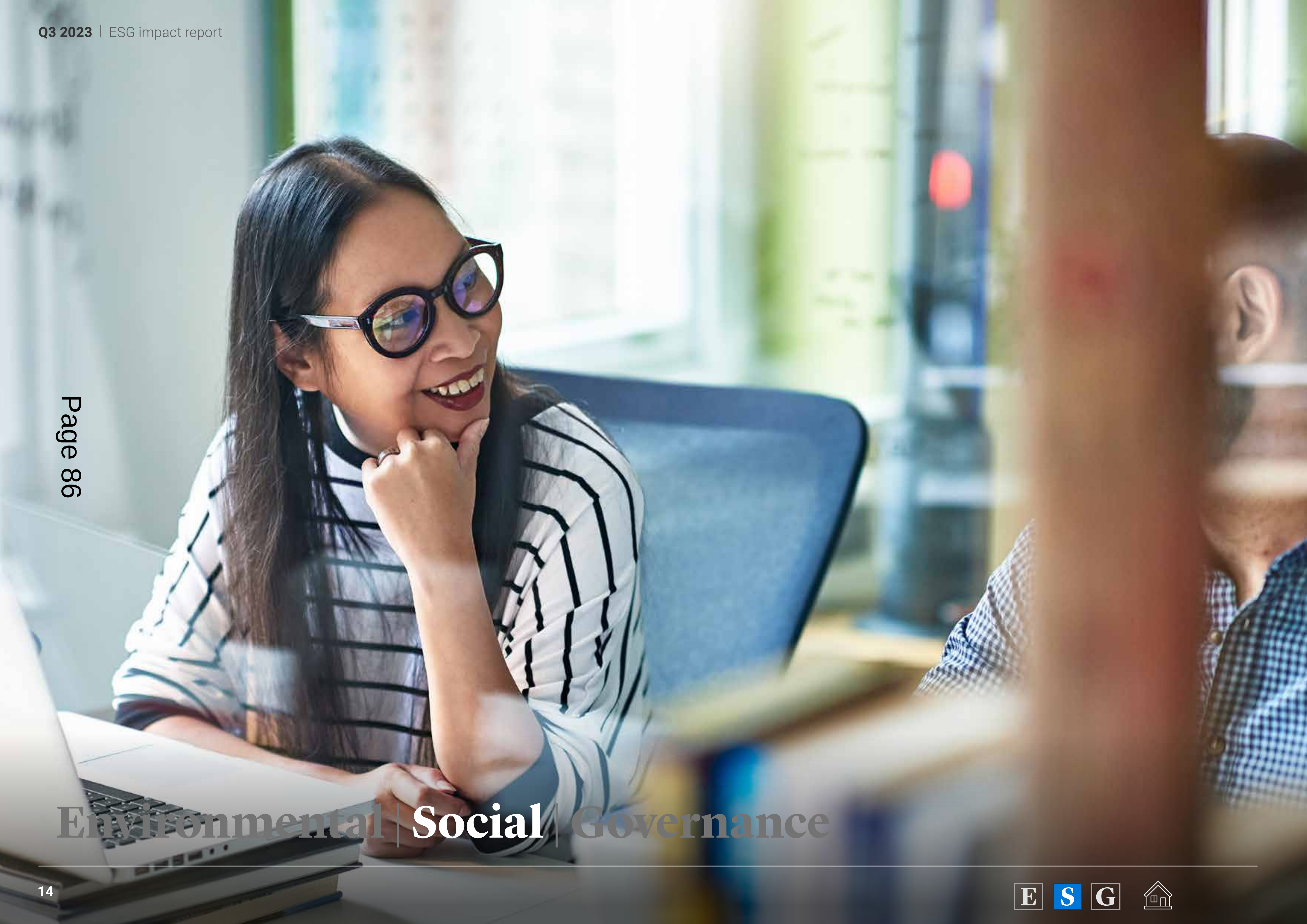

Environmental | **Social** | Governance

ESG: Social

Nutrition

UN Food Systems Summit

In July 2023, we were invited to speak during the United Nation Food Systems Summit +2 Stocktaking Moment held in Rome. The summit was convened by the UN Secretary-General to review progress in implementing the outcomes from the previous summit held in 2021 and towards achieving the 2030 Agenda for Sustainable Development.

Our participation was aimed at providing an institutional investor perspective on nutrition in general, how we as institutional investors engage with relevant stakeholders, and how we can contribute to positive change within the food sector.

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In looking at why we engage on the issues of nutrition and obesity, we explained why we believe these are financially material issues for our clients. The Access To Nutrition Initiative (ATNI), of which we are a member, estimates that the interconnected issues of obesity, under-nutrition and micronutrient deficiencies cost as much as 5% global income (US$3.5 trillion) per year.[8] We outlined the work we do with ATNI and in particular the engagement with the 20 largest listed food and beverage companies in the world, outlining specific company examples.[9]

Through our participation in events such as these, we continue to contribute to raising the profile of our engagements beyond the sphere of individual companies and understanding the roles and actions of other stakeholders linked to the issues surrounding global nutrition. We are doing this so that we can both share the work that LGIM has been doing and encourage other asset managers to follow suit, while also learning from others seeking the same developments and exploring collaborative and knowledge-sharing opportunities.

Antimicrobial resistance

World AMR Congress

The World Anti-Microbial Resistance (AMR) Congress took place on 7 and 8 September 2023 in Philadelphia, USA. The LGIM Investment Stewardship team was invited to attend and to speak at the conference.

This annual congress gathers academics, medics, healthcare professionals, companies, government officials, international organisations, policymakers and regulators from around the world to share research, innovations, new developments and thoughtful and thought-provoking thinking on AMR. The conference attracted 1,400 attendees.

On the second day, we sat down with FAIRR for a fireside chat on *How institutional investors can curb the silent pandemic.* As the only two representatives of institutional investors, we first needed to explain why LGIM considers AMR and the systemic risk it poses to our investments, and what we can contribute to the fight against AMR. We outlined the tools we have at our disposal, such as engagement with companies, voting shares, filing shareholder proposals and policymaker engagement. We wanted to make the audience aware of the very critical role institutional investors can play in curbing AMR and to encourage the various representatives from academia, healthcare professionals, international organisations and so forth to consider us as partners to engage with and combine forces, to enable us all to take co-ordinated action on this crucial issue. As a global investor and a universal owner, we strive for market-level improvements, and we seek to collaborate with like-minded stakeholders to speak with one voice on important global issues such as AMR which we believe are financially material for our clients.

8. Global-Index-2021-Full-Report-6.pdf (accesstonutrition.org)
9. For some examples, please see p.78 of our latest Active Ownership report

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Significant votes

Company name	FedEx Corporation*
ISIN	US31428X1063
Market cap	US$66.6 billion[10]
Sector	Industrial: transportation
Issue identified	Paid sick leave. At LGIM, we believe human capital issues represent risk to a company's operations, whether through heightened attrition or decreased productivity.
Summary of the resolution	Resolution 7: Adopt a paid sick leave policy AGM date: 21 September 2023
How LGIM voted	LGIM voted FOR Resolution 7 (i.e. against management recommendation)
Rationale for the vote decision	A vote in favour was applied as LGIM supports the adoption of a paid sick leave policy for all employees as it is set to improve employee wellbeing which is critical to human capital management and gender equality.
Outcome	34.6% shareholders voted in favour of the proposal
Why is this vote 'significant'?	This vote is significant because it relates to human capital management issues, which have been a focus of engagement for us, and reflects our broader campaign in 2022 on paid sick leave at US railway companies, described in our Q1 2023 ESG Impact Report

10. ISS, 6 October 2023)
11. Source for both figures: Presenteeism Costs 10x More Than Absenteeism. How Can Leaders Tackle This? - Thrive Global

Income inequality

Identify

At LGIM, we believe that failure to address the issues of income inequality and poverty can pose a material risk to investee companies. Our focus is on in-work poverty. This includes workers within a company's direct operations and workers within their supply chains. Some of the risks to a company in perpetuating poverty wages include lower morale and productivity, higher levels of absenteeism and presenteeism, higher rates of staff turnover which results in recruitment and training costs, increase in theft, reputation loss.

We believe paying a living wage to workers present businesses with opportunities such as improved morale, productivity, higher retention rates, improved mental and physical health. Income inequality can also represent a major risk for companies: according to the US Bureau of Labor Statistics, the cost of absenteeism to businesses in the US in 2018 was US$150 billion per year, and it has been estimated that employees who are demotivated, burned out, or unproductive due to other health reasons cost US$1,500 billion per year.[11]

We have been engaging on the living wage for a number of years, both individually and collaboratively – a summary can be found in our 2022 Active Ownership report.

Over the quarter, we broadened our corporate engagement on income inequality. We launched our first engagement campaign, which carries with it a voting sanction for those companies that fail to meet our minimum expectations. We targeted the food retail sector, as we believe these companies to be generally more resilient due to the community service they provide, and financially less impacted by the COVID-19 pandemic than other sectors. It is also a sector with a high proportion of its workforce earning low wages.

* 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.

We identified 15 supermarket retailers in developed economies as targets for this campaign. We have chosen these companies because of their size and influence. The companies are:

- North America: Costco*, Kroger*, Target* and Walmart*
- UK: Tesco*, Sainsbury*
- Europe: Ahold Delhaize*, Carrefour*, Casino*, Metro*
- Japan: Lawson*, Seven & I*, Aeon Co*.
- Australia: Woolworths*, Coles*

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Engage and escalate

We have written to these companies setting out our expectations of them and the timeframe in which we expect these expectations to be met. Our expectations for the companies' own operations are as follows:

I. Develop a strategy to ensure all employees receive at least a living wage

II. Define what you consider to be a living wage

III. Provide key information:

- Name those organisations that have helped you to determine the living wage for each of your geographic operations
- Set out the current gap between pay per hour and the living wage per hour
- A timeline within which to close this living wage gap
- More information about sick leave policies, regardless of voluntary or regulated
- Whether the company offers financial education to employees
- If apprenticeship or other programmes are offered to school leavers and how selection is aimed to help children from a diverse mix of backgrounds

And our expectations for their supply chains are:

i. Set out a living wage strategy for supply chain workers

ii. Include your definition of a living wage

iii. Disclose any partners you are working with to determine living wages

iv. Disclose target supply chains, e.g., certain products/regions

v. Disclose changes made to purchasing practices in order to facilitate the payment of a living wage.

vi. Disclose current pay gaps

vii. Set out a timeline to close the living wage gap

We plan to engage directly with these companies over the coming year and assess their progress.

If, by 2025, these companies have failed to provide the disclosures set out in our minimum expectations, we will:

- Vote against the re-election of the Chair or Chair/CEO or President
- Pre-declare our voting intentions

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Environmental | Social | Governance

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ESG: Governance

Update: AGM season in Japan

In this section, we provide an overview of some key observations gleaned from the results of the AGM season in Japan.[12]

Governance-related shareholder proposals

2023 was another record year in Japan with over 300 shareholder proposals, tripling in number over the last 10 years. Proposals were primarily related to director appointments, shareholder returns, and other governance issues such as board independence and remuneration disclosures. LGIM voted in favour of 37% of shareholder proposals filed during the season.

Climate-related shareholder proposals

Among the largest 500 companies in Japan, we saw 21 climate-related shareholder proposals filed at 11 companies, of which two-thirds received over 10% support and four gained more than 20% votes in favour. LGIM supported 12 of these proposals, including all 11 proposals that called for enhanced disclosures around fossil fuel and other climate related issues.

While the focus of such proposals in previous years has typically been on the utilities, energy and financial sectors, this year we also saw a shareholder proposal filed at Toyota* regarding climate lobbying disclosure, which LGIM supported and pre-declared, in line with our published stance. Ambitious climate policy and responsible corporate climate lobbying are essential to keeping hope of a 1.5°C world alive. We believe economic actors must use their influence positively and advocate for public policies that would support the delivery of a net-zero economy.

12. Please note, the figures quote in this section relate to the period from April-June 2023.

Director accountability

In the Japan AGM season, we voted against the re-election of 707 directors due to lack of board independence and 83 due to board diversity concerns. At LGIM, we vote against the re-appointment of the most senior member of the board or the nomination committee chair unless:

- The board includes at least 1/3 independent outside directors. For listed subsidiaries with controlling parents, an against vote will be applied unless the majority of the board are independent outsiders

- For TOPIX 100 companies, at least 15% of the board are women. For companies listed on the Prime Market and not included in the TOPIX100, an against vote will be applied unless the board includes at least one female director

We have seen an increasing number of investors use their votes against management to signal disapproval over issues such as board effectiveness and capital management. We would highlight three examples:

- **Canon***, where the chairman/CEO received only 50.6% approval, dropping by almost 40% from two years ago. LGIM has for many years voted against his re-appointment due mainly to board independence and diversity concerns

- **Fuji Media Holdings***, where the chairman/CEO received a support rate of 56.6%, and **KYOCERA Corporation*** where support for the chairman slumped to 66.0%. We voted against these re-appointments on account of a number of reasons, including board composition issues and excessive cross-shareholdings.

We will continue to tighten our board independence and diversity policies, paying attention to features specific to the market (e.g., different board structures and listed subsidiaries) and being mindful to ensure a company's nomination and selection process is well-thought-out and not rushed.

Stock exchange engagement campaign

Identify

Having begun our engagement campaign on diversity in some emerging markets, one of our conclusions was the understanding that engagement between investors and companies needs to be aligned with international capital markets' expectations.

We see a potential opportunity to engage with stock exchanges which have an important role in terms of driving improvements in market standards, from setting listing rules to strengthening disclosure requirements. We hope to leverage their position through engagement on a number of our global investment stewardship themes. Additionally, we aim to raise awareness with these key stock exchanges of LGIM's work on these material themes, including diversity, governance, climate, nature and transparency.

We have taken the following factors into consideration when identifying markets for our stock exchange engagement campaign:

- **Markets where progress is lagging –** referencing UN stock exchange analysis and our transparency theme work outlining own transparency and corporate reporting requirements to reflect the dynamic regulatory environment and increased expectations of companies

- **Markets that have not promoted global reporting framework alignment**, or markets that need to do more work to improve the quality of disclosure

- **Markets where LGIM holds investments on behalf of our clients**, and where we have established relationships

Please note, the figures quoted in this section relate to the period from April-June 2023.

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The preliminary stock exchanges we are targeting for our campaign include:

- Singapore Stock Exchange (SGX)
- Stock Exchange of Thailand (SET)
- Stock Exchange of Hong Kong (HKEX)
- Tokyo Stock Exchange (TSE) in Japan, Korea Exchange (KRX)
- Bursa Malaysia, and
- São Paulo Stock Exchange

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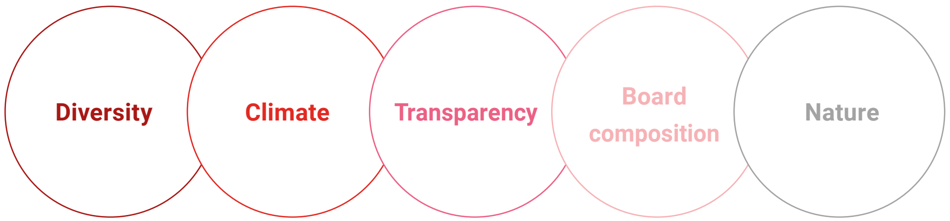
Engage

In terms of the themes we will focus on and specific engagement objectives, we have prioritised those where we believe stock exchanges have a fundamental role in driving the positive changes we seek. Within these, we will select what we consider to be the most relevant topics and refine our market-specific objective.

We will review the progress of the campaign and adjust as appropriate to reflect progress and the results of our engagement.

5 Key themes



Significant votes

Company name	Electronic Arts Inc*
ISIN	US2855121099
Market cap	US$32.6 billion[13]
Sector	Technology: Software
Issue identified	Joint Chair/CEO
Summary of the resolution	Resolution 1h: Elect Director Andrew Wilson AGM date: 10 August 2023
How LGIM voted	LGIM voted AGAINST Resolution 1h (i.e. against management recommendation).
Rationale for the vote decision	A vote against was applied as LGIM expects companies to separate the roles of Chair and CEO due to risk management and oversight concerns.
Outcome	92% shareholder voted in favour of Resolution 1h.
Why is this vote 'significant'?	This vote is significant as it reflects LGIM's long-held stance: the roles of chair and CEO are substantially different and require distinctly different skills and experience; we therefore expected the two roles to be separated. Since 2020, we have been taking a stronger stance on combined roles and now vote against the election or re-election of any individual holding such a combined role. We believe that a separation of the roles of board chair and CEO is positive for culture, board discussions, remuneration policy and shareholder rights. More information can be found in our global corporate governance and responsible investment policy.

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13. ISS, 6 October 2023

Public policy update

Nature related risk management

Release of Taskforce for Nature-related Financial Disclosures (TNFD)

September brought the much-anticipated release of the Taskforce for Nature-related Financial Disclosures framework, following on from the agreement of the Kunming-Montreal Global Biodiversity Framework (GBF) at COP15 last year.

TNFD aims to address the complex and pressing need to incorporate nature into financial and business decision-making. It was developed collaboratively with input from academia, civil society, governments and over 1,000 market participants, including LGIM. It's been formally endorsed by the G7 and G20. It aims to be the primary risk-management and disclosure framework that organisations will use to better understand, assess and act on their nature-related dependencies, impacts, risks and opportunities.

The TNFD aims to support a shift in global financial flows away from nature-negative and toward nature-positive outcomes by increasing transparency. It has three core elements:

- A homogenising system of core concepts and definitions that relate to nature-related risks and opportunities, impacts and dependencies, as well as biome and sector-specific concepts
- Recommended disclosures aligned to TCFD pillars, with 14 different elements and six general requirements
- An integrated risk and opportunity assessment approach, referred to as LEAP

For more details on TNFD and what it means for investors and the planet, please see our blog post.

Engaging national policymakers on TNFD

Target 15 is a transformative part of the GBF. It commits signatories to implement legal, policy and regulatory measures to strengthen how all businesses monitor, manage and disclosure nature-related risk, impacts and dependencies. Unfortunately, parties could not agree on making this mandatory; something we – and several others – believe is key to changing our relationship with nature and meeting the GBF commitments. LGIM is a signatory of the Business for Nature Make it Mandatory campaign, which brings together over 400 businesses and financial institutions from 52 countries.[14] calling for governments at COP15 to adopt Target 15 of the Global Biodiversity Framework, requiring all large businesses and financial institutions to assess and disclose their risks, impacts and dependencies on biodiversity by 2030.

Japan: Ministry of the Environment

The Japan Ministry of Environment (MOE) recognises the importance of the recent release of the TNFD framework. In support of listed companies in Japan in understanding the importance of and gaining practical insights from the framework, the MOE organised a "Workshop on Disclosure of Financial Information Related to Nature".

LGIM was invited to speak at the first seminar, Introduction and Practice of the Tools for Assessing Interface with Nature, to provide an investor's perspective on the importance of nature-related information disclosure on 15 September 2023. The seminar welcomed over 60 representatives from listed companies in Japan.

We explained our expectations of companies regarding nature and emphasised why nature is financially material, drawing on, for example, business opportunities, the role of nature in achieving net zero, and increasing global regulation.

We ended the session by sharing four recommendations for Japanese companies:

1. Leverage previous learnings from adoption of TCFD for new TNFD adoption
2. Gain board and executive management support to initiate action on addressing nature related issues
3. Form taskforces amongst departments to create collaborative efforts to address nature related issues and opportunities
4. Encourage positive lobbying directly or indirectly with industry associations

14. Make it mandatory - EN — Business For Nature

Implementation of the Global Biodiversity Framework

EU Nature Restoration law

In July, we were pleased to see that the amended EU Nature Restoration Law was finally approved, after much debate. Having signed the open letter to EU heads of state and government, members of the European Parliament and the President of the European Commission, co-ordinated by Business for Nature, we are pleased to see that EU leaders are taking steps towards protecting and restoring nature and implementing the Global Biodiversity Framework agreed at COP15 in November 2022.

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Agriculture

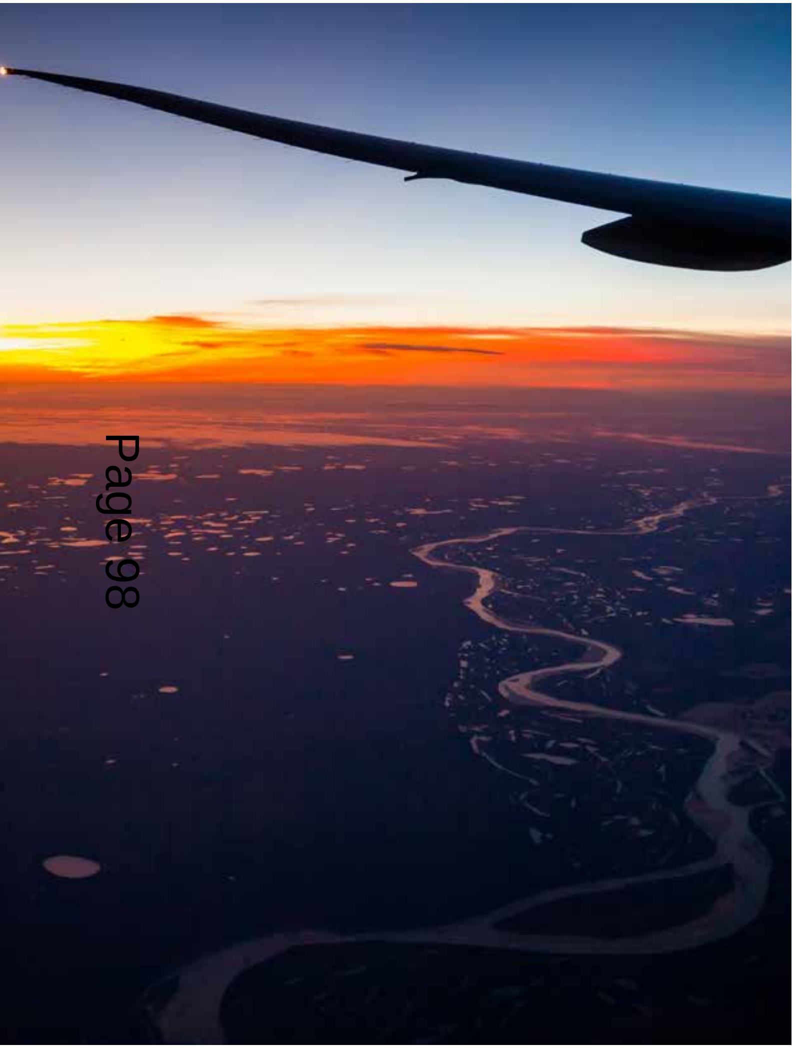
Reforming Subsidies

Reforming the agricultural system has been a focus area for a number of years. The agricultural system is highly relevant for our focus on 'Nature', as it cuts across all the key drivers of nature loss. Previously, we have engaged on reforming the vast and unaligned subsidy programme in the European Union. More recently, together with FAIRR and over 30 investors, we engaged G20 countries on the need to align agricultural subsidies with their international commitments in the Paris Agreement (climate) and Montreal Agreement (nature) goals by the end of the decade. This is an opportunity for policymakers to demonstrate their commitment and utilise significant resources in a sector that is particularly important for both reaching net zero and restoring and protecting nature by 2050.

Governance: ACGA

The Asian Corporate Governance Association (ACGA) aims to 'engage in a constructive dialogue with regulators, institutional investors, listed companies and auditors on key corporate governance issues and work towards making positive improvements in the corporate governance landscape in Asia'.[15] As a member, our Head of Investment Stewardship in Japan joined the September delegation to participate in meetings with regulators (including the Japan Ministry of Economy, Trade and Industry, and the Japan Financial Services Authority), the Japan Stock Exchange, sustainability standard setting organizations, and select companies to discuss a range of important governance topics, from corporate takeovers, cross-shareholdings and capital management, to gender diversity, climate and sustainability. By joining forces with collaborative organisations such as ACGA, we aim to broaden our reach through gaining access to important stakeholders and strengthen our voice by collaborating with like-minded peers in the financial services industry, and beyond.

15. ACGA | Asian Corporate Governance Association (acga-asia.org)



Regional updates

Global - Q3 2023 voting summary

Management proposed resolutions:

Proposal category	Total for	Total against	Total abstentions	For %	Against %	Abstain %
Management (total)	**11525**	**3162**	**98**	**77%**	**21%**	**1%**
Routine Business	1713	106	0	94%	6%	0%
Director Related	842	136	0	86%	14%	0%
Compensation	900	951	0	48%	51%	0%
Audit Related	738	130	2	84%	15%	0%
Director Election	3883	1239	96	74%	24%	2%
Capitalization	1943	133	0	94%	6%	0%
Strategic Transactions	457	124	0	79%	21%	0%
No Research	5	142	0	3%	76%	0%
Non-Routine Business	295	67	0	81%	19%	0%
Company Articles	389	90	0	81%	19%	0%
Miscellaneous	138	24	0	85%	15%	0%
Social	60	11	0	85%	15%	0%
Takeover Related	147	8	0	95%	5%	0%
E&S Blended	2	0	0	100%	0%	0%
Mutual Funds	10	0	0	100%	0%	0%
Environmental	3	1	0	75%	25%	0%

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Global - Q3 2023 voting summary

Shareholder proposed resolutions:						
Proposal category	**Total for**	**Total against**	**Total abstentions**	**For %**	**Against %**	**Abstain %**
Shareholder (total)	**321**	**106**	**1**	**73%**	**24%**	**0%**
Audit Related	72	0	0	100%	0%	0%
Director Election	191	51	1	76%	20%	0%
Director Related	7	4	0	54%	31%	0%
Non-Routine Business	0	0	0	0%	0%	0%
Miscellaneous	29	36	0	45%	55%	0%
Compensation	6	7	0	46%	54%	0%
Social	5	1	0	83%	17%	0%
Company Articles	1	3	0	17%	50%	0%
Corporate Governance	4	1	0	80%	20%	0%
E&S Blended	0	1	0	0%	100%	0%
Environmental	6	1	0	86%	14%	0%
Routine Business	0	1	0	0%	100%	0%

How LGIM Voted	Number of Votes	% Alignment with Management Recommendations
For	11846	81%
Against	3268	81%
Abstain	99	69%

Number of	Values
Resolutions	15337
AGM Resolutions	10841
EGM Resolutions	4493
AGM	1047
EGM	808

Number of companies where LGIM voted:	Values
In Total	1779
For in all resolutions	654
Against or Abstain in at least one resolution	1125

UK - Q3 2023 voting summary

Management proposed resolutions:						
Proposal category	**Total for**	**Total against**	**Total abstentions**	**For %**	**Against %**	**Abstain %**
Management (Total)	**2513**	**151**	**1**	**94%**	**6%**	**0%**
Strategic Transactions	20	6	0	77%	23%	0%
Capitalization	543	20	0	96%	4%	0%
Routine Business	283	3	0	99%	1%	0%
Director Election	1007	50	1	95%	5%	0%
Audit Related	277	18	0	94%	6%	0%
Compensation	215	53	0	80%	20%	0%
Social	47	0	0	100%	0%	0%
Takeover Related	98	0	0	100%	0%	0%
Mutual Funds	8	0	0	100%	0%	0%
No Research	0	0	0	0%	0%	0%
Non-Routine Business	2	0	0	100%	0%	0%
Company Articles	5	0	0	100%	0%	0%
Director Related	4	1	0	80%	20%	0%
Environmental	3	0	0	100%	0%	0%
Miscellaneous	1	0	0	100%	0%	0%

UK - Q3 2023 voting summary

How LGIM Voted	Number of Votes	% Alignment with Management Recommendations
For	2513	95%
Against	151	95%
Abstain	1	100%

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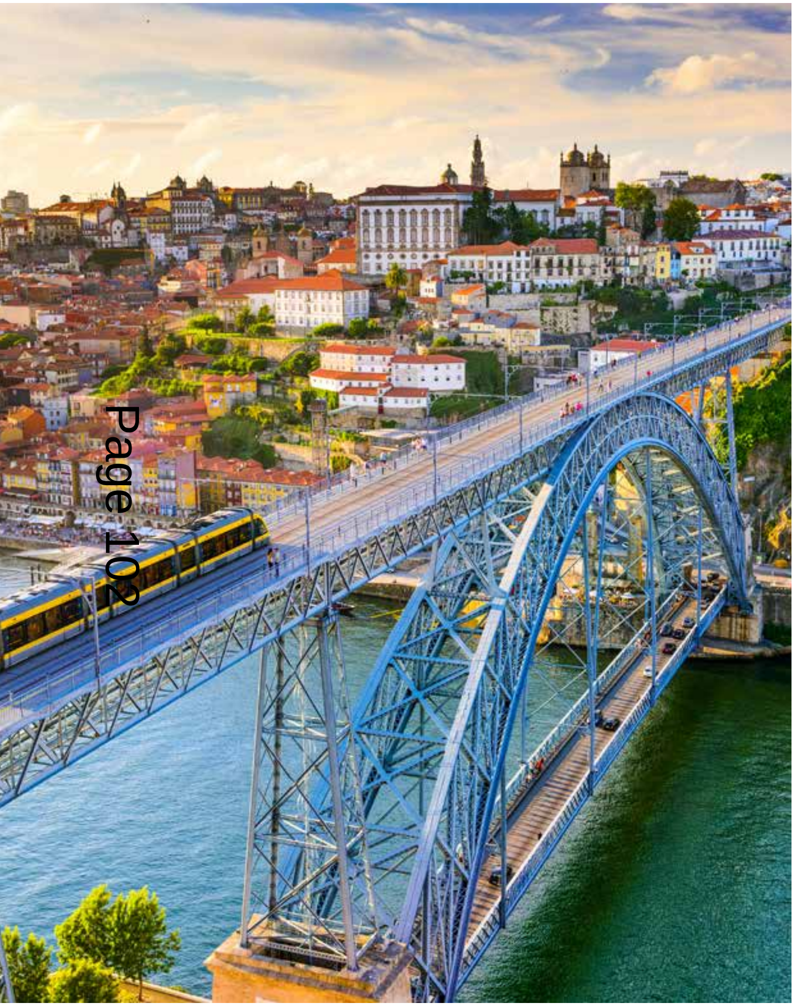
Number of	Values
Resolutions	2671
AGM Resolutions	2629
EGM Resolutions	42
AGM	155
EGM	23

Number of companies where LGIM voted:	Values
In Total	174
For in all resolutions	99
Against or Abstain in at least one resolution	75



Europe ex UK - Q3 2023 voting summary

Management proposed resolutions:						
Proposal category	**Total for**	**Total against**	**Total abstentions**	**For %**	**Against %**	**Abstain %**
Management (total)	**781**	**184**	**0**	**81%**	**19%**	**0%**
Routine Business	153	24	0	86%	14%	0%
Director Related	179	14	0	93%	7%	0%
Compensation	78	61	0	56%	44%	0%
Audit Related	53	4	0	93%	7%	0%
Director Election	144	55	0	72%	28%	0%
No Research	3	0	0	100%	0%	0%
Capitalization	99	11	0	90%	10%	0%
Company Articles	40	7	0	85%	15%	0%
Non-Routine Business	5	3	0	62%	38%	0%
E&S Blended	2	0	0	100%	0%	0%
Strategic Transactions	14	1	0	93%	7%	0%
Takeover Related	0	2	0	0%	100%	0%
Miscellaneous	10	2	0	83%	17%	0%
Social	1	0	0	100%	0%	0%

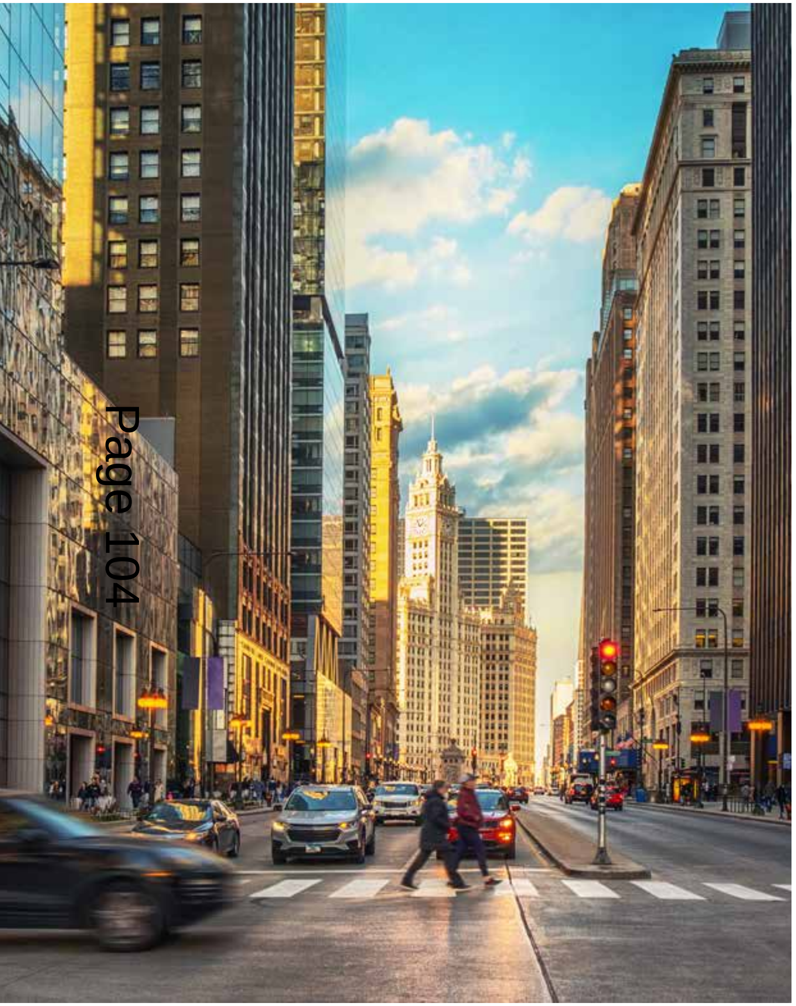
Europe ex UK - Q3 2023 voting summary

Shareholder proposed resolutions:						
Proposal category	**Total for**	**Total against**	**Total abstentions**	**For %**	**Against %**	**Abstain %**
Shareholder (total)	**6**	**4**	**0**	**60%**	**40%**	**0%**
Audit Related	1	0	0	100%	0%	0%
Director Related	3	0	0	100%	0%	0%
Director Election	2	1	0	67%	33%	0%
Company Articles	0	2	0	0%	100%	0%
Compensation	0	1	0	0%	100%	0%

How LGIM Voted	Number of Votes	% Alignment with Management Recommendations
For	787	81%
Against	188	81%
Abstain	0	0%

Number of	Values
Resolutions	975
AGM Resolutions	813
EGM Resolutions	159
AGM	52
EGM	43

Number of companies where LGIM voted:	Values
In Total	96
For in all resolutions	39
Against or Abstain in at least one resolution	57



North America - Q3 2023 voting summary

Management proposed resolutions:						
Proposal category	**Total for**	**Total against**	**Total abstentions**	**For %**	**Against %**	**Abstain %**
Management (total)	**1334**	**726**	**5**	**64%**	**35%**	**0%**
Director Election	869	425	3	67%	33%	0%
Compensation	116	223	0	34%	66%	0%
Audit Related	145	56	2	71%	27%	1%
Director Related	40	3	0	93%	7%	0%
Capitalization	44	9	0	83%	17%	0%
Takeover Related	47	4	0	92%	8%	0%
Strategic Transactions	32	2	0	94%	6%	0%
Company Articles	20	0	0	100%	0%	0%
Routine Business	12	4	0	75%	25%	0%
No Research	1	0	0	100%	0%	0%
Miscellaneous	6	0	0	100%	0%	0%
Mutual Funds	2	0	0	100%	0%	0%

North America - Q3 2023 voting summary

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Shareholder proposed resolutions:						
Proposal category	**Total for**	**Total against**	**Total abstentions**	**For %**	**Against %**	**Abstain %**
Shareholder (total)	**19**	**7**	**0**	**56%**	**21%**	**0%**
Director Election	0	0	0	0%	0%	0%
Director Related	2	0	0	50%	0%	0%
Non-Routine Business	0	0	0	0%	0%	0%
Compensation	2	3	0	40%	60%	0%
Social	5	1	0	83%	17%	0%
Corporate Governance	4	0	0	100%	0%	0%
E&S Blended	0	1	0	0%	100%	0%
Environmental	6	1	0	86%	14%	0%
Miscellaneous	0	1	0	0%	100%	0%

How LGIM Voted	Number of Votes	% Alignment with Management Recommendations
For	1353	64%
Against	733	64%
Abstain	5	40%

Number of	Values
Resolutions	2103
AGM Resolutions	1980
EGM Resolutions	123
AGM	206
EGM	43

Number of companies where LGIM voted:	Values
In Total	249
For in all resolutions	26
Against or Abstain in at least one resolution	223

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Japan - Q3 2023 voting summary

Management proposed resolutions:						
Proposal category	**Total for**	**Total against**	**Total abstentions**	**For %**	**Against %**	**Abstain %**
Management (total)	**465**	**92**	**0**	**83%**	**17%**	**0%**
Strategic Transactions	3	1	0	75%	25%	0%
Company Articles	19	4	0	83%	17%	0%
Director Election	354	66	0	84%	16%	0%
Director Related	39	12	0	76%	24%	0%
Routine Business	30	0	0	100%	0%	0%
Compensation	15	8	0	65%	35%	0%
Capitalization	1	0	0	100%	0%	0%
Non-Routine Business	1	0	0	100%	0%	0%
Audit Related	1	0	0	100%	0%	0%
Takeover Related	0	1	0	0%	100%	0%
Miscellaneous	2	0	0	100%	0%	0%

Japan - Q3 2023 voting summary

Shareholder proposed resolutions:						
Proposal category	**Total for**	**Total against**	**Total abstentions**	**For %**	**Against %**	**Abstain %**
Shareholder (total)	**13**	**4**	**0**	**76%**	**24%**	**0%**
Director Election	7	0	0	100%	0%	0%
Miscellaneous	1	0	0	100%	0%	0%
Director Related	2	0	0	100%	0%	0%
Compensation	3	3	0	50%	50%	0%
Routine Business	0	1	0	0%	100%	0%

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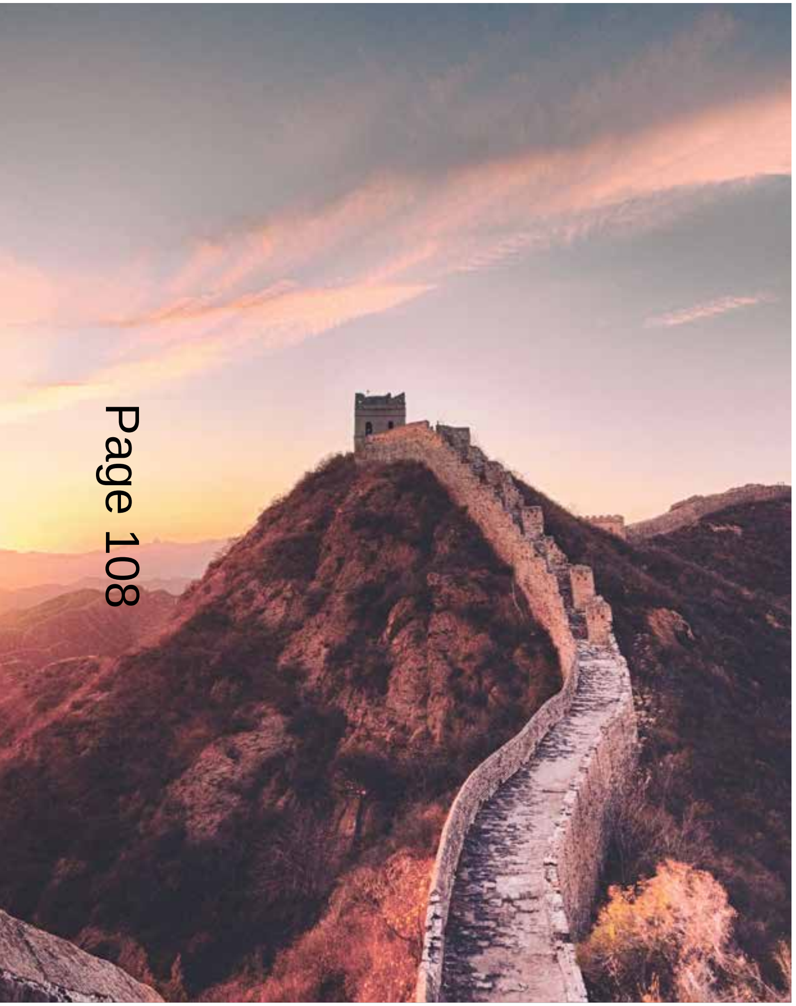
How LGIM Voted	Number of Votes	% Alignment with Management Recommendations
For	478	84%
Against	96	83%
Abstain	0	0%

Number of	Values
Resolutions	574
AGM Resolutions	509
EGM Resolutions	65
AGM	50
EGM	12

Number of companies where LGIM voted:	Values
In Total	62
For in all resolutions	16
Against or Abstain in at least one resolution	46



Asia Pacific ex Japan - Q3 2023 voting summary

Management proposed resolutions:						
Proposal category	**Total for**	**Total against**	**Total abstentions**	**For %**	**Against %**	**Abstain %**
Management (total)	**254**	**54**	**1**	**82%**	**17%**	**0%**
Routine Business	37	4	0	90%	10%	0%
Non-Routine Business	6	1	0	86%	14%	0%
Company Articles	13	1	0	93%	7%	0%
Audit Related	24	1	0	96%	4%	0%
Compensation	35	21	0	62%	38%	0%
Director Related	1	0	0	100%	0%	0%
Director Election	64	23	1	73%	26%	1%
Capitalization	53	2	0	96%	4%	0%
Miscellaneous	13	0	0	100%	0%	0%
Strategic Transactions	8	0	0	100%	0%	0%
Social	0	1	0	0%	100%	0%

Asia Pacific ex Japan - Q3 2023 voting summary

Shareholder proposed resolutions:						
Proposal category	**Total for**	**Total against**	**Total abstentions**	**For %**	**Against %**	**Abstain %**
Shareholder (total)	**0**	**6**	**0**	**0%**	**100%**	**0%**
Director Election	0	6	0	0%	100%	0%

How LGIM Voted	Number of Votes	% Alignment with Management Recommendations
For	254	83%
Against	60	75%
Abstain	1	100%

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Number of	Values
Resolutions	315
AGM Resolutions	238
EGM Resolutions	77
AGM	34
EGM	15

Number of companies where LGIM voted:	Values
In Total	48
For in all resolutions	22
Against or Abstain in at least one resolution	26

Emerging Markets - Q3 2023 voting summary

Management proposed resolutions:						
Proposal category	**Total for**	**Total against**	**Total abstentions**	**For %**	**Against %**	**Abstain %**
Management (total)	**5231**	**1719**	**91**	**73%**	**24%**	**1%**
Routine Business	1124	59	0	95%	5%	0%
Compensation	396	526	0	42%	56%	0%
Director Election	1243	570	91	64%	29%	5%
Capitalization	792	25	0	97%	3%	0%
Audit Related	201	47	0	79%	18%	0%
Director Related	528	91	0	85%	15%	0%
Company Articles	267	56	0	82%	17%	0%
Strategic Transactions	306	110	0	74%	26%	0%
No Research	1	142	0	1%	81%	0%
Non-Routine Business	271	62	0	81%	19%	0%
Miscellaneous	90	19	0	83%	17%	0%
Social	10	10	0	50%	50%	0%
Environmental	0	1	0	0%	100%	0%
Takeover Related	2	1	0	67%	33%	0%

Emerging Markets - Q3 2023 voting summary

Shareholder proposed resolutions:						
Proposal category	**Total for**	**Total against**	**Total abstentions**	**For %**	**Against %**	**Abstain %**
Shareholder	**233**	**76**	**1**	**74%**	**24%**	**0%**
Audit Related	60	0	0	100%	0%	0%
Director Election	143	35	1	78%	19%	1%
Director Related	0	4	0	0%	100%	0%
Miscellaneous	28	35	0	44%	56%	0%
Company Articles	1	1	0	25%	25%	0%
Corporate Governance	0	1	0	0%	100%	0%
Compensation	1	0	0	100%	0%	0%

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How LGIM Voted	Number of Votes	% Alignment with Management Recommendations
For	5464	78%
Against	1795	80%
Abstain	92	79%

Number of	Values
Resolutions	7457
AGM Resolutions	4278
EGM Resolutions	3179
AGM	516
EGM	582

Number of companies where LGIM voted:	Values
In Total	1031
For in all resolutions	395
Against or Abstain in at least one resolution	636

Global engagement summary

Regular readers will notice that our Q3 engagement statistics have increased substantially compared to last year. The primary reason behind this is the expansion of our Climate Impact Pledge and the continuation of engagement with the 5000+ companies within the programme. For more information, please see page 6 of this report.

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In Q3 2023, the Investment Stewardship team held

1,303 engagements with 1,285 companies

(vs. 167 engagements with 146 companies last quarter)

Breaking down the engagement numbers - Q3 2023

Breakdown of engagement by themes

Social 39

16 Other

1,230 Environmental

102 Governance

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Engagement type

59 Company meetings

1,243 Emails / letters

Top five engagement topics*

1,209 Climate Impact Pledge

44 Remuneration

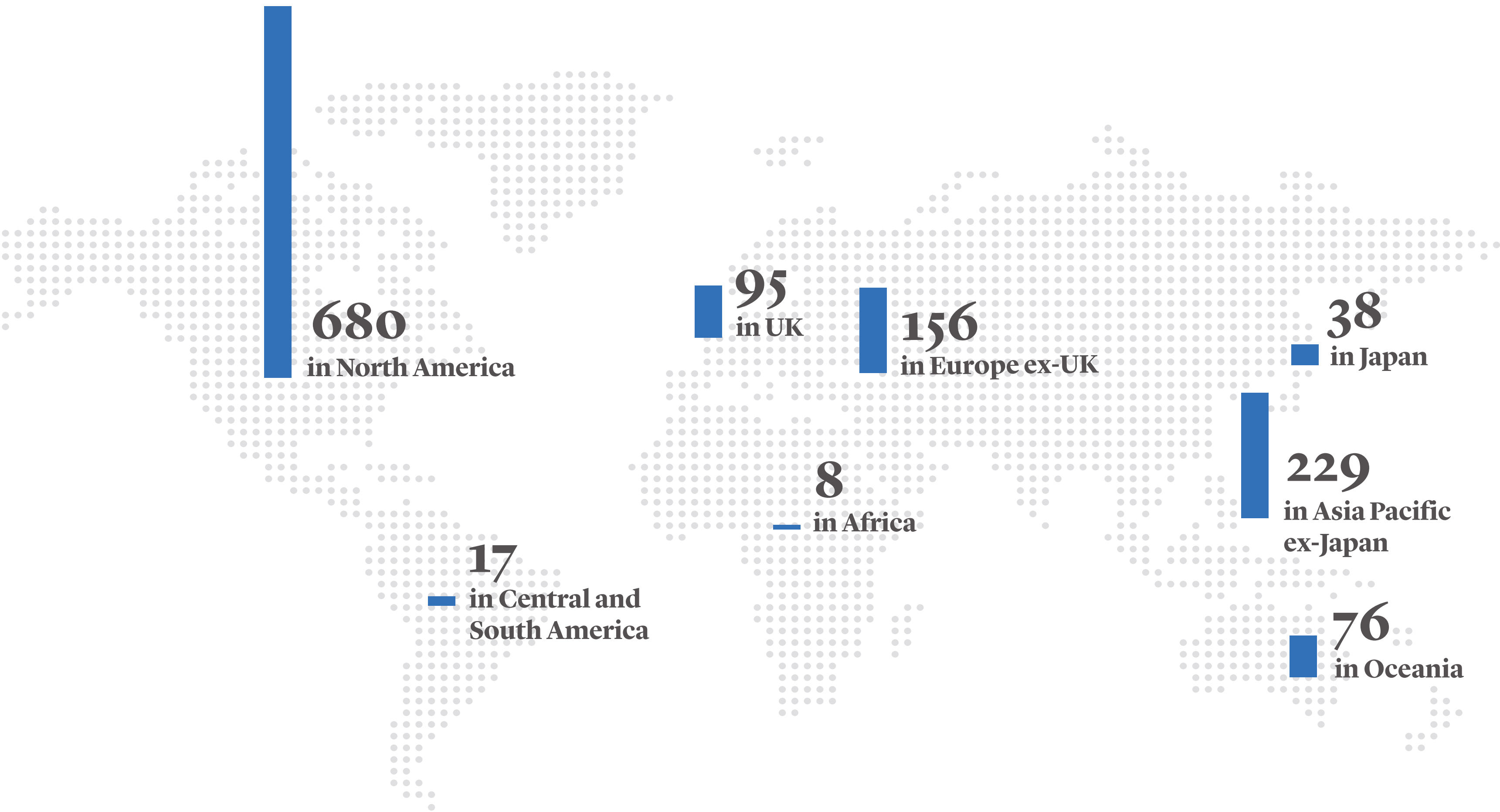
22 Income inequality

20 Board composition

14 Strategy

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

Regional breakdown of engagements



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Contact us

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

*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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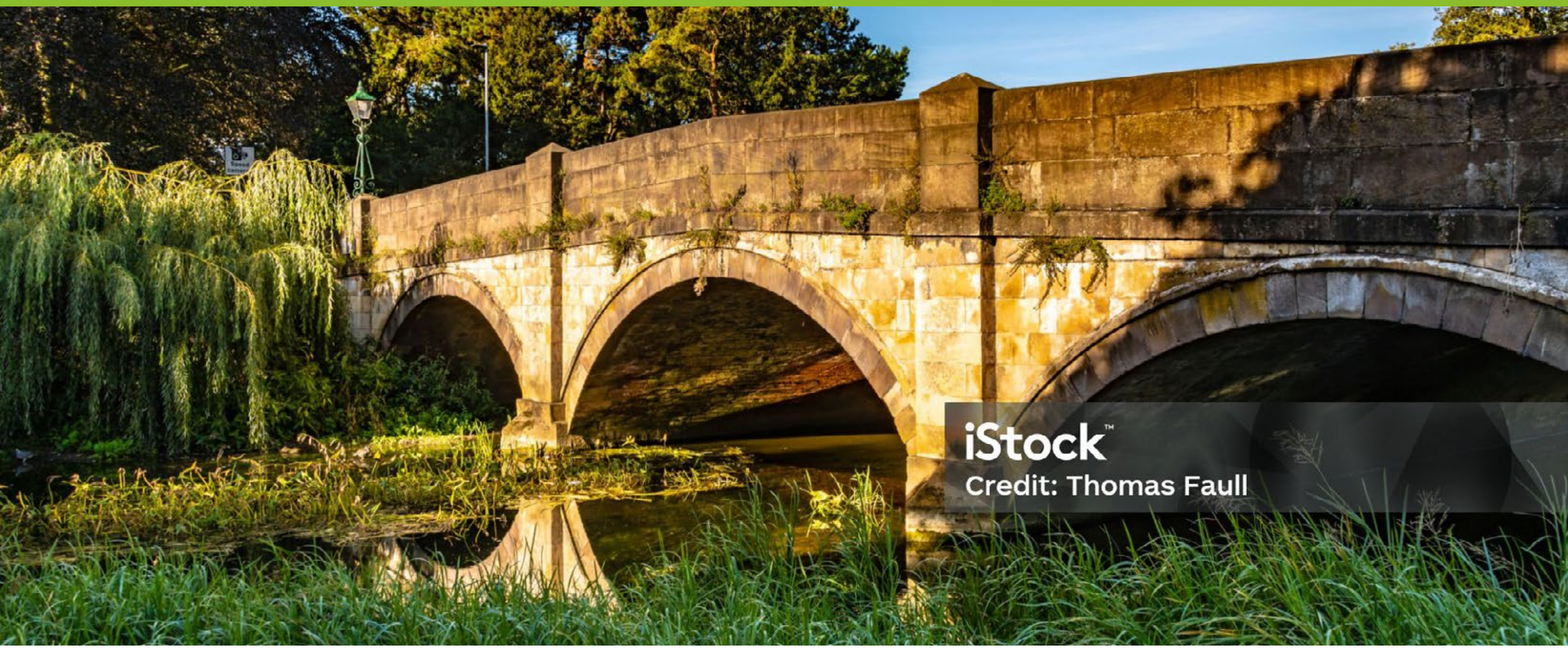
LGPS Central Limited

Stewardship Update

SECOND QUARTER · 2023-24 (JULY - SEPTEMBER 2023)



CHESHIRE PENSION FUND

Derbyshire Pension Fund

Leicestershire County Council PENSION FUND

NOTTINGHAMSHIRE PENSION FUND

Shropshire County Pension Fund

Staffordshire Pension Fund Local Government Pension Scheme

West Midlands Pension Fund

Worcestershire Pension Fund

Responsible Investment & Engagement:

LGPS Central's approach

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

OBJECTIVE #1

Support investment objectives

OBJECTIVE #2

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

These are met through three pillars:

Our **Selection** of assets

Our **Stewardship** of assets

Our commitment to **Transparency & Disclosure**

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

ADDITIONAL DISCLOSURES

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

Signatory of: PRI Principles for Responsible Investment

UK STEWARDSHIP CODE

employers network for equality and inclusion Member

LGPS ADVISORY BOARD CODE OF TRANSPARENCY

01 A summary of engagement and voting activities and key stewardship developments

Key Stewardship developments

- Taskforce on Nature-related Financial Disclosures: Biodiversity has been the subject of increased attention from the Responsible Investment community. Several investor initiatives, such as Nature Action 100 and PRI's Nature Reference Working Group, have been announced this quarter. The Taskforce on Nature-related Financial Disclosures (TNFD) was launched at Climate Week NYC, after two years of development and testing. The TNFD's 14 recommendations have been released, and the reporting framework is now officially open for market adoption. Several prominent firms, including GlaxoSmithKline, have announced that they will adopt the recommendations and publish their first TNFD disclosures from 2026. This framework, which is largely based on the Taskforce for Climate-related Financial Disclosure (TCFD) framework, requires organizations to disclose how biodiversity is incorporated into the same four key pillars: Governance; Strategy; Risk Management; and Metrics and Targets.
- Voting Season 2023 Summary: the 2023 vote season was characterised by investor frustration over companies' inadequate responses to climate change, and stakeholder concerns about labour rights and pay as the cost-of-living crisis continued to bite. Shareholders continued to call for change at companies this year, bringing a raft of proposals in the US and Europe on collective bargaining rights, climate lobbying, child safety in the digital realm, animal welfare, racial equity and tax transparency. Executive compensation also came under scrutiny as the cost-of-living crisis continued. Companies continued to give investors the opportunity to vote on their climate transition plans – either for the first time, or by providing an annual update to already-approved plans. However, there was a marked reduction in the number versus 2022, according to EOS tracking data.
- During the period, the team also joined efforts with the **Nature Action 100** and the **CDP Science-Based Target** engagement programmes. Nature Action engages companies in key sectors that are deemed to be systemically important in reversing nature and biodiversity loss by 2030. The CDP Science-Based Target engagement programme will request more than 2,100 high-emitting companies to set science-based emission reduction targets. The company's outreach of both initiatives is set for the next quarter (i.e., 2023 Q4).
- Last but not least LGPS Central launched a **proprietary tool** for tracking engagement activities, including advocacy-type engagements. The tool will track progress against engagement's KPIs and it is fully integrated with the 2024-2027 Stewardship Plan.

STEWARDSHIP THEME REVIEW

As part of the three yearly Stewardship theme refresh, throughout October 2023, LGPSC's Stewardship team met with all Partner Funds to discuss a proposed set of stewardship themes. We will collate feedback and discuss with all our Partner Funds with a view to agree a revised set of stewardship themes for the next three years. We would like to thank all Partner Funds for their continued engagement throughout this process.

Below is a high-level summary of key engagements and AGM votes that have taken place during Q2 of the financial year 2023-24. These and other engagements and voting examples will be covered in more detail later in this update.

ENVIRONMENTAL

Société Générale is the fifth largest European provider of financing to 50 of the top oil and gas companies, having provided over $34 billion between 2016 – 2021[1]. In February 2023, LGPSC co-signed a letter to Société Générale's Chief Executive Officer and Chairman of the Board of Directors, requesting that the company commit to stopping direct financing for new Oil & Gas fields. We attended an engagement call with the firm's Chief Sustainability Officer in September 2023. As responsible investors we were pleased to learn that the company committed to cease financing upstream oil and gas pure players and new greenfield projects from 1st January 2024. The firm also unveiled its refreshed Oil and Gas policy with several new net zero targets. There is potential to re-engage with the company in H1 2024 to discuss extending the commitment to cease financing new oil and gas fields. There is an opportunity to include state-owned companies in this commitment and to discuss the firm's approach to the Just Transition.

We recognise our fiduciary duty to act in the best long-term interests of our beneficiaries and the crucial role that tropical forests and other types of native vegetation play in tackling climate change, protecting biodiversity and ensuring ecosystem services. To this end, LGPSC are active members in the collaborative investor initiative, **Investor Policy Dialogue on Deforestation (IPDD)**. IPDD sent a letter to several Brazilian Senators raising concerns over Projeto de Lei 2903 which risks undermining protection for indigenous territory and thereby facilitating deforestation. The letter outlines the key role indigenous communities play in ensuring compliance with Brazil's world-leading Forest Code and makes clear that IPDD would like to see the proposed legislation defeated in the Senate.

In response to the government's recent public statements and policy signals, LGPSC co-signed a letter to **Prime Minister Rishi Sunak** in August 2023, along with investment manager, banks, asset owners and other financial institutions representing £1.5 trillion in Assets Under Management. The letter urged the government to provide long-term policy certainty to ensure the UK is a world leader in sustainable finance by making clear that important policy pillars driving investment, like predictable carbon pricing mechanisms, the transition to EVs, and improved energy efficiency standards for housing, will not be changed abruptly.

SOCIAL

We are directly engaging with an **Information Technology company** on the issue of upholding the United Nations Guiding Principles on Business and Human Rights (UNGPs). We held a meeting with the Chief Compliance Officer in September 2023 to discuss our expectations of the company to undertake human rights due diligence and have established access to remedy programmes encompassing human rights. We requested to see evidence of the firm's Human Rights Due Diligence assessment. We will continue to pursue this engagement.

As part of the PRI Tax Engagement, LGPSC is leading on the review of the Experian's latest Tax report. Feedback will be discussed with the other members of the group. Whilst the company's tax disclosure remains good, there has not been much improvement from previous years. Country to country reporting remains outstanding, as well as explanation behind the changes in the tax rate.

GOVERNANCE

LGPSC responded to the Corporate Governance Code and the FCA Vote Report consultations. The FRC is proposing a revision to the Code to enhance its effectiveness in promoting good corporate governance. The main changes focus on strengthening assurance in accordance with a company's audit and assurance policy, and reporting on malus and clawback arrangements. This Vote Reporting Group consultation proposes a voluntary, standardised, and comprehensive 'vote reporting template' for asset managers to communicate with asset owner clients on their voting activities.

[1] Oil-Gas-Expansion-lose-lose.pdf (assets-servd.host)

Voting highlights

Constellation Brands

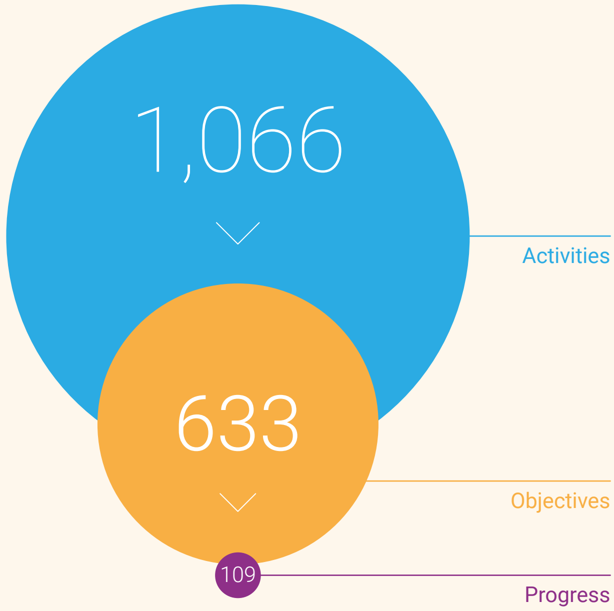
CONSTELLATION BRANDS, INC.

We supported a shareholder proposal requesting a report disclosing how the company intends to reduce the full range of its Scope 1 through 3 greenhouse gas emissions in alignment with the Paris Agreement's 1.5-degree Celsius goal requiring Net Zero emissions by 2050. Constellation Brands can be viewed as a laggard in comparison to other alcoholic beverage companies including Molson Coors, Anheuser-Busch InBev, and Diageo who have all set Paris aligned targets. These targets have been validated by the Science Based Targets initiative for their Scope 1, 2, and 3 emissions. Given the firm's lagging position relative to its peers, we supported this shareholder resolution. We believe that shareholders would benefit from additional information on how the company plans to align its operations with the Paris Agreement goals, manage its greenhouse gas emissions, and address climate risks. See further detail on page 13.

NIKE, INC.

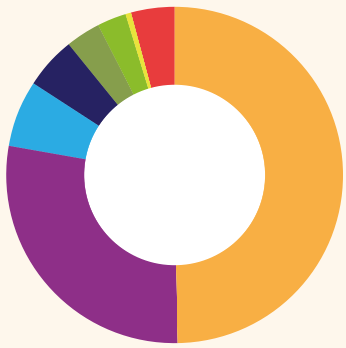
A shareholder proposal was put forward requesting NIKE to report on its gender and racial pay gaps, including various associated risks. The median pay gap statistic provides benefits such as transparency and comparability across time and organisations, as well as measuring the representation of women and racial and ethnic minorities in senior positions. As the company discloses its pay gap data for its UK workforce, investors would benefit from a report concerning the unadjusted median pay gap data for its U.S. or its global workforce. This report would allow them to better gauge how well the company is advancing opportunities for women globally and for racial and ethnic minorities in the U.S. It also assists in mitigating risks related to the increasing public scrutiny on gender and racial/ethnic pay equity issues. This is particularly relevant for NIKE as the company is currently facing a lawsuit alleging sexism and unequal pay for women. We supported this shareholder resolution because we would benefit from global median pay gap statistics, which would allow us to compare and measure the progress of the company's diversity and inclusion initiatives. See further detail on page 13.

ENGAGEMENT ACTIVITIES DURING THE QUARTER



GLOBAL VOTING

We recommended voting against or abstained on **494** resolutions over the last quarter.



- Board structure **49.8%**
- Remuneration **27.9%**
- Shareholder resolution **6.5%**
- Capital structure and dividends **5.1%**
- Amend articles **3.2%**
- Audit and accounts **2.8%**
- Poison pill/Anti-takeover device **0.6%**
- Other **4.0%**

02 Engagement case studies

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

ENGAGEMENT SET[2] COMPRISED **439** COMPANIES	ENGAGEMENT ACTIVITY ON **1066** ISSUES AND OBJECTIVES[3]
THERE WERE **633** OBJECTIVES	ACHIEVEMENT OF SOME OR ALL ON **109** OBJECTIVES

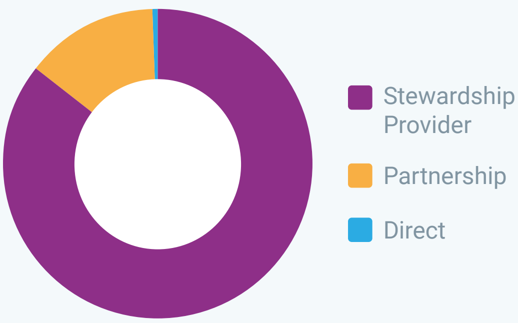
This quarter our engagement set[2] comprised 439 companies. There was engagement activity on 1066 engagement issues and objectives[3]. Against 633 specific objectives, there was achievement of some or all on 109 occasions. Most engagements were conducted through letter issuance or remote company meetings, where we, our partner or our stewardship provider in a majority of cases met or wrote to the Chair, a Board member or a member of senior management.

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

CLIMATE CHANGE ENGAGEMENTS

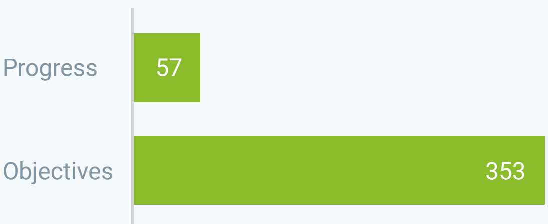
This quarter, our climate change engagement set comprised 196 companies with 355 engagement issues and objectives[4]. There was progress on 57 specific engagement objectives.

ENGAGEMENT VOLUME BY TYPE



- 353 engagements during the quarter.

ENGAGEMENT VOLUME BY OUTCOME



BANK OF IRELAND GROUP PLC

Theme: Climate Change

Objective: Bank of Ireland Group PLC (the 'Bank') is investigating ways to implement full scope emissions targets for its operations and Scope 3 portfolio emissions, and how this will align with science-based pathways. This strategy implies changes to lending practices as well as managing down legacy emissions in historical lending. Our stewardship provider, EOS at Federated Hermes ('EOS') have set an objective for this to be achieved, with a net-zero target across all scopes and lending that can be achieved well before 2050.

Engagement: During a Q3 2022 engagement, the bank provided an outline of its intended strategy to disclose a planned science-based pathway for Scopes 1, 2 and 3 and lending portfolio emissions reductions. EOS engaged with the bank throughout the process and reported on the bank's progress on the science-based pathway, and the strategy to achieve this, as well as greater detail on how net zero can be achieved. EOS also reviewed its sustainable business disclosure, which has outlined the work it will carry out in its internal asset class working groups to establish approaches to science-based targets.

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

Outcome: At the end of Q3 2023, the bank has published a full and detailed strategy for science-based emissions reduction pathways of which the targets have been validated by the SBTi. These consist of a 49% reduction in GHG emissions from operations (Scope 1 and 2) by 2030 and reduction targets have been set for emissions arising from lending (Scope 3). To achieve this, the Bank has increased sustainable lending by committing to a 48% reduction in mortgage portfolio emissions and a 56% reduction in commercial real estate portfolio emissions by 2030, with 2020 as the base year.

Under the targets, 25% of the Bank's corporate loan portfolio will also need to have SBTi-validated targets by 2025. Whilst the wider objective is achieved, EOS continues to engage with the Bank on how it is executing against the commitments to complete the requirement above.

In Q3 2023, EOS discussed challenges and opportunities of executing lending against emissions pathways. The Bank have implemented strategies to increase adoption of decarbonisation, adaptation and resilience-related lending amongst agriculture and home mortgage borrowers. EOS will continue to monitor achievement of emissions and lending targets and provide feedback on how the bank is providing quantitative disclosure in this regard.

DELTA ELECTRONICS INC

Theme: Climate Change

Objective: The objective is for the company to enhance its disclosure in line with the TCFD recommendations to demonstrate that its strategy is consistent with the Paris Agreement goals or the International Energy Agency's 1.5 degrees scenario.

Engagement: Our stewardship partner, EOS at Federated Hermes (EOS) raised concerns about the company's use of internal carbon funds or capex to fund its climate transition. The company stated it has been using internal carbon funds or capex to fund other activities in order to meet its carbon neutrality goals. During an engagement in November 2021, EOS requested further disclosure on the use of the fund. EOS discussed the company's internal carbon pricing and asked how the mechanism, whereby internally generated funds are directed to energy conservation, emissions reduction, and renewable energy investment, works in practice. The company was unable to provide a detailed answer, investor relations advised that more information should be provided in the upcoming ESG report.

Outcome: Delta Electronics' 2022 ESG report contains significant new information on how its internal pricing mechanism helps it to achieve its climate ambitions. It quantifies funds totalling US$120m raised by the mechanism in 2022. The report explained the carbon fee charged by the mechanism and also explained how the mechanism is used to help finance its transition to electric vehicles, which is in line with its commitment to using only zero-emission company vehicles by 2030.

SUZANO SA

Theme: Biodiversity

Objective: Our stewardship provider, EOS at Federated Hermes (EOS) scrutinised the company's long-term biodiversity strategy. The company was requested to produce evidence in terms of biodiversity restoration, land use and social impact outcomes in its 2021 to 2023 disclosures. The strategy needs to account for and report against historic problems in biodiversity and land use that the company has faced in previous decades.

Engagement: Following the 2021's Company biodiversity strategy and targets, EOS has engaged with the company on disclosure on the targets and its long-term alignment towards biodiversity restoration and land use. In addition, the Company has previously faced criticism on its approach towards land use and biodiversity.

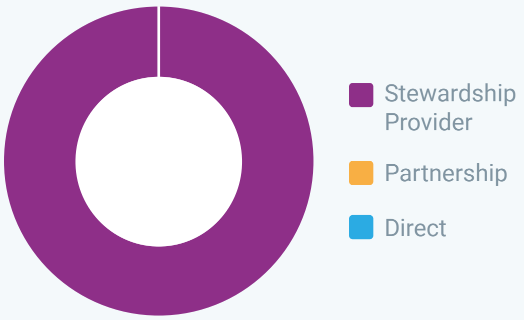
Outcome: The Company has set up a target on restoring ecological connective corridors in three focus biomes. This will lead to biodiversity restoration across a total of 4 million hectares to be conserved overall. The target covers directly owned lands and expands to joint ventures. As of 2022, around 180 hectares have been planted, about 1% of its restoration goal. Despite initially slow progress, the company is encouraged to remain committed to its long-term partnership and ambition, given the environmental and social materiality of resilient biomes to the company's financial health.

The engagement is still ongoing. The company reports the impact the strategy is having in its 2021 ESG disclosures and changes made to improve effectiveness. The company has begun to demonstrate early results of its biodiversity, land use their reporting, but more progress is needed. Our engagement provider, EOS, continues to monitor this.

PLASTIC ENGAGEMENTS

This quarter our plastic-related engagement set comprised 17 companies with 18 engagement issues and objectives. There was progress on 1 specific engagement objective.

ENGAGEMENT VOLUME BY TYPE



- 18 engagements during the quarter

ENGAGEMENT VOLUME BY OUTCOME

ANSELL LTD

Theme: Plastics

Objective: We seek to engage with companies that are directly or indirectly involved in plastic pollution or with companies that could contribute to the path of a circular economy. The objective is for the company to develop and publishes a circular economy strategy with goals that include sourcing, demand, use and disposal.

Engagement: In the most recent engagement, held in Q3 2023, the company confirmed to EOS, our partner, plans to launch a new framework to outline the sustainability characteristics of individual products. It is calling this initiative Ansell Earth and expects it to be helpful in informing customer choice on sustainability. This supports its target for 80% of products to be designed with a reduced environmental impact by 2026. The company has also undertaken a lifecycle analysis of the environmental impact of multiple products. For its reusable gloves, around 50% of the carbon footprint relates to the yarn, while for its single-use gloves the biggest impacts occur at manufacturing (being addressed) and through end-of-life waste generation. The creation of a dedicated team of sustainability specialists that work across innovations underlines the increased importance of sustainability at Ansell. In 2023 it partnered with a French recycling company to trial the processing of gloves, including nitrile gloves, into second life material for use.

Outcome: EOS will continue to engage with the company until the firm has developed and published a robust circular economy strategy as outlined in the engagement objective.

FAIR TAX PAYMENT AND TAX TRANSPARENCY ENGAGEMENTS

This quarter, our tax transparency engagement set comprised 1 company with 2 engagement issues and objectives.

ENGAGEMENT VOLUME BY TYPE

- 2 engagements during the quarter

EXXON MOBIL CORP

Theme: Responsible Taxation policy

Objective: The objective is for the company to publish a responsible taxation policy in line with the Global Reporting Initiative Tax Fairness Standard, and disclose itemised payments to governments at the national, state, and local levels.

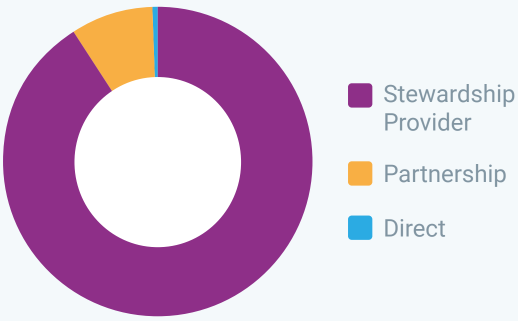
Engagement: In February 2023, our Stewardship Partner, EOS at Federated Hermes, encouraged the company to publish a responsible taxation policy in line with the Global Reporting Initiative Tax Fairness Standard, and disclose itemised payments to governments at the national, state, and local levels. In response, the company said it was prepared to increase disclosure on the topic in line with emerging Dodd Frank regulations - regulation that restricts banks from trading with their own funds, monitors systemic risk, tightens regulation of financial products, and creates new agencies to oversee the process.

Outcome: In Q3 2023, the company outlined that it is prepared to comply with emerging tax regulations that require country-by-country reporting. EOS will continue to engage with the firm on this matter.

HUMAN RIGHTS

This quarter our human rights related engagements comprised 129 companies with 223 engagements issues and objectives. There was progress on 29 specific engagement objectives.

ENGAGEMENT VOLUME BY TYPE



- 223 engagements during the quarter

NESTLE SA

Objective: The objective of this engagement is to ensure the company is advocating for the industry to stop the marketing of unhealthy products to children under 18 years of age and extends its Responsible Marketing to Children Policy to all children under the age of 18.

Engagement: EOS raised concerns regarding the absence of company advocacy for the industry to stop the marketing of unhealthy products to children under 18 years of age and the importance of extending its Responsible Marketing to Children Policy to all children under the age of 18. Our engagement provider challenged marketing policies that allow for up to 25% of marketing to target children under 12 and questioned why its 'Responsible Marketing to Children Policy' cannot be extended to all children under the age of 18. The company acknowledged their concerns but argued that there needs to be an industry-wide level-playing field on marketing policy. As a result, our stewardship provider pushed the company to evidence that it is advocating for the industry to stop the marketing of unhealthy products to children under 18 years of age as well extending its own policy to this whole age group. EOS participated in a collaborative Access to Nutrition Index engagement with the company's head of public affairs, head of food, and head of governance in Q4 2022 to further challenge the company on responsible marketing to children.

Outcome: The company raised its minimum age for marketing to children from 13 years to 16 years and its advocacy plan to raise industry standards. The company reiterated its recent commitment during a collaborative engagement with the Healthy Markets Coalition and the company's global head of food and global head of public affairs in Q4 2022. During ShareAction's Healthy Markets Coalition in July 2023, we found that the company is strengthening its responsible marketing to children, and refrains from marketing indulgent products or portions over a certain number of calories to children under 16 years of age.

03 Voting

POLICY

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

LGPS Central's approach to voting aligns with our responsible stewardship responsibility towards clients, i.e. Partner Funds. LGPS Central exercises voting rights to support the long-term economic interests of its stakeholders and to ensure boards of directors are accountable to shareholders.

COMMENTARY

Between July – September 2023, we:

VOTED AT	OPPOSED ONE OR MORE RESOLUTIONS AT	SUPPORTED
394 MEETINGS (4,128 resolutions) globally	215 MEETINGS	69.2% OF SHAREHOLDER PROPOSALS (36 out of 52 resolutions)

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

EXAMPLES OF VOTING DECISIONS

Constellation Brands

Company: Constellation Brands Inc

Theme: Climate Change

Rationale: We supported a shareholder proposal requesting a report disclosing how the company intends to reduce the full range of its Scope 1 through 3 greenhouse gas emissions in alignment with the Paris Agreement's 1.5 degree Celsius goal requiring Net Zero emissions by 2050. Most of the firm's emissions fall under Scope 3, which is not covered by its current emissions targets. According to the company's ESG Impact Report 2022, it aims to reduce Scope 1 and Scope 2 greenhouse gas emissions by 15 percent by FY 2025, from a baseline FY 2020 emissions. The firm is implementing a three-year strategy and operating plans to achieve its targets. However, Constellation Brands can be viewed as a laggard in comparison to other alcoholic beverage companies including Molson Coors, Anheuser-Busch InBev, and Diageo who have all set Paris aligned targets. These targets have been validated by the Science Based Targets initiative for their Scope 1, 2, and 3 emissions. Given the firm's lagging position relative to its peers, we supported this shareholder resolution. We believe that shareholders would benefit from additional information on how the company plans to align its operations with the Paris Agreement goals, manage its greenhouse gas emissions, and address climate risks.

Result: The vote received 31.0% support which sends a strong message to the Board that investors would like to see improved greenhouse gas disclosures, in line with peers.

Company: NIKE, Inc

Theme: Human Rights

Rationale: A shareholder proposal was put forward requesting NIKE to report on its gender and racial pay gaps, including various associated risks. NIKE does not publish for its U.S. or global workforce the same gender pay gap statistic as it publishes in the UK. The company is facing a lawsuit filed in 2018, by two former employees alleging the company promoted a culture of sexism and fear of retaliation as well as unequal pay for women.

The median pay gap statistic provides benefits such as transparency and comparability across time and organisations, as well as measuring the representation of women and racial and ethnic minorities in senior positions. As the company discloses its pay gap data for its UK workforce, investors would benefit from a report concerning the unadjusted median pay gap data for its U.S. or its global workforce. This report would allow them to better gauge how well the company is advancing opportunities for women globally and for racial and ethnic minorities in the U.S. It also assists in mitigating risks related to the increasing public scrutiny on gender and racial/ethnic pay equity issues. This is particularly relevant for NIKE as the company is currently facing a lawsuit alleging sexism and unequal pay for women. We supported this shareholder resolution because we would benefit from global median pay gap statistics that would allow us to compare and measure the progress of the company's diversity and inclusion initiatives.

Result: The proposal received 29.6% support which sends a strong signal to NIKE's Board on investor concern over the firms approach to Diversity, Equity, and Inclusion.

FedEx

Company: FedEx Corporation

Theme: Climate Change

Rationale: We supported a shareholder proposal that requested the Board of Directors to commission an independent study of how FedEx is addressing the impact of its climate change strategy on relevant stakeholders, including but not limited to its employees, workers in its supply chain, and communities in which it operates. The report should be consistent with the "Just Transition" guidelines of the International Labor Organization and indicators of the World Benchmarking Alliance.

The World Benchmark Alliance's 2022 Transportation Benchmark report scored FedEx 1.9 out of 20 on the Just Transition and raised concerns about sufficient disclosure and strategy around planning for the impact of the low-carbon energy transition on workers and communities. The firm is pursuing electric and autonomous vehicles as part of its climate strategy and research suggesting that the shift to electric vehicles and autonomous vehicles may introduce significant workplace challenge. As responsible investors we are interested in how FedEx will manage these impacts. The company does not provide disclosure around whether it anticipates its climate strategy to have a significant impact on its workforce development strategy. It is also unclear whether its current workforce development efforts would be well-positioned to address potential changes. While the company's efforts exceed those of its key peers, in this case, there appear to be concerns about the state of disclosure within the entire transportation sector. Greater disclosure around the company's just transition strategy would allow shareholders to better evaluate any related risks and opportunities.

Result: The proposals received 29.7% shareholder support and continues to send a strong message to the Board that investors are cognisant of risks associated with the Just Transition.

Company: Wizz Air Holdings Plc

Theme: Remuneration

Rationale: Shareholder approval was sought for a non-binding resolution to approve the company's remuneration policy, which would be effective from August 2023 to August 2026. The company proposed to amend the performance conditions and period of the Value Creation Plan (VCP) award granted to the CEO in 2021. Key changes to the in-flight policy include:

- The performance period is being extended from five years to seven years;
- Amendments have been made to allow full payout if 100% target share price is hit during two consecutive quarters before end date, otherwise defaulting to measured achievement based on 1H CY 2028 VWAP.
- The Company is removing the financial underpin related to the payout of the ESG portion of the award.

As a responsible investor, we have concerns about the changes in the executive package. The removal of financial underpin relaxes the conditions for the award being granted which is worsened by the fact that full payout can be paid if the 100% target share price is achieved during 2 consecutive quarters. We believe these metrics are not stretching and as challenging as the original executive policy (e.g. financial underpin attached to the ESG metrics).

Result: The proposal resulted in 28.2% voting against the resolution. Although the resolution passed it sent a strong message to the company over investor concern of the remuneration policy.

LGPS CENTRAL LIMITED'S

Partner Organisations

LGPSC actively contributes to the following investor groups

30% Club GROWTH THROUGH DIVERSITY

BVCA British Private Equity & Venture Capital Association

CDP DISCLOSURE INSIGHT ACTION

Climate Action 100+ Global Investors Driving Business Transition

Federated Hermes

IIGCC Institutional Investors Group on Climate Change

ICGN International Corporate Governance Network

Local Authority Pension Fund Forum

PENSIONS FOR PURPOSE

PRI Principles for Responsible Investment

Transition Pathway Initiative

THE INVESTOR FORUM

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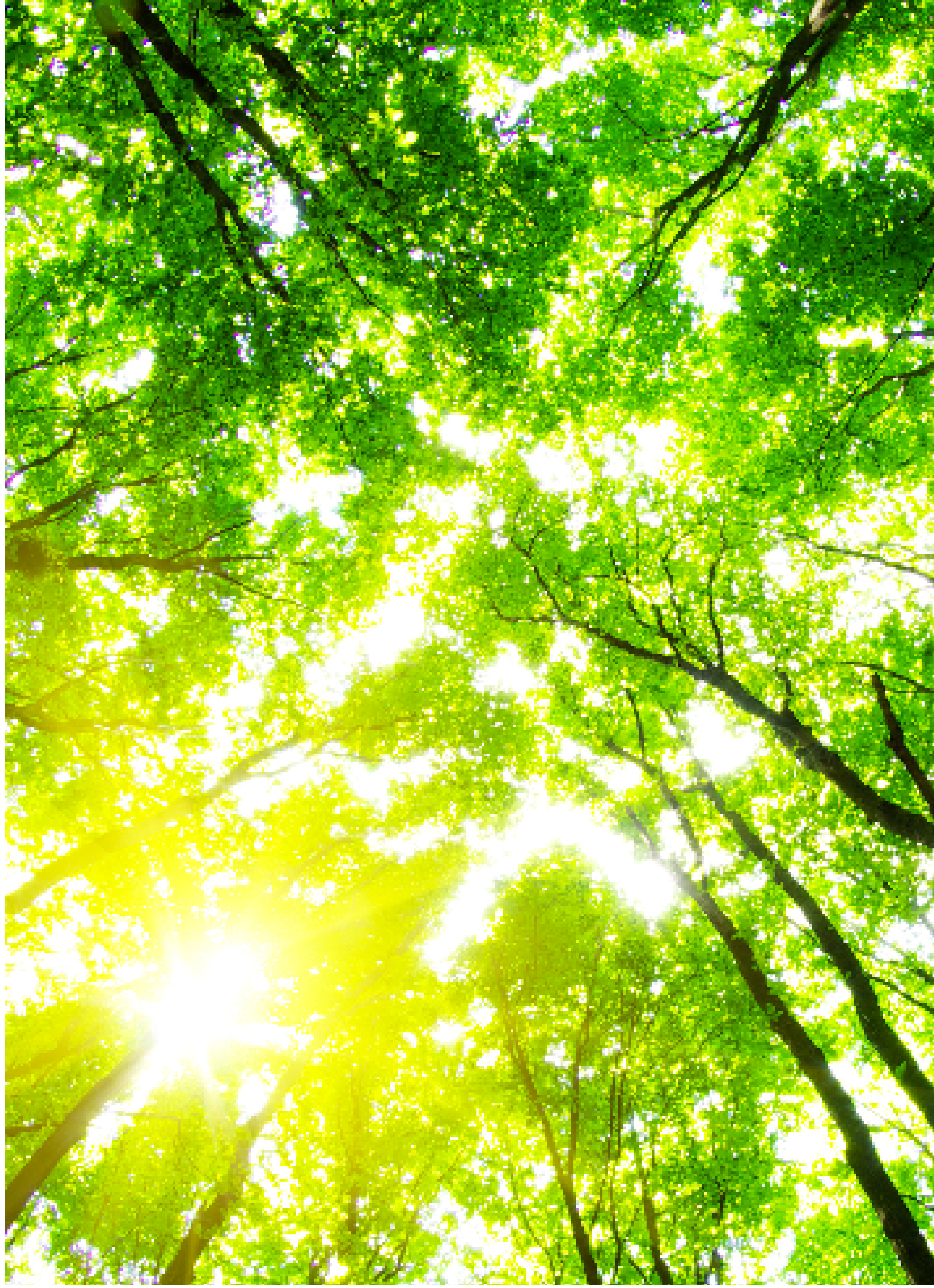
2024-2027 Proposed Stewardship Strategy

LGPS Central Limited



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Agenda

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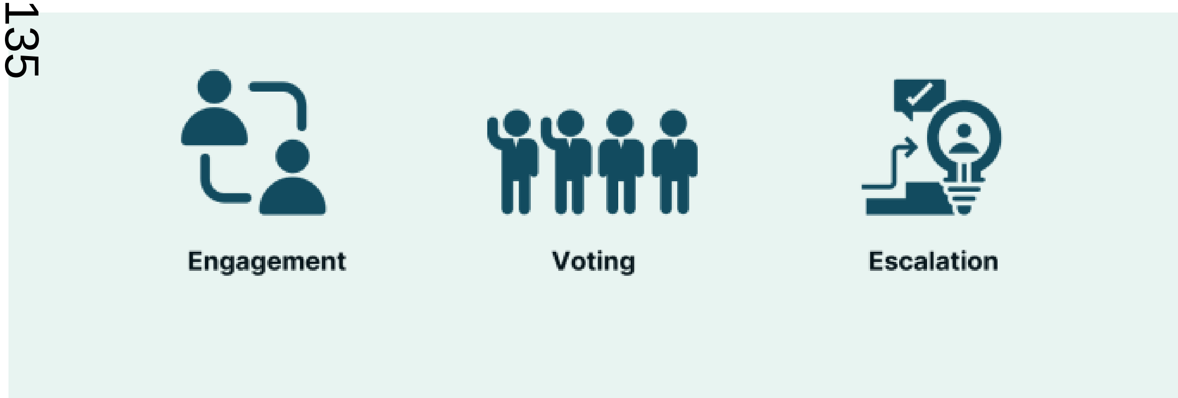
ITEMS

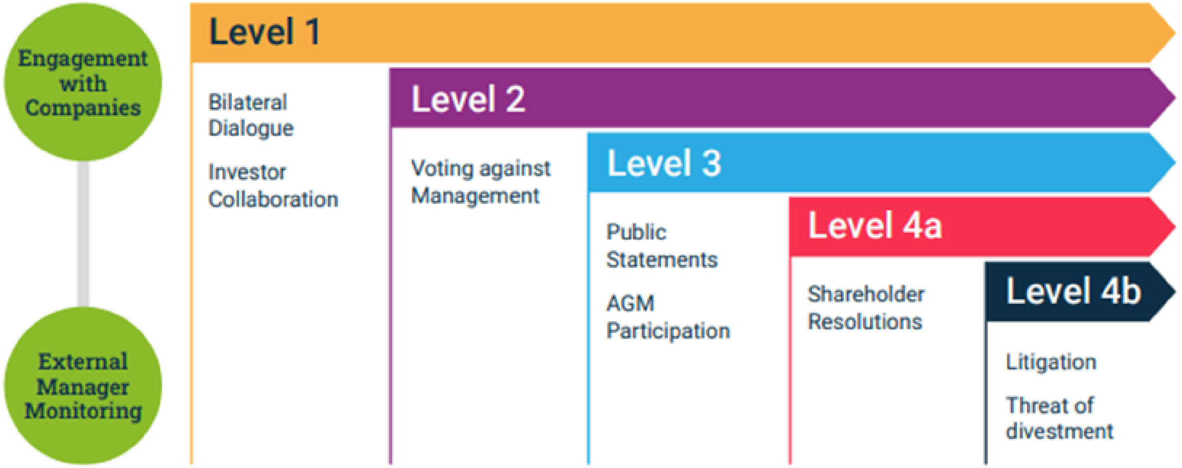
1. What Stewardship means
2. Revision of Stewardship Themes
3. 2024-2027 Proposed Stewardship Themes
4. Detail on Each Theme
5. Stewardship Partners Themes
6. Key Partnerships
7. Glossary

CHESHIRE PENSION FUND
Derbyshire Pension Fund
PENSION FUND
NOTTINGHAMSHIRE PENSION FUND
Shropshire County Pension Fund
Staffordshire Pension Fund
West Midlands Pension Fund
Worcestershire Pension Fund

What Stewardship means

Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society (FRC).





Review of Stewardship

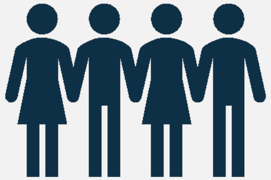
Identification criteria for Stewardship Themes:

1. Economic relevance
2. Stakeholder relevance
3. LGPSC's ability to resource the theme and find collaboration

CLIMATE CHANGE

NATURAL CAPITAL

HUMAN RIGHTS



CONTROVERSIAL ACTIVITIES

2024-2027 Proposed Stewardship Themes

LGPS Central Limited

Climate

- Net Zero Alignment (Direct, CA100+, CDP)
- Audit Accounts (IIGCC)
- Just Transition (LAPFF)
- Banks (ShareAction)

Natural Capital

- Advocacy (PRI, IPDD)
- Nature Action 100
- Plastic pollution (AsYouSow)

Human Rights

- Corporate Index Benchmark (ICCR)
- Advance (PRI)
- Modern Slavery (Find it, Fix it, Prevent it), OPT (Direct, LAPFF)

Controversial Activities

- Laggards in ACS (Direct, Investor Forum, EOS)
- Egregious controversies in ACS (Direct, Investor Forum, EOS)
- Fair Tax (PRI)

Climate Change (i)

LGPS Central Limited

What is the Problem?

- The largest impact of climate change is that it could negatively impact GDP of the worldwide economy by 2050 if global temperatures rise dramatically. Forecast based on temperature increases staying on the current trajectory and the Paris Agreement and net-zero emissions targets not being met.
- IPCC states that “it is unequivocal that human influence has warmed the atmosphere, oceans and land”.
- Climate change has the potential impact to disrupt the success of companies across all sectors and geographies.
- Climate change risks are endemic, and they span from physical, transitional to market-pricing risk. Its impact is likely to be transgenerational.

Investment Risk and Opportunity

- Climate change could put at risk around 2 percent of global financial assets by the year 2100. A worst case scenario could see up to 10 percent of global financial assets being at risk by 2100. As pension schemes’ liabilities stretch over an extended period, the long-term impacts of climate change can affect the liability side of the balance sheet in addition to any transitional impacts on asset values.
- Companies with credible net zero strategies are more likely to set resilient business plans against climate risks and stir away from stranded assets.
- Climate financing is pre-requisite for meeting the Paris Agreement. Climate solutions can contribute to emissions reductions needed to limit global warming to 1.5° or 2° C .

Exposure

High-risk sectors

- Oil & gas, coal mining, utilities
- Automotive, steel, cement, petrochemicals, airlines
- Financial services
- Forestry
- Agricultural supply chains
- Consumer goods

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Natural Capital (i)

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What is the Problem?

- Over half of global GDP is moderately or highly dependent on nature
- Positive feedback loop exists between the effects of Climate Change and Biodiversity loss
- Climate change will become the dominant cause of biodiversity loss in the coming decades
- 5 key drivers of Biodiversity loss: Land-use change, Climate Change, Pollution, Natural Resource use and exploitation, invasive species.
- The mismanagement of nature-related risks poses potentially serious systemic and macroeconomic risks.

Investment Risk and Opportunity

- Degradation of nature could reduce companies' ability to generate long-term value for shareholders through (i) scarce resources (ii) regulatory tightening (iii) reputational damage.
- Companies reliant on a linear take-make-waste model face substantial commercial risks
- New opportunities around Nature-based climate solutions

Exposure

High-risk sectors

- Biotechnology and pharmaceuticals
- Chemicals
- Consumer Good Retail
- Food
- Forestry & Paper Products
- Household and personal goods
- Food and beverage retail and restaurants
- Metals and mining

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Human Rights Risks (i)

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BACKGROUND

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What is the Problem?

- There is a growing visibility and urgency around many human rights issues globally
- Media, governments and citizens are questioning whether the global financial system serves its intended purpose, and the wider interests of society, if it fails to manage capital in a way that supports sustainable and inclusive economies
- Higher scrutiny is placed on "S" factors as if mismanaged, they can have the potential to destroy companies' value and they are increasingly perceived as a barometer for company's culture 1.

Investment Risk and Opportunity

- The long-term legitimacy of sectors and markets depends, among other things, on operations and products that are ethically acceptable – "social license to operate".
- Companies' operations have impact on employees, as well as contract workers, workers in supply chains, customers, communities and the environment around operations
- Businesses and institutional investors have a responsibility to respect human rights as indicated in the UN Guiding Principles on Business and Human Rights (UNGPs) and the OECD Guidelines for Multinational enterprises. Litigations and claims can be brought against investors, e.g. through the OCP.

Exposure

High-risk sectors

- The responsibility to respect human rights applies to all companies across sectors.
- Certain human rights will likely be more at risk of being impacted than others, depending on sector, geographical area and other circumstances.

(1) Time to Rethink the S in ESG (harvard.edu)

Controversial Activities(i)

LGPS Central Limited

BACKGROUND

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What is the Problem?

- A MSCI study found that companies with high ESG scores experienced lower costs of capital, lower equity costs, and lower debt costs compared to companies with poor ESG scores. McKinsey(1) echoes this argument maintaining that over 2,000 academic studies concluded that better ESG scores translate to about a 10% lower cost of capital. This correlates to lower regulatory, environmental, and litigation risks associated with high ESG-scoring companies
- In two thirds of "high ESG controversy" cases, companies' stock experienced "sustained underperformance," trailing the global index by an average of 12% over the course of the following 2 years after the controversy (2).
- Supply chain disruption may severely affect the long-term success of companies (i.e., supply chain resilience and business risk)

Investment Risk and Opportunity

- The value of shares of companies that are involved in systemic ESG scandals are likely to severely impaired, e.g., Lomnin, Vedanta, Bayer. Companies with severe breach of international norms can be exposed to: imminent removal of their licence to operate, government intervention, and severe litigations. Investors can face dire reputational risks as well as complaints at OCP level.
- Laggard ESG practices can act as a proxy indicator for companies' vulnerability to potential scandals and corporate mismanagement.
- Engaging with companies' executive teams with alleged controversies and/or ESG laggard approach is part of the LGPSC's fiduciary duties2 and universal owners' commitment to responsible investment.

Exposure

High-risk sectors

- The responsibility to respect international norms and adopt business practices applies to all companies across sectors.

(1) Why ESG scores are here to stay | McKinsey
(2) ussif.org/files/GSIR_Review2018F.pdf
(3) ICGN - Fiduciary duties exist to safeguard the current and future interests of fund beneficiaries, both to enhance value and to protect them from potential misuse of their assets, owing to negligence,

Stewardship Partners Engagement Themes

LGPS Central Limited

Federated Hermes

Meta theme	Theme	Subtheme
Environmental	Circular economy and zero pollution	Circular Economy & Waste
		Pollution
	Climate change	Governance & Transparency
		Climate Opportunities
		GHG Emissions Reduction
		Physical Risk
	Natural resource stewardship	Antimicrobial Resistance
		Biodiversity & Sustainable Food Systems
		Water Stress
Governance	Board effectiveness	Board Composition & Structure
		Board & Management Effectiveness
		Succession & Stability
	Executive remuneration	Pay Outcomes
		Pay Design & Transparency
	Investor protection and rights	Basic Shareholder Rights
		Debtholder Rights
		Minority Protections
Social	Human and labour rights	Access & Affordability
		Digital Rights
		High Geographic Risks
		Indigenous & Community Rights
		Supply Chain Rights
	Human capital	DEI & Innovation
		Health, Safety & Wellbeing
		Employment Terms & Conditions
	Wider societal impacts	Anti-bribery & Corruption
		Conduct & Ethics
		Safe Products & Services
		Responsible Tax Practices
Strategy, Risk and Communication	Corporate reporting	Audit & Accounting
		Sustainability Transparency
	Purpose, strategy and policies	Business Purpose
		Capital Allocation
		Long-term Sustainable Strategy
	Risk management	Cyber Security
		Enterprise Risk Practices

THE INVESTOR FORUM

Oversight by the Board	Execution by the Management team
Strategy	Operational Performance
Leadership & Succession	Management Information
Capital Allocation	Reporting & Communication
Corporate Governance	Capital Allocation
Corporate Action	
Improving Governance	

C O N F I D E N T I A L

Stewardship Partners Engagement Themes

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Local Authority Pension Fund Forum

- Climate Risk
- Social Risk
- Governance Risk
- Reliable Accounting Risk
- LGPS & Stewardship

ShareAction»

- Investor Decarbonisation Initiative
- Long-term investors for People's Health
- Good Work Coalition
- Workforce Disclosure Initiative
- Raising Banking Standards
- Biodiversity Initiatives

THE INVESTMENT ASSOCIATION

- Responding to Climate change
- Audit quality
- Stakeholder engagement and
- Diversity

Key partnerships

LGPS Central Limited

Green Finance Initiative

Local Authority Pension Fund Forum

Transition Pathway Initiative

THE INVESTOR FORUM

PRI Principles for Responsible Investment

IIGCC Institutional Investors Group on Climate Change

Climate Action 100+ Global Investors Driving Business Transition

30% Club GROWTH THROUGH DIVERSITY

ICGN International Corporate Governance Network

THE INVESTMENT ASSOCIATION

FRC Financial Reporting

CDP DISCLOSURE INSIGHT ACTION

Nature Action 100

ICA

Glossary

- AsYouSow: NGO promoting corporate accountability through shareholder action.
- Authorised Contractual Schemes (ACS): collective investment scheme that pools assets and is managed on behalf of several investors.
- CDP: NGO helping companies, cities, states, regions, and public authorities disclose their environmental reporting impact.
- Climate Action 100+ (CA100+): investor initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.
- EOS at Federated Hermes: engagement overlay provider that delivers corporate engagement and proxy voting services.
- Finance Sector Deforestation Action (FSDA): investor initiative focused on eliminating agricultural commodity-driven deforestation from portfolios.
- Financial Reporting Council (FRC): regulator that is responsible for setting the UK's Corporate Governance and Stewardship Code.
- Institutional Investors Group on Climate Change (IIGCC): a European-based membership body for investor collaboration on climate change.

C O N F I D E N T I A L

Glossary

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- Intergovernmental Panel on Climate Change (IPCC): United Nations body for assessing the science related to climate change.
- Investor Policy Dialogue on Deforestation (IPDD): investor initiative engaging with public agencies and industry associations on the issue of deforestation.
- Local Authority Pension Fund Forum (LAPFF): promotes the highest standards of corporate governance to protect the long-term value of local authority pension funds.
- Natural Capital: the worlds stocks of renewable and non-renewable natural resources (plant, animals, air, water, minerals, soil) that combine to provide a flow of benefits (ecosystem services) to people.
- Principles for Responsible Investment (PRI): independent body working to encourage investors to use Responsible Investment to enhance returns and better manage risk.
- ShareAction: NGO promoting Responsible Investment and driving better corporate action on Environmental, Social, and Governance issues.
- Taskforce for Nature-related Financial Disclosures (TNFD): risk management and disclosure framework for organisations to report on nature-related risks.

Glossary

- The Investor Forum: practitioner-led membership organisation to position stewardship at the heart of investment decision–making.
- Transition Pathway Initiative (TPI): global initiative that assesses preparedness by companies in high carbon sectors for transition to a low carbon economy.
- UN Guiding Principles on Business and Human Rights (UNGP): set of guidelines for states and companies to prevent, address and remedy human rights abuses committed in business operations.

LGPS Central Limited

“One Central team, working in partnership to invest with purpose and deliver superior returns”

FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

PENSIONS AND INVESTMENTS COMMITTEE

WEDNESDAY, 6 DECEMBER 2023

Report of the Director - Finance and ICT

STRATEGIC ASSET ALLOCATION BENCHMARK AND INVESTMENT STRATEGY STATEMENT

1. Purpose

1.1 To seek approval for a new Strategic Asset Allocation Benchmark for Derbyshire Pension Fund (the Fund/Pension Fund) and a revised Investment Strategy Statement for consultation with the Fund's stakeholders.

2. Information and Analysis

2.1 Strategic Asset Allocation Benchmark

At the last formal actuarial valuation at the end of March 2022, the funding level of the Pension Fund was 100%. This was an improvement on the funding level of 97% at the formal valuation at the end of March 2019. This improvement was consistent with the gradual improvement in the Fund's funding level over the last decade, which has improved from 82.5% at the end of March 2013 to 100% at the end of March 2022.

The funding level of the Pension Fund is the ratio of assets to liabilities at the valuation date. The funding level provides a high-level snapshot of the funding position at a particular date.

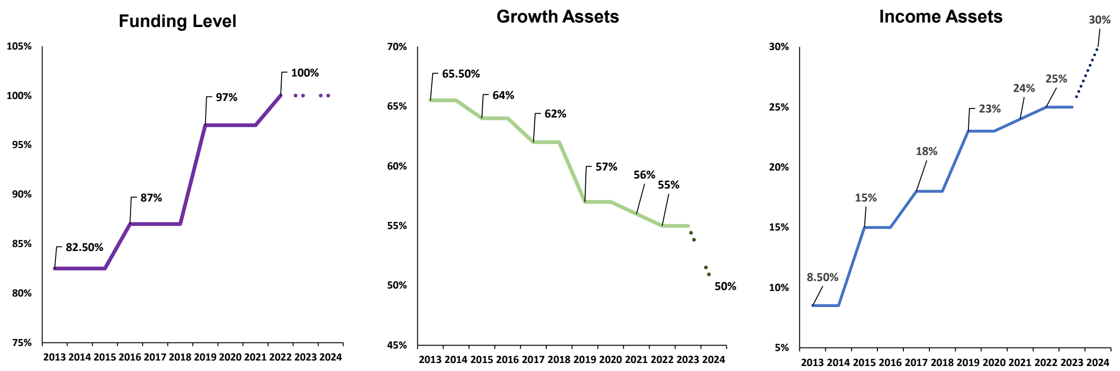
On 31 March 2022, the assets of the Fund were valued at £6,132m and the past service liabilities were estimated to be £6,131m. The investment and membership experience of the Fund from March 2019 to March 2022 had a positive impact on the funding level, partly offset by higher inflation increasing the cost of past service liabilities.

Following the receipt of the formal March 2022 actuarial valuation, the Fund's Strategic Asset Allocation Benchmark (SAAB) has been reviewed, taking into consideration the further improvement in the funding level. The following changes are proposed:

Asset Class	Current SAAB	Intermediate SAAB	Final SAAB	Final Change
UK Equities	12.0%	10.0%	8.0%	(4.0%)
Japanese Equities	5.0%	2.5%	-	(5.0%)
Emerging Market Equities	5.0%	2.5%	-	(5.0%)
Global Sustainable Equities	29.0%	31.5%	36.0%	7.0%
Private Equity	4.0%	6.0%	6.0%	2.0%
Growth Assets	**55.0%**	**52.5%**	**50.0%**	**(5.0%)**
Infrastructure	10.0%	11.5%	13.0%	3.0%
Multi-Asset Credit	6.0%	6.5%	7.0%	1.0%
Direct Property	6.0%	9.5%	10.0%	1.0%
Indirect Property	3.0%			
Income Assets	**25.0%**	**27.5%**	**30.0%**	**5.0%**
Conventional Bonds	6.0%	6.0%	6.0%	-
Index-Linked Bonds	6.0%	6.0%	6.0%	-
Corporate Bonds	6.0%	6.0%	6.0%	-
Cash	2.0%	2.0%	2.0%	-
Protection Assets	**20.0%**	**20.0%**	**20.0%**	**-**
Total	**100.0%**	**100.0%**	**100.0%**	**-**

The proposed final SAAB includes a 5% switch from Growth Assets to Income Assets, reflecting the improvement in the Fund's funding position noted above, whilst acknowledging that the Fund remains open to new members and continues to accrue additional future pension liabilities. The proposed final SAAB also includes a change in the composition of the Fund's equity exposure.

The proposed 5% switch from Growth Assets to Income Assets reflects the continuation of a gradual change in the Fund's exposure to both Growth Assets and Income Assets over the last decade as the Fund's funding position has improved. As shown in the charts below, the Fund's exposure to Growth Assets has been reduced from 65.5% of total assets on 31 March 2013 to 55.0% on 31 March 2023. Over this same period, the Fund's share of Income Assets has increased from 8.5% to 25.0%.



The Fund's In-House Investment Management Team notes that Growth Assets can be extremely volatile, whereas Income Assets are generally more defensive and less correlated to the business cycle and economic conditions. As a result, Income Assets tend to be less volatile than Growth Assets, with lower levels of drawdowns at times of market stress and uncertainty. The Fund's Income Assets, which relate to Infrastructure, Property and Multi-Asset Credit, are also return seeking assets and are supported by predictable and recurring cash yields.

In November 2020, the Fund's regional equity allocations were streamlined, when the Fund's North America, Europe and Asia Pacific Ex-Japan Equity allocations were consolidated and switched into Global Sustainable Equities. This allocation targets investment in global companies that are sustainable in financial, environmental, social and governance terms, and where appropriate, that provide solutions to sustainability challenges.

The IIMT recommends that this streamlining is now extended to cover the Fund's Japanese and Emerging Market Equity allocations. It should be noted that all these regions are represented within a global sustainable equity allocation, and as result, the Fund's equity investments will continue to be geographically diversified and exposed to global and regional GDP drivers. The IIMT continues to recommend a standalone allocation to UK Equities because the UK equity market offers portfolio diversification.

The IIMT notes that the transition from regional equities, with a heavy UK home bias, towards a more global approach over the last 10 to 20 years has been a common trend across LGPS & UK corporate pension funds. The IIMT believes that a global approach should provide the

Fund's underlying investment managers with the opportunity to out-perform through regional tactical asset allocation.

It is proposed that the majority of the recommended 5% increase in Income Assets is allocated to Infrastructure, taking the asset class weighting from 10% to 13%. Infrastructure is an attractive asset class for the Pension Fund, offering equity like returns, predictable long-term cash flows which are often linked to inflation, and returns with a low correlation to other major asset classes. The balance reflects a 1% increased allocation to both Multi-Asset Credit and Property.

It is also recommended that the current direct and indirect property allocations are merged into one property allocation, to simplify asset class allocation, albeit the allocation will continue to be heavily tilted towards UK commercial property. The IIMT believes that this will allow the Fund's Discretionary Direct Property Manager to actively source additional opportunities, whilst reducing the investment management fees payable by the Fund. Some exposure to indirect property will be maintained to increase portfolio diversification.

Given the quantum of the proposed changes between the current and final SAAB, the IIMT recommends that an intermediate SAAB is also approved to allow the IIMT to manage the transition risk towards the final SAAB. It is proposed that the intermediate SAAB would come into effect at the beginning of 1 April 2024, with the final SAAB coming into effect by 1 April 2025 at the latest.

2.2 **Investment Strategy Statement**

The Fund's SAAB is included in the Fund's Investment Strategy Statement. LGPS Regulations require an administering authority to prepare an Investment Strategy Statement in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the 2016 Regulations). The Fund's Investment Strategy Statement was last revised in November 2020.

Under the 2016 Regulations, the Investment Strategy Statement must be reviewed, and if necessary revised, following a material change in the factors which are judged to have a bearing on the stated investment policy, and at least every three years. Given the proposed changes to the Fund's SAAB set out in this report, a revised Investment Strategy Statement has been prepared, a copy of which is set out at Appendix 2.

The Investment Strategy Statement must cover:

- A requirement to use a wide variety of investments

- The authority's assessment of the suitability of particular investments and types of investment
- The authority's approach to risk, including how it will be measured and managed
- The authority's approach to pooling investments, including the use of collective investment vehicles and shared services
- The authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments
- The authority's policy on the exercise of rights (including voting rights) attached to its investments

The Investment Strategy Statement must also set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment and the authority is required to consult such persons as it considers appropriate regarding the proposed contents of its investment strategy.

The Fund's independent investment adviser, Anthony Fletcher, has reviewed the revised Investment Strategy Statement and the proposed changes to the SAAB and a copy of the advisor's review is set out at Appendix 3.

2.2 LGPS Pooling Consultation Response

The response from the Department for Levelling Up, Housing & Communities (DLUHC) to the 'Local Government Pension Scheme (England and Wales): Next steps on investments' consultation was published at the same time as the government's Autumn Statement.

DLUHC intends to publish revised investment strategy statement guidance to reflect its expectations with respect to LGPS investment pooling, a requirement for LGPS funds to have a plan to invest up to 5% in levelling up projects and the government's ambition for LGPS funds to invest 10% of assets in private equity.

The Fund's Investment Strategy Statement will be subject to further review when the new guidance is published.

3. Consultation

3.1 It is intended to consult with scheme members, scheme employers, members of Derbyshire Pension Board, and other stakeholders on the revised Investment Strategy Statement. The results of the consultation will be reported to Committee in March 2024.

4. Implications

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

5. Background Papers

5.1 Working papers held by the Pension Fund Team.

6. Appendices

6.1 Appendix 1 – Implications
6.2 Appendix 2 – Draft Investment Strategy Statement
6.3 Appendix 3 – Report of the Fund's Independent Investment Adviser

7. Recommendation(s)

That Committee:

a) approves the draft revised Investment Strategy Statement attached as Appendix 2, which includes the proposed changes to the Fund's Strategic Asset Allocation Benchmark, for consultation with the Pension Fund's stakeholders.

8. Reasons for Recommendation(s)

8.1 The Committee is responsible for reviewing and approving the Pension Fund's statements, strategies and policies.

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

Appendix 1

Implications

Financial

1.1 None

Legal

2.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require an administering authority to prepare an investment strategy statement.

Human Resources

3.1 None

Information Technology

4.1 None

Equalities Impact

5.1 None

Corporate objectives and priorities for change

6.1 None

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

7.1 None

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Derbyshire Pension Fund

County Hall, Matlock, Derbyshire, DE4 3AH
derbyshirepensionfund.org.uk
Administered by Derbyshire County Council

DRAFT Investment Strategy Statement

December 2023

Contents

1. Introduction

This is the Investment Strategy Statement (the ISS) of Derbyshire Pension Fund (the Fund), which is administered by Derbyshire County Council. The ISS is drawn up in compliance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Regulations) [and has been prepared following consultation with such persons as Derbyshire County Council considered appropriate].

The ISS will be reviewed following any material change in the factors which are judged to have a bearing on the stated investment policy and at least every three years, as required by the Regulations.

The primary objective of the Fund is to ensure that, over the long term, the Fund will be able to meet all benefit payments as and when they fall due. These payments will be met by contributions resulting from the funding strategy or asset returns and income resulting from the investment strategy. The funding and investment strategies are, therefore, inextricably linked. The Funding Strategy Statement can be found on the Fund's website: www.derbyshirepensionfund.org.uk/fss

2. Fund Governance

Derbyshire County Council is an administering authority for the Local Government Pension Scheme (LGPS) in accordance with LGPS Regulations 2013. The Pensions and Investments Committee (the Committee) is responsible for discharging Derbyshire County Council's statutory function as the administering authority for the Fund.

The Committee is responsible for determining the Fund's investment policy, monitoring performance and overall stewardship of the Fund. Members of the Committee act in a similar manner to trustees and take advice from Anthony Fletcher, the Fund's Independent Adviser and from the Director of Finance & ICT and the Fund's in-house Investment Team.

The Fund's investments are managed by the Fund's in-house Investment Team, either directly, or increasingly through pooled investment products largely managed by either LGPS Central Limited (LGPSC), a company established to manage investments on behalf of eight LGPS pension funds across the Midlands, or Legal & General Investment Management (LGIM).

Derbyshire Pension Board assists the administering authority to ensure the effective and efficient governance and administration of the LGPS.

Full details of the Fund's governance arrangements, including the governance arrangements for the LGPS Central Pool, are contained in the Governance Policy and Compliance Statement which is published on the Fund's website: www.derbyshirepensionfund.org.uk/governanceandcompliance

3. Investment Objectives

The Committee has agreed a long-term investment strategy that aims to maximise the returns from investments within acceptable levels of risk, contributes to the Fund having sufficient assets to cover the accrued benefits, and enables employer contributions to be kept as stable as possible.

The investment strategy takes into account the following beliefs:

- A long-term approach to investment will deliver better returns
- The long-term nature of LGPS liabilities allows for a long-term investment horizon
- Asset allocation is the most important factor in driving long term investment returns
- Liabilities influence the asset structure; funds exist to meet their obligations
- Risk premiums exist for certain investments; taking advantage of these can help to improve investment returns
- Markets can be inefficient, and mispriced for long periods of time; therefore, there is a place for active and passive investment management
- Diversification across investments with low correlation improves the risk/return profile
- Secure and growing income streams underpin the ability to meet future liabilities
- Responsible investment can enhance long term investment performance
- Investment management costs should be minimised where possible but net investment returns after costs are the most important factor

4. Strategic Asset Allocation Benchmark

The Committee aims to balance risk and reward by apportioning the Fund's assets over a range of asset classes to achieve the Fund's goals, to manage risk and to match the investment horizons. The objective is to generate a return that is at least equal to the investment return assumed by the actuary in the actuarial valuation. The assumed investment return is used by the actuary to 'discount' the Fund's liabilities to a present-day value. The actuarial valuation on 31 March 2022 was prepared on the basis of an investment return of 3.8% over the next 20 years, slightly higher than the assumed investment return of 3.6% over the next 20 years reflected in the actuarial valuation on 31 March 2019, albeit with a higher likelihood of success of achieving the stated return.

The Strategic Asset Allocation Benchmark (the Benchmark) for the Fund has been formulated in consultation with Anthony Fletcher, following the completion of the 2022 triannual valuation conducted by Hymans Robertson, the Fund's actuary. The Benchmark takes into account the required level of return and an appropriate balance between generating long term investment returns and exposure to investment risk. The Benchmark includes a wide variety of asset classes, in order to diversify sources of risk and return. It takes into account the future expected returns from the different asset classes, the historic levels of volatility of each asset class and the level of correlation between the asset classes.

The Fund's asset classes are allocated into three categories:

- 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
- Protection Assets: lower risk government or investment grade bonds, together with cash

The asset allocation of the Fund is reviewed on a quarterly basis, and tactical positions around the Benchmark are agreed by the Committee following advice from the Fund's in-house Investment Team and the Fund's Independent Adviser.

The Fund’s Benchmark is set out in the following table:

Asset Category	Intermediate Asset Allocation	Intermediate Permitted Range	Final Asset Allocation	Final Permitted Range	Performance Benchmark
Growth Assets	**52.5%**	**+/- 8%**	**50.0%**	**+/- 8%**	
Total Quoted Equities	*46.5%*	*+/- 8%*	*44.0%*	*+/- 8%*	
-UK Equities	10.0%	+/- 5%	8.0%	+/- 4%	FTSE All Share Total Return
-Japan	2.5%	+/- 2.5%	-	-	FTSE World Japan Total Return
-Emerging Markets	2.5%	+/- 2.5%	-	-	FTSE Emerging Markets Net Return
-Global Sustainable	31.5%	+/- 8%	36.0%	+/- 8%	FTSE All World and/or specific benchmarks for index tracking products
Private Equity	6.0%	+/- 2%	6.0%	+/- 2%	Global Sustainable Equity + 1%
Income Assets	**27.5%**	**+/- 6%**	**30.0%**	**+/- 6%**	
Property	9.5%	+/- 3%	10.0%	+/- 3%	IPD UK Quarterly Property Index
Infrastructure	11.5%	+/- 3%	13.0%	+/- 3%	SONIA 3m + 2%
Multi-Asset Credit	6.5%	+/- 2%	7.0%	+/- 2%	40% SONIA 3m + 3% / 30% ICE BofA Global High Yield Index, GBP / 30% S&P & LSTA Leveraged Loan Index, GBP
Protection Assets	**20.0%**	**+/- 5%**	**20.0%**	**+/- 5%**	
Fixed Income	6.0%	+/- 2%	6.0%	+/- 2%	FTSE UK Gov Fixed All Stocks
Index Linked Bonds	6.0%	+/- 2%	6.0%	+/- 2%	FTSE UK I-L All Stocks
Global Non-Government Bonds	6.0%	+/- 2%	6.0%	+/- 2%	50% ICE GBP Non-Gilt Index (ex EM) / 50% ICE Global Corporate Index (ex GBP and EM), hedged to GBP Base
Cash	2.0%	0 - 8%	2.0%	0 - 8%	Sterling 7 Day LIBID
Total	**100.0%**		**100.0%**		

The Intermediate Benchmark is expected to come into effect on 1 April 2024, with the Final Benchmark expected to come into effect on 1 April 2025 at the latest.

5. Asset Classes

All financial instruments are open to consideration by the Committee. The Fund currently invests in quoted and unquoted securities of UK and overseas markets, including equities, government and non-government bonds, multi-asset credit, property, infrastructure, and cash, either directly or via pooled vehicles. Derivatives are used to hedge the currency exposure of the Fund's overseas Income Assets and Protection Assets. The use of derivatives may be extended further in the future for the purpose of efficient portfolio management or to hedge other specific risks. The introduction of any new financial instrument / asset class or any extended use of derivatives will only be considered by the Committee following the receipt of appropriate training and advice from suitably qualified persons.

5.1 Growth assets

- **Equities**
  Equities are classed as growth assets with the potential to provide returns in excess of inflation from growth in both capital values and income. Reinvested income accounts for a large proportion of long-term equity returns. As equity returns are linked to company revenues and profits, investing in equities increases exposure to volatility. Investors expect to be compensated for that volatility by higher returns.

  Over the last 50 years, in the UK, equities have provided a real return (after inflation) of 4.5% p.a., compared with a real return of 2.4% p.a. from long dated government bonds and 0.7% p.a. from cash. Over the last 20 years, the respective real returns were 3.8% p.a., 0.0% p.a. and -1.8% p.a. In the US, the real returns over the last 50 years were 5.8% p.a. from equities, 3.0% p.a. from long dated government bonds and 0.4% p.a. from cash. US respective real returns over 20 years were 6.8% p.a., 1.4% p.a. and -1.3% p.a.[1]. Despite the increasing correlation between the majority of developed equity markets, the Fund believes that a standalone allocation to UK equities is justified because the UK equity market provides portfolio diversification, together with access to sterling denominated assets, which are a natural hedge against the Fund's liabilities.

- **Private equity**
  Private equity investment refers to investment in unquoted, privately owned companies. Investors expect to receive an illiquidity premium for investing in this asset class and target returns above those expected from publicly quoted equities. Returns from private equity primarily come from capital growth, rather than income when investments are exited (realised) following a period of business growth/transformation. Private equity offers access to a broader universe of companies than the publicly quoted space.

5.2 Income assets

- **Property**
  Property investments have traditionally been split between four different sectors: office; retail industrial and alternatives (e.g. hotels and leisure). Increasingly within the asset management industry, exposure to niche sectors such as residential property and exposure to debt secured against property assets is also included within the property asset class. Returns from this asset class come from rental income and the change in market values. Rental income has accounted for a large proportion of total returns over the long term. Given the relative stability

[1] Source: Barclays Equity Gilt Study 2023

of rental income, which gives property bond like characteristics, the returns from property are generally expected to fall between the returns from equities and those from bonds.

Property investment can be carried out directly via the purchase of physical properties or indirectly via the purchase of pooled vehicles or property company shares. The majority of the Fund's property exposure is gained via direct investment; pooled vehicles are used to gain exposure to niche sectors and overseas assets. The Fund's exposure to property debt is currently contained within the allocation to corporate bonds.

- **Infrastructure**
  Infrastructure offers access to long term predictable cash flows, which are often linked to inflation. A low correlation to the business cycle and the other major asset classes provides diversification benefits and long investment horizons. Most the Fund's infrastructure investments are in developed nation core assets (long term assets with regulated and contracted returns), social PFI concessions (typically schools, hospitals and military accommodation) and renewable energy assets (e.g. on-shore & off-shore wind, solar and hydro).

- **Multi Asset Credit**
  Multi-asset credit typically relates to sub-investment grade corporate bonds and includes private credit, high yield debt and asset-backed securities. Multi-Asset Credit offers a predictable income stream and a yield pick-up relative to sovereign bonds and investment grade corporate bonds reflecting the increased risk of default.

5.3 Protection Assets

- **Sovereign and Corporate Bonds**
  Bonds offer predictable streams of income and predictable returns if held to maturity. They are held as stabilising assets to reduce volatility and to provide diversification. As pension funds mature, they can be used to provide liquidity and to match liabilities as they fall due.

  The Fund holds conventional fixed income, index-linked and investment grade corporate bonds. Index linked bonds are regarded as a particularly good match for pension fund liabilities. Most the Fund's government bond holdings are issued by the government of the United Kingdom; the currency exposure of any overseas sovereign bonds holdings is hedged to sterling.

- **Cash**
  Cash management for the Fund comprises cash held in the Fund's cash accounts (i.e. bank and money market funds), loans to UK Local Authorities and cash held in the custodian's bank account in respect of segregated mandates.

  The Fund holds cash to fulfil its daily liquidity requirements, and depending on market conditions, also as a protection asset. The Fund's cash balances are managed by Derbyshire County Council's Treasury Management Team in line with the Fund's annual Treasury Management Strategy.

6. Risk

The overall risk for the Fund is that its assets will be insufficient to meet its liabilities. The Funding Strategy Statement, which is drawn up following the triennial actuarial valuation of the Fund, sets out how any deficit in assets compared with liabilities is to be addressed.

Underlying the overall risk, the Fund is exposed to demographic risks, regulatory risks, governance risks and financial risks (including investment risk). The measures taken by the Fund to control these risks are included in the Funding Strategy Statement and are reviewed periodically by the Committee via the Fund's risk register. The primary investment risk is that the Fund fails to deliver the returns anticipated in the actuarial valuation over the long term. The Committee anticipates expected market returns on a prudent basis to reduce the risk of underperforming expectations.

It is important to note that the Fund is exposed to external, market driven, fluctuations in asset prices which affect the liabilities (liabilities are partially estimated with reference to government bond yields) as well as the valuation of the Fund's assets. Holding a proportion of the assets in government bonds helps to mitigate the effect of falling bond yields on the liabilities to a certain extent. Further measures taken to control/mitigate investment risks are set out in more detail on the following page:

6.1 Concentration

The Committee manages the risk of exposure to a single asset class by holding different categories of investments (e.g. equities, bonds, property, alternatives and cash) and by holding a diversified equity portfolio, spread by both geography and market sectors. Each asset class is managed within an agreed permitted range to ensure that the Fund does not deviate too far away from the Benchmark, which has been designed to meet the required level of return with an appropriate level of exposure to risk, taking into consideration the level of correlation between the asset classes.

6.2 Volatility

The Benchmark contains a high proportion of equities with a commensurate high degree of volatility. The strong covenant of the major employing bodies enables the Committee to take a long-term perspective and to access the forecast inflation plus returns from equities.

6.3 Performance

Investment managers are expected to outperform the individual asset class benchmarks detailed in the overall Strategic Asset Allocation Benchmark. The Fund's performance is measured by an independent provider and reported to the Committee on a quarterly basis. The Committee takes a long-term approach to the evaluation of investment performance but will take steps to address persistent underperformance.

6.4 Liquidity

Close attention is paid to the Fund's projected cash flows; the Fund is currently cash flow positive, in that annually there is an excess of cash paid into the Fund from contributions and investment income after pension benefits are paid out. The Fund expects to be cash flow positive for the short to medium term. Despite the growing proportion of illiquid investments in the Fund, a large proportion of the assets are held in liquid assets and can be realised quickly, in normal circumstances, in order for the Fund to pay its immediate liabilities.

6.5 Currency

The Fund's liabilities are denominated in sterling which means that investing in overseas assets exposes the Fund to a degree of currency risk. The Committee regards the currency exposure associated with investing in overseas equities as part of the return on the overseas equities; the currency exposure in respect of the Fund's Income Assets and Protection Assets is hedged back to sterling.

6.6 Stock Lending

The Fund does not currently participate in any standalone stock-lending arrangements. As part of the LGPS Central Pool, the funds managed by LGPSC do participate in stock-lending arrangements, and LGPSC has put controls in place to protect the security of the Fund's assets.

6.7 Custody

The risk of losing economic rights to the Fund's assets is managed by the use of a global custodian for custody of the assets, regular scrutiny of the Fund's providers, and the maintenance of independent investment accounting records.

7. LGPS Central Pool

The Fund is part of the LGPS Central Pool (the Pool) with the LGPS funds of Cheshire, Leicestershire, Nottinghamshire, Shropshire, Staffordshire, West Midlands, and Worcestershire. The Pool has been established in accordance with Government requirements for pooling the management of LGPS investment assets. Collective investment management offers the potential for substantial savings in investment management fees, increased opportunities for investor engagement and access to a shared pool of knowledge and expertise.

The eight administering authorities of the pension funds within the Pool are equal shareholders in LGPS Central Limited (the Company or LGPSC). LGPSC has been established to manage investments on behalf of the Pool and received authorisation from the Financial Conduct Authority in January 2018. The Company launched its first sub-funds within an Authorised Contractual Scheme collective investment vehicle in April 2018 and has launched several additional sub-funds since that date.

The transition of the Fund's assets into products offered by LGPSC is likely to take several years. Total assets managed by LGPSC on 31 March 2023 totalled £834m (£870m on a committed basis), accounting for 14.2% of the Fund's total investment assets. In addition to the assets managed by LGPSC, the following assets totalling £2,411m on 31 March 2023 were managed through collaboratively procured pooled arrangements:

- Passive equities of £1,776m managed by LGIM in respect of UK Equities; Japanese Equities; Emerging Market Equities and Global Sustainable Equities; and
- Active Global Sustainable Equities of £488m managed by two investment managers; and
- Active Global Infrastructure assets of £147m managed by one manager.

Including the above assets, the percentage of total assets managed through either LGPSC products or other collaboratively procured pooled arrangements increased to 55.1% on 31 March 2023.

Responsibility for determining the Strategic Asset Allocation Benchmark and the tactical quarterly asset allocation positions remains with the Fund.

Robust governance arrangements have been established both within the Company and within the wider Pool to ensure that the Company operates effectively and meets the objectives of the pension funds within the Pool.

A Joint Committee, set up in accordance with provisions of the Local Government Act 1972, provides oversight of the delivery of the objectives of the Pool, the delivery of client service, the delivery against the Pool business case and deals with common investor issues.

A Shareholders' Forum, comprising one shareholder representative from each of the participating administering authorities, oversees the operation and performance of LGPSC and represents the ownership rights and interests of the shareholding councils within the Pool.

To support the Joint Committee and the Shareholders' Forum, a Practitioners' Advisory Forum has been created, consisting of Officers from each of the shareholding councils within the Pool. This forum provides day-to-day oversight of the Operator, scrutinising the delivery of products, investment performance and investment costs, monitoring customer service and the delivery of wider investor services, such as voting and responsible investment.

8. Responsible Investment

The Fund's approach to responsible investment, together with the management of climate-related risks and opportunities, are set out in the Fund's Responsible Investment Framework and Climate Strategy. Copies of the Fund's Responsible Investment Framework and Climate Strategy can be found on the Fund's website:

Responsible Investment Framework: www.derbyshirepensionfund.org.uk/responsibleinvestments

Climate Strategy: www.derbyshirepensionfund.org.uk/climatestrategy

Review of the Investment Strategy Statement, Responsible Investment Framework and Climate Strategy

PREPARED FOR:

Derbyshire Pension Fund: Pensions and Investments Committee

DECEMBER 2023

MJ HUDSON
Allenbridge

Review of the Investment Strategy Statement, Responsible Investment Framework and Climate Strategy, for Derbyshire Pension Fund

This report has been prepared by Anthony Fletcher, the “External Investment Adviser” of the Derbyshire Pension Fund (the Fund). The review was undertaken at the request of Derbyshire County Council as the Administering Authority for the Derbyshire Pension Fund.

The Fund is required by regulation to have an Investment Strategy Statement (ISS) in place, and to review it following any material change in the factors which are judged to have a bearing on the stated investment policy and at least every three years as required by the Regulations.

The Fund’s ISS has been drawn up to be in compliance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (“the Regulations”), as updated by the Department for Communities and Local Government most recently in July 2017. It has been prepared subject to consultation with such persons as Derbyshire County Council considers appropriate.

Anthony Fletcher’s role is to provide an independent review of the ISS and to make suggestions for changes that may be considered in light of the regulations and the investment objectives of the Fund. It should be noted that nothing contained in this review constitutes investment advice nor should it be relied on as such.

Meeting date 6th December 2023
Date of paper 17th November 2023

At the request of Derbyshire County Council as the Administering Authority for the Derbyshire Pension Fund, I have carried out a review of the Investment Strategy Statement, the Responsible Investment Framework and the Climate Strategy and to the best of my knowledge and belief, I have found them to be consistent with the stated investment aims of the Derbyshire Pension Fund and compliant with the regulations as set out in Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2017.

Statutory background

Regulation 7(1) requires an administering authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State.

The Investment Strategy Statement required by Regulation 7 must include: -

a) A requirement to invest money in a wide variety of investments;

b) The authority's assessment of the suitability of particular investments and types of investments;

c) The authority's approach to risk, including the ways in which risks are to be measured and managed;

d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;

e) The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and

f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

The Investment Strategy Statement must also set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment. This, in effect, replaces Schedule 1 to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 ("the 2009 Regulations").

Under Regulation 7(6) and (7), the statements must be published by 1st April 2017 and then kept under review and revised from time to time and at least every three years.

Further to my statement above, I note that the Fund's Investment Strategy Statement and Responsible Investment Framework addresses all the requirements set out in the regulations.

Background

As part of the ongoing need to ensure the Derbyshire Pension Fund's Investment Strategy Statement (ISS) has a reasonable expectation of achieving the long-term investment objectives of the Fund, the Officers and I have reviewed the ISS and the Strategic Asset Allocation Benchmark which were last updated in the fourth quarter of 2020.

The new ISS takes into consideration the output of the Triennial Valuation report produced by Hymans Robertson, based on the Fund's funding position on 31st March 2022 and developments in the medium and long-term trends seen in investment and securities markets.

As part of its fiduciary responsibility, the Fund has always taken into consideration all the material factors which may influence the risk and reward opportunity and the probability of delivering sustainable and stable long term returns through a diversified portfolio of investments.

In conducting this review, the Officers have also updated the Responsible Investment Framework (RIF) and the Climate Strategy (CS). The RIF focuses on the Fund's policy on Environment, Social and Governance and how these factors can influence risk and reward, the CS specifically focuses on the risks arising from climate change and how the Fund will seek to measure and mitigate these risks. The RIF and CS work in tandem with the ISS and the Funding Strategy Statement (FSS), thereby aligning the Fund's investment beliefs, processes and long-term objectives with its fiduciary duties.

The Fund's new RIF is an update of the previous framework agreed by the Pension and Investments Committee in September 2020, the updated RIF is, like the ISS, is consistent with the requirements of the relevant regulations and statutory guidance. While it is a requirement that the Fund has its own policies on responsible investment and climate strategy, it is important to collaborate with its pooling partners and LGPS Central Ltd to have a consistent approach to certain agreed themes to achieve effective engagement and stewardship. These themes are noted in section 8 of the RIF document. Like the RIF itself, these themes are subject to ongoing monitoring and will be reviewed as required or at least every 3 years.

In recognition of the importance of climate change and the impact this could have on the long-term performance of investments, the Officers have also updated the policy document that formally sets out the Fund's approach to incorporating the implications of climate change into the Fund's investment processes. The full consideration of climate change as an influence on investment returns is not new, the Officers, their Advisers, Investment Managers and LGPS Central, as long term investors have always taken into consideration any factor that may have an influence on the long term sustainability and performance of an investment.

The revised CS document contains a number of updates and better targeted commitments that more clearly set out the climate strategy objectives of the Fund and the actions it will take to achieve those objectives. The Officers have committed the Fund to be a signatory of the UK 2020 Stewardship Code and it has joined the Institutional Investors Group on Climate Change (IIGCC). They have also better defined the "carbon metrics" that will be used to measure progress on transition to a lower carbon future.

In order to demonstrate progress on the Fund's Climate Strategy it will produce an Annual TCFD Report. Report on the progression against the Fund's carbon metrics and sustainable investment targets on an annual basis. Include carbon metrics in Fund's Annual Report. Disclose the Stewardship reports of the Fund's key investment managers on a quarterly basis.

It is important to note that there remain significant variations in the relevance and quality of, the data on climate impact currently available in all asset classes. However, despite the issues around the quality of data and the potential for better metrics to be developed, the Fund has pledged, based on the current metrics available, to seek to reduce the carbon impact of its investments over a reasonable period of time. As the quality of data and the standardisation of reporting improves it should become easier to fulfil the climate strategy objectives.

As well as incorporating the updated policies on responsible investment and climate change, the review has taken into consideration the Triennial Valuation and the future expected returns and volatility of different asset classes.

The Triennial Valuation shows that despite recent market volatility, the investment returns achieved since the last valuation in 2019, continue to improve the funding level, which has increased from 97% to 100%. This means that at the time of the Triennial Valuation, the value of assets was equal to the estimated value of the Fund's Past Service Pension Liabilities. While this is good news, it is still subject to risk as market returns, inflation, and actuarial factors such as longevity and membership of the scheme changes all the time and will have a direct impact on the estimate of the funding level. Indeed, as part of the 2022 triennial valuation the actuary has increased the Discount Rate used to calculate the present day value of the Fund's liabilities from 3.6% pa in 2019, to 3.8% pa over the next 20 years. Although the Actuary did also increase the probability of achieving the discount rate, or as I would describe it the future average rate of return estimated to deliver the current pensions promise.

Changes to the Strategic Asset Allocation Benchmark

The steps taken by the Fund over the last two valuations to reduce the volatility of returns by reducing the Fund's exposure to higher volatility Growth Assets and increase its exposure to Income Assets has helped to improve the funding level and the reliability of total returns. At the same time, it should have improved the proportion of the total return which comes from income which is helpful as the Fund becomes more mature and has cashflow needs to pay a greater number of members in retirement.

The proposed changes to the Fund's Strategic Asset Allocation seek to take this a stage further with another reduction in the allocation to higher volatility Growth Assets from 55% to 50% and an increase in exposure to Income Assets from 25% to 30%. The change will be achieved mainly by increasing the allocation to Infrastructure, where returns are often inflation linked and contractual in nature. There are also smaller increases to both Property and to Multi-Asset Credit (MAC). All of these changes are aimed at improving the overall probability of achieving the total return target, by reducing risk which is no longer required due to the improved funding level. No change to the exposure to Protection Assets is being suggested.

Growth Assets: It is proposed that the overall allocation to growth assets is reduced from 55% to 50% and the mix of investments should also change; it is proposed that the allocation to Private Equity is increased from 4% to 6%, and the allocation to Sustainable global equity is increased from

29% to 36%. All the changes would be funded by a reduction in the allocation to UK equity from 12% to 8% together with a reduction in the direct regional allocations to Japanese and Emerging market equity from 5% each to zero.

Substituting the regional allocations for an increased allocation to global equity looks significant but it will not materially change the distribution of region's that can be allocated to and should allow Derbyshire's fund managers more scope to be dynamic in terms of their regional allocations. Arguably the Fund Managers should be better resourced to make these tactical asset allocation decisions than the Pension Fund.

The proposed increase in Private equity exposure recognises that increasingly over the last 20 years more companies are remaining private for longer. This means that potentially more of the value creation is realised by private market investors before the company becomes listed on a public market. It should also be noted that because of the nature of the ownership structure with private equity, the managers should have more direct influence over the ESG policies of investee companies than they may have with publicly listed companies. Whilst this increased exposure increases liquidity risk, the 6% allocation means that overall liquidity remains more than adequate.

The increase in global sustainable and private equity and the reduction of the UK equity allocation could increase the volatility of returns. In practice I do not perceive these risks as significant for the following reasons ;

Firstly, whilst an allocation to the UK does not carry any direct currency risk or non-UK regulatory and jurisdictional risk. In practice, with over 50% of the earnings from the companies listed on UK market indices coming from global companies, those same risks apply to the earnings of UK listed companies.

Secondly, whilst global sustainable and private equity investments could be described as more "growth" like in nature, meaning that even more of their returns are potentially driven by capital gains, in my view this risk is mitigated by the lower overall exposure of Growth Assets and potentially by the investment philosophy of the managers chosen by the Officers and LGPS Central to invest the allocation.

Further, it is worth noting, an increase in global sustainable equity is also consistent with the transition to a lower carbon future and the achievement of net zero. The investee companies in this strategy are the companies that are better placed to benefit from transition or have adopted policies that will enable them to be sustainable in a lower carbon future. This policy is therefore consistent with Derbyshire's Responsible Investment Framework and Climate Strategy.

Income Assets: This category consists of Property, MAC and Infrastructure. If agreed the 5% reduction in Growth Assets noted above would be deployed 3% to Infrastructure increasing the allocation from 10% to 13%. It is also proposed that the overall allocation to Property and MAC is increased by 1% each from 9% to 10% for Property and from 6% to 7% for MAC.

These changes increase the balance of total return that the Fund achieves, with a higher level coming from income rather than potential capital gains. Because a higher proportion has been given to Infrastructure it is likely that this will increase the contractual income the Fund receives that is aligned with inflation. The increase in the property allocation will increase the scope of the Fund's managers potentially increase the diversification of the property portfolio by adding residential property, an opportunity where most of the return comes from rents that can be contractual and aligned with inflation.

Again, this approach is consistent with the Fund's RIF and CS commitments as it is likely to lead to an increased in investment in renewable infrastructure and may also lead to an increase in environmental and social impact the Fund achieves with out having an impact on its returns.

Protection Assets: The weight and mix of protection assets remains unchanged at 20%. I believe it is prudent to have a reasonable allocation to Gilts, Index Linked Gilts and global investment grade credit, because of the long-term diversification characteristics and their ability to match potential changes in the Discount Rate. In the last two years all bonds and in particular Index Linked Gilts have become much more attractive. Partly because of the overall increase in yields, but in the case of Linkers because real yields have increased to -2.5% to around +1%, which means they can provide protection in times of increased inflation or volatility and they will deliver a small positive return above inflation.

Strategic Asset Allocation, Permitted Ranges and Performance Benchmarks

The revised Strategic Asset Allocation is set out on table 1 below, it is proposed that the changes to the asset allocation be phased in over the next two years. In order to smooth the impact of the changes on the equity allocation, but also to allow the time needed for the private equity, infrastructure and property managers to find the appropriate investments. The intermediate stage benchmark will become effective from April 2024 and the final new benchmark will be in place by April 2025 at the latest.

Table 1. Changes in the Strategic Asset Allocation Benchmark (SAAB) over time.

Asset Class %	Current SAAB January 2022	Proposed Intermediate SAAB April 2024	Proposed Final SAAB expected April 2025	Final Change
UK Equities	12.0	10.0	8.0	-4.0
Japanese Equities	5.0	2.5		-5.0
Emerging Market Equities	5.0	2.5		-5.0
Global Sustainable Equities	29.0	31.5	36.0	+7.0
Private Equity	4.0	6.0	6.0	+2.0
Growth Assets	**55.0**	**52.5**	**50.0**	**-5.0**
Infrastructure	10.0	11.5	13.0	+3.0
Multi-Asset Credit	6.0	6.5	7.0	+1.0
Property	9.0	9.5	10.0	+1.0
Income Assets	**25.0**	**27.5**	**30.0**	**+5.0**
Conventional Bonds	6.0	6.0	6.0	-
Index-Linked Bonds	6.0	6.0	6.0	-
Corporate Bonds	6.0	6.0	6.0	-
Cash	2.0	2.0	2.0	-
Protection Assets	**20.0**	**20.0**	**20.0**	**-**
Total	**100**	**100**	**100**	**-**

Table 2 shows the final revised Strategic Asset Allocation, performance benchmarks and permitted ranges for tactical asset allocation expected to be in place from April 2025.

Table 2. Final Strategic Asset Allocation, Permitted Ranges and Performance Benchmarks. April 2025

% Asset Category	Asset Allocation	Permitted Range	Performance Benchmark
Growth Assets	**50.0**	**+/- 8**	
Total Listed Equities	44.0	+/- 8	
UK Equities	8.0	+/- 4	FTSE All Share
Global Sustainable	36.0	+/- 8	FTSE All World + fund specific benchmarks
Private Equity	6.0	+/- 2	Global Sustainable Equity + 1%
Income Assets	**30.0**	**+/- 6**	
Property	10.0	+/- 3	IPD UK Quarterly Property Index
Infrastructure	13.0	+/- 3	SONIA 3m + 2%
Multi-Asset Credit	7.0	+/- 2	40% SONIA 3m + 3% / 30% ICE BofA Global High Yield Index, GBP / 30% S&P & LSTA Leveraged Loan Index, GBP
Protection Assets	**20.0**	**+/- 5**	
Government Bonds	6.0	+/- 2	FTSE UK Government Fixed All Stocks
Inflation Linked Bonds	6.0	+/- 2	FTSE UK Index-Linked All Stocks
Global Non-Government Bonds	6.0	+/- 2	50% ICE GBP Non-Gilt Index (ex EM) / 50% ICE Global Corporate Index (ex GBP and EM), hedged to GBP Base
Cash	2.0	0 - 8	Sterling 7 Day LIBID
Total	**100**		

I have reviewed the asset categories, % allocation, permitted ranges and performance benchmarks in the tables above and find them both prudent and reasonable from the point of view of the Fund's objectives and my understanding of the regulations.

Anthony Fletcher

Independent External Adviser to the Derbyshire Pension Fund

17th November 2023

Appendix

References

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

Derbyshire Pension Fund.

Department for Levelling Up, Housing and Communities: -

Local Government Pension Scheme

Guidance on Preparing and Maintaining an Investment Strategy Statement

July 2017.

FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

PENSIONS AND INVESTMENTS COMMITTEE

WEDNESDAY, 6 DECEMBER 2023

Report of the Director - Finance and ICT

RESPONSIBLE INVESTMENT FRAMEWORK AND CLIMATE STRATEGY

1. Purpose

1.1 To seek approval for Derbyshire Pension Fund's (the Fund) updated Responsible Investment Framework and updated Climate Strategy for consultation with the Fund's stakeholders.

2. Information and Analysis

2.1 Responsible Investment

In accordance with the LGPS (Management and Investment of Funds) Regulations 2016, the Fund's Investment Strategy Statement (ISS) must set out the administering authority's policy on how environmental, social and corporate governance (ESG) considerations are taken into account in the selection, non-selection, retention and realisation of investments. The Investment Strategy Statement must also cover the authority's policy on the exercise of rights (including voting rights) attached to its investments.

The Fund's approach to the integration of ESG factors into investment decisions and the Fund's approach to voting, is set out in the Fund's Responsible Investment Framework (RI Framework).

The Fund believes that responsible investment can enhance long-term performance. Effective management of financially material ESG risks should support the requirement to protect investment returns over the long term and companies with strong ESG business practices have the potential to create additional value for shareholders.

Responsible investment has relevance both before (i.e. investment selection) and after an investment decision (i.e. on-going stewardship through engagement and voting activity) and is a core part of the Fund's fiduciary duty. It is distinct from 'ethical investment', which is an approach to selecting investments on the basis of ethical beliefs (beliefs about what is morally right and wrong).

The Committee recognises its responsibility to act in the best interest of the Fund's employers and scheme members, whilst seeking to protect local taxpayers and employers from unsustainable pension costs.

The Fund's RI Framework is based on three core pillars: manager selection; stewardship (engagement and voting); and transparent disclosure.

There are no significant proposed changes to the Fund's Responsible Investment Framework. A copy of the draft updated RI Framework is set out at Appendix 2. It will be amended to include LGPS Central Limited's updated stewardship themes when they are finalised.

2.2. Climate Strategy

The Fund's Climate Strategy sets out the Fund's approach to addressing the risks and opportunities related to climate change. It includes targets to reduce the carbon emissions of the Fund's investment portfolio and to increase investment in low carbon and sustainable investments. The targets are reviewed at least every three years and progress against the targets is reported annually.

The Fund has made significant progress against the targets set out in the Fund's current Climate Strategy, as shown below:

Target	Target by end of 2025	Actual on 31 March 2023
Reduce the carbon footprint (Scope 1 & 2) of the Fund's listed equity portfolio by at least 30% relative to the weighted benchmark in 2020 by the end of 2025	(30%)	(47%)
Invest at least 30% of the Fund portfolio in low carbon & sustainable investments by the end of 2025	30%	Invested: 29% Committed: 30%

As a result of the progress shown above, the Fund’s proposed updated targets in respect of these two metrics show a material increase relative to the Fund’s current targets, and the Fund’s In-House Investment Management Team (IIMT) believes that these are in line with the Fund’s stated ambition of achieving a portfolio of assets with net zero carbon emissions by 2050.

The Fund has also introduced a target in respect of absolute financed emissions, which is increasingly being reported by LGPS pension funds, and measures the absolute tons of CO^2 for which an investor is considered to be responsible. Unlike the weighted average carbon intensity metric, which measures how carbon efficient a business is for each $1m of revenue generated, the financed emissions metric is an absolute measure of carbon emissions.

In addition, the IIMT is recommending that the Fund sets targets in respect of capturing and measuring the carbon metrics in respect of the Fund’s other assets (e.g. property and private market assets), albeit it should be noted that the availability of carbon data for these assets is far less developed than it is for listed assets, and this is reflected in the Fund’s proposed targets.

The aim is to build-up the scope, accuracy and comparability of the Fund’s carbon metrics covering these assets, to allow the Fund to meaningfully engage and monitor investment managers and track progression towards net zero by 2050.

The updated strategy also sets out targets in respect of the Fund’s stewardship and engagement activities in respect of climate change, together with a reference to Derbyshire County Council’s corporate climate change strategy, which as the administering authority for Derbyshire Pension Fund, covers the Fund’s corporate emissions.

The IIMT believes that the Fund’s updated Climate Strategy is in line with best practice and notes that the target to reduce the weighted average carbon intensity of the Fund’s listed asset portfolio by 60% by the end of 2030, relative to the weighted benchmark in 2020, is higher than the mid-point carbon reduction forecast of 48% by 2030 reflected in the International Panel on Climate Change’s (IPCC) Net Zero Emissions Pathway forecast. The IPCC’s Net Zero Emissions Pathway forecasts the reduction in global greenhouses at set dates (e.g. 2030, 2035, 2040 & 2050) to limit global warming to 1.5°C with no or limited overshoot.

The Fund's has engaged with the Institutional Investors Group on Climate Change (IIGCC) on the development of climate strategies and targets to determine best practice. As a reminder, the IIGCC is the leading European membership body, with over 375 members representing €51 trillion of assets under management, enabling the European investment community in driving significant and real progress by 2030 towards a net zero and resilient future. The Pension Fund became a member of the IIGCC in 2023.

Achievement of the targets set out in the updated Climate Strategy by the end of 2030, at the same time as the continued achievement of a diversified portfolio to reduce concentration risk, will be reliant on the companies and economies within the Pension Fund's investment universe continuing to decarbonize.

A copy of the Fund's draft updated Climate Strategy is set out at Appendix 3.

2.3 Independent Investment Adviser Review

The Fund's independent investment adviser, Anthony Fletcher, has reviewed the updated Responsible Investment Framework and the updated Climate Strategy; a copy of his review is attached as Appendix 4.

2.4 Investment Strategy Statement

The Fund's revised Investment Strategy Statement, which is being considered separately by this Committee, contains links to the proposed RI Framework and Climate Strategy.

3. Consultation

3.1 The Fund will consult with its stakeholders, including scheme members, scheme employers and members of Derbyshire Pension Board on the proposed updated RI Framework and updated Climate Strategy. The results of the consultation will be reported to Committee in March 2024.

4. Implications

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

5. Background Papers

5.1 Papers held by the Pension Fund Team.

6. Appendices

6.1 Appendix 1 – Implications
6.2 Appendix 2 – Draft Responsible Investment Framework
6.3 Appendix 3 – Draft Climate Strategy
6.4 Appendix 4 – Report of Fund's Independent Investment Adviser

7. Recommendation(s)

That Committee:

a) Approves the draft updated Responsible Investment Framework and draft updated Climate Strategy, attached as Appendix 2 & Appendix 3, respectively, for consultation with the Fund's stakeholders.

8. Reasons for Recommendation(s)

8.1 The Committee is responsible for approving the Fund's statements, strategies and policies.

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Appendix 1

Implications

Financial

1.1 None

Legal

2.1 None

Human Resources

3.1 None

Information Technology

4.1 None

Equalities Impact

5.1 None

Corporate objectives and priorities for change

6.1 None

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

7.1 None

Derbyshire Pension Fund

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Administered by Derbyshire County Council

DRAFT Responsible Investment Framework

December 2023

Contents

1. Introduction

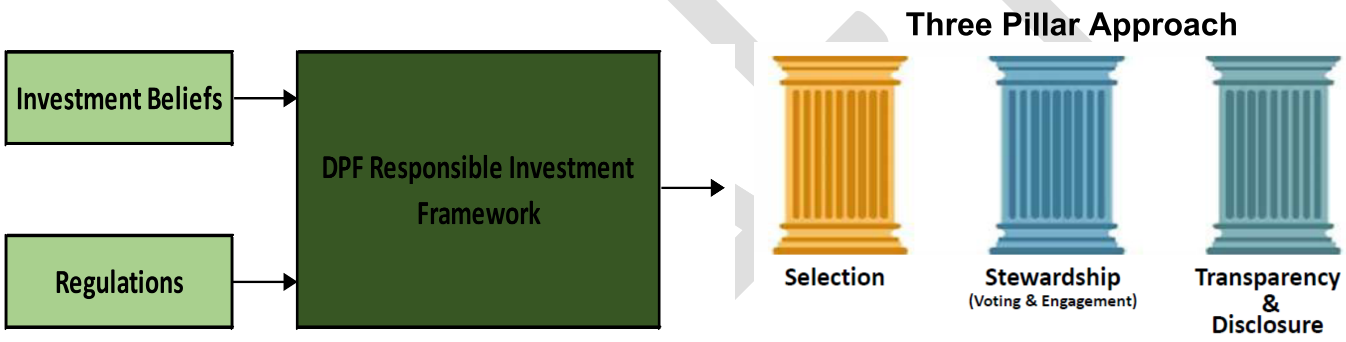
This Responsible Investment Framework (RI Framework) sets out Derbyshire Pension Fund's (the Fund) approach to responsible investment (RI) which includes the integration of environmental, social and governance (ESG) considerations into the investment process and Fund stewardship and governance activities.

The Pensions and Investments Committee (the Committee) is responsible for reviewing and approving the Fund's policies and strategies, including the RI Framework. The RI Framework works in tandem with the Fund's Climate Strategy, Investment Strategy Statement and Funding Strategy Statement aligning with the Fund's investment beliefs and fiduciary duty.

The Committee will review the RI Framework at least every three years, or at such time as the Committee determines it is appropriate to review the Fund's approach to RI.

Responsibility for the implementation of the Framework resides with the Head of Pension Fund and the Investments Manager.

The Fund takes a three-pillar approach to the implementation of Responsible Investment as demonstrated in the following image:



2. Responsible Investment

Responsible investment is an approach to investment that aims to incorporate ESG factors into investment decisions, to better manage risk and generate sustainable, long-term returns.[1] It has relevance both during the selection of an investment and after an investment decision has been made, through on-going stewardship activity which covers considered voting and engagement with investee companies.

Responsible investment is a core part of the Fund's fiduciary duty. It is distinct from 'ethical investment', which is an approach to selecting investments based on ethical beliefs (beliefs about what is morally right and wrong).

Effective management of financially material ESG risks should support the requirement to protect investment returns over the long term. The Fund's investment team seeks to understand relevant ESG factors alongside conventional financial considerations within the investment process, and the Fund's external investment managers are expected to do the same. Non-financial factors may be considered to the extent that they are not detrimental to the investment return.

[1] PRI Principles for Responsible Investment

ESG factors include:

Environmental	Social	Governance
Climate Change (including physical risk and transition risk)	Working Conditions (including slavery & child labour)	Executive Pay
Resource Depletion	Health & Safety	Bribery & Corruption
Waste & Pollution	Employee Relations	Board Diversity
Deforestation	Community Relations	Tax Strategy
		Political Lobbying
		Disclosure & Transparency

The Fund's Strategic Asset Allocation Benchmark includes an allocation to Global Sustainable Equities. Sustainable investment managers are regarded as managers who invest in companies with a long-term approach to sustainability where the effective management of environmental, social and governance risks and opportunities is an integral part of the strategy to create a sustainable business. Companies with strong ESG business practices have the potential to create additional value for shareholders.

Within the Global Sustainable Equities allocation, the Fund will consider impact investment managers who invest in companies which aim to contribute to a more sustainable world, by seeking to effect positive social and environmental change, while generating investment returns.

The Committee recognizes its responsibility to act in the best interest of the Fund's employers and scheme members, whilst seeking to protect local taxpayers and employers from unsustainable pension costs.

3. Investment beliefs

The Fund's investment beliefs as set out in the Fund's Investment Strategy Statement are as follows:

- A long-term approach to investment will deliver better returns
- The long-term nature of LGPS liabilities allows for a long-term investment horizon
- Asset allocation is the most important factor in driving long term investment returns
- Liabilities influence the asset structure; funds exist to meet their obligations
- Risk premiums exist for certain investments; taking advantage of these can help to improve investment returns
- Markets can be inefficient, and mispriced for long periods of time; therefore, there is a place for active and passive investment management
- Diversification across investments with low correlation improves the risk/return profile
- Secure and growing income streams underpin the ability to meet future liabilities
- Responsible investment can enhance long term investment performance
- Investment management costs should be minimised where possible, but net investment returns after costs are the most important factor

4. Regulations and statutory guidance

The RI Framework works in tandem with the Fund's Investment Strategy Statement. The RI Framework and Investment Strategy Statement have been developed in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, statutory guidance, and best practice.

5. Engagement and collaboration

The Fund adopts a strategy of engagement with companies to influence behaviour and enhance value, rather than adopting a divestment approach, believing that this is more compatible with the administering authority's fiduciary duties and supports responsible investment.

Engagement allows the Fund to use its influence as an active owner, with other like-minded investors, to improve ESG practices in investee companies, influence that would be lost through a divestment approach. It is recognised that change takes time, as a long-term investor the Fund takes a long-term approach to its stewardship activities.

6. Remuneration and cost management

Executive remuneration and investment management costs are important, particularly in low-return environments. Fee arrangements with fund managers and the remuneration policies of investee companies should be aligned with the Fund's long-term interests.

7. Climate change

The Committee recognises that financial markets will be impacted by climate change and by the response of climate change policy makers. Risks and opportunities related to climate change are likely to be experienced across the whole of the Fund's portfolio. The current understanding of the potential risks posed by climate change, together with the development of climate-related measurements and disclosures, are still at an early stage, and there is considerable variability in the quality and comparability of carbon emission estimates. It is recognised that it will take time for companies to adapt to the changing regulatory and market positions.

Reflecting the potential material effect of climate change, and the response to change climate, on the assets and liabilities of the Fund, a separate Climate Strategy has been developed, a copy of which can be found on the Fund's website at: **derbyshirepensionfund.org.uk/climatestrategy**

In addition, the Fund will engage with investee companies and investment managers to manage climate change related risks and opportunities within the Fund's investment portfolio, focusing on those risks and opportunities which will have the greatest impact.

8. LGPS Central Limited

The Fund is part of the LGPS Central Pool (the Pool) with the LGPS funds of Cheshire, Leicestershire, Nottinghamshire, Shropshire, Staffordshire, West Midlands, and Worcestershire (the eight Partner Funds). The Pool has been established in accordance with Government requirements for the pooling of LGPS investment assets. LGPS Central Limited has been established to manage investments on behalf of the Pool and received authorization from the Financial Conduct Authority in January 2018. The Company launched its first sub-funds within an Authorised Contractual Scheme collective investment vehicle in April 2018 and has launched several additional sub-funds since that date.

LGPS Central Limited has developed a Responsible Investment & Engagement Framework (LGPSC Framework) incorporating the investment beliefs and responsible investment beliefs of the eight Pension Funds within the LGPS Central Pool which will be applied to both internally and externally managed investment mandates.

The LGPSC Framework contains the following beliefs:

- **Long-termism**
  A long-term approach to investment will deliver better returns and the long-term nature of LGPS liabilities allows for a long-term investment horizon.

- **Responsible Investment**
  Responsible Investment is supportive of risk adjusted returns over the long-term, across all asset classes. Responsible investment should be integrated into the investment process of the Company and its investment managers.

- **Diversification, risk management and stewardship**
  Diversification across investments with low correlation improves the risk return profile. A strategy of engagement, rather than exclusion, is more compatible with fiduciary duty and more supportive of responsible investment, because the opportunity to influence companies through stewardship is waived in a divestment approach. Even well-diversified portfolios face systematic risk. Systematic risk can be mitigated over the long-term through widespread stewardship and industry participation.

- **Corporate governance and diversity**
  Investee companies and asset managers with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events. There is clear evidence showing that decision-making and performance are improved when company boards and investment teams are composed of diverse individuals.

- **Fees and remuneration**
  The management fees of investment managers and the remuneration policies of investee companies are of significance for the Company's clients, particularly in a low-return environment. Fees and remuneration should be aligned with the long-term interests of our clients, and value for money is more important than the simple minimisation of costs. Contributing to national initiatives that promote fee transparency such as the LGPS Code of Transparency is supportive of this belief.

- **Risk and opportunity**
  Risk premia exist for certain investments; taking advantage of these can help to improve returns. There is risk but also opportunity in holding companies that are on an improving trajectory in respect of financially material ESG issues. Opportunities can be captured so long as they are aligned to the Company's objectives and strategy, and so long as there is a sufficient evidence base upon which to make an investment decision.

- **Sustainable Business Practice**
  We expect investee companies to consider relevant, material social and environmental risk factors in their long-term strategic business planning such as climate change related risks, including biodiversity loss, and human right related risks. We believe these can have a significant effect on the value of a company's assets over time, and on its ability to generate long-term returns for shareholders.

In collaboration with the eight Partner Funds, LGPS Central Limited currently has four stewardship themes which are given particular attention in LGPS Central Limited's ongoing stewardship efforts. The four themes are:

- Climate change
- Plastic
- Fair tax payment and tax transparency
- Human Rights Risk

The themes, which are subject to review every three years, are currently under review. The Partner Funds and LGPS Central Limited believe that identifying material core themes helps direct engagement and sends a clear signal to companies of the areas that the Partner Funds and LGPS Central Limited are likely to be concerned with during engagement meetings.

LGPS Central Limited also supports the Fund through the annual preparation of a Climate Risk Report which supports the Fund in the preparation of the Fund's Climate Related

Disclosure Report prepared in alignment with the recommendations of the Taskforce on Climate-related Financial Disclosures.

9. Implementation

The Fund aims to put its RI Framework into practice through actions both before (selection) and after the investment decision (stewardship).

As a largely externally managed pension fund, the identification and assessment of RI factors is also the responsibility of individual investment managers appointed by the Fund.

The Fund aims to be transparent to its stakeholders through regular, high-quality disclosure.

9.1 Selection

ESG factors are integrated into the Fund's investment decision making process where those factors are financially material within the context of the investment mandate. As part of the investment manager due diligence process, the Fund obtains a copy of the potential investment manager's RI or stewardship policies which sets out how RI factors are integrated into the investment manager's investment process.

9.2 Investment manager monitoring

Existing investment managers are monitored on a regular basis to review the integration of ESG risks into the portfolio management, and to understand their engagement activities.

9.3 Company engagement and engagement through partnership

The Fund's strategy is to engage with its investee companies either on its own or through its external investment managers, or through partnerships on a range of financially material ESG investment factors to protect and increase shareholder value. These partnerships include:

- **The Local Authority Pension Fund Forum (LAPFF)**
  A voluntary association of the majority of Local Authority pension funds based in the UK with combined assets of over £350bn. Membership of LAPFF provides the Fund with independent research and advice on RI risks of companies to inform further stakeholder engagement; advice on the governance practices of companies; and a forum to engage with companies to improve governance practices.

- **LGPS Central Limited**
  The Fund's pooled investment operator.

- **Hermes EOS**
  Hermes EOS is engaged by LGPS Central Limited to expand the scope of its engagement programme, especially to reach non-UK companies.

- **Institutional Investors Group on Climate Change**
  The IIGCC is a leading global membership body and the largest in Europe. It focuses specifically on climate change.

  The IIGCC has around 400 members and represents around $60 trillion of assets under management.

9.4 Voting

The Fund places great importance on the exercise of voting rights. The Fund currently directly exercises its voting rights in respect of some directly held investments in the United Kingdom, albeit the value of these direct holdings is now relatively small. The Committee has appointed Institutional Shareholder Services (ISS), a specialist third party voting service provider to make recommendations on casting votes in respect of the Fund's directly held UK listed investments. Voting is carried out in line with recommendations from ISS, whose voting principles cover four key tenets on: accountability; stewardship; independence; and transparency. The Fund also periodically receives voting alerts from the LAPFF on certain resolutions. If the voting alert from the LAPFF conflicts with the voting service recommendation, due consideration is given to all the arguments before the vote is cast.

A significant proportion of the Fund's assets are managed through pooled products, where the voting activity is carried out by external investment managers. These principally relate to funds managed Legal & General Investment Management (LGIM) and LGPSC.

Voting activity is carried out in accordance with LGIM's voting policy and is based on a set of corporate governance principles. Previous engagement with an investee company also determines the way voting decisions are made and cast. Voting activity is combined with direct engagement with the investee company to ensure that the investee company fully understands any issues and concerns that LGIM may have and to encourage improvement. LGIM utilises the voting information services of ISS and Institutional Voting Information Services (IVIS) to conduct thorough analysis and research on investee companies.

The Fund expects an increasing proportion of its assets to be managed by LGPS Central Limited going forward, as assets are transitioned into its pooled products. LGPS Central Limited's Responsible Investment & Engagement Framework will be applied to both internally and externally managed investment mandates.

Copies of LGIM's and LGPS Central Limited's Stewardship Reports are presented to the Committee on a quarterly basis.

9.5 UK Stewardship Code 2020

The Fund is a signatory to the Financial Reporting Council's (FRC) UK Stewardship Code 2020. The UK Stewardship Code 2020 sets high standards of stewardship for those investing money on behalf of UK savers and pensioners, and those that support them.

A copy of the Fund's 2023 application document can be found on the Fund's website at: **derbyshirepensionfund.org.uk/responsibleinvestments**

10. Transparency and disclosure

The Fund aims to keep its stakeholders aware of RI activities through:

- Making its Responsible Investment Framework, together with the supporting Climate Strategy, public documents
- Reporting to Committee on the stewardship activities (including voting decisions) of the Fund's principle investment managers on a quarterly basis
- Providing a summary of the Fund's RI activities in the annual report
- Reporting annually using the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD)

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Derbyshire Pension Fund

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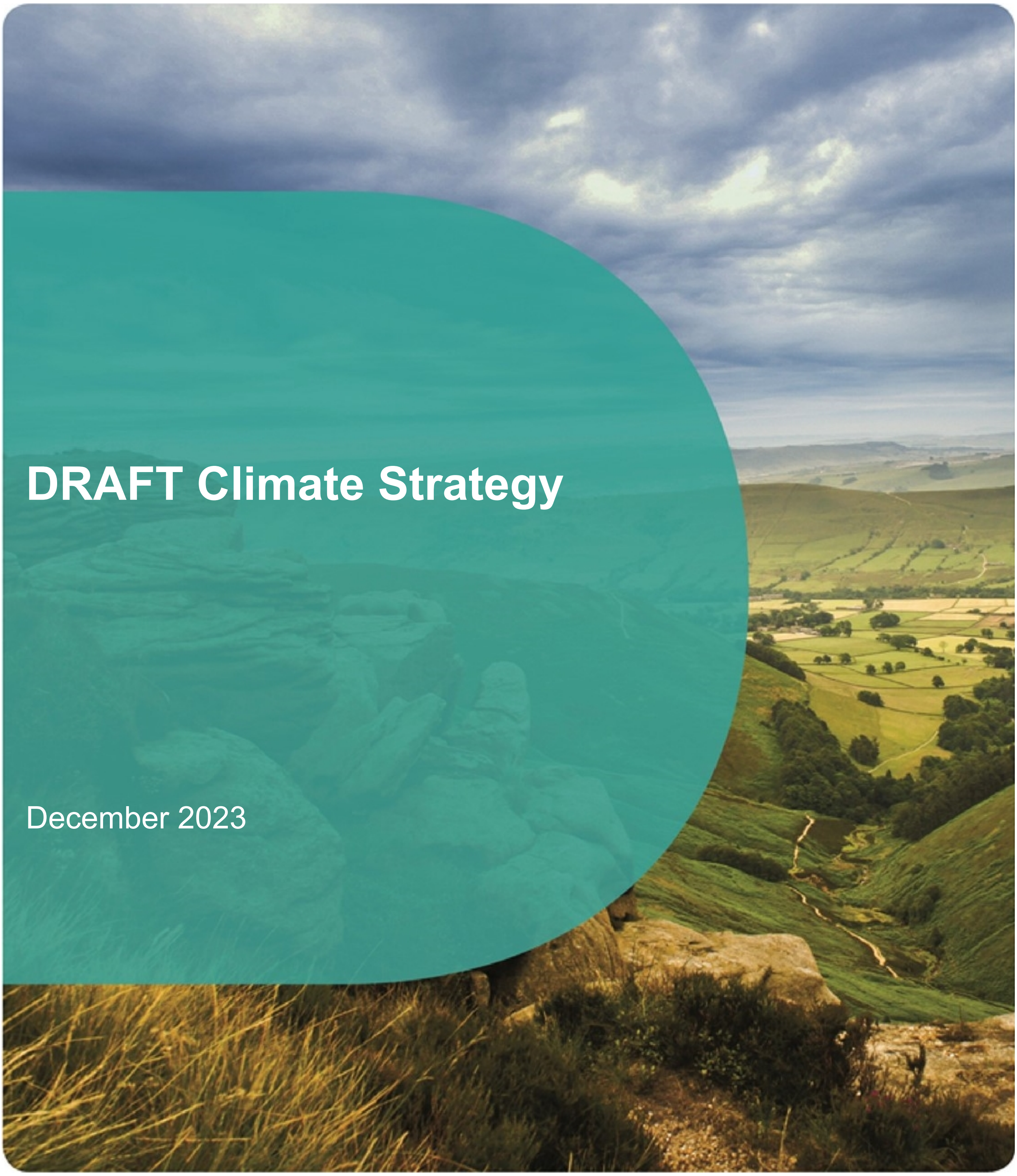
derbyshirepensionfund.org.uk
Administered by Derbyshire County Council



DRAFT Climate Strategy

December 2023

Contents

1. Introduction

This Climate Strategy sets out Derbyshire Pension Fund's (the Fund) approach to addressing the risks and opportunities related to climate change.

The Fund supports the ambitions of the Paris Agreement[1] and aims to achieve a portfolio of assets with net zero carbon emissions by 2050.

The Pensions and Investments Committee (the Committee) is responsible for reviewing and approving the Fund's policies and strategies, including the Climate Strategy. The Climate Strategy works in tandem with the Fund's Responsible Investment Framework, Investment Strategy Statement and Funding Strategy Statement.

The development of a separate Climate Strategy reflects the potential material effect of climate change, and the response to climate change, on the assets and liabilities of the Fund.

The Committee will review the Climate Strategy at least every three years, or at such time as the Committee determines it is appropriate to review the Fund's approach to addressing the risks and opportunities related to climate change.

Responsibility for the identification and management of climate-related risks, together with the implementation of the Fund's Climate Strategy, resides with the Head of Pension Fund and the Investments Manager.

2. Climate Change

The Intergovernmental Panel of Climate Change notes in its sixth annual assessment report (AR6 Synthesis Report: Climate Change 2023) that human activities have unequivocally caused global warming, principally through emissions of greenhouse gases, with global surface temperature reaching 1.1°C above 1850-1900 in 2011-2020. Greenhouse gas (GHG) emissions are trapped in the atmosphere and create a 'greenhouse effect' – a warming that occurs when the atmosphere blocks heat radiating from Earth towards space. Climate scientists have observed that these climatic changes are primarily the result of human activities related to electricity and heat production, agriculture and land use change, industry and transport. Climate change is causing more frequent and more extreme weather events which is leading to widespread adverse impacts.

World governments have started to respond, with the signatories to the 2015 Paris Agreement committed to keeping the global temperature rise this century to well below 2.0°C compared with pre-industrial levels and to aiming to limit the increase to 1.5 °C (Article 2(1)a). The Paris Agreement committed signatories to the establishment of Nationally Determined Contributions (NDCs), which set out a country's climate action plan for cutting emissions and adapting to climate impacts and which must be updated every five years. The NDCs are intended to be individually equitable and collectively sufficient to achieve Article 2 (1) a.

The latest UN Emissions Gap Report estimates that policies currently in place with no additional action are projected to result in global warming of 2.8 °C over the twenty-first century. Implementation of unconditional and conditional NDC scenarios are estimated to reduce this to 2.6 °C and 2.4 °C respectively. The low-carbon transition is already underway, with a number of

[1] Paris Agreement – To hold the increase in the global temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels – ratified by 189 parties.

governments and institutions around the world intensifying their climate change policies, and corporates responding in turn.

Investors are exposed globally to the risks and opportunities presented by climate change adaption and mitigation. Investors have an important role to play in the transition to a low carbon economy, influencing company behaviours and encouraging the development of better climate-related disclosures. However, investors cannot effect material change alone. Governments, policy makers, consumers, companies and investors all have a role to play in the transition to a low carbon economy.

If policy and corporate action does not progressively transition towards the net zero goal, it will be extremely challenging for investors to achieve a portfolio of assets that has net zero emissions in 2050.

The Fund recognises that:

- Human activities have caused a change in the earth's climate which presents material risks to human and eco-systems and to global economies
- A global coordinated policy response and a change in consumer behaviour will be required to limit the damaging rise in global temperatures
- Climate change is a long term financial material risk for the Fund, across all asset classes, and has the potential to impact the funding level of the Fund through impacts on employer covenant, asset pricing, and longer-term inflation, interest rates and life expectancy

The Fund believes that:

- The risks and opportunities of climate change should be considered as part of asset allocation decisions, manager selection decisions and individual investment decisions
- Diversification across asset classes, regions and sectors is an important risk management tool to reduce climate-related risks
- In order to fully integrate climate-related risk into the Fund's investment processes, the consistency, comparability and quality of climate-related data, including the identification and measurement of companies' Scope 3 emissions will need to improve
- The low-carbon transition is already underway, but the pathway is unclear, and the transition will not occur by focusing only on the suppliers of energy; the demand for energy must also be addressed
- It is possible for a company to shift its business model in order to thrive in the transition to a low carbon future; such a shift is more likely with the support and stewardship of responsible investors

3. Climate-related Objectives

The Fund aims to have access to the best possible information available on the risk and opportunities presented by climate change. This includes impacts to the Fund's investment strategy, or funding strategy, as a result of transition risks, physical risks and opportunities.

The Fund aims to ensure that its investment portfolio will be as resilient as possible to climate-related risks over the short, medium and long term. For an effective first line of defence, the Fund aims to integrate climate-related factors into the investment process, including the selection of investment managers.

The Fund intends to decarbonise its portfolio through its selection of investments and investment managers, with the aim of being carbon neutral by 2050.

4. Collaboration and Transparency

The Fund aims to collaborate with like-minded organisations to support the ambitions of climate-related initiatives and aims to be fully transparent with its stakeholders through regular public disclosure, aligned with best practice.

- The Fund supports the Paris Agreement on Climate Change
- The Fund will actively participate in selected initiatives that lend support to the Fund's Climate Strategy, including working with other like-minded investors to engage with high-emitting companies
- The Fund supports the Taskforce on Climate-related Financial Disclosures (TCFD) and adopts its recommendations for the Fund's climate disclosures
- The Fund is a member of Institutional Investors Group on Climate Change (IIGCC)
- The Fund is a signatory to the Financial Reporting Council's UK Stewardship Code 2020

5. Strategic Actions

5.1 Measurement & Observation

The Fund recognises that the tools and techniques for assessing climate-related risks in investment portfolios are an imperfect but evolving discipline. The Fund aims to use the best available information to assess climate-related threats to investment performance.

The Fund will make regular measurements and observations on climate-related risks and opportunities relevant to the Fund. This will include:

- Identification of the most material climate-related risks to the Fund
- Economic assessment of the Fund's asset allocation against plausible climate-related scenarios
- A suite of carbon metrics for the Fund's listed equity and investment grade bond assets (with a coverage target of at least **90%**) to allow the Fund to assess progress in responding to climate-related risks and opportunities, including: weighted average carbon intensity; absolute financed emissions, weight in companies with fossil fuel reserves; weight in companies with thermal coal reserves; and weight in companies with clean technology
- In respect of the Fund's other assets (Other Assets), including private equity, infrastructure, multi-asset credit, property, sovereign bonds and cash, the availability of consistent and reliable carbon-related data is currently limited. The Fund will aim to assess/estimate the carbon footprint (weighted average carbon intensity and/or absolute financed emissions) of **70%** (Scope 1 and 2) of the Fund's other assets, excluding sovereign bonds, by assets under management (AUM) by the end of 2030
- Assessment of progression against the Fund's carbon footprint (weighted average carbon intensity and absolute financed emissions) and low carbon & sustainable investment targets

Methodologies for assessing the impact of future climate-related scenarios, including the possibility of measuring against alignment with the Paris Agreement, remain at an early stage of development, and the Fund will support efforts to develop more reliable and comparable methodologies.

The Fund recognises that there is currently significant variability in the relevance, consistency, comparability and quality of companies' climate-related disclosures. The Fund supports adoption, and encourages disclosure, in line with the recommendations of the TCFD.

5.2 Asset Allocation & Targets

Where there is a credible evidence base, the Fund will integrate climate-related factors into asset class reviews, subject to the requirements of the Investment Strategy Statement and Funding Strategy Statement.

The Fund believes that portfolio-wide 'top down' targets are an important means to set direction and appropriate ambition for an investment strategy towards net zero, and to monitor whether that strategy is achieving expected outcomes. However, a focus on just a single top down portfolio emissions reduction target can incentivise a shift of assets within a portfolio from high to already lower carbon assets and sectors, rather than driving additional 'real world' emissions reductions from increasing investments in climate solutions that contribute to the achievement of the net zero goal. As a result, the Fund set two initial carbon reduction targets in November 2020. Progress against the initial carbon reduction targets at 31 March 2023 is as follows:

Target	Target by end of 2025	Actual on 31 March 2023
1. Reduce the carbon footprint (Scope 1 & 2) of the Fund's listed equity portfolio by at least 30% relative to the weighted benchmark in 2020 by the end of 2025	(30%)	(47%)
2. Invest at least 30% of the Fund portfolio in low carbon & sustainable investments by the end of 2025	30%	Invested: 29% Committed: 30%

Given the progress made by the Fund against the initial carbon reduction targets, and the Fund's overall aim of achieving a portfolio of assets which has net zero emissions by 2050, the Fund will now aim to:

Listed Equities and Investment Grade Bonds

- Reduce the weighted average carbon footprint (Scope 1 & 2) of the Fund's listed equity and investment grade bond portfolios by at least **60%** relative to the weighted benchmark in 2020[2] by the end of 2030; and
- Reduce the absolute financed emissions (Scope 1 & 2) of the Fund's listed equity and investment grade bond portfolios by at least **60%** relative to the weighted benchmark in 2020 by end of 2030.

The Fund will review the weighted average carbon footprint, financed emissions and low carbon & sustainable investment targets on, at least, a three-year basis. The Fund expects the targets to increase at each review, with an increase broadly in line with the Intergovernmental Panel on Climate Change's (IPCC) Mid-point Net Zero Emissions Pathway Forecast. By setting targets, the Fund will set a pathway to track the decarbonisation of the Fund's investment assets towards net zero.

Other Assets

The Fund will aim to assess/estimate the carbon footprint (weighted average carbon intensity and/or absolute financed emissions) (Scope 1 & 2) of at least **70%** of the Fund's other assets, excluding

[2] For products launched after 2020, the Fund's 2020 weighted benchmark for those products will be based on the first available carbon metrics for that product

sovereign bonds and cash, by AUM by the end of 2030. The aim is to build-up the scope, accuracy and comparability of the Fund's other assets' carbon metrics, allowing the Fund to meaningfully engage and monitor investment managers, and track progression towards net zero by 2050.

Low Carbon and Sustainable Investments

The Fund will aim to invest at least **45%** of the Fund's total investment portfolio in low carbon & sustainable investments by the end of 2030.

Scope 3 Financed Emissions

The availability of reported Scope 3 financed emissions (indirect emissions other than from indirect emissions from the generation of purchased energy) is limited and is highly reliant on estimates using a variety of estimation methodologies. This makes it difficult to capture a true picture of the Scope 3 financed emissions of investee companies. However, as Scope 3 financed emissions can be an indicator of the potential risks to an investee company, the Fund will track the reported Scope 3 financed emissions of the Fund's combined top 10 listed equity and investment grade bond portfolio companies by Scope 3 financed emissions as part of the Fund's TCFD report.

5.3 Manager Selection and Monitoring

The Fund will assess material climate-related risk and opportunities, alongside other relevant investment factors, as part of the investment manager selection process.

As a largely externally managed pension fund, the identification and assessment of climate-related risks is also the responsibility of individual investment managers appointed by the Fund. Existing investment managers are monitored on a regular basis to review the integration of climate-related risks into the portfolio management, and to understand their engagement activities.

5.4 Engagement & Stewardship

The Fund will engage with investee companies and investment managers to manage climate change related risks and opportunities within the Fund's investment portfolio, focusing on those risks and opportunities which will have the greatest impact.

The Fund will aim to:

- Listed Assets Engagement Target: engage with investee companies covering at least **90%** of financed emissions in material sectors[3] by the end of 2030. Investee company engagement classified as either net zero aligned or aligning (Transition Pathway Initiative Rating and/or other recognised measure used by the Fund's climate metric data provider) or subject to direct or indirect engagement
- Listed Asset Coverage Targets: at least **50%** of financed emissions in material sectors classified as either net zero aligned or aligning (Transition Pathway Initiative Rating and/or other recognised measure used by the Fund's climate metric data provider) by the end of 2030
- Other Assets Engagement Target: engage with at least **70%** of the Fund's other assets investment managers, excluding sovereign bonds and cash, either directly or indirectly, on carbon metrics and net zero by 2050 targets by the end of 2030

[3] Material sectors comprise: Agriculture, Forestry & Fishing; Mining & Quarrying; Manufacturing; Electricity, Gas, Steam and Air Conditioning Supply; Water Supply, Sewerage, Waste Management and Remediation Activities; Construction; Wholesale and Retail Trade; Repair of Motor Vehicles & Motorcycles; and Transportation and Storage

The Fund will collaborate with other like-minded investors where possible and the Fund will participate in selected collaborative initiatives where these support the Fund's climate-related objectives.

The Fund will make full use of its voting rights and will co-file or support climate-related shareholder resolutions where these support the Fund's climate-related objectives.

6. Derbyshire Pension Fund Corporate Emissions

The Fund is administered by Derbyshire County Council (the County Council). The County Council's approach to managing its journey to net zero is set out in the County Council's Climate Change Strategy: Achieving Net Zero. The Climate Change Strategy sets out the County Council's ambition to be a net zero organisation by 2032 or sooner.

7. Transparency & Disclosure

The Fund will:

- prepare an annual TCFD Report
- report on the progression against the Fund's carbon footprint and low carbon & sustainable investment targets on an annual basis
- report on a suite of carbon metrics in the Fund's annual report
- disclose the stewardship reports of the Fund's key investment managers on a quarterly basis

Review of the Investment Strategy Statement, Responsible Investment Framework and Climate Strategy

PREPARED FOR:

Derbyshire Pension Fund: Pensions and Investments Committee

DECEMBER 2023

Review of the Investment Strategy Statement, Responsible Investment Framework and Climate Strategy, for Derbyshire Pension Fund

This report has been prepared by Anthony Fletcher, the "External Investment Adviser" of the Derbyshire Pension Fund (the Fund). The review was undertaken at the request of Derbyshire County Council as the Administering Authority for the Derbyshire Pension Fund.

The Fund is required by regulation to have an Investment Strategy Statement (ISS) in place, and to review it following any material change in the factors which are judged to have a bearing on the stated investment policy and at least every three years as required by the Regulations.

The Fund's ISS has been drawn up to be in compliance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ("the Regulations"), as updated by the Department for Communities and Local Government most recently in July 2017. It has been prepared subject to consultation with such persons as Derbyshire County Council considers appropriate.

Anthony Fletcher's role is to provide an independent review of the ISS and to make suggestions for changes that may be considered in light of the regulations and the investment objectives of the Fund. It should be noted that nothing contained in this review constitutes investment advice nor should it be relied on as such.

Meeting date 6th December 2023
Date of paper 17th November 2023

At the request of Derbyshire County Council as the Administering Authority for the Derbyshire Pension Fund, I have carried out a review of the Investment Strategy Statement, the Responsible Investment Framework and the Climate Strategy and to the best of my knowledge and belief, I have found them to be consistent with the stated investment aims of the Derbyshire Pension Fund and compliant with the regulations as set out in Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2017.

Statutory background

Regulation 7(1) requires an administering authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State.

The Investment Strategy Statement required by Regulation 7 must include: -

a) A requirement to invest money in a wide variety of investments;

b) The authority's assessment of the suitability of particular investments and types of investments;

c) The authority's approach to risk, including the ways in which risks are to be measured and managed;

d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;

e) The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and

f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

The Investment Strategy Statement must also set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment. This, in effect, replaces Schedule 1 to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 ("the 2009 Regulations").

Under Regulation 7(6) and (7), the statements must be published by 1st April 2017 and then kept under review and revised from time to time and at least every three years.

Further to my statement above, I note that the Fund's Investment Strategy Statement and Responsible Investment Framework addresses all the requirements set out in the regulations.

Background

As part of the ongoing need to ensure the Derbyshire Pension Fund's Investment Strategy Statement (ISS) has a reasonable expectation of achieving the long-term investment objectives of the Fund, the Officers and I have reviewed the ISS and the Strategic Asset Allocation Benchmark which were last updated in the fourth quarter of 2020.

The new ISS takes into consideration the output of the Triennial Valuation report produced by Hymans Robertson, based on the Fund's funding position on 31st March 2022 and developments in the medium and long-term trends seen in investment and securities markets.

As part of its fiduciary responsibility, the Fund has always taken into consideration all the material factors which may influence the risk and reward opportunity and the probability of delivering sustainable and stable long term returns through a diversified portfolio of investments.

In conducting this review, the Officers have also updated the Responsible Investment Framework (RIF) and the Climate Strategy (CS). The RIF focuses on the Fund's policy on Environment, Social and Governance and how these factors can influence risk and reward, the CS specifically focuses on the risks arising from climate change and how the Fund will seek to measure and mitigate these risks. The RIF and CS work in tandem with the ISS and the Funding Strategy Statement (FSS), thereby aligning the Fund's investment beliefs, processes and long-term objectives with its fiduciary duties.

The Fund's new RIF is an update of the previous framework agreed by the Pension and Investments Committee in September 2020, the updated RIF is, like the ISS, is consistent with the requirements of the relevant regulations and statutory guidance. While it is a requirement that the Fund has its own policies on responsible investment and climate strategy, it is important to collaborate with its pooling partners and LGPS Central Ltd to have a consistent approach to certain agreed themes to achieve effective engagement and stewardship. These themes are noted in section 8 of the RIF document. Like the RIF itself, these themes are subject to ongoing monitoring and will be reviewed as required or at least every 3 years.

In recognition of the importance of climate change and the impact this could have on the long-term performance of investments, the Officers have also updated the policy document that formally sets out the Fund's approach to incorporating the implications of climate change into the Fund's investment processes. The full consideration of climate change as an influence on investment returns is not new, the Officers, their Advisers, Investment Managers and LGPS Central, as long term investors have always taken into consideration any factor that may have an influence on the long term sustainability and performance of an investment.

The revised CS document contains a number of updates and better targeted commitments that more clearly set out the climate strategy objectives of the Fund and the actions it will take to achieve those objectives. The Officers have committed the Fund to be a signatory of the UK 2020 Stewardship Code and it has joined the Institutional Investors Group on Climate Change (IIGCC). They have also better defined the "carbon metrics" that will be used to measure progress on transition to a lower carbon future.

In order to demonstrate progress on the Fund's Climate Strategy it will produce an Annual TCFD Report. Report on the progression against the Fund's carbon metrics and sustainable investment targets on an annual basis. Include carbon metrics in Fund's Annual Report. Disclose the Stewardship reports of the Fund's key investment managers on a quarterly basis.

It is important to note that there remain significant variations in the relevance and quality of, the data on climate impact currently available in all asset classes. However, despite the issues around the quality of data and the potential for better metrics to be developed, the Fund has pledged, based on the current metrics available, to seek to reduce the carbon impact of its investments over a reasonable period of time. As the quality of data and the standardisation of reporting improves it should become easier to fulfil the climate strategy objectives.

As well as incorporating the updated policies on responsible investment and climate change, the review has taken into consideration the Triennial Valuation and the future expected returns and volatility of different asset classes.

The Triennial Valuation shows that despite recent market volatility, the investment returns achieved since the last valuation in 2019, continue to improve the funding level, which has increased from 97% to 100%. This means that at the time of the Triennial Valuation, the value of assets was equal to the estimated value of the Fund's Past Service Pension Liabilities. While this is good news, it is still subject to risk as market returns, inflation, and actuarial factors such as longevity and membership of the scheme changes all the time and will have a direct impact on the estimate of the funding level. Indeed, as part of the 2022 triennial valuation the actuary has increased the Discount Rate used to calculate the present day value of the Fund's liabilities from 3.6% pa in 2019, to 3.8% pa over the next 20 years. Although the Actuary did also increase the probability of achieving the discount rate, or as I would describe it the future average rate of return estimated to deliver the current pensions promise.

Changes to the Strategic Asset Allocation Benchmark

The steps taken by the Fund over the last two valuations to reduce the volatility of returns by reducing the Fund's exposure to higher volatility Growth Assets and increase its exposure to Income Assets has helped to improve the funding level and the reliability of total returns. At the same time, it should have improved the proportion of the total return which comes from income which is helpful as the Fund becomes more mature and has cashflow needs to pay a greater number of members in retirement.

The proposed changes to the Fund's Strategic Asset Allocation seek to take this a stage further with another reduction in the allocation to higher volatility Growth Assets from 55% to 50% and an increase in exposure to Income Assets from 25% to 30%. The change will be achieved mainly by increasing the allocation to Infrastructure, where returns are often inflation linked and contractual in nature. There are also smaller increases to both Property and to Multi-Asset Credit (MAC). All of these changes are aimed at improving the overall probability of achieving the total return target, by reducing risk which is no longer required due to the improved funding level. No change to the exposure to Protection Assets is being suggested.

Growth Assets: It is proposed that the overall allocation to growth assets is reduced from 55% to 50% and the mix of investments should also change; it is proposed that the allocation to Private Equity is increased from 4% to 6%, and the allocation to Sustainable global equity is increased from

29% to 36%. All the changes would be funded by a reduction in the allocation to UK equity from 12% to 8% together with a reduction in the direct regional allocations to Japanese and Emerging market equity from 5% each to zero.

Substituting the regional allocations for an increased allocation to global equity looks significant but it will not materially change the distribution of region's that can be allocated to and should allow Derbyshire's fund managers more scope to be dynamic in terms of their regional allocations. Arguably the Fund Managers should be better resourced to make these tactical asset allocation decisions than the Pension Fund.

The proposed increase in Private equity exposure recognises that increasingly over the last 20 years more companies are remaining private for longer. This means that potentially more of the value creation is realised by private market investors before the company becomes listed on a public market. It should also be noted that because of the nature of the ownership structure with private equity, the managers should have more direct influence over the ESG policies of investee companies than they may have with publicly listed companies. Whilst this increased exposure increases liquidity risk, the 6% allocation means that overall liquidity remains more than adequate.

The increase in global sustainable and private equity and the reduction of the UK equity allocation could increase the volatility of returns. In practice I do not perceive these risks as significant for the following reasons ;

Firstly, whilst an allocation to the UK does not carry any direct currency risk or non-UK regulatory and jurisdictional risk. In practice, with over 50% of the earnings from the companies listed on UK market indices coming from global companies, those same risks apply to the earnings of UK listed companies.

Secondly, whilst global sustainable and private equity investments could be described as more "growth" like in nature, meaning that even more of their returns are potentially driven by capital gains, in my view this risk is mitigated by the lower overall exposure of Growth Assets and potentially by the investment philosophy of the managers chosen by the Officers and LGPS Central to invest the allocation.

Further, it is worth noting, an increase in global sustainable equity is also consistent with the transition to a lower carbon future and the achievement of net zero. The investee companies in this strategy are the companies that are better placed to benefit from transition or have adopted policies that will enable them to be sustainable in a lower carbon future. This policy is therefore consistent with Derbyshire's Responsible Investment Framework and Climate Strategy.

Income Assets: This category consists of Property, MAC and Infrastructure. If agreed the 5% reduction in Growth Assets noted above would be deployed 3% to Infrastructure increasing the allocation from 10% to 13%. It is also proposed that the overall allocation to Property and MAC is increased by 1% each from 9% to 10% for Property and from 6% to 7% for MAC.

These changes increase the balance of total return that the Fund achieves, with a higher level coming from income rather than potential capital gains. Because a higher proportion has been given to Infrastructure it is likely that this will increase the contractual income the Fund receives that is aligned with inflation. The increase in the property allocation will increase the scope of the Fund's managers potentially increase the diversification of the property portfolio by adding residential property, an opportunity where most of the return comes from rents that can be contractual and aligned with inflation.

Again, this approach is consistent with the Fund's RIF and CS commitments as it is likely to lead to an increased in investment in renewable infrastructure and may also lead to an increase in environmental and social impact the Fund achieves with out having an impact on its returns.

Protection Assets: The weight and mix of protection assets remains unchanged at 20%. I believe it is prudent to have a reasonable allocation to Gilts, Index Linked Gilts and global investment grade credit, because of the long-term diversification characteristics and their ability to match potential changes in the Discount Rate. In the last two years all bonds and in particular Index Linked Gilts have become much more attractive. Partly because of the overall increase in yields, but in the case of Linkers because real yields have increased to -2.5% to around +1%, which means they can provide protection in times of increased inflation or volatility and they will deliver a small positive return above inflation.

Strategic Asset Allocation, Permitted Ranges and Performance Benchmarks

The revised Strategic Asset Allocation is set out on table 1 below, it is proposed that the changes to the asset allocation be phased in over the next two years. In order to smooth the impact of the changes on the equity allocation, but also to allow the time needed for the private equity, infrastructure and property managers to find the appropriate investments. The intermediate stage benchmark will become effective from April 2024 and the final new benchmark will be in place by April 2025 at the latest.

Table 1. Changes in the Strategic Asset Allocation Benchmark (SAAB) over time.

Asset Class %	Current SAAB January 2022	Proposed Intermediate SAAB April 2024	Proposed Final SAAB expected April 2025	Final Change
UK Equities	12.0	10.0	8.0	-4.0
Japanese Equities	5.0	2.5		-5.0
Emerging Market Equities	5.0	2.5		-5.0
Global Sustainable Equities	29.0	31.5	36.0	+7.0
Private Equity	4.0	6.0	6.0	+2.0
Growth Assets	**55.0**	**52.5**	**50.0**	**-5.0**
Infrastructure	10.0	11.5	13.0	+3.0
Multi-Asset Credit	6.0	6.5	7.0	+1.0
Property	9.0	9.5	10.0	+1.0
Income Assets	**25.0**	**27.5**	**30.0**	**+5.0**
Conventional Bonds	6.0	6.0	6.0	-
Index-Linked Bonds	6.0	6.0	6.0	-
Corporate Bonds	6.0	6.0	6.0	-
Cash	2.0	2.0	2.0	-
Protection Assets	**20.0**	**20.0**	**20.0**	**-**
Total	**100**	**100**	**100**	**-**

Table 2 shows the final revised Strategic Asset Allocation, performance benchmarks and permitted ranges for tactical asset allocation expected to be in place from April 2025.

Table 2. Final Strategic Asset Allocation, Permitted Ranges and Performance Benchmarks. April 2025

% Asset Category	Asset Allocation	Permitted Range	Performance Benchmark
Growth Assets	**50.0**	**+/- 8**	
Total Listed Equities	44.0	+/- 8	
UK Equities	8.0	+/- 4	FTSE All Share
Global Sustainable	36.0	+/- 8	FTSE All World + fund specific benchmarks
Private Equity	6.0	+/- 2	Global Sustainable Equity + 1%
Income Assets	**30.0**	**+/- 6**	
Property	10.0	+/- 3	IPD UK Quarterly Property Index
Infrastructure	13.0	+/- 3	SONIA 3m + 2%
Multi-Asset Credit	7.0	+/- 2	40% SONIA 3m + 3% / 30% ICE BofA Global High Yield Index, GBP / 30% S&P & LSTA Leveraged Loan Index, GBP
Protection Assets	**20.0**	**+/- 5**	
Government Bonds	6.0	+/- 2	FTSE UK Government Fixed All Stocks
Inflation Linked Bonds	6.0	+/- 2	FTSE UK Index-Linked All Stocks
Global Non-Government Bonds	6.0	+/- 2	50% ICE GBP Non-Gilt Index (ex EM) / 50% ICE Global Corporate Index (ex GBP and EM), hedged to GBP Base
Cash	2.0	0 - 8	Sterling 7 Day LIBID
Total	**100**		

I have reviewed the asset categories, % allocation, permitted ranges and performance benchmarks in the tables above and find them both prudent and reasonable from the point of view of the Fund's objectives and my understanding of the regulations.

Anthony Fletcher

Independent External Adviser to the Derbyshire Pension Fund

17th November 2023

Appendix

References

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

Derbyshire Pension Fund.

Department for Levelling Up, Housing and Communities: -

Local Government Pension Scheme

Guidance on Preparing and Maintaining an Investment Strategy Statement

July 2017.

FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

PENSIONS AND INVESTMENTS COMMITTEE

WEDNESDAY, 6 DECEMBER 2023

Report of the Director of Finance and ICT

Statement of Policy on the Administering Authority's Discretions Local Government Pension Scheme (LGPS)

1. Purpose

1.1 To seek approval for the Statement of Policy (the Policy) on the Administering Authority's Discretions in respect of the Local Government Pension Scheme (LGPS) attached as Appendix 2.

2. Information and Analysis

2.1 Under the LGPS regulations there are a number of areas where administering authorities and employers are permitted a level of discretion in the way they apply the rules locally for LGPS members.

Each LGPS administering authority and employer is required to agree and publish its own statement of policy around how it will apply the discretions within the LGPS and related legislation, where it is required to make a decision.

Regulation 60(1) of The Local Government Pension Scheme Regulations 2013 requires administering authorities to publish a mandatory written statement reflecting their policy in relation to the waiving of actuarial reductions when scheme members retire following employment with an employer which has ceased to participate in the relevant LGPS fund.

Whilst administering authorities have a mandatory responsibility to publish a statement setting out how they will apply the discretion relating to Regulation 60(1), it is considered to be best practice to also set out how other discretions within the LGPS and related legislation will be applied.

The discretions where administering authorities are required to make a decision are wide-ranging, and in many cases, rarely applied.

The previous full review of Derbyshire Pension Fund's (the Fund) Statement of Policy on Administering Authority LGPS Discretions was undertaken by Committee at its meeting on 8 May 2019.

A minor amendment was subsequently made in August 2020 to update the policy following the appointment of a new Adjudicator for the consideration of appeals against the Fund.

2.2 The administering authority discretions relate to regulations which apply to LGPS membership for current and former scheme members included in the following statutory instruments and their subsequent amendments:

- The Local Government Pension Scheme Regulations 2013
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014
- The Local Government Pension Scheme (Administration) Regulations 2008
- The Local Government Pension Scheme (Benefits, Membership, and Contributions) Regulations 2007
- The Local Government Pension Scheme (Transitional Provisions) Regulations 2008
- The Local Government Pension Scheme Regulations 1997
- The Local Government Pension Scheme Regulations 1995
- The Registered Pension Schemes (Modification of Scheme Rules) Regulations 2011

2.3 Requirements when formulating policies

In formulating their discretionary policies, administering authorities and employers must take into account the following considerations:

- Avoid setting policies which may lead to a serious loss of confidence in the public service
- Ensure that the policies are workable, affordable and reasonable, especially with regard to foreseeable costs
- Ensure that the policies are non-discriminatory
- Avoid blanket or fettered (overly restrictive) policies
- Keep the policies under regular review

2.4 Areas of discretion for administering authorities

Areas of LGPS management where administering authorities are required to apply their discretionary controls include the following:

- Pension fund governance
- Appeals and the adjudication of disagreements
- Admission agreements
- Employer management
- Payments relating to deceased members
- Transferring or linking of pension benefits
- Discretions relating to employers which no longer participate in the fund

2.5 Acting where a member’s employer has ceased participation in the Fund

Where a member's former employer has ceased to be a Scheme employer (for example, where it has gone into liquidation) Derbyshire County Council, as the administering authority, acts as the employer or former employer with respect to making decisions which the defunct employer would have been required to make, and as such, is required to publish its mandatory discretions.

In order to meet the requirement under Regulation 60(1) of The Local Government Pension Scheme Regulations 2013, the Policy includes a written statement reflecting the administering authority’s approach in relation to the waiving of actuarial reductions when scheme members retire following employment with an employer whose active participation in the Fund has ended.

2.6 **Statement of policy update**

A review of the last statement of policy identified that a number of minor technical amendments were required.

Discretions which sit with the Adjudicator for appeals are no longer included in the Policy.

Some discretions previously not included have been added to the Policy and reflect:

- Procedures applicable to Derbyshire Pension Board, including appointments and membership
- Approval for admission agreements to take retrospective effect where necessary
- Exit arrangements for employers

3. Costs relating to the application of discretions

3.1 Local Government Pension Scheme benefits are paid from the Pension Fund. Any additional pension costs incurred in exercising discretions are either reflected in the individual employer's contribution rate or invoiced directly to the relevant employer by the Fund.

3.2 Any costs relating to the administering authority applying the employer discretions set out in this report in respect of employers no longer participating in the Fund will be shared by all active participating employers.

4. Implications

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

5. Background Papers

5.1 The current Statement of Policy on Administering Authority LGPS Discretions is held on the Fund's website

6. Appendices

6.1 Appendix 1 – Implications
6.2 Appendix 2 – Draft Statement of Policy on Administering Authority LGPS Discretions.

7. Recommendation(s)

That Committee approves the draft Statement of Policy on Administering Authority LGPS Discretions included at Appendix 2.

8. Reasons for Recommendation(s)

8.1 One of the functions of the Committee is to consider the Administering Authority's Discretions Policy

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Appendix 1

Implications

Financial

1.1 See paragraph 3 of the report

Legal

2.1 Under Regulation 60(1) of the Local Government Pension Scheme Regulations 2013, administering authorities of LGPS funds are required to publish a written statement reflecting their policy in relation to the waiving of actuarial reductions when scheme members retire following employment with an employer which has ceased to participate in the relevant LGPS fund.

Human Resources

3.1 None

Information Technology

4.1 None

Equalities Impact

5.1 None

Corporate objectives and priorities for change

6.1 None

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

7.1 None

Derbyshire Pension Fund

Appendix 2

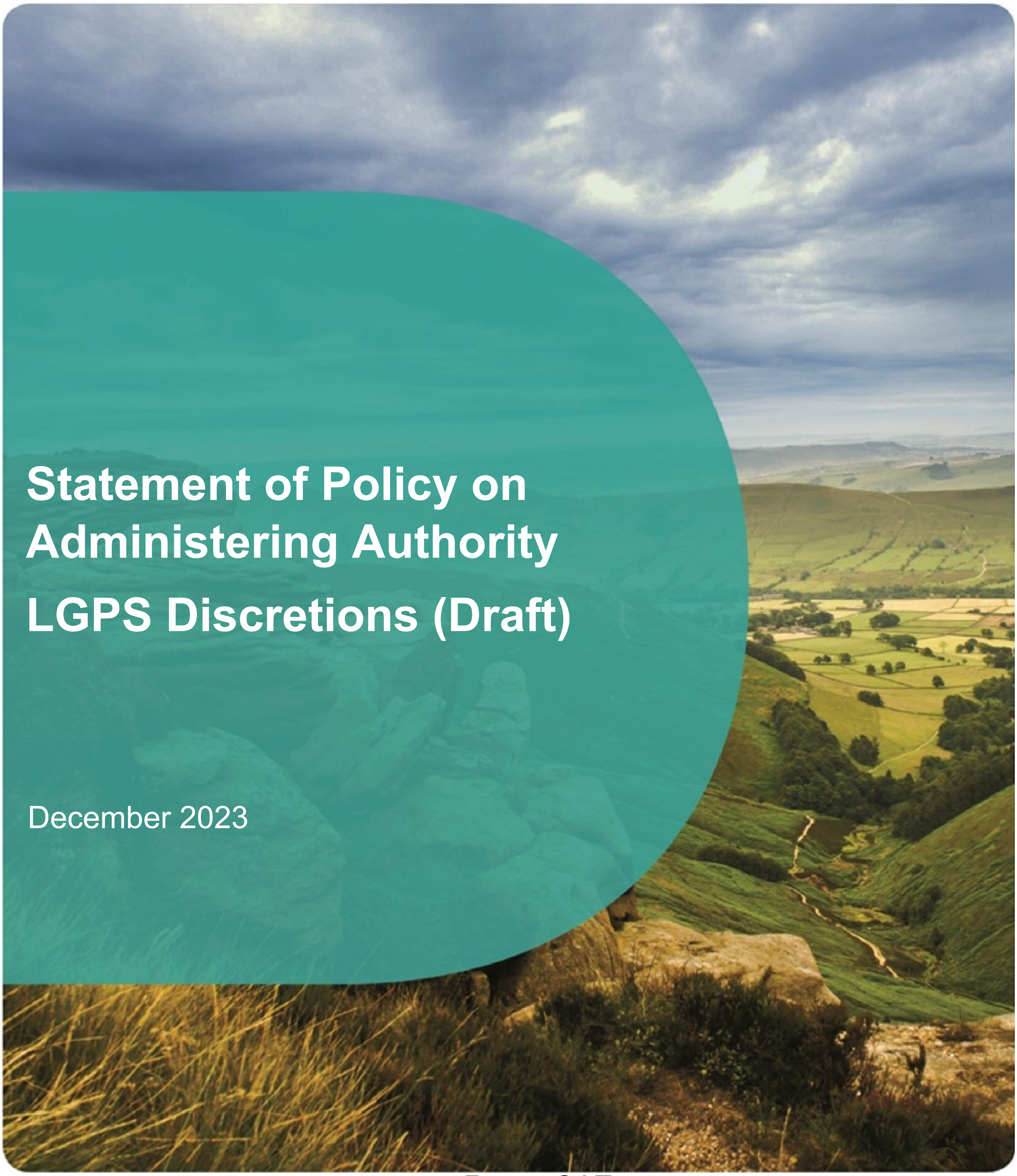
County Hall, Matlock, Derbyshire, DE4 3AH

derbyshirepensionfund.org.uk

Administered by Derbyshire County Council

Statement of Policy on Administering Authority LGPS Discretions (Draft)

December 2023



lgps Local Government Pension Scheme

Contents

1. Introduction

Derbyshire County Council, as the administering authority for the Derbyshire Pension Fund (the Fund), has determined its discretionary policies in accordance with the Local Government Pension Scheme Regulations 2013, as amended, and related legislation.

The Fund's full administering authority discretions policies are set out in this statement.

The policies will apply to all current members, including pension credit members, in the Fund. Where relevant, the policies also apply to members who have left pensionable service, including councillor members.

In all cases, the discretion outlines the normal approach the Fund will use but the Fund reserves the right to waiver from a discretion stated in extraordinary circumstances where the Fund deems it appropriate and reasonable to do so.

The discretions held within this policy originate from various versions of the LGPS Regulations and related legislation, as listed.

The Committee [considered] this updated Statement of Policy at its meeting on 6 December 2023.

The Committee retains the right to review and change the policies at any time and will ensure that any amended policy will be published within one month of changes coming into force.

The policies do not grant any contractual rights to any member of the Fund, and the discretions set will be applied in line with the provisions of existing LGPS Regulations and related legislation.

The policies will be reviewed as required in the light of future changes to the LGPS and / or other relevant legislation, or at least every three years.

Key to legislation referenced in the policy

- **2013** - The Local Government Pension Scheme Regulations 2013
- **2014 (Transitional Provisions)** - The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014
- **2008 (Admin)** - The Local Government Pension Scheme (Administration) Regulations 2008
- **2008 (Transitional Provisions)** - The Local Government Pension Scheme (Transitional Provisions) Regulations 2008
- **2007 (Benefits)** - The Local Government Pension Scheme (Benefits, Membership, and Contributions) Regulations 2007
- **1997** - The Local Government Pension Scheme Regulations 1997
- **1995** - The Local Government Pension Scheme Regulations 1995
- **2011 Registered Pension Schemes** - The Registered Pension Schemes (Modification of Scheme Rules) Regulations 2011

2. Governance of the Fund - Key Strategies and Policies

Administering authority discretions relating to governance matters

Reference	LGPS Regulation	Discretion	Derbyshire Pension Fund Policy
1	2013 Regulation 55	Publish a Governance Policy stating how functions are delegated and whether the Administering Authority complies with guidance given by the Secretary of State	Governance Policy and Compliance Statement: **derbyshirepensionfund.org.uk/ governanceandcompliance**
2	2013 Regulation 58	Decide on the funding strategy for inclusion in Funding Strategy Statement.	Funding Strategy Statement (Agreed in co-operation with the Fund's actuary and in consultation with employers): **derbyshirepensionfund.org.uk/fss**
3	2013 Regulation 61	Publish a Communication Policy setting out the format, frequency, and method of communications, and how the Administering Authority communicates with: • Members • representatives of members • prospective members • employing authorities	Communications Policy : **derbyshirepensionfund.org.uk/ communications policy**
4	2013 Regulation 59 (1) Regulation 59 (2)	Decide whether to have a written Pensions Administration Strategy and, if so, the matters it should include.	Pension Administration Strategy: **derbyshirepensionfund.org.uk/PAS**
5	2013 Regulation 80(1)(b) 2014 (Transitional Provisions) Regulation 22(1) Regulation 23	Specify information to be supplied by employers to enable the administering authority to discharge its functions	Pension Administration Strategy: **derbyshirepensionfund.org.uk/PAS**

6	2013 Regulation 105(2)	Decide whether to delegate any administering authority functions under the Regulations.	Administering Authority functions may be delegated where it is considered appropriate to do so.

3. Governance of the Fund – Local Pension Board

Administering authority discretions relating to the local pension board

Reference	LGPS Regulation	Discretion	Derbyshire Pension Fund Policy
7	2013 Regulation 106(3)	Decide whether to establish a joint local pensions board (if approval has been granted by the Secretary of State).	Not applicable as Secretary of State approval has not been sought or granted for the administration and management of the Fund to be shared with another administering authority.
8	2013 Regulation 106(6)	Determine procedures applicable to the local pension board	The Pension Board's Terms of Reference are determined by the Full Council of the Administering Authority, Derbyshire County Council: **derbyshirepensionfund.org.uk/pensionboard**
9	2013 Regulation 107(1)	Decide appointment procedures, terms of appointment and membership of the local pension board	The Pension Board's Terms of Reference are determined by the Full Council of the Administering Authority, Derbyshire County Council: **derbyshirepensionfund.org.uk/pensionboard**

4. Appeals and the Adjudication of Disagreements

Administering authority discretions relating to the adjudication of disagreements

Reference	LGPS Regulation	Discretion	Derbyshire Pension Fund Policy
10	2013 Regulation 76(4) 2014 (Transitional Provisions) Regulation 23	Decide the procedure to be followed by the Administering Authority when exercising its Stage Two AADP (Application for the adjudication of disagreements procedure) functions (includes in relation to councillor members).	The administering authority has determined procedures to be followed for the appointment of Adjudicators to exercise the function of deciding on appeals at AADP Stage Two
11	2013 Regulation 79(2) 2014 (Transitional Provisions) Regulation 23	Whether the Administering Authority should appeal to the Secretary of State against an employer decision (or lack of a decision) – includes in relation to councillor members.	The Fund will appeal to the Secretary of State when there is sufficient evidence that an employer has made a decision or committed an act (or failed to act) that is both wrong in law and material, where we have been unable to persuade the employer to alter its actions (or inactions). Such matters will be decided by the Director of Finance and ICT.

5. Admission Agreements

Administering authority discretions relating to Admission Agreements for employers commencing participation in the Fund

Reference	LGPS Regulation	Discretion	Derbyshire Pension Fund Policy
12	2013 Regulation 3(1A), Regulation 3(5) Schedule 2 Part 3 Para 1	Whether to agree to an admission agreement with a body applying to be an Admission Body.	Formal agreement to admission as a scheme employer for an admission body is the delegated responsibility of the Director of Finance and ICT. The Administering Authority is required to admit bodies previously known as Transferee Admission Bodies.
13	2013 Schedule 2 Part 3 Para 14	Whether to agree that an Admission Agreement may take effect on a date before the date on which it is executed.	The Administering Authority will normally agree to an Admission Agreement taking effect before the date it is executed unless actions or inactions by the prospective admission body are deemed unreasonable and advice and guidance reflect that the agreement should not be executed.
14	2013 Regulation 4(2)(b)	Whether to agree to an admission agreement with a Care Trust, NHS Scheme employing authority or Care Quality Commission.	To be determined in consideration of the entry conditions for admission included in the Admission, Cessation and Bulk Transfer Policy. **https://www.derbyshirepensionfund.org.uk/publications/policies-strategies-and-statements/admissions-cessations-and-bulk-transfer-policy.aspx**
15	2013 Schedule 2 Part 3 Para 9(d)	Whether to terminate a transferee admission agreement in the event of: • the insolvency, winding up or liquidation of the body • a material breach by that body of its obligations under the admission agreement	The Fund reserves the right to terminate any admission agreement (Community or Transferee) if the Admission Body is in breach of its obligations. This includes insolvency and failure to pay contributions. This right is included in the admission agreement.

		• the failure by that body to pay over sums due to the Fund within a reasonable period of being requested to do so.	
16	2013 Schedule 2 Part 3 Para 12(a)	Employees of a contractor are only entitled to remain in the LGPS whilst they continue to be employed in connection with the original services that were transferred. This expression should be defined by the Administering Authority.	The Fund defines ‘Employed in connection with’ as meaning “employed solely or mainly (for example, at least 75% of their time) in the management or delivery of such services as are set out in the Contract.” This is included in the Admission Agreement.
17	2013 Regulation 54(1)	Whether to set up a separate admission agreement fund.	The Administering Authority does not currently operate any separate admission agreement funds. Any proposal or legislative requirement to create an admission agreement fund would be subject to discussion between officers and the Fund’s actuary.

6. Employer Management

Administering authority discretions relating to the management of employers' participation in the Fund

Reference	LGPS Regulation	Discretion	Derbyshire Pension Fund Policy
18	2013 Regulation 64(2ZAB)	Whether to extend the period beyond 6 months from the date an Employer ceases to be a Scheme Employer, by which to pay an exit credit	The Fund will normally apply its discretion dependent upon the circumstances of the case, with a decision made in line with its Exit Credit Policy, which is located within the Fund's Admission, Cessation and Bulk Transfer Policy: **derbyshirepensionfund.org.uk/publications/policies-strategies-and-statements/admissions-cessations-and-bulk-transfer-policy.aspx**
19	2013 Regulation 64(2A)	Whether to suspend (by way of issuing a suspension notice), for up to three years, an employer's obligation to pay an exit payment where the employer is again likely to have active members within the specified period of suspension.	The Fund will consider on a case-by-case basis taking into consideration all relevant factors.
20	2013 Regulation 64(4)	Whether to obtain a revision of the rates and adjustments certificate if there are circumstances that make it likely that a Scheme Employer will be ceasing.	The Fund will determine whether a revised rates and adjustment certificate is obtained in anticipation of the termination of an admission agreement (community or transferee) or where a scheduled body is likely to cease, taking into consideration the advice of the Fund Actuary.
21	2013 Regulation 65	Whether to obtain a new rates and adjustments certificate if the Secretary of State amends the Regulations as part of the "cost sharing" valuation.	To be determined by the Fund taking into consideration the advice of the Fund's Actuary.

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22	2013 Regulation 68(2) 2014 (Transitional Provisions) Schedule 2 Para 2(3) 1997 Regulation 80(5)	Whether to require any strain on Fund costs to be paid "up front" by an employer following: • redundancy / business efficiency, flexible retirement, • the waiver (in whole or in part) of any actuarial reduction on voluntary or flexible retirement, or where rule of 85 is switched on before age 60.	The Fund's policy is to recharge the full strain costs as a single lump sum in accordance with the Pension Administration Strategy **derbyshirepensionfund.org.uk/PAS** Director of Finance and ICT may agree exemptions from the normal practice in exceptional circumstances.
23	2013 Regulation 80(1)(b) 2014 (Transitional Provisions) Regulation 22(1) 2008 (Admin) Regulation 64(1)(b)	Specify information to be supplied by employers to enable the Administering Authority to discharge its functions.	Employers are required to provide information in accordance with the Pension Administration Strategy: **derbyshirepensionfund.org.uk/PAS**
24	2013 Regulation 69(1)	Decide frequency of payment of contributions to the Fund by employers and whether to make an administration charge.	The due date for employer's contributions is the 19th of the month following the month to which they relate. Administration charges relating to Regulation 68 of the 2013 regulations are required to be paid via a single payment to the Fund unless otherwise agreed by the Director of Finance and ICT. Details relating to the payment of pension contributions by employers are set out in the Fund's Pension Administration Strategy: **derbyshirepensionfund.org.uk/PAS**
25	2013 Regulation 69(4)	Decide the format and frequency of information from employers to accompany payments of contributions to the Fund.	Employers (or their payroll provider) must provide monthly remittance advice (Form CR1) to the Fund along with their payment. Details are included in the Pension Administration Strategy:

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			derbyshirepensionfund.org.uk/PAS
26	2013 Regulation 70 2014 (Transitional Provisions) Regulation 22(2)	Whether to issue an employer with a notice to recover additional costs incurred as a result of the employer's level of performance.	The Pensions Administration Strategy sets out measures in specific areas for when underperforming employers will be issued with additional administration charges. The Fund reserves the right to issue charges for additional administration incurred as a result of an employer's level of performance in areas not included in the Strategy on a case-by-case basis.
27	2013 Regulation 71(1)	Whether to charge interest on payments by employers which are overdue.	The Administering Authority does not currently charge interest on late payment but proactively pursues employers to remedy any arrears. However, the Fund reserves the right to include a charge in exceptional circumstances as agreed by the Director of Finance and ICT on a case-by-case basis.
28	2013 Regulation 36(3) 2008 (Admin) Regulation 56(2) 1997 Regulation 97(10)	The Administering Authority is required to approve medical advisors used by employers (for the determination of ill health benefits) – including in relation to councillor members.	The Fund will determine whether an employer's appointed Occupational Health Provider is appropriate for the provision of medical certificates regarding members' incapacity and qualified in accordance with the criteria for an Independent Registered Medical Practitioner (IRMP) set out in Schedule 1 of the 2013 Regulations.

7. Payments relating to deceased members

Administering authority discretions relating to the determination of pension benefits following the death of a scheme member

Reference	LGPS Regulation	Discretion	Derbyshire Pension Fund Policy
29	2013 Regulation 82(2) 2008 (Admin) Regulation 52(2) 1997 Regulation 95	A death grant due to a scheme member's estate, can be paid to the personal representative(s), or anyone appearing to be, without the need for grant of probate / letters of administration if the death grant is less than the amount specified in any order under Section 6 of the Administration of the Estates (Small Payments) Act 1965 (£5,000 at the time of the making of this policy). This also relates to councillor members.	The Fund will normally pay the death grant without production of grant of probate / letters of administration where the sum due is less than £5,000, subject to review.
30	2013 Regulation 34(1)(b)	Decide whether to trivially commute a lump sum death benefit under section 168 of the Finance Act 2004.	The Fund will agree to, or may choose to, pay a lump sum to a dependant in lieu of a pension where the payment is in compliance with Schedule 29 (paragraph 20) of the Finance Act 2004
31	2013 Regulations 17(12), 40(2), 43(2), 46(2) 2014 (Transitional Provisions) Regulation 17(5) to (8) 2008 (Transitional Provisions) Schedule 1 1997 Regulations 38(1), 155(4)	The Administering Authority may, at its absolute discretion, pay any death grant due (including AVCs, SCAVCs and life assurance relating to AVCs) to or for the benefit of the member's nominee, personal representatives or any person appearing to the authority to have been a relative or dependant of the member. This also relates to councillor members.	Where it is clear, having taken account of all the circumstances, payment will normally be made in accordance with the member's expression of wish. If no expression of wish has been made, the Fund will consider evidence submitted and determine the appropriate recipient, on a case-by-case basis. In accordance with the Delegation of responsibilities approved by the Committee on 29 July 2015, where the Fund's decision is or may be subject to challenge, the decision to whom payment is made is delegated to the Director of Finance and ICT, or Probate is obtained.

	1995 Regulation E8 2007 (Benefits) Regulations 23(2), 32(2), 35(2)		
32	2013 Schedule 1 2014 (Transitional Provisions) Reg (b) 2007 (Benefits) Reg 25	The Administering Authority must decide the evidence required to determine financial dependence of a co-habitee on a scheme member or financial interdependence between the co-habitee and the scheme member.	Scheme regulations do not stipulate what constitutes “evidence”. The appropriate parties will be provided with details of the evidence required by the Fund to determine financial dependence or interdependence.
33	2014 (Transitional Provisions) Regulations 3(6), 4(6)(c), 8(4), 10(2)(a), 17(2)(b) 2008 (Transitional Provisions) Schedule 1 2007 (Benefits) Regulation 10(2)	Where member dies before making an election in respect of the use of average of 3 years pay for final pay purposes (Regulation 10 of the 2007 Benefits regulations), the Administering Authority can decide whether to make that election on behalf of the deceased member.	Where a member has had a reduction/restriction in pay within 10 years of date of leaving they can elect for the “final pay” to be based on the average of any 3 consecutive years in the last 13 years ending on 31 March. Where a member dies before making an election, the Fund will automatically apply the final pay period which provides the most advantageous benefits.
34	2014 (Transitional Provisions) Regulations 3(6), 4(6)(c), 8(4), 10(2)(a), 17(2)(b)	Whether to make an election on behalf of a deceased member who had a certificate of protection of pension benefits so their benefits may be calculated using the best pay figure.	Where a member dies before making an election, the Fund will automatically apply the final pay period which provides the most advantageous benefits.

35	1997 Regulation 22(7)	Whether to select an alternative final pay period for deceased non-councillor member (applies to leavers between 31 March 1998 and 1 April 2008).	Where a member died before making an election, the Fund will automatically apply the final pay period which provides the most advantageous benefits.
36	2013 Schedule 1 "Eligible Child" 2014 (Transitional Provisions) Reg 17(9)(a)	Whether to treat a child as being in continuous education or training, despite a break (including a child of a councillor member) so that the child's pension resumes after the break.	For the purposes of eligibility, the Fund will normally disregard breaks of 12 months or less including gap years, as being interruptions in full time education or training and will restart a suspended child's pension at the end of such a break or gap, providing evidence is received that education/training has resumed. During breaks in education, no children's pensions will be due.
37	1997 Regulation 47(1)	How to apportion children's pension amongst eligible children (children of councillor members and children of leavers between 31 March 1998 and 1 April 2008).	Where there is more than one eligible child, the Fund will normally divide a children's pension equally between the eligible children.
38	2007 (Benefits) Regulation 27(5) 1997 Regulation 47(2) 1995 Regulation G11(2)	Whether to pay the whole or part of a child's pension to another person for the benefit of the child (includes children of councillor members). This applies to pre-1 April 2014 leavers only.	Where a child is under 17, the Fund will normally pay his/her pension to the person who has the care of the child, to be applied for the benefit of that child.
39	1995 Regulation F7	Whether or not to suspend of spouses' pensions during remarriage or cohabitation.	The Fund will not suspend spouses' pensions due to remarriage or cohabitation and, therefore, they will be paid for life.

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8. Transferring or Linking of Pension Benefits

Administering authority discretions relating to transfers and aggregation of scheme members' pension benefits

Reference	LGPS Regulation	Discretion	Derbyshire Pension Fund Policy
40	2013 Regulation 98(1)(b)	Whether to agree to the payment of a bulk transfer.	Bulk transfer terms will be negotiated and agreed on a case-by-case basis in consultation with the Fund Actuary and the Scheme employer.
41	2013 Regulation 100(6)	The Administering Authority (with the agreement of the employer) may extend the 12-month time limit for a scheme member to elect to transfer in benefits from a non-LGPS or personal pension plan.	The Fund will usually only allow transfers from Public Sector Transfer Club Schemes, provided that the application is made within 12 months of joining the Scheme. The Public Sector Transfer Club is a network of public sector pension schemes generally providing membership credits of equivalent lengths when a member transfers between them. The 12-month time limit may be extended by agreement with the Director of Finance and ICT and the employer.
42	2013 Regulation 100(7)	Whether to allow transfers of pension rights into the Fund.	
43	2014 (Transitional Provisions) Regulation 15(1)(d) 2008 (Admin) Regulation 28(2)	Whether to charge a scheme member for the provision of an estimate of the additional pension that would be provided in the Fund in return for a transfer in of in house AVC/SCAVC funds (only applies where the arrangement was entered into before 1 April 2014).	Scheme members may request one estimate in any 12-month period that is provided free of charge. In the exceptional case that a further quote is requested by the same member in the same 12-month period, the Fund reserves the right to impose an administration charge on the scheme member.
44	2014 (Transitional Provisions) Regulation 10(9)	Decide, in the absence of an election from the member within 12 months of ceasing a concurrent employment, which ongoing employment benefits from the concurrent employment which has ceased should be aggregated (where there is more than one ongoing employment).	Where a member does not make a definite election within 12 months, or a longer period as agreed, the Fund will determine which ongoing record the concurrent membership should be aggregated with.
45	1997 Regulation 118	Whether the Fund will retain the Contributions Equivalent Premium (CEP) where a scheme member transfers out to a Contracted-in pension scheme (for councillor members and pre-1 April 2008 leavers).	The CEP amount will be retained by the Fund and used towards providing the balance of benefits due to the scheme member.

9. Miscellaneous Provisions

Administering authority discretions relating to miscellaneous matters

Reference	LGPS Regulation	Discretion	Derbyshire Pension Fund Policy
46	1997 Regulation 106A(5)	The date to which benefits shown on members' Annual Benefit Statements are calculated.	Annual benefit statements for active members will be calculated as at the 31 March preceding their distribution.
47	2014 (Transitional Provisions) Regulation 3(13) 2008 (Admin) Regulation 70(1), 71(4)(c) 2008 (Transitional Provisions) Regulation 12 1997 Regulation 109, 110(4)(b)	Abatement of pensions on re-employment (applies to pre-1 April 2014 retirees only, including councillor members).	From 1 April 2014 Derbyshire Pension Fund has not abated pensions in payment based on earnings, following re-employment. Cases subject to abatement at that time are considered on a case-by-case basis.
48	2013 Regulation 22(3)(c)	The members pension account may be kept in such form as is considered appropriate.	Pension accounts are maintained on the Administering Authority's pension administration system. Appropriate measures are in place to ensure the administration system meets the requirements of the regulations.
49	2013 Regulation 83 2008 (Admin) Regulation 52A	An Administering Authority may determine how and to whom benefits may be paid if the recipient (other than an eligible child) is incapable of managing their affairs by reason of mental disorder or otherwise.	The Fund will pay benefits to the person having care of the pensioner, or such other person as they may determine where the pensioner is incapable of managing his or her affairs and where the Fund is satisfied that this would be in the best interests of the beneficiary as agreed by the Director of Finance and ICT.

50	2013 Regulation 16(1)	Whether to turn down a request to pay an APC / SCAPC by regular contributions over a period of time where it would be impractical to allow such a request, for example, due to the pension being bought resulting in very small payments	To be determined by the Fund on a case-by-case basis.
51	2013 Regulation 16(10)	Whether to require a satisfactory medical before agreeing to an application to pay an APC or SCAPC	A satisfactory medical report by an Independent Registered Medical Practitioner (IRMP) is required where a member applies to purchase extra pension via an Additional Pension Contributions (APC) or Shared Cost Additional Pension Contribution (SCAPC) by instalments. The report should detail whether in their opinion the member is in reasonably good health to undertake APC / SCAPC's. If the IRMP determines that the member does not satisfy the requirement of being in reasonably good health, the application to pay an APC / SCAPC will be turned down. All costs incurred to establish that a member is in reasonably good health to undertake APC / SCAPCs are at the member's expense. Applications for extra pension and lost pension where payment is to be made by a single lump sum do not require a satisfactory medical report.
52	2013 Regulation 32(7)	A scheme member wishing to receive benefits other than at normal pension age, or on flexible retirement, must elect to do so within certain time limits. The Administering Authority may extend these time limits.	To be determined by the Fund on a case-by-case basis.
53	2014 (Transitional Provisions) Regulation 15(1)(c)	Whether to extend the time period for a scheme member electing to capitalise remaining contributions to an added years contract in cases of redundancy.	A member may make an election to make a lump sum payment, if they stop paying added years contributions before their Normal Retirement Date on leaving their employment by reason of redundancy, at least 12 months after electing to pay them.

	2008 (Transitional Provisions) Schedule 1 1997 Regulation 83(5)		An election must be made within 3 months of the date of redundancy and may only be extended in exceptional circumstances by agreement of the Fund.
54	2013 Regulation 34(1)(a) Regulation 34(1)(c) 2007 (Benefits) Regulation 39 2008 (Transitional Provisions) Regulation 14(3) 1997 Regulations 49, 156	The Administering Authority may commute small pensions into a lump sum, where they are below limits set by HMRC.	The Fund will pay a lump sum in lieu of a pension which is below limits set by HMRC unless the member elects to continue to receive the pension as an ongoing payment under Section 166 of the Finance Act 2004, or under the regulations 6 (payment after relevant accretion), 11 (de minimis rule for pension schemes) or 12 (payments by larger pension schemes) Registered Pension Schemes (Authorised Payments) Regulations 2009.
55	2013 Regulation 49(1)(c) 2007 (Benefits) Regulation 42(1)(c)	Decide, in the absence of an election from the scheme member, which benefit is to be paid where the member would be entitled to a benefit under two or more regulations in respect of the same period of Scheme membership.	The Fund will normally use its discretion to decide on a case-by-case basis which benefit should be applied.
56	1997 Regulation 147	Whether to permit a Pension Credit to remain in the Fund or require a transfer out.	To be considered on a case-by-case basis.
57	1997 Regulations 50 and 157	Whether to commute benefits due to exceptional ill-health (applies to councillor members and pre-1 April 2008 leavers only).	The Fund will provide a member with the option to commute to a lump sum payment in lieu of a pension where the member has a serious life limiting condition.
58	2008 (Admin) Regulation 45(3) 1997	Outstanding employee contributions can be recovered as a simple debt or by deduction from benefits	Where outstanding employee contributions are not able to be collected by the employer, the Fund will consider the most appropriate method of recovery.

	Regulation 89(3)		
59	2011 Registered Pension Schemes Regulation 2	To decide whether it is legally able to offer voluntary scheme pays and, if so, to decide the circumstances (if any) upon which it would do so *For clarification on legality see paragraph 223 onwards of the now withdrawn* ***LGPC Annual Allowance guide*** *and* ***LGPC Bulletin 154 (February 2017)***	Legal advice sought by the Local Government Pensions Committee confirmed that administering authorities that are local authorities have a general power of competence under the Localism Act 2011 and have the vires to agree to a Voluntary Scheme Pays request. The Pensions and Investments Committee decided at its meeting on 14 June 2017 that the Fund will accept Voluntary Scheme Pays elections from members where: • a member's pension savings within the Derbyshire Pension Fund are subject to the tapered annual allowance, **and** • that the member's total tax charge exceeds £2,000, **and** • the tapered breach stems only from the member's Derbyshire Pension Fund LGPS benefits rather than via growth in multiple pension schemes, **and** • the application is received in writing by Derbyshire Pension Fund by 30 November in the tax year following the year to which the tax charge relates.

10. Discretions relating to employers which no longer participate in the Fund

Administering authority discretions relating to employer decisions in respect of former employees of employers who have ceased participation in the Fund.

Reference	LGPS Regulation	Discretion	Derbyshire Pension Fund Policy
60	2013 Regulation 30(8)	Decide whether to waive, in whole or in part, the actuarial reduction on pension benefits paid on flexible retirement.	The Fund, acting as employer, will not normally waive the actuarial reduction in respect of applications for flexible retirement.
61	2013 Regulations 30(8) and 31(5) 2014 (Transitional Provisions) Reg 3(1), Schedule 2 Para 2(1) 2007 (Benefits) Regulations 30(5) and 30A(5) 1997 Regulation 31(5)	Decide whether to waive, in whole or in part, the actuarial reduction on benefits which a member voluntarily draws before normal pension age, including on compassionate grounds.	The Fund, acting as Employer, will not normally exercise this discretion but may consider it under exceptional circumstances on a case-by-case basis, taking into account the individual or business case and foreseeable costs to the Fund.
62	2013 Regulation 60 2014 (Transitional Provisions) Schedule 2 Paragraphs 1(2), 1(1)(c) and 1(1)(f)	Decide whether, to "switch on" the 85-year rule for a member voluntarily drawing benefits on or after age 55 and before age 60 (other than on the grounds of Flexible Retirement).	The Fund, acting as Employer, will not normally exercise this discretion but may consider it under exceptional circumstances on a case-by-case basis, taking into account the individual or business case and foreseeable costs to the Fund.
63	2014 (Transitional Provisions) Reg 12(6)	Whether to use a certificate produced by an Independent Registered Medical Practitioner (IRMP) under the 2008 scheme for the purposes of making an ill health determination under the 2014 scheme.	The Fund, acting as employer, will ask the IRMP to complete the correct medical certificate.

64	2013 Regulation 38(3)	Decide whether a deferred beneficiary meets the criteria of being permanently incapable of their former job because of ill health and is unlikely to be capable of undertaking gainful employment before normal pension age or for at least three years, whichever is the sooner.	The Fund, acting as employer, will make a determination taking into account the IRMP's recommendation and any further relevant information.
65	2013 Regulation 38(6)	Decide whether a suspended ill health tier 3 member is unlikely to be capable of undertaking gainful employment before normal pension age because of ill health.	The Fund, acting as employer, will make a determination taking into account the IRMP's recommendation and any further relevant information.
66	2007 (Benefits) Regulation 31(4)	Decide whether a deferred beneficiary meets permanent ill health and reduced likelihood of gainful employment criteria.	The Fund, acting as employer, will make a determination taking into account the IRMP's recommendation and any further relevant information.
67	2007 (Benefits) Regulation 31(7)	Decide whether a suspended ill health tier 3 member is permanently incapable of undertaking any gainful employment.	The Fund, acting as employer, will make a determination taking into account the IRMP's recommendation and any further relevant information.
68	2014 (Transitional Provisions) Regulation 3(5A)(vi) 1997 (Transitional Provisions) Regulation 4 1997 Regulation 106(1) 1995 Regulation D11(2)(c)	Grant application for early payment of deferred benefits on or after age 50 on compassionate grounds. Although the common provisions of the 1997 Transitional Provisions regulations do not specify regulation D11(2)(c) from the 1995 regulations, their intention was that it should apply to this regulation. Note – D11(2)(c) form the LGPS 1995 regulations enables an employing authority to award early payment of deferred benefits on	The Fund, acting as employer, will consider each case on a case-by-case basis.

		compassionate grounds to a member aged 50+	

FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

PENSIONS AND INVESTMENTS COMMITTEE

WEDNESDAY, 6 DECEMBER 2023

Report of the Director of Finance and ICT

Derbyshire Pension Fund Communications Policy

1. Purpose

1.1 To seek approval for Derbyshire Pension Fund's (the Fund) draft revised Communications Policy (the Policy) attached as Appendix 2.

2. Information and Analysis

2.1 Regulation 61 of the Local Government Pension Scheme Regulations 2013 requires each Local Government Pension Scheme (LGPS) administering authority to produce and publish a policy statement describing how it communicates with its stakeholders.

2.2 The Pensions and Investments Committee (the Committee) previously reviewed the Fund's Communications Policy at its meeting on 28 April 2021.

A detailed review of the Fund's approach to communicating with scheme members, employers and other stakeholders, and a summary of the Fund's strategy with regard to its communications for the three-year period from 2024 to 2027, is reflected in the draft revised Communications Policy.

2.3 The Policy sets out how the Fund engages with scheme members and employers in respect of making important information about the LGPS readily available, in easy to understand language, supporting one of the Pension Fund's five core objectives:

- to deliver clear, timely and relevant communication to all stakeholders.

2.4 The Policy reflects developments and improvements achieved over the last two years:

- the launch of the My Pension Online platform
- continued progress with employers' submissions of secure monthly data through the i-Connect service
- enhancements in the accessibility of digital content

2.5 The developments and improvements planned for the period 2024 to 2027 cover the following:

- Continuing development of the My Pension Online platform to improve functionality for the member experience
- Encouraging increased member engagement and understanding of the LGPS, including the development of a member engagement forum
- Continuing to improve methods of communication with the aim of broadening inclusion to ensure that all stakeholders are able to access and engage with the Fund's services
- Increasing consistency of communications , ensuring that content is accurate, easy to understand and helpful to members and employers
- Improving engagement with all participating employers

2.6 It is intended that progress in meeting the communications-related developments included in the three-year strategy, will be reviewed annually, and reported in the Half-Year Pension Administration Performance Report.

In the event of the Policy requiring significant amendments as a result of changes to regulations or procedures, or to reflect technological or best practice developments, a revised version will be prepared for consideration by the Committee.

A full review of the Policy and the Fund's strategy for the development of its communications will be undertaken at least every three years.

2.7 Subject to the Committee's approval, the Policy will be published on the Fund's website in a suitable format in consideration of its accessibility to all of the Fund's stakeholders.

3. Implications

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

4. Background Papers

4.1 The current version of the Communications Policy is held on the Fund's website

5. Appendices

5.1 Appendix 1 – Implications

5.2 Appendix 2 – Draft revised Communications Policy

6. Recommendation(s)

6.1 That Committee:

a) approves the draft revised Communications Policy attached at as Appendix 2.

7. Reasons for Recommendation(s)

7.1 The Committee is responsible for approving the Fund's statements, strategies and policies.

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Appendix 1

Implications

Financial

1.1 None

Legal

2.1 Under Regulation 61 of the Local Government Pension Scheme Regulations 2013, administering authorities of LGPS funds are required to publish a written statement setting out their policy concerning communications with scheme members, employers and other stakeholders.

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

APPENDIX 2

Derbyshire Pension Fund

County Hall, Matlock, Derbyshire, DE4 3AH
derbyshirepensionfund.org.uk
Administered by Derbyshire County Council

Communications Policy - DRAFT

December 2023

Contents

1. Background

This is the Communications Policy (the Policy) of Derbyshire Pension Fund (the Fund), administered by Derbyshire County Council, which sets out how the Fund communicates and engages with its stakeholders. The Policy has been developed in accordance with Regulation 61 of the Local Government Pension Scheme Regulations 2013 (Regulation 61) and takes into account guidance from The Pensions Regulator.

Regulation 61 requires that the Policy covers:

- the provision of information and publicity about the Local Government Pension Scheme
- (LGPS) to scheme members, representatives of scheme members and scheme employers
- the format, frequency, and method of distributing such information or publicity
- the promotion of the LGPS to prospective scheme members and scheme employers

This policy also incorporates the Fund's plans for developing its communications over the 3-year period 2024 to 2027.

Progress will be reviewed annually, and the policy will be reviewed at least every 3 years or when there is a material change to the Fund's methods of communication or engagement with its stakeholders.

The Pensions Regulator oversees pension schemes and provides guidance on how they should best be governed and administered. This includes guidance on communicating with scheme members in a way that, as well as being accurate, is clear and simple to understand and avoids jargon. Much of what the Fund is required to communicate to scheme members, and time limits on these communications is set out in regulation. To ensure compliance with these regulations, the Fund has appropriate internal controls in place.

2. The Fund's stakeholders and audience

The Fund currently has over 93,000 individual scheme members with approximately 110,000 separate pension records which are split by active and deferred membership, and pensioner membership where benefits are being paid.

The active membership (currently approximately 38,000) incorporates employees from over 340 participating employers. These employers range from Councils, Academies and Colleges to private companies who have been contracted to deliver public services.

The Fund's stakeholders and other organisations with which it regularly communicates include:

- Active members - who are paying into the LGPS
- Deferred members - whose LGPS benefits are not yet due for payment
- Pensioner members - whose LGPS benefits are being paid
- Representatives of scheme members
- Prospective scheme members - employees who can join the LGPS, but who are not currently paying in
- Scheme employers
- Pension Fund team
- Elected Councillors on the administering authority's Pensions and Investments Committee
- Members of Derbyshire Pension Board

Other external bodies including:

- Department for Levelling up, Housing and Communities (DLUHC)
- Her Majesty's Revenue & Customs (HMRC)
- Department of Work and Pensions (DWP)
- The Fund's Actuary, Hymans Robertson LLP
- Other LGPS funds
- Other Public service pension schemes (for example the Teachers' Pension Scheme and NHS Pension Scheme)
- Other pension schemes
- Trade Unions
- The Pensions Regulator (tPR)
- The Pensions Ombudsman
- The Scheme Advisory Board (SAB)
- The Local Government Association (LGA)
- Pension Officers' Groups
- AVC providers

The Fund recognises that a variety of methods of communication are required to engage effectively with different groups of stakeholders.

3. Objectives

The Fund's overriding objective is to ensure that it delivers clear, timely and accessible communications to its stakeholders.

The Fund aims to achieve this by delivering communications to its stakeholders which are:

- **Targeted** with the aim of delivering clear, accurate and effective communications to each different audience group in terms of the style of content and the method of delivery,
- **Easy to understand** providing clear and easy to follow explanations or summary of pension issues, particularly where pension related decisions are being made,
- **Accessible** ensuring that all scheme members and other stakeholders can access the Fund's services, online content, and communications equally.
- **Cost effective** to help save resource, time and expenditure

By communicating in this way, the Fund aims to:

- Communicate information about the Scheme's rules and regulations in an effective, jargon-free, and timely manner to the different groups of members, employers and other stakeholders to enable them to make fully informed pensions decisions
- Keep members, employers and other stakeholders informed about the management and administration of the Fund
- Consult with key stakeholders on changes to policies and procedures that affect the Fund and its stakeholders
- Seek to continually improve the Fund's communication methods by requesting and analysing feedback
- Promote the LGPS as an attractive benefit to scheme members and an important tool in recruitment for employers

- Work with employers to enable them to fulfil their responsibility to communicate and share information with members in relation to the scheme
- Maintain the Fund's commitment to regional and national initiatives, taking advantage of partnership working and innovative communication methods developed and tested elsewhere, and sharing the Fund's own experience in return
- Enable equality of access to Fund communications
- Manage information securely to the standards required by the Data Protection Act 2018

4. Accessibility

The Fund aims to broaden inclusion to ensure all members have equal access to its services, online content, and communications, and is committed to increasing digital access and delivery of services, making the best use of technology.

In respect of online content, public sector organisations have a legal duty to make sure their websites meet accessibility requirements, currently set at compliance with World Wide Web Consortium Accessibility Guidelines (WCAG version 2.1 AA standard), published by the Worldwide Web Consortium, which requires that a website must be accessible by making it 'perceivable, operable, understandable and robust'.

The Fund's website is designed to ensure that new content meets the WCAG version 2.1 AA standard, which is currently the recommended minimum standard for all council hosted websites, and its Accessibility Statement, which is held at **derbyshirepensionfund.org.uk/accessibility**, sets out how documents held on the website meet those standards.

Regular analysis of the accessibility of the content and functionality of the website is undertaken using Silktide which is an online tool which identifies issues for attention across the website: **silktide.com/glossary/accessibility-audit/**

The Government Digital Service, which monitors public sector bodies' compliance with accessibility requirements, is currently reviewing how to assess WCAG 2.2 with a view to monitoring the accessibility of public sector websites on new criteria from October 2024. WCAG 2.2 was formally approved in October 2023 by the Worldwide Web Consortium as the most up-to-date international standard for web accessibility.

The Fund will review and identify changes required to meet the requirements of WCAG 2.2 following the Government Digital Service's assessment.

All print and electronic communications are designed with consideration for those with additional needs, with alternative formats such as large print or braille available on request.

The Fund offers a Pensions Helpline (phone contact number 01629 538704), which is available for anyone having difficulty accessing or understanding any of the Fund's documents.

5. How we communicate

The Fund has developed a variety of communication methods to ensure that all stakeholders are informed and up to date. A number of these communication methods are targeted at specific stakeholder groups and are set out later in this policy. The following methods are used to communicate with all stakeholders:

5.1 Derbyshire Pension Fund website

The Fund's website **derbyshirepensionfund.org.uk** is its primary source of generic and Fund specific LGPS material with sections providing an extensive information resource for all existing and prospective members and Fund employers. Resources include:

- easy to understand content
- videos on specific LGPS matters
- forms and guides on important features of the LGPS
- links to other official websites, including the Fund's My Pension Online platform
- online forms for secure, quick, and easy completion

The website also has sections dedicated to the Fund's governance arrangements including its policies, strategies, and other statements.

The website has been designed to be easily browsed, accessible and user friendly from desktop, laptop, tablet, and smartphone devices.

As well as an information resource on the LGPS, the website contains downloadable forms and factsheets for members on a range of topics, including the Scheme guide, Additional Voluntary Contributions (AVCs), transfers etc.

It also includes several online forms available at **derbyshirepensionfund.org.uk/contact** which enable members to engage quickly and easily with the Fund.

These include forms for:

- member enquiries
- starting the registration process for My Pension Online
- member feedback in respect of their experience in engaging with the Fund
- complaints from members in respect of their LGPS membership and / or the Fund's service delivery
- representatives of recently deceased members to notify the Fund of the member's death

Online forms have also been developed to enable employers to:

- inform the Fund of outsourcing arrangements which impact on an individual's LGPS eligibility and membership: **derbyshirepensionfund.org.uk/admissionbodies**
- respond to consultations via Microsoft Office 365 forms
- provide feedback on training delivered by the Fund via Microsoft Office 365 forms

All forms embedded on the website are securely transferred to the appropriate Fund email inbox.

The website also enables members to easily access the Fund's online member self-service portal My Pension Online, which was launched in June 2021.

The Fund will continue to maintain and develop its website and ensure it remains its primary source of Fund and LGPS information for members and employers.

Google Analytics is used to collect information about how visitors use the Fund's website. This information is not used to identify visitors to the website but is used to analyse traffic and engagement with a view to improving the user experience.

5.2 Email communications

The Fund maintains several secure email inboxes used by members and employers for the submission of general and individual enquiries, the provision of information and other-directed information. The details of each inbox and their purpose is explained in the following table:

Email inbox address	Purpose
pensions@derbyshire.gov.uk	A general inbox for enquiries from members, including those submitted online via the Fund's website on the enquiry form and death notification form
dpfemployers@derbyshire.gov.uk	For employers to submit notification forms and other information relating to individual members
pensions.tech@derbyshire.gov.uk	For employers to submit multi-member data returns, contribution payment reports and other payment and data-based enquiries
pensions.regs@derbyshire.gov.uk	For queries relating to LGPS regulations, communications, employer training, all Fund events, appeals, and enquiries submitted online via the Fund's website on the feedback form and the complaints form
pensions.iconnect@derbyshire.gov.uk	For employer queries about the Fund's secure data transmission service, i-Connect
pensions.mss@derbyshire.gov.uk	For enquiries about the My Pension Online service
pensions.bookings@derbyshire.gov.uk	For enquiries and bookings on events arranged by the Fund
pension.board@derbyshire.gov.uk	For submitting queries and comments to Derbyshire Pension Board
pensions.mcCloud@derbyshire.gov.uk	For submitting queries relating to pensions which may be affected by changes to regulations following the McCloud judgement

5.3 Telephone enquiries

The Fund has a dedicated Pensions Helpline number (01629 538900) for members to contact the Fund.

The Helpline is currently available Monday to Friday 9.00am to 5.00pm.

5.4 My Pension Online

Scheme members are able to access their pension account by registering for My Pension Online: **derbyshirepensionfund.org.uk/mpo**

The My Pension Online platform is hosted by Aquila Heywood which provides the Fund's pension administration system.

The online platform is a secure area, allowing members to view and update some of their personal details held by the Fund. Active and deferred members are also able to view their latest, and previous Annual Benefit Statements and run their own pension estimates. As the service continues to develop and registrations increase, more correspondence and the issuing of pension documents will be online and, as a result, provide a more timely service to members and consequently reduce printing and postage.

Since launching in June 2021, the Fund has concentrated developments on, and promoted registrations from, active and deferred members as the service's functionality is fundamentally based on scheme membership before retirement. As at the date of this policy being prepared, approximately one in three of the overall active and deferred membership had completed their registration.

As part of the initial registration process, members are required to provide their personal email address to the Fund by completing a secure online form on the Fund's website.

My Pension Online is continuing to be developed including a review of an updated version of the platform developed by the system provider, Aquila Heywood. It is labelled as the Transformational Member Experience and will include improvements to the service's registration process and the introduction of two-factor authentication to provide an extra layer of security. The Fund will continue to monitor this development as part of its ongoing review of the service's available functionality.

In respect of encouraging registrations from active and deferred members, the Fund works extensively with employers and also provides information to members about the service in letters and other communications where the opportunity arises.

Types of scheme member

There are three categories of scheme member:

- **Active members** who are contributing to the scheme
- **Deferred members** who have left the scheme, but have not yet accessed their pension benefits
- **Pensioner members** who are in receipt of their pension.

It is recognised that communication with each category requires a different, specific and targeted approach.

5.5 Communication with active members

On joining the scheme, new active members are provided with:

- confirmation of their LGPS membership
- a link to the scheme information on the website
- forms and information to enable them to request a transfer-in of previous pensionable service with other LGPS Funds or other public service pension schemes

Each year, the Fund provides annual benefit statements to active members. These statements summarise a member's pension account balance to the previous 31 March and are issued to each member's My Pension Online account. An email is sent to the member when their annual benefit statement is available.

The exception to this is if a member has notified the Fund that they wish to continue to receive paper copies.

A letter is currently issued to each member who has not registered for My Pension Online to inform them that their annual benefit statement is available, with guidance on the steps to begin the registration process.

The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 require that members are notified on at least two occasions that information (such as their annual benefit statement) is being issued on a website and asked to provide their email address for registration purposes. The Fund is, at present, continuing to write to unregistered members to notify them when their annual benefit statement is available on My Pension Online. This communication is reviewed each year.

The provision of annual benefit statements is subject to scheme employers providing timely and accurate information to the Fund.

The Fund also produces an active member newsletter each year in collaboration with a regional Joint Communications Group, which is published on the Fund website. Active members are directed to the newsletter by a link provided in their annual benefit statement. The content comprises current pension topics within the LGPS and the pensions industry in general, plus important repeated messages.

Individual meetings and information sessions with active members are offered through their employer and are undertaken either virtually or in-person. These are mainly delivered in the form of "Understanding your LGPS pension" presentations and drop-in sessions at venues around the county hosted by scheme employers.

The presentations are delivered to help explain any significant changes in the LGPS regulations over time, and to assist where an employer is going through a restructuring or outsourcing exercise that will have pension-related implications. Drop-in sessions may be targeted to coincide with events, such as the issue of the annual benefit statements. The nature of the drop-in sessions allow that members can meet an experienced member of the Fund team informally and ask questions they may have about their pension.

5.6 Communication with deferred members

Each year, the Fund provides annual benefit statements to deferred members.

These statements summarise a member's pension account balance at the first Monday after the start of the new financial year and are issued to each member's My Pension Online account. The exception to this is if a member has notified the Fund that they wish to continue to receive paper copies.

As with the procedure for active members, a letter is currently issued to each deferred member who has not registered for My Pension Online to inform them that their annual benefit statement is available, with guidance on the steps to begin the registration process.

The Fund also produces a deferred member newsletter each year in collaboration with a regional Joint Communications Group and publishes it on the Fund website. Deferred members are directed to the newsletter by a link provided in their annual benefit statement. The content comprises current pension topics within the LGPS and the pensions industry in general, plus important repeated messages.

5.7 Communication with pensioner members

The Fund's pension payroll is currently provided by Derbyshire County Council's HR services. The Council, as part of its service provision, issues pay advice slips to pensioners to coincide with their first pension payment and subsequently at each March, April and May. The April pay advice includes information about the percentage rate of annual pension increase and explaining how it is applied.

Pensioners will also be sent further payslips to alert them to any further variations in their net monthly amount of 1% or more. P60s are issued annually in respect of the pension received in the previous financial year.

The Fund participates in the National Fraud Initiative and may share information with other bodies responsible for auditing or administering public funds for the purpose of preventing and detecting fraud. The Fund includes brief details about the National Fraud Initiative on payslips for pensioner members at least once per year. The details provided include a link to the Derbyshire County Council website for more information:
derbyshire.gov.uk/nationalfraudinitiativeprivacynotice

Life certificates, or alternative electronic solutions, are issued annually to pensioners living abroad to ensure that they maintain eligibility for payment of their pension (**derbyshirepensionfund.org.uk/lifecertificate**). The Fund currently engages a specialist tracing service, Target Professional Services, to aim to reduce the liabilities which result from pension overpayments following the death of pensioner members living overseas, via the use of secure electronic solutions.

5.8 Communication with prospective members

Prospective scheme members are provided with basic information on the LGPS by their employer. Employers are supported in promoting the scheme to all their employees and information is provided to employers to signpost their employees to the Fund's website and to highlight the benefits of LGPS membership.

5.9 Communication with scheme employers

The Fund's Pension Administration Strategy is reviewed annually. It sets out the standards of performance and best practice that the Fund and its employers should aim to meet when carrying out their LGPS related functions and responsibilities.

The Strategy also sets out the approach the Fund will take to underperformance by employers, including a structure for the charging of avoidable administration costs.

The Fund provides training, virtually or in-person, to assist individual employers with specific issues and / or provide direct training to their staff. The sessions can be booked directly by employers, but the Fund is also proactive where it identifies that an employer would benefit from assistance.

Employers are kept up to date with developments which impact on their application of the LGPS regulations by monthly employer newsletters, which are emailed to nominated employer contacts.

The Fund monitors engagement with the employer newsletters by interpreting the delivery data provided through system delivery reports. A further in-depth report is also reviewed to assist the Fund in maintaining an up-to-date circulation list of employer contacts where emails have bounced or failed.

5.10 Communication with Pension Fund team

It is important to ensure that all members of the pension fund team have access to the relevant information and technical knowledge to enable them to perform their duties, to understand their role in the delivery of the Fund's services, and to be aware of the wider context of the Local Government Pension Scheme. This is achieved via use of email, internal meetings, team briefings as well as internal and external training events on specific topics.

6. Pensions and Investments Committee

The Pensions and Investments Committee meets approximately six to eight times each year, including training sessions on at least two occasions per year. It is responsible for the management and administration of the Fund on behalf of the Council.

Members of the Fund's team work closely with the Chair, Deputy Chair and Members of the Committee to ensure that they are fully informed about Fund matters and that they are fully supported in fulfilling their duties and responsibilities.

Members of the Committee receive reports from Fund officers on matters to be determined or reviewed. These reports include:

- quarterly investments reports
- other investment related updates
- half-year administration reports
- reviews of new LGPS related legislation
- determination of local policies
- reviews of the Fund's Risk Register
- Annual Report and Annual Service Plan
- summaries of the adjudication of appeals and disagreements

Two trade union representatives are entitled to attend meetings of the Committee as non-voting members and to receive all the Committee papers.

Minutes of meetings (except for restricted items) are available from the Derbyshire County Council website: **democracy.derbyshire.gov.uk/mgCommitteeDetails.aspx?ID=145**

7. Derbyshire Pension Board

The Derbyshire Pension Board was set up to assist Derbyshire County Council in its role as the administering authority in complying with relevant requirements of Scheme governance and administration responsibilities and complying with the requirements of the Pensions Regulator.

The Board comprises an independent Chair, two Employer Representatives and two Member Representatives.

Members of the Fund's team work closely with the Pension Board, attending meetings which are held at least twice per year, and ensuring that Board members can fulfil their duties and responsibilities.

Board members are invited to attend meetings of the Pensions and Investments Committee as observers and receive all Committee papers prepared for each meeting. Board members are also invited to training sessions delivered to the Committee.

Information about the Pension Board and summaries of Pension Board meetings are published on the Fund's website: **derbyshirepensionfund.org.uk/pensionboard**

8. Plan for the development of communications 2024 – 2027

Communications is a fundamental part of all Fund activity.

Meeting the Fund's objective of delivering clear, timely and relevant communication to all stakeholders as the Local Government Pension Scheme becomes more complex, with increasing governance obligations requires the Fund to continually improve and develop its communications.

Additionally, there is greater expectation that digital platforms will continually advance, including in meeting accessibility standards.

The following have been identified as key communication-related objectives over the three-year period to 2027:

- Continuing development of the My Pension Online platform to improve functionality for the member experience
- Encouraging increased member engagement and understanding of the LGPS and understanding of the LGPS, including the development of a member engagement forum
- Continuing to improve methods of communication with the aim of broadening inclusion to ensure that all stakeholders are able to access and engage with the Fund's services
- Increasing consistency of communications ensuring that content is accurate, easy to understand and helpful to members and employers
- Improving engagement with all participating employers

8.1 Development of My Pension Online

The Fund introduced My Pension Online in 2021 to improve the service provision for scheme members. The service enables members to securely access their LGPS membership information at any time, as well as being able to update some of their personal details.

Since 2021 approximately 25,000 active and deferred scheme members have registered to access their My Pension Online account enabling them to check the personal details held by the Fund, access their LGPS membership history and latest Annual Benefit Statement, support retirement planning through the ability to run unlimited pension estimates from live data and submit queries directly from My Pension Online.

The development by the system provider, Aquila Heywood, of a Transformational Member Experience programme for the My Pension Online platform aims to improve the presentation of members' LGPS information, simplify the registration process and add a further layer of security.

The Fund will continue to monitor this development of the enhanced platform as part of its ongoing review of the service's available functionality.

8.2 Increased Member Engagement

Approximately 1-in-3 active and deferred members have registered for My Pension Online to potentially increase their engagement with the Fund and the LGPS in general. Therefore, 2-in-3 members are still to register.

The Fund will continue its campaign to promote registration both directly with members and through participating employers.

Higher levels of registration will enable the Fund to further develop and increase the correspondence issued to members electronically and, as a result provide more timely communications and reduce printing and posting levels.

The Fund is also progressing plans to set up a Member Engagement Forum.

To ensure that the Forum has a broad range of Fund member representation all members will be offered the opportunity to express interest intaking part.

The aims of the Forum will include:

- seeking to promote understanding of the LGPS
- providing an opportunity to receive feedback on members' experiences of Fund services
- discussing developments in the Fund's communications with members, such as sharing key messages, and
- obtaining opinions on website changes, including My Pension Online

8.3 Accessibility of Fund services

Improving the accessibility of the Fund's services is an important ongoing target as the expectation for digital development increases.

Statistics from the government's **Family Resources Survey** for 2021/ 2022 show that almost 1 in 4 people reported having a disability which may include visual, hearing, motor or cognitive impairments.

The challenge of ensuring that the Fund's services are accessible relates, not only to the presentation of online content, but also to making content clear and concise.

Improving the accessibility of the Fund's digital content will have a positive impact for users, including those who find technical and jargon-heavy language difficult to engage with.

The concept of accessibility also applies to users who may have different needs at different times and in different circumstances such as where they are when accessing the Fund's content, their health and also the device they are using.

Understanding – The Fund will aim to ensure that its communications are as accessible as possible by the use of short sentences, sub-headings to explain what a section of content covers and easy to understand language.

Presentation – The Fund will aim to ensure its digital content is inclusive and accessible, including choice of a suitable font, font size, colour text and backgrounds and, where possible, limited use of pdf attachments (pdf attachments are often inaccessible for some users, difficult to use on mobile devices and resource heavy in keeping up to date).

The Fund will aim where possible, to present content which may previously have been prepared in pdf form, as website pages. Where pdf is the only suitable method of presentation, they will be prepared as accessible as possible to ensure content is searchable, has clear and descriptive headings and images have clear and descriptive alternative text.

Training – The Fund will aim to develop understanding and deliver training to highlight the importance of making the service accessible to all, including digital content and the style of standard and non-standard communications.

8.4 Consistency in communications

Development of a Fund style guide is continuing, and the scope is extending to include accessibility as a core objective.

Benefits that a style guide will bring include:

- consistency
- clear messaging
- time saving
- improvements in communications between teams
- greater efficiency
- prevention of complaints
- provision of a consistent tone
- provision of a professional look and feel
- building of confidence
- making information easily accessible
- recognition of the Fund's identity

8.5 Letters Project

Aided by the style guide in progress, a project to review approximately 500 standard letters and provide accurate and easy to understand content is continuing and will provide a significant benefit for the Fund's members.

8.6 Employer engagement

The Fund will continue to develop its engagement with employers:

- during the admissions process
- during onboarding to i-Connect
- via its regular communications to Fund employers throughout an employer's participation in the Fund
- in the run up to employer exits from the Fund

8.7 Continued implementation of i-Connect

i-Connect is the Fund's secure data transmission service which is enabling employers to provide efficient and timely data submissions to the Fund. By November 2023 approximately 80% of the Fund's employers had implemented i-Connect covering approximately 90% of the total of active members.

i-Connect provides benefits to employers and the Fund through reductions in cost and risk associated with data submissions and processing.

8.8 Employer communications

Ongoing improvements in employer communications will be targeted to support:

- employers to understand their responsibilities
- the continued development of employer covenant reviews
- employers to improve their engagement with their outsourced providers and to improve understanding of risk-sharing arrangements
- closer Fund relationships with resolution bodies (Town and Parish Councils)
- engagement with employers on new employer flexibilities following the development of an employer flexibilities policy

9. Communications Policy review

The policy will be reviewed in the event of changes to regulations or procedures, or to reflect technological or best practice developments. A full review of the policy and the Fund's strategy for the development of its communications will be undertaken at least every three years.

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