



Investment Strategy Statement Consultation FAQs

November 2026

Investment Strategy Statement

What is the purpose of an Investment Strategy Statement (ISS)?

The ISS sets out the long-term investment strategy for Derbyshire Pension Fund (the Pension Fund/Fund) and describes the framework used by the Fund to manage its investment assets to achieve the long-term objective of being able to meet its liabilities as they fall due. It includes descriptions of the types of assets that the Fund invests in, including equities (for example shares); bonds (for example government and corporate debt); private equity; property; and infrastructure assets, together with an overview of investment-related risks.

What are MHCLG's Fit for the Future reforms and how do these impact the Fund's ISS?

The Ministry for Housing, Communities and Local Government (MHCLG) introduced the Fit for the Future (FFTF) reforms in 2026. Under the FFTF reforms, administering authorities of LGPS funds (Derbyshire County Council as the administering authority for the Derbyshire Pension Fund) remain responsible for setting the investment strategy but the implementation of the investment strategy is delegated to a pooling company. The administering authority must also take its principal investment advice from the pooling company. Derbyshire Pension Fund is a member of the LGPS Central Pool, a pool comprising of fourteen LGPS pension funds with combined assets under management of around £100bn. The fourteen LGPS pension funds (referred to as Partner Funds) are equal shareholders in LGPS Central Limited, an FCA authorised and regulated company set up to manage investments on behalf of the Partner Funds.

What is the Fund's Strategic Asset Allocation Benchmark?

The Strategic Asset Allocation Benchmark (SAAB), which forms part of the ISS, sets out the Fund's target mix of investment assets and takes account of the Fund's proposed return and risk objectives. The Fund's asset classes are allocated into three categories:

- Growth Assets: largely listed 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 UK government bonds, together with cash

What changes are proposed to the Fund's ISS?

The Fund's ISS has been updated in line with MHCLG's updated Statutory Guidance on the preparation of an ISS by LGPS pension funds. This includes setting four high-level objectives covering return, risk, cash flow and local investment, together with bringing the Fund's SAAB into line with a template set by MHCLG, which comprises nine pre-determined asset classes. No changes to the overall allocations to Growth Assets, Income Assets and Protection Assets are proposed, albeit some small changes by asset class are proposed to improve capital deployment (putting money to work more effectively) and to improve liquidity.

What are the four high-level objectives proposed in the Fund's ISS?

MHCLG's updated Statutory Guidance requires the Administering Authority (AA) to set high level financial objectives in their ISS which are expected to meet the requirements of the funding strategy. These must include:

1. a return objective: the return required to pay benefits over the long term. It is proposed that the Fund should aim 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 to 'discount' the Fund's liabilities to a present value. The actuarial valuation on 31 March 2025 was prepared on the basis of an investment return of 5.8% p.a. over the next 20 years.
2. a risk objective: the acceptable level of risk in the long term. It is proposed that in formulating the ISS, the Fund should consider a range of risk indicators, including diversification, volatility, the probability of achieving the required rate of return assumed by the Fund's actuary in the actuarial valuation, Fund maturity, and the implications for contribution stability across future valuation cycles.
3. a cash flow objective: the income or liquidity to pay benefits in the short term as they fall due, and a local investment objective. It is proposed that the Fund requires sufficient cash flow to be able to meet its liabilities as they fall due on a rolling twelve-month basis, together with an operational cash reserve equivalent to around 1% of the Fund's investment assets.
4. a high-level objective on local investments, including a target range for those investments preferably expressed as a proportion of the total value of the pension fund. This should include objectives regarding returns, target area and desired impact. Local investment is considered in further detail below.

What is a Funding Strategy Statement?

A Funding Strategy Statement (FSS) is a document required under [Local Government Pension Scheme regulations](#) and explains how an AA plans to pay for current and future pension benefits while keeping employer costs stable and fair. A copy of Derbyshire Pension Fund's FSS can be found on the Fund's website and includes the following funding objectives:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- where appropriate, ensure stable employer contribution rates
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations

Who is responsible for implementing the Fund's ISS?

The implementation of the Fund's ISS, including the split between active and passively managed assets, and the geographical region of investment, will be the responsibility of the Fund's pooling company, LGPS Central Limited.

What is local investment?

As noted above, MHCLG's updated Statutory Guidance requires the AA to set out a high-level approach to local investment, including a target range, with implementation delegated to the pooling company. LGPS Central Limited is currently developing its approach to local investment, and this is expected to allow Partner Funds to select from two implementation options:

- **LGPS Central Local Investment Fund:** the fund will invest across the LGPS Central Pool footprint, dividing the footprint into six regions with the aim of diversifying the investment portfolio over all six regions, with Derbyshire being grouped with Leicestershire and Nottinghamshire. The underlying investments are expected to fall into four asset classes: Private Credit; Private Equity; Infrastructure; and Property.
- **Bespoke by Strategic Authority:** Partner Funds will be offered the opportunity to make local allocations to investment opportunities that align with their respective strategic authorities. For Derbyshire this would be the East Midlands Combined County Authority (EMCCA), a partnership, with membership made up of the directly elected Mayor and democratically elected councillors from Derbyshire County Council, Derby City Council, Nottinghamshire County Council, Nottingham City Council. Investments would be expected to align with the East Midlands Growth Plan 2025-2035 in which EMCCA has identified six Enablers of Growth: Clean Energy & Climate-Resilient Infrastructure; Jobs & Skills; Innovation; Housing & Place; Connectivity; and Business Partnerships.

Whilst local investment should generate some attractive investment opportunities over the longer-term, investing locally also introduces additional risk, including increased concentration risk, together with heightened regulatory and political risk. It is proposed that any allocation to local investments should include a sizeable proportion which supports the regional growth of the Derbyshire region and/or the EMCCA footprint. The Fund believes that this approach would be consistent with the views of scheme members, together with the residents and taxpayers of the Derbyshire region and it recognises that any investment through the LGPS Central Local Investment Fund to the Derbyshire region is likely to be limited given the total footprint of the LGPS Central Pool.

A modest initial allocation to local investment is proposed, in-line with the Fund's standard practice when investing in a new asset class. It is proposed that the Fund allocates up to 2% of assets, over an appropriate time horizon, in local investments, of which up to 0.5% will be invested within opportunities falling within the geographical footprint of the LGPS Central Pool (i.e. through the LGPS Central Local Investment Fund), with the remainder invested in local investments which deliver economic benefits to the Derbyshire region and/or the EMCCA geographical footprint.

Why is the Fund proposing to consolidate its existing ISS, Responsible Investment Framework and Climate Strategy into one consolidated ISS?

The Fund currently has a standalone ISS, together with a standalone Responsible Investment Framework and a standalone Climate Strategy. As part of the update to the Fund's ISS, it is proposed that the three documents are consolidated into one ISS moving forward for the following reasons: the consolidated approach is consistent with the updated MHCLG Statutory Guidance; the three documents work in tandem, and consolidation reduces the risk of the strategies operating in isolation and the risk of inconsistencies; and for stakeholder clarity.

What is responsible investment?

Responsible Investment refers to the integration of financially material environmental, social and corporate governance (ESG) factors into investment processes, as well as the stewardship of capital to create long-term sustainable value for clients and beneficiaries. It has relevance both before and after the investment decision and is a core part of fiduciary duty.

The MHCLG Statutory Guidance states that the Fund must set out a RI approach in collaboration with its pool and that pension funds should aim to agree on common priorities with fellow Partner Funds and aim to use the collective scale of the pool to influence companies and sectors. The primary obligation is to act in best financial interests of the Fund, and the Fund should consider all factors, including ESG factors, that are financially material to performance.

What do ESG factors include?

ESG factors include environmental issues such as climate change and pollution; social issues including working conditions, health and safety and employee relations; and governance issues such as executive pay, board diversity and bribery and corruption.

What is the difference between responsible investment and ethical investment?

Responsible investment is an approach to investment that aims to incorporate environmental, social and governance (ESG) considerations into investment decisions, alongside traditional financial considerations to better manage risk and generate sustainable, long term investment returns.

Ethical investment is different to responsible investment as it is an approach to selecting investments based on beliefs about what is morally right and wrong. For a pension fund, it is appropriate to take a responsible investment approach to investment rather than basing investment decisions on subjective moral judgements.

Responsible investment involves the consideration of ESG matters which are likely to affect the sustainability of companies' business activities. It is compatible with the Fund's trustee-like responsibility to scheme members, scheme employers and local taxpayers.

Why does the Fund favour engagement over divestment?

The Fund adopts a strategy of engagement with companies to influence behaviour and enhance value, rather than adopting a strategy of divesting from (selling) certain sectors/industries. Engagement allows the Fund to use its influence as an active investor, with other like-minded investors, to improve ESG practices in investee companies, influence that would be lost through a divestment approach.

Collaboration between like-minded investors has increased significantly over recent years with a particular focus on influencing companies which are adapting their business models to take into account climate change. The Fund recognises that change takes time, and as a long-term investor the Pension Fund takes a long-term approach to its stewardship activities.

How does climate change potentially impact the Fund's investments?

Climate change is likely to have a significant impact on economies, markets and financial returns, with the impact cutting across multiple sectors and regions, creating both risks and opportunities. The impact of climate change is expected to be financially material with the potential to influence an investee company's cash flows, cost of capital, asset values and long-term resilience. A consideration of the impact of climate change is regarded as being consistent with the Fund's fiduciary duty to invest prudently and in the long-term interests of scheme members.

What responsible investment options are available to the Fund?

LGPSC expects to provide Partner Funds with two approaches to responsible investment (RI):

1. RI Core Approach
2. RI Targeted Approach

The RI Core approach is a continuation of LGPSC's current approach to responsible investment. ESG and stewardship integration are applied in pursuit of sustainable long-term risk-adjusted returns, with a number of holdings generating positive environmental and social outcomes, but those outcomes follow the investment case rather than being targeted in their own right. The RI Core approach incorporates LGPSC's net zero strategy which focusses on integrating ESG and net zero considerations into investment processes and on stewardship activities which support real-world decarbonisation.

The RI Targeted Approach (RITA) provides Partner Funds with the option of taking a more targeted approach to responsible investment than LGPSC's core approach and it is expected to include portfolio tilts and a more targeted investment universe to provide more certainty of achieving an investment portfolio of assets with net-zero greenhouse gas emissions by 2050. RITA also provides Partner Funds with the option of making dedicated allocations in which positive environmental and social outcomes are an intended outcome.

What is the proposed approach to responsible investment?

It is proposed that the Fund adopts the Core RI approach, in line with the majority of LGPSC Partner Funds for the following reasons:

- The Core RI approach is consistent with the Fund's:
 - fiduciary and regulatory duty to manage financially material ESG risks
 - current approach to responsible investment
- The Core RI approach should ensure that:
 - investment decisions are based on the overall investment case, supporting the generation of sustainable long-term risk adjusted returns
 - that the Fund's investment portfolio remains highly diversified, avoiding sector/industry concentration risk.

How will the Fund report on the responsible investment activities of LGPSC to stakeholders?

The Fund will report to on the stewardship activities of LGPSC to Derbyshire County Council's Pensions & Investments Committee on a quarterly basis and will also report on the Fund's responsible investment activities in the Pension Fund's annual report.

Will the Fund continue to report carbon metrics to stakeholders?

Yes, the Fund will continue to commission an annual Climate Risk Management Report from LGPSC and publish a Taskforce on Climate-related Financial Disclosures Report on a regular basis. The Fund will also report on a suite of carbon metrics in the Pension Fund's annual report.