Leicestershire County Council
Pension Fund

Net Zero Climate Strategy

Draft November 2022

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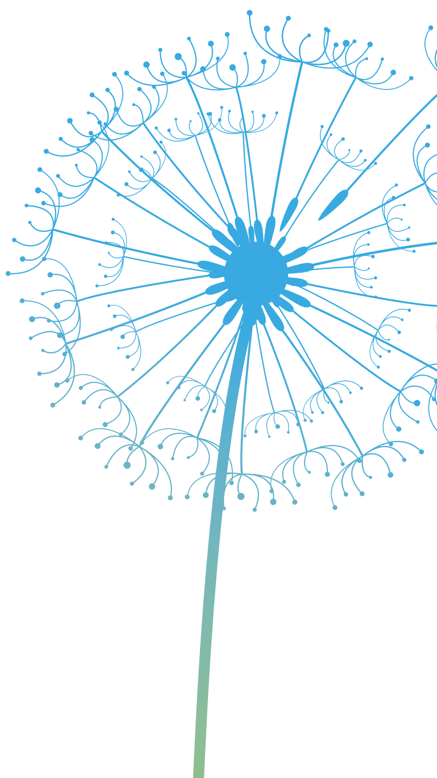


1. Foreword

In 2022 Leicester, Leicestershire, and Rutland, along with most of England received its first red warning for extreme heat. This led to widespread impacts on people and infrastructure, affecting scheme members, employers, and the local communities they support. Scientists predict that such events are becoming more common and severe.

The Fund has a long-standing position of acknowledging the risk presented by climate change. Our Investment Managers are expected to incorporate climate risk into their decision making, and Fund level reporting has been in place since 2019. The improvement in available information provides us with the ability to set meaningful targets to manage climate risk, making this the right time to develop a comprehensive Strategy. We announced our ambition to develop a Net Zero Climate Strategy in 2021 recognising that as a long-term and global investor, climate change is among the most complex risks for our Fund. It poses a material risk to our investment returns given climate change will, and does, impact broadly across society, and the companies we invest in worldwide.

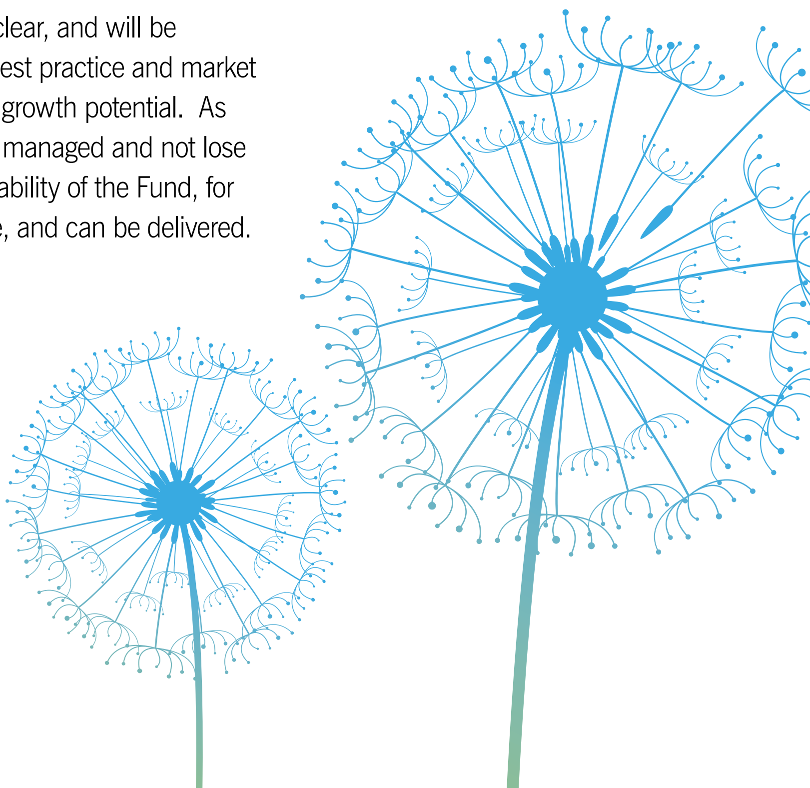
Action is required immediately, and we commit to achieve Net Zero by 2050, with an ambition for sooner, in line with the Paris Agreement. This will be achieved by driving down emissions and investing in solutions that directly contribute to, and financially benefit from the transition to a Net Zero future. We believe this approach is a realistic, action orientated strategy that will achieve the required rate of decarbonisation of the assets we hold. This is with the knowledge that we have been entrusted with our employers and scheme members valuable pension contributions and must not adversely impact employers' financial performance and prospects by increasing employer contribution rates by more than is necessary, given their own work engaging in socially positive activities in the local area.

Through the passionate response to our engagement exercise on the targets and measures within this Strategy, we can clearly see our scheme members and employers' appetite to use their contributions to help fund solutions to the climate crisis. We are not starting from scratch on this, for a number of years the Fund has kept an eye on carbon metrics while making investment decisions because of their compelling investment returns. By way of example, we have recently committed £55 million into productive forest lands, afforestation, improved forest management and natural forest restoration. This investment is not only good for the environment providing a sustainable source of low carbon materials, supporting employment in rural areas and contributing to improvements to the eco system, but it also provides a good rate of return on investment.

Despite the progress we have already made, the path is not clear, and will be developed in light of changes nationally and internationally, best practice and market monitoring to identify new investments with both green, and growth potential. As a Fund we must ensure that the drive to Net Zero is carefully managed and not lose sight of our primary purpose of ensuring the financial sustainability of the Fund, for its members. We believe these two objectives are compatible, and can be delivered.

Chris Tambini
Director of Corporate Resources

Tom Barkley CC
Chairman of the Local Pension Committee



2. Net Zero Climate Strategy at a glance

Key Stats: Leicestershire County Council's Pension Fund (the Fund) is a defined benefit pension scheme with assets under management in excess of £5.8billion (as at 30th September 2022) and invests across a wide range of asset classes to deliver returns to pay pensions and lump sum benefits. The Fund has over 100,000 members (active pensioners, deferred members, and employees) and over 200 active employers.

Why Climate Change Matters for the Fund: Almost all asset classes, sectors, and geographical regions that the Fund invests in are likely to be affected by the physical, policy or market-related consequences of climate change over the long term. Failure to consider risks and opportunities or exercise effective stewardship, will risk inferior investment performance. Ultimately any deficit would be covered by increase employers' contributions which could affect employers' ability to provide their primary function.

How this Strategy has been developed: The following measures and targets have been set in alignment with the Net Zero Investment Framework developed by the Institutional Investors Group for Climate Change. The Framework's purpose is to set a blueprint for guiding, supporting and enabling investors to make significant progress this decade, and beyond by providing both "the ambition and hugely practical guidance contained in the Framework" in the words of the Pensions Minister Guy Opperman.

This Strategy looks to align the Fund to the Net Zero Investment Framework through the following pillars of the Fund's Net Zero Climate Strategy:

i. **Climate Change Risk and Opportunities:** The view on the risks and opportunities arising from climate change, and how the Fund will look to mitigate any impact to investment returns.

ii. **Targets and Measures:** The Fund's commitments to achieve Net Zero by 2050, with an ambition for sooner, and the underlying targets and measures that will be regularly monitored and used in the Fund's risk management processes.

iii. **Decision Making:** How the Fund will integrate risk management and our commitments to decarbonise the Fund's portfolio in the Strategic Asset Allocation and investment decisions.

iv. **Stewardship, Engagement and Divestment:** How the Fund will act as a responsible asset owner. ensuring collaborative support to engage with the market via our investment managers to reach our targets.

Primary Targets

NET ZERO

by 2050:

Net Zero by 2050, with an ambition for sooner

by 2030:

Reduce absolute carbon emissions of the equity portfolio by 40%.

Reduce carbon intensity of the equity portfolio by 50%.

Secondary Targets and Measures

90%

Coverage of assets measured by 2030.

90%

Assets under management in material sectors to be classified as Net Zero, aligned or aligning by 2030.

Increase allocation to climate solutions

90%

Of the Fund's financed emissions have Net Zero targets, alignment pathway or subject to engagement by 2030.

Reduce the proportion of the Fund with fossil fuel exposure.

Leicestershire County Council and LGPS Central: Operational Net Zero by 2030.

3. Introduction

In November 2021, against a backdrop of increasing concern over the impact of climate change, the Local Pension Committee agreed that the Fund should build on its existing mitigation measures and begin development of its first Net Zero Climate Strategy. In creating this Strategy, the Fund recognises that climate change is one of the biggest threats to communities both locally, and globally. The Fund's Administering Authority, Leicestershire County Council has also recognised this urgency, setting out its own ambitious commitment to work with partners to become a Net Zero county by 2045, or before[1].

This Strategy sets out the Fund's approach to managing the risks and opportunities that arise form climate change to its investment portfolio in line with recommendations set out by the Institutional Investors Group on Climate Change Net Zero Investment Framework[2]. This Framework sets out the urgent need to accelerate the transition towards global Net Zero greenhouse gas emissions and to do the Fund's part in helping deliver the goals of the Paris Agreement. By following the Framework, the Fund will decarbonise its investment portfolio and increase investment in climate solutions, in a way that is consistent with a 1.5C Net Zero future.

UK Government Commitments

The Government has committed to reducing the UK's net emissions of greenhouse gases to zero by 2050. The Government published its Net Zero Strategy: Build Back Greener paper which set out the policies and proposals for decarbonising all sectors of the UK economy to meet its Net Zero target. The document references Government's intention to unlock the potential of £2.2 trillion held in UK pension schemes by addressing barriers to long-term investment. The Fund will monitor any developments arising from Government which may impact on the Pension Fund and how investments are managed.

Pension Fund Requirements

The rules of the Local Government Pension Scheme (LGPS) are set nationally under the Public Service Pensions Act 2013 by the Secretary of State for Levelling-Up, Housing and Communities. Decisions on the investments of LGPS funds are made locally by administering authorities, in accordance with general legal principles (fiduciary duties and public law principles) and LGPS legislation. The Fund has a fiduciary duty to ensure it can provide pension and lump sum benefits as and when they fall due for members or their dependents. The Fund's approach to this is set out within its Investment Strategy Statement, which this Strategy sits alongside.

At the point of writing this Strategy the Department for Levelling Up, Housing and Communities has begun consulting on governance and reporting of climate risks which follows the Taskforce on Climate-related Financial Disclosures (TCFD) framework. The Fund has reported under the TCFD regime as part of best practice, since 2020. The Fund will look to comply to any additional considerations that are included by the Department for Levelling Up, Housing and Communities.

What is the Taskforce on Climate-related Financial Disclosures (TCFD)

The Financial Stability Board developed the TCFD to improve and increase reporting of climate-related financial information. The recommendations of the TCFD are structured around four thematic areas that represent core elements of how companies operate: Governance, Strategy, Risk Management and Metrics and Targets. These are supported by 11 recommended disclosures that build out the framework with information that should help investors and others understand how reporting organisations think about and assess climate-related risks and opportunities.

1 www.leicestershire.gov.uk/environment-and-planning/conservation-and-sustainability/net-zero-leicestershire
2 www.parisalignedinvestment.org/media/2021/03/PAII-Net-Zero-Investment-Framework_Implementation-Guide.pdf

Global Outlook

As a global investor the Pension Fund must also be aware of international policy decisions and climate pledges. For nearly three decades the United Nation has looked to bring together almost every country for global climate summits called 'Conference of the Parties' (COP). Key to this Strategy are the following outcomes:

- The Paris Agreement (COP 21). For the first-time countries agreed to work together to limit global warming to well below 2 degrees and aim for 1.5 degrees to adapt to the impacts of a changing climate. It recognised every fraction of degree of warming will result in the loss of many more lives lost and livelihoods damaged.
- The Glasgow Climate Pact (COP 26). Highlighted that the Paris Agreement was not enough to limit global warming to 1.5 degrees, and that the progress to 2030 would be crucial in limiting warming, and that the world needed to do better to keep the hope of holding temperature rises to 1.5 alive[3]. Developing countries also recognised their responsibility to support 'just transitions'[4] in developing countries.
- The outcome of Egypt's COP27 (November 2022) which looks to build on previous pledges provide follow ups to provide clarity as to where the world is and what more needs to be done.

The Fund's commitment within the Strategy is based on the expectation that governments and policy makers will deliver on their commitments to achieve the 1.5C temperature goal of the Paris Agreement, and in the context of fulfilling our fiduciary duties. However, it is worth highlighting that not all nations and governments have set policies or targets to reach Net Zero by 2050. For example, the largest greenhouse gas emitter, China has a commitment to reach carbon neutrality by 2060, and India has committed to Net Zero by 2070. Furthermore, of the top ten greenhouse gas emitters, only Japan, Canada and the European Union have set legally binding Net Zero commitments.

3 The COP26 outcome report set out that over 90% of the world's GDP, and 90% of global emissions were covered by Net Zero commitments which would keep warming below 2degrees, but further action was required to reach 1.5 degrees. https://ukcop26.org/uk-presidency/what-is-a-cop/ https://ukcop26.org/wp-content/uploads/2021/11/COP26-Presidency-Outcomes-The-Climate-Pact.pdf

4 A just transition is broadly interpreted as a policy approach to climate action which seeks to ensure that the benefits of a shift to Net Zero are shared, while supporting those most impacted by the change.

4. Leicestershire County Council Pension Fund

About our Fund

Leicestershire County Council's Pension Fund (the Fund) is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies.

The Fund is an open defined benefit pension scheme with over 200 employers, assets under management in excess of £5.8billion. The contributions from employers and scheme members are paid into the Fund, which is invested, from which benefits are paid at retirement. The Fund invests across a wide range of asset classes to deliver investment returns to pay pensions and lump sum benefits. This is in order to achieve the best possible investment returns that ultimately look to lessen the burden on employers contributions.

As a long-term investor the Fund's long standing position is that the integration of environmental, social and governance considerations into the investment management process improves risk-adjusted returns.

Primary Aim and Fiduciary Duty

As above the Fund's primary objective is to provide pension and lump sum benefits as and when they fall due for members or their dependents. The Pension Fund must ensure that it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets (including company shares, property and long-term government bonds) grow over time with investment income and capital growth;
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

Ultimately any shortfall in investment returns will be paid by employers. There is no impact to the pension benefits or contributions of scheme members.

The Administering Authority, Leicestershire County Council has delegated authority to the Local Pension Committee (Committee) to manage aims. In these matters the Committee has a fiduciary duty to act in the best interests of employers and scheme members.

This duty can be summarised as achieving what is the best for the financial position of the Fund, i.e. Investment powers must be directed to achieving what is the best for the financial position of the Fund, to ensure the Fund is able to pay benefits.

How the Fund will achieve this is set out within the Investment Strategy Statement, which also contains our approach to Environmental, Social and Governance (ESG) considerations. This sets out that the Fund does not look to make specific ESG allocations (where they are without financial basis) on behalf of Employers given the impact it could pose to contributions, who may choose to make their own ESG impact investment themselves, as socially good employers.

Impact of lower investment return on Employer Contributions.

The performance of the Fund's investments is an important element to maintain affordable employer contribution rates, the higher the long-term investment returns the more pensioner benefits that will not need to be funded by employer contributions. This is why the Fund must also consider the risk to the value of its assets from climate change.

The Fund has a key objective to manage the risk presented by climate change as a material financial matter. It is not an objective of the Fund to solve climate change, but these objectives do have significant overlap. It is a decision for individual employers how they allocate their resources.

Table 1 – Impact of lower investment returns on an average employer.

	Investment Returns	Employee Contributions	Average Annual Individual Employer Contributions (% of Payroll)	
On Target	5.9%	Set out in national legislation, based on how much scheme members are paid. No impact on contributions.	25.4%[5]	£1,000,000
Impact of reduced returns	5.4%		28.5%	£1,140,000

5 Different approaches are used to calculate contributions for different employers. If you would like more detail, please see the Funding Strategy Statement.

Governance of the Fund

National

Secretary of State
Department of Housing, Levelling Up and Communities (DHLUC), *Responsible Authority*

The Pensions Regulator
Responsible for Codes of Practice on Governance and Administration)

The Scheme Advisory Board
(Responsible for encouraging best practice, increased transparency and technical and standards issues)

As well as other relevant professional advice and guidance, Local Government Association (LGA) and CIPFA

Local

Administering Authority (Leicestershire County Council, Scheme Manager)

The Council has delegated responsibility for the Fund to the Local Pension Committee (LPC) which includes the investment policy and its ongoing implementation for the Fund.

Local Pension Committee (Decision Making Body)

Make up: Five county councillors, two city councillors, two district councillors, a representative from the universities. And three non-voting scheme member representatives.
Their Duties: They must safeguard, above all else, the financial interests of the Fund's beneficiaries.
Decisions affecting the Fund's investment strategy are taken with appropriate advice from the Fund's advisers.
Only persons or organisations with the necessary skills to take decisions affecting the Fund. The Members of the Pension Committee do receive training as and when deemed appropriate, to enable them to critically evaluate any advice they receive.
The Investment Subcommittee is a smaller sub-set of the membership of the Committee and has responsibility for appointing and monitoring the performance of fund managers. Read more here.

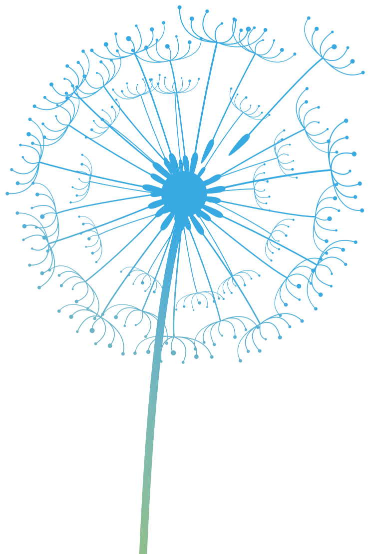
Local Pension Board

Makeup:
It is made up of equal scheme member and employer representatives.

Their Duties:
Assisting the Local Pension Committee sits in an advisory role to the Fund supporting the good governance of the scheme.
Read more here.

Supported by Officers and Fund Advisors

The Chief Financial Officer of Leicestershire County Council has responsibilities under Section 151 of the Local Government Act 1972 and provides financial advice to the Committee, including financial management, issues of compliance with internal regulations and controls, budgeting, and accounting. The LPC is also advised and supported by other officers from Leicestershire County Council (Director of Law and Governance, Assistant Director of Strategic Finance and Property, Head of Pensions and Senior Finance and Legal Officers) as well as by an external Investment Advisor, Hymans Robertson.



Key Fund Documents

The Local Pension Committee approves key policies and strategies as set out below, these documents underpin the Fund's approach to ensure any decision it takes has regard to the overall risk that the Fund assets are insufficient to meet its liabilities. These documents can be found on the Member Self Service website. Key related documents are the:

- **Investment Strategy Statement:** This sets out the approach to investment that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable investment returns. As part of the Investment Strategy the Fund set out its support for the **Principles for Responsible Investment** (PRI) which are recognised as the standard for responsible investment for investors with fiduciary responsibilities.
- **Funding Strategy Statement:** The purpose of this document is to establish a clear and transparent funding strategy which identifies how employers' pension liabilities are met.
- **Training Policy:** This policy sets out how the Fund supports those charged with the governance, administration, and investment decisions for the Fund.

LGPS Central ("Central")

The Fund is a shareholder and client of LGPS Central Limited, alongside eight other LGPS pension funds, the partner funds. The Fund is in the process of transitioning the management of pension assets from legacy managers to Central where appropriate.

The Committee remains responsible for deciding which asset classes it wants to be invested in and the size of the allocation, which is set out in the Fund's Investment Strategy Statement. Central invests the Fund's money into investment products that align to our agreed asset allocation. The Fund works with Central and the other partner funds to ensure the appropriate portfolio is in place to meet investment aims and ambitions in relation to climate change.

LGPS Central's Approach to Responsible Investing

The Fund's investments that Central manages and advises upon are subject to Central's Responsible Investment and Engagement (RI and E) Framework, which was approved by the Local Pension Committee, which can be viewed on LGPS Central's website. Central's three Responsible Investment & Engagement pillars are:

1. Selection

- Financially material RI factors are integrated into investment decision-making.
- External investment manager's approach to RI is assessed as part of selection and due diligence.

2. Stewardship

- Engage directly and through partnerships with the objective of improving investment outcomes over the long-term.
- Vote on all eligible shares in accordance with Central's voting principles. Linking its voting decisions to the outcomes of engagements and votes to support climate change shareholder resolutions where the resolutions support the long-term interests of clients (e.g. Leicestershire County Council Pension Fund)

3. Transparency and Disclosure

- Regular disclosure of RI activities, using best-practice frameworks where appropriate. This includes annual Taskforce on Climate-related Financial Disclosure and continuing status as signatory to UK Stewardship Code, Principles for Responsible Investment and LGPS Code of Transparency.

Current Snapshot of the Fund's Exposure to Climate Risk

To set targets and measures it is necessary to understand the Fund's current exposure to Climate Risk. The Fund utilised the services of LGPS Central and Mercer LLC to conduct a Climate Scenario Analysis of the Fund in 2020 and 2022. This analysis estimates the effects on key financial parameters (such as risk and return) that could result from plausible climate scenarios.

In 2020, the Fund commissioned its first Climate Scenario Analysis. The analysis attempts to measure the impact to the Fund's return in several climate scenarios which resulted in implied temperatures of 2,3 and 4 degrees Celsius. In 2022, similar analysis was undertaken, this time across rapid (1.5C), orderly (1.6C) and failed (4.0C) transition scenarios. The analysis noted that the Fund's current asset allocation performs better under the orderly and rapid transition scenarios, suggesting that current positioning of the Fund performs better with alignment to the Paris Agreement targets.

Further, the Fund produces an annual Climate Risk Report The report measures the carbon metrics that the Fund will track for this Strategy. The first report analysed the Fund's holdings as at 31 December 2019, and shall be the baseline from which the Fund's emissions performance is measured against. Progress to date is indicated within the table below and compared against the wider market benchmark.

Table 2 Total Equities Carbon Footprint Metrics[6]

	2019		2022		% Difference Between 2019 and 2022	
	Pension Fund	Bench-mark	Pension Fund	Bench-mark	Pension Fund	Bench-mark
Portfolio Carbon Intensity (tCO2e/$m)	160.2	193.22	117.83	145.14	-26.45%	-24.88%
Weight in fossil fuel reserves (%)	8.57%	9.32%	6.79%	6.81%	-1.78%	-2.51%
Weight in clean tech (%)	34.16%	33.92%	38.20%	32.80%	4.08%	-1.07%

This analysis of greenhouse gas emissions provides only a snapshot, and does not take account of a companies' strategy, industry structure and other factors related to management of climate risk. This is why the Fund has set a variety of measures and targets within this Strategy.

The Fund's top five carbon intensive companies are listed below. These are not only companies exclusively related to fossil fuel, but companies that will be essential to the transition to Net Zero by 2050. For example, Taiwan Semiconductor Manufacturing Company, produces semiconductors which are used at important stages within the creation of renewable energy sources, such as the conversion of power in the plan (e.g. wind turbines) and the transmission of electricity to the power grid. The Fund must work with its partners to engage with these companies to drive down real-world emissions.

6 Certain information ©2022 MSCI ESG Research LLC. Reproduced by permission.

Table 3 Total Equities largest Contributors as at 31 March 2022 to Carbon Intensity[7].

Company	Sector	Portfolio Weight (Equities)	Carbon Intensity*	Contribution to Portfolio Carbon Intensity*
HOLCIM AG	Cement	0.11%	4278.3	4.09%
LINDE PUBLIC LIMITED COMPANY	Materials	0.28%	1332.8	3.17%
NEXTERA ENERGY, INC.	Utilities	0.13%	2407.4	2.69%
SHELL PLC	Energy	0.76%	398.8	2.62%
TAIWAN SEMICONDUCTOR MANUFACTURING CO.	Info Tech	1.22%	216.0	2.27%

* This figure refers to each company's contribution to the portfolio's total carbon intensity.

7 Certain information ©2022 MSCI ESG Research LLC. Reproduced by permission.

5. Climate Change Risks and Opportunities

What is Climate Change

As set out by the United Nations "Climate change refers to long-term shifts in temperatures and weather patterns. These shifts may be natural, such as through variations in the solar cycle. But since the 1800s, human activities have been the main driver of climate change, primarily due to burning fossil fuels like coal, oil and gas[8]."

Climate change doesn't just affect the weather, and ultimately can affect our health, ability to grow food, housing safety and work. The view of the Intergovernmental Panel on Climate Change believes that by limiting warming to 1.5C by 2050 the world can avoid the worst impacts of climate change.

Why does this matter for the Pension Fund?

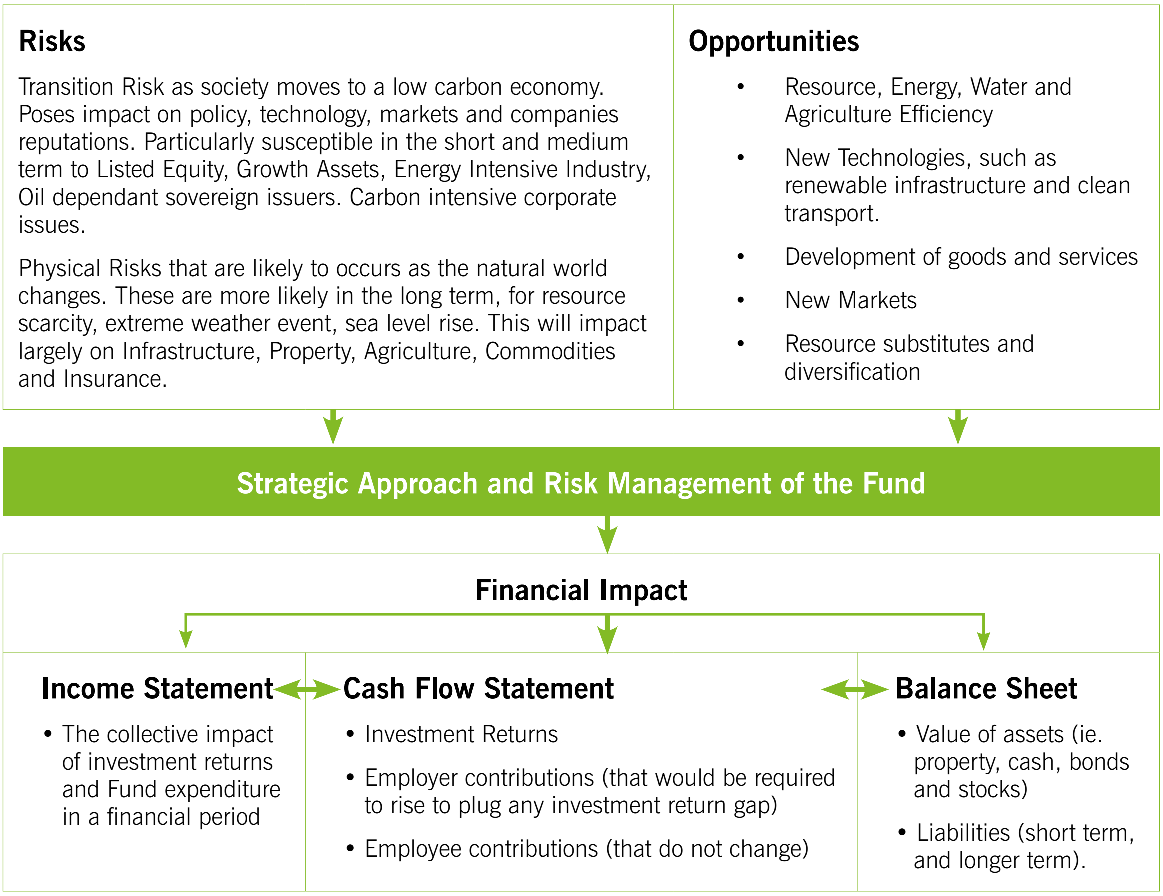
As set out in the Investment Strategy Statement the Pension Fund holds investments in various asset classes, which includes the world's biggest companies, in sectors including manufacturing, technology and transport. Climate change presents a systematic risk where the climate actions, or inaction, of companies can positively or negatively affect another company as well as the overall economy. This includes companies that are not directly involved with fossil fuel production.

The magnitude and speed required to limit global temperature increase to 1.5C leads to climate-related risks and opportunities for the Fund as an investor. These risks can be divided into two categories, transitional risk from moving to a low-carbon economy, and physical risk that will occur as the natural world is affected. As a long-term institutional investor the Fund is particularly exposed to these risks due to its investment horizon and diversified international portfolio.

In order to make informed decisions the Fund must manage these risks alongside the other financial and environmental, social and governance considerations. By utilising the Net Zero Investment Framework it should help the Fund stay ahead of the climate risk curve to preserve value in the portfolio, and capitalise on investment opportunities, whilst understand how climate-related risks and opportunities are likely to impact the Fund's future financial position as reflected in its income statement, cash flow statement and balance sheet.

8 www.un.org/en/climatechange/what-is-climate-change#:~:text=Climate%20change%20refers%20to%20long,like%20coal%2C%20oil%20and%20g

Figure 1 Climate Related Risks Opportunities and Financial Impact (Source: Adapted from TCFD 2017)[9]



As set out in the table there are also opportunities that will arise from the transition to a low carbon world that have the potential to deliver good financial returns, while also being sustainable. The Fund will look to support such innovation within 'climate solutions' where they have been subject to due diligence, and fit within the Fund's investment strategy and strategic allocation targets. Crucially, the Fund must remain sensitive to the value of such opportunities.

CASE STUDY: In July 2022 the Fund committed £55million as part of the Fund's Infrastructure allocation to Quinbrook Infrastructure Partners Net Zero Infrastructure Power Fund. Quinbrook is a new Investment Manager within the Fund and is a environmental, social and governance focused, 'value add' investment manager that specialises in low carbon and renewable energy supple, storage, grid stability and related assets and businesses.

The Net Zero Power Fund focuses on decarbonisation and looks to directly support the parallel achievement of environmental, social and governance impact, and Net Zero emissions targets across the UK, US and Australia. Including looking to directly address the growing investment risk posed by power price volatility and market uncertainty by securing long-term purchase commitments from credit worthy utility, corporate and industrial customers, to create value for investors like the Fund.

Existing investment managers already manage the Fund's assets in balanced, diversified portfolios, these investments are expected to gradually decarbonise, subject to global action. This investment provides the Fund with an asset especially well aligned to the transition to Net Zero by 2050 and supports the Fund's intention to increase its investment in climate solutions, as set out within the Fund's targets and measures.

9 www.tcfdhub.org/Downloads/pdfs/E06%20-%20Climate%20related%20risks%20and%20opportunities.pdf

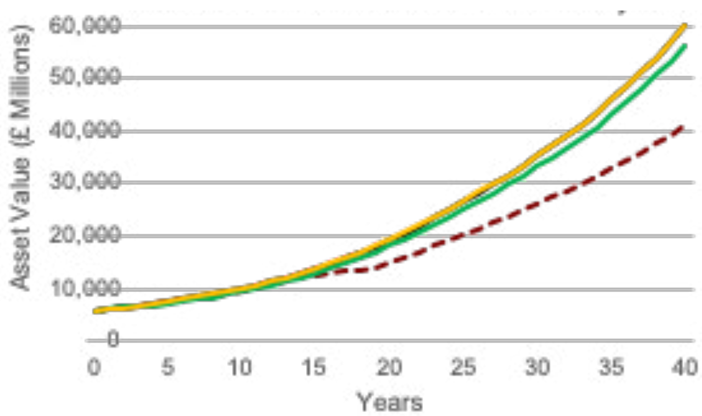
Managing Risk and Opportunities

The Fund's view of climate risk has been integrated into wider risk governance monitoring, management processes and decision making which will enable the Fund to make investments in line with a 1.5C future. This is addressed within the Investment Strategy Statement, Funding Strategy Statement and risk register of the Fund.

The Fund seeks to identify and assess climate-related risks at the total Fund, asset class and individual asset levels, alongside other investment risk factors. This will be achieved by:

- Use of tools to identify and assess climate risks facing the Fund using both top-down and bottom-up analyses. Such as the calculation of its investments' carbon emissions, carbon intensity and other targets and measures as set out within this Strategy. As well as regular climate scenario analysis that allows the Fund to better understand the financial risks that may arise over different climate scenarios, A snapshot of the latest analysis is set out in Figure 1. This shows the cumulative reduction in growth that would arise from a 'failed transition'. This takes into account both physical and transition risks in the portfolio, however, are also based on factors that are subject to considerable uncertainty.

Figure 1: Cumulative Return Projections by Climate Change Scenario on the Fund's Current Asset Allocation - 40 Year Projection



Rapid transition	Orderly transition	Failed transition
• Sudden divestments in 2025 to align portfolios to the Paris Agree goals have **disruptive effects on financial markets** with sudden repricing followed by stranded assets and a sentiment shock • **Locked-in** physical impacts	• **Early and smooth** transition • **Market pricing-in** dynamics occur smoothed out in the first 4 years • **Locked-in** physical impacts	• The world **fails to meet the Paris Agreement goals** and global warming reaches 4.3° above pre-industrial levels by 2100 • **Severe** gradual physical & extreme weather impacts • **Markets price in physical risks** of the coming 40 years over 2026-2030, and risks of 40-80 years over 2036-2040
Average temperature increase of **1.5°**	Average temperature increase of **1.6°**	Average temperature increase of **4.3°**
Shows the resilience of the portfolio to sudden repricing, triggering a market dislocation centered on high-emitting stocks	Tests exposure to the risk/opportunities from the systemic drivers of an ideal transition and locked-in physical risk	The main focus of this pathway is physical risk, results show the exposure to plausible, severe climate change impacts

Source: Mercer LLC Climate Scenario Analysis of the Fund 2022

- Identifying the most carbon intensive businesses within the Fund's portfolio which will be engaged with as part of the Annual Stewardship Plan.
- Monitoring the portfolio for climate related risks on an ongoing basis. As a primarily externally managed Fund the identification and assessment of these risks is also the responsibility of individual fund managers. These are monitored on a regular basis.

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

Risks and opportunities will be managed through alignment with the Net Zero Investors Framework, alongside day-to-day risk management processes. The following sections set out in more detail how the Fund will manage climate risk.

Targets and Measures

- Net Zero by 2050, with an ambition for sooner, supported by interim and secondary measures to decarbonise the Fund's portfolio and increase investment in a range of climate solutions.
- Reviewing targets and measures at least every three years to reflect progress made, regulatory development, best practice and identify areas for improvement.
- How these targets and measures will be monitored and reported on to the Local Pension Committee and wider stakeholders.

Decision Making

- Integration of the targets and measures, alongside best practice within the Fund's Annual Strategic Asset Allocation review, and decision-making processes.
- Making climate aware investments and investments with managers who have due consideration for climate change risks.
- Working with the Fund's investment managers to ensure they have fully considered climate risk as part of their investment decision process.

Stewardship, Engagement and Divestment

- The Fund's approach to stewardship and engagement by working with partners such as LGPS Central and other investment managers. Including integration of climate risk into voting decisions as part of a targeted strategy to focus on high emitting companies.
- Divestment where engagement fails, or where there are concerns regarding managers or investments.

We utilise this approach to try to ensure that the approach, remains prudent, that the Fund's strong funding level is maintained and that the approach to managing climate risk is not ultimately detrimental to the Fund. The Fund will use science backed analysis and reviews of asset classes to prioritise risks to manage and mitigate based on the level of perceived threat to the Fund.

How has the Strategy and Targets and Measures been developed?

The Strategy has been aligned with the Institutional Investor's Group for Climate Change's Net Zero Investment Framework (NZIF). The Fund believes this is the most comprehensive framework currently available to investors to decarbonise investment portfolios and increase investment in climate solutions in a way that is consistent with a 1.5C Net Zero emissions future. The Framework has established a common understanding of an effective approach and methodology to drive ambitious action. The Framework supports decarbonisation of the real economy, and helps minimise the negative impacts of climate change, while encouraging investors to seize investment opportunities.

In developing the Strategy, the Fund sought independent advice from its Investment Advisor Hymans Robertson and considered the outcome of the 2022 Climate Scenario Analysis from Mercer LLC and LGPS Central that provided the Fund with a better understanding of the exposure to climate risk. As well as the latest understanding of the Fund's valuation position as of 31 March 2022 as part of the triennial valuation.

The Strategy has been shaped by scheme employers, scheme members (active, deferred, pensioner and dependants) as well as investment managers, and extensive discussion with the Local Pension Committee.

As part of the survey from July-September 2022 it was evident that scheme members and employers are really supportive of the proposed targets and measures. Of those who took part 70% supported the Fund targeting Net Zero by 2050, with an ambition for sooner[10]. More detail on the outcome of the survey, and how it was used to shape this Strategy was presented to the 18 November 2022 Local Pension Committee and can be viewed here:

Next Steps

[The Fund is consulting on this draft until 3 February 2022. Further details can be found here:

The outcome of the consultation will be reported to the Local Pension Committee in March 2023.

This Strategy should be read alongside the Fund's Investment Strategy Statement which underpins the approach to the Fund's Asset Allocation Strategy. These beliefs include the integration of Environmental, Social and Governance (ESG) factors which includes climate change. A summary of these is detailed below:

Draft Pension Investment Strategy Statement Beliefs

- The long term nature of LGPS liabilities allows for a long term approach to investing.
- Liabilities influence the asset structure; funds exist to meet their obligations.
- Risk premiums exist for certain investments, taking advantage of these can 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 reduces volatility, but over diversification is both costly and adds little value.
- Climate change presents a material risk to financial markets. The Fund supports a transition to a low carbon economy, in line with its ambition to become Net Zero by 2050, or sooner.
- The Fund should be flexible enough in its asset allocation policy to take advantage of opportunities that arise from market inefficiencies, and also flexible enough to protect against identifiable short-term risks when this is both practical and cost-effective.
- Responsible investment can enhance long term investment performance and investment managers will only be appointed if they integrate responsible investment into their decision-making processes.
- Investment management costs should be minimized where possible but net investment returns after costs are the most important factor.

10 Results of those who stated strongly agree/tend to agree, based on 1025 respondents

6. Targets and Measures

As set out above the Fund has set targets in line with the NZIF, which aligns with the Paris Agreement, UK Government's Net Zero commitment and the Taskforce for Climate Related Financial Disclosures. The Fund has set 31 December 2019 as its baseline to compare future progress against as the first year it began reporting on climate risk. To calculate a reduction of emissions produced by the companies in the Fund's investment portfolio emerging industry standards have been used.

2050:

Net Zero, with an ambition for sooner.

This is the Fund's long-term ambition and is supported by the following targets and measures which sets the basis for how the Fund engages and makes future decisions on asset allocation to drive the transition to Net Zero for the Fund, and the wider economy.

2030:

Achieve a 40% reduction in absolute carbon emissions for the Equity portfolio.

2019	2022	2030
203k	162k	122k

An interim target to reduce the Equity portfolio's (shares in listed companies attributable to the Fund) absolute carbon emissions by 40%.

At this point this target covers 45% (£2.3billion) of the Fund's total assets, which covers investments in some of the world's top carbon emitters. Asset coverage will be expanded in future years.

2030:

Halve the carbon intensity of the Equity portfolio.

2019	2022	2030
160.2	117.83	80

An interim that that measures the carbon emissions produced by underlying companies, divided by their (tCO2e/$M), and measuring it based on the holding size within the Fund (Weighted Average Carbon Intensity)

This target also currently covers 45% of the Fund's total assets, and will be expanded in future years.

The Fund commits to embedding these three primary targets by integrating and embedding climate change considerations into decision-making processes and into stewardship, engagement and divestment with asset managers and companies they invest in. These are supplemented by the following targets and measures.

Why 2050: Climate change is a systemic risk. The Intergovernmental Panel of Climate Change have stated that to keep global warming to 1.5°C by 2100, emissions must reach Net Zero in 2050. It is therefore imperative that the Pension Fund assess its portfolio's resilience to different climate scenarios and consider the impact of their portfolios on future climate trajectories.

The 2022 Climate Scenario Analysis suggests that the Fund's current investment strategy fares better under transition scenarios that are more closely aligned to 1.5°C outcome by 2100. It is therefore important that the Fund works towards a successful transition.

As of writing this Strategy, to set an earlier date would require a more proactive Strategy compared to this document, which is already considered ambitious, our Investment Advisor Hymans Robertson Advised the Fund that an earlier date could potentially "increase execution costs and risk". The Fund commits to reviewing these targets every three years with a view to set more ambitious targets where appropriate, and where the Fund has more comprehensive sight of carbon emissions and intensity of its other asset classes.

Secondary Targets and Measures

Reduce

the Fund's exposure to fossil fuel reserves.

2019 Benchmark	2022
8.57%	6.79%

These figures only relate to exposure within the total equities portfolio, this equates 45% of the total Fund.

The Fund will reduce the percentage of its assets invested with companies that own fossil fuel reserves. A higher exposure is an indicator of higher exposure to stranded asset risk.

This measure currently does not consider the level of fossil fuel exposure to the Fund, just whether a company has some. Thus, it spans renewable operators and companies which are making the transition away from fossil fuel reliance.

As industry standard definitions become available this target will be refined.

The Fund commits to:

- Monitor and review the Fund's fossil fuel exposure and consider any adjustments that may be requres.
- Look to limit fossil fuel exposure where new mandates are entered into.

Increase

the Fund's exposure to 'climate solutions'.

2022 Benchmark	2022
34.16%	38.82%

The Fund will increase its investment to companies who derive revenue from 'climate solutions' which are activities (such as renewable energy) that are in line with the transition to carbon neutrality by 2050.

As with the fossil fuel measure, this does not consider the exposure level of a company, just whether the company receives some revenue from climate solutions.

The Fund will look to follow the MSCI definition for measurement of climate solutions, given there is no industry agreed standard definition.

The Fund commits to:

- Consider specialised investment products as opportunities arise. Such as inclusion of climate-related objectives within new investment mandates and investments in alternative asset classes such as renewable energy.

2030:

90% of the Fund's assets under management in material sectors are classified as achieving Net Zero, aligned or aligning by 2030.

This target provides a forward-looking measure that the Fund can use to understand emission projections of the portfolio, by allowing the Fund to see of its investments in material sectors (industries such as mining, metals and construction which are largely the highest impact companies) are aligned, or aligning to their Net Zero pathway.

The Fund will work with LGPS Central to set alignment targets, which will be based on criteria by Climate Action 100+ Net Zero Company Benchmark[11] and the Transition Pathway Initiative, in line with the Institution Investors Group Framework. The data from these initiatives can be used as a key measure of companies progress on climate action and the move to achieve Net Zero emission by 2050 or sooner, in line with the goals of the Paris Agreement. For example, the Framework identifies high impact companies should fulfil the following six criteria within the Climate Action Benchmark.

Figure 2: Criteria to assess the Paris-alignment of companies[12].

The Fund will review alignment annually through the Fund's Climate Stewardship Report, including whether additional criteria can be incorporated where feasible and data is available, such as through the Science Based Targets Initiative[13].

11 www.climateaction100.org/net-zero-company-benchmark/
12 www.iigcc.org/media/2021/12/NZIF_IIGCC-Target-Setting-Guidance.pdf
13 https://sciencebasedtargets.org/

2030:

90% of the Fund's financed emissions are classified as achieving Net Zero, aligned or aligning, or subject to an engagement programme to build that about.

This target focuses on increasing the percentage of the Fund's financed emissions that are subject to engagement, with the ultimate aim of driving alignment to Net Zero for companies to achieve Net Zero, or align, or on the path to aligning, in order to drive real world decarbonisation.

The Fund currently engage with companies that are some of the worst carbon emitters within the Fund's Equity of the Fund's Equity portfolio's financed emissions. These are companies that the Fund includes within its Stewardship Plan.

As with the previous target the Fund is working with LGPS Central to develop alignment targets, and how these can be measured through initiatives such as Climate Action 100+ and the Transition Pathway Initiative, in a way that will provide assurance they are setting credible science-based Net Zero transition plans.

This data will be used to help shape what action is taken through the approach to, including voting against Boards and Directors where companies are not making sufficient progress , this is further set out within: Stewardship, Engagement and Divestment.

2030:

Increase asset coverage measured to 90%

Overall Asset Class Coverage	
2022	2030
45%	90%

This measure will enable the Fund to extend its targets for interim measures in line with the ambition for the Fund to be Net Zero by 2050, and enable the Fund to look at setting more ambitious targets.

The Fund is currently only able to measure the equities asset class which is the Fund's biggest asset class. The Fund is working with LGPS Central on a timeline to analyse the other asset classes the Fund holds. Limitations that currently exist are expanded on within the Current Coverage and Limitations section.

Operational targets:

Leicestershire County Council, and LGPS Central Net Zero operations by 2030.

Leicestershire County Council Pension Fund is administered by Leicestershire County Council and uses its office facilities. Leicestershire County Council has committed to address climate change through its 2030 Net Zero Council Action Plan.

The Fund will also commit to call on LGPS Central, as an organisation partly owned by the Fund, to target Net Zero for its own operations by 2030.

Current Coverage and Limitations

The Fund's 2022 Climate Risk Report shows that it is clear the Fund has already progressed from the 2019 benchmark, but that there is a long journey ahead. The Fund will monitor this data annually for indication whether it remains in line with targets set.

The Fund recognises that the tools and techniques for assessing climate related risks in investment portfolios are an imperfect but evolving discipline. The Fund has used the best available information via LGPS Central to assess climate-related threats to investment performance at the time of developing this Strategy. However, some key limitations are as follows:

- **Asset Coverage**

As of 2022 this Strategy only covers the Equity portfolio, circa 45% of the Fund's total assets. As set out within the targets above the Fund will set key milestones to include further assets. These are currently not included due to a lack of mutually agreed metrics in the wider investment world. LGPS Central is in the process of procuring tools to help the Fund, and partners build on their understanding on climate risk for asset classes which at this point do not have sufficiently complete and comparable data to facilitate carbon risk metrics analysis, and thus data required to set comparable targets, to that of the Fund's equity holdings.

While the Fund cannot measure all assets reliably, by utilising the Fund's risk management processes, and targets and measures set out in this Strategy the Fund will ensure new investments are in line the set view on climate risk.

- **Global Limitations**

As referenced previously what the Fund can accomplish is partially reliant on the global economy. Where countries have set alternative Net Zero targets, the Fund will struggle to ensure companies based in those countries target earlier dates. For example, the largest greenhouse gas emitter, China has a commitment to reach carbon neutrality by 2060, and India has committed to Net Zero by 2070. Furthermore, of the top ten greenhouse gas emitters, only Japan, Canada and the European Union have set legally binding Net Zero commitments.

The Fund will try to mitigate these issues through its approach to decision making and stewardship.

- **Scope 3 Emissions Reporting**

The targets currently only relate to Scope 1 and 2 emissions. Incorporating Scope 3 emissions into climate metrics is challenging. The Fund recognises the picture can be quite different allowing for Scope 3 emissions, and that the measurement of material Scope 3 emissions across several sectors is highly inconsistent. The Fund is aware the International Investors Group for Climate Change is developing further expectations and guidance on measurement of Scope 3 emissions and that the UK Government may produce its own guidance on how best to report this as part of the LGPS Taskforce for Climate Financial Disclosures consultation. The Fund will assess progress and incorporate Scope 3 where it helps the management of climate change risk.

Offsetting

It is generally accepted that neither society nor individual investors will be able to completely decarbonise. Residual emissions will need to be "offset" by assets that absorb and lock away greenhouse gasses. These include assets such as Timberland, which the Fund has holdings in, which has the lowest carbon intensity amongst asset classes. The Fund's investment in Timberland helps balance more emissions-intensive sectors within its portfolio. This asset class also has potential to generate verified carbon credits for additional value.

It is not proposed to purchase offsets at Fund level at this stage, however the Fund may wish to review how it deals with the carbon credits generated through investment in Stafford Capital's Timberland Carbon Offset Opportunities Fund, as indicated below. This could provide the Fund with a further tool to mitigate climate risk if required in future years.

Primarily, the Fund supports and will engage with companies to reduce their own real-world emissions.

CASE STUDY: In July 2022 the Investment Subcommittee agreed a £55million investment in Stafford Capital Carbon Offset Opportunities Fund invests in 80% greenfield (65% afforestation and 15% reforestation) and 20% brownfield (improved forest management) gives the Fund an opportunity to obtain or sell carbon offsets generated. While retaining these would improve the Fund's carbon metrics, ultimately it would not reduce transition risk of the Fund's other underlying assets. The Fund agreed to instead sell the offsets for positive financial return.

The price of carbon credits is expected to continue to rise, which may affect companies the Fund invests in who choose to purchase carbon credits. The Carbon Offset Opportunity fund provides the Fund with the option to financially benefit, thus reducing exposure of the financial risk elsewhere.

The Fund is aware Phase 2 of the Net Zero Investor Framework will assess appropriate use of offsetting in specific sectors, the Fund will use their findings to inform any future approach.

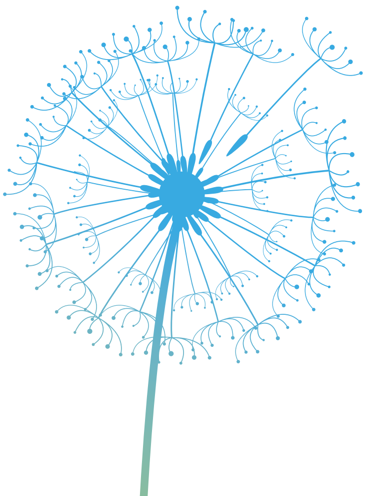
Reviewing, Monitoring and Transparency

The Fund will review and update the targets and measures at least every three years. The Fund will look to review this more regularly in light of any significant regulatory or scientific developments. Progress will be reported annually as part of the Climate Risk Report.

The Fund will strive to use the best available information to assess climate-related threats to investment performance and progress towards its targets. The Fund is committed to working with LGPS Central to continue to improve the disclosures made in this area. The Fund commits to the following transparency and disclosure as part of regular reporting to the Local Pension Committee.

Quarterly	**Yearly**	**Biennial**	**Triennial**
Responsible Investment Update	Responsible Investment Plan	Climate Scenario Analysis	Pension Fund Valuation.
Summary Valuation including update on investment manager performance.	Climate Risk Report Report on Taskforce on Climate related Financial Disclosures, and Climate Stewardship Report		Review of Net Zero Climate Strategy
Risk Register	Strategic Asset Allocation		
	Reporting via the Fund's Annual Report		

The Fund will always look to publish Fund information publicly as far as possible in line with the Local Government Act 1972 Access to Information: Exempt Information schedule.



7. Decision Making

Strategic Asset Allocation

In order to achieve its targets, the Fund must embed its approach throughout its Strategic Asset Allocation (SAA) and Investment Strategy Statement. These set out the Fund's high-level process for allocating across different investment opportunities in order to achieve long-term objectives that is considered annually by the Local Pension Committee.

The SAA process ensures the Fund maintains an appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities. This will be supported by the Fund's actuarial valuation and climate scenario analysis, every three years to ensure capital assumptions are informed by a realistic assessment of climate risks and opportunities.

In practice the Fund will consider a range of alternative investment approaches to manage risk and opportunities related to climate change, where there is a credible evidence base. These may include the following:

- Working with the Fund's Investment Advisor to utilise the climate scenario analysis to create a realistic assessment of climate-related risks and opportunities on the Fund portfolio.
- Reviewing and developing investment mandates to increase alignment with the Fund's commitment to Net Zero by 2050, with an ambition for sooner. This may include use of supplemental standard financial objectives to achieve the Fund's ambitions such as:

  - CO2e/$m invested (at least scope 1 and 2)

  - Climate solutions allocation as a percentage of a portfolio

  - Forward looking metrics that capture the transition potential of an asset
- Identifying variants of asset classes that use more systematic approaches to reduce carbon intensity and increase exposure to climate solutions.

Whilst taking these factors into account the Fund must also ensure the portfolio is not overexposed to specific risk factors. Ensuring it remains well-diversified across regions, technologies, and sectors and not over exposed to the risk of policy reversals, for example.

The Fund believes this approach will not only strengthen the Fund's resilience to climate risk but ensure the financial return of the Fund is preserved.

The Fund believes in minimal use of exclusions where it is aligned with the Fund's investment beliefs. Exclusions should be justified on financial grounds, on the basis of potential for significant financial risk, and/or where there is an expectation of improved financial returns.

Investment Manager Selection

The Fund assesses material climate-related risks and opportunities, alongside other relevant factors as part of the investment manager selection process. Potential managers that do not share what they do in relation to climate risk and responsible investment or share the Fund's view on the importance of integration of environmental, social and governance considerations, or the people, processes and systems to deliver on these convictions will not be chosen.

Following the move to asset pooling that majority of the Fund's investment managers are appointed and managed by LGPS Central. Central also integrate responsible investment factors into its decision-making and are committed to being active stewards of the companies in which they invest.

The Committee, after seeking proper investment advice, will agree specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation to the Fund. It will further look to manage risk and opportunities related to climate change, through the following methods where appropriate and the financial case is attractive:

- Consideration of alternative asset classes, including investment managers dedicated to renewable energy infrastructure.
- Investment mandates and benchmarks that specify climate-related objectives and performance objectives are clearly defined in line with the Strategic Asset Allocation.
- Use of passive index funds with low-carbon, high climate solution alternatives to standard benchmarks like MSCI World or FTSE 100. Subject, to replacement benchmarks demonstrating similar financial characteristics to standard equivalents

CASE STUDY: Equity – LGPS Central Climate Multi Factor Fund

The Fund has already transitioned £775million to LGPS Central's All World Equity Climate Multi Factor fund which incorporates three key climate change considerations: carbon emissions, fossil fuel reserves and green revenues. The fund integrates responsible investment criteria by tilting towards companies that are taking a proactive approach to environmental factors.

Importantly the investment also presented as a financially attractive investment opportunity due to financial return expected, and it's low cost as a passively managed fund.

To date the Climate Multi Factor fund has demonstrated a track record of generating better carbon metrics compared to the broad market indices. As at 30 June 2022, the weighted average carbon intensity of the fund is 62.5% lower than its corresponding broad market index.

Manager Monitoring Process

The Fund's Investment Managers should take into account any climate related risk when making their investment decision. The Fund will work with managers to ensure that these risks are being assessed and addressed. As a wholly externally managed pension fund, the identification and assessment of climate-related risks is also the responsibility of individual fund managers appointed by the Fund and those appointed by LGPS Central. Fund officers are having regular discussions with investment managers regarding reporting of climate metrics and will continue to do so including the Fund's interim targets once they are approved.

The Fund has established processes for in-depth manager monitoring. It receives quarterly reports from all Investment Managers that are presented to the Local Pension Committee. At the point a manager refuses to engage, does not provide credible evidence or reasoning to why they are failing financially on environment, social or governance factors the Fund has the power to replace an investment manager.

8. Stewardship, Engagement and Divestment.

Stewardship is defined by the Financial Reporting Council as the “responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries

Depending on the asset class, there are various stewardship tools. The most important for the Fund at this stage are as follows:

- Engaging directly with current or potential portfolio companies, across all asset classes
- Collaborative engagement
- Voting at shareholder meetings
- Filing shareholder resolutions/proposals
- Engagement with policy makers and standard setters
- Engagement with the media to promote stewardship goals.

Engagement is the active dialogue with a specific and targeted objective. It is intended to put the stewardship role into effect. The underlying aim of engagement is to preserve and enhance the value of assets on behalf of the Fund and its beneficiaries. Informing the approach below, officers have held important regard for the widespread debate in relation to engagement versus divestment, which tends to polarise and dominate debate as seen in the varied response from the survey with scheme members and employers.

Engagement versus Divestment

The Fund questioned scheme members and employers view on engagement versus divestment. Respondents to the Fund’s survey were split in their view of divestment and engagement, 35% (337) preferred engagement, with 31% (295) preferring divestment. 22% (215) preferred neither, with the 132 remaining respondents not expressing a view.

From analysis of the open comments on the question it is clear engagement and divestment is a divisive topic. The Fund has looked to take this into account in the approach set out below.

The Fund views engagement and divestment as proven and necessary elements of an effective approach to stewardship; and they should not be seen as mutually exclusive.

The Fund’s Approach to Stewardship

The Fund sees stewardship activities as an important aspect of the Fund’s approach to managing Environment, Social and Governance (ESG) risk. The Fund expects all investee companies to manage material risks, including climate change, and the Fund believes that climate risk management can be meaningfully improved through focussed stewardship activity. As set out in its four step plan below. This is supported by the Fund’s investment beliefs within the Fund’s Investment Strategy Statement.

The Fund has been a long-standing member of the Local Authority Pension Fund Forum (LAPFF) which engages directly with companies on behalf of the LGPS on a range of ESG issues. Engagement activity is conducted with investee companies through selected stewardship partners including LGPS Central, EOS at Federated Hermes, and LAPFF. The Fund also devises an annual Climate Stewardship Plan in order to focus engagement resources on the investments most relevant to the Fund.

The Stewardship Plan monitors engagements with a focus list of investee companies that face a high level of climate risk and are of particular significance[14] to the Fund's portfolio.

There is a significant focus from a UK regulatory perspective on the use of engagement to advance companies' transition towards net-zero and the UK's climate goals given that these goals cannot be achieved through divestment alone. Effective stewardship is also considered to be best practice for institutional investors and is a key element of the Net Zero Investors Framework.

The Fund delegates its active engagement to LGPS Central, and other appointed investment managers and will work with them to communicate the Fund's stewardship priorities, to understand their practices and intentions and to monitor their activities. Accordingly, the Fund's managers have produced written guidelines of their process and practice in this regard. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f). In practical terms the Fund has a four step plan for how it conducts stewardship activities.

Step 1: Evaluation

In line with the targets to increase the percent of the carbon emissions produced by underlying companies that are Net Zero, aligned, or subject to an engagement companies will be evaluated against the Climate Action 100+ Company Benchmark Indicators and the Transition Pathway Initiative[15]. These approaches were developed to allow asset owners to evaluate focus company action and the level of ambition in tackling climate change within portfolio, among the other criteria used when assessing stocks. For example:

- The Transition Pathway Initiative provides measures such as Management Quality ratings, which can be used to rate the quality of companies' management of their greenhouse gas emissions and of risks and opportunities related to the low-carbon transition[16].
- While CA100+ publishes a company assessment containing factual information about the company. The assessments indicate how the company performs against each relevant metric, as well as against each sub indicator and indicator. The Fund can use this to help it measure which companies are Net Zero, aligned, or subject to an engagement programme to bring that about.

This analysis will be utilised to understand how companies are taking steps to manage their own climate risk, and the level to which it covers the Fund's investments.

14 Perceived level of climate risk considering carbon risk metrics, weight of the company in the Fund, ability to leverage investor partnerships
15 www.climateaction100.org/net-zero-company-benchmark/
16 www.transitionpathwayinitiative.org/methodology

Step 2: Engagement

The Fund further supports the engagement objectives of the Climate Action 100+ initiative, that companies: adopt the appropriate governance structures to effectively manage climate risk; decarbonise in line with the Paris Agreement and disclose effectively using the TCFD recommendations. Either through membership of Local Authority Pension Fund Forum or through LGPS Central. The Fund has several partners that engage investee companies on climate risk.

The Fund will continue to work with partners to engage with companies to set Net Zero 2050 emissions targets and provide verifiable evidence of how that will be achieved in the short, medium, and long term.

Step 3: Voting

The instruction of shareholder voting opportunities is an important part of climate stewardship and will align with engagement activities. The Fund delegates responsibility for voting to LGPS Central and the Fund's directly appointed investment managers. For Fund assets managed by the former, votes are cast in accordance with LGPS Central's Voting Principles, to which the Fund contributes during the annual review process.

LGPS Central's Voting Principles incorporate climate change, for example by looking to influence companies by voting against the Chair and other relevant directors or resolutions (including remuneration) at companies where their response to the risks and opportunities presented by climate change are materially misaligned with the Paris Agreement.

For Fund assets managed by appointed external managers, votes must be cast in line with industry best practice as set out in the accepted governance codes. The results of engagement and voting activities are reviewed by the Local Pensions Committee on a quarterly basis, via voting reports and the LGPS Central Quarterly Stewardship Update.

Another powerful tool are shareholder resolutions. Filing a resolution at a company meeting allows investors to escalate engagement on a particular issue. This ensures an issue is on the agenda for the Company and requires the company to publicly respond to the investors' asks. The Fund's partners regularly take lead on such resolutions, which often are climate related.

Step 4: Divestment

Divestment is the process of selling in part, or in full, an investment and can be achieved by the Fund in multiple ways, including:

- Reducing the strategic allocation to a specific asset class, for example high emissions asset classes.
- Reducing or eliminating the allocation to a specific investment manager, for example if they fail to integrate ESG factors effectively.
- Delegating decisions to divest individual portfolio companies to investment managers

Divestment can be considered a capital allocation decision and, if the transition of investment portfolios is completed by capital allocation alone, it will do little to support real-world decarbonisation directly. Facilitating the transition to net-zero in the real economy will require investors to actively support decarbonisation efforts through effective stewardship and engagement.

Due to this the Fund does not support blanket divestment at this time, given this can overlook the fact that risks and opportunities might often lie in the same sectors, for example within the oil and gas industry, some utilities with coal plants are also major developers of renewable energy.

The Fund looks to reduce its exposure to fossil fuel and expects Managers to view climate risk as a material factor. Where this is the case it is expected Managers would choose a company that is better aligned to decarbonisation within high emitting sectors, all else being equal, given their view of medium to long-term risk of companies. Taking a forward-looking approach avoids short-termism, which could ultimately reduce the predictability of long-term returns.

Ultimately this will improve the Fund's environmental measures, whilst maintaining the diversification that supports the long-term nature of the Investment Strategy Statement.

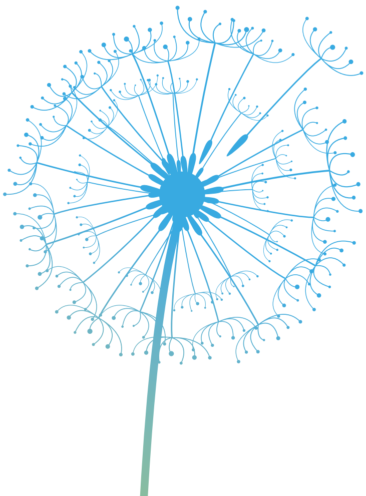
Without further policy measures by governments, the Fund unilaterally divesting holdings is unlikely to contribute to the decarbonisation of the real economy, which the Fund will continue to advocate with its investment managers to create a more sustainable economy.

The Fund expects its Investment Managers to escalate stewardship through voting and engagement over time. Where such engagements are unsuccessful, the Fund believes divestment should follow as a means of risk management, however this will be dependent on:

- Individual companies starting point.
- The sector, given different sectors would take longer to decarbonise than others, which have their own pathways for reduction. The Fund would look to support businesses that decarbonised roughly in line their sector pathways. Where they were not keeping up or were not committed would be the point to which the Fund and Managers look to divest.
- Those companies that may not have the resources to achieve decarbonisation.
- As part of the escalation of engagement to persuade decarbonisation.

The Fund's extensive selection criteria and processes for appointing investment managers should reduce financial and climate related risks to the Fund. In addition the Fund will monitor on a regular basis the integration of climate-related risks into the portfolio management, and to understand their engagement activities. Where there are concerns, Managers can be invited to Investment Subcommittee meeting to be questioned on investment performance and approach to climate risk.

At the point a manager refuses to engage, does not provide credible evidence or reasoning to why they are failing financially on environment, social or governance factors the Fund has the power to replace an investment manager.



9. Glossary

Term	Definition
1.5 degrees	The 1.5 °C target is the goal of the Paris Agreement, which calls for countries to take concerted climate action to reduce greenhouse gas emissions in order to limit global warming. Scientists believe limiting warming to 1.5 degrees would reduce the worst impacts of climate change.
Absolute carbon emissions	Also known as ‘financed emissions’, are absolute tons of CO2 for which the Fund is responsible from its underlying investments.
Asset Classes	An asset class is a grouping of investments that exhibit similar characteristics. The Fund invests in various asset classes such as: • Equities – Refers to money invested in a company by purchasing shares of the company in the stock market. • Bonds – Are issued by governments and corporations when they want to raise money. Investments in bonds are paid periodic interest payments. • Infrastructure – Investments contain physical assets such as bridges, roads, highways and energy. • Property – Investments in real estate. There are also less traditional asset classes such as Timberland which relates to investment in productive forestry and managed natural forests.
COP (Conference of the Parties)	A series of United Nations climate change conferences. The goal of which is to review progress made by the United Nations Framework Convention on Climate Change to limit climate change.
CA100+	Climate Action 100+ is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.
Clean Technology	Companies whose products and services include clean technology. Products and services eligible for inclusion include Alternative Energy, Energy Efficiency, Green Building, Pollution Prevention, Sustainable Water.
Climate Solutions	Defined as set out within the MSCI, companies whose products and services that may include alternative energy, energy efficiency, green buildings, sustainable water and pollution prevention.
Decarbonisation	The process by which the Pension Fund will look to encourage countries, companies and other entities aim to achieve zero fossil carbon existence. Typically refers to a reduction of the carbon emissions associated with electricity, industry, and transport.
Carbon Intensity	A proxy for a portfolio’s exposure to potential climate-related risks (especially the cost of carbon), often compared to a performance benchmark. It is calculated by working out the carbon intensity (Scope 1 and 2 Emissions / $M sales) for each portfolio company and calculating the weighted average by portfolio weight.
Clean Technology	Companies whose products and services include clean technology. Products and services eligible for inclusion include Alternative Energy, Energy Efficiency, Green Building, Pollution Prevention, Sustainable Water.

Term	Definition
Climate Solutions	Defined as set out within the MSCI, companies whose products and services that may include alternative energy, energy efficiency, green buildings, sustainable water and pollution prevention.
Decarbonisation	The process by which the Pension Fund will look to encourage countries companies and other entities aim to achieve zero fossil carbon existence. Typically refers to a reduction of the carbon emissions associated with electricity, industry, and transport.
Fossil Fuel Reserves	The weight of the Pension Fund’s portfolio invested in companies that own fossil fuel reserves.
Greenhouse gases	Atmospheric gas emitted from all activities that involve burning of fossil fuels. These accumulate in the atmosphere and trap heat from the Earth’s surface, increasing warming (known as the greenhouse effect)
Investment Manager	An organisation to whom the responsibility for the day-to-day management of some of the schemes assets is delegated. The Investment Manager acts on the basis of the mandate, as agreed with them and their client (Leicestershire Pension Fund). The mandate may contain performance targets by reference to a benchmark.
Just Transition	A just transition seeks to ensure that the substantial benefits of a transition to Net Zero is shared widely, while also supporting those who stand to lose economically.
MSCI	A global provider of investment analysis tools, ESG and climate related data and product.
Paris Agreement	The Paris Agreement is a legally binding international treaty on climate change. Its goal is to limit global warming to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels.
Physical Risk	The financial risks and opportunities associated with the anticipated increase in frequency and severity of extreme weather events and other phenomena, including storms, flooding, sea level rise and changing seasonal extremities.
Responsible Investment	The integration of financially material environmental, social and corporate governance (“ESG”) factors into investment processes both before and after the investment decision.
tCO2e	Unit representing the amount of greenhouse gases emitted during a given period. Measured in tonnes of carbon dioxide equivalent.
Paris Agreement	The Paris Agreement is a legally binding international treaty on climate change. Its goal is to limit global warming to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels.
Physical Risk	The financial risks and opportunities associated with the anticipated increase in frequency and severity of extreme weather events and other phenomena, including storms, flooding, sea level rise and changing seasonal extremities.

Term	Definition
Responsible Investment	The integration of financially material environmental, social and corporate governance (“ESG”) factors into investment processes both before and after the investment decision.
Scope Emissions	Carbon emissions refers to the amount of carbon dioxide equivalent emissions that are released into the atmosphere. For the purpose of measurement they are divided into 3 types: **Scope 1 Greenhouse Gas Emissions** Direct emissions from owner or sources controlled by the owner, for example, from burning fuel in a fleet of vehicles. **Scope 2 Greenhouse Gas Emissions** Indirect emissions when the energy a company purchases and uses is produced. For example, the generation of electricity would fall into this category. **Scope 3 Greenhouse Gas Emissions** Indirect emissions that are not controlled by the institution but occur as a result of that institutions activities. Examples include commuting, waste disposal and embodied emissions from extraction.
Stewardship	The promotion of the long-term success of companies in such a way that the ultimate providers of capital also prosper, using techniques including engagement and voting.
Taskforce for Climate Financial Disclosures (TCFD)	Guidance produced by The Financial Stability Board (FSB) is an international body that monitors and makes recommendations about the global financial system to improve and increase reporting of climate-related financial information.
Transition Risk	The financial risks and opportunities associated with the anticipated transition to a lower carbon economy. This can include technological progress, shifts in subsidies and taxes, and changes to consumer preferences or market sentiment.
Voting	The act of casting the votes bestowed upon an investor, usually in virtue of the investor’s ownership of ordinary shares in publicly listed companies.

10. Key Fund Documents

The Local Pension Committee approves key policies and strategies as set out below, these documents underpin the Fund's approach to ensure any decision it takes has regard to the overall risk that the Fund assets are insufficient to meet its liabilities. These documents can be found on the Member Self Service website. Key related documents are the:

Annual Fund Report and Accounts	This sets out the way in which the Pension Fund is managed both in relation to the administration of benefits and to the investment of the Fund's assets.
Investment Strategy Statement	This sets out the approach to investment that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable investment returns. As part of the Investment Strategy the Fund set out its support for the Principles for **Responsible Investment** (PRI) which are recognised as the standard for responsible investment for investors with fiduciary responsibilities.
Funding Strategy Statement	The purpose of this document is to establish a clear and transparent funding strategy which identifies how employers' pension liabilities are met.
Training Policy	This policy sets out how the Fund supports those charged with the governance, administration, and investment decisions for the Fund.
TCFD Report	Reporting under the Taskforce on Climate-Related Financial Disclosures. Structured around governance, strategy, risks management and metrics and targets.
Risk Register	The Fund's tool to effectively identify prioritise, manage and monitor risks associated with Leicestershire Pension Fund.
Climate Risk Report, Including Annual Stewardship Report	Through a combination of bottom-up and top-down analysis, the report was designed to allow the Fund a view of the climate risk held throughout its entire asset portfolio, accompanied by proposed actions the Fund could take to manage and reduce that risk.