Appendix A

Leicestershire County Council Pension Fund

Leicestershire County Council
Pension Fund

Net Zero Climate Strategy

Draft February 2023

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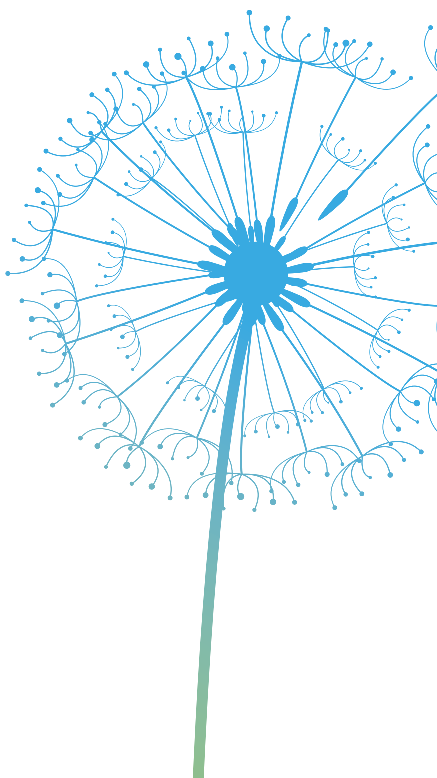


1. Foreword

In 2022 Leicester, Leicestershire, and Rutland, along with most of England received its first red warning for extreme heat. This led to widespread impacts, 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 the 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 support 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. This is given our employers own work engaging in socially positive activities in the local area.

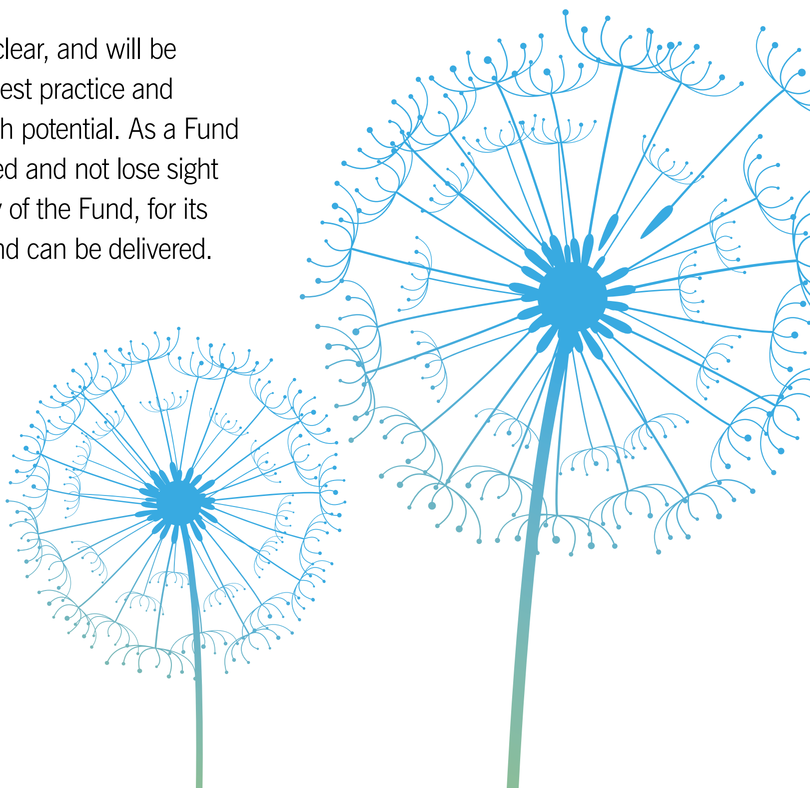
Through the passionate response to the consultation on this Strategy, we can clearly see our scheme members and employers' support use of their contributions to help fund solutions to the climate crisis, in a way that is managed prudently so that the Fund's financial returns are not adversely impacted.

We are not starting from scratch on this, for a number of years the Fund has monitored its carbon metrics while making investment decisions because of their compelling investment returns. By way of example, we have recently committed £55million 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 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 identification of 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 **£5.5billion** (as at 31st December 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 in investment returns would be covered by increasing 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". Alongside extensive consultation with scheme members, employers and other stakeholders.

This Strategy looks to align the Fund to the Net Zero Investment Framework through the following pillars:

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.

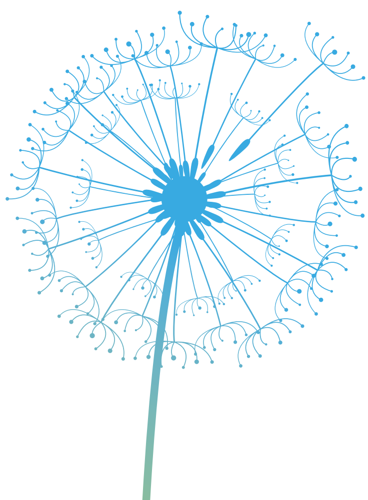
ii. **Targets and Measures:** The Fund's commitments to achieve Net Zero by 2050, with an ambition for sooner, and the underlying targets and measures that will be regularly monitored and used in the Fund's risk management processes.

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:** The Fund's four step plan for evaluating investment managers, and invested companies and escalating action through engagement, voting and divestment.

Progress to date:

As of March 2022 the carbon intensity of total equities has **decreased** by **26.45%** from December 2019	As of March 2022 the carbon intensity of total equities is now **18.82% lower** than the blended market benchmark	Absolute carbon emissions of total equities has **decreased** by **20.14%** from December 2019 to March 2022



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 approach to responsible investment 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.

This is further supported by the Fund's Administering Authority, Leicestershire County Council, that has set out its own ambitious commitment to work with partners to become a net zero county by 2045, or before.

This Strategy sets out the Fund's approach to managing the risks and opportunities that arise form climate change, and how it will decarbonise its investment portfolio and increase investment in climate solutions, in a way that aligns with the Paris Agreement ambition to limit global warming to 1.5°C.

UK Government Commitments

The Government has committed to reducing the UK's net emissions of greenhouse gases to zero by 2050. In October 2021 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 consulted on governance and reporting of climate risks which follows the Task Force 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 following the consideration of the consultation outcome.

What is the Task Force 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. The Fund's latest report is available here.

Global Outlook

As a global investor the Pension Fund must monitor 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°C degrees and aim for 1.5°C 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°C 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°C alive. Developed countries also recognised their responsibility to support 'just transitions' in developing countries.
- The Sharm el-Sheikh Implementation Plan (COP27): reaffirmed the commitment to limit global temperature rise to 1.5°C degrees above pre-industrial levels. However, there remained much policy uncertainty on fossil fuels, the underlying cause of emissions.

This Strategy is based on the expectation that governments and policy makers will deliver on their commitments in line with the Paris Agreement, and the context of fulfilling the Fund's fiduciary duty. Given the Fund's diversified global holdings, reliance on government action must be considered as a key risk and limitation to the Fund, without concerted action worldwide. Further detail is set out in coverage and limitations.

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 £5.5billion. 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. 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. Integration of these factors will enable the Fund to achieve the best possible investment returns that ultimately look to lessen the burden on employers contributions.

For scheme members, whether you are an active, pensioner or deferred member, as a defined benefit scheme your pension is based on your salary and how long you pay into the Scheme. Your pension is not affected by how well investments perform. The Fund is a secure and guaranteed income every year when you stop working.

Primary Aim and Fiduciary Duty

The Fund's primary objective is to provide pension and lump sum benefits as and when they fall due for members or their dependents.[1] Key to this Strategy is that the Fund ensures it 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. This Strategy sets out how the Fund will manage climate risk in line with its primary aim.

The Administering Authority, Leicestershire County Council has delegated authority to the Local Pension Committee (the Committee) to manage these 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, 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 the broader 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.

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

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.

1 Further information on the Fund's fiduciary duty and the LGPS as set out by Leicestershire County Council's Director of Law and Governance can be found here

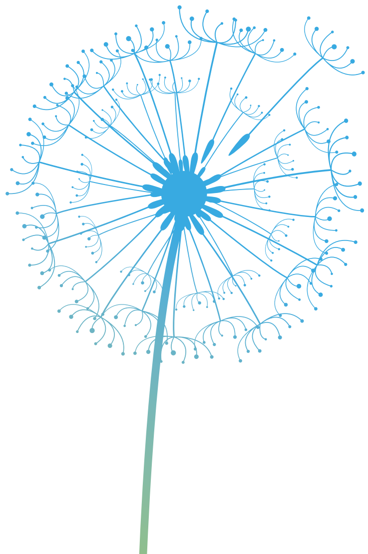
Table 1 – Impact of lower investment returns on an average employer.

	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%[2]	
Impact of reduced returns	5.4%		28.5%	Equivalent to employers paying al staff 3% more than they would otherwise.

Key Fund Documents

The Local Pension Committee approves key documents 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.
- **Strategic Asset Allocation:** The Fund's Investment Advisor reviews the Fund's asset allocation investment structure to reflect the nature of liabilities by focusing on the need for long-term returns and a degree of inflation-linked returns.
- **Training Policy:** This policy sets out how the Fund supports those charged with the governance, administration, and investment decisions for the Fund.
- **Risk Register:** The risk register sets out how the Fund manages investment, liability, employer, governance, operational and regulatory risk. This is brought to each Committee and Board meeting to provide the latest position on key risks, including climate change.



2 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), CIPFA, GAD.

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)

Membership:
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

Membership:
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.

LGPS Central ("Central")

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

The Local Pension 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, and Strategic Asset Allocation. Central invests the Fund's money into investment products that align to the 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 support the Fund in monitoring climate risk through the Climate Risk Report and Climate Scenario Analysis, as well as through the Responsible Investment Working Group.

LGPS Central's Approach to Responsible Investing

The Fund's investments that LGPS 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. LGPS 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, through regular climate scenario analysis, and a yearly climate risk report.

A 2022 climate scenario analysis was undertaken on behalf of the Fund by LGPS Central and Mercer LLC, which estimated the effects on key financial parameters (such as risk and return) that could result from plausible climate scenarios.[3] This was across three plausible climate scenarios - rapid (1.5°C), orderly (1.6°C) and failed (4.0°C). 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 a successful global transition to the Paris Agreement targets.

The Fund's latest Climate Risk Report measures the carbon metrics that the Fund will track for this Strategy, and included the Fund's ecposure as at 31 December 2019. Which will be the baseline from which the Fund's emissions performance is measured against. The positive progress to date in reducing exposure to climate risk is indicated within the table below, and compared against the wider market benchmark (BM).

Table 2 Total Equities Carbon Footprint Metrics[4]

	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%

The top five contributors to the Fund's equity portfolio's carbon intensity are listed below. These are not only companies exclusively related to fossil fuel production, 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. The Fund must work with its partners to engage with these companies to drive down real-world emissions.

3 Leicestershire County Council Pension Fund 2022 Climate Risk Report, November 2022
4 Certain information ©2022 MSCI ESG Research LLC. Reproduced by permission.

Table 3 Total Equities largest Contributors as at 31 March 2022 to Carbon Intensity[5].

Company	Sector	Portfolio Weight (Equities)	Carbon Intensity (Tonnes/£m)	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 analysis provides only a snapshot, and does not take account of companies' strategies, industry structure and other factors related to management of climate risk, which form the Fund's holistic approach.

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

5. Climate Change Risks and Opportunities

What is Climate Change

As defined 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."[6]

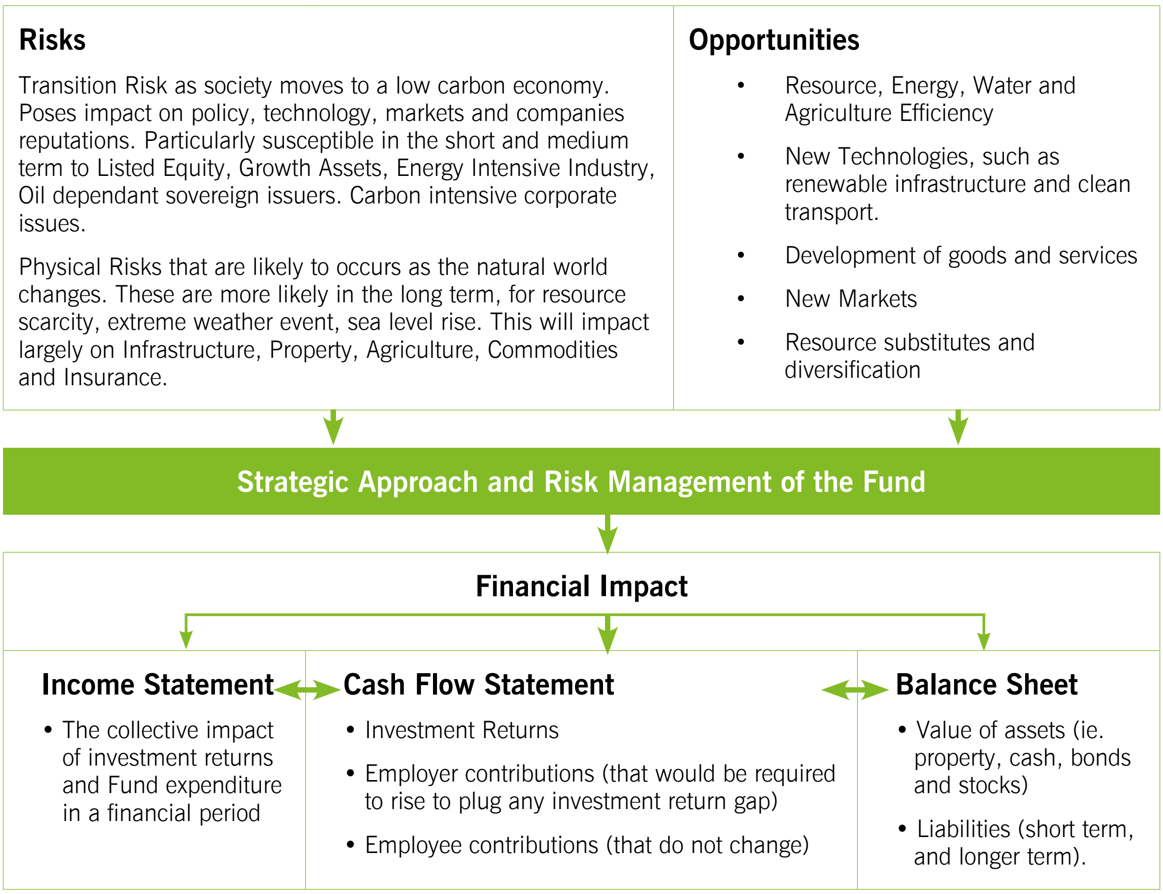
Climate change doesn't just affect the weather, and ultimately can affect our health, ability to grow food, housing safety and work. The view of the Intergovernmental Panel on Climate Change believes that by limiting warming to 1.5°C by 2050 the world can avoid the worst impacts of climate change.

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 1.5°C 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, and opportunities due to its investment horizon and diversified international portfolio. These are indicated below.

Figure 1 Climate Related Risks Opportunities and Financial Impact (Source: Adapted from TCFD 2017)[7]



6 United Nations - What is Climate Change
7 Task Force on Climate-Related Financial Disclosures, Climate-Related Risks, Opportunities and Financial Impacts June 2017

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. This will include investment in renewable energy and green technology for example. Crucially, the Fund must remain sensitive to the value of such opportunities.

The Fund is aware that any transition will also undoubtedly affect the various stakeholders of companies, these include the workforce, the consumers, supply chains and the communities in which the companies' facilities are located. In keeping with this the Fund supports a 'just transition' in line with the Glasgow Climate Pact. This involves supporting the social and economic opportunities and managing the challenges of a net zero transition.

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 the Strategy.

Management of risk is addressed within the Investment Strategy Statement, Funding Strategy Statement and risk register of the Fund, that is reviewed at every Local Pension Committee meeting and will be updated in line with emerging risks related to climate change.

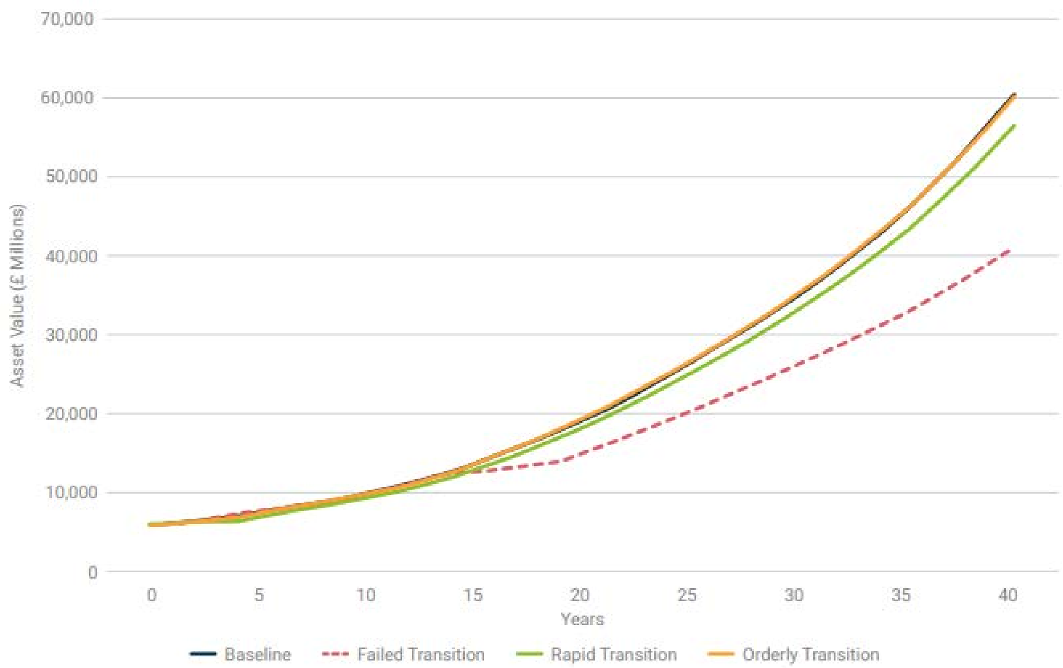
In order to make informed decisions the Fund must manage climate risks alongside other financial and environmental, social and governance considerations. By utilising the Net Zero Investment Framework the Fund will look to stay ahead of the climate risk curve to preserve value in the portfolio and capitalise on investment opportunities. As well as enhance its understanding on 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.

The Fund seeks to identify and assess climate-related risks at the total Fund, asset class and investment manager levels, alongside other investment risk factors. There are various methods the Fund can seek to identify these risks, including:

Top down analysis: Biennial climate scenario analysis that allows the Fund to better understand the financial risks that may arise over different climate scenarios from transition and physical risk. the latest analysis is set out in Figure 1.[8] 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. These issues are expanded on within the latest Climate Risk Report.

8 Extracts from Mercer Limited's Climate Change Scenario Analysis

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



4 °C Failed Transition	Orderly transition	Failed transition
Average temperature increase above 4°C by 2100.	**Average temperature increase of 1.6°C by 2100.**	**Average temperature increase of 1.5°C by 2100 in line with the Paris Agreement.**
This scenario assumes the world fails to co-ordinate a transition to a low carbon economy and global warming exceeds 4 °C above pre-industrial levels by 2100. Physical climate impacts cause large reductions in economic productivity and increasingly negative impacts from extreme weather events. These are reflected in re-pricing events in the late 2020s and late 2030s.	This scenario assumes political and social organisations act in a co-ordinated way to implement the recommendations of the Paris Agreement to limit global warming to well below 2°C. Transition impacts do occur but are relatively muted across the broad market.	This scenario assumes sudden large-scale downward re-pricing across multiple securities in 2025. This could be driven by a change in policy or realisation that policy change is inevitable, consideration of stranded assets or expected cost. To a degree the shock is sentiment driven and is therefore followed by a partial recovery across markets. The physical damages are most limited under this scenario.

Bottom-up analysis: Calculation of the Fund's exposure to financed emissions, carbon intensity, fossil fuel, climate solutions and other metrics as they become available, as set out in the snapshot of the Fund's exposure to climate risk. This includes identification of the most carbon intensive businesses within the Fund's portfolio that are engaged with as part of the Annual Stewardship Plan.

Investment Manager Monitoring: As a externally managed Fund the identification and assessment of these risks is also the responsibility of individual fund managers. The Fund will monitor, engage and scrutinise its current investment managers to ensure they are managing risks and opportunities identified. This is set out in more detail within Stewardship, Engagement and Divestment.

The following sections set out in more detail how the Fund manages climate risk through alignment with targets and measures, investment decisions and stewardship, engagement and divestment. This approach is designed to ensure, that the Fund's good 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 1.5°C net zero emissions future. The Framework has established a common understanding of an effective approach and methodology to drive ambitious action. Supporting decarbonisation of the real economy, and minimisation of the negative impacts of climate change, while encouraging investors to seize investment opportunities in climate solutions. This approach was supported by:

- Advice from Investment Advisor Hymans Robertson
- The outcome of the 2022 Climate Risk Report and climate scenario analysis from Mercer LLC and LGPS Central.
- The Fund's valuation position as of 31 March 2022, as part of the triennial valuation.
- Over 1750 views expressed by scheme members, stakeholders, investment managers and employers throughout the engagement and consultation process over 2022-23.
- Local Pension Committee meetings and workshops.

The Strategy conforms to the Investment Strategy Statement beliefs which set out:

- 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.
- 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.
- 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 will consider the impact of climate change in both its asset allocation and individual investment decisions.
- 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.
- Investment management costs should be minimised where possible but net investment returns after costs are the most important factor.

6. Targets and Measures

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.

Table 3 Equity portfolio financed emissions (tCo2e)

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% (£2.5billion) 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.

Table 4 Equity portfolio carbon intensity (tCo2e/$m)

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.

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. Furthermore, 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's investment decisions and actions support a successful transition.

As of writing this Strategy, to set an earlier date would require a more proactive Strategy, our Investment Advisor Hymans Robertson advised the Fund that an earlier date could potentially "increase execution costs and risk".

As part of the engagement 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.[9]

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

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

Secondary Targets and Measures

Reduce

the Fund's exposure to fossil fuel reserves.

Table 5 Equity portfolio weight in fossil fuel reserves (%)

2019 Baseline	2022
8.57%	6.79%

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, 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:

- Review the Fund's fossil fuel exposure as part of the review into the Fund's equity holdings and consider any related portfolio changes.
- Look to limit fossil fuel exposure where new mandates are entered into.

Increase

the Fund's exposure to 'climate solutions'.

Table 6 Equity portfolio weight in climate solutions (%)

2019 Baseline	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.

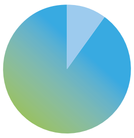
The Fund commits to:

- Consider specialised investment products as opportunities arise. These may relate to investments in renewable energy, such as the recent investment in Quinbrook Infrastructure Partners Net Zero Infrastructure Power Fund

CASE STUDY: In July 2022 the Fund committed £55 million as part of the Fund's Infrastructure allocation to Quinbrook Infrastructure Partners Net Zero Infrastructure Power Fund. Quinbrook is a Investment Manager within the Fund and 'value add' specialises in low carbon and renewable energy supply, 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.



2030:

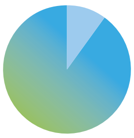
90% of the Fund's assets under management in material sectors are classified as achieving net zero, aligned or aligning by 2030.

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 if its investments in material sectors (industries such as mining, metals and construction) are aligned, or aligning to their net zero pathway. This will be determined by identification of the relevant sector and regional pathway, as well as current exposure and starting point of the Fund.

As at 31st March 2022, 50.43% of companies within material sectors have set a net zero target within the total equity portfolio. The Fund will work with LGPS Central to set classification targets to better understand whether companies are really aligned or aligning, or failing to align. The Fund will look to use best practice to report on progress, which may be based on criteria by Climate Action 100+ Net Zero Company Benchmark[10] and the Transition Pathway Initiative[11], in line with the Net Zero Investor Framework.

Where the Fund feels there are gaps on assurance that data provides the Fund will supplement data using alternative tools LGPS Central can provide, this may include reporting whether companies expected future emissions intensity pathways are credible and in line with international and national pledges across different timeframes.

The Fund will report annually through the Fund's Climate Stewardship Report, and consider any additional criteria that can be incorporated where feasible and data is available.



2030:

90% of the Fund's financed emissions are classified as achieving net zero, aligned or aligning, or subject to an engagement programme to bring 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 engages with companies that are some of the worst carbon emitters within the Fund's Equity portfolio. 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 its classification system, and how these can be measured through initiatives such as Climate Action 100+, the Transition Pathway Initiative and other emerging best practice, in a way that will provide assurance that underlying companies are setting credible science-based transition plans.

This target will be used to help shape what action is taken in ramping up engagement efforts, including voting against Boards and Directors where companies are not making sufficient progress, this is further set out within: Stewardship, Engagement and Divestment.

10 https://www.climateaction100.org/net-zero-company-benchmark/
11 https://www.transitionpathwayinitiative.org/

2030:

Increase asset coverage analysed to 90%

Table 7 Overall Fund Asset Coverage (%)

Overall Asset Class Coverage	
2022	2030
45%	90%

This measure will enable the Fund to extend its targets for interim measures in line with net zero by 2050, with an ambition for sooner.

The Fund is currently only able to measure the equities asset class which is the Fund's biggest asset class. The Net Zero Climate Strategy Implementation Plan includes a plan to increase coverage to asset classes such as private equities, corporate bonds, sovereign bonds, real estate and infrastructure. These asset classes will be included in future iterations of the Fund's Climate Risk Report.

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, further information is available on the Council's Net Zero webpage.

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 baseline, but that there is a long journey ahead. 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. As set out within the targets above the Fund has developed key milestones to include further assets, which form part of the Fund's Implementation Plan.. LGPS Central has procured a tool 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.

The approach to decision making, and targets and measures set out in this Strategy will ensure new investments are in line the Fund's approach to managing climate risk.

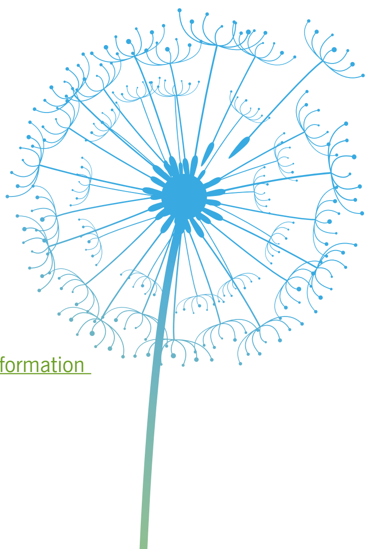
- **Global Limitations**

As referenced previously what the Fund can accomplish is partially reliant on the global economy. While the UK has set a legally binding net zero target, it is only the 17th largest emitter of emissions. Where countries have set alternative net zero targets, the Fund may 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, which are currently emitting circa 29% and 7% of global emissions respectively. Furthermore, of the top ten greenhouse gas emitters, only Japan, Canada and the European Union have set legally binding net zero commitments.[12]

The Fund will try to mitigate these issues through its approach to decision making and stewardship given the importance of retaining a diversified geographic portfolio.

- **Scope 3 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 outcome on the LGPS Taskforce for Climate Financial Disclosures consultation. The Fund will report in line with government requirements, or where it believes it helps with the management of climate change risk.



12 House of Commons Library, Global net zero commitments, Published 12 November 2021. Contains Parliamentary information licensed under the Open Parliament Licence v3.0

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 in the first instance.

CASE STUDY: In July 2022 the Investment Subcommittee agreed a £55million investment in Stafford Capital Carbon Offset Opportunities Fund that invests in 80% greenfield (65% afforestation and 15% reforestation) and 20% brownfield (improved forest management) giving the Fund an opportunity to obtain or sell carbon offsets generated, alongside timber revenue and asset appreciation.

While retaining carbon offsets would improve the Fund's carbon metrics, 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, while retaining the ability to amend the decision if required in future.

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.

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, which include but are not necessarily restricted to:

Table 8 Regular reporting related to the NZCS

Quarterly	Yearly	Biennial	Triennial
Responsible Investment Update [Stewardship, Voting and RI Plan Updates]	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		
Investment Manager Presentations	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.

The Fund will communicate how it manages climate risk and is performing against this Strategy to key stakeholders, including scheme members on the Pension Fund Website.

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 processes 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, to ensure capital assumptions are informed by a realistic assessment of climate risks and opportunities.

As part of investment decisions 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, and aligned to the Fund's investment beliefs. This will include the consideration of 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, and adjusting the SAA accordingly.
- Reviewing and developing investment mandates to increase alignment with the Strategy. This may include use of objectives that supplement standard financial objectives to achieve the Fund's ambitions such as:

  - Carbon intensity objectives (CO_2e/£m invested (at least scope 1 and 2))

  - Climate solutions allocation as % of portfolio (which could include renewable energy, energy and process efficiency and new agricultural practices)

  - Forward looking metrics that capture the transition potential of an asset (such as scenario alignment, and implied temperature alignment)
- Identifying variants of asset classes that use more systematic approaches to reduce carbon intensity and increase exposure to climate solutions. An example of this is the Fund's investment in LGPS Central's All World Equity Climate Multi Factor Fund which is tilted away from companies with greater carbon emissions.

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 strengthen the Fund's resilience to climate risk, while ensuring the financial return of the Fund is preserved in line with its fiduciary duty.

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 selected.

Following the move to asset pooling the 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 Fund, after seeking proper investment advice, will agree specific benchmarks as part of new investment mandates, so that, in aggregate, they are consistent with the overall asset allocation to the Fund. The following considerations will also be included, where appropriate and the financial case is attractive:

- Alternative asset classes, including investment managers dedicated to renewable energy infrastructure.
- Investment mandates and benchmarks that specify climate-related objectives and where performance objectives are clearly defined.
- 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: The Fund has already transitioned **£775million** in December 2020 (which accounts for £872m as at 31 December 2022) 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 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 decisions. 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.

The Committee 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. Further information is set out below.

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. Effective stewardship is a key element of the Net Zero Investors Framework the Fund is aligned to.

Depending on the asset class, there are various stewardship tools available, such as:

- Engaging with Investment Managers, across all asset classes
- 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.

Engagement versus Divestment

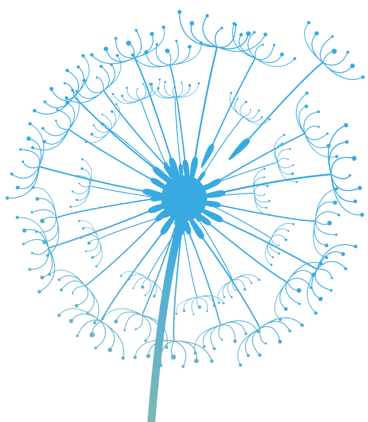
The Fund questioned scheme members and employers view on engagement versus divestment. Respondents to the Fund’s survey were split in their view of divestment and engagement, 35% (337) preferred engagement, with 31% (295) preferring divestment. 22% (215) preferred neither, with the 132 remaining respondents 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.

From a UK regulatory perspective there is significant focus 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 exclusion of companies involved in fossil fuel production alone. While exclusion of carbon intensive companies would benefit the Fund’s own climate risk metrics, in reality it has no real-world impact and only transfers ownership of the emissions to another party. Real world outcomes and the systematic decarbonisation of the Pension Fund is therefore most important in light of the Fund’s Climate Scenario Analysis, which requires real-world change in business practices and a shift in capital allocations towards green solutions.

Where the Fund continues to hold material concerns over Investment Managers or the companies they are invested in the Fund will look to escalate its approach, and ultimately divest. This is with the recognition that an effective approach to stewardship requires both engagement and divestment.



The Fund's Approach to Stewardship

The Fund expects all investment managers and the companies they invest in to manage material risks, including climate change, and the Fund believes that climate risk management can be meaningfully improved through focussed stewardship activity. It is recognised however, that there are cases in which the Fund will look to divest where material concerns remain. In practical terms the Fund has a four-step plan for how it conducts stewardship activities.

Step 1: Evaluation

To evaluate the Fund's underlying holdings that are net zero, aligned, or subject to engagement activities, companies will be evaluated against relevant indicators and emerging best practice. This will allow the Fund to evaluate company action and the level of ambition in tackling climate change within the portfolio, among the other criteria that Managers should use when assessing investments. This may include:

- 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. [13]
- Climate Action 100+ 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.[14]
- Best practice available to the Fund or LGPS Central that allows more detailed assessment of public and private companies, banks, sovereigns, and other entities in terms of their long- and short-term scientific robustness.

Analysis of the underlying Fund assets 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. Any analysis the Fund undertakes on underlying companies will likely be a snapshot in time. Therefore, the Fund expects investment managers to independently analyse the material investment risk carbon intensive companies provide from the risk from 'stranded assets'. Evaluation of managers will be supported by the Fund's Implementation Plan that sets out key questions Managers must answer. The Fund will continue to question Managers on their justification to invest in companies with higher greenhouse gas emissions.

This will form part of ongoing discussions with investment managers to ensure they are taking account of climate risk and climate opportunities, and have developed their own capacity to monitor and drive change within the companies they are invested in. Where they do not sufficiently do this the Fund will engage, and escalate as indicated below.

13 https://www.transitionpathwayinitiative.org/methodology
14 https://www.climateaction100.org/net-zero-company-benchmark/

Step 2: Engagement

The Fund 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.

The Fund will engage with its Investment Managers to ensure, if they do not already, have appropriate governance structures to manage climate risk, set decarbonisation targets in line with the Paris Agreement and are managing their mandates in line with targets set, where applicable.

Engagement with companies is conducted through selected stewardship partners including LGPS Central, EOS at Federated Hermes, and the Local Authority Pension Fund Forum. 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 to the Fund's portfolio.[15] The latest plan can be viewed within the Fund's Climate Risk Report.

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.

The Fund may further look to support escalation efforts with partners through:

Shareholder resolutions: Where investors file resolutions at company meetings, 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.

15 Related to perceived level of climate risk considering carbon risk metrics, weight of the company in the Fund, ability to leverage investor partnerships

Step 4: Divestment

Divestment is the process of selling in part, or in full, an investment. The Fund has already committed to reducing its allocation to fossil fuels in order to manage climate risk to the Fund.

As with any investment decision, a decision to divest must be made with recognition of financial and risk factors, and not only in order to improve appearance of the Fund's climate metrics. In line with the Fund's Climate Scenario Analysis the Fund supports the transition to net-zero in the real economy, which requires real-world change in business practices, policy and a shift in capital allocations towards green solutions. Supporting this approach should best maintain the Fund's diversification that underpins the long-term nature of the Investment Strategy Statement, and Fund's fiduciary duty.

Where the Fund holds material financial and risk concerns over either Investment Managers or underlying companies they are invested in, the Fund can utilise the following divestment approaches:

- Delegating decisions to divest individual portfolio companies to investment managers

The Fund expects its active managers to view climate risk as a material factor. Therefore, supports investment managers divesting from individual portfolio companies where they believe climate risk is a material financial and risk consideration. These decisions may include instead investing in companies within high emitting sectors that are better aligned, or better placed to decarbonise all else being equal, given investment managers view of medium to long-term risk of companies. Taking this forward-looking approach avoids short-termism, which could ultimately reduce the predictability of long-term returns.

Where Managers hold concerns with companies the Fund expects them to escalate stewardship through voting and engagement over time. Where these actions are unsuccessful, the Fund believes divestment should follow as a means of risk management, however this will be dependent on an investment managers consideration of factors such as:

- 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.

Where the Fund does not believe its investment managers are sufficiently managing these issues the Fund can utilise the following approaches:

- Reducing the strategic allocation to a specific asset class, for example high emissions asset classes.

As part of the review of the Strategic Asset Allocation, the Fund and its Investment Advisor will consider exposure to climate risk, any concerns with certain asset classes, as well as more regular financial considerations such as funding level and investment returns. Where there are financial and material climate risk to the Fund it will take advice on reducing the allocation, or exposure to certain asset classes or geographies.

- Reducing or eliminating the allocation to a specific investment manager, for example if they fail to integrate ESG factors effectively.

The Fund has an extensive selection criteria and process for appointing investment managers to reduce financial and climate related risks to the Fund. Where there are concerns with current managers, the Fund will evaluate and engage on these risks as in Step 1 and 2. The Fund will continue to escalate its approach to managers that lag behind on climate risk management. At the point a manager refuses to engage, does not provide credible evidence or reasoning to why they are failing financially on environmental, social or governance factors the Fund has a number of options depending on the liquidity of the investment. This may involve reducing the allocation to the manager, not reinvesting with the manager, or using the Fund's power to replace a 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 °C 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.
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.
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.
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.
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.
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.
Engagement	Dialogue with a company or investment manager concerning particular aspects of its strategy, governance, policies, practices, and so on. Engagement includes escalation activity where concerns are not addressed within a reasonable time frame.

Term	Definition
Fiduciary Duty	Legal advice on fiduciary duties produced for the Local Government Association in 2014 explained that LGPS administering authorities have a fiduciary duty to act in the best interests of scheme members. Investment powers must be directed to achieving what is the best for the financial position of the fund
Financed Emissions	A carbon risk metric that is calculated by multiplying the Fund's attribution factor by a company's emissions. The Fund's attribution factor is the ratio between the amount invested in a company, and the value of the financed company. This measures the CO2 for which the Fund as an investor is responsible.
Fossil Fuel Reserves	The weight of the Pension Fund's portfolio invested in companies that own fossil fuel reserves. This metric identifies companies with evidence of owning fossil fuel reserves regardless of their industries, including companies that own less than 50% of a reserves field. Fossil reserves are defined as proved and probable reserves for coal and proved reserves for oil and natural gas. Evidence of owning reserves includes companies providing the exact volume of reserves, and companies making a statement about their ownership of 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. Encompasses a range of social interventions needed to secure workers' rights and livelihoods when economies are shifting to sustainable production, primarily combating climate change and protecting biodiversity.
MSCI	Related to perceived level of climate risk considering carbon risk metrics, weight of the company in the Fund, ability to leverage investor partnerships
Net zero emissions	Where greenhouse gas emissions created by an organisation are counterbalanced by the greenhouse gas sequestered over a given timeframe.
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 °C, 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 (RI)	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.

Term	Definition
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.
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.

Important Information

MSCI disclaimer