

LEICESTERSHIRE COUNTY COUNCIL PENSION FUND DRAFT NET ZERO CLIMATE STRATEGY CONSULTATION OUTCOME REPORT

February 2023

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Introduction

Leicestershire County Council Pension Fund began its intention to develop a Net Zero Climate Strategy (NZCS) in November 2021. From July to September 2022 the Fund engaged on its targets with scheme members, employers and investment managers, these primarily related to:

- Net Zero by 2050, with an ambition for sooner
- Interim targets, and other measures relating to reducing carbon intensity, exposure to fossil fuels, increasing climate solutions investment, extending asset coverage measured and engagement and monitoring targets.

Following the engagement that received over 1000 responses (which were overwhelmingly supportive of the Fund's targets), a draft Strategy was produced which was further consulted on and set out within this report.

Leicestershire County Council Pension Fund undertook an 11-week consultation from 21 November 2022 to 5 February 2023 on the proposed NZCS for the Fund. The purpose of the NZCS would be to manage climate risk to the Pension Fund in a way that did not negatively affect the Fund's investment returns. This would build upon significant progress the Fund has already made as a long-term responsible investor to date:

- As of 31 March 2022, the carbon intensity of the Fund reduced by 26% since its benchmark 31 December 2019 across measurable investment.
- Transitioned £800m+ to sustainable and low carbon investment strategies.
- Invested in timberland (forestry) since 2011. Our investments extend across 12 countries and covers the equivalent of 17% (363 km²) of Leicestershire's surface area. This sequesters more than 720,000 tonnes of carbon dioxide from the atmosphere each year*, equivalent to the annual emissions from 233,000 cars, or 62% of reported emissions within the City of Leicester in 2020.

Responses

748 stakeholders participated during the formal consultation period, including members of the pension fund, employers, and members of the public.

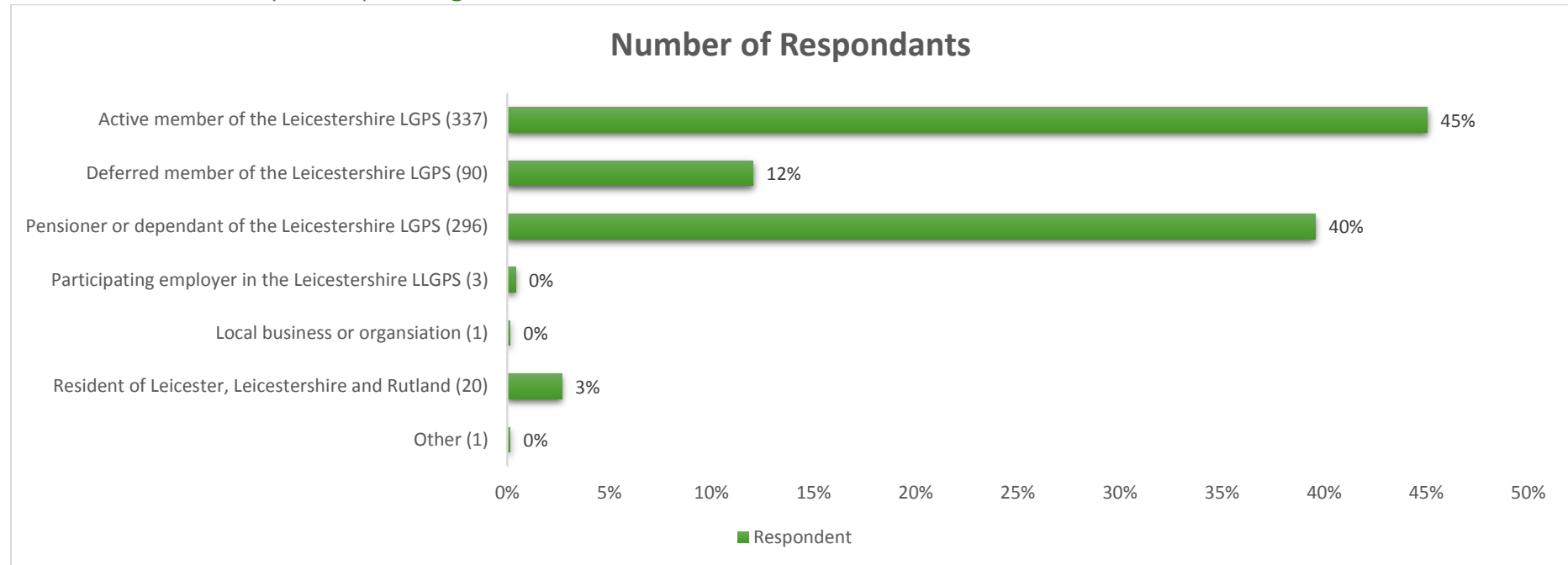
The report analyses the consultation responses received from online consultation survey. The consultation consisted of the following:

- Questionnaire developed in partnership with Leicestershire County Council's engagement team
- Over 40,000 emails to scheme members (who had previously signed up to Member Self Service)
- Employer Bulletin to circa 200 employers within the scheme, as well as follow up communications with key employers to ask that they advertise it internally.
- Publication on the Member Self-Service Website on the front page, and news release.
- Presentation as part of the Fund's Annual General Meeting on 12 December.

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Alongside the full draft Strategy, Leicestershire County Council Communications team also produced a shorter summary version to enable as many respondents to access the consultation as possible.

Q1. In what role are you responding to this consultation?



Q2. Specify organisation if applicable.

Employers: North West Leicestershire District Council, Leicestershire County Council, the Open Thinking Partnership.

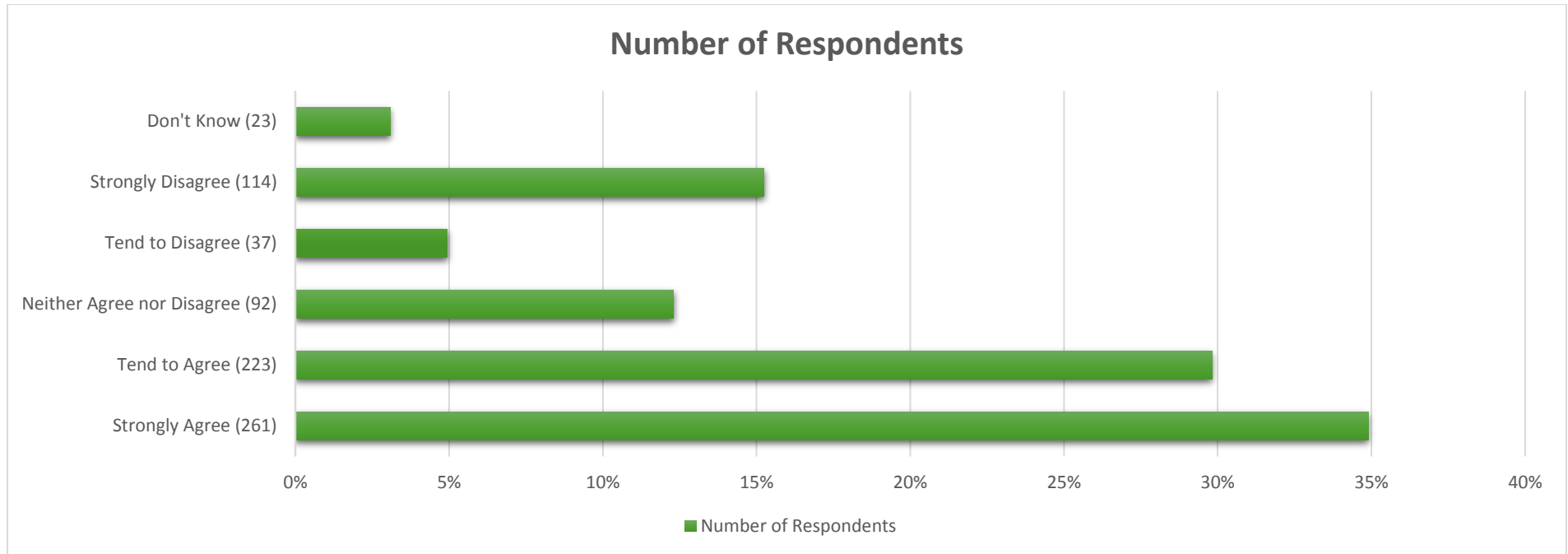
Local business /organisations: Unite Branch at Leicester City Council.

Other responses received: Climate Action Leicester, and Leicestershire (which also received support from a number of other organisations) as well as an open letter which is appended to this outcome report.

Consultation Analysis, Fund Response and Changes Proposed to NZCS

Q3. To what extent to you agree or disagree with the draft Net Zero Climate Strategy

The chart shows that the majority of respondents (65%) agreed with the Strategy. A fifth of respondents disagree (20%).



Q3a. Why do you say this?

Of the 748 respondents, 433 individual comments were received. Each response was reviewed, and all relevant comments were identified and recorded. The main comments identified, grouped within the themes is set out below alongside the response and where changes have been made as a result.

Ref	Why do you say this? (Number of comments)	Fund Response and changes where applicable
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<p>1</p>	<p>The Fund received 214 comments which set out support of the Strategy. These comments tended to support, whilst recognising the balance required to manage the primary aim of the scheme, and responsibilities to scheme members alongside climate change, or the need for all areas to work together.</p>	<p>The Fund welcomes supportive comments.</p>
<p>1.1</p>	<p>“I would support the Fund being more ambitious” (60), including comments related to the Fund setting more ambitious targets, and not wanting to support carbon intensive industrial companies. This includes 29 comments that expressed a view that the Fund should divest from companies involved with fossil fuel.</p>	<p>At this point in time the Fund does not have a credible way to set more ambitious targets, given the lack of data outside of the equities asset class to measure the Fund. The Fund is working with LGPS Central to increase asset coverage, in line with secondary measures which should help the Fund set more ambitious targets in the future. A timeline for increasing asset coverage measurement has been added, which should help the Fund become more ambitious. This will enable the Fund to review and set further targets, in line with the timescales set out within the added Implementation Plan.</p> <p>In relation to divestment, the Fund continues to recognise the view expressed by some that the Fund should divest fully from those involved in fossil fuel production, or climate intensive companies. At this point having, considered Hymans Robertson’s paper on engagement and divestment produced for the Fund, it does not agree with full divestment. This is because full divestment has no impact on the world’s carbon footprint, and it is possible other less climate aware investors will instead pick up these investments. Furthermore, in some cases divesting will remove ‘green’ investment exposure from the Fund.</p> <p>Given no company is insulated from the economic impact of extreme global warming it is far more important, and compatible with the Fund’s fiduciary duty at this stage to drive down real-world emissions. Engagement therefore continues to be compatible with the fiduciary duty and supportive of the Fund’s duty as a responsible investor, as it provides the opportunity to influence companies, something that is not possible if the investment is sold. However, the Fund agrees it is important to reduce its allocation to fossil fuel over time, and divest in certain circumstances, such as where investment managers are not credibly managing Climate Risk. For the Fund, given it holds no direct investments, it must work with its investment managers to ensure they are considering forward-looking climate risk when making investment choices. This point has been</p>

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		<p>strengthened throughout the Strategy, and within the Stewardship, Engagement and Divestment section, this is expanded upon at 2.6.</p> <p>As set out within the Fiduciary Duty section of the Strategy the Fund will continue to take proper advice and act prudently when making any investment decisions in this regard.</p>
1.2	Climate Change is not applicable. (53)	<p>The science of climate change is clear and compelling. While there will always be uncertainty in understanding a system as complex as the world’s climate, there is strong evidence that significant global warming is occurring, and that most of the warming recently can be attributed to human activities.</p> <p>As a diversified Pension Fund the risk and opportunities that arise from climate change are key considerations for the Fund, and its investment managers. This is because investments across geographies and industries will all be affected by climate change due to transition and physical risks. This is supported by various independent external considerations from investment advisors and a climate risk report and climate scenario analysis undertaken by LGPS Central and Mercer.</p> <p>The Fund will look to improve any communications it has on climate change related matters and why they are relevant to the Fund, and its webpage.</p>
1.3	The Fund must protect pension returns. Investment returns as the key priority (50)	<p>The Strategy supports the Fund’s primary objective is to provide pension and lump sum benefits as and when they fall due for members or their dependents, and the Investment Strategy Statement.</p> <p>The Fund will look to strengthen reference that the Strategy is to manage climate risk which ultimately supports protecting investment returns, and on any communications to scheme members.</p>
1.4	Limited by other factors i.e., policy, government commitments worldwide, lack of sustainable materials involved in the transition to net zero (23)	<p>The Fund recognises its challenges and limitations as set out within the Strategy. However, the Fund does not see that as a reason to not do anything and will look to engage with underlying companies and invest in climate solutions where possible. The limitation section has been expanded to further recognise this.</p>

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1.5	Don't Know/Felt like they did not understand. Or did not have a view, or the need to simplify (20).	The Fund recognises the complexity of some concepts within the Strategy. The Fund has sought to simplify concepts and revamped the glossary section available. The Fund will further look to develop a simpler version of the summary document.
1.6	Other responses related to points around ethical investing, offsetting, local investment, lack of regulation, terminology points. Or neither agreeing nor disagreeing.	<p>The Fund recognised each view expressed, these were considered during review of the Strategy, some of which are expanded on further on in this report.</p> <p>Local Investment, see 2.6.</p> <p>Offsetting: The points raised target the reference to the Fund's investment in Stafford Capital which provide verified carbon offsets as part of the Carbon Offset Opportunity Fund. To qualify as a verified emission reduction and be claimed as an offset, stringent rules must first be met. This includes how the forest is managed, and what the timber would eventually be used for to ensure carbon credits were genuine and additional.</p> <p>Terminology: The Strategy uses terms that are easily recognised by scheme members, simplification and a revamp of the glossary have been included within the Strategy.</p> <p>Ethical Investment: The Fund supports responsible investment; this is distinct from ethical investment which is an approach in which the moral persuasions of an organisation take primacy over investment considerations.</p>

Q4. What if anything is missing from the Strategy?

318 individual comments were received on this question. Many of the themes reflected points raised as part of the previous question. In general, these related to similar themes as above.

Ref	What if anything is missing from the Strategy?	Fund Response.
2.1	Either supportive comments or answering no/nothing is missing from the Strategy. (86)	The Fund welcome the supportive comments.
2.2	That the Strategy is fundamentally wrong by its	See 1.2.

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	existence due to not believing climate change is applicable to the Fund. (44)	
2.3	That the Strategy should be more ambitious (71). These comments were cross cutting and included 25 that specifically referenced divestment, and include points raised by Climate Action Leicester and Leicestershire. These are taken in turn below given some responses included multiple points:	See 1.1, 2.4,2.5,2.6, 2.7,2.8, 2.9. 3.1.
2.4	<ul style="list-style-type: none"> • Too few specific requirements to stop investing in companies (fossil fuel producers, banks, and insurance companies) which persist in developing new fossil fuel reserves. Including needing specific engagement and escalation strategies for sectors. 	<p>The Fund does not agree this is a suitable approach at this current time for the Fund for a number of reasons including:</p> <ul style="list-style-type: none"> • The majority of the Fund’s investments are held through investment managers and does not hold direct control over stock picking meaning the Fund is unable to divest from certain stocks (given managers will also have regard to the views of others invested within the Fund). • While removal of such companies would improve the appearance of the Fund’s climate metrics it would do little to effect real world emissions as other investors would purchase the stock, who may be less climate risk focused than the Fund. <p>In reference to the first point the Fund will commit to closely evaluate and engage with current Managers to consider their approach to climate risk is aligned to the Fund’s Net Zero Climate Strategy, which forms part of the Implementation Plan and manager questionnaire.</p> <p>The Fund is working LGPS Central to develop alignment measures and target key companies to ensure that they are managing climate risk and are setting credible net zero plans in line with initiatives such as Climate Action 100+ (which covers 165 focus companies that account up to 80% of global corporate emissions), the Transition Pathway Initiative and emerging best practice. This approach will include engagement and escalation on whether companies are aligning to their specific sector pathway. The approach to Stewardship, Engagement and Divestment will include engaging with Investment Managers on their investment approach to companies involved in developing new fossil fuel reserves, and ensuring their approach is</p>

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		credible and reasonable to the Fund.
2.5	<ul style="list-style-type: none"> Full divestment from companies involved in fossil fuel production. Including end investments by 2025 in companies which produce fossil fuels and are spending capital on opening up new reserves. 	See 1.1.
2.6	<ul style="list-style-type: none"> The CA100+ benchmarks you are proposing to use as criteria to assess if companies are meeting your targets allow companies to ‘greenwash’ themselves. Including reference to Climate Action Leicester and Leicestershire’s briefing document “CA100+ measures and BP” 	<p>CALL’s document highlights a lot of issues investors are finding when looking for reliable data. The Fund will commit to follow best practice and question companies on relevant sector-based issues.</p> <p>The Strategy will make clear that it intends to use best practice available to it and work with LGPS Central on using the best available alignment measures, as well as awaiting CA100+ latest review on set measures. The Fund will work with LGPS Central to develop its approach to Stewardship and reporting and to build on its last climate risk report. It is worth highlighting that this did not just rely on CA100+ indicators but also used the Transition Pathway Initiative’s carbon performance indicators which assessed performance against international targets and national pledges made as part of the Paris Agreement. Alignment which is tested on different timeframes including 2025, 2030 and 2050. This is set out in page 21 of the 2022 Climate Risk Report.</p> <p>As referenced earlier, the Fund must work with Managers to understand their own expectations and evaluation of companies and hold them to it. It is clear that the Fund does not have the resource to continuously monitor individual companies and sufficiently scrutinise and challenge company accounts and pipeline projects, whilst also considering their transition potential. This is why the Fund’s partnership with LAPFF, and LGPS Central and existing investment managers is key.</p> <p>This has been included within the strengthened Stewardship, Engagement and Divestment section and implementation plan.</p>

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<p>2.7</p>	<ul style="list-style-type: none"> • Use of the Fund’s power to push government for effective climate legislation by public ending investment in fossil fuel companies, therefore removing social license/public support for the development of new oil gas and coal reserves. 	<p>The Fund has been entrusted with employers’ and scheme members’ pension contributions. Investment decisions must not adversely impact employers’ financial performance and prospects by adversely impacting employer contribution rates. This is important given employers own work engaging in socially positive activities in the local area. Investment decisions have never been made with a view of the moral or social license, over what is most financially appropriate for the Fund, which is what the Strategy supports. The Fund works with partners such as LAPFF and LGPS Central to further its approach as towards environmental, social and governance factors in its role as a responsible investor.</p>
<p>2.8</p>	<ul style="list-style-type: none"> • Create mechanism for local business and organisations to apply for investment in carbon reduction and fuel poverty reduction projects. 	<p>There are a number of considerations the Fund must consider in this aspect if it were to make a conscious effort to make these investments:</p> <ul style="list-style-type: none"> • Every investment must first achieve the return the Fund requires. The Fund is not equipped to make individual investments into local businesses and private investments need to be made through fund managers who have the necessary expertise and whose involvement avoids potential conflicts of interest. • It is unlikely any commercial investment manager would specifically target Leicestershire and Rutland as a whole due to size, though they may make investments in the local area where they are attractive for financial returns. • There are many challenges that would need to be addressed prior to any local investment. Such as, conflict of interest, cost (often charitable organisations or local good can access capital much cheaper than to the Pension Fund, and it is not for the Fund to subsidise public spending. Instead, it supports local organisations by keeping employer contributions low through its primary objective) • If the Fund were to make investments without investment managers it would not be able to cost effectively oversee smaller investments with the diligence that investment managers may have, due to size. <p>This is not to say the Fund does not have local investments which were deemed attractive by its investment managers. However, every investment must first achieve the return the Fund requires.</p>

		<p>Furthermore, financing available to local government and local communities would be a lot better value than what the Fund can offer given the requirement for returns. A detailed report on considerations for local investment is contained within the Summary Valuation paper at the 3 March 2023 Local Pension Committee meeting.</p>
<p>2.9</p>	<ul style="list-style-type: none"> • That targets and measures need to be more ambition, either in date targeted for Net Zero or the need to expand coverage to other asset classes • Wanting additional interim milestones • Reference to Climate Action Leicester and Leicestershire’s submission as part of the July-September engagement in 2022. 	<p>As set out in previous points the Fund recognises the challenges and limitations on it as set out within the Strategy. However, the Fund does not see that as a reason to not do anything and will look to engage with underlying companies and invest in climate solutions where possible. The Fund is working with LGPS Central to increase asset coverage, in line with secondary measures which should help the Fund set more ambitious targets in the future. A planned asset class timescale has been included within the Implementation Plan.</p> <p>The Fund will commit to reviewing these targets at least every three years, with a view to bringing targets forward where available data supports this. The Fund is aligning itself to a 1.5degree pathway by 2050 and is aware of the risks a less balanced pathway would cause in transition and physical risks which is set out in more detail within the draft NZCS. This is why the Fund has further set 2030 interim targets to ensure progress is made at an appropriate pace. The Fund will monitor progress annually to ensure it is making sufficient progress in line with this.</p> <p>The Fund has set what it believes to be realistic and achievable targets. The Fund’s key determinant is real world impact as this will ultimately be best for the Fund overall as part of its fiduciary duty. These targets received overwhelming support in the previous engagement. as was highlighted in the November 2022 report.</p> <p>Setting more stringent targets at this stage, where the Fund does not have a full picture of underlying metrics, could lead to the Fund being put in a difficult position in relation to achieving climate targets versus investment returns. The Fund must always prioritise investment returns, therefore, must be realistic with the targets it sets.</p> <p>As above Fund has focused on equities and the resulting scope 1 and 2 emissions due to the data currently available. The Fund did not want to delay initial action due to limited data</p>

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		availability. These targets will be expanded across the Fund’s Investment Portfolio in line with the implementation plan.
2.10	Choose relevant action-based measures based on the sector a given company is part of.	The Fund will expect managers to take the appropriate considerations as part of their view of climate risk which include companies’ alignment to the relevant sectoral pathway. This will be supported through the Fund’s approach to stewardship and engagement with underlying companies through LGPS Central and LAPFF.
2.11	<p>Comments related to specific investments (39) investment points such as:</p> <ul style="list-style-type: none"> • Investment returns key focus, and that the Fund should focus on maximising profits • Not investing in very risky low carbon projects • Identification of alternative energy sources for investment and new technologies as they become available • That non-carbon neutral investments may still be valuable • Local investment • Market volatility 	<p>Any investments are made following sufficient due diligence. The link to the required investment return has been strengthened within the decision-making section, including more detailed reference to the types of alternative energy the Fund may wish to invest in, subject to being the correct risk profile and return rate for the Fund.</p> <p>Further signposting has been made to the Fund’s Investment beliefs which include clarity on the Fund’s approach to investment.</p> <p>The Fund is clear that any investments must be made in a way that will not negatively impact employer contributions. It will look to strengthen communications that the LGPS means employee benefits will not be affected through underperformance.</p>
2.12	<p>Other comments (44) on the Strategy related to</p> <ul style="list-style-type: none"> • Whether alternative options had been considered, and the importance of a diversified approach. • Management of related risks, and impact on investment returns, including regular reviews. • Assuring scheme members that their 	<p>The Fund recognised each view expressed, these were considered during review of the Strategy, some of which are expanded on further on in this report and have been included as part of the Implementation Plan.</p> <p>This included further emphasis on how the Fund will review performance, and linking the report with the ISS, Strategic Asset Allocation, and Triennial Valuation. As well as emphasis that employee contributions, and pension benefits are not impacted as part of the NZCS. Including additional information on how the NZCS was developed.</p>

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	<p>benefits will not be impacted.</p> <ul style="list-style-type: none"> • Issues of measurement of sustainability and climate impact globally. • Other areas of concerns such as plastics, biodiversity, food production and nuclear power. • Importance of partnership working. 	
2.13	Do not know, or do not know enough, or the need to simplify. (26)	The Fund recognises the complexity of some concepts within the Strategy. The Fund has sought to simplify concepts and revamped the glossary section available. The Fund will further look to develop a simple version of the summary document.

Q5. Do you have any other comments or suggestions about the new Strategy?

Out of the 748 responses 196 substantive comments were received on this question. Most points reflected points raised as part of the previous questions as highlighted below.

Ref	Any other comments or suggestions? (Comments received)	Fund Response
3.1	<p>Support more ambition including points that highlight Climate Action Leicester and Leicestershire’s consultation response. (45).</p> <ul style="list-style-type: none"> • Specific requirements and dates for fossil fuel companies, banks, and insurance companies. • Selective use of CA100+ measures as to avoid greenwashing and have a real understanding of how companies are performing in the transition to net zero • Specific dates for different sectors to decarbonise and a clear escalation strategy if they fail to act • A local investment mechanism to support local action on fuel poverty and carbon reduction • The Current strategy damages for everyone as face worsening climate change and discriminates against your younger 	<p>The first four points are addressed as part of 1.1, 2.3, 2.4,2.5,2.6, 2.7,2.8, 2.9 and 2.10.</p> <p>The Fund must protect its investments and it believes this is the most appropriate way, while supporting decarbonisation and escalating its approach where the Fund holds concerns over investment manager approaches. This approach takes a long-term view, whilst recognising it must review it regularly given emerging best practice and knowledge and advance its targets and measures wherever possible. By utilising this approach, the Fund does not make any knee-jerk decisions, instead manages down key risks in an appropriate way. Furthermore, this support’s the Fund’s fiduciary duty and supports the aim to keep employer contributions affordable, and therefore not redirect funding</p>

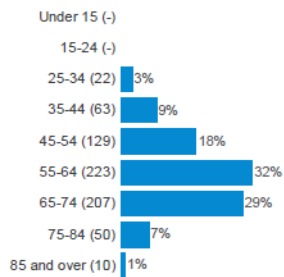
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	pension members.	from local good to cover extended benefits.
3.2	Supportive comments (29)	The Fund welcomes the support on the Strategy.
3.3	Climate change not applicable (38)	See 1.2
3.4	Investment comments related to (36) <ul style="list-style-type: none"> • Recognition that the Fund needs to invest in transitioning sectors • That the Fund should support new technology • Investments should be made not at the detriment of the Fund 	See 1.3 and 2.11
3.4	Comments related to the Strategy more generally (23). <ul style="list-style-type: none"> • how the Fund would review performance, any updates following other developments, and monitoring financial performance as a result. • Referenced offsetting and concerns highlighted in the media. • Limitations on the NZCS due to government and policy issues more generally. • How the Fund will work with Partners. 	See 2.12
3.5	Do not know, or do not know enough, or the need to simplify. (10)	See 2.12
3.4	Other individual comments covered issues out of scope for the Fund and related to either local council specific actions, or out of scope for the Strategy, or related to the consultation process specifically.	The Fund notes the comments.

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Respondent Profile

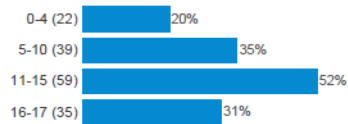
(What was your age on your last birthday? (derived))



Are you a parent or carer of a young person aged 17 or under?



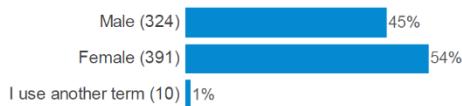
If yes, what are the ages of the children in your care? Please tick all applicable



Are you a carer of a person aged 18 or over?



What is your gender?



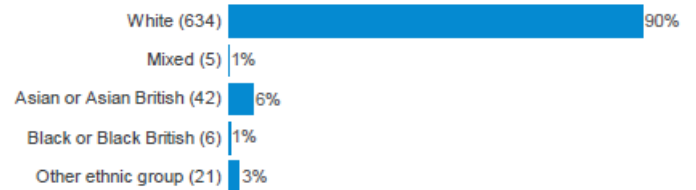
Is the gender you identify with the same as your sex registered at birth?



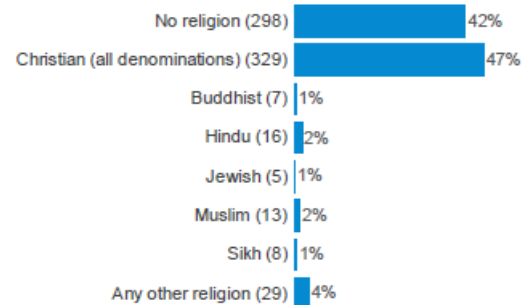
Do you have a long-standing illness, disability or infirmity?



What is your ethnic group? Please tick one box only.



What is your religion?



Are you an employee of Leicestershire County Council?



Other Responses: Climate Action Leicester and Leicestershire

Climate Action Leicester and Leicester submitted a number of documents as highlighted below:

Annex 1: LeicsDivest Climate Action Leicester and Leicestershire formal response – Includes endorsement from 20 local organisations ranging from religious groups to trade union branches, or community and resident groups. (This includes reference to their earlier response to the previous engagement which was considered as part of the July-September 2022 engagement and attached as part of the November 2022 Local Pension Committee Agenda [here](#).)

Annex 1.1: The ClimateAction100+ relevant indicators and BP.

Annex 2: Open letter - Including 120 signatures (47) of which were scheme members. There may be crossover with responses received through Fund consultation.