Leicestershire County Council

LOCAL PENSION COMMITTEE – 29 NOVEMBER 2024

DIRECTOR OF CORPORATE RESOURCES

CLIMATE RISK MANAGEMENT REPORT 2024 AND RESPONSIBLE INVESTMENT UPDATE

Purpose of the Report

1. The purpose of this report is to:

   a. Set out how Leicestershire County Council's Pension Fund (the Fund) has achieved its first two major milestones with reductions in carbon intensity and financed emissions in achieving its 2030 interim targets for the equity portfolio.

   b. Provide the Fund's 2024 Climate Risk Management Report (Appendix A).

   c. Recommend changes to the Climate Stewardship Plan and the primary measures related to climate solutions and fossil fuel reserves monitoring.

   d. Update the Committee on progress verses the Responsible Investment Plan 2024 (Appendix B), quarterly voting report (Appendix C) and stewardship activities and high-level overview of the Fund's investment managers net zero approaches.

2. As part of this item a PowerPoint presentation will be delivered at the meeting by representatives from LGPS Central (Central).

Policy Framework and Previous Decisions

3. Responsible investment factors have long been a consideration for the Leicestershire County Council Pension Fund having satisfied itself that potential investment managers take account of responsible investment (RI) as part of their decision-making processes before they are considered for appointment.

4. Climate change factors have been considered by the Fund for a number of years. This was enshrined in the Fund's Investment Strategy Statement and Net Zero Climate Strategy (NZCS), both approved on 3 March 2023. These climate considerations have also been built into other strategies and the Fund's risk register.

Background

5. The term 'responsible investment' refers to the integration of financially material Environmental, Social and Governance ("ESG") factors into investment processes. It has relevance both before and after the investment decision and is a core part of the Fund's fiduciary duty. It is distinct from 'ethical investment', which is an approach in which the moral persuasions of an organisation take primacy over its investment.

6. In recognition of the relevance of climate risk to fiduciary duty the Fund has produced a climate report annually since 2020, formerly known as the Climate Risk Report. Through a combination of bottom-up and top-down analysis, the report has been designed to give the Fund a view of the climate risk held throughout its portfolio, accompanied by proposed actions the Fund could take to manage and reduce that risk. This allows the Fund to analyse progress against the baseline of data from previous reports, reassess the Fund's exposure to climate-related risks and opportunities, and identify further means for the Fund to manage its material risks.

Climate Risk Management Report 2024

7. The report is structured to align with the four pillars of the Taskforce on Climate-Related Financial Disclosures (TCFD) and facilitates public disclosure against this framework: Governance, Strategy, Risk Management, and Metrics and Targets. It is intended that this revised report will now be able to replace the separate TCFD report usually produced for June Committee.

8. As reported to Committee in September 2024 the latest report builds on comments from Committee members at the January 2024 meeting and includes previous developments, alongside a return of engagement reports on Climate Stewardship Plan companies, expansion of metrics, and simplification where possible.

Progress Against the Net Zero Climate Strategy

9. In March 2023 the Committee agreed nine targets, including an ambition to achieve net zero by 2050, with an ambition for sooner. The majority of these targets followed best practice with relation to the Institutional Investors Group for Climate Change's framework, or targets that were deemed of importance to the Committee and Fund.

10. High-level progress against these targets is set out below which show where the Fund has exceeded initial expectations for its net zero journey.

    a. The Fund has achieved its first interim target of reducing the weighted average carbon intensity (WACI) by 50% by 2030, with an actual reduction of 52.8%, meaning the Fund is less exposed to carbon price risk for in-scope investments.

    b. The Fund has also achieved its second interim target of having reduced its financed emissions by 40%, with an actual reduction of the total carbon emissions the Fund is responsible for by 40.4% from a baseline set in 2019, by 2030 for in-scope investments.

    c. The Fund now has over £1.3billion (circa 20% of the total Fund) directly allocated to climate-related investments across equity, debt, infrastructure and forestry.

    d. Within the equity portfolio 75.7% of equity financed emissions are considered to be aligned/aligning to the Paris Agreement, or under and engagement programme. This sets the Fund on a positive trajectory to 2050 in supporting real-world change.

    e. The Fund is able to measure 57.4% of total Fund assets up from 47% in 2023 ahead of the scheduled timeline within the NZCS.

11. This progress is against the backdrop of increasing assets under management and equities that are continuing to outperform the market benchmark, showing the Fund is continuing these positive climate actions in a way that is supporting the Fund's fiduciary duty.

12. Appendix A goes into further detail on all the actions that the Fund and Committee has taken in line with best practice. Progress shows early success which would not have been possible without a strong direction and commitment to net zero by the Committee. Despite this there are still areas of challenge that the Fund will need to address including issues with the rudimentary fossil fuel reserves and climate solution metrics. This is discussed in more detail within paragraphs 17 to 21.

13. It is important to keep in mind that performance will not be linear and that many different factors can impact carbon metrics. Up to this point the Fund has made some of the most significant changes through asset allocation decisions which are not as available for remaining asset classes at this point in time. In support of real-world carbon reductions, the Fund will need to engage with its partners and investment managers on where further success can be achieved.

Interim (2030) Primary Targets

14. Where indicated the Fund's baseline data as of 31 December 2019 has been restated within the report due to improved data available through the data provider. This is where estimated data has been replaced by company reported data. Any targets are compared against the most up to date data available. More information on restated values is set out within page 33 of Appendix A.

	Use Case	**2019[1]**	**2023[2]**	**2024**	**% chg since 2019**
50% carbon intensity reduction by 2030 for the Equity Portfolio (tCO2e/$m sales)	Exposure to carbon-intensive companies.	162.3	91.5	76.7	-52.8%
40% absolute carbon emissions reduction for the Equity Portfolio by 2030 (tCO2e).	Total carbon footprint of the Fund.	189k	144.9k	112.8k	-40.4%

15. The majority of the reductions can be attributed to the significant changes to the Fund's equity portfolio since 2019 in investing in the Low Carbon Transition fund and Climate Multi-Factor fund. As at the snapshot the Fund held an overweight to the all-world passive equity fund and had yet to divest from an emerging market fund. All else being equal this would have further improved these metrics.

16. The decreases can also be attributed to a decline in asset allocation by active managers in hard-to-abate sectors such as energy and materials, towards companies within those sectors to better climate credentials. As well as a backdrop of declining carbon intensities of companies within these sectors, partially driven by sales growth outstripping emissions growth.

[1] Restated figures as per page 33 of Appendix A.
[2] As above.

Secondary Targets

Exposure to Climate Solutions and Fossil Fuels

17. As part of the NZCS it was agreed to set targets to focus on reducing exposure to fossil fuel reserves and increasing exposure to climate solutions in recognition of their respective importance in supporting the climate transition. This was despite these targets not being required or recommended through the TCFD. At the time these were set, the rudimentary nature of these metrics was recognised along with the fact that the measures would need to evolve over time as set out within the NZCS.

18. The key issue with the metrics is that they include any company within the Fund’s portfolio that has at least £1 in fossil fuel reserves or climate solutions. For both measures this results in overstating the Fund’s exposure. For example, the fossil fuel reserves exposure increase is partly as a result of an increased holding in Berkshire Hathaway, a relatively large holding in the financials sector. While the company derives less than 1% of its revenue from fossil fuel reserves, this measure considers the entire portfolio weight to be exposure to fossil fuel reserves.

	2019 (restated)	2024
Reduce exposure to fossil fuel reserves within the Equity Portfolio		
Reserves exposure	5.5%	6.4%
By revenue	2%	1.9%
Increase exposure to climate solutions within the Equity Portfolio		
Climate solutions exposure	35.6%	42.7%
By revenue	4.2%	6.5%

19. Instead, it is proposed the Fund rely more accurately on the metric that measures by revenue. This will show how reliant the Fund’s portfolio is on revenue from fossil fuel or climate solutions, though this may still result in some overestimation. For example, where oil prices have risen companies will receive greater revenue from this, despite their exposure not changing. Therefore, it is important to continue to monitor both and understand the reasoning behind any changes rather than the numbers alone.

20. These points remind us of the importance of looking holistically at the Funds exposure and reasonings for the figures overtime. While having resolved the overweight, or divesting earlier from specific funds would have looked better in the short-term, these would not have helped the Fund in having to hold excess cash.

Secondary Target	2019	2023	2024
90% coverage of assets measured by 2030	45%	47%	57.4%

21. This target remains ahead of the scheduled NZCS timescale. For the first time Central have included private market data in their analysis on Central managed portfolios, though this is still limited on a number of metrics. The Fund will work with LGPS Central for how externally managed mandates can be included in future.

Secondary Targets	2023	2024
90% of the Fund's assets under management in material sectors are classified as achieving Net Zero, aligned or aligning by 2030.	68.3%	64.2%
90% of the Fund's financed emissions are classified as achieving Net Zero, aligned or aligning, or subject to engagement by 2030.	80.7%	75.7%

22. These targets provide the Fund with a forward-looking measure to understand the extent to which the underlying portfolio is aligning to net zero. The Fund's Net Zero Climate Strategy set out the intention to work with Central to set alignment targets.

23. A company is considered at least aligning to the Paris Agreement by Central at this stage if:
    a. The company scores above median in the Low Carbon Transition Score, and it meets one of the following criteria:
    b. The company has a science-based target **or** the company has an implied temperature rise rating of 2degrees or lower.

24. This is only the second year that these metrics are able to be reported against:

- For the material sectors target we consider the definition set by the Net Zero Investment Framework to ensure efforts are channelled to the material sources of GHG emissions. While the percentage has decreased since 2023, while the percentage has decreased this is as a result of an increase in material sectors while those categorised aligned or aligning has remained the same.

- For the financed emissions target this will support the former target, as well as drive increased engagement with companies. Since this measure was first reported Central have put in place stricter rules in how they determine engagement, however, the previous year's data is unable to be reattributed. This does not cover assets engaged through LAPFF, LGIM or other Investment Managers.

25. The Fund will continue to work with Central on how best to attribute these factors and how to support increased alignment over time.

26. The last of the Fund's secondary targets relate to Leicestershire County Council and Central becoming net zero operationally by 2030. Given financial challenges with decarbonising the broader operations Leicestershire County Council agreed that this target would be pushed back to 2035. The Fund continues to discuss with Central its ability to become net zero operationally by 2030.

27. The Fund will continue to monitor and report on progress against all targets, with a view to the review of the NZCS due in 2026.

28. These metrics are not the Fund's only method of monitoring climate risk and opportunity as set out in more detail within Appendix A. This includes metrics expected to be required as part of mandatory TCFD reporting and other metrics available to Central which provide the Fund with a deeper assessment of climate risk and opportunity.

29. Some highlights from the remaining asset classes not currently under targets are set out below:

Fixed Income

30. All five fixed income mandates (£867m) are included within this analysis including the sovreign debt fund for the first time.

    i. Since 2020 corporate bond financed emissions measured have increased by 179%, this coincides with an increase of 196% in net asset value. With this in mind normalised financed emissions have reduced as well as a 46.9% decrease in carbon intensity. This has been as a result of decreased exposure to carbon-intensive companies and the significant reduction in carbon intensity of the utilities and financials sector.

    ii. Data availability continues to lag even with improved data availability of what had previously been reported for the 2023 snapshot. It is expected this will continue with next year's report showing improved 2024 data.

    iii. The Fund was still invested in the emerging market bond fund from which the Fund has now divested. The carbon intensity of this fund was four times the intensity of the next highest fund and more than double its normalised financed emissions. This will have a further positive impact on figures in future snapshots, all else being equal.

    iv. Fixed income has lower levels of engagement relative to the Fund's equity holdings due to challenges facing engagers relating to the asset class. Companies may be less likely to engage with debt holders, alongside high portfolio turnover exacerbates this issue as engagers cannot commit to long-term engagement in the same way as equity.

31. As with equity engagement metrics Central's report does not amalgamate engagement coverage through LAPFF and the Fund's external investment managers. The Fund will work with Central and its managers to ensure the expectations to integrate ESG and stewardship are reiterated and support real-world emission reductions.

Targeted Return

32. The targeted return funds do not meet the 60% corporate data threshold, so it is challenging to properly analyse the data and take meaningful conclusions from these assets. Alongside asset allocation changes with the addition of Fulcrum and removal of a previous manager. With this in mind financed emissions, normalised emission and the weighted average carbon intensity have all decreased from the previous year. A breakdown of this information is provided within the exempt paper elsewhere on this agenda.

Private Markets

33. Page 45 onwards of Appendix A sets out private market data for each fund the Fund has invested in through Central covering private equity, private credit, infrastructure and property through a mix of estimated and reported data. Central highlight the difficulties of this data within the annex. As it is the first year of reported data these funds will continue to be monitored.

Climate Stewardship Plan

34. Over the years Central in conjunction with the Fund has developed a Climate Stewardship Plan (CSP) to prioritise companies for climate engagements. This list is designed to identify the Fund's top contributors of financed emissions, as well as aligning with Central's climate

stewardship priority companies and is intended to support the delivery of meaningful portfolio company research and updates. These companies are chosen following an assessment of issuer contributions to financed emissions and the Fund's capacity to leverage change through engagement.

35. As part of the Climate Risk Management Report a review of the CSP companies has been completed. Previously Anhui Conch Cement and NextEra Energy were included in the Fund's CSP. Central have now and recommended the removal of these companies from the Fund's CSP. Firstly, the position in Anhui Conch has been fully exited within the portfolio, while Next Era has fallen to the Fund's 54th top contributor to financed emissions.

36. Along similar lines it is recommended to add CRH, a building and materials business, given its significant contribution to total financed emissions, with a relative low total weight within the portfolio.

Company Name	Weight in Total Portfolio (%)	Contribution to Total Financed Emissions
Shell	0.4%	4.3%
Cemex	0.1%	3.4%
Addition: CRH	**0.1%**	**2.5%**
Holcim	<0.1%	2.1%
bp	0.2%	1.1%
Glencore	0.2%	1.6%
Linde	0.2%	1.1%
Taiwan Semiconductor Manufacturing	1.2%	0.9%

37. Pages 21 onwards within Appendix A sets out more detail on engagements with two of the CSP companies bp and Shell. Further details on engagements and company metrics are set out within the exempt supplementary paper elsewhere on the agenda.

Fund Benchmarking

38. At the June 2024 Committee the Fund set out how it compared against other schemes. This has been updated for the latest available public data against LGPS schemes where published data seems to use the same methodology. Despite this there are still caveats which may prevent like for like comparisons, such as different data providers, assumptions used and the date at which a snapshot has been taken among other factors. It is also important to note that climate risk cannot be distilled into one single metric, and these are only backwards looking measures. Furthermore, it is worth noting that the LGPS funds reporting these figures are doing so before mandating so may also represent those already doing more than an average Fund.

39. The most widely used measure that the Fund can compare relates to the Weighted Average Carbon Intensity (WACI): a portfolio's exposure to carbon intensive companies. A proxy for carbon price risk.

40. The Fund is performing comparably and ahead of the majority of peers. For WACI you can consider this an indicator the Fund may be at less risk from the impact of carbon pricing. Of the funds performing comparably or better they are generally on the same trajectory with

asset allocation decisions driving the reductions with allocations to funds similar to the LGIM Low Carbon Transition Fund, alongside more standard passive index allocations.

Fund	Snapshot date	WACI (tco2e/$m revenue)
Leicestershire	Mar-24	77
LGPS H	Mar-23	57.6
LGPS C	Mar-24	66
LGPS J	Dec-23	79
LGPS K	Mar-24	84
LGPS E	Mar-22	90
LGPS G	Jun-23	99
LGPS B	Mar-22	100
LGPS F	Mar-23	104
LGPS D	Mar-22	123
LGPS A	Mar-23	153
LGPS I	Mar-23	228

RI Plan 2024

41. The Local Pension Committee approved the RI Plan in January 2024. The Plan was developed following discussion with Central's in-house RI team. The Fund has a continual focus on raising RI standards. Progress made to date on the 2024 RI Plan is set out in Appendix B.

42. Highlights include continued discussions with investment managers, as outlined in more detail below, and continued work alongside Central on their approach to stewardship.

43. Officers will begin developing the 2025 Responsible Investment plan to continue to enhance the Fund and the Committee's view of RI matters, in line with any relevant recommendations from the Climate Risk Management report produced by Central elsewhere on today's agenda and any best practice.

External Managers Risk Management

44. Appendix A goes into detail on performance against targets as well as examples on strategic actions, investment decisions and actions related to stewardship, engagement, and divestment. For remaining assets not currently within the remit of the report it has been vital that officers gain a better understanding of existing managers' approach to monitoring climate risk, their own targets towards net zero if they have them, and the challenges they are facing.

45. Managers have responded to Fund questions on these issues, and this has proved helpful in understanding the differences in approach taken by each manager, different asset class issues and wider industry challenges.

46. Investment managers will have different views on potential risks and opportunities, and returns from individual assets, which supports the Fund's diverse portfolio in ensuring when one area of the portfolio does badly, it will be supported elsewhere.

47. The Fund has 19 investment managers outside of Central and as of 31 March 2024 this accounted for c51% of Fund assets. There is evidence that investment managers are already taking these issues into account which is a positive step and is supportive of the Fund's long-term net zero ambition. A snapshot of just some managers commitments are set out below. Of the 17 analysed (not considering fund's that are meaningfully returning cash to the Fund).

    - 12 investment managers are members of the Net Zero Asset Manager Initiative, a group of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050, or sooner, and to supporting investing aligned with net zero emissions by 2050 or sooner. The remainder are at least signatories or supporters of the TCFD or signatories of the UN Principles for Responsible Investment.

    - 7 investment managers have some form of long, or medium-term target (or both) which apply to the Fund's investments as at March 2024. In some cases, these targets may only apply to specific investments or asset classes they hold due to challenges they report from ownership structures, or their ability to influence underlying investments, or ability to set targets on certain asset classes. Some asset classes also can't implement new targets on existing portfolios such as within private credit.

    - Of the managers that have no current targets related to the Fund's investments, the managers are either looking to set out a climate plan, focusing on data collection before target setting, such as awaiting scope 3 data, or engaging third parties on how to measure their carbon footprint given the intangible nature of the investment or difficulty of measuring the asset class, or relate to passively held investments.

48. The majority of these managers cover private markets and face significant data issues and does not mean they are not managing or monitoring climate risk.

49. A high-level snapshot of the Fund's overall position in relation to net zero, and data provision as of March 2024 is set out below against the most recent Net Zero Investor Framework 2.0 developed by the Institutional Investor Group for Climate Change.

50. This is an officer view, and while we may consider a mandate currently aligning, or covered by an overarching manager net zero target, it will be vital for progress to be monitored on a manager-by-manager basis. As previously highlighted the vast majority of these investments have been held by the Fund for a significant time, and these mandates have not been designed with net zero in mind. It is promising that despite these factors managers have set net zero targets where possible and have begun reporting metrics where possible. Where targets have not been set, this does not mean they are not considering climate issues and the Fund will continue to engage with them.

51. As set out in the NZCS the Fund will look where possible to review and develop investment mandates to increase alignment with the Fund's net zero ambitions, where this is also in line with the Fund's fiduciary duty.

52. Each block within the snapshot generally represents a mandate across both Central and existing managers. The Fund holds a number of mandates with investment managers of which vintages remain very similar. These have been grouped where relevant.

Not aligning	
Committed to aligning	
Aligning to a net zero pathway	
Aligned to a net zero pathway	

Alignment

Within Climate Risk Report	
Manager providing some data	
No data	

Data Availability

53. As highlighted previously the majority of mandates where further work needs to be undertaken relate to private markets investments due to issues relating to data scarcity and how they are able to consider net zero in the context of their existing portfolios.

54. It is positive to see that many of the Fund's external managers have set net zero ambitions and have already begun measuring the impact of their portfolios, given these portfolios do not include climate factors as a mandate requirement. Officers will monitor data provided by managers and engage with them on progress made, even where these asset classes remain out of scope of the Fund's Climate Risk Management Report produced by Central. This is supportive of the Fund's long-term net zero ambition. For managers that have not set targets the Fund will continue to monitor their progress in managing climate risk and encourage target setting.

55. The Fund has asked all managers to provide climate data where available, this will be monitored on a yearly basis. While these asset classes may be out of scope for inclusion with the climate report currently, this can enable the Fund to monitor progress on a manager-by-manager basis. Having considered data provided and in speaking to managers reporting is still at a relatively early level and there is significant variation in the style, metrics used and content of reporting produced by investment managers across asset classes. No concerns have been identified from metrics reported, however, there are areas officers will continue to engage with managers on.

56. Over time it is expected data provision will improve, particularly driven by regulatory requirements on investments and on underlying companies to report specific metrics.

57. As previously discussed even with mandates without specific climate factors managers are already making good strides in relation to managing the net zero transition. For example:

- LaSalle the Fund's property manager has estimated the portfolio will achieve net zero by 2043 based on underlying asset net zero commitments.

- Partners, the Fund's private debt investment manager, introduced Sustainability Linked Loans. These are standard loan instruments which incentivize sustainability through a set of pre-agreed Key Performance Indicators (KPIs) related to environmental, social and governance factors. Given lenders often have far less impact than equity owners, it offers a key engagement channel to incentivise positive behaviour.

- Stafford Capital, the Fund's timberland manager, provides a net negative emissions profile. As well as their comprehensive approach to ESG, Stafford place a high emphasis on forest certification, an independent third-party evaluation of the management of a particular forest against a certain standard. Stafford report that 97% of their portfolio is certified, with the remainder constituted of largely young timberland assets that are planned to be certified within the near future.

- Aegon's Global Short Dated Climate Transition fund uses climate transition data to direct investment to companies with robust credible plans to transition to a low carbon economy.

58. Ahead of this reporting cycle, officers had developed and circulated communications to scheme members that have signed up to Member Self-Service, which was subsequently circulated to LPC and LPB members. This related to what had been achieved last year in managing climate change risks and opportunities. Officers will look to issue further communications to keep scheme members up to date on the progress of the Fund on this latest update.

<u>Voting and Engagement</u>

59. Appendix C sets out the Fund's voting report from July to September 2024.

60. This incorporates circa 43% of the Fund's assets (LGIM passive funds, Central Climate balanced fund, global emerging markets fund and the global active equity fund). A brief breakdown is set out below:

- The Fund made voting recommendations at 760 meetings (7490 resolutions)
- At 437 meetings the Fund opposed one or more resolutions.
- The Fund voted with management by exception at 4 meetings and supported management on all resolutions at the remaining 318 meetings.
- The majority of votes where the Fund voted against management were related to board structure (43%). These votes include issues such as overboarding (when a director may sit on too many boards for example), diversity, and inadequate management of climate risk.

61. Some highlights from engagement activity from partners are set out below.

<u>LGPS Central Stewardship Report – June to September 2024</u>

62. Central is the pooling company of the Fund. It is a strong supporter of responsible investment through the Responsible Investment and Engagement Framework. Central's latest Stewardship Report sets out progress of ongoing and new engagements which relate to the four Stewardship Themes. This quarter the engagement set comprised 402 companies, with 566 engagement activities on 350 objectives. Positive progress was measured on 58 occasions.

Engagement	Action	Outcome
OCP Group	To ascertain that the United Nations Guiding Principles	OCP Group operates in territories with potential boundary claims and concerns indicated by the UN Special Rapporteur in the field of cultural rights. In October Central and another investor met with the OCP

	are fully integrated in its business strategy.	Group's investor relations and head of sustainability. The company confirmed that its human policy and approaches are fully integrated with the companies business strategy which includes regular suppliers' due diligence and ambitions to strengthen grievance reporting.

Legal and General Investment Management – Q3 2024

63. Legal and General Investment Management (LGIM) manage the majority of the Fund's passive equity which accounts for 17% of the Fund. LGIM's latest ESG impact report highlights some key activity in the Investment Stewardship team.

64. The latest ESG impact report highlights continued engagement on LGIM's Climate Impact Pledge, nature and the circular economy, human rights, antimicrobial resistance

Company	Theme	Action	Outcome
Japan AGM Season	Board Composition, diversity and independence.	LGIM have a policy related to Japan corporate governance and responsible investment. This includes expectations that a director with >12 years' tenure cannot be considered independent and that independent directors make up 1/3rd of the Board. Alongside diversity expectations where it started voting against the appointment of the most senior member of the Board or the nomination committee chair of the Tokyo price index 100 companies with all-male boards in 2020.	Prime listed companies have improved significantly, with 98.2% meeting these criteria (up from 73.1% in 2021). For voting against due to diversity expectations in 2024 LGIM voted against 27 Japanese companies, down from 75 in 2023. LGIM will broaden their scope next year to vote against Japanese companies with boars having less than 15% women and require at least one woman on the board of all investee companies in Japan.

Local Authority Pension Fund Forum – July to September 2024

65. The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), which acts to promote the highest standards of corporate governance to protect the long-term value of local authority pension fund assets. The latest report features an overview of engagement activities including with BP, the tobacco industry, and water stewardship among others.

Topic	Action	Outcome
Hard to abate sectors, Cement: CRH	Met with CRH to discuss actions towards achieving net zero.	LAPFF felt the meeting was encouraging. CRH has already been benefiting from cost savings and opportunity from the transition, such as cheaper electricity for kilns and other energy dependent processes, and also 'recycling' roads in renewing roads. The company's plans are thoughtful and backed by actions and implementation.

Other Developments

SAB Statement on Fiduciary Duty and dealing with lobbying.

66. In September 2024 the Scheme Advisory Board (SAB) also produced a statement on fiduciary duty and lobbying. This statement reiterates what kind of environmental, social and governance considerations are appropriate, what are not, and expected behavior at meetings. The Scheme Advisory Board are seeking opinion from Counsel as to whether there is a need to update their previous advice related to the nature of fiduciary duty for LGPS administering authorities. Officers will continue to monitor any developments and guidance, however, ultimately the report seems to align with the Fund's current approach in taking into account sustainability and climate change as part of decision making.

Biodiversity and Natural Capital

67. As with climate change, biodiversity loss has significant implications for investors. This is evident in the fact that more than half of global GDP depends significantly on nature. In comparison to climate change less attention has been paid to biodiversity loss historically partially due to difficulty in data provision and lagging regulatory requirements.

68. At the end of 2023 the Taskforce on Nature related Financial Disclosures (TNFD)published final recommendations on how companies and financial institutions can manage, monitor and report on these issues in similar vein to the TCFD recommendations for climate change. To support this direction of travel the Fund has begun trialling initial sustainability reporting with Central for equity assets which will include environmental analysis, including issues such as water stress, pollution and waste and biodiversity and indicators which will present findings and recommendations.

69. Biodiversity and natural capital also remain a key part of engagement with managers and companies. Central look to play an essential role in incentivising the protection and restoration of biodiversity, as well as mitigating and preventing the major drivers of nature loss. They are active participants in Nature Action 100 and encourage investee companies to develop and disclose a strategy to address biodiversity loss and commit to publish a report based on the TNFD recommendations.

70. During COP26 many governments pledged to halt deforestation by 2030. Financial institutions, including Central, have committed to engage with a view to eliminating commodity-driven deforestation by 2025 through engagement at policy and corporate levels. Through Central's Voting Principles they have set expectations on companies across sectors to protect nature and biodiversity as part of their ongoing climate transition efforts. This is in support of ongoing engagements with high-risk commodity sectors including palm oil, soy, beef, pulp and paper.

71. Central view policy dialogue as an important engagement tool alongside corporate engagement. Central participates in policy engagement with the government officials through the Investor Policy Dialogue on Deforestation (IPDD) initiative. The goal of IPDD is to coordinate a public policy dialogue on halting deforestation. Since 2020, the investor group has met with federal representatives, state representatives, congress members, and civil society in Brazil, UK, EU, Indonesia, and US. IPDD also holds educational and knowledge sharing sessions, and conducts outreach with investor coalitions, foreign representatives, and other relevant stakeholders.

Next Steps

72. Progress will continue against the NZCS and implementation plan. A review is scheduled over 2025/2026 and a timeline for this will be set out at the January 2025 LPC meeting.

73. This report has been shared with Hymans Robertson in support of preparation of the January 2025 Strategic Asset Allocation review.

74. Officers will continue to work with Central and external managers to monitor approaches to net zero and engagement with top contributors within their portfolios.

75. The Fund will communicate high-level results from this report recognising the interest of scheme members in climate related matters.

Supplementary Information

76. An exempt paper is included elsewhere on the agenda which includes information regarding the underlying mandate climate metrics and further information about CSP companies which cannot be included for public consideration due to the contract between the data provider and Central.

Recommendation

It is recommended that:

a) The Climate Risk Management Report attached as Appendix A to this report, and progress verses the Responsible Investment Plan 2024 (Appendix B), quarterly voting report (Appendix C) and stewardship activities and high-level overview of the Fund's investment managers net zero approaches be noted;

b) The proposed changes to the Climate Stewardship Plan companies as set out in paragraph 35 to 36 be approved;

c) The proposed to changes to the primary focus of the climate solutions and fossil fuel measures to 'by revenue' within future reporting, as set out in paragraphs 17 to 19, be approved, in recognition of the rudimentary nature of the metrics as set out in the NZCS;

d) That further consideration be given to appropriate metrics as part of the review of the Net Zero Climate Strategy throughout 2025 and 2026.

Equality Implications

77. There are no direct implications arising from the recommendations in this report. The Fund incorporates financially material Environmental, Social and Governance ("ESG") factors into investment processes. This has relevance both before and after the investment decision and is a core part of the Fund's fiduciary duty

Human Rights Implications

78. There are no direct implications arising from the recommendations in this report. The Fund incorporates financially material Environmental, Social and Governance ("ESG") factors into investment processes. This has relevance both before and after the investment decision and is a core part of the Fund's fiduciary duty

Appendices

Appendix A - Climate Risk Management Report 2024
Appendix B – RI Plan 2024
Appendix C – Voting Statistics June to September 2024

Background Papers

3 March 2023 Local Pension Committee: **Outcome of Consultation on Net Zero Climate Strategy and Responsible Investing Update**

Officers to Contact

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