



LOCAL PENSION COMMITTEE – 31 JANUARY 2025

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

DRAFT RESPONSIBLE INVESTMENT PLAN 2025

Purpose of the Report

1. The purpose of this report is to seek the Local Pension Committee's (LPC) approval of the Leicestershire Pension Fund's Responsible Investment (RI) Plan 2025 (Appendix A) to enable the Fund to further improve the management of responsible investment risks.

Policy Framework and Previous Decisions

2. 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. The first RI plan was approved at the January 2020 LPC meeting, with updated plans being presented and approved annually since. A progress update of the latest 2024 plan is attached as Appendix B.
3. Climate change factors have been considered by the Fund for a number of years. This was enshrined in the Fund's Investment Strategy Statement (ISS) 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

4. The term 'responsible investment' refers to the integration of financially material environmental, social and corporate 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 considerations.
5. The Fund's approach to responsible investment (RI) matters have been incorporated into the ISS and all actions the Fund undertakes. These are considered in two key areas:
 - Sustainable Investment: considering the financial impact of ESG factors on its investments.

- Stewardship and Governance: acting as responsible and active investors/owners through considered voting of shares and engaging with investee company management as part of the investment process.
6. In November 2024 the Fund reported its latest progress against the NZCS. High-level progress against these targets is set out below which show where the Fund has exceeded initial expectations for its net zero journey, including achieving its two interim targets ahead of the 2030 deadline.

Responsible Investment Plan 2025

7. Officers have developed the Fund's 2025 RI plan in conjunction with LGPS Central's in-house RI team. The plan includes outputs and recommendations from the Fund's latest Climate Risk Report which was supported by the Local Pension Committee at its meeting on 29 November 2024.
8. The plan builds on the four previous iterations and improves on the approach and beliefs detailed in the Fund's ISS, NZCS and discussions held by the Committee throughout 2024, as well as any areas within the 2024 Plan not yet concluded.
9. As set out elsewhere on today's agenda the 'Fit for the Future' consultation sets out a number of proposals relating to new requirements for administering authorities and pools. The proposals set out that Funds retain control over "environmental, social and governance (ESG) matters and responsible investment", however, it is likely this will need to be balanced with broader pooling and investment considerations.
10. The Fund, partner funds and the Pool will continue to work together on necessary developments throughout the year, including on RI. The Fund will work to ensure any future proposals look to enhance existing arrangements and the Fund's high-level strategic RI views as set out in paragraph 3, and the Fund's NZCS.
11. The draft RI plan for 2025 is attached at Appendix A. Some highlights are as follows:
- Continuation of quarterly manager presentations to the Local Pension Committee that include manager/LGPS Central views, performance and ESG factors.
 - Continuation of the review of the Fund's investment managers' approaches to climate risk as at 31 March 2024 to understand changes since the last questionnaire, the data that is available, and include wider RI issues as relevant, such as, the managers' approaches to stewardship. This will help the Fund understand alignment with the Fund's NZCS, and shape engagement and discussions held with managers throughout the year.
 - High level NZCS review considerations as part of the June 2025 Committee meeting.
 - Climate Risk Management Report/Task Force on Climate Related Financial Disclosures reporting. To progress additional asset class targets where data is available.

- Climate considerations as part of the triennial valuation process.
- Details will be shared when LGPS Central have organised their stakeholder day and RI Summit

12. The Committee will continue to receive quarterly reports on stewardship, voting and engagement each quarter, including a deeper dive on key updates on Climate Stewardship Plan companies as part of Annual General Meeting season at its September 2025 meeting. Committee members are encouraged to highlight any areas of particular interest (for example, sector or type of engagement) if they would like more in-depth reporting on specific matters or themes.

Engagement and Stewardship

Local Authority Pension Fund Forum (LAPFF)

13. The Fund is a member of the LAPFF, alongside Central and the other partner funds. This is a collaborative shareholder engagement group with over £350 billion in assets and accounts for most LGPS funds and pools.
14. The Forum publishes quarterly stewardship progress reports, as well as key voting alerts many of which are in relation to supporting climate lobbying and resolutions related to setting carbon emission targets. The activity of LAPFF is highlighted at each quarterly Committee meeting.
15. LAPFF engage with companies on behalf of LGPS funds, and while progress can seem slow, escalation is evidenced and supported through their collaboration with other asset owners and managers. Reports are produced quarterly on this progress and can be found on their website. The LAPFF 2024 annual report is available to read here:

https://lapfforum.org/wp-content/uploads/2024/12/LAPFF_annual-report_2024.pdf

Further Opportunities for Collaboration

16. Historically, other than the LAPFF, the Fund has not become a direct signatory to certain key initiatives relating to RI as it has been comfortable that, as its investment managers and LGPS Central have always been signatories, the Fund is adhering to the broad principles by default. At this time, it is not considered that there is any value add to undertake anything further at this stage given breadth of Central's membership. Furthermore, many of these initiatives such as the Institutional Investors Group on Climate Change publicise frameworks which the Fund has followed in development of the NZCS, which the Fund can access without membership.
17. The Fund's strategy will be to continue to engage with its investee companies and other key stakeholders through its current partnerships, in order to protect and increase shareholder value by engaging on a range of financially material ESG investment factors. This engagement programme is implemented through partnerships including LAPFF, Equity Ownership Service (EOS) at Federated Hermes (via a contract held by LGPS Central Ltd, the Fund's investment pool

operator). LGIM also have a strong engagement programme which covers a proportion of the Fund's passive portfolio.

Recommendation

18. It is recommended that

- a) The Local Pension Committee approves the Responsible Investment Plan 2025 attached as Appendix A to this report.
- b) The Committee is also asked to provide feedback on any areas of interest.

Equality Implications

19. 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. The Fund will not appoint any manager unless it can show evidence that responsible investment considerations are an integral part of their decision-making processes. This is further supported by the Fund's approach to stewardship and voting through voting, and its approach to engagement in support of a fair and just transition to net zero. There are no changes to this approach as a result of this paper.

Human Rights Implications

20. 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. The Fund will not appoint any manager unless it can show evidence that responsible investment considerations are an integral part of their decision-making processes. This is further supported by the Fund's approach to stewardship and voting and its approach to engagement in support of a fair and just transition to net zero. There are no changes to this approach as a result of this paper.

Appendices

Appendix A: Draft 2025 Responsible Investment Plan

Appendix B: Progress against 2024 Responsible Investment Plan

Background Papers

Local Pension Committee – Friday 29 November 2024 – Climate risk Management Report and Responsible Investment Update,

<https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=740&MId=7662&Ver=4>

Local Pension Committee – Friday 26 January 2024 – Responsible Investment Plan 2024,

<https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=740&MId=7538&Ver=4>

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