



LOCAL PENSION COMMITTEE – 26 SEPTEMBER 2025
REPORT OF THE DIRECTOR OF CORPORATE RESOURCES
RESPONSIBLE INVESTMENT UPDATE

Purpose of the Report

1. The purpose of this report is to provide the Local Pension Committee (LPC) with:
 - a. An update on the progress of the responsible investment plan 2025 (Appendix A);
 - b. An update on the Fund's quarterly voting report (Appendix B) and stewardship activities;
 - and;
 - c. To seek the LPC's approval to commence an engagement exercise with employers and scheme members with respect to responsible investment and climate risk. The questions being proposed are appended to this report. (Appendix C).

Policy Framework and Previous Decisions

2. Leicestershire County Council Pension Fund's (the Fund) Investment Strategy Statement (ISS) sets out that all prospective investment managers are required to take account of all financial, environmental, social and governance (ESG) factors as part of their decision-making processes before they can be considered for appointment. This is in-line with the Fund's fiduciary duty.
3. The LPC agreed the Fund's first Net Zero Climate Strategy (NZCS) on 3 March 2023, following extensive engagement with the LPC, scheme members, employers, and investment managers.
4. Climate change is one of many risks the Fund manages within the risk register. The NZCS recognises the systematic impact climate change could have on the Fund and sets out how the Fund would monitor and manage these risks and opportunities posed. Alongside other financially material factors, these considerations have fed into all decisions made since approval of the NZCS.

5. The LPC approved the annual Responsible Investment (RI) Plan in January 2025. The Plan was developed following discussion with LGPS Central's (Central) in-house RI team. The Fund has a continual focus on raising RI standards. Progress made to date on the 2025 RI Plan is set out in Appendix A.

Background

6. For the Fund, the term 'responsible investment' refers to the integration of financially material 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. The approach taken by the Fund, as set out in the ISS, is distinct from 'ethical investment,' which may look to exclude companies engaged in activities deemed 'unethical' by the investor, whereby the moral persuasions of an organisation or individual take primacy over financial factors.
7. Climate change is considered a systematic risk, given it is possible it will affect all investment asset classes, sectors and regions, as well as having implications on inflation and longevity. For example, higher average and absolute global temperatures together with extreme weather events pose risks to physical assets, while the impact to markets from a transition towards a more decarbonised economy will have its own risks and opportunities with changes in consumer behaviour, and considerations around resilience and resource efficiency. There is also a clear uncertainty around any impacts, this leads to uncertainty which markets can react to. These risks may also impact scheme members and their longevity, and impacts from crop failures, and changes in how diseases spread in warmer climates.
8. Given the Fund's long-term horizons this may result in greater exposure to climate risks, therefore identification of these vulnerabilities can inform risk management processes, helping to ensure that appropriate controls and mitigations are in place.
9. The LPC previously undertook engagement on potential net zero targets from July to September 2022 and consulted on the draft Strategy from November 2022 to February 2023 which resulted in 1,700 responses from scheme members, employers and other stakeholders, a response rate which compared well against other council and LGPS fund consultations. From this 70% of scheme members supported net zero by 2050 with an ambition for sooner, other responses either did not have an opinion, or

wanted the Fund to be more ambitious with its target, and to divest from fossil fuel companies, or believed climate change was not a concern to the Fund. The Net Zero Climate Strategy (NZCS) was formally approved by the LPC in March 2023.

10. As set out in the NZCS, the Fund is targeting net zero by 2050, with an ambition for sooner. This ambition is one that considers the risks, and potential opportunities, such as investing in emerging technologies. It is also expected that government will align private pension scheme requirements to LGPS funds, which will require Fund's to consider and disclose their climate-related financial risks and opportunities fully in line with recommendations by the Task Force on Climate-related Financial Disclosures. The Fund is also required to report on its climate scenario analysis undertaken as part of the Fund's triennial valuation which will feed into considerations.
11. Failure to consider these aspects, or exercise effective stewardship of the Fund's assets risks inferior investment performance which would negatively impact contributing employers.

Fiduciary duty

12. The LPC has a fiduciary duty to act in the best interests of employers and scheme members. Case law on fiduciary duty explains the duty as the exercise of discretionary power rationally and reasonably and for a proper purpose, by reference to relevant legal considerations. This duty can be summarised as achieving what is the best for the financial position of the Fund. Investment powers must be directed to achieving what is the best for the financial position of the Fund, to ensure the Fund is able to pay benefits.
13. With regard to ESG considerations, the guidance states that the Funds should consider any factor financially material to the performance of their investments, including ESG factors. Although pursuit of a financial return should be the predominant concern, Funds may take purely non-financial (i.e. ethical) considerations into account provided that doing so would not involve significant risk of financial detriment to the Fund and where they have good reason to think that scheme members would support their decision. To gauge scheme members support, or otherwise, Funds should explain the extent to which the views of the LPC and other interested parties (namely Fund employers and members) are taken into account when making an investment decision based on nonfinancial factors and explain the extent to which non-financial factors will be taken into account in the selection, retention and realisation of investments.

14. The appetite of the Fund for taking risk when making investment decisions is ultimately for local consideration and determination by the LPC subject to the aim and purpose of the Fund. As a reminder this is to maximise the returns from investment returns within reasonable risk parameters.
15. Therefore, based on the present law and guidance the LPC would not be acting lawfully with regard to approving investment decisions where Hymans Robertson or any successor external advisor believe a decision:
- risks conflict with the fiduciary duty to the Fund
 - risks lower investment returns.

Responsible Investment (RI) Plan 2025 Progress

16. As set out above, progress made to date on the 2025 RI Plan is appended. This includes work to begin the refresh of the NZCS. The current NZCS states it would be reviewed every three years and so is due in 2026. Further detail is set out below.

Proposed scheme member survey

17. Following the June 2025 report, and LPC member engagement as part of a workshop and circulated questions, officers have developed a survey based on the key strands highlighted for the Net Zero Climate Strategy (NZCS).
- A. Managing climate risk and opportunities
 - B. Evolution not revolution
 - C. Stewardship for real-world impact
 - D. Remaining Asset Classes
18. The survey will also look to seek wider scheme member views on responsible investment issues so these can be considered when forming policy. These can then help inform areas of interest when engaging with investment managers and LGPS Central. The proposed questions are attached at Appendix C
19. The considerations as part of the survey will not be to the detriment of the Fund's fiduciary duty to achieve what is the best for the financial position of the Fund. However, it will support the Fund in taking considerations into account where they are not to its detriment, where there is good reason to think that scheme members would support a decision. This is set out in more detail in paragraph 44 onwards, and is in line with the Scheme

Advisory Board's legal advice on investments and non-financial considerations.

20. It is important to note that these questions are not about developing exclusions or limitations, but ensuring the Fund's approach to engagement with companies addresses issues scheme members feel are most important. The outcome will also need to be considered in the context of pooling and practicalities.
21. It is proposed to conduct a stakeholder survey through Leicestershire County Council's inhouse consultation webpage. Subject to approval by the LPC, the process will be conducted in line with best practice guidance for a period of about 10 weeks, expected to extend from 8 October to 17 December 2025.
22. This will be undertaken by emailing all scheme members (active, deferred and retired) that have email addresses available (circa 40,000) as they have signed up to the member self-service website, emailing all employers of the Fund, including requesting that they advertise the survey on their intranet pages where possible, and advertisement on the Pension Fund website. This will also be highlighted as part of the Fund's AGM on the 15 December 2025 that is open to all scheme members and employers. This is deemed to be the most cost-effective solution.
23. A proposed timeline is set out below for approval and consultation, while noting these may need to be flexible depending on work also taking place around Fit for the Future. Responses and information will be fed back to the LPC for discussion as part of the NZCS review, and officers will consider organising a LPC workshop to go over key considerations.

Date	Comment
26 September 2025	Proposals for Committee to agree regarding engagement with scheme members and employers of the Fund on key themes for the strategy.
8 th October to 17 th December	Consultation period
5 December 2025	Committee to review Climate Risk Report for data as at 31 March 2025.
February 2026	Local Pension Board oversight of Climate Risk Report and Strategy considerations.
March/ June 2026	Engagement outcome and redrafted strategy.

Voting and Engagement

24. Appendix B sets out the Fund's voting report from April to June 2025. This incorporates circa 42% of the Fund's assets (LGIM's Global, UK and Low Carbon Transition fund, LGPS Central's Climate Multi Factor fund and the Global Equity Active fund).

25. A brief breakdown is set out below:

- The Fund made voting recommendations at 3449 meetings (48515 resolutions)
- At 2371 meetings the Fund opposed one or more resolutions.
- The Fund voted with management by exception at 39 meetings, abstained at three meetings and supported management on all resolutions at the remaining 1036 meetings,.
- The majority of votes where the Fund voted against management were related to board structure (36%). These votes include issues such as over boarding, diversity, and inadequate management of climate risk.

26. This quarters report covers March to June which is a key period where many public companies' annual meetings occur. Key highlights include:
- a. In the US the number of shareholder proposals filed dropped considerably, following changes to the US Securities and Exchange Commission which has seen some investor actions struck down.
 - b. There was an increase in the volume of 'Anti-ESG' shareholder resolutions, however these continued to receive minimal support, averaging 2.5% in 2025 (2.4% in 2024).
 - c. Proposals related to artificial intelligence received relatively high level of support compared to other environmental and social-related shareholder proposals, showing investors see an increasing need for additional risk management with AI's rapid development.
 - d. Proposals mainly around protecting shareholder rights, increasing board accountability and establishing fair voting procedures saw an increase.
 - e. Only governance-related shareholder proposals received over 50% support, a change from previous years where these were more evenly distributed across ESG themes. This is likely as a result of the changing political environment but also asks becoming more ambitious after earlier AGM's covered easier wins.

27. LAPFF issue voting alerts for consideration by investment managers. LGPS Central are also a member of LAPFF, over the voting period were aligned or had partial alignment over 66% with misalignment for 33%. Misalignment largely related to Central's view that companies already provided sufficient information to shareholders, or wanting to ensure companies had the discretion to manage potential risks effectively, or using different votes to indicate concern over a specific issue.

28. Below sets out key vote alignment from LGPS Central in relation to Stewardship Plan Companies where LAPFF had issued a vote alert. A more detailed analysis of progress with broader Stewardship Plan Companies will be included in the Climate Risk Report in December.

Company	LAPFF Voting Alerts Issued	Commentary
BP	Yes	Misalignment between Central and LAPFF on 3/5 LAPFF recommendations, these are largely due to differences of where Central feel votes against management recommendations are placed to address concerns on climate governance, and executive pay – for example not voting against the annual financial statements given they reflect a true and accurate representation of the business with a unqualified auditor opinion, and instead voting against the Chairman and others in their roles.
Shell	Yes	LAPFF issued 3 recommendations which Central did not align with. One of these included an abstention on a shareholder resolution due to Central continuing to progress ongoing dialogue with the company, and noting the steps taken by Shell to increase disclosure on liquid natural gas (LNG).

29. Officers will continue to monitor key votes and alignment, and progress on Central's engagement initiatives. As part of the preparation for the Climate Risk Report with LGPS Central the Fund will review these companies to understand if they should remain on the Climate Stewardship list, either given progress achieved or changes to the portfolio which mean other companies should be prioritised

30. Some further highlights from engagement activity from partners and investment managers are set out below.

LGPS Central – April to June 2025

31. Central is the pooling company of the Fund. It is a strong supporter of responsible investment through the Responsible Investment and Engagement Framework.

Company	Theme	Outcome
Bayer	Remuneration.	<p>Central voted against the remuneration report due to concerns with executive pay packages (base salary and pensions increased by 33,3% compared to the previous year above median peers). Pension contributions to some executives amount to 40% of respective base salaries which are particularly high.</p> <p>Central also had a concern that the annual bonus and long term incentive plan is paid all in cash, which does not align with the interests of long-term shareholders. The vote received 32.6% dissent and Central expect the company to consult with shareholders on the executive pay package.</p>

Legal and General Investment Management – Q2 2025

32. Legal and General Investment Management (LGIM) manage the majority of the Fund's passive equity which accounts for 17.3% of the Fund. LGIM's latest ESG impact report highlights some key activity in the Investment Stewardship team.

33. The latest ESG impact report highlights key engagements across LGIM's global stewardship themes. An example of their activities are as follows:

Theme	Issue	Outcome
RWE	Due to rising negative sentiment around renewables RWE have come under increasing pressure from short-term focused investors to return capital at the expense of renewable capital expenditure.	<p>LGIM are engaging with RWE to ensure there is not a misallocation of capital and so they do not prioritise short-term shareholder concerns at the expense of long-term value creation.</p> <p>RWE have acknowledged LGIM's analysis on the subject and have called out the view of LGIM and other like-minded investors on their Q1 earnings call when faced with the question of increasing short-term shareholder returns. LGIM will continue to refine their analysis and investment case in this space and will continue to engage with the company.</p>

Local Authority Pension Fund Forum: April to June 2025

34. 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. Highlights from the latest quarterly report include collaboration in Asia, water stewardship in mining, energy suppliers and transition risks, luxury goods and human rights, conflict affected and high-risk areas and heightened human rights due diligence, and executive pay oversight. As an example:

Topic	Action	Outcome
Taylor Wimpey – UK housebuilder on climate transition planning	LAPFF met with the Chair who outlined the company's decarbonisation and just transition developments.	Taylor Wimpey along with other housebuilders expressed frustration with the lack of clarity around the forthcoming Future Homes Standard. LAPFF will also continue to monitor and follow how they advances its decarbonisation and just transition plans in practice, including homes and technology testing, contractor training, supply chain resilience, and equitable, workforce adaptation, especially in the face of broader sectoral pressures such as skills shortages and energy-grid limitations.

Ruffer – Q2 2025

35. Forming a small proportion of the Fund's portfolio, Ruffer invest in a handful of equities on behalf of the Fund within the targeted return portfolio. Their approach to engagement includes looking at developing an understanding of whether specific issues were industry-wide issues or specific to a company, and continuing work to support the market infrastructure needed to help managers make more informed investment decisions.
36. One of their tools is their resource usage and productivity indicator (RUPI) a quantitative model which assesses companies on nine variables they believe are integral to fostering value creation that should deliver shareholder returns over the long term. This allows Ruffer to identify gaps in disclosure and then engage with the laggard companies. For example, this quarter they engaged with the following company, noting they have low absolute RUPI scores, lag their global peers, and have low scopes for the disclosure of extra financial data they track.

Company	Issue	Outcome
ArcelorMittal	For the Company to update its Climate Action Report for its European business.	Ruffer tabled a letter at the AGM – this was because a detailed climate transition plan gives investor valuable information, and can be a deeper insight into strategies to protect and grow shareholder value. The company have since outlined its near-term and longer-term actions

37. Ruffer also signed an open letter published by the [Forum pour L'Investissement Responsable \(FIR\)](#), alongside financial institutions which in aggregate manage €2.4 trillion in assets when launching an initiative to support climate plans to ensure economic resilience. The letter highlighted the incentives for investment in adaptation, with companies which comprehensively assess their risk exposure estimating that 'their current investments in adaptation and resilience could yield between \$2 and \$19 for every \$1 invested.'

Resource Implications

38. The strategy review is planned and scoped based on existing Pension Fund resource as set out in the Pension Fund Budget and Business plan approved in March 2025.

Recommendations

39. It is recommended that the Local Pension Committee notes the report and approves the proposed engagement process with Employers and Scheme Members (Appendix C).

Background papers

Net Zero Climate Strategy

https://leicsmss.pensiondetails.co.uk/documents/LCC-Pension-Fund-Net-Zero-Climate-Strategy.pdf?language_id=1

Overview of the Current Asset Strategy and Proposed 2025 Asset Strategy Local Pension Committee Friday 31 January 2025

<https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=740&MId=7986&Ver=4>

Responsible Investment Plan 2025 Local Pension Committee Friday 31 January 2025

<https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=740&MId=7986&Ver=4>

Equality Implications

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

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.

Appendix

Appendix A: RI Plan Update

Appendix B: The Fund’s Quarterly Voting Report

Appendix C: Draft survey questions

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