Leicestershire County Council

LOCAL PENSION COMMITTEE – 5 DECEMBER 2025

DIRECTOR OF CORPORATE RESOURCES

CLIMATE-RELATED DISCLOSURS REPORT 2025 AND RESPONSIBLE INVESTMENT UPDATE

Purpose of the Report

1. The purpose of this report is to:
   a. Provide to the Local Pension Committee (LPC) the Fund's 2025 Climate Related Disclosures Report (Appendix A) and recommend changes to the Climate Stewardship Plan.
   b. Update the LPC on progress verses the Responsible Investment Plan 2025 (Appendix B), quarterly voting report (Appendix C) and stewardship activities.

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. 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.

4. 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.

5. 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.

6. 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 B.

7. At the November 2024 Committee meeting it was agreed that targets in relation to climate solutions and fossil fuel exposure would primarily be measured through revenue exposure, rather than any company with £1 of exposure which led to some overstatement of the Fund's exposure to potential risk, or risk of greenwashing in relation to exposure to climate solutions.

Background

8. For the Fund, 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. The approach taken by the Fund, as set out in the Investment Strategy Statement (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.

9. 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. While there are also impacts from potential policy changes, including any reversal of climate policy action, or changes in assumptions.

10. 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.

11. 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 the government will align private pension scheme requirements to LGPS funds, which will require Funds 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 (TCFD). 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.

12. Failure to consider these aspects, or exercise effective stewardship of the Fund's assets risks inferior investment performance which would negatively impact contributing employers.

Climate Related Disclosures Report 2025

13. The report is structured to align with the four pillars of the TCFD and facilitates public disclosure against this framework: Governance, Strategy, Risk Management, and Metrics and Targets. The report has continued to develop in light of previous Committee comments in relation to reporting on stewardship outcomes, expansion of metrics and simplification where possible.

    Progress Against the Net Zero Climate Strategy

14. 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.

15. 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 55.6%, 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 42.2% from a baseline set in 2019, by 2030 for in-scope investments.

c. The Fund now has over £1.5 billion (circa 20% of the total Fund) directly allocated to climate-related investments across equity, debt, infrastructure and forestry. These investments support the Fund's wider fiduciary duty and have not had a negative impact on the Fund's return.
d. Within the equity portfolio 75.8% of equity financed emissions are considered to be aligned/aligning to the Paris Agreement, or under an engagement programme. This sets the Fund on a positive trajectory to 2050 in supporting real-world change.

16. This progress is against the backdrop of increasing assets under management and the Fund's passive 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, as set out in the table below.

Fund name	Performance (%)			Commentary
	1 Year	3 years	Since inception	
LGPS Central All World Equity Climate Multi Factor	17.0	15.1	11.9 (December 2020)	This fund tilts towards companies with green revenues. This is performing ahead of benchmark.
LGIM All World (No tilt)	17.1	n/a	18.8 (November 2023)	This is a standard passive equity fund we expect to match the benchmark. This is performing in line with the benchmark.
LGIM Low Carbon Equity Fund	18.2	n/a	19.7 (November 2023)	This fund tilts to increase exposure to 'greener' companies. This is performing in line with the benchmark.
LGIM UK Equity (No tilt)	16.2	14.5	11.3 (December 2013)	This is a standard passive UK equity fund. This is performing in line with the benchmark.

17. Appendix A goes into further detail on actions taken by the Fund and Committee in accordance with best practice. These efforts have delivered early successes, reflecting the Committee's clear direction and strong commitment.

18. 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

19. 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 29 of Appendix A.

	Use Case	**2019[1]**	**2024**	**2025**	**% change since 2019**
50% carbon intensity reduction by 2030 for the Equity Portfolio (tCO2e/$m sales)	Exposure to carbon-intensive companies.	162	76.7	72	-55.6%
40% absolute carbon emissions reduction for the Equity Portfolio by 2030 (tCO2e).	Carbon footprint of the Fund's equity holdings. This can indicate the level to which the Fund may be negatively impacted by transition risks, which are direct and typically attributable to government policy.	190k	110k	110k	-42.2%

20. 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. Alongside a lower exposure to carbon-intensive companies with specific reductions in the financed emissions of the utilities and materials sector.

21. This reflects the Fund's efforts to manage climate related risks, indicating reduced exposure to financially material risks within these holdings.

Secondary Targets

Exposure to Climate Solutions and Fossil Fuels

22. 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 and managing financially material risks to the Fund.

	2019 (restated)	2025
Reduce exposure to fossil fuel reserves within the Equity Portfolio		
By revenue	3.13%	2.19%
Increase exposure to climate solutions within the Equity Portfolio		
By revenue	3.8%	6%

23. It is important to consider these measures holistically and understand the Fund's exposure over time and recognise that the Fund is a diversified asset owner in a range of assets globally.

Secondary Target	**2019**	**2023**	**2024**	**2025**
90% coverage of assets measured by 2030	45%	47%	57.4%	56%*

*This will increase to 71.8% upon distribution of the Fund's pooled private market climate metrics.

24. This target remains ahead of the scheduled NZCS timescale. Central will also provide private market data in their analysis on Central managed portfolios, subject to further authentication and checks. The Fund will work with LGPS Central for how externally managed mandates can be included in future as part of their future oversight responsibilities.

		2023	2024	2025
90% assets under management (AUM) in material sectors to be classified as net zero, aligned or aligning by 2030.	Material sector AUM	£2.3bn	£2.5bn	£2.6bn
	Material sector AUM aligned/aligning	£1.6 bn	£1.6bn	£1.7bn
	Proportion of AUM aligned/aligning	68.3%	64.2%	64.5%

25. For material sectors target we consider the definition set by the Net Zero Investment Framework to ensure efforts are channelled to the material sources of emissions. While the proportion of alignment has decreased since 2023, this is as a result of a faster increase in material sector AUM to that which is aligned or aligning.

26. The Fund will continue to engage with LGPS Central on these metrics; however, it is recognised this is particularly challenging given, for example, building materials are regarded as a hard to abate sector, with limited low-carbon alternatives, while demand for building materials, is unlikely to diminish. It is important that engagement with these companies focuses on ensuring they are considering climate-related uncertainties.

Proportion of financed emissions considered to be Paris aligning/aligned by LGPSC's net zero alignment metric or under engagement 90% by 2030.	**2023**	**2024**	**2025**
	80.7%	75.7%	75.8%

27. It is important to note that engagement data is not able to be restated, historic engagement metrics are therefore reflective of previously reported values. In addition to this, LGPS Central's methodology to determine if a portfolio company has been engaged has been improved to for 2024 reporting apply a stricter definition of engagement. This measurement also does not cover engagement activities by the Fund's passive equity manager LGIM, who have extensive activities as reported quarterly.

28. The Fund will continue to work with Central on its engagement processes and support expanding their engagements to cover more financed emissions, particularly as Central have assumed management of the Fund's passive LGIM equity funds.

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

30. The final secondary target focuses on operational net zero targets relating to the County Council and LGPS Central. It is noted that the County Council has shifted its priorities towards climate adaption and addressing severe weather impacts within the county. In line with the 'Fit for the Future' proposals, it will be appropriate to concentrate on ensuring that LGPS Central deliver their stated commitments.

31. 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, alongside comments from

scheme members and employers in the ongoing Responsible Investment Survey that closes on 5 January 2026.

32. 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.

Climate Stewardship Plan

33. 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.

34. As part of the Climate-Related Disclosures a review of the CSP companies has been completed. Central have proposed two additions as set out in the below list. It is also proposed to remove Taiwan Semiconductor Manufacturing Company, as while it remains a significant contributor to the Fund's financed emissions, this is primarily due to its portfolio weight reflecting its prominent position in the market benchmark, while its emissions are notably lower than those of the remaining constituents of the plan.

Company Name	Portfolio Weight	Financed Emissions	Contribution to Financed Emissions
Shell	0.49%	8,333	5.37%
Add: ArcelorMittal	0.03%	5,401	3.48%
Glencore	0.19%	2,997	1.93%
Bp	0.28%	2,818	1.82%
Add: RWE	0.04%	2,558	1.64%
Cemex	0.02%	1,890	1.22%
Add: Rio Tinto	0.11%	1,551	1.00%
Holcim	0.01%	838	0.54%
CRH	0.04%	686	0.45%
Linde	0.18%	1,536	0.99%

35. Page 20 within Appendix A sets out more detail on engagements with Shell. Further details on engagements and company metrics are set out within the exempt supplementary paper elsewhere on the agenda.

Fund Benchmarking

36. The Fund has previously 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 it has been mandated so may also represent those already doing more than an average Fund.

37. The most widely used measure to which the Fund can compare relates to the Weighted Average Carbon Intensity (WACI): a portfolio's exposure to carbon intensive companies. This can be seen as a proxy for carbon price risk.

38. 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)
h	2025	58.4
d	2024	64.9
i	2024	66.3
e	2024	69.3
Leicestershire	2025	72.2
a	2024	73.9
g	2024	98.8
f	2025	101
c	2024	104
b	2024	145
j	2024	147

RI Plan 2025

39. The LPC approved the RI Plan in January 2025. 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 2025 RI Plan is set out in Appendix B.

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

41. Officers will begin developing the 2026 RI Plan to continue to enhance the Fund and the Committee's view of RI matters, in line with any relevant recommendations from the Climate-Related Disclosure report produced by Central elsewhere on today's agenda, any best practice and considerations from the RI Survey outcome.

Voting and Engagement

42. Appendix C sets out the Fund's voting report from July to September 2025.

43. This incorporates circa 43.8% 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:

44. The Fund made voting recommendations at 768 meetings (7078 resolutions)
    - At 611 meetings the Fund opposed one or more resolutions.
    - The Fund voted with management by exception at 7 meetings and supported management on all resolutions at the remaining 150 meetings.
    - The majority of votes where the Fund voted against management were related to board structure (37%). 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.

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

LGPS Central Stewardship Report – June to September 2025

46. 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 935 companies, with 1,220 engagement activities on 854 objectives. Positive progress was measured on 81 occasions.

Engagement	Action	Outcome

The Sherwin-William Company	Cosigned letter to the company on expectations of Nature Action 100 group with regard to nature impacts and dependencies.	The company commissioned an analysis of all the company's owned and leased manufacturing operations, distribution, major office, research and development and data centre location for nature related impacts and dependencies. Central discussed the results in the meeting with the company, and noted the highest modelled dependency related to flood protection which was deemed to be a moderate risk. Sherwin-Williams also state that they will continue to focus on physical climate risks for strategic planning purposes, with an emphasis on water stress as a predominant long-term risk. Considering that a nature impacts and dependencies assessment was conducted and the results publicly disclosed, this engagement objective has been met.

Legal and General Investment Management – Q3 2025

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47. Legal and General Investment Management (LGIM) manage the majority of the Fund's passive equity which accounts for 18.2% of the Fund. LGIM's latest engagement report highlights some key activity in the Investment Stewardship team.

48. The latest report highlights the importance of holding investee companies to account to ensure companies have people that are well-equipped to crease resilient long-term growth and encourage management to control risks while seeking to benefit from emerging opportunities.

Company	Theme	Action	Outcome
Heidelberg Materials	Sustainability	LGIM saw Heidelberg as having the potential to be a sustainability leader in heavy building materials, with the most ambitious emissions intensity target in the sector. Recognising that reducing the cement sector's emissions plays a critical role in global	Heidelberg hosted a Capital Markets Day which emphasised the value of the sustainability strategy, including specific numbers on the margin impact of their carbon capture and storage project. Since LGIM initiated their position Heidelberg's share price

		decarbonisation LGIM see its sustainability strategy as a critical driver of value. LGIM engaged on several occasions to encourage leadership to improve disclosure to investors of the value framework for sustainability, to catalyse the value from its sustainability strategy.	has more than doubled and outperformed its peers by 20-30% over the period. Coinciding with a period where the company has meaningfully demonstrated its ability to deliver on one of the most ambitious emissions intensity reduction target in the sector.

Local Authority Pension Fund Forum – July to September 2025

49. 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**
Water Stewardship .	LAPFF met with Severn Trent's Chair. The company noted the transition to a new consolidated regime following the Independent Water Commission's findings. Seven Trent noted that they held a 4-star EPA rating for five years, the only UK water company to do so and led the sector with the lowest overflow spills in 2024. However, LAPFF note that the average duration of storm overflow spills rose to 7.3 hours in 2024 highlighting the need to accelerate their investment programme. LAPFF will continue to scrutinise the company following enforcement actions and the 2024 Panorama allegations over governance, remuneration and assurance over data and dividends, alongside other water companies.

Next Steps

50. This report will be shared with Hymans Robertson in support of preparation of the January 2026 Strategic Asset Allocation review.

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

52. The Fund will communicate high-level results from this report recognising the interest of scheme members in climate related matters, as well as consider the outcome of the ongoing responsible investment survey.

Supplementary Information

53. 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 Related Disclosures Report attached as Appendix A to this report, and progress verses the Responsible Investment Plan 2025 (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 paragraphs 34 and 35 be approved.

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

Fiduciary Duty and the LGPS

https://democracy.leics.gov.uk/documents/s171065/Appendix%20A%20Fiduciary%20duty.pdf

Equality Implications

54. 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

55. 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 decisions and is a core part of the Fund's fiduciary duty.

Environmental Implications and Taskforce for Climate Related Financial Disclosure compliance.

56. The Fund has developed a Net Zero Climate Strategy (NZCS). This outlines the high-level approach the Fund is taking to its view on climate risk. This will align with the Fund's Responsible Investment approach as set out in the Investment Strategy Statement. The Fund is committed to supporting a fair and just transition to net-zero. There are no changes to this approach as a result of this paper.

57. This report provides an ongoing overview of how external partners engage on stewardship matters, including in relation to climate engagements. This supports the Fund's compliance to TCFD recommendations as referenced alongside other Committee activity in Appendix A.

Officers to Contact

Appendices
Appendix A: Climate Related Disclosures report
Appendix B: RI Plan Update
Appendix C: The Fund's Quarterly Voting Report

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