LOCAL PENSION BOARD – 4 FEBRUARY 2026

DIRECTOR OF CORPORATE RESOURCES

CLIMATE RELATED DISCLOSURE PROGRESS UPDATE

Purpose of the Report

1. The purpose of this report is to provide an update to the Local Pension Board (LPB) on the latest Climate Related Financial Disclosure Report for the Leicestershire County Council Pension Fund and activities of the Fund since approval of the Net Zero Climate Strategy.

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.

Background

5. 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.

6. 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.

6. 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.

<u>Progress Against the Net Zero Climate Strategy</u>

7. In March 2023 the Local Pension 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.

8. 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.

9. 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.

10. 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

11. 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.

	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%

12. 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.

13. 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

14. 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%

15. 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.

16. This target remains ahead of the scheduled NZCS timescale. LGPS Central (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 Central for how externally managed mandates can be included in future as part of their future oversight responsibilities.

90% assets under management (AUM) in material sectors to be classified as net zero, aligned or aligning by 2030.		**2023**	**2024**	**2025**
	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%

17. 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.

18. The Fund will continue to engage with 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%

19. 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.

20. 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.

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

22. The final secondary target focuses on operational net zero targets relating to the County Council and 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 Central deliver their stated commitments.

23. 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 closed on the 5 January 2026 and is in the process of being considered.

24. These metrics are not the Fund's only method of monitoring climate risk and opportunities, the report appended to the Local Pension Committee in the background papers contains further information. 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.

Fund Benchmarking

25. 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.

26. 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.

27. 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

Next Steps

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

29. 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 responsible investment survey that closed on 5 January with how that informs Fund policies.

Recommendation

30. It is recommended that the report be noted.

Equality Implications

31. 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

32. 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

Background Papers

Local Pension Committee – Friday 5 December 2025– Climate Related Disclosure Report and Responsible Investment Update, https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=740&MId=7990

Local Pension Committee – Friday 31 January 2025 – Responsible Investment Plan 2025, https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=740&MId=7986

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