



LOCAL PENSION COMMITTEE – 20 MARCH 2026
REPORT OF THE DIRECTOR OF CORPORATE RESOURCES
OUTCOME OF THE RESPONSIBLE INVESTMENT SURVEY AND
RESPONSIBLE INVESTMENT UPDATE

Purpose of the Report

1. The purpose of this report is to:
 - Advise the Local Pension Committee (LPC) of the key findings from the survey on responsible investment (RI) views.
 - Seek approval of the Responsible Investment Plan 2026/27 in line with the outcome of the survey.
 - Present an update on the Fund's quarterly voting and stewardship activities undertaken on its behalf via LGPS Central (Central), LGIM, and the Local Authority Pension Fund Forum

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. This recognised climate change is a systematic financial risk that could impact all sectors and asset classes.

Background

4. 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.

5. 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.
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.
7. 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 a combined 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.
8. 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.

9. Failure to consider these aspects, or exercise effective stewardship of the Fund's assets risks inferior investment performance which would negatively impact contributing employers.
10. The Committee also received a report as part of the 30 January 2026 Strategic Asset Allocation review included recommendations from Hymans Roberston on the Fund's approach to engagement and divestment this included setting clear escalation expectations with Central, strengthening responsible investment themes beyond climate risk, and maintain a practical engagement first approach.

Fit for the Future

11. The Fund is awaiting final guidance from Government on pooling, governance and investment strategy statements in line with fit for the future proposals. From draft guidance it is clear that administering authorities (AAs) must (a legal requirement):
 - Be transparent with their approach to responsible investment and must maintain the highest standards in managing financial risk.
 - ISS must set out AAs approach to responsible investment.
 - The AA has no role in making decisions relating to, "Views on geographical zones of investment or exposure targets" and "Investment decisions on individual holdings"
12. That AAs should (recommended and best practice, should generally be followed unless there is a justifiable reason not to):
 - Consider all factors, including ESG factors, that are financially material to performance of their investments and the impact of their investments.
 - Exercise caution against undue influence from campaign groups whose positions may not reflect the views of members or align with the fund's fiduciary responsibilities.
 - Set their RI approach in collaboration with their pool and partner AAs to maximise the alignment between their approach and that of partner AAs
 - Responsible investment policies should aim to deliver positive real-world outcomes
13. That AAs may (permitted but optional and provides discretion):
 - Also take non-financial considerations into account provided that doing so would not involve risk of significant financial detriment to the fund,

and where they have good reason to think that scheme members would support their decision

- Include a preference for investments which have a positive impact as well as an acceptable financial return. AAs may also choose to indicate that a lower return on a limited proportion of their portfolio is acceptable in order to achieve ESG-related goals.
- AAs should take account of the views of employer and member representatives on their approach to responsible investment

14. Throughout this the Fund has to engage with its pool. While pools must endeavour to respect the RI approach set by a Fund, this must be balanced with delivering the other objectives of the AA. If an AA sets an RI approach which is in conflict with the AA's other objectives or is not reasonably practical to implement efficiently, for example, by including an overly prescriptive set of exclusions, it may not be possible for the pool to fully implement the RI approach of an AA.

15. The Fund remains responsible for setting its responsible investment approach, which it will engage on and communicate to Central.

16. Central will continue to support the Fund with training, climate risk monitoring, and voting shares, and these services will extend to legacy assets as appropriate. Central set their broad RI approach in collaboration with partner funds. They may provide different offerings, however, largely will need to maximise alignment which the Fund should look to support.

Responsible Investment Survey

17. The purpose of the survey was to gather members' views on responsible investment and climate related risks to support policy development and engagement with Central and other investment managers. This was to ensure these issues that are important to members are considered, where compatible with the Fund's fiduciary duty.

18. The survey ran from 20 October 2025 to 5 January 2026, which sought the views of a wide variety of stakeholders including scheme members (active, deferred and retired) and employers. Responses were also received from other stakeholders.

19. The survey asked for views on the Fund's approach to responsible investment, what issues were most important to them, and about the Fund's wider approach to managing climate risk. A report of the outcome of the survey is attached as Appendix C. The following steps were taken to ensure

scheme members and Fund employers had sufficient opportunity to respond to the engagement exercise:

- Multiple emails to circa 45,000 scheme members (that the Pension Service held email addresses for) with a link to the consultation.
- The engagement was available via the Pension Fund's website and was highlighted on the main page.
- It was highlighted as part of the Annual General Meeting open to all scheme members
- All employers were sent Employer Bulletins highlighting the engagement and asking them to respond and share the engagement with their staff.

20. Over 2400 responses were received. This compares well against previous engagements on development of climate targets and the Fund's Net Zero Climate Strategy in 2022/23 which received c.1400 and c.700 responses respectively.
21. All responses are considered collectively, and with due regard to the advice provided by Nigel Giffin KC in relation to fiduciary duty, whereby it was noted that it is not expected that employer views on non-financial factors to take primacy over scheme member representatives.
22. A workshop was held on the 4 March 2025 with Committee members, on the key findings from the surveys and considerations, and those views alongside the survey response itself have been incorporated into the Responsible Investment Plan (Appendix A), and Investment Strategy Statement elsewhere on the agenda, further to the below. Officers have also discussed findings with Central.
23. As part of the survey, respondents were asked if they understood that pension contributions are invested to grow the Fund and keep employer contributions manageable, without any risk to scheme member benefits. From this question 21% indicated no, while this question was used as a primer to remind respondents that their pension benefits are not at risk, in free text comments there was still concern over any implications to their pensions. This will be taken into account for ongoing communications with scheme members.

Importance of Environmental, Social and Governance Factors

24. Question 4 asked respondents to rate the importance of specific environmental, social and governance factors (ESG). These were ranked as follows for respondents that indicated either "Very" or "Fairly" important.

1. Economic factors (95%)
2. Investor protections and rights (93%)
3. Company management (88%)
4. Human Rights (87%)
5. Labour Standards (84%)
6. Natural Capital (80%)
7. Climate risks and opportunities (79%)
8. Technology and Artificial (66%)

25. Question 5 asked whether respondents believed companies with a focus on ESG issues are more likely to be well run and deliver stronger financial returns for the Fund. Respondents indicated, Yes (21%), Maybe (44%), No (21%), Don't Know (15%).

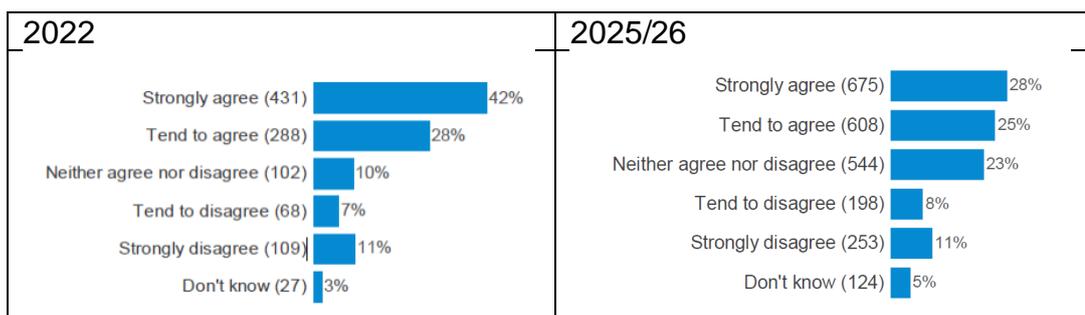
26. The divergences show that while respondents feel economic factors are most important, and that specific ESG issues are important, valuing an issue does not necessarily mean they are sure it will impact returns. This is recognised with the complexity of ESG reporting and financial impact.

Climate Risk

27. The survey then asked a number of questions related to the Fund's approach to managing climate risk that are summarised below.

28. Question 6: To what extent do you feel climate change presents a risk to the Fund's investments: 21% a great deal, 55% to some extent, 13% not very much, 5% not at all, 6% don't know,

29. Question 7: To what extent do you agree or disagree with the Fund's ambition to achieve net zero by 2050 with an ambition for sooner. When comparing this with a similar question asked back in 2022 on whether respondents agreed the Fund should set a net zero target, there is clearly a reduced level of certainty of support, however the percentage of those that disagreed did not meaningfully increase.



30. Respondents were also invited to set why they felt like this for question 7, the themes are set out in more detail in Appendix C, including examples of comments received, but largely of the 1201 responses: 553 were supportive of the target, 212 felt it was unrealistic due to the size of the Fund, or geopolitical factors, and 161 felt financial factors were most important for the Fund to consider.
31. When considering this alongside question 6, clearly the majority of respondents feel climate presents some form of risk to investments, however there is less certainty on a net zero target for the Fund mitigating those risks.
32. Question 8 asked which approaches do you believe are most important to be considered when forming policy and to focus on when engaging with investment managers? Respondents were able to pick their top three options which were ranked as follows:
- a. By regularly monitoring and reporting on climate related risks and opportunities that the Fund can take account of in its investment strategy (1492)
 - b. Shift investment away from industries most at risk from climate change, and towards solutions like renewable energy, sustainable forestry, and green technology (1346)
 - c. Support investment managers to set a clear approach to managing climate risk and climate targets (1240)
 - d. Prioritise financial returns by giving investment managers the freedom to manage risks as they see fit (840)
 - e. Keep investing in carbon-intensive sectors like energy, construction, and agriculture but engage alongside partners to encourage change to support real-world impacts (806)
 - f. Other (91), these responses were split by comments which reflected other choices within the options, comments relating to divestment and the importance of focusing on financial risk.
33. Question 9: To what extent do you agree or disagree that the Pension Fund should apply targets to more of its investments as guidance develops? 21% Strongly agree, 28% tend to agree, 24% neither agree nor disagree, 12% tend to disagree, 12% strongly disagree, 4% don't know.
34. Respondents were also invited in question 10 to set out any other comments that they may have on responsible investment matters, which are set out in more detail in Appendix C. These reflected earlier themes like the importance of focusing on financial factors first (141), managing climate risk

as a long-term risk (75), as well as comments in relation to ethical investment and divestment (95) and other investment suggestions (46).

35. As set out in paragraph 11 specific investment or divestment decisions will not be issues for the Fund to determine, however it will be for the Fund to engage with LGPS Central to make sure it is monitoring risks and investment managers in a way that is not detrimental to the Fund, and that it is engaging with companies to protect long-term value. The Fund will continue to develop this as pooling progresses.

Key Findings

36. From this there are four key takeaways, which are set out below, these are actionable areas that align with requirements of fit for the future and draft guidance, as well as recommendations from Hymans January report on engagement and divestment. These will be taken forward subject to Committee approval of the RI Plan (Appendix A), and within the draft ISS set out elsewhere on the agenda.

37. **Economic factors remain most important.** It is important the Fund does more to demonstrate work undertaken with RI delivers stronger financial returns.

- a. This has been strengthened within the draft ISS, elsewhere on the agenda. Including that the Fund does not support lower investment returns for ESG factors.
- b. The Fund will look to improve reporting on how it believes its approach to RI delivers stronger financial returns by working with Central.

38. **Strong recognition of climate risk, but more divided on with the scale and pace of action and realism of net zero achievability.**

- c. Revise the Net Zero Climate Strategy to focus on managing risk, not just transition pathways, and consideration of broader climate risks beyond net zero, such as recognition of regulatory and market uncertainty.
- d. Emphasising the Fund does not believe lower returns are required or accepted in achievement of Fund ambitions.
- e. Develop new target wording with Central that is achievable, and focuses on reducing risk to the Fund.

39. **Respondents feel there is importance within broader ESG areas.** With a strong level of importance placed on these issues through question 4, even if the view on their financial materiality is less certain demonstrated by question 5.

- f. Ask that investment managers, including Central demonstrate how ESG factors feed into long-term financial risks.
- g. Set stewardship themes within the ISS, to strengthen transparency and feedback formally as part of Central's stewardship review, alongside reporting and communication with scheme members. It is recognised that while these themes are presented separately, in practice these factors are deeply interconnected and should not be considered in isolation. That where factors are financially material the following areas are engaged on:

Good corporate governance: Companies that demonstrate high standards of corporate governance should be better positioned to handle the effects of future shocks and stresses and ultimately protect and enhance long-term shareholder value.

This may include engaging on topics such as Board effectiveness, accountability, market standards, disclosure, investor protections.

Human Rights: The long-term legitimacy of sectors and markets depends on companies operating in ways that are acceptable to society. Strong corporate human rights risk management supports efficiency, resilience and long-term value.

This may include engaging on issues such as: Child Labour, Modern Slavery, Land and Housing Rights, Occupational Health, Conflict Affected High Risk Regions

Climate risk and nature protection: Climate and nature related risks can materially affect financial performance. Companies with strong risk management practices are better equipped to handle physical and transition risks, including the added challenges posed by evolving and uncertain regulatory requirements. This may include engaging on topics such as risk and reporting, adaptation/resilience, strategy, Governance, nature impacts and dependencies assessments

- 40. Communication needs to continue to address potential misconceptions, with clarity on fiduciary duty, explanation of how ESG issues may impact the Fund, and members.

- h. Ongoing approach to scheme member engagement on how best to communicate Fund progress, though emails, and scheme website.

Voting and Engagement

41. Appendix B sets out the Fund's voting report from October to December 2025.
42. This incorporates circa 44.2% 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:
43. LGPS Central voted on behalf of the Fund at 805 meetings (5809 resolutions)
- At 397 meetings the Central opposed one or more resolutions.
 - Central supported management on all resolutions at the remaining 407 meetings.
 - The majority of votes where the Fund voted against management were related to board structure (43%). These votes include issues such as over boarding (when a director may sit on too many boards for example), diversity, and inadequate management of climate risk.
44. Some highlights from engagement activity from partners are set out below.

LGPS Central Stewardship Report – October to December 2025.

45. Central is the pooling company of the Fund. It is a strong supporter of RI 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 682 companies, with 1,135 engagement activities on 714 objectives. Positive progress was measured on 130 occasions.

Engagement	Action	Outcome
Volusion	Discuss the company's approach to identifying and mitigating modern slavery risks within its supply chain.	Although the company has begun to enhance reporting, its 2025 Modern Slavery Statement introduced only incremental changes. Given the limited progress, Central abstained on the approval of the Financial Statements and wrote to the company explaining the rationale for the voting decision. They have requested a meeting with the Non-Executive Director responsible for

		sustainability oversight in H1 2026 to further escalate our concerns and to encourage clearer disclosure and more rigorous risk assessment practices.
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Legal and General Investment Management – October to December 2025

47. Legal and General Investment Management (LGIM) manage the majority of the Fund's passive equity which accounts for 18.3% 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 create resilient long-term growth and encourage management to control risks while seeking to benefit from emerging opportunities.

Company	Theme	Action	Outcome
Anglo American	Governance	In 2025, LGIM engaged closely with Anglo American to address undervaluation risks and support long-term strategy. LGIM's recommendations on restructuring helped shape the company's direction, leading to the proposed merger with Teck Resources, which LGIM supported for its strong sustainability and energy-transition potential.	At the December 2025 EGM to approve the merger, Anglo American also put amendments to its Long-Term Incentive Plan (LTIP) for shareholder approval. Following a pre-declaration from LGIM that they would vote against it due to assurance being sought on future performance based incentives, the company withdrew the resolution

Local Authority Pension Fund Forum –Q4 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 update on climate transition plan letters, steel, conflict-

affected and high-risk areas, employment rights act, social and governance issues.

Topic	Action
<p>Conflict Affected and High-Risk Areas (drive improved corporate practices, recognising these contexts pose acute human rights, legal and reputational risks for companies and investors alike.</p>	<p>Two shareholder proposals were filed at Microsoft relating to human rights, requesting that the company assess the implications of locating cloud datacentres in countries of significant concern and outlining strategies to mitigate related risks. As well as assess the effectiveness of human rights due diligence processes in preventing, identifying and addressing customer misuse of AI and cloud services that could contribute to human rights violations or breaches of international humanitarian law. LAPFF recommended its members voted for these resolutions.</p> <p>LGPS Central's voting on the Fund's behalf aligned with these recommendations for shareholder voting, which received significant support of 27.48% and 26.34% respectively.</p>

Recommendations

50. It is recommended that the Local Pension Committee:

- a. Note the outcome of the responsible investment survey.
- b. Approve the 2026 Responsible Investment Plan.
- c. Note the update on responsible investment matters.

Background papers

30 January 2026 Overview of the current Asset Strategy and Proposed 2026 Asset Strategy Local Pension Committee

<https://democracy.leics.gov.uk/ieListDocuments.aspx?CIId=740&MIId=8372>

18 November 2022 Outcome of engagement on net zero climate strategy targets and draft strategy and responsible investing update and Fiduciary duty advice

<https://democracy.leics.gov.uk/ieListDocuments.aspx?CIId=740&MIId=6761&Ver=4>

Equality Implications

There are no direct implications arising from the recommendations in this report. The Fund and LGPS Central 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 and LGPS Central 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 – RI Plan

Appendix B – LCC Pension Fund Voting Report

Appendix C – RI Survey

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