Leicestershire County Council

LOCAL PENSION COMMITTEE – 11 SEPTEMBER 2026

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 an update on:
    a. Progress against the Responsible Investment (RI) Plan 2026 (Appendix A)
    b. The Fund's quarterly voting report (Appendix B) and stewardship activities.

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 RI as part of their decision-making processes before they are considered for appointment.

3. The Fund undertook an engagement with scheme members at the end of 2025, and agreed the following key issues and engagement themes where these were financially material which are set out in the Fund's Investment Strategy Statement:
    - Good Corporate Governance
    - Human and Rights
    - Natural Capital and Climate Risk

Background

4. 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. It is distinct from 'ethical investment', which is an approach in which the moral persuasions of an organisation take primacy over its investment.

5. Engaging companies on ESG issues can create value for those businesses and the Fund as an investor by encouraging better risk management and more sustainable practices, which therefore should generate sustainable investment returns.

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

7. 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 RI themes beyond climate risk, and maintain a practical engagement first approach.

Responsible Investment (RI) Plan 2026 Progress

9. The Local Pension Committee approved the RI Plan in March 2026. The Plan was developed following discussion with LGPS Central's in-house RI team. The Fund has a continual focus on raising RI standards. Progress made to date on the 2026 is set out in Appendix A.

10. Key items like the Net Zero Climate Strategy review have been delayed while LGPS Central continues to develop their approach to responsible investment. However, since the previous update final guidance from Government has now been provided on how Fund's consider responsible investment. This is summarised below:

- Administering authorities as public authorities are rightly expected to be particularly transparent with their approach to responsible investment and must maintain the highest standards in managing financial risk.
- Administering authorities should be as clear and succinct as possible in setting out their objectives, priorities and preferences with respect to responsible investment.
- The primary obligation is to act in the best financial interests of the fund. ESG factors should be considered where they are financially material to investment performance, risk and return.
- Non-financial considerations may be taken into account only where:
    - there is no risk of significant financial detriment to the fund; and
    - there is good reason to believe scheme members would support the approach

- Authorities may express a preference for investments delivering positive social or environmental outcomes alongside acceptable financial returns, subject to these conditions.
- Authorities should consider the views of employers and members when developing their responsible investment approach and engagement should seek to reflect the views of the wider membership and employer base, rather than the opinions of specific representative bodies alone.
- The guidance warns against undue influence from campaign groups where their positions may not reflect member views or fiduciary responsibilities

11. Government is further clear that Administering Authorities should set the high-level RI approach but should not direct investment in individual companies, exclusions of specific companies, geographic exclusions, investment styles or manager selection.

12. Responsible investment policies should be developed collaboratively with the LGPS pool to ensure they are deliverable and consistent with wider investment objectives.

13. Government's guidance is consistent with the Fund's existing approach in that the Fund integrates responsible investment into investment decision making through financially material considerations, with clear understanding of its fiduciary duty. The Fund supports pool level alignment, engagement and stewardship over exclusions, divestment policies of fund specific investment restrictions. While the Fund has further engaged with scheme members before setting key stewardship themes as set out in paragraph 3.

Voting and Engagement

14. Appendix B sets out the Fund's voting report from January to March 2026.

15. This incorporates circa 45.7% of the Fund's assets (LGIM passive funds, Central Climate balanced fund, and the global active equity fund). A brief breakdown is set out below.

16. LGPS Central voted on behalf of the Fund at 805 meetings (5809 resolutions)
    - At 397meetings the Central opposed one or more resolutions.
    - Central abstained at one meeting and 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.

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

LGPS Central – H1 2026

18. LGPS Central's approach to responsible investment is driven by an assessment of financially material risks and opportunities that could affect long-term investment returns. Central provide regular update on their stewardship activity, which is supplemented by global engagement and voting services by EOS at Federated Hermes.

Company	**Theme**	**Action**	**Outcome**
LyondellBasell	Natural Capital/Climate Change	The circular economy transition presents risks and opportunities. Failure to adapt to regulation, customer demand and scrutiny of plastic waste could increase compliance costs, restrict market access and strand assets. Central with investor relations to discuss the company's circular strategy, stringency of 2030 renewable based polymer production target and their first industrial scale recycling facility.	The company has strengthened disclosure of how it will respond to greater material circularity and reduced reliance on virgin fossil-based feedstocks. As well as embedded circularity through a dedicated Circular and Low Carbon Solution business, alongside a target for recycled and renewable based polymer.

Legal and General Investment Management – Q2 2026

19. Legal and General Investment Management (LGIM) manage the majority of the Fund's passive equity which accounts for 18.7% of the Fund. LGIM's latest engagement report highlights some key activity in the Investment Stewardship team.

20. 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
ChubuElecctric Power	Good Governance	Effective risk management and independent board oversight are financially material as they underpin a company's ability to identify, manage and mitigate risks that can affect long term performance, business resilience and shareholder value. LGIM engage on board oversight of material risks. The company recently identified a long-standing compliance breach which was described by the company as "extremely serious". The duration and nature of the issue pointed to a systematic weakness in internal controls and escalation processes.	LGIM voted against resolutions in relation to election of directors, and for shareholder resolutions looking to remove incumbent directors. Vote shares for the President and Chairman dropped from over 90% to 61% and 56%. LGIM continue to engage on both the governance response to the incident and how it will evolve its climate strategy.

Local Authority Pension Fund Forum – January to March 2026

21. 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 change adaption, with a focus on food and agricultural supply chains, aviation, water utilities, zero-hour contracts

and the employment rights act, conflict affected and high-risk areas and electric vehicles.

Topic	Theme	Action
Conflict affected And High-risk Areas (CAHRA)	Human Rights	LAPFF expects companies with exposure to CAHRAs to demonstrate and explain how they identify, prevent, mitigate and accounts for these risks, including where heightened human rights due diligence is applied, in line best practice principals set out by international standards such as the United Nations Guiding Principles on Business and Human Rights (hHRDD), amongst others. LAPFF wrote to 31 companies considered to have operations, or business activities linked to the Occupied Palestinian Territories. The letter contains a 12-question survey, requesting information on companies' policies, policy and governance, identification of risks, action and hHRDD, and transparency The responses received demonstrated a wide range of approaches to managing CAHRA-related risk. Where companies failed to respond, declined to complete the questionnaire, or relied only on generic public disclosures, LAPFF began escalating through AGM attendance and voting alerts

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?CId=740&MId=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?CId=740&MId=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 – LGPS Central Stewardship Presentation

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