

Appendix B - Leicestershire Pension Fund Engagement Report for the Net Zero Climate Strategy

Introduction and Methodology

Leicestershire Pension Fund has engaged with scheme members (active, deferred and pensioners), scheme employers and investment managers on proposed Net Zero Climate targets for the fund via a survey.

The survey was made available on 5 July, this was accompanied by additional supporting information that was later produced. The survey asked for views on the proposed targets as well as views on approaches to engagement and divestment and offsetting. The engagement closed midnight 18 September 2022.

Communications

The engagement was communicated in a number of ways including:

- I. Several emails to circa 40,000 scheme members (that the Pension Service held email addresses for) with a link to the consultation. Including a follow up email informing members of supporting information when available
- II. The engagement was available via the Pension Fund's website and was highlighted on the main page for any scheme members and highlighted within the email that set out Members Annual Benefit Statements
- III. All Pension Fund employers were sent Employer Bulletins highlighting the engagement and asking them to respond and share the engagement with their staff.
- IV. The Assistant Director of Corporate Resources reminded key employers encouraging their organisations to respond.

Survey respondent profile

Chart 1 shows that most respondents who completed the survey were scheme members. Scheme members were required to input their National Insurance number as the easiest way to check respondents were members of the scheme. For those that did not match they are included within 'Others'.

| | | |
|----------------|----------------------|---|
| Scheme Members | | |
| | Active Member | 411 |
| | Deferred Member | 166 |
| | Pension or Dependant | 387 |
| Employers | 9 | Leicestershire CC, Rutland CC, Blaby DC, Charnwood DC, NWL DC, Ashby TC, Shepshed TC, Open Thinking Partnership, LEAD Academy Trust |

| | | |
|---|----|---|
| | | (circa 35% of total membership) |
| Investment Manager | 6 | LGPS Central, Partners, LaSalle, IFM, Stafford Capital, Aegon |
| Others | 46 | |
| <p>The Fund also received a handful of correspondence outside of the survey from members who completed the survey who felt there wasn't the place to fully articulate their views. Two of these related specifically to divestment. There was also a separate response from Climate Action Leicester and Leicestershire, which is appended (Annex 2).</p> <p>LGIM the Fund's Investment Manager also submitted a separate response.</p> | | |

Survey Analysis – Methodology

Graphs and tables have been used to assist explanation and analysis. Although occasional anomalies appear due to rounding differences, these are never more than + / 1%. Question results have been reported based on those who provided a valid response, i.e., taking out no replies from the calculation of percentages (given not all questions were mandatory).

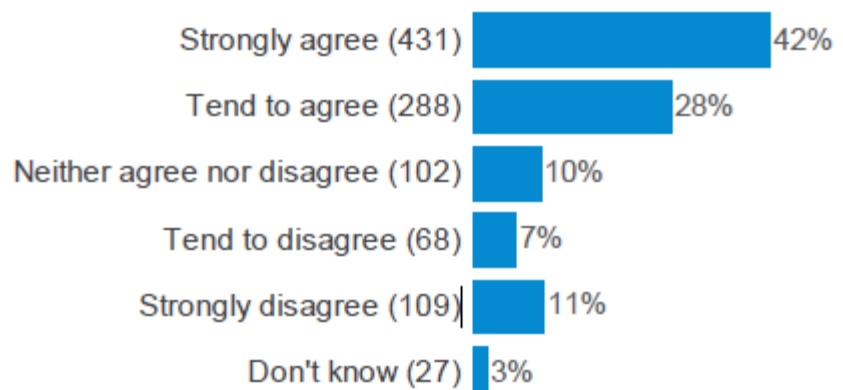
Primary Targets

Net Zero by 2050, with an ambition for sooner

Chart 2 shows that the majority of respondents (70%) supported Net Zero by 2050, with an ambition for sooner. Just under a fifth of respondents disagreed (18%).

Chart 2 – To what extent do you agree with the target “Net Zero by 2050, with an ambition for sooner?”

Analysis of the open comments showed that a proportion of respondents who ‘tended to agree’ and ‘tended to disagree’ also contained a proportion of responses that felt the Fund should setting more challenging targets and a view that they would be challenging to achieve. These viewpoints have been identified through analysis of the free text comments.



Comments

527 free text comments were received under this question. These largely reflected the following themes:

Supportive of Net Zero by 2050, with an ambition for sooner

253 comments were received which were supportive which were split across 'strongly' and 'tended' to agree and commented that it was important to set ambitious targets and important for both the Pension Fund and the wider world.

"I strongly agree with setting as ambitious a target as possible to reduce the Fund's emissions in line with current science. I strongly agree with setting ambitious interim targets and a clear road map."

"I tend to agree with this aspiration and think the road to net zero is important. However, it will be very important for the fund to do this in a phased and sensible approach so as not to impede financial performance of the scheme. For example, right now in the current climate if the fund has a major holding in major fossil fuel producers such as Shell these are vastly outperforming other stocks and providing a good defense against the declines seen by other sectors. I am also a strong believer in investor activism, which needs investors to retain holdings in the big polluters and drive change, rather than hand over the shares in them to someone who will collect the dividend and doesn't care less!"

"It may be ambitious but in risk terms, the impact of climate change is such that the alternative of not setting an ambitious target is the more problematic. Better to invest in a manner consistent with controlling climate change than lose value by spending on mitigating the catastrophic effects of a greater than 1.5°C rise. Leadership is needed and pension funds have a positive role to play here."

The Fund should look to set more challenging targets.

126 comments were received which felt the Fund should set more challenging targets. These comments were split across the question responses and included those that strongly/tended to agree (76), strongly/tended to disagree (49), neither agreed nor disagreed (4).

"Action is really urgent but I note that regulatory and policy considerations may limit it. But I would like to see net zero Yesterday!"

"Reaching Net Zero by 2050 will be too late to have a meaningful impact on the current, ongoing climate crisis. However, bold and system-wide changes are needed across the economies and cultures of the world in order to achieve truly relevant climate improvements, and this is unlikely to happen. So, the target is at least an acknowledgement that changes are needed, even if it is not ambitious enough."

"Given that we are dealing with public money and publicly administered money we should be much more ambitious. Also - much of this is associated with investing - investments need to be made ahead of the 2050 target in order to meet the 2050 target. Rather than seeing this as a set of numbers, we should be looking at this in practical terms - how much needs to be invested in what in order that carbon emissions will be reduced adequately. Also - given that this is a Leicestershire administered pension fund - we should be looking at the Leicestershire target of 2045, coupled with an understanding that we need to be ahead of the target as stated above. Suggest 2040."

12 respondents also expressed the view that the Fund should divest from its fossil fuel exposure within their comment.

"We need to divest from all forms of fossil fuel use by 2030; regardless of impact"

Three of the respondents also commented that Fund should focus on making ethical investments.

Concerns and disagreements with target setting

Concerns or disagreements with setting targets largely fell into the following categories.

- Not the Fund's concern (81): These generally related to views that the Fund should focus on its financial (fiduciary) duty, rather than achieving Net Zero. That it was a waste of time given other countries lack of climate commitments, concern on the impact on pensions, or that climate change was a natural phenomenon.

"The priority of the pension fund should be to maximise the returns on the investments for the benefits of the members to ensure the fund is solvent and requires the lowest possible contributions from members and employers. Net zero is irrelevant to achieving this aim."

"This is a really bad idea that will bankrupt western economies while giving a free ride to the countries responsible for most of the CO₂ emissions [fair share!?] and have a disastrous effect on quality of life."

"The science supporting net zero this is hopelessly politicised and not reported in a balanced way by media. Net zero is a destructive policy based on climate alarmism. The earth's climate has never been static and is not rising at an unprecedented rate. It will also lead to the strengthening of China, a very worrying prospect."

- Unrealistic or too ambitious (23): Respondents commented that they felt the target was too ambitious or unrealistic.

"Unrealistic given the level of commitment (low) across most areas of the UK, both public and private sector. It will take great reform (at considerable cost) to even come close to net zero by 2050 and serious work needs to start now to even achieve that. I don't think it's taken seriously, "net zero by 2050" is just a buzzword used with no real commitment behind it"

Other Comments

There were 28 other comments these generally related to questions regarding how pensions would be affected, how the Fund would stay clear of greenwashing, suggestions on how the Fund should invest, and comments for the Fund's approach to climate risk more generally.

A further 12 respondents highlighted the importance of setting clear targets, or not having the expertise to judge realism of the targets.

By 2030, a 40% reduction in net carbon emissions from 2019 reported levels

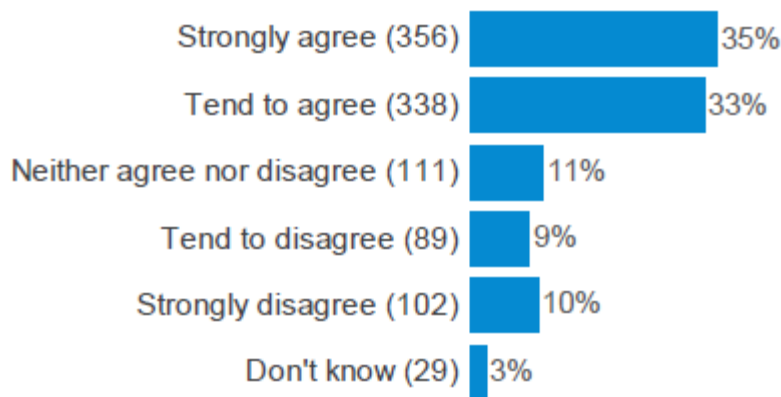


Chart 3 shows that 68% of respondents agree with the target, with a fifth of respondents disagreeing (19%).

Chart 3– To what extent do you agree with the target “By 2030, a 40% reduction in net carbon emissions from 2019 reported levels”

Further Comments

385 free text comments were received under this question. These largely reflected the themes in the previous question with some comments referencing the view they previously gave.

Supportive of targeting a 40% reduction by 2030

125 respondents who ‘strongly agreed’ or ‘tended to agree’ were supportive of the target and felt it was a good position for the Fund to adopt.

“I believe net carbon emissions need to be controlled and a reduction of 40% is a good starting position”

“The greater the number of people, Government bodies and companies contribute to targets the better for everyone who will live in the future. We must accept responsibility for this.”

That the Fund should be more ambitious

125 respondents, of which (56) agreed, (54) disagreed and (8) agreed with neither felt the Fund could set a more ambitious target, either by achieving the reduction sooner, or setting a higher 2030 target, and extending the target to other asset classes.

“A more ambitious target is needed do 2030. It will be easier to make the initial reductions, so better to challenge more, earlier than to leave everything to optimism, and leave the big problems to those that inherit the scheme management when many of those current responsible have moved on to other things”

“If we are aligning to national targets, why wouldn’t we do so throughout? It seems illogical to go with the national target for 2050, and then not align to the interim national target as informed by scientists - 78% reduction by 2035. And as mentioned before, we should planning to go further based on investments taking time to produce carbon reductions. Also - the closer you get to net zero, the less it matters if the fund grows in members - 100 members in a zero carbon fund give out the same carbon as 1000 members in a zero carbon fund! The more we can get done earlier, the lower the risk of the investment based on high carbon activity being inherently risky from both an environmental and financial perspective.”

Disagreements with the target

75 respondents disagreed with the target, these largely related to questioning how realistic the target was, or feeling like it should have no bearing on how the Fund was run.

“Impossible to reach this target in 8 years! Where are the charging points, the super - efficient boilers or heat exchangers ? An impossible target without seriously curbing personal freedoms.”

“Net zero targets have nothing to do with getting the best return on pension contributions paid by members.”

Other comments

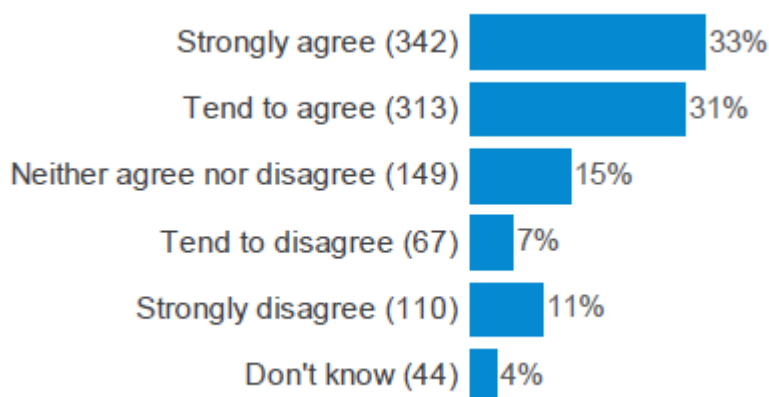
41 other comments were received which varied. Some commented that more information was required for an informed response to be given, or querying how increased contributions to the Fund would affect the Fund’s target. Some comments also made suggestions about how the Fund could achieve its targets through green investments

“There are too many unknowns, both technological and political, for this target to be realistic without sacrificing the value of investments and putting stakeholders' wealth at excessive risk.”

17 comments further referenced needing better clarity about what the target actually addressed and to put it in layman’s terms.

By 2030 reduce the carbon intensity of the Fund's equity portfolio by 50% from 2019 reported levels

Chart 4: To what extent do you agree with the target “By 2030 reduce the carbon intensity of the Fund's equity portfolio by 50% from 2019 reported levels”



Comments

302 free text comments were received under this question. These largely reflected the themes in the previous questions with some comments referencing the view they previously gave.

Supportive of reducing carbon intensity of the Fund 50% by 2030

93 respondents who 'strongly agreed' or 'tended to agree' with the question were very supportive of the target, some of which recognised the limitations on the Fund at this stage.

"Appropriate to focus on Equities first where data is available. An intensity metric is important. There are different ways of calculating intensity, and it may be necessary to use more than one when assessing the portfolio. Carbon intensity normalized by revenue carbon rise and fall as revenue fluctuates. The fund will need to be aware of this."

"It would seem sensible for the pension fund to align itself with the targets of the Institute of Investors Group on Climate Change (IIGCC)."

That the Fund should be more ambitious

83 respondents, felt the Fund could set a more ambitious target

"Its imperative that infrastructure and property are added asap, these elements are critical to delivering net zero and reducing warming both as enablers and reducing emissions e.g EV infrastructure, low carbon buildings and renewables"

"Why only the equity portfolio. This needs to go across all portfolios and be raised from 50%"

"Again too little too late. More would be preferable. There are lots of green initiatives in which to invest and hopefully these will be the profitable companies in the future."

Disagreements with the target

Out of the 62 respondents either disagreed with setting the target or questioned how realistic it was for the Fund to achieve.

"Likely to affect adversely the value of the fund, as these investments may well fall dramatically when the targets are found to be unattainable or too costly."

"Let govts legislate the shift. Otherwise we'll lose market share within some of the most profitable companies, to Pension funds in other less conscientious countries."

The need for clear English

36 comments referenced being unsure about how the target was set, how it would be measured or generally not feeling knowledgeable to give a full response or referenced the text within the question that would be affected by how measurements were agreed in future internationally.

"This could have been explained so much better for those of us who have never dealt with any of these concepts, and who know nothing of the investment game - eg what does 'sales' mean in this context? If you are saying that targets will be carefully reviewed as the financial implications become clearer with time and change, I strongly agree with the principle, but have only vaguely grasped the methodology. If this cannot be worded more simply, I imagine that answers from many of us will be rather meaningless."

“It sounds like sector led efforts to measure the carbon emissions performance of pension funds are not yet fully mature and likely to be subject to significant change. As such any performance measurement link to this may not be useful at this time.”

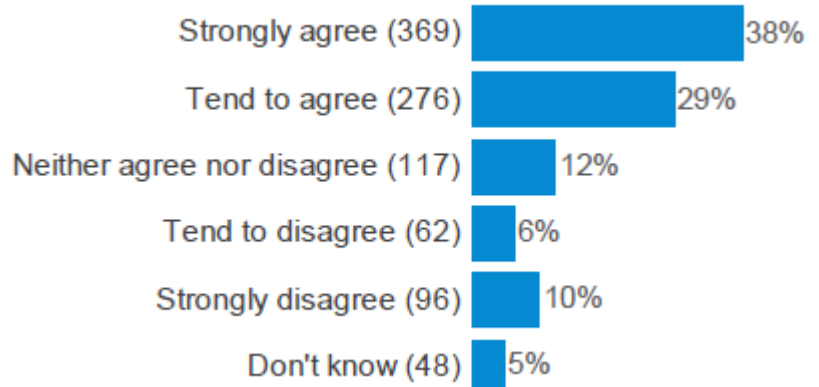
Secondary Measures

Responses to the secondary measures were optional and gave respondents the opportunity to submit comments at the end.

Reduce the proportion of the Fund with fossil fuel exposure within the equity portfolio (was 8.5% at 31st Dec 2019) by 31st March 2030.

Chart 5 sets out that 67% supported the target to reduce fossil fuel exposure within the portfolio.

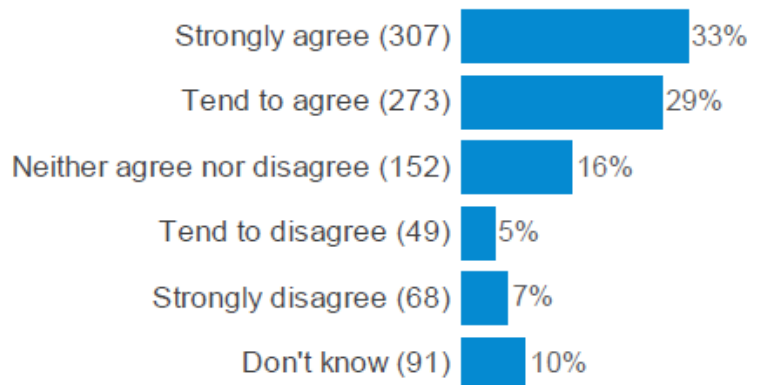
Chart 5: To what extent do you agree with this target “Reduce the proportion of the Fund with fossil fuel exposure within the equity portfolio (was 8.5% at 31st Dec 2019) by 31st March 2030”



Increase the asset coverage to 90% by 2030 (currently at 45% 2022 Est) to be analysed for WACI

Chart 6 sets out 62% supported the target to increase the Fund's asset coverage.

Chart 6 To what extent do you agree with the following target “Increase the asset coverage to 90% by 2030 (currently at 45% 2022 Est) to be analysed for WACI”



Increase allocation to climate solutions (use EU taxonomy) as defined by weight in clean technology from the base 2019 weight of 34.1% by 2030.

Chart 7 sets out 71% supported that the Fund increase its allocation to 'climate solutions

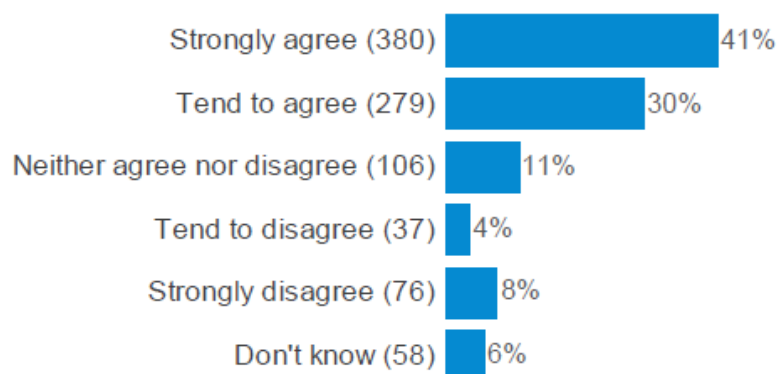
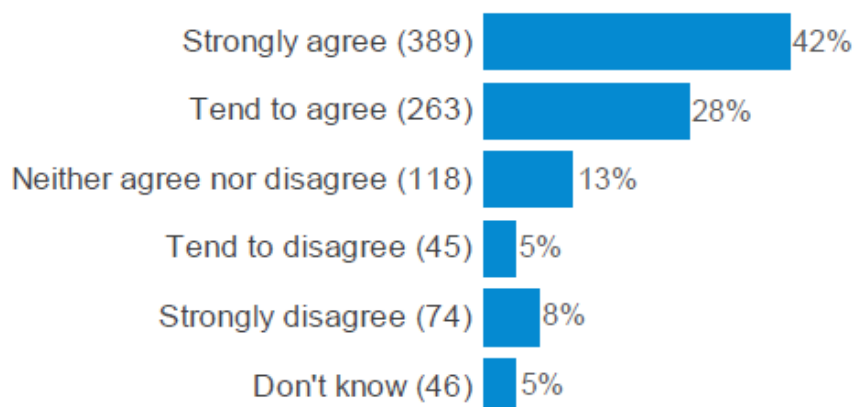


Chart 7 To what extent do you agree with the following target "Increase the allocation to climate solutions from the 2019 baseline"

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Increase our percentage of portfolio underlying companies in material sectors with net zero targets, aligned to a net zero pathway or subject to direct or collective engagement to over 90% by 2030 for listed equities, corporate bonds and sovereign bonds

Chart 8 sets out 70% supported that the Fund increase the percentage of underlying companies aligned to net zero to over 90% by 2030.

Chart 8: To what extent do you agree with the target to Increase our percentage of portfolio underlying companies in material sectors with net zero targets, aligned to a net zero pathway or subject to direct or collective engagement to over 90% by 2030 for listed equities, corporate bonds and sovereign bonds.

By 2030, 90% of the Fund's financed emissions to be either net zero, aligned

to a net zero pathway
or subject to
engagement
programme to bring
that about

Chart 9 sets out 71%
supported that the Fund
increase its allocation to
'climate solutions

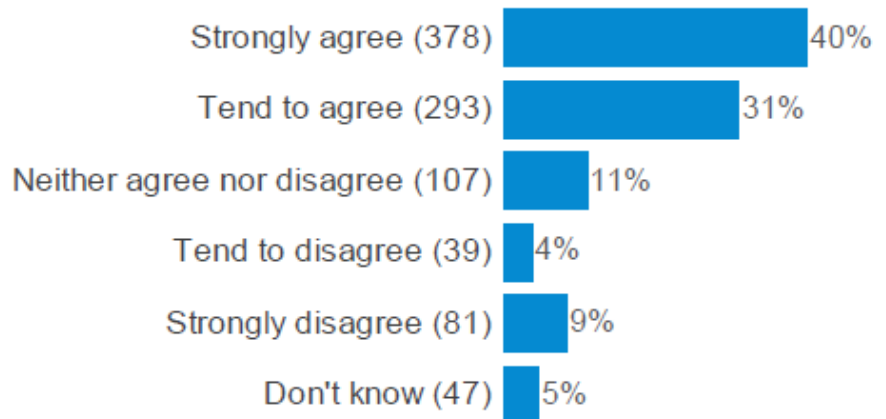


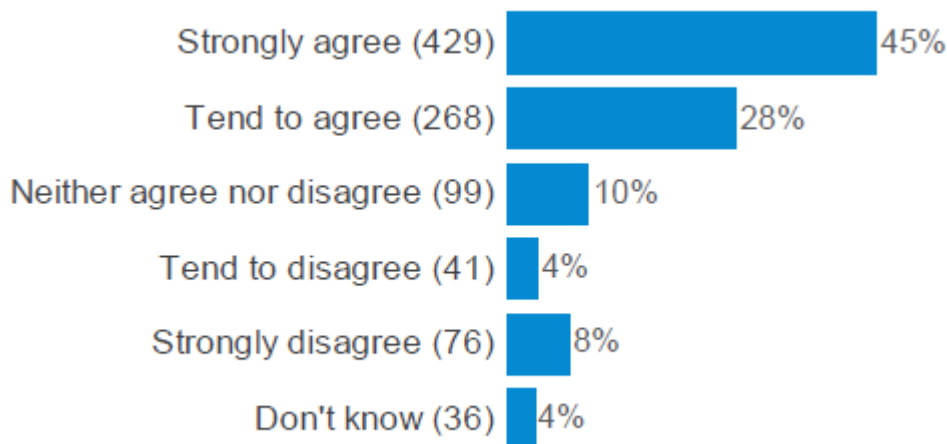
Chart 9: To what extent

do you agree with the target By 2030, 90% of the Fund's financed emissions to be either net zero, aligned to a net zero pathway or subject to engagement programme to bring that about

County Council and LGPS Central targeting net zero by 2030 for their operations.

Chart 10 sets out 73% supported that the County Council, as the Fund's Administering Authority, and LGPS Central achieve net zero with its operations by 2030.

Chart 10: To what extent do you agree with the following target 'county council and LGPS Central targeting net zero by 2030 for their operations'



Comments about the secondary measures

239 free text comments were received under this question. These largely reflected the following themes:

61 were supportive of the measures generally including those that were supportive if financial returns are maintained.

“It is so important to make these changes and have them at the centre of all the pension fund's working”

“I simply restate my view that the first and primary objective of the Scheme is to ensure sufficient funds are available to meet the pension demands of the Scheme members. If this can be achieved by following the investment strategy outlined in this survey then this can only be a good thing, but care must be taken not to allow following the strategy to override the basic need for the Scheme to remain financially viable.”

46 respondents felt the Fund should be more ambitious with its target, along with seven who specifically highlighted the need to divest.

“The reason I put ‘tend to disagree’ was not that I don't think the proposals are wrong, just just that they need to be more ambitious. 2050 is too late, so ‘ambitions’ for 2030 need to be stronger.”

“Instead of taking on new companies who use ‘less fossil fuels’ choose only those who use renewables.”

20 disagreed generally with the measures which generally related to policy issues worldwide and the impact that may have on the Fund, a view that climate change was a natural phenomenon, or it was a waste of time.

“Agriculture, coal, electricity, gas, all the things necessary to keep a country running.”

20 respondents highlighted the importance of measurements in the list of secondary measures, and the importance of monitoring to ensure data is free from greenwashing.

“WACI and other intensity metrics can give targets and results that look promising while still increasing global emissions. There has been a shift in the EU from WACI towards EVIC (including cash, which at least attributes some weighting to the damage money in accounts can do), but this metric is still gameable. Absolute reduction is necessary. I applaud the ambition of the LGPS net zero by 2030, but would caution overreliance on offsetting in schemes unless they are transparent and well audited (e.g. work by CDP: <https://www.cdp.net/en>).”

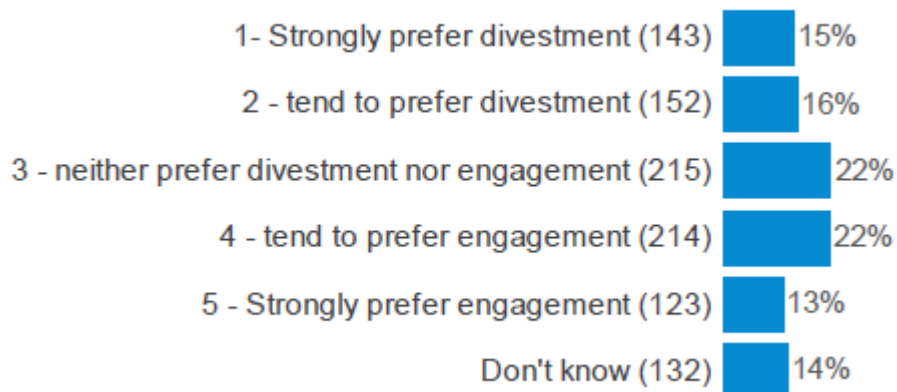
14 Members queried the impact it would have on scheme members.

Additional Information

Which of the following most closely describes your view on whether the Fund should follow a policy of divestment or engagement?

Views on engagement and divestment were less clear cut than previous questions (35% preferred engagement, to 31% preferring divestment. However, a relatively large number (22%) were neutral on this view compared to the rates for this type of response to earlier questions in the engagement.

Chart 11: Which of the following most closely describes your view on whether the Fund should follow a policy of divestment or engagement?



Further Comments

259 comments were received under this question. The themes of comments generally aligned to options chosen.

- *Prefer Divestment*

110 respondents that preferred divestment tended to express a view on the approach to divestment over engagement.

“Divestment is the only way to get the message across to companies who greenwash their strategies. What is the use of huge returns on investments if the planet, its ecosystems etc are damaged so much that the results are apocalyptic?”

“The fund should not be using members money to prolong the use of fossil fuels and worsen climate change. Pension funds rarely hold enough influence to direct company policy, but their investments allow companies to keep on polluting. The fund should divest from all environmentally damaging investments.”

Some responses also set out divestment should be used as a tool *“only where a company is not showing improvements after engagement”*.

- *Prefer Engagement*

56 Respondents that preferred engagement expressed a view that engagement enabled the Fund to work with companies to improve their climate targets and can benefit control and return on investment. Some feel it is important to have a seat at the table to influence these companies.

“I think the move to net zero is best achieved collaboratively and over time to ensure benefits for all and secure understanding and support. Engagement gives the fund a voice while retaining options for the future. Divestment is an extreme option that could harm the fund in the short to mid-term.”

Some respondents who preferred engagement also referenced the view divestment would also be an effective tool where engagement was not successful.

- *A mix of Divestment and Engagement*

57 Respondents that preferred neither tended to take a nuanced view on the approach to engagement and divestment, and that ultimately it depended on financial considerations, or what posed least risk to the Fund.

“Either approach could be good or bad - divestment seems high risk. I want fund investors to have the freedom to make the intelligent decisions that they want / need to make to do their best for us and a strategy to be flexible enough to support that.”

“I feel both are necessary. Oil is needed not just for fuel but also many other products, so engagement in sustainable use, and also development of more climate friendly ways to use fossil fuel shorter term, are important.”

53 respondents felt there needed to be a balance and that financial considerations were key so whatever produced the best return for the Fund. However, these included the view that managers should be left to make their own decisions.

23 were unsure, 7 felt it was unimportant to consider now.

With regard to carbon offsetting, what approach do you think the Fund should adopt? Please select all that apply

Chart 12: With regard to carbon offsetting, what approach do you think the Fund should adopt? Please select all that apply.

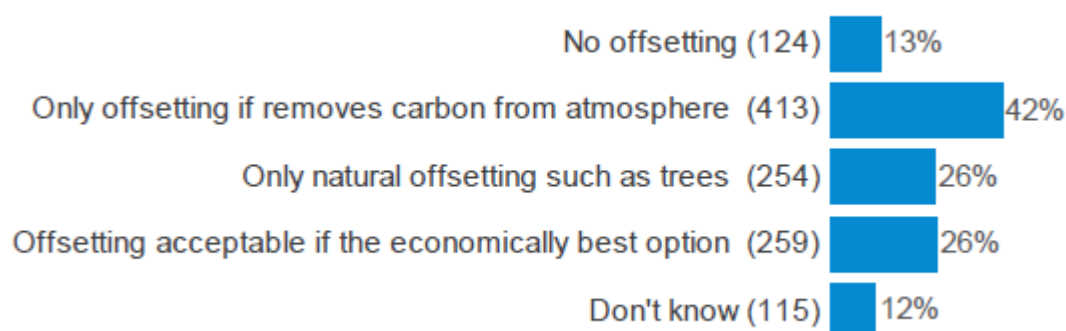
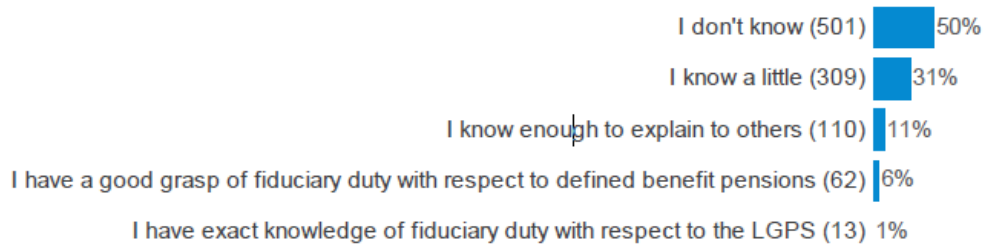


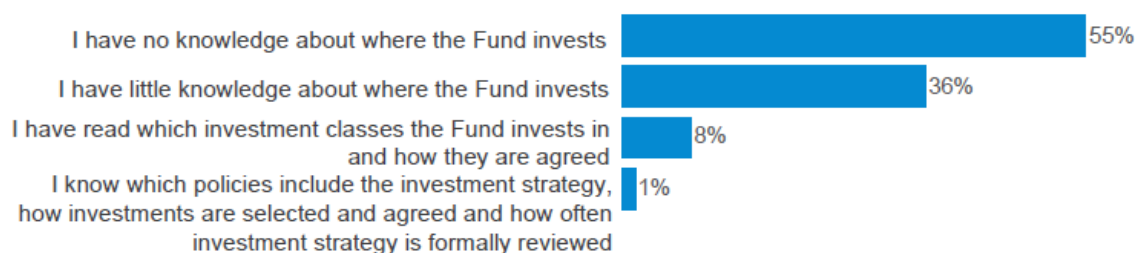
Chart 12 shows that only 13% of respondents disagreed with the use of offsetting. Differing support was received for the different offsetting options, and respondents were allowed to choose multiple options if they wished. The highest support (42%) went to only offsetting where it removed carbon from the atmosphere.

The Survey also included questions related to respondents understanding of the Pension Fund and its duties.

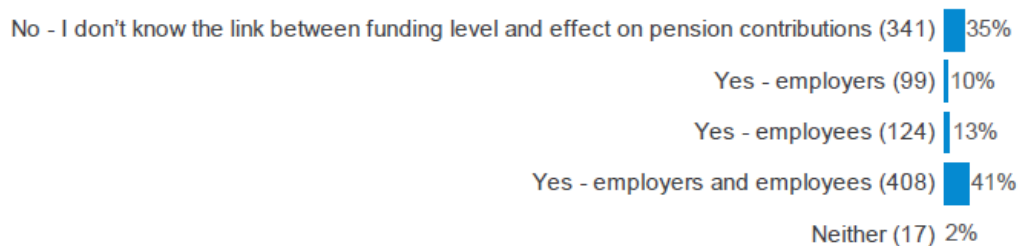
Do you understand what the fiduciary duty of the Fund is?



Which of the following best describes your awareness of the Fund's Investment Strategy?



Do you understand who stands the risk of poor investment performance versus the expected performance when it comes to the ability to pay future pensions?



Additional Comments

96 substantive comments were made in this section. Most comments reiterated views shared in previous sections including feedback on the complexity of the engagement. Additional comments made by respondents included a wide range of issues, many of which reflected earlier themes. Other themes related to:

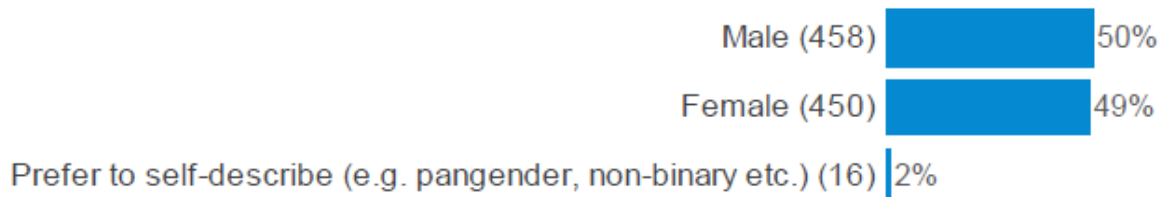
- Thanking the Fund for the opportunity to comment on the targets and measures.
- A preference to see carbon reduction achieved through direct regulation of businesses by government rather than investment strategies of investors such as LGPS funds.
- That the Fund should invest in local businesses involved in renewables and climate solutions.
- Comments on how the Fund intended to report progress against set targets and inform scheme members.
- Use of other measures for the targets such as the Science Based Targets Initiative, and an alternative to use of Weighted Average Carbon Intensity.

The Fund also received a handful of comments outside of the formal survey process.

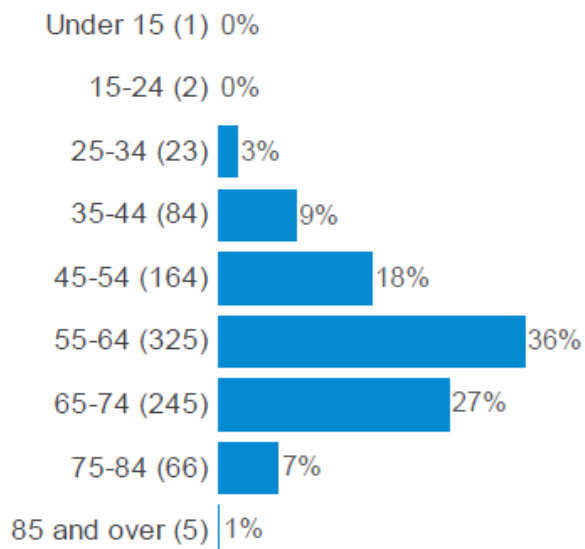
Annex 1 - Respondent profile

The charts below show the demographic profile of the members of the scheme who responded to the survey, these questions were not mandatory.

What is your gender identity?



(What was your age on your last birthday? (derived))



Do you have a long-standing illness, disability or infirmity?**What is your ethnic group? Please tick one box only.**