Nottinghamshire
County Council

Nottinghamshire Pension Fund Committee

Thursday, 21 January 2021 at 10:30

Virtual meeting

AGENDA

1	Welcome and Introduction	
2	Apologies for Absence	
3	Declarations of Interests by Members and Officers:- (see note below) (a) Disclosable Pecuniary Interests (b) Private Interests (pecuniary and non-pecuniary)	
4	Notes of the AGM held on 3 October 2019	1 - 30
5	Actuarial Issues - Barnett Waddingham LLP Presentation	
6	Management & Financial Performance - Financial Management Presentation	
7	Investment Performance - Pensions & Treasury Management Presentation	
8	Pensions Administration - Pensions Admin. Team Presentation	
9	Questions - these should be submitted 10 days prior to the meeting.	

Notes

(1) Councillors are advised to contact their Research Officer for details of any Group Meetings which are planned for this meeting.

(2) Members of the public wishing to inspect "Background Papers" referred to in the reports on the agenda or Schedule 12A of the Local Government Act should contact:-

Customer Services Centre 0300 500 80 80

(3) Persons making a declaration of interest should have regard to the Code of Conduct and the Council's Procedure Rules. Those declaring must indicate the nature of their interest and the reasons for the declaration.

Councillors or Officers requiring clarification on whether to make a declaration of interest are invited to contact Peter Barker (Tel. 0115 977 4416) or a colleague in Democratic Services prior to the meeting.

(4) Councillors are reminded that Committee and Sub-Committee papers, with the exception of those which contain Exempt or Confidential Information, may be recycled.

(5) This agenda and its associated reports are available to view online via an online calendar - http://www.nottinghamshire.gov.uk/dms/Meetings.aspx

NOTES OF THE PENSION FUND ANNUAL EMPLOYERS AND TRADE UNIONS MEETING HELD AT COUNTY HALL, WEST BRIDGFORD ON THURSDAY 3 OCTOBER 2019 AT 10:30 AM.

Present

Members of the County Council's Pensions Committee

Councillor Eric Kerry (Chair)
Councillor Stephen Garner (Vice Chair)
Councillor Reg Adair
Councillor Chris Barnfather
Councillor Sheila Place
Councillor Mike Pringle
Councillor Francis Purdue-Horan
Councillor Helen-Ann Smith
Councillor Parry Tsimibiridis

Representatives of Members, Employers and Trade Unions

Councillor Graham Chapman	-	Nottingham City Council
Chris King	-	UNISON
Terry Needham	-	Member Representative
Councillor Anne Peach	-	Nottingham City Council
Sue Reader	-	Nottingham University

Representatives of the Chief Executive's Department

Jon Clewes
Sarah Davies
Andy Durrant
Tamsin Rabbitts
Jen Sheriston
Nigel Stevenson
Sarah Stevenson
Marje Toward

Clerk to the Panel

Pete Barker – Chief Executive's Department

Other Attendees

Helen Beckett
William Bourne
Mark Kimberley
Charly Radford
Becky Smeathers
Lee Towers

NOTE:-

The list of those present was taken from attendance sheets signed on the day of the meeting (we apologise in advance if all the names are not entirely accurate or representatives did not have a chance to sign these sheets and therefore are not shown above).

1. WELCOME AND INTRODUCTION

Councillor Eric Kerry opened the meeting and welcomed Members of the Committee, employers' representatives and the general public to the Annual Meeting.

2. APOLOGIES FOR ABSENCE

Apologies for absence were received from Mr Alan Woodward and Councillor Samuel Webster.

3. NOTES OF THE ANNUAL MEETING HELD ON 4 OCTOBER 2018

The notes of the last meeting held on 4 October 2018, having been circulated to all Members, were taken as read and were confirmed, subject to the following amendment:

- Councillor Purdue-Horan's apologies for the meeting on 4 October 2018 were omitted in error.

4. MANAGEMENT AND FINANCIAL PERFORMANCE

Tamsin Rabbitts, Senior Accountant, gave a presentation to the meeting on the overview of the management and financial performance of the Fund. In summary the following was highlighted:-

- The presentation will include a look at some key figures from the accounts and a brief update on LGPS Central.

Pensions Fund – Key Figures

- The funding level is calculated by the Fund's actuary Barnett Waddingham every 3 years. The 2019 valuation is currently underway, and the initial results are expected in the next few months.

- The funding level will change based on a combination in the movement of asset values and liabilities.

Net Additions from Members

- The net position from dealings with members will increasingly be a withdrawal going forwards. However, in 2017/18 a number of large employers made significant contributions to fund deficits which gave an exceptional net addition in the year.

- Contributions no longer fully cover benefit payments.

- Net transfers in/out remain marginal.

- In future member contributions will not cover pensions, though the Fund does have significant investment income to support cash flow.

Investment Income

- There was a good overall return in 2018/19 from a combination of investment income and growth.

- This investment income can be used to cover benefit payments when there is a contribution shortfall, which means that assets do not yet need to be sold to pay pensions.

- Investment income is important as market values can be volatile and events can restrict liquidity.

Net Returns on Investments

- 2018/19 was relatively stable year on year, but there were periods of volatility within the year.

- Investment income has been steadily increasing and net assets, as at 31 March, increased by 5% in the last year.

Investment Management Expenses

- The stability of the fund's investment arrangements help to keep investment costs low.

- Investment management expenses have largely increased in line with the Fund size. There was the small anomaly of a £150k invoice from 2016/17 not being accrued, which slightly distorted the figures.

- There has been a small increase in management expenses in the current year, both in absolute terms and in proportional terms. However, the fee rates on individual investments are not increasing, and it is expected that over time they will reduce as a result of lower fees being negotiated. It is also expected that the Fund will benefit from the negotiating power of LGPS Central. Transparency has been improved meaning that fees are more accurately reported, which accounts for the apparent increase.

Asset Pooling

- LGPS Central Ltd was established on 1 April 2018, meaning that this year was its first full year of operation.

- The Pension Fund Committee retains responsibility for asset allocation.

- Investment 'sub-funds' will be developed over a number of years.

- To date, investments have been made in passive UK and Global equities, Active Equities, Private Equity, and Emerging Market Equities. These investments are on a relatively small scale.

Summary

- The Fund continues to have a positive net cash flow due to investment income.

- Net assets increased in 2018/19.

- LGPS Central is now established and is setting up investment funds.

- The transition of assets to LGPS Central will take a significant amount of time, and some legacy assets will remain with the Pension Fund for the foreseeable future.

In response to issues raised by Members, the following points were clarified: -

- The Nottinghamshire Pensions fund is funded at 87%, the Actuary will know how many Funds will be funded to 100%, but the Notts Fund has always been well funded when compared nationally and is in a better position than the LGPS generally.

- The rate of return on investments over the last 3 years has exceeded the Actuary's forecast, but they are bound by regulations which force them to take a conservative and prudent view of the future.

- The Actuary is aware of the age profile of the Fund's membership and the fact that longevity appears to be levelling off, with officers in discussion with the Actuary over the issue.

5. INVESTMENT PERFORMANCE

Tamsin Rabbitts, Senior Accountant, gave a presentation to the meeting on the returns delivered by the Fund's investments over the year to March 2019. In summary the following was highlighted:-

Investment Returns

- Following an exceptional year in 2016/17, 2017/18 had much more moderate returns with a drop in the equity market just before year end. The reversal of this in the first quarter of 2018/19 improved the return for the year in line with the target return of 6%.

- The total Fund return over five years is comfortably ahead of the assumed investment returns in the triennial valuation.

- Returns are generally behind the Fund's strategic benchmark, mainly because our equities are less exposed to US markets which have been exceptionally strong, especially when the impact of exchange rates is taken into account. Also, the fund has a larger investment in the UK than the previous comparative index.

Management Arrangements

- Each quarter the Pension Fund Committee reviewed the performance of the Fund and received reports from each of the main portfolio managers.

- During the year the Fund retained a relatively simple structure of management arrangements with two main equity portfolios (Core Index and Schroders), a bond mandate with Kames and mainly direct property managed by Aberdeen.

- The main managers have very long-term relationships with the Fund, and this is one of the main reasons for the low investment management costs.

- The specialist portfolio holds a number of pooled equity and property funds as well as private equity and infrastructure. This portfolio is an area of growth as additional alternative investments are sought, especially in infrastructure, to increase diversity and improve the returns of the fund overall.

- Each of the main managers has an individual benchmark against which their performance is measured. The Fund's overall performance is then compared to its strategic benchmark and helps to inform decisions around the management arrangements.

The Strategic Benchmark

- The Strategic Benchmark is built up of high-level market indices for different asset classes and is based on agreed asset allocation ranges.

- The Fund's asset allocation is one of the key factors that the Committee determines, and this is recognised as the biggest driver of returns.

- The Fund then decides how each asset class should be managed – e.g. internal or external managers, on a passive or active basis. The performance of the main active managers is reported each quarter.

- In implementing the investment management of equities, the Fund has adopted an investment strategy that favours the UK over the US and this is the reason for the divergence in returns of the portfolios from the strategic (global) benchmark. A small change was introduced for 2017/18 so that the benchmark is now 45% FTSE allshare and 55% FTSE All World ex UK. Consequently, future divergence should be smaller.

- A major review of asset allocation took place during the year. There are now long-term targets in place which will take a while to move towards. It should be noted that 'Equities' includes Private Equity Funds, and our Infrastructure investments, and the apparent increase compared to the previous asset allocation relates to increases in allocation to these 'alternative' asset classes.

Core Index – Equities

- The stock market can be volatile, meaning that however good one year's results are, they may be significantly different in the future.

- Long term performance is still ahead of the assumed investment returns contained in the triennial valuation.

Schroders Equities

- The Schroders portfolio is similarly volatile but long-term performance over 10 years is 12.5% against a benchmark of 11.9%, which is 0.6% above benchmark after fees.

Kames – Bonds

- The Kames Bond portfolio has delivered very stable returns with only 1 of the last 10 years being negative. The portfolio has delivered returns of 5.9% over 10 years against a benchmark of 5.7%.

Aberdeen – Property

- Since the market recovery in 2010, Aberdeen's returns have been positive each year. Aberdeen's strategy is focused on ensuring durable long-term income and this should provide greater protection during market turbulence. Over 5 years the portfolio has delivered average annual returns of 10%, which is well ahead of the 6.5% target.

Asset Allocation

- Where future investments are made through the LGPS Central asset pool, decisions over manager selection will be made by the pool operator.

- Deciding on an appropriate investment strategy and asset allocation for the fund will still be done by the Nottinghamshire Pension Fund Committee.

Pooling

- From 1st April 2017, LGPS Pension funds were required to be part of a pooled investment arrangement, although this only relates to investment management. The assets and liabilities, and administration of the Fund, will continue to belong to the Fund.

- The Nottinghamshire Pension Fund has become part of the Central Pool and is both a shareholder and a customer to the new company.

- Over time, the Pool is expected to deliver cost savings. These savings are less pronounced for Nottinghamshire as it is already a very low-cost fund, and in the short term there are significant set up costs. However, Investment Managers have been prepared to reduce costs in anticipation of pooling.

- LGPS Central have set up an Active Equity Global mandate, a Private Equity Fund and an Emerging Markets Active Equity Fund, all of which the Fund has invested in.

- The Committee decided in May that the Fixed Income portfolio (that is Corporate Bonds and gilts) will be managed by LGPS Central when the new sub-fund is available.

Summary

- Investment returns were in line with target in 2018/19.
- Equity returns are behind the Fund's strategic benchmark largely due to the lower weighting to US equities which have performed exceptionally well.
- Total returns over 5 years are ahead of the Actuary's assumed return.
- Asset allocation is the most important factor in driving long term investment returns.

In response to issues raised by Members, the following points were clarified: -

- The amount of cash held by the Fund is expressed as a percentage of total assets.
- An initial investment has been made in to LGPS Central's Emerging Markets Fund and more funds will be transferred in over time.
- The Working Party has discussed the good returns achieved through property investments and is aware that this level of performance is unlikely to continue. A property tour for members of the Committee has been arranged for November.

6a. PENSIONS ADMINISTRATION

There were two presentations regarding pensions administration. Jon Clewes gave the first presentation on current issues which covered the following key areas:-

Context

- Scheme membership continues to grow.
- MAT's are consolidating into single employers to try and improve efficiency, and the Employer Support and Compliance Team continues to support employers.
- The Pension Regulator continues to require Funds to work on improving fund data.
- In 2017/18 the Administration Team completed 7,617 processes.
- In 2018/19 the Administration Team completed 10,688 processes.

Year End and Valuation

- All employers submitted their data, enabling the timely submission of valuation and Annual Benefit statement data.

- Work continues with employers in relation to their submissions.

- 41,899 deferred statements were issued in July 2019

- 37,770 Active Statements were issued in August 2019

- The valuation data issued to the Actuary by the agreed deadline of August 2019 contained 170,724 rows of data.

Compliance

- Compliance is the responsibility of the administering authority and scheme employers.

- The Pensions Employer Support and Compliance Team works with all employers to ensure that all statutory requirements are met; overall quality and timeliness is continually improved; support and advice is offered where requirements are not met; and notifications are sent where employers have not complied.

Costs

- In 2019, Nottinghamshire administration costs were £14.37 per member compared to the average cost per member of £21.34 within the Cipfa benchmarking club.

Planned Activities

- Reconciliation of the Pension Administration System with the Pension Payroll, which is a regulator requirement.

- Continue to work with employers where the Fund has queries relating to employee member data.

- Continually review business processes.

- Pensions Data Screening, which includes mortality screening and the tracing of pensioners and deferred members.

- Carry out the Guaranteed Minimum Pension (GMP) reconciliation with HMRC.

- Improve the Pension Administration System.

On behalf of the Committee, the Chair thanked the team for their hard work and for achieving the cost figure of £14.37 per member.

There were no questions.

6b. TRANSFORMING PENSION ADMINISTRATION THROUGH DIGITAL DEVELOPMENT AND NEW WAYS OF WORKING

Sarah Stevenson gave the second presentation regarding pensions administration. In summary the following was highlighted:-

- In July 2019 the Pensions Committee approved the development of a programme of work to transform pension administration through digital development and the implementation of new ways of working.

- The Nottinghamshire Fund has over 146,000 members (active, deferred and pensioners) and 341 scheme employers, which is a 31% increase since 2014-2015.

- The LGPS is under greater scrutiny from the Pension Regulator. Compliance is key and a Data Improvement plan is required.

- The Pensions Regulator has stated that he expects Funds to enable employers and members to interact with Funds via digital platforms.

- The Regulator has also stated that monthly data submissions should be the default.

- On 12th September the Pensions Committee approved the scope of the digital programme. The Programme aims to improve data quality, increase process automation, enable Scheme Employers to interact with the fund via a secure portal and enable Scheme Members to access information about their pension benefits through a secure portal.

- In future the Pension Office will only carry out administration by exception, with administrators freed to work on complex and unusual cases.

- The secure portal will be piloted by Nottinghamshire County Council, with a number of other employers joining the second stage of the pilot. The plan is to rollout to all other employers during 2020.

- The implementation of monthly returns will include details of new starters, changes, leavers and monthly contributions. Data validation checks will take place prior to submission with errors being resolved by Employers.

- It is proposed to scope the phase where the portal will provide secure access to Members, during the second half of 2020. This will allow Members to securely communicate with the Fund, maintain their own personal data, review their Annual Benefits Statement online and, in the future, initiate an online retirement process.

- A communications plan is being developed to inform those affected of the proposed changes. Scheme Employers will be supported by the Employer Support and Compliance Team and a series of events are planned to demonstrate and provide training for the Scheme Employers on the portal and the submission of monthly returns. Scheme Members will be informed of the benefits of interacting with the Fund via the digital platform.

In response to issues raised by Members, the following points were clarified: -

- It is important for the team to be proactive, with support from the employers needed if a 'win/win' situation is to be achieved.

- Discussions took place in March/April/May with employers, including District Councils and Universities, about how to implement the new arrangements. It is hoped that Nottinghamshire County Council will be able to begin to pilot the scheme in the next two weeks with other employers brought on board by early summer 2020.

- The City Council is one of the larger employers and has a separate access to the system at the moment. Discussions will take place with them regarding the new portal. The City Council are aware of the forthcoming change in arrangements.

7. QUESTIONS

In line with procedures, the following questions were submitted in writing prior to the meeting:

Question 1

Financial risk of divestment from tobacco

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In February 2017 a report from the Fund's Independent Advisor concluded that "tobacco stocks are likely to remain an attractive investment for pension funds and a financial case for divestment cannot be made". Although that report mentioned vaping as a potential threat, there was no discussion of the risks of regulatory hazard to tobacco - for example no reference to ongoing consideration by the US FDA of banning menthol cigarettes. The Advisor's report was supported by reference to the MSCI World Tobacco Index which showed better returns in previous years than for the MSCI World Index. However, this Index now shows a decline in net returns from the tobacco industry since mid-2017 with net returns in 2018 of minus 35.36% for World Tobacco compared to minus 8.71% for the World Index, and for the last three years an average net return for World Tobacco of minus 10.31%p.a. compared to plus 9.63%p.a. for the World Index:

(https://www.msci.com/documents/10199/60e06c7e-e189-4193-b7d4-fcee21c3c2fa 30 August 2019)

Is it still the view of the Fund that returns from tobacco are so good that it would be unlawful to divest from tobacco?

Nigel Lee

Answer

Thank you for your question.

Return comparisons have to be made over a long time period in order to be meaningful, and there will always be short periods of both over and underperformance. These should not be the basis for any investment decision. Our Independent Adviser in his report placed weight on the flow of growing dividends which tobacco companies generate over long periods. This is particularly beneficial to pension funds such as this one aiming to match liabilities. He also commented that tougher regulation is likely to benefit incumbent tobacco producers, because it creates larger barriers to entry. On this basis it remains our view that there are no financial grounds for divestment from tobacco at the moment. However, we do review the position on a regular basis.

Question 2

Dear Nottinghamshire LGPS,

As a member of the Nottinghamshire Pension Fund I wish to ask the following question at its forthcoming AGM on October 3rd 2019:

I would like to know exactly which fossil fuel companies my pensions money is being invested in. In Nigel Stevenson's letter of 3rd September 2019 to me in response to my concerns over fossil fuel investments he said that ''We are transparent on our holdings in companies.'' Over 70% of the value of the Pension Fund's equity holdings is in Pooled funds (formerly called 'Managed Funds' in the published equity listings). The Pensions Fund's published holdings do not provide any details of which companies' shares are held within these Pooled funds. Please can you tell me exactly which fossil fuel companies the Pension Fund currently has investments in, and the value of these investments in each company? This includes investments through Pooled funds.

Please confirm receipt of this email.

Many thanks, Michael Howard.

Answer

Thank you for your question.

The Nottinghamshire LGPS Pension Fund publishes all its direct holdings on a quarterly basis. This list of holdings includes significant amounts in passive funds which reflect particular indices. The proportion of investments in particular companies within these indices is publicly available information, and anybody interested can calculate this for themselves. The proportions held in major industries, such as fossil fuels, are monitored by the Pension Fund as part of our risk management. The Pension Fund also holds a number of actively managed pooled funds. These are a much smaller part of our investments and the risk profile is managed by the appointed managers in line with our Environmental, Governance and Social Investment standards.

Question 3

Dear Nottinghamshire LGPS,

I wish to ask the following question at the forthcoming AGM of the Nottinghamshire Local Government Pension Scheme on October 3rd 2019:

"Nigel Stevenson's letter of 3rd September 2019, which I received after writing to the Pension Fund Committee to express my concerns over fossil fuel investments, said that the Pension Fund's engagement strategy is 'supportive of societal outcomes'. As a result of your engagement strategy, which fossil fuel companies have emissions strategies which meet the emissions reductions pathway set out as necessary by the Intergovernmental Panel on Climate Change to avoid catastrophic climate change? If there are none, how do you regard engagement as 'supportive of societal outcomes', when the societal outcomes will be the catastrophic impacts of climate change?"

Please confirm receipt of this email,

Yours Faithfully

Stephen Flaherty, Member of Nottinghamshire LGPS

Answer

Thank you for your question.

Our partners engagement programme stretches far beyond fossil fuel producers. As long as fossil fuel demand remains strong, fossil fuel supply will continue. Therefore, our engagement programme covers both the supply side and the demand side. For example, LGPS Central is supporting 161 engagements with the most carbon intensive companies globally across sectors (including oil & gas, mining, autos and aerospace), via a collaborative investor initiative Climate Action 100+. Climate Action 100+ engagements have three key objectives:

- robust governance of climate risk
- climate change disclosure in line with the recommendations of the Taskforce on Climate- related Financial Disclosures, and
- the alignment of business models with a 2°C pathway

Examples of positive developments following engagement are:

Anglo American - have a long-term ambition for 'carbon-neutral operations'.

Arcelor Mittal - are committed to be 'carbon neutral in its European operations by 2050'

BHP Billiton – have a goal of net-zero emissions by 2050, including scope 3 emissions

SSAB – have a target to 'become fossil-free within entire operations by 2045'

Thyssenkrupp – have a target for carbon-neutral steel production by 2050

Heidelberg Cement – have a target verified as a Science Based Target and an announced ambition to be carbon neutral by 2050

Eni SpA – have a 2030 objective to achieve net zero emissions (Scope 1) in its upstream business by 2030 and to become "carbon neutral" in the long term

Daimler – aim to have a Carbon-neutral fleet of passenger cars by 2039

Volkswagen – aim to have a Carbon-neutral vehicle-fleet by 2050

Centrica – intend to demonstrate Paris Agreement alignment by 2031 and develop a path to net zero internal emissions by 2050

CEZ – have a commitment to generate carbon-neutral electricity before 2050

E.ON – are committed to be 'carbon neutral by 2050'

EDF – have a commitment to carbon neutrality (direct emissions) by 2050

ENEL – have a commitment to 'carbon neutrality' by 2050

LGPS Central also report seeing significant progress made by BP, Shell, Glencore, Centrica and Rio Tinto. For example, following Climate Action 100+ engagement through LGPS Central involvement, Shell has set carbon intensity targets as part of overall carbon reduction ambition. These targets are linked to remuneration/incentive plans. Shell has set new standards of transparency on involvement with trade associations (some of which lobby against climate measures). Following a review of the extent to which the climate change positions of these trade associations aligns with that of Shell, membership of the American Fuel & Petrochemical Manufacturers was revoked.

At the AGM this spring we co-filed, through LGPS Central, a shareholder resolution that calls for BP to articulate a business strategy, including capital expenditure decisions, consistent with the Paris Goals. 99% of ballots voted were in favour of this resolution. LGPS Central will continue engagement with BP to hold the company to account against the commitments made.

LGPS Central has also engaged Centrica Plc on decarbonising the business model, best practice disclosure, and helping customers reduce their carbon footprint in line with the Paris agreement; Rio Tinto on sale of thermal coal assets, improved risk management, best practice disclosure, and transparency over trade associations, and Glencore Plc on decarbonising the business model, limiting coal production, and increasing production of commodities supporting a low-carbon economy.

However, despite all this positive progress, we recognise more needs to be done to hold companies to account relative to their climate targets and commitments. LGPS Central is a member of the Transition Pathway Initiative (or TPI) and sits on their Steering Group which develops metrics to hold companies to account. TPI, supported by its academic partner the Grantham Research Institute on Climate Change and the Environment at the London School of Economics and Political Science, provides a tool that measures both companies' climate change management and their carbon performance (including forward trajectory relative to the Paris goals).

TPI covers heavy emitting sectors (currently 14 sectors covered) and is working on new, robust ways to measure Paris alignment with a sector-specific lens.

<u>Question 4</u>

Dear Nottinghamshire LGPS,

I wish to ask a question at the forthcoming AGM of the Nottinghamshire Local Government Pension Scheme on October 3rd 2019:

I'm not sure if I'll be able to attend the meeting in person as I'm at a tree planting course that day with another lady from Extinction Rebellion but I have a question for the people on the pension fund that I would like to be asked.

Climate change is not personal or political. I know that divesting from fossil fuels may not be easy for you. However, these are the facts (from IPCC 2018 report in my own words...):

Fact: We have until 2030 to halve global carbon emissions to have a 50% chance of keeping to a 1.5 degree Celsius rise in temperature which will still pose serious problems for us as a species, but less so than a rise above this. We are already witnessing unprecedented temperatures, floods, wildfires etc.

My question is this: Are we really willing to subject future generations to death because it is too "difficult" to take all the necessary & perhaps unprecedented steps to try & prevent these deaths? Even if it doesn't kill you personally, would you be comfortable knowing that collective inaction on climate change will lead to the beginning of even more erratic weather patterns, drought & famine, the deaths of thousands, then millions, then the extinction of all humans?

Every bit of action is necessary. I sincerely hope you do what is right & continue to do what is right both inside & outside of work to prevent the deaths of future generations.

Please confirm receipt of this email.

Thanks,
Heather Sarno.

Answer

Thank you for your question.

The purpose of the Pension Fund is to:

- to keep the contribution rate as constant as possible at reasonable cost to the taxpayers
- to manage employers' liabilities effectively
- to ensure that sufficient resources are available to meet all liabilities as they fall due and
- to maximise the returns from investments within reasonable risk parameters

We acknowledge that striking a balance between our stated purpose and the wider, long-term risks posed by for instance climate change is a demanding task. Our fiduciary duty and our stewardship responsibilities cross the whole investment chain, including in-house operations and engagement with external managers, companies, civil society, industry standard setters and policy makers.

The full spectrum of risks and opportunities linked to climate change and the transition to a low carbon economy are owned by all parties. As a long-term asset owner, we strive to build portfolio resilience to climate risks and to capture opportunities, through ESG integration and focused stewardship (as mentioned in examples above at company and sector levels).

We also place importance on supporting policy makers in adopting progressive and clear measures. This month the Institutional Investor Group on Climate Change, where our pool LGPS Central is a member, is asking EU leaders (ahead of the October European Council) to take urgent action and to provide investors with long-term certainty through a net-zero emissions target to be achieved by 2050 at the latest.

Question 5

Dear Nottinghamshire LGPS,

I wish to ask the following question at the forthcoming AGM of the Nottinghamshire Local Government Pension Scheme on October 3rd 2019:

"Extinction Rebellion Nottingham would be very pleased to give the Extinction Rebellion talk ‘Heading for Extinction and what to do about it’ to members of the Nottinghamshire Pension Fund Committee. The talk provides the latest science on climate change and biodiversity loss. The talk can be given at a time and place convenient to the Committee – perhaps as an addendum to a regular Committee meeting. Will the Committee accept this offer?"

Please confirm receipt of this email.

Yours sincerely

Rachel Adams
Member of the Notts LGPS and of Extinction Rebellion Nottingham

Answer

Thank you for your question.

The Pension Fund Committee would like to thank Extinction Rebellion for their offer but the constitution prevents public speaking at committee meetings. The Committee are very familiar with the issues of climate change. If Extinction Rebellion would like to send a link to any online material, we can circulate this to committee members.

Question 6

Dear Nottinghamshire LGPS,

I wish to ask the following question at the forthcoming AGM of the Nottinghamshire Local Government Pension Scheme on October 3rd 2019:

The Carbon Tracker Initiative's latest analysis shows that Shell, BP, and ExxonMobil all approved new non-Paris Agreement compliant fossil fuel exploration and extraction projects in 2018. Latest holding data shows that the Pension Fund holds £41.7m in BP shares and £73.9m in Royal Dutch Shell shares, while through its Pooled Legal & General North America Equity Index fund holding it also has holdings in ExxonMobil.

Does the Pension Fund believe that the achievement of the objective of the Paris Agreement on Climate Change – to limit global temperature rise to a safe level - is important? If so, why is it investing in companies who are undertaking new activities which work against the achievement of this objective, and bring us closer to catastrophic climate breakdown?

Please confirm receipt of this email.

Regards,
Kay Head.

Answer

Thank you for your question.

We believe the achievement of the Paris agreement is very important. Through LGPS Central we have signed the Global Investor Statement on Climate Change issued by the Institutional Investor Group on Climate Change, urging global political leaders to take action. A progressive policy environment which provides long-term certainty would be supportive of the Fund's primary purpose to pay pensions.

The Global Investor Statement on Climate change calls on policy makers to:

- achieve the goals of the Paris Agreement
- accelerate private sector investment into the low carbon transition and
- commit to improve climate-related financial reporting

The Fund holds a diversified portfolio of investments to generate returns at an acceptable level of risk, in order to pay pensions and keep contributions stable.

In 2019 – after the 2018 carbon tracker analysis – BP and Shell announced ambitions to align their business models with the Paris Agreement. If engaged investors were to sell all the equity of oil & gas companies to un-engaged investors, companies would be less likely to change.

The next two questions refer to Scope 3 emissions and were answered together.

Question 6

Dear Nottinghamshire LGPS,

I wish to ask the following question at the forthcoming AGM of the Nottinghamshire Local Government Pension Scheme on October 3rd 2019:

Nigel Stevenson's letter to me regarding climate change and the Pension Fund's investments said that 'We actively seek changes to corporate behaviour through global climate-related investor partnerships including Climate Action 100+, Institutional Investor Group on Climate Change and the Transition Pathway Initiative (TPI)'. In its November 2018 discussion paper TPI looked at attempts - or not - by 10 fossil fuel companies to measure and reduce emissions.

The TPI report concluded that the majority of oil and gas companies do not currently measure the major part of their emissions: those from the products they sell (known as Scope 3 emissions). Most have no reduction targets relating to these emissions, and those targets which do exist are likely insufficient to meet the Paris Agreement target relating even to 2°C of global warming (N.B. 2°C is now judged a catastrophic level of warming: the Intergovernmental Panel on Climate Change regards a maximum of 1.5°C as 'safe'). Some companies measure operational emissions, but in its discussion of the paper LGPS Central regarded operational emissions as 'irrelevant' in comparison to Scope 3 emissions.

Given this, do you regard the engagement strategy as successful to date in changing corporate behaviour to a model which will avoid catastrophic climate change impacts?

Please confirm receipt of this email.

Yours sincerely,

Carolyn Caldwell
Pension Fund
Member

Question 7

Dear Nottinghamshire LGPS,

I wish to ask the following question at the forthcoming AGM of the Nottinghamshire Local Government Pension Scheme on October 3rd 2019:

"The Pension Fund believes in an engagement model with companies to manage climate change risks. The Chair's Foreword to the Fund's 2017-18 Annual Report says "This engagement approach continues to highlight and improve the resilience of corporate strategies at global resource companies in the wake of climate change agreements". The Paris Agreement on Climate Change commits all States to limit global temperature rise to well below 2°C and to pursue efforts to limit it to 1.5°C. (N.B. Following the IPCC's Special Report of 2018 1.5°C is now accepted as the maximum 'safe' level of warming.) The Pension Fund directly owns shares £41.7m in BP shares (as at 30 June 2019). BP has no plans to measure Scope 3 emissions (those from the fossil fuel products it sells), saying that it has no responsibility for them. These emissions make up the vast majority of the emissions relating to BP's activities. Do you regard BP's position as consistent with responsible corporate behaviour and the prevention of catastrophic climate change impacts? Can you point to any results from shareholder engagement with BP which are consistent with the reductions in its emissions required to prevent catastrophic climate change? If not, why does the Pension Fund persist with attempts to engage with BP rather than divesting from its shares?"

I would very much appreciate it if you would please confirm receipt of this email.

I will be attending the meeting on October 3rd to hear the response to my question.

Yours Faithfully,

Darren Wells.

Answer

Thank you for your questions.

The Pension Fund agrees that these Scope 3 emissions are extremely important, and that is taken into account in our engagement with and investments in (for example) motor companies, airlines and transportation companies who are able to both monitor and control their emissions. The Pension Fund does not focus exclusively on fossil fuel companies.

Through the TPI Steering Group, LGPS Central contributes financially to the TPI research quoted in the question precisely because we want to know where there are gaps, and to encourage companies to fill in the disclosure gaps.

At BP's AGM this spring we co-filed, through LGPS Central, a shareholder resolution that calls for the company to articulate a business strategy, including capital expenditure decisions, consistent with the Paris Goals. 99% of ballots voted were in favour of this resolution. We will continue engagement with BP to hold the company to account against the commitments made. BP's new Paris aligned strategy does recognise the importance of downstream emissions.

Shell is taking into account scope 3 in its 50% carbon reduction target by 2050. They emphasise the importance of establishing sector-wide matrix for doing this meaningfully, and Shell is actively seeking dialogue with industry peers on this particular issue. Scope 3 emissions make up approximately 80% of global emissions yet it is the most challenging element to assess. TPI is doing some ground-breaking work around Scope 3 emissions, for instance recently discussed in a workshop on diversified mining. Mining companies need to assess the lifecycle intensity per unit of commodity, and ultimately, mining companies need to change the way they make steel.

Currently, metallurgical coal is used alongside iron ore in the production of steel.

Question 8

Dear Nottinghamshire LGPS,

I wish to ask the following question at the forthcoming AGM of the Nottinghamshire Local Government Pension Scheme on October 3rd 2019:

"In 2015 the Environment Agency Pension Fund declared an aim to substantially decarbonise their equity portfolio by 2020. In 2018 their Chair Joanne Segars (also the Chair of LGPS Central) announced they had already reduced their exposure to coal, oil and gas by over 90% while maintaining strong financial performance. Is there any reason why Nottinghamshire Pension Fund cannot emulate this achievement?"

Please confirm receipt of this email.

Best wishes,

Andrew Martin.

Answer

Thank you for your question.

In line with our approved Investment Strategy Statement the Nottinghamshire Pension Fund is moving in the same direction, with an increased allocation to infrastructure investments, a significant proportion of which is in clean energy, and a gradual reduction in equity investments. Within our equity investments we are looking at a number of low carbon and sustainable funds. Over time our exposure to fossil fuels will reduce as a result of these asset allocation and diversification decisions.

Question 9

Dear Nottinghamshire LGPS,

I wish to ask the following question at the forthcoming AGM of the Nottinghamshire Local Government Pension Scheme on October 3rd 2019:

"Publically available information shows that the Pension Fund has holdings in ExxonMobil through its Pooled Legal & General North America Equity Index fund holding. It is possible and probably likely it holds shares in other oil majors such as ConocoPhilips and Chevron through this Legal & General fund and/or the Schroder North American Equity Fund. How do you engage on climate change risks with companies owned through Pooled funds? Further, what are the opportunities for doing so when these companies are based in North America?"

Please confirm receipt of this email.

Yours Faithfully,

Sonia Moratto.

Answer

Thank you for your question.

Our passive funds reflect the index they track so will contain the companies within the index. However, this does not prevent the manager of the fund from engaging with the companies held in this fund. Legal and General undertake substantial engagement activities and use the combined investor power through these huge funds to influence companies. They produce quarterly engagement reports which are published online and are circulated to members. Their high ESG standards were assessed before the decision was made to invest through Legal and General. As a large international company, both Legal and General and Schroders have resources to engage with companies all over the world.

Question 10

Dear Nottinghamshire LGPS,

As a pension fund member, I wish to ask the following question at the forthcoming AGM of the Nottinghamshire Local Government Pension Scheme on October 3rd 2019:

"Analysis of the public disclosures and public messaging activities of ExxonMobil, Royal Dutch Shell, Chevron, BP and Total by the group Influence Map shows that from the end of 2015 - when the Paris Agreement on Climate Change was signed - to the end of 2018 these companies spent over $1bn of shareholder funds on lobbying and public messaging designed to delay, control or block policies to tackle climate change. Latest equity holdings show the Pension Fund directly holds £41.7m in BP shares and £73.9m in Royal Dutch Shell shares. Limited information available on its Pooled Legal & General North America Equity Index fund holding shows it also has holdings in ExxonMobil, with a likely value in the millions of pounds.

How do the activities of these companies match the expressed concern of the Pension Fund over climate change risks?

Do you believe that these activities show that the Pension Fund's engagement with fossil fuel companies over climate change risks is successful or unsuccessful in changing their behaviour?"

I hope to attend the meeting.

Please confirm receipt of this email.

Yours,

Stuart Jackson.

Answer

Thank you for your question.

We place great value on the work of Influence Map and use it actively in our engagement efforts. Influence Map's data are used in collaborative engagement work which LGPS Central undertakes in collaboration with other investors within the Climate Action 100+ initiative. This led to focussed engagement with mining companies – referred to above – and over summer some intensive engagement with automotive and chemicals companies. The data of Influence Map were used to determine which sectors and companies we prioritised. Just two weeks ago, LGPS Central attended a presentation from Influence Map in order to receive an update on the state of play, and to plan to build on engagement successes for the year ahead.

Based on research from Influence Map identifying German car and chemicals companies as "laggards" relative to their lobbying activities, Climate Action 100+ initiated an engagement project this year targeting these companies asking for Paris alignment. The alternative – divesting – would in our view guarantee the preservation of the status quo, i.e. no change to lobbying practices.

Question 11

Dear Nottinghamshire LGPS,

I am a member of the Nottinghamshire Local Government Pension Scheme and I wish to ask the following question at the forthcoming AGM of the Nottinghamshire Local Government Pension Scheme on October 3rd 2019:

"The Intergovernmental Panel on Climate changes states that to have a 50% chance of avoiding catastrophic, irreversible climate change we must cut global emissions by 45% by 2030, and to net zero around 2050. Shell's plan is to cut the carbon intensity of each unit of energy it sells by 50% by 2050, while also increasing the amount of energy it sells, amounting to a less than 50% reduction in its carbon emissions. Do you regard Shell's plans as consistent with preventing catastrophic climate change? If not, why does the Pension Fund hold investments in Shell?"

Please confirm receipt of this email.

Yours faithfully,

Dr Sarah Maloy.

Answer

Thank you for your question.

Shell has come a long way and is arguably a leader within oil & gas. Both Schroders and LGPS Central, among others, have been part of that journey via regular dialogue with the company and engaging to decarbonise.

Beyond its own commitments, Shell is actively reaching out to all industry peers to discuss and define meaningful scope 3 emission reduction targets. While Shell is not responsible for the efficiency of the vehicle of the end user, the company is looking to expand its products, business model and investments in order to provide for instance electricity charging for cars.

We recognise that different sectors will have different decarbonisation pathways and that we need, alongside investor engagement, policy engagement that can lead to clear and targeted policy interventions in alignment with Paris goals. Through LGPS Central we are members of the Institutional Investor Group on Climate Change advocating policy action. This month the Institutional Investor Group on Climate Change is asking EU leaders (ahead of the October European Council) to take urgent action and to provide investors with long-term certainty through a net-zero emissions target to be achieved by 2050 at the latest.

Question 12

Dear Nottinghamshire LGPS,

I would like to ask the following question at the forthcoming AGM of the Nottinghamshire Local Government Pension Scheme on October 3rd 2019:

“How many hours per year, on average, does each committee member spend considering the suitability of the investments of £5 billion Pension Fund?”

Please can you confirm receipt of this email?

Yours sincerely,

Patrick Hort.

Answer

Thank you for your question.

Including meetings, training events and meeting preparation, members spend a minimum of 50 hours a year on Pension Fund Committee matters considering both investments strategy and Pensions administration issues.

The Pension Fund Committee is supported by Officers, our Independent Adviser, Investment Managers and LGPS Central.

Question 13

Dear Nottinghamshire LGPS,

I wish to ask the following question at the forthcoming AGM of the Nottinghamshire Local Government Pension Scheme on October 3rd 2019:

‘’Over 1,100 institutions around the world, with total value of over $11trillion, have chosen to partially or fully divest from fossil fuels. Around 160 pension funds are divesting, including full divestment commitments from Cardiff Council, Waltham Forest Council, Southwark Council, Monmouthshire Council and both the New York City Employees’ and Teachers’ funds. What do you believe is different about the way these institutions evaluate climate change and stranded assets risk in comparison with the Nottinghamshire Pension Fund?’’

Please confirm receipt of this email.

Yours sincerely,

Sue Smithson
Member of Nottinghamshire Pension Fund.

Answer

Thank you for your question.

Unfortunately, we cannot comment on decisions taken by other institutions. Having said that, we do feel committing to divest from fossil fuels at the present time would not be the right decision, because almost every business in the world to some extend depends on the use of fossil fuels. Selling shares in oil & gas companies will not make real world changes to greenhouse gas emissions. We believe there needs to be corporate change, which in our view is more likely with an engagement strategy.

Pension Fund Committee members will review our investment strategy in the new year in full knowledge of the need to balance all risks including climate change.

<u>Question 14</u>

Dear Nottinghamshire LGPS,

I wish to ask the following question at the forthcoming AGM of the Nottinghamshire Local Government Pension Scheme on October 3rd 2019:

"The Pension Fund's Investment Strategy Statement refers to investment decisions made in the light of the 'long-term impacts of climate change'. Given the recent commitment at the United Nations by many Insurance Companies and other Pension Funds to move their investment away from Carbon-Heavy industries now, what is the Pension Fund's definition of 'long-term' in relation to climate change? Scientific climate attribution studies have shown that many extreme weather events we are already experiencing are either directly the result of human-induced climate change or have been made many times more likely by it. This includes the 2018 heatwave in the northern hemisphere, which a full scientific assessment concluded couldn't have occurred without human- induced climate change. When you make investment decisions, are you taking into account the impacts of climate change scientifically assessed as happening now?"

Please confirm receipt of this email.

Yours sincerely,

Rosemary Jarrett,

Nottinghamshire Local Government Pension Scheme member.

Answer

Thank you for your question.

When making investment decisions the Pension Fund is required to take into account all known risks relating to the financial effect of current and long-term impacts of climate change and other environmental, social and governance risks. We will consider amending the wording of our Investments Strategy Statement at the next review to make this clearer.

Question 15

Dear Nottinghamshire LGPS,

I wish to ask the following question at the forthcoming AGM of the Nottinghamshire Local Government Pension Scheme on October 3rd 2019:

"The County Council states on its website that as a signatory to the Nottingham Declaration on Climate Change it is committed to “encouraging all sectors in our local community to take the opportunity to adapt to the impacts of climate change, reduce their own greenhouse gas emissions and make public their commitment to action”. Please can you tell me what local investments the Pension Fund has made to help the County Council achieve these commitments since the signing of the Nottingham Declaration in the year 2000? Will the Pension Fund commit to increasing investments within Nottinghamshire into clean energy and other activities which help to mitigate climate change?"

I am a member of the Pension Fund. Please confirm receipt of this email.

Yours sincerely,

John Hort.

Answer

Thank you for your question.

The Pension Fund is separate from the County Council. The purpose of the Pension Fund is to:

- Keep the contribution rate as constant as possible at reasonable cost to the taxpayers
- Manage employers’ liabilities effectively
- Ensure that sufficient resources are available to meet all liabilities as they fall due and
- Maximise the returns from investments within reasonable risk parameters

In meeting these objectives, the Pension Fund may make investments which are local, are in clean energy or mitigate climate change, and has done so, but this is not the aim of the Pension Fund and it would not be appropriate to commit to do so.

Question 16

Dear Nottinghamshire LGPS,

I wish to ask the following question at the forthcoming AGM of the Nottinghamshire Local Government Pension Scheme on October 3rd 2019:

"As at 30 June 2019 the Pension Fund held over £41.7million in BP shares, while publically available information shows that through its Pooled Legal & General North America Equity Index fund holding it also has holdings in ExxonMobil. BP and ExxonMobil lobbying disclosures show that over the last 3 years both companies have lobbied the US Government to open up the Arctic National Wildlife Refuge - the US's largest wildlife refuge - to exploratory oil drilling. The US Government is now in the final stages of completing the process of allowing drilling for oil there. In light of the need for radical reductions in carbon emissions to avoid catastrophic climate breakdown, does the Pension Fund believe that the opening up of new areas for oil exploration is sensible? Does it support the exploitation of a pristine and highly fragile wildlife refuge? If it does not, why is it - through its investment in BP's and ExxonMobil's shares - providing capital to the companies to lobby for and pursue these activities?"

Please confirm receipt of this email.

Yours sincerely,

Sue Mallender, Notts LGPS member.

Answer

Thank you for your question.

We fully recognise that some of the positive work undertaken by companies can be undermined by the lobbying work they perform either directly or via trade associations. We have therefore joined fellow investors, via Climate Action 100+, the Institutional Investor Group on Climate Change and the Transition Pathway Initiative, in calling on companies to be transparent about their lobbying activities, lobbying expenditure, and to review the positions taken by trade associations to ensure consistency on climate change.

We have seen some engagement successes on lobbying with Rio Tinto and Shell providing transparency on trade associations. Shell has decided to cease its membership of the American Fuel & Petrochemical Manufacturers trade association, an association that opposes carbon taxes, following our engagement.

LGPS Central has this month stated its support of a shareholder resolution that asks mining company BHP Group to suspend membership in trade associations where Paris alignment is lacking. Following engagement, BHP did a review of its trade association memberships two years ago, and as a result decided to exit the World Coal Association. While BHP has led the way in being transparent and has taken initial action, we are concerned that the other associations BHP is still a member of continue to lobby in a way that runs contrary to the company's and shareholder interests.

Influence Map, a data provider to Climate Action 100+, has highlighted certain German-listed companies as laggards on lobbying disclosure, leading institutional investors to prioritise those companies for engagement.

Question 17

Dear Nottinghamshire LGPS,

I wish to ask the following question at the forthcoming AGM of the Nottinghamshire Local Government Pension Scheme on October 3rd 2019:

"In response to my email to the Pension Fund regarding my concerns over fossil fuel investments, I received a letter from Nigel Stevenson dated 3rd. September 2019. In it he said "Diversification is a key technique available to institutional investors for improving risk-adjusted returns." How do you balance the greater diversification offered by holding fossil fuel company shares against the stronger returns shown by share indexes which exclude fossil fuel companies – for example, the FTSE Ex Fossil Fuel Share Index and the MSCI Ex Fossil Fuel Share Index? Given this stronger performance by the indexes which exclude fossil fuel companies, would the financial performance of the Pension Fund have been better over the last 5 years if you had benchmarked against one of these indexes, and if so, by how much? ″

Please confirm receipt of this email.

Yours,

Rosemary Mansfield.

Answer

Thank you for your question.

The benefits of diversification are demonstrated over long time periods. Given hindsight it is easy to find strategies which have outperformed, and others which have underperformed in comparison. And just comparing against a different benchmark does not necessarily affect the performance of an active portfolio. However, it is true that the FTSE All-share index, and to a lesser extent, the FTSE All-World index, have a significant proportion of oil and gas companies. To increase diversification and reduce our exposure to this market the pension fund is considering moving some of our passive equity investments to low carbon and sustainable funds.

Question 18

Dear Nottinghamshire LGPS,

I wish to ask the following question at the forthcoming AGM of the Nottinghamshire Local Government Pension Scheme on October 3rd 2019:

"How do you monitor the results of your engagement with fossil fuel companies on climate change risks, and what do you regard as progress by them in addressing these risks which is adequate for you to continue to hold their shares?"

Please confirm receipt of this email.

Yours, Anna Dixon.

Answer

Thank you for your question.

Through LGPS Central's membership of TPI (the Transition Pathway Initiative) and TPI steering committee influence, we assess fossil fuel companies and other high emitting companies on two key parameters 1) management quality and 2) carbon performance (how companies are positioned to reach the Paris goals). So far 274 companies in 14 sectors have been assessed on these parameters and given a score. With this information, we are able to monitor progress and see who the leaders and laggards are. The assessments are used actively in engagement and voting. As an example, we will vote against the board of a company if that company's TPI management quality is 1 or 0 (on a scale where 4 is the maximum score).

The TPI assessments are a part of a broad set of data that goes into Climate Action 100+ engagements alongside data from Carbon Tracker Initiative, 2 Degrees Investing Initiative and Influence Map. While engagements are ongoing, we will assess a company's performance relative to:

- climate governance (including lobbying)
- emissions (including setting targets, alignment with Paris, technology mix)
- disclosure

Supplementing this, is a 'soon to be released' progress report from Climate Action 100+ which will cover progress made in all engagements since inception of the project in December 2017. The overall goals for Climate Action 100+ are clear and progress is measured against those goals, and engagement will be escalated depending on the response of a given company.

LGPS Central uses Hermes Equity Ownership services to supplement their engagement and voting efforts globally. Below is a description of how Hermes monitors engagements with fossil fuel and other high emitting companies:

"The long-term outcome we seek is an oil & gas sector which invests in capital consistent with containing climate change to well below 2°C and which achieves net-zero emissions associated with its products and operations in line with the goals of the Paris Agreement, avoids pollution, always respects all human rights and operates with zero fatalities and injuries.

Key objectives on Climate Change include:

(i) the publication of a strategy consistent with the goals of the Paris Agreement, including long-term goals and short-to-medium term targets;

(ii) disclosure and management of climate change risks in line with the guidelines of the Task Force on Climate related Financial Disclosures; and

(iii) corporate public policy support for continued ambition to deliver the goals of the Paris Agreement on climate change and demonstration of aligned political lobbying activities."

Question 19

We wish to ask the following question at the forthcoming AGM of the Nottinghamshire Local Government Pension Scheme on October 3rd 2019:

"Shell's Annual Report 2017 noted fossil fuel divestment as a risk to the company. The growing global divestment movement – with over 1100 institutions now committed to divestment - will eventually harm major fossil fuel companies' profits and stock valuation, which in turn makes capital investment in fossil fuel exploration and new extraction harder. In line with Intergovernmental Panel on Climate Change analysis, radical reductions in fossil fuel exploration and extraction are societally desirable as they are necessary to prevent catastrophic climate change. Given this, why should the Pension Fund not commit to divestment?"

Please confirm receipt of this email.

Yours Faithfully,

Julian and Judy Marsh.

For information, the following text is the actual quote from that Annual Report:

"some groups are pressuring certain investors to divest their investments in fossil fuel companies. If this were to continue, it could have a material adverse effect on the price of our securities and our ability to access equity capital markets. Similarly, according to press reports, other financial institutions also appear to be considering limiting their exposure to certain fossil fuel projects.

Accordingly, our ability to use financing for future projects may be adversely impacted."

Answer

Thank you for your question.

We applaud Shell for being transparent about climate risks, including regulatory risk, divestment risk and the increased attention to climate change from society, something we have encouraged via engagement.

Shell recently expressed (at a Responsible Investor conference mid-September this year) an aim to align with customer preferences/needs through decarbonisation of products and use of energy.

When a company is showing credible signs of listening both to shareholders and customers, we see continued engagement and collaboration as a far superior tool to use in order to seek sector- wide changes. The herd mentality is a driver not to be underestimated and we need corporate leaders who have the courage to expose the risks they face.

True exposure of climate risk should also extend into future oil price assumptions in the accounts of companies. Through LGPS Central we are currently engaging with auditors because we are concerned that auditors do not sufficiently consider climate risks in company reports and accounts.

Question 20

The Notts County Unison branch would like the following question to be raised at the Pensions AGM:

Nottinghamshire County Council's website states that "we… are a signatory to The Nottingham Declaration on Climate Change. This Declaration commits the Council to tackling the causes and effects of climate change and to encouraging all sectors in our local community to take the opportunity to adapt to the impacts of climate change, reduce their own greenhouse gas emissions and make public their commitment to action." According to the US Environmental Protection Agency, over 75% of global greenhouse gas emissions relate directly to the use of fossil fuels. Can you explain how the Pension Fund's investments in fossil fuel companies - administered by the County Council - are in line with the Council's commitment to tackle the causes of climate change?

Answer

Thank you for your question.

The Pension Fund is separate from the County Council.

The purpose of the Pension Fund is to:

- Keep the contribution rate as constant as possible at reasonable cost to the taxpayers
- Manage employers' liabilities effectively
- Ensure that sufficient resources are available to meet all liabilities as they fall due and,
- Maximise the returns from investments within reasonable risk parameters

As described in Nottinghamshire Pension Fund's Annual Report, engagement continues to highlight and improve the resilience of corporate strategies at global resource companies in the wake of climate change agreements. Our asset pool LGPS Central has set out a Responsible Investment & Engagement Framework and an Annual Stewardship Plan which align with and support Nottinghamshire Pension Fund's approach. Climate change is one of LGPS Central's specific stewardship themes. Through LGPS Central, and its stewardship partner Hermes EOS, we engage very widely on climate change with companies, auditors of companies, industry standard setters and policy makers. We actively seek changes to corporate behaviour through global climate-related investor partnerships including Climate Action 100+, Institutional Investor Group on Climate Change and the Transition Pathway Initiative (TPI). TPI was set up for asset owners like pension funds so that they can better understand the risks they carry through holding for instance heavy carbon-emitting companies, and to act on that information.

The Chairman thanked everyone for their attendance and confirmed that the Committee does listen and does consider all comments received.

The meeting closed at 11.56am

CHAIRMAN
Notes of AGM – 3 October 2019