

**REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE &
IMPROVEMENT****CLIMATE RISK MANAGEMENT REPORT AND TASK FORCE ON CLIMATE-
RELATED FINANCIAL DISCLOSURES REPORT****Purpose of the Report**

1. To present the Climate Risk Management Report from LGPS Central Ltd to Members, and present this year's Task Force on Climate-related Financial Disclosures (TCFD) report.

Information

2. In 2020, in order to enable the Pension Fund to identify its exposure and understand its financial risk arising from climate change, the Fund commissioned LGPS Central to produce some climate risk analysis and scenario modelling, and a TCFD report which contains the key elements of the Climate Risk report. The scenario modelling is only performed every few years and was refreshed for 2023 and included a 1.5° scenario. The climate risk analysis has been repeated based on data at 31 March 2023.
3. This Climate Risk Report has been issued to the Nottinghamshire Pension Fund, and has been presented to the members of the Nottinghamshire Pension Fund Committee by LGPS Central at a training session to communicate the findings and recommendations of the Climate Risk Report, and enable Members to appreciate the challenge in obtaining reliable data for these calculations and the complexity of modelling these issues.
4. Some modifications have been made to the climate risk report this year and some new metrics introduced.
5. The report consists of three sections. The first analyses the Fund's approach to climate change, encompassing its activities and disclosures. The second section presents the Fund's carbon footprint metrics. Lastly, the third section compiles the carbon footprint dashboard for all funds examined in the model.
6. The additional metrics that are reported in this edition were selected to align the Fund's reporting with that of the proposed metrics published by the Department for Levelling Up, Housing and Communities in their September 2022 consultation. The key additions include a metric that measures the quality of data used as input to the calculations, and a forward-looking metric which measures alignment to the Paris Agreement. The alignment metric

utilises a combination of MSCI's Low Carbon Transition Score, MSCI Implied Temperature Rise and an issuer's science-based targets.

7. Appendix A presents the TCFD report which shares the key results of the analysis.
8. There are restrictions on what can be publicly reported from the climate risk analysis due to commercial confidentiality of supplier intellectual property, **and issues with reliability of some of the data due to the proportion of estimated figures**, so the full Climate Risk report is attached as exempt Appendix B. For reference, a portion of the second section and the entirety of the third section of the Climate Risk Management Report will remain exempt.
9. The purpose of the climate risk analysis is to help the Pension Fund better understand the risks and implications of climate change. It does this based on the available data. As this is dependent on what companies currently publish, it should be noted that this data is incomplete and subject to ongoing updates as further information is published or estimates improved. As such, previously published figures may change to reflect the latest available data. The model requires a number of assumptions and the output of the model should be interpreted in this context. Data is improving, partly due to pressure from engaged shareholders such as ourselves, but the sensitivity to assumptions and estimations and incompleteness of the data needs to be appreciated in interpreting the results of this work.
10. Despite this caveat, the analysis is supportive of the Fund's current investment strategy.
 - It shows that the year-end equity holdings continue to be below the market cap benchmark in terms of carbon footprint and weight of fossil fuel reserves, which indicates that the fund has been considering and managing climate risks.
 - The Fund's emissions intensity, as measured by financed emissions per £M invested is trending positively, decreasing by 28.9% since 2019.
11. Members should be reassured of these signs that they are discharging their responsibilities appropriately.

Report recommendations and considerations

12. The report provides a number of new recommendations for incorporation into Climate Action Plan for the Committee's consideration. These are as follows:

Category	Action	Timing	Notes
Governance	1. Further disclosure on the Fund's climate governance, including details on climate training provided to Members.	2024	
Strategy	1. Expand the climate scenario analysis to assess not just the impact on the Fund's investments but also its funding position. 2. More details on the risks and opportunities identified may include how these risks can materialise, the financial and non-financial impact, and how the Fund can mitigate/exploit such risks and opportunities.	2025	Discussions with LGPS Central to be held in early 2024
Risk Management	1. Further attention could be paid towards detailing escalation processes for stewardship, alongside measures of how the companies held within the Climate Stewardship Plan are progressing towards the achievement of their targets. 2. Further disclosure of details relating to specific risks associated with climate change 3. Review the companies within the Climate Stewardship Plan to ensure the relevance of the list. Continue to engage and report on the progress.	2024	Climate Stewardship Plan is reported annually.
Metrics	1. Updating its Climate Strategy to include engagement relating to improved data coverage for its portfolio climate analysis.	2023	

Ongoing work

13. Alongside this work the Pension Fund will continue to consider climate risks in setting long term strategic asset allocations.
14. The Pension Fund will continue to monitor and manage all financially material risks to which it is exposed.

Other Options Considered

15. The Pension Fund is not currently required to undertake climate risk analysis or to publish a TCFD report. However, undertaking climate risk analysis and publishing a TCFD report

are regarded as best practice and are consistent with the Pension Fund's commitment to transparency.

Reason/s for Recommendation/s

18. Members and officers need to better understand and control the climate related financial risks in the Pension Fund investments.

Statutory and Policy Implications

19. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

Financial Implications

20. There are no direct financial implications arising as a result of publishing this report.

RECOMMENDATION/S

- 1) That members include the new actions in the Climate Action report and consider whether there are any other actions they require in relation to the issues contained within the report.

Nigel Stevenson

Service Director for Finance, Infrastructure & Improvement and Section 151 Officer

For any enquiries about this report please contact: Tamsin Rabbitts

Constitutional Comments (KK 01/12/2023)

21. The proposal in this report is within the remit of the Nottinghamshire Pension Fund Committee.

Financial Comments (TMR 30/11/2023)

22. The financial implications are set out in paragraph 20.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- None

Electoral Division(s) and Member(s) Affected

- All