Nottinghamshire County Council

Nottinghamshire Pension Fund Committee

Thursday, 10 December 2020 at 10:30

Virtual meeting

AGENDA

1	Minutes of the last meeting 8 October 2020	1 - 4
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	LGPS - Reform of Local Government Exit Payments	5 - 10
5	Task Force on Climate Related Financial Disclosures (TCFD) Report	11 - 32
6	Work Programme	33 - 36
7	Fund Valuation and Performance	37 - 44
8	Independent Adviser's Report	45 - 46

9 EXCLUSION OF THE PUBLIC

The Committee will be invited to resolve:-

"That the public be excluded for the remainder of the meeting on the grounds that the discussions are likely to involve disclosure of exempt information described in Schedule 12A of the Local Government Act 1972 and the public interest in maintaining the exemption outweighs the public interest in disclosing the information."

Note

If this is agreed, the public will have to leave the meeting during consideration of the following items.

EXEMPT INFORMATION ITEMS

10 Fund Valuation and Performance EXEMPT

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

11 Fund Managers' Presentations

11a ASI

11b LGIM

11c LGPS Central

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

Nottinghamshire County Council

minutes

Meeting	NOTTINGHAMSHIRE PENSION FUND COMMITTEE
Date	Thursday 8 October 2020 at 10.30 am

membership
Persons absent are marked with `A'

COUNCILLORS

Eric Kerry (Chairman)
Stephen Garner (Vice Chairman)

Reg Adair
Chris Barnfather
A - Tom Hollis
Rachel Madden
Sheila Place
Mike Pringle
Francis Purdue-Horan
A - Parry Tsimbiridis

Non-voting members:

Nottingham City Council

Councillor Graham Chapman
Councillor Anne Peach
Councillor Sam Webster

Nottinghamshire Local Authorities' Association

A - Councillor David Lloyd, Newark and Sherwood District Council
Councillor Gordon Moore, Rushcliffe Borough Council

Trades Unions

Mr A Woodward
Mr C King

Scheduled Bodies

Mrs Sue Reader

Pensioners' Representatives

A - Mr T Needham
Vacancy

Independent Adviser

William Bourne

Officers in Attendance

Pete Barker	(Chief Executive's Department)
Jon Clewes	(Chief Executive's Department)
Ciaran Guilfoyle	(Chief Executive's Department)
Keith Palframan	(Chief Executive's Department)
Tamsin Rabbitts	(Chief Executive's Department)
Nigel Stevenson	(Chief Executive's Department)
Sarah Stevenson	(Chief Executive's Department)

1. MINUTES

The minutes of the last meeting held on 10 September 2020, having been circulated to all Members, were taken as read and were confirmed and signed by the Chair.

2. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Lloyd, Councillor Tsimbiridis and Mr Terry Needham.

Councillor Madden replaced Councillor Hollis for this meeting only.

For the purposes of clarification, Councillor Webster, Mr Chris King and Mrs Sue Reader were all present at the meeting – their names were omitted in error when the list of attendees was given at the start of the meeting.

3. DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS

There were no declarations of interest.

4. PROXY VOTING

Mr Guilfoyle introduced the report and on a motion by the Chairman, duly seconded it was:

RESOLVED 2020/041

That no further actions are required as a direct result of the contents of the report.

5. LAPFF BUSINESS MEETING

Mr Guilfoyle introduced the report and on a motion by the chairman, duly seconded it was:

RESOLVED 2020/042

That no further actions are required as a direct result of the contents of the report.

6. LAPF STRATEGIC INVESTMENT FORUM 2020

Mrs Rabbitts introduced the report and on a motion by the Chairman, duly seconded it was:-

RESOLVED 2020/043

That Nottinghamshire Pension Fund Committee members continue to attend appropriate conferences to enable members to be kept up to date with the main national topics relating to investments.

7. REVISION OF FUND STRATEGIES

Mrs Rabbitts introduced the report and on a motion by the Chairman, duly seconded it was:-

RESOLVED 2020/044

That the revised Funding Strategy Statement, Investment Strategy Statement, Risk Management Strategy and Governance Compliance Statement be approved.

8. CLIMATE RISK ANALYSIS

Mrs Rabbitts introduced the report and on a motion by the Chairman, duly seconded it was:-

RESOLVED 2020/045

That the Action Plan, as detailed in Paragraph 9 of the report, be incorporated into the Pension Fund Committee Work Plan.

9. WORK PROGRAMME

Mrs Rabbitts introduced the report and on a motion by the Chairman, duly seconded it was:-

RESOLVED 2020/046

1) That the AGM take place in January 2021

2) That the Committee meeting scheduled in November 2020 be cancelled and the time used for property training for members.

3) That Committee receive regular reports on the subject of climate change.

At this point in the meeting the Chairman introduced a late item to the agenda entitled 'Climate Risk Analysis.'

10. EXCLUSION OF THE PUBLIC

RESOLVED: 2020/047

That the public be excluded for the remainder of the meeting on the grounds that the discussions are likely to involve disclosure of exempt information described in Schedule 12A of the Local Government Act 1972 and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

And that Mr William Bourne, the Independent Adviser, be permitted to stay in the meeting during consideration of the exempt items.

EXEMPT INFORMATION ITEM

11. CLIMATE RISK ANALYSIS

Mrs Rabbitts introduced the report and on a motion by the chairman, duly seconded it was:

RESOLVED 2020/048

That no further actions are required as a direct result of the contents of the report.

The meeting concluded at 11.23am

CHAIRMAN

Nottinghamshire County Council

Report to Pension Fund Committee

10 December 2020

Agenda Item: 4

REPORT OF SERVICE DIRECTOR – CUSTOMERS, GOVERNANCE, AND EMPLOYEES.

LOCAL GOVERNMENT PENSION SCHEME – REFORM OF LOCAL GOVERNMENT EXIT PAYMENTS

Purpose of the Report

1. The purpose of the report is to inform Pension Committee on the implementation of the reform of local government exit payments on scheme members and the implications for scheme employers.

2. The report also seeks approval for the funds for the proposed solution for dealing with cases impacted for an interim period prior to a change in pension regulations.

Information

Background

3. In 2015 the government first announced plans to introduce a cap on exit payments in the public sector. The cap applies to the total amount payable when someone exits and so applies to the total of severance payments, any pension strain cost and notice payments in excess of three months. The cap, set at £95,000 was legislated for in the Enterprise Act 2016, which amends the Small Business, Enterprise and Employment Act 2015, but required secondary legislation to be introduced.

4. On 10 April 2019, HM Treasury (HMT) opened a consultation on draft regulations, directions and guidance to implement the exit cap. This included provisions about the circumstances in which, and by whom, the cap could be waived. The consultation closed on 3 July 2019.

5. The Local Government Association (LGA) response to the cap consultation made detailed comments on the practical and statutory complexities of introducing the cap and its effects.

6. On 21 July 2020, HMT published the government's response to the consultation and laid the implementing regulations in Parliament. These were approved by the House of Lords on 23 September and the House of Commons on 30 September. They were officially made on 14 October and came into effect from 4 November 2020.

7. This law change has created an issue for employers and the Pension Fund as the Exit Cap Regulations and the Local Government Pension Scheme (LGPS) Regulations currently do not align. The proposals are that the LGPS will be amended to align these with the Exit Cap Regulations in future.

8. The Exit Cap regulations, laid by HMT, set out the general rules that must be applied to the public sector, and consultation ended on 9 November, with the ability to provide further comments on how the 95K cap should apply specifically to local government, alongside wider reforms on exit payments.

9. The proposals, set out by the Ministry of Housing Communities and Local Government (MHCLG), are of relevance to the LGPS, and therefore communication has been provided to scheme employers to make them aware of the potential changes.

10. There are a few key points to highlight as part of the consultation on the changes:

    a. The Government has decided to no longer proceed with a staged approach to implementation, the cap will now apply across all the public sector when implemented to ensure value for money as soon as possible.

    b. HMT has confirmed that employer funded early access to pensions (strain cost) will be within scope of the exit payment although the cap will not apply to all employers in funds as it currently stands.

    c. The Government is committed to strong governance and that any exceptions process for the cap not to apply will be fit for purpose and not cause any unnecessary delays.

    d. Whilst there are no current plans to uprate the £95K cap each year the government has committed to "making decisions on the level of the cap with reference full contextual factors" and any changes can be implemented through secondary legislation.

11. Under the current LGPS provisions, where a member's employment is terminated on redundancy or efficiency grounds the member must have access to their unreduced pension benefits.

12. In cases where the cap is breached, then the member may have to take a reduced pension. Consequently, MHCLG is looking at options to introduce choice to allow members in this position to opt for a deferred pension instead.

13. The Government Actuaries Department (GAD) has produced draft factors and strain cost guidance for administrators to calculate the pension strain for retirements on both redundancy and efficiency grounds so that the cap can be applied equally to members across the LGPS.

Impact on Scheme Members

14. Within the new proposals there are a number of options of how members can be paid by scheme employers their redundancy payments, which will lead to reduced payments, and complexity for members who will now have to make a choice on their redundancy benefits.

15. Currently under the LGPS Regulations; when an active scheme member retires on either redundancy or efficiency grounds age 55 or over in the LGPS a pension strain cost is created and paid by the employer to the Pension Fund. This funds the Pension Fund's early release of unreduced pension benefits to the scheme member.

16. Since the 4 November 2020, as per the new Exit Cap Regulations, if a scheme member breaches the £95,000 cap their total benefit package must be reduced.

17. The Fund has taken legal advice and followed the LGA's guidance and proposes to adopt the following solution for cases where the members retires from the 4 November 2020;

For Cases that breach the £95,000 cap

18. For redundancy cases that breach the exit cap the pension fund will offer either:

    a. Fully reduced benefits, or
    b. A deferred benefit

    It is anticipated across the LGPS nationally that this position will generate appeals from pension members caught up in this process and the LGA have indicated that cases will be fast tracked to the Ombudsman.

19. As part of the process the Pension Fund will explain its reasoning to the member and make it clear to them that they have the right to claim under the regulations for underpayment of benefits.

20. The Pension Fund anticipates that it will receive claims from members as a result of this approach. If it does so, and those claims are successful, so that the member is entitled to an unreduced pension in the absence of any clarifying guidance or regulations, it may be required under the LGPS Regulations to approach employers for additional strain payments at a later date.

21. As part of fund communication scheme employers will need to be made aware that they will need to carefully consider the position of not making a payment of a "cash alternative" up to the exit cap to employees who are made redundant as this will create an additional unnecessary risk of overpayment.

22. This communication is designed to avoid overpayments or the need to reclaim amounts from scheme members. If an employer makes a payment of a cash alternative and then the ultimate regulatory position requires payment of a pension strain cost, the cash alternative will then need to be reclaimed (in full or in part) from the member. Employers will need to have a legal agreement in place with the scheme member to enforce repayment of the cash alternative, should this become necessary.

For Cases that do not breach the £95,000 Cap

23. The Pension Administration Team will continue to produce estimates for employers related to members retiring on redundancy and efficiency grounds who are under the £95,000 Cap, up to and including a retirement date of the 31 March 2021, based on the current scheme rules (as at 10 December 2020). This means members will continue to receive fully unreduced benefits. This is on the understanding the employee and the employer have entered into an agreement to terminate before the LGPS Regulations come into force.

24. It is anticipated there will be a protection period, but it is unclear as yet when this will be but will follow the implementation of the new regulations sometime in early 2021.

Impact on the Fund and Scheme Employers

25. The issue for the funds and employers is wide ranging, as the proposals will affect governance arrangements, retirement processes, information flows, calculations, and communications with both employees and employers. It is envisaged that the practicalities of implementation will be onerous from the fund's perspective.

26. The reforms apply to all employers set out in the overarching HMT regulations who are designated a public sector employer. The reforms will not affect employees of employers outside of the public sector. The proposals will change severance packages and impact workforce planning, as the provisions go much further than the overarching public sector exit regulations and affect all members regardless of the £95K exit payment cap

Summary of Proposals on the changes to the LGPS Regulations

27. The consultation which is due to cease on the 18 December 2020 changes to the LGPS Regulations sets out the following proposed approach:

    a. A general reform of redundancy payments, to involve a maximum of three weeks' pay per year of service, an overall ceiling of 15 months' pay and a maximum salary of £80,000p.a. which can be used in the calculation.

    b. Inclusion of pension strain in the overall payment cap of £95K.

    c. A waiver process to allow for relaxation of the £95K cap in exceptional circumstances, requiring ratification and approval of the business case by MHCLG.

    d. Strain costs and the related pension enhancements will be reduced by the value of any statutory redundancy which the employee will receive.

    e. In general, where a scheme employer pays discretionary redundancy payment over the statutory redundancy payment, this will not be payable where there is a strain cost to the scheme employer.

Statutory and Policy Implications

28. 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.

29. The Exit Cap Regulations which were consulted on until the 9 November 2020, require further changes to that detailed above. For cases that take place from the point when the LGPS Regulations change sometime in early 2021, the new regulations require the Pension Fund to reduce the pension strain by the redundancy payment, so the scheme member receives an element of their pension reduced.

Data Protection and Information Governance

30. N/A

Financial Implications

31. The costs of early release of pension benefits are currently met by employers through a strain payment. In the event that the £95k cap applies, the benefits will be reduced so there will be no additional costs to the pension fund.

RECOMMENDATIONS

It is recommended that the Committee:

1) Approve the Fund's proposal for dealing with impacted cases of redundancy/early retirement notified to the fund from scheme employers.

2) Approve that as this is a changing situation, that any amendment to the procedures in this report can be determined by the Service Director – Customers, Governance and Employees in consultation with the Chair of Pension Fund Committee if an urgent change in process is required, and a follow up report will then be submitted to committee at the earliest opportunity.

Marjorie Toward
Service Director – Customers, Governance and Employees

For any enquiries about this report please contact:
Jonathan Clewes, Pension Manager on 0115 9773434 or Jon.Clewes@nottscc.gov.uk

Constitutional Comments (GR30/11/2020)

32. Pursuant to the Nottinghamshire County Council constitution both the report and recommendation contained within it fall within the remit of the Committee

Financial Comments (KRP 30/11/2020)

33. There are no direct financial implications as a consequence of the change in process identified in the report.

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.

https://www.gov.uk/government/consultations/restricting-exit-payments-in-the-public-sector

https://www.gov.uk/government/consultations/reforming-local-government-exit-pay

Electoral Division(s) and Member(s) Affected

- All

Nottinghamshire County Council

Report to Pension Fund Committee

10 December 2020

Agenda Item: 5

REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) REPORT

Purpose of the Report

1. To present the Task Force on Climate-related Financial Disclosures (TCFD) report.

Information

2. As described in February, in order to enable the Pension Fund to identify its exposure and understand its financial risk arising from climate change, LGPS Central was commissioned to produce some climate risk analysis.

3. This Climate Risk Report was issued to the Nottinghamshire Pension Fund alongside a training session by LGPS Central to communicate the recommendations of the Climate Risk Report.

4. Appendix A presents the TCFD report which contains the key elements of the Climate Risk report.

5. The purpose of the TCFD report is to share the findings of the climate risk analysis which was performed to support the Pension Fund in its understanding of the risks and implications of climate change. The analysis is based on the available data. As this is dependent on what companies currently publish, it should be noted that this data is incomplete. 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 needs to be appreciated in interpreting the results of this work.

6. Despite this caveat, as can be seen in the TCFD report, the analysis is supportive of the Fund's current investment strategy in three ways:-

   - it demonstrates that minimised global warming is of benefit to the Pension Fund financially which means the Fund's financial interests are aligned with global environmental interests.

- It shows that the March 19 equity holdings were already 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.

- And it shows that as the Fund progresses towards the long term strategic asset allocation these positions will further improve.

Ongoing work

7. While this work is ongoing the Pension Fund will continue to implement its long term Strategic Asset allocation. This includes an increasing allocation to infrastructure investments, a significant proportion of which are 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 is likely to reduce as a result of these asset allocation and diversification decisions.

8. The Pension Fund will continue to monitor and manage all financially material risks to which it is exposed.

Other Options Considered

9. The Pension Fund is not required to publish a TCFD report. However, to not publish these results of the climate risk analysis would be inconsistent with the Pension Fund's commitment to transparency.

Reason/s for Recommendation/s

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

Statutory and Policy Implications

11. 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

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

RECOMMENDATION/S

That members consider whether there are any 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 26/11/2020)

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

Financial Comments (TMR 16/11/2020)

14. The financial implications are set out in paragraph 12.

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

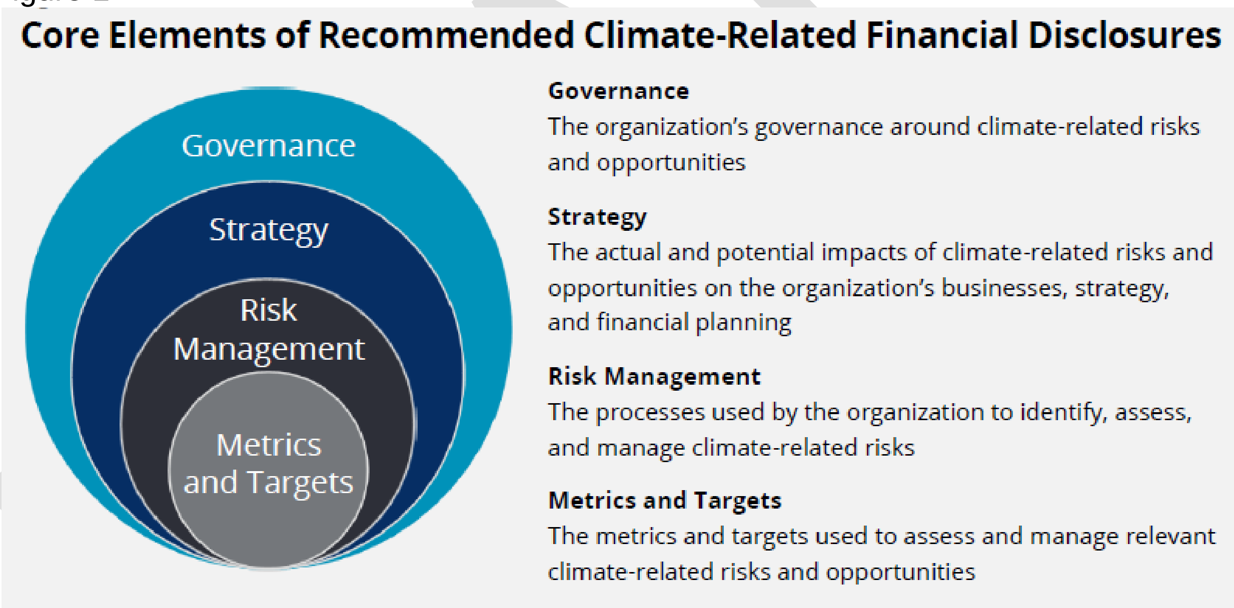
CLIMATE-RELATED FINANCIAL DISCLOSURES REPORT 2020

1. Introduction to the TCFD

The Taskforce on Climate-related Financial Disclosures (TFCD) was commissioned in 2015 by Mark Carney in his remit as Chair of the Financial Stability Board. In 2017 the TCFD released its recommendations for improved transparency by companies, asset managers, asset owners, banks, and insurance companies with respect to how climate-related risks and opportunities are being managed. Official supporters of the TCFD total 930 organisations representing a market capitalisation of over $11 trillion. Disclosure that aligns with the TCFD recommendations currently represents best practice.

The recommendations are based on the financial materiality of climate change. The four elements of recommended disclosures (see Figure 1 below) are designed so as to make TCFD-aligned disclosures comparable, but with sufficient flexibility to account for local circumstances. Examples of pension funds that have been early adopters of the TCFD recommendations include AP2, NEST, PGGM, RPMI Railpen, The Pensions Trust, and Environment Agency Pension Fund.

Figure 1



The Nottinghamshire Pension Fund supports the TCFD recommendations as the optimal framework to describe and communicate the steps the Fund is taking to manage climate-related risks and incorporate climate risk management into investment processes. As a pension fund we are long-term investors and are diversified across asset classes, regions and sectors, making us "universal owners". It is in our interest that the market is able to effectively price climate-related risks and that policy makers are able to address market failure. We believe TCFD-aligned disclosure from asset owners, asset managers, and corporates, is in the best interest of our beneficiaries.

2. About this report

The Fund has received an in-depth review of the Fund's climate risks under different climate change scenarios across all asset classes from the Fund's pooling company, LGPS Central Ltd. The Fund is currently using the findings of this report to develop a more detailed Climate Strategy taking into account the characteristics of the Pension Fund and the Fund's policy of engaging with companies to encourage the development of climate-resilient business strategies.

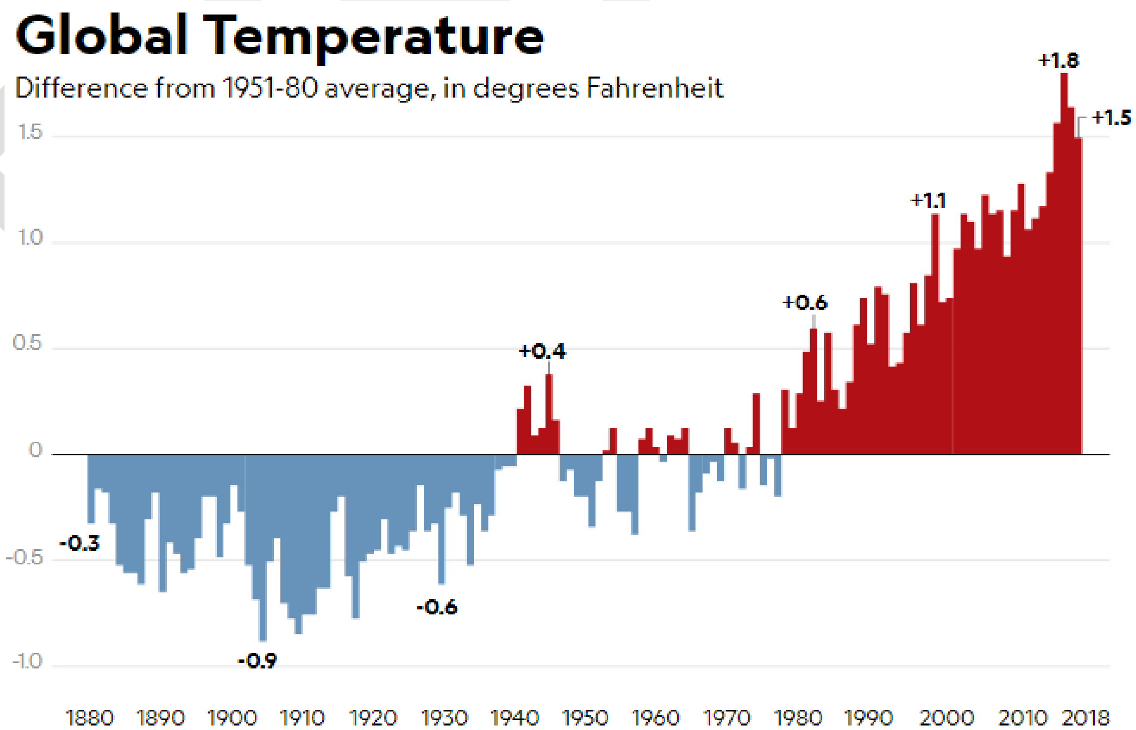
In the interests of being transparent with the Fund's beneficiaries and broader stakeholder base, this report discloses the key results of the recent Carbon Risk Metrics Analysis and Climate Scenario Analysis undertaken on the Fund's assets as part of the Climate Risk report produced by LGPS Central Ltd. We expect to update our Carbon Risk Metrics on an annual basis.

Ahead of the publication of the Climate Strategy, this Climate-related Disclosures report describes the way in which climate-related risks are managed currently.

3. Climate-related risks

Human activities are estimated to have caused approximately 1.0°C of global warming above pre-industrial levels. Most of this warming has occurred in the past 35 years, with the five warmest years on record taking place since 2010. Between the years 2006-2015, the observed global mean surface temperature was 0.87°C higher than the average over the 1850-1990 period. The overwhelming scientific consensus is that the observed climactic changes are the result primarily of human activities including electricity and heat production, agriculture and land use change, industry, and transport.

Figure 2 Graph showing Global Temperature Difference from 1951-80 average. Source: NASA



In order to mitigate the worst economic impacts of climate change, there must be a large, swift, and globally co-ordinated policy response. Despite this, the majority of climate scientists anticipate that given the current level of climate action, by 2100 the world will be between 2°C and 4°C warmer, with significant regional variations. This is substantially higher than the Paris Climate Change Agreement, which reflects a collective goal to hold the increase in the climate's mean global surface temperature to well below 2°C above preindustrial levels and to pursue efforts to limit the temperature increase to 1.5°C.

Figure 3: Selected extracts from the Paris Agreement on climate change. Source:

Paris Agreement Article 2(1)a

Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change;

Paris Agreement Article 2(1)c

Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

Paris Agreement Article 4(1)

In order to achieve the long-term temperature goal set out in Article 2, Parties aim to reach global peaking of greenhouse gas emissions as soon as possible, recognizing that peaking will take longer for developing country Parties, and to undertake rapid reductions thereafter in accordance with best available science, so as to achieve a balance between anthropogenic emissions by sources and removals by sinks of greenhouse gases in the second half of this century, on the basis of equity, and in the context of sustainable development and efforts to eradicate poverty.

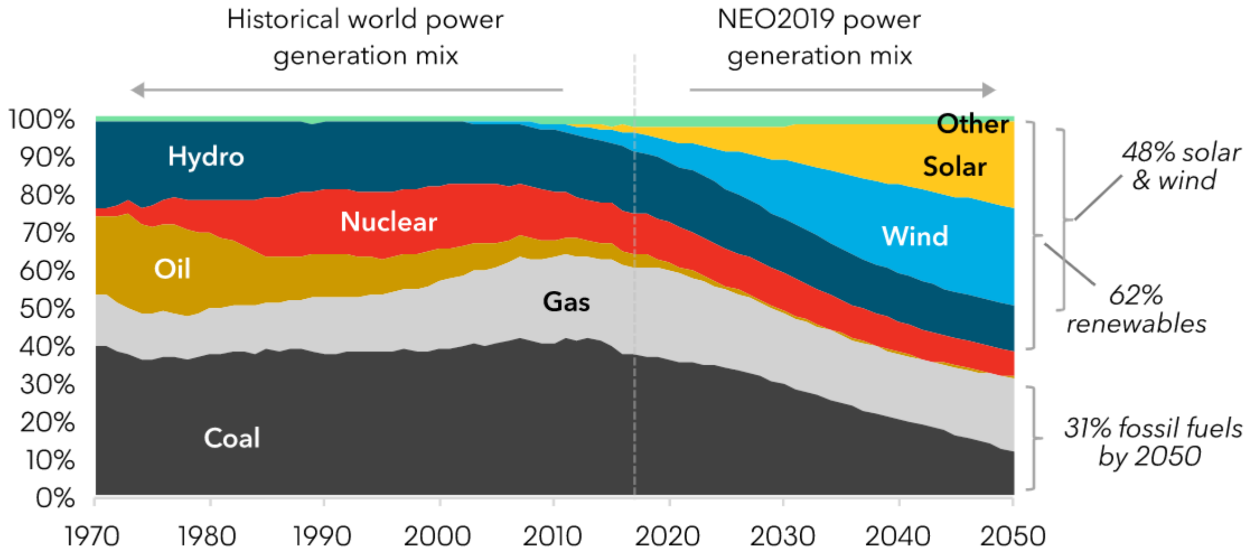
UNFCCC.

Given its contribution to global GHG emissions, the energy sector is expected to play a significant role in the long-term decarbonisation of the economy. Figure 4 suggests that in one climate scenario the proportion of coal, oil, and gas in the global power generation mix will shrink to 31% of total by 2050. It is important to recognise however that not only is the supply of energy expected to be a factor in global decarbonisation, but the demand for energy plays a crucial role too. In addition, the behaviour of private and state-owned energy companies (not commonly invested in by UK pension funds) is as important as their publicly traded counterparts.

The issue faced by diversified investors (such as pension funds) is not limited to the oil & gas and power generation sectors, but also to downstream sectors. Investors focussing exclusively on primary energy suppliers could fail to identify material climate risks in other sectors. Research suggests that the oil & gas sector is not homogeneous with regards to climate risk: were climate policies to affect the oil price, those companies with assets lower down the cost curve are less likely to be financially compromised by those companies with higher cost assets. Investors that assume each fossil fuel company bears an equal magnitude of climate-related risk could be led towards sub-optimal decision-making.

The Fund recognises that climate-related risks can be financially material and that the due consideration of climate risk falls within the scope of the Fund's fiduciary duty. Given the Fund's long-dated liabilities and the timeframe in which climate risks could materialise, a holistic approach to risk management covering all sectors and all relevant asset classes is warranted.

Figure 4: The Bloomberg New Energy Outlook global power generation mix. Source: BloombergNEF.



4. Disclosure Pillars

The TCFD Recommendations set out four disclosure pillars; Governance, Strategy, Risk Management and Metrics and targets. This TCFD Report is structured in line with Asset Owner TCFD Recommendations by each pillar as follows.

Governance

TCFD Recommended Disclosure
a) Describe the board's oversight of climate-related risks and opportunities

Roles and responsibilities at the Fund are set out clearly in the Fund's Governance Compliance Statement. Overall responsibility for managing the Fund lies with the Nottinghamshire County Council which has delegated the management and administration of the Fund to the Nottinghamshire Pension Fund Committee.

The Nottinghamshire Pension Fund Committee is responsible for approving the Fund's Investment Strategy Statement (ISS), which includes the Fund's approach to responsible investment. The ISS recognises climate change as factor that could have a serious impact on financial markets. The Nottinghamshire Pension Fund Committee meets eight times a year, and reports from an Independent Adviser (which include advice on the Fund's approach to responsible investment) are received regularly. Committee members are encouraged to receive suitable training to help them discharge their responsibilities.

In September 2020 the Nottinghamshire Pension Fund Committee received a Climate Risk Report which will support the formation of the Fund's climate strategy.

The Local Pensions Board has an oversight role in ensuring the effective and efficient governance and administration of the Fund, including securing compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme.

TCFD Recommended Disclosure
b) Describe management's role in assessing and managing climate-related risks and opportunities.

The Service Director for Finance, Infrastructure and Improvement, Group Manager Financial Services and Senior Accountant Pensions and Treasury Management have primary day-to-day responsibility for the way in which climate-related investment risks are currently managed. As a primarily externally managed fund, the implementation of much of the management of climate-related risk is delegated onwards to portfolio managers. External portfolio managers are monitored on a regular basis by the Nottinghamshire Pension Fund Committee.

In September 2020 the Fund Officers received a Climate Risk Report. Based on various qualitative and quantitative analyses, the report suggested actions that could be taken to further manage the Fund's climate-related risks. The following recommendations and considerations were accepted by Committee and form part of the Climate Risk Action Plan.

Ref	Category	Action	Timing	Notes
	Governance			
1	Governance	Publish a TCFD Disclosure. This will incorporate the key elements of the Carbon Risk Report.	December 20	LGPS Central to provide support
2	Policies	Develop a Climate Strategy. This should be consistent with the TCFD recommendations and include a Climate Stewardship Plan, monitored regularly by the Nottinghamshire Pension Fund Committee	March 21	LGPS Central to provide support
3	Governance	Schedule agenda time at Nottinghamshire Pension Fund Committee meetings at least annually for discussion of progress on climate strategy	An annual review will take place to coincide with the annual update of metrics	LGPS Central to advise on timing of metric updates

Ref	Category	Action	Timing	Notes
		Additionally report 6 monthly on progress for the first two years of the Action Plan.		
4	Governance	Schedule one training session on general RI matters and one climate-specific training per year	6 months	LGPS Central to provide training
5	Policies	Update policies to reflect climate risk e.g. consider:- • communications on climate risk into communications strategy • make clear the roles of key governance committees, especially the Pension Fund Committee, in approving and monitoring the Fund's approach to responsible investment and climate change in the ISS • Update the Governance Policy Statement to explain how climate risks are governed • Review as part of the FSS the extent to which climate risks could affect other risks noted in the FSS • Update the Fund's "Approach to Responsible Investment" in the ISS to include the six responsible investment beliefs. • Consider incorporating the Fund's "Approach to Environmental Risk within this disclosure"	July 21	
6	Reporting	In the Annual Report include a summary of this Climate Risk Report in a manner consistent with the TCFD Recommendations and a summary of the Fund's annual voting activities.	Oct 21	LGPS Central to provide support with this
	Strategy			
7	Asset Allocation	Notwithstanding other factors in the Fund's asset allocation process, seek to move towards the Long Term Target Strategic Asset Allocation weightings	Ongoing	

Ref	Category	Action	Timing	Notes
8	Asset Allocation	The Fund should attempt to take a view on the likelihood of different climate scenarios, drawing on its suppliers and advisers.	Ongoing	With the support of LGPS Central
9	Asset Allocation	Monitor fund managers, discussing with equity managers the influence of climate factors on their sector positioning and with real assets managers their physical risk resilience & GRESB participation. Use IIGCC's "Addressing climate risks and opportunities in the investment process"	Ongoing – will form part of the annual stewardship plan	With the support of LGPS Central
10	Asset Allocation	Explore the potential for additional allocations to Global Sustainable Equities and Infrastructure if evidence suggests there could be asymmetrical return profiles (i.e. with expected relative upside in a 2°C scenario and no meaningful relative downside)	Will be reviewed as part of the annual review of asset allocation	Initial and current allocations to be explored first…
11	Asset Allocation	Explore potential investments in sustainable private equity, green bonds and low-carbon passive equities.	Ongoing	Longer term considerati on
12	Policy Engagement	Continued public support for the Paris Agreement and join collaborations of like-minded institutional investors to collectively lobby for Paris-aligned climate policies via LGPS Central	Ongoing	With the support of LGPS Central
	Risk Management			
13	Company Stewardship	Create an annual stewardship plan	April 21	With the support of LGPS Central
14	Company Stewardship	Through LGPS Central, engage corporate bond managers on their approach to assessing climate risk within their portfolio in the absence of reported GHG emissions data	Ongoing – will form part of the annual stewardship plan	With the support of LGPS Central

Ref	Category	Action	Timing	Notes
15	Company Stewardship	Prioritise the most material/ strategic real assets investment manager exposure for dialogue on climate risk. Consider using the recent IIGCC guide for this endeavour.	Ongoing – will form part of the annual stewardship plan	With the support of LGPS Central
16	Company Stewardship	Continue to engage the companies highlighted in the Climate Stewardship Plan through selected stewardship partners	Ongoing – will form part of the annual stewardship plan	With the support of LGPS Central
17	Company Stewardship	Report progress on the Climate Stewardship Plan to the Nottinghamshire Pension Fund Committee on an annual basis.	July 22	With the support of LGPS Central
17a	Company Stewardship	Ensure that the Fund's voting behaviour supports and enhances engagements highlighted in the Climate Stewardship Plan.	Ongoing – will form part of the annual stewardship plan	With the support of LGPS Central and Hermes EOS
	Metrics and Targets			
18	Metrics	Repeat Carbon Risk Metrics analysis annually	Timescale dependent on LGPS Central availability	Timescale dependent on LGPS Central availability
19	Metrics	Repeat Climate Scenario Analysis every 2-3 years	Summer 22-23	
20	Metrics	Report annually on progress on climate risk using the TCFD framework	Autumn 21	Timescale dependent on LGPS Central availability

5. Strategy

TCFD Recommended Disclosure
a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term.

As a diversified asset owner, the range of climate-related risks and opportunities are multifarious and constantly evolving. A subset of risk factors is presented in Table 1.

Table 1: Example Short, Medium & Long-Term Risks

	Short & Medium Term	**Long Term**
Risks	Carbon prices Technological change Policy tightening Consumer preferences	Resource scarcity Extreme weather events Sea level rise
Asset class	Listed equities Growth assets Energy-intensive industry Oil-dependent sovereign issuers Carbon-intensive corporate issuers	Infrastructure Property Agriculture Commodities Insurance

Short-term risks include stock price movements resulting from increased regulation to address climate change. Medium-term risks include policy and technology leading to changes in consumer behaviour and therefore purchasing decisions – the uptake in electric vehicles is an example of this. Long-term risks include physical damages to real assets and resource availability. Examples would include increase sea level rise for coastal infrastructure assets or supply chain impacts for companies as a result of severe weather events.

The Fund has received a Climate Risk Report and will use its findings to develop a Climate Strategy.

TCFD Recommended Disclosure
b) Describe the impact of climate-related risks and opportunities on the organisation's business, strategy and financial planning.

Although the Fund is diversified across asset classes, regions, and sectors, it is recognised that climate risk is systemic and is unlikely to be eliminated through diversification alone. The Fund is exploring options to further embed climate-related risks and opportunities into its investment strategy, including reviewing potential investments in sustainable asset classes where this supports the Fund's investment and funding objectives.

TCFD Recommended Disclosure
c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

The Fund has engaged the expertise of an external contractor, Mercer LLC[1] , to understand the extent to which the Fund's risk and return characteristics could come to be affected by a set of plausible climate scenarios. This includes an estimation of the annual climate-related impact on returns (at fund and asset-class level). All asset classes are included in this analysis. The climate scenarios considered are 2°C, 3°C and 4°C.

Table 2: Annualised climate change impact on portfolio returns – to 2030 and 2050[2].

Scenario	Timeline	Estimated climate impact on returns
2°C	2030	0.13%
	2050	0.01%
3°C	2030	-0.02%
	2050	-0.07%
4°C	2030	-0.06%
	2050	-0.11%

The Climate Scenario Analysis suggests that a 2°C outcome is, according to the model used, the best climate scenario from a returns perspective (adding 0.13% in annual returns to the Asset Allocation on a timeline to 2030) while a 4°C outcome is the worst of the three considered (detractring by 0.06% annually over the same period). The Fund is using the analysis to shape a climate strategy which will be agreed in due course.

Translating Climate Scenario Analysis into an investment strategy is a challenge because there is a wide range of plausible climate scenarios; the probability of any given scenario is hard to determine, and; the best performing sectors and asset classes in a 2°C scenario tend to be the worst performers in a 4°C and vice versa. Despite the challenges, the Fund believes in seeking out the best available climate-related research in order to make its portfolio as robust as possible.

[1] Via LGPS Central Limited

[2] Extract above from Mercer Limited's (Mercer) report "Climate Change Scenario Analysis" dated 03 July 2020 prepared for and issued to LGPS Central Limited for the sole purpose of undertaking climate change scenario analysis for Nottinghamshire Pension Fund. Other third parties may not rely on this information without Mercer's prior written permission. The findings and opinions expressed are the intellectual property of Mercer and are not intended to convey any guarantees as to the future performance of the investment strategy. Information contained herein has been obtained from a range of third party sources. Mercer makes no representations or warranties as to the accuracy of the information and is not responsible for the data supplied by any third party.

6. Risk Management

TCFD Recommended Disclosure
a) Describe the organisation's process for identifying and assessing climate-related risks.

The Fund seeks to identify and assess climate-related risks at the total Fund level and at the individual asset level. The Fund has received a Climate Risk Report which includes both top-down and bottom-up analyses to support this endeavour. The Fund recognises that the tools and techniques for assessing climate-related risks in investment portfolios are an imperfect but evolving discipline. The Fund aims to use the best available information to assess climate-related threats to investment performance.

As far as possible climate risks are assessed in units of investment return, in order to compare with other investment risk factors.

As a primarily externally-managed pension fund, the identification and assessment of climate-related risks is also the responsibility of individual fund managers appointed by the Fund. Existing fund managers are monitored on a regular basis.

Engagement activity is conducted with investee companies through selected stewardship partners including LGPS Central, EOS at Federated Hermes, and LAPFF (see below). The Fund is devising a Climate Stewardship Plan (based on the Climate Risk Report) in order to focus engagement resources on the investments most relevant to the Fund.

TCFD Recommended Disclosure
b) Describe the organisation's process for managing climate-related risks.

The prioritisation of risks is determined based on the level of perceived threat to the Fund which, for climate-related risk, will likely depend on analyses including Climate Scenario Analysis and Carbon Risk Metrics. The Fund's approach to climate risk management will be further developed in its forthcoming Climate Strategy.

Although the Fund's Climate Strategy will involve more than just engagement and shareholder voting, stewardship activities will remain an important aspect of the Fund's approach to managing climate risk. The Fund expects all investee companies to manage material risks, including climate change, and the Fund believes that climate risk management can be meaningfully improved through focussed stewardship activities by investors.

The Fund supports the engagement objectives of the Climate Action 100+ initiative, i.e. companies adopt the appropriate governance structures to effectively manage climate risk, decarbonise in line with the Paris Agreement, and disclose effectively using the TCFD recommendations.

Either through its own membership or through LGPS Central's membership, the Fund has several engagement partners that engage investee companies on climate risk which are described in the following table. We expect our external investment managers to engage companies in a manner that helps achieve CA100+ objectives.

Table 3: The Fund's Stewardship Partners

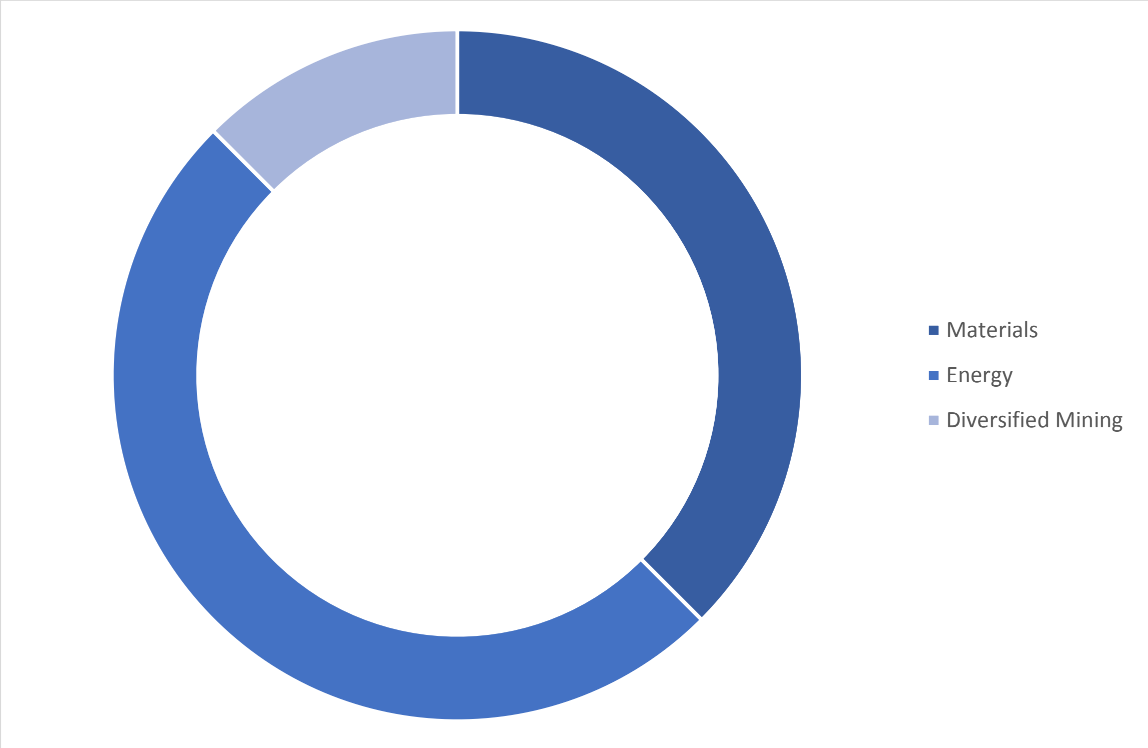
Organisation	Remit
LGPS Central Limited	The Fund is a 1/8th owner of LGPS Central. Climate change is one of LGPS Central's stewardship themes, with quarterly progress reporting available on the website. The Responsible Investment Team at LGPS Central engages companies on the Fund's behalf, including via the Climate Action 100+ initiative.
Federated Hermes	EOS at Federated Hermes is engaged by LGPS Central to expand the scope of the engagement programme, especially to reach non-UK companies. In 2019, EOS conducted engagements on 238 climate change issues across its company universe.
Local Authority Pension Fund Forum	The Fund is a long-standing member of the Local Authority Pension Fund Forum (LAPFF). LAPFF conducts engagements with companies on behalf of local authority pension funds. In 2019 LAPFF conducted over 150 engagements on climate change.

The instruction of shareholder voting opportunities is an important part of climate stewardship. The Fund's votes are executed by its asset pool (LGPS Central) according to a set of Voting Principles, to which the Fund contributes during the annual review process. LGPS Central's Voting Principles incorporate climate change, for example by voting against companies that do not meet certain thresholds in the Transition Pathway Initiative (TPI) scoring system. LGPS Central has co-filed shareholder resolutions that relate to climate change. LGPS Central recently co-filed climate-related shareholder resolutions at the meetings of BP Plc, Barclays Plc, and Citigroup.

LGPS Central reports quarterly on its voting and engagement activities. These reports are publicly available to Committee members via the LGPS Central website.

Based on its Climate Risk Report, the Fund will develop a Climate Stewardship Plan which, alongside the widescale engagement activity undertaken by LGPS Central, EOS at Federated Hermes, and LAPFF, will include targeted engagement at investee companies of particular significance to the Fund's portfolio.

Figure 5: Sectors included in proposed Climate Stewardship Plan



TCFD Recommended Disclosure
c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.

Both 'mainstream' risks and climate-related risks are discussed by the Pension Committee. While specific macro-economic risks are not usually included in isolation, the Fund has deemed climate risk to be sufficiently significant and therefore included it on the Fund's Risk Register.

Climate risk will be further managed through the Fund's Climate Stewardship Plan.

7. Metrics & Targets

TCFD Recommended Disclosure
a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

The Fund has recently received a report from LGPS Central Limited on carbon risk metrics for its listed equities portfolios. An attempt was made to assess corporate fixed income portfolios, but the coverage of fixed income portfolios - i.e. the proportion of securities in the portfolios which report their GHG emissions data, or for which a reasonable estimation can be made – is very low (less than half of each portfolio is covered). The poor availability of data in asset classes other than listed equities prevents a more complete analysis at this time.

The carbon risk metrics analysis include:

- portfolio carbon footprints[3],
- weight of portfolios invested in companies with fossil fuel reserves
- weight of portfolios invested in companies with thermal coal reserves
- weight of portfolios invested in companies whose products and services include clean technology
- metrics assessing the management of climate risk by portfolio companies

Carbon risk metrics aid the Fund in assessing the potential climate-related risks to which the Fund is exposed, and identifying areas for further risk management, including company engagement and fund manager monitoring. The Fund additionally monitors stewardship data (see above).

TCFD Recommended Disclosure
b) Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks. TCFD Guidance: *Asset owners should provide the weighted average carbon intensity, where data are available or can be reasonably estimated, for each fund or investment strategy.*

In line with the TCFD guidance and following receipt of a report from LGPS Central Limited we provide below the carbon footprints of our equity portfolio[4]:

Table 4: Carbon risk metrics for the equity portfolios[5]

		Carbon Footprint (tCO_2e/$M revenue)			Weight in Fossil Fuel Reserves %			Weight in Thermal Coal Reserves %			Weight in Clean Technology %		
Portfolio Name	Benchmark	PF	BM	% Diff	PF	BM	Diff	PF	BM	Diff	PF	BM	Diff
Total Quoted Equities	Total Quoted Equity Blended Benchmark	124.26	165.67	-24.99	11.78	12.99	-1.21	2.84	3.43	-0.59	30.22	32.42	-2.20

[3] Following TCFD guidance we use weighted average portfolio carbon footprints.
[4] Analysis undertaken on the listed equities portfolios within holdings data as of 31 March 2019. The information in Table 4 was provided to the Fund in a report authored by LGPS Central Limited. In LGPS Central Limited's Reports the Total Equities portfolio comprises the Core Index, Schroders and Specialist portfolios weighted according to their size in GBP. The Core Index portfolio contains 8 underlying passive portfolios managed for the Fund by LGIM and two underlying passive portfolios managed by LGPS Central. As the core Index is passively managed the carbon risk metrics of the portfolios are almost identical to those of the respective index. For this reason no benchmark comparison is provided. The Schroders portfolio contains 8 underlying active portfolios managed by Schroders, and the results are presented next to a blended benchmark (a pro-rata composition of the regional benchmarks). The Specialist portfolio contains two active portfolios managed by RWC, and the results are presented next to a blended benchmark (a pro-rate composition of the FTSE AW ex UK and FTSE All Share). The rest of the Specialist portfolios were excluded from the analysis due to (i) low market value of the portfolios (ii) limited data availability.
[5] Certain information ©2020 MSCI ESG Research LLC. Reproduced by permission.

		Carbon Footprint (tCO2e/$M revenue)			Weight in Fossil Fuel Reserves %			Weight in Thermal Coal Reserves %			Weight in Clean Technology %		
Portfolio Name	Benchmark	PF	BM	% Diff	PF	BM	Diff	PF	BM	Diff	PF	BM	Diff
Total Core Index portfolio	N/A	169.18	-	-	12.57	-	-	3.40	-	-	33.15	-	-
Total Schroders portfolio	Schroders Blended Benchmark	94.37	163.58	-42.31	12.79	13.40	-0.60	2.80	3.46	-0.66	31.99	32.06	-0.06
Total Specialist portfolio	Blended Specialist Benchmark	48.65	158.40	-69.28	1.25%	12.81	-11.56	0.00%	3.46	-3.46	10.35	32.04	-21.69

The Fund's Total Quoted Equities portfolio is around 25% more carbon efficient than the benchmark. This means that, on average, for every $m of economic output companies produce, the Fund's investee companies emit 25% fewer greenhouse gas emissions than the companies in the index. The report received from LGPS Central Limited shows that both the Total Schroders portfolio and the Total Specialist portfolio are more carbon efficient than their benchmarks. The exposure of the Total Quoted Equity portfolio to fossil fuel producers is 1.21% lower than the benchmark.

Whilst the Fund's carbon risk metrics results show the Fund already 'outperforms' its benchmarks, the Fund is proactively exploring ways to further embed climate risk management in its investment decision making. The Fund expects to update its carbon risk metrics data on an annual basis.

TCFD Recommended Disclosure
c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

The ability for diversified investors (such as pension funds) to set meaningful climate targets is inhibited by the paucity in credible methodologies and data currently available. Like most investors, the Fund is supportive of the development of target-setting methodologies, and of the increasing completeness of carbon datasets. The Fund wishes to explore options to further manage climate-related risks and work is underway to assess options within the limitations of currently available data.

Appendix 1

TCFD Recommendations for Asset Owners (source: TCFD)

Governance

Recommended Disclosure (a) Describe the board's oversight of climate-related risks and opportunities.

Recommended Disclosure (b) Describe management's role in assessing and managing climate-related risks and opportunities.

Strategy

Recommended Disclosure (a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.

Recommended Disclosure (b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.

Recommended Disclosure (c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

Risk Management

Recommended Disclosure (a) Describe the organisation's processes for identifying and assessing climate-related risks.

Recommended Disclosure (b) Describe the organisation's processes for managing climate-related risks.

Recommended Disclosure (c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.

Metrics and Targets

Recommended Disclosure (a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

Recommended Disclosure (b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

Recommended Disclosure (c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

Appendix 2: Important Information

Extract above from Mercer Limited's (Mercer) report "Climate Change Scenario Analysis" dated 03 July 2020 prepared for and issued to LGPS Central Limited for the sole purpose of undertaking climate change scenario analysis for Cheshire Pension Fund. Other third parties may not rely on this information without Mercer's prior written permission. The findings and opinions expressed are the intellectual property of Mercer and are not intended to convey any guarantees as to the future performance of the investment strategy. Information contained herein has been obtained from a range of third party sources. Mercer makes no representations or warranties as to the accuracy of the information and is not responsible for the data supplied by any third party.

The following notices relate to Table 4 (above), which are produced for the Fund by LGPS Central Limited based on a product licensed by MSCI ESG Research LLC. This report confers no suggestion or representation of any affiliation, endorsement or sponsorship between LGPS Central and MSCI ESG Research LLC. Additionally:

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Report to Pension Fund Committee

10 December 2020

Agenda Item: 6

REPORT OF THE SERVICE DIRECTOR – CUSTOMERS, GOVERNANCE AND EMPLOYEES

WORK PROGRAMME

Purpose of the Report

1. To consider the Committee's work programme.

Information

2. The County Council requires each committee to maintain a work programme. The work programme will assist the management of the committee's agenda, the scheduling of the committee's business and forward planning. The work programme will be updated and reviewed at each pre-agenda meeting and committee meeting. Any member of the committee is able to suggest items for possible inclusion.

3. The attached work programme has been drafted in consultation with the Chair and Vice-Chairs, and includes items which can be anticipated at the present time. Other items will be added to the programme as they are identified.

4. As part of the transparency introduced by the revised committee arrangements from 2012, committees are expected to review day to day operational decisions made by officers using their delegated powers. It is anticipated that the committee will wish to commission periodic reports on such decisions. The committee is therefore requested to identify activities on which it would like to receive reports for inclusion in the work programme.

Other Options Considered

5. None.

Reason/s for Recommendation/s

6. To assist the committee in preparing its work programme.

Statutory and Policy Implications

7. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the NHS Constitution (Public Health only), the public sector equality duty, safeguarding of children and vulnerable adults, service users, sustainability and the environment and ways of working and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required

RECOMMENDATION/S

That the Committee considers whether any amendments are required to the Work Programme.

Marjorie Toward
Customers, Governance and Employees

For any enquiries about this report please contact: Pete Barker, x74416

Constitutional Comments (HD)

8. The Committee has authority to consider the matters set out in this report by virtue of its terms of reference.

Financial Comments (NS)

9. There are no direct financial implications arising from the contents of this report. Any future reports to Committee on operational activities and officer working groups, will contain relevant financial information and comments.

Background Papers

None

Electoral Division(s) and Member(s) Affected

All

PENSION FUND COMMITTEE – WORK PROGRAMME

Report Title	Brief summary of agenda item	Report Author
21 January 2020		
AGM		
11 March 2021		
Climate Strategy Report	Report on new strategy being developed as part of the Climate Risk Action Plan	Tamsin Rabbitts
Fund Valuation & Performance – Qtr 3	Summary of quarterly performance	Tamsin Rabbitts
Independent Adviser's Report	Independent Adviser's review of performance	Independent Adviser
Managers Presentations	Presentations by Fund Managers, to include training (exempt)	ASI and Schroders
22 April 2021		
Progress report on the Climate Risk Action plan	Six monthly report summarising progress in the first six months of the plan.	Tamsin Rabbitts
Stewardship plan	A report presenting the stewardship plan for 21/22 created as a result of the Climate Risk report	Tamsin Rabbitts
Proxy Voting	Summary of voting activity during quarter 1 of 2020	Ciaran Guilfoyle
LAPFF Business Meeting	Report from LAPFF Business Meeting	Ciaran Guilfoyle

17 June 2021		
Fund Valuation & Performance – Qtr 4	Summary of quarterly performance	Tamsin Rabbitts
Independent Adviser's Report	Independent Adviser's review of performance	Independent Adviser
Managers Presentations	Presentations by Fund Managers (exempt)	LGPS Central and LGIM
15 July 2021		
Fund Strategies	Review of Fund Strategies including considering changes suggested in the Climate Risk Report.	Tamsin Rabbitts
Proxy Voting	Summary of voting activity during quarter 1 of 2020	Ciaran Guilfoyle
LAPFF Business Meeting	Report from LAPFF Business Meeting	Ciaran Guilfoyle
TO BE PLACED		
Pensions Effect on Higher Education		Jon Clewes
Monitoring of the Member Death Process	Update Report	Jon Clewes
Review of Work of the Pension Fund Committee and Pension Board		Marje Toward
Annual review of Climate Risk metrics	Timing of next review to be informed by LGPS Central timetable.	Tamsin Rabbitts

Nottinghamshire County Council

Report to Pension Fund Committee

10 December 2020

Agenda Item: 7

REPORT OF THE SERVICE DIRECTOR FOR FINANCE, INFRASTRUCTURE & IMPROVEMENT

FUND VALUATION AND PERFORMANCE

Purpose of the Report

1. To report on the total value and performance of the Pension Fund to 30 September 2020.

Information

2. This report is to inform the Nottinghamshire Pension Fund Committee of the value of the Pension Fund at the end of the latest quarter and give information on the performance of the Fund. Some information relating to this report is not for publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972. Having regard to the circumstances, on balance the public interest in disclosing the information does not outweigh the reason for exemption because divulging the information would significantly damage the Council's commercial position in relation to the Pension Fund. The exempt information is set out in the exempt appendices.

3. The table below shows a summary of the total value of the investment assets of the Fund as at 30 September 2020 in comparison with the benchmark, together with the comparative position 3 and 12 months previously. The benchmark was reviewed and changed early in 2019. This is a long-term target and it will take some years to achieve it.

	Latest Quarter		**Long term**	**Previous Quarter**		**Previous Year**	
	30 September 2020		**Benchmark**	**30 June 2020**		**30 September 2019**	
	£m	%		£m	%	£m	%
Equities							
Quoted	3,169	57.1%	56%	3,107	56.7%	3,389	59.6%
Private	552	9.9%	12%	546	10.0%	505	8.9%
Property	683	12.3%	15%	721	13.2%	733	12.9%
Bonds							
Gilts	210	3.8%	2%	213	3.9%	193	3.4%
Other Bonds	677	12.2%	10%	676	12.3%	687	12.1%
Credit	47	0.8%	3%	46	0.8%		
Cash	213	3.8%	2%	169	3.1%	181	3.2%
	5,551	**100%**	**100%**	**5,478**	**100%**	**5,687**	**100%**

4. Within Equities (both quoted and private) and Other Bonds are investments in Infrastructure assets amounting to £325.9m or 5.9% of the fund. Including infrastructure commitments made but not drawn down gives a total amount of 6.4% of the fund. There is a long term target for investments in infrastructure to be 8% of the fund.

5. The table below shows the detailed breakdown by portfolio of the Fund as at 30 September 2020 together with the total value of each portfolio at the previous quarter end.

	Core Index		Schroders		LGPS Central		Kames S		Aberdeen		Specialist		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
UK Bonds														
Gilts					210.0	31%	0.0	0%					210.0	4%
Corporate Bonds							145.6	100%					145.6	3%
					210.0	31%	**145.6**	100%					**355.6**	**6%**
Overseas Bonds														
Corporate Bonds					316.8	47%	0.0	0%					316.8	6%
					316.8	47%	**0.0**	0%					**316.8**	**6%**
Inflation Linked											213.5	15%	213.5	**4%**
UK Equities	471.9	38%	750.1	49%	8.1	1%					44.7	3%	1,274.8	**23%**
Overseas Equities														
North America	296.6	24%	454.2	29%							1.3	0%	752.1	14%
Europe	188.7	15%	121.9	8%							110.9	8%	421.5	8%
Japan	113.0	9%	73.4	5%							115.8	8%	302.2	5%
Pacific	102.9	8%	43.5	3%									146.4	3%
Emerging Markets	75.1	6%	71.6	5%	93.1	14%					0.0	0%	239.8	4%
Global	0.0	0%			32.5	5%					0.0	0%	32.5	1%
	776.3	62%	**764.6**	50%	**125.6**	19%					**228.0**	16%	**1,894.5**	**34%**
Private Equity					6.9	1%					219.8	16%	226.7	**4%**
Infrastructure											325.9	23%	325.9	**6%**
Credit											46.5	3%	46.5	**1%**
Property														
UK Commercial									383.2	70%			383.2	7%
UK Commercial - Local									22.0	4%			22.0	0%
UK Strategic Land									4.4	1%			4.4	0%
Pooled - UK									28.0	5%	132.9	10%	160.9	3%
Pooled - Overseas									111.9	20%	1.0	0%	112.9	2%
									549.5		**133.9**	10%	**683.4**	**12%**
Cash/Currency	4.8	0%	28.9	2%	0.3	0%	0.0	0%	0.0		179.0	13%	213.0	**4%**
Total	**1,253.0**	23%	**1,543.6**	28%	**667.7**	12%	**145.6**	3%	**549.5**	10%	**1,391.3**	25%	**5,550.7**	
Previous Qtr	1,244.8	23%	1,483.7	27%	659.2	12%	157.6	3%	589.1	11%	1,343.9	25%	5,478.3	

6. The Fund investments have increased by £72.4 million (1.3%) since the previous quarter as the market has continued to recover. However, Fund investments have decreased by £136.4 million (-2.4%) over the last 12 months which indicates the depth of the market shock experienced in March.

7. The table below shows the Fund Account for 2020/21 to date along with the full year figures for 2019/20 (unaudited).

Summary Fund Account	Q2 2020/21 £000	Full Year 2019/20 £000
Employer contributions	(95,652)	(137,261)
Member contributions	(21,165)	(47,906)
Transfers in from other pension funds	(2,836)	(9,655)
Pensions	89,525	171,375
Commutation of pensions and lump sums	14,595	35,699
Lump sum death benefits	2,775	5,050
Payments to and on account of leavers	4,157	13,657
Net (additions)/withdrawals from dealings with members	**(8,601)**	**30,959**
Administration Expenses	**89**	**2,176**
Oversight & governance expenses	**247**	**1,460**
Investment Income	(26,239)	(130,410)
Profits & losses on disposals & changes in value	(84,404)	483,224
Taxes on income	129	247
Investment management expenses	909	4,995
Net Returns on Investments	**(109,605)**	**358,056**
Net (increase)/decrease in net assets	**(117,870)**	**392,651**

Core Index Portfolio

8. Below are detailed reports showing the valuation of the Core Index portfolio at the quarter end and the transactions during the quarter. The table below summarises the valuation and compares it to the portfolio benchmark (and a comparison with the previous quarter). The benchmark changed in the second quarter of 18/19 as part of a long term aim to bring our overseas developed market passive investments to be consistent with the regional allocation of the LGPS Central Overseas passive fund as agreed at the June 18 Pension Fund Committee. This will be a gradual change over time.

	30 September 2020			30 June 2020	
	Portfolio		B/Mark	Portfolio	
	£000	%	%	£000	%
UK Equities	471,935	37.7%	40.0%	485,703	39.0%
Overseas Equities:	776,392	61.9%	59.5%	754,478	60.6%
North America	296,614	23.7%	18.0%	283,845	22.7%
Europe	188,730	15.0%	18.0%	186,035	15.0%
Japan	113,025	9.0%	9.0%	110,457	8.9%
Pacific Basin	102,895	8.2%	9.0%	102,077	8.2%
Emerging Markets	75,128	6.0%	5.5%	72,064	5.8%
Cash	4,757	0.4%	0.5%	4,604	0.4%
Total	**1,253,084**			**1,244,785**	

9. The table below summarises transactions during the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
UK Equities	0	0	0
Overseas Equities			
North America	0	0	0
Europe	0	0	0
Japan			0
Pacific Basin			0
Emerging Markets			0
Totals	**0**	**0**	**0**

There were no purchases or sales this quarter.

Schroder Investment Management Portfolio

10. The table below summarises the valuation and compares it to Schroders' benchmark. The position at the end of the previous quarter is also shown.

	30 September 2020 Portfolio £000	%	B/Mark %	30 June 2020 Portfolio £000	%
UK Equities	750,105	48.6%	50.0%	710,900	47.9%
Overseas Equities	764,631	49.5%	49.5%	760,617	51.3%
North America	454,235	29.4%	28.9%	441,283	29.7%
Europe	121,852	7.9%	8.3%	129,452	8.7%
Japan	73,409	4.8%	4.7%	71,330	4.8%
Pacific Basin	43,521	2.8%	3.0%	44,220	3.0%
Emerging Markets	71,614	4.6%	4.6%	74,332	5.0%
Cash	28,917	1.9%	0.5%	12,213	0.8%
Total	**1,543,653**			**1,483,730**	

11. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
UK Equities	42,344	16,892	25,452
Overseas Equities			
North America	47,201	63,650	-16,449
Europe	21,147	3,854	17,293
Japan	3,934	30,428	-26,494
Pacific Basin	0		0
Emerging Markets	0	6,533	-6,533
Totals	**114,626**	**121,357**	**-6,731**

LGPS Central

12. The table below summarises the valuation by asset class of investments managed by LGPS Central. The proportional holdings are also shown. However, allocation to each LGPS Central fund is at the discretion of the Pension Fund in line with the overall Pension Fund approved asset allocation and as such there is no benchmark for this portfolio.

	30 September 2020 Portfolio £000	%	30 June 2020 Portfolio £000	%
UK Passive	8,115	1%	8,354	1%
Global equity	32,530	5%	31,394	5%
EM equity active	93,113	14%	89,240	13%
Corporate bonds	316,824	47%	311,592	47%
Gilts	209,996	31%	212,709	32%
Private Equity	6,905	1%	5,639	1%
Cash	279	0%	269	0%
Total	**667,762**		**659,197**	

13. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
Bonds			
Gilts	661	0	661
Corporate Bonds	0		0
Equities			
UK	0	0	0
Emerging Markets	0		0
Global	0		0
Private Equity	617		617
Totals	**1,278**	**0**	**1,278**

Aberdeen Standard Investments (ASI)

14. The Committee is asked to note that approval was given in the last quarter to the following, after consultation with Members where appropriate, as operational matters falling under the responsibility of the Service Director, Finance, Infrastructure & Improvement exercised by the Senior Accountant (Pensions & Treasury Management):

Date	Property	Transaction
09/07/2020	Homebase, Woodgate Drive, Streatham	Sale of property
28/07/2020	Forward Drive, Harrow	Wayleave Agreement
29/07/2020	21 Leicester Street, Northwich	Licence for Alterations
30/07/2020	Woodyard Lane, Wollaton, Nottingham	DS1 removal of Charge
30/07/2020	20-24 Kirby Street and 99-103 Saffron Hill, Holborn, London	Wayleave Agreement
17/08/2020	Homebase, Woodgate Drive, Streatham	Sale of property
21/08/2020	Unit 14, The Interchange, Huntingdon	Engrossment lease
28/08/2020	Gala Bingo, Banbury	Licence to access premises
17/09/2020	20-24 Kirby Street, London	Rent concession
25/09/2020	Unit 1, Brooke Park, Handforth, Cheshire	Rent concession
28/09/2020	Queen Street, Cardiff	Deeds of assignment
30/09/2020	Unit 3, Technology Retail Park, Rugby	Rent concession

Specialist Portfolio

15. Below are tables showing the composition and the valuation of the Specialist portfolio at the quarter end and the transactions during the quarter. The table below summarises the valuation at quarter end. The position at the end of the previous quarter is also shown.

	30 September 2020 £000	%	30 June 2020 £000	%
Private Equity	219,800	18.1%	219,900	18.5%
Infrastructure	325,900	26.9%	321,100	26.9%
Credit	46,500	3.8%	45,900	3.9%
Property Funds	133,900	11.0%	131,900	11.1%
Kames DGF	213,500	17.6%	206,200	17.3%
Equity Funds	272,700	22.5%	266,600	22.4%
Total	**1,212,300**		**1,191,600**	

16. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
Private Equity	2,694	1,079	1,615
Infrastructure	500		500
Credit			0
Property Funds	1,336	0	1,336
Kames DGF	0		0
Equity Funds	73		73
Totals	**4,603**	**1,079**	**3,524**

17. The Committee is asked to note that approval was given in the last quarter to the following, as operational matters falling under the responsibility of the Service Director, Finance, Infrastructure & Improvement exercised by the Senior Accountant (Pensions & Treasury Management):

Date	Investment	Transaction
05/08/2020	Phico Therapeutics transfer to BGF Fund	Limited Partnership agreement, share certificate indemnity and stock transfer forms

Responsible Investment Activity

18. The Pension Fund believes that Responsible investment is supportive of risk-adjusted returns over the long term. As a long-term investor, the Fund seeks to invest in assets with sustainable business models across all asset classes.

19. During the quarter the Fund's investment managers have continued with their usual stewardship activities through considered voting of shares and engaging with investee company management as part of the investment process. Quarterly reports on Responsible Investment issues have been received from Legal and General, Schroders and LGPS Central. Full reports and other responsible investment information can be found on the Pension Fund website here https://www.nottspf.org.uk/about-the-fund/responsible-investment .

20. Hermes EOS has exercised the Fund's voting responsibilities as our Proxy voting service. A quarterly report on voting activity can be found on our website. During the quarter officers have worked with LGPS Central to provide more detail on voting activity. The first detailed

report has now been published on our website and this format will be continued in future quarters. This can be found here https://www.nottspf.org.uk/about-the-fund/investments .

21. LAPFF have engaged with a number of companies during the quarter (principally Rio Tinto, BHP, Tesco, Sainsbury, ArcelorMittal and National Grid). More information can be found in their quarterly engagement report which can be accessed on the Fund's (or on LAPFF's) website. LAPFF have also responded to consultations on ending the sale of new petrol, diesel and hybrid cars and vans, revisions to IAS1, PRI Human Rights Framework, proposal on climate-related disclosures and the IIGCC Paris Aligned Investment Initiative: Net Zero Investment Framework. The detailed responses can be found on the LAPFF website. In addition, a policy statement has been issued on deforestation. An officer attended the LAPFF business meeting on 15th July. This was reported to committee in October.

22. Responsible investment considerations run through everything done by the Fund and there have been many specific actions taken during the quarter. Members and officers attended the LGPS Central Responsible Investment Summit. A number of officer meetings have been held to develop the LGPS Central Infrastructure Fund which will include some investment in renewable energy generation. There was an officer meeting with FTSE Russell and LGPS Central to better understand the Climate Multi Factor fund. Officers attended a webcast on the results of TRIG (The Renewable Infrastructure Group). The Climate Risk report produced by LGPS Central required detailed review and training was provided by LGPS Central at a Working Party meeting in September for the whole committee and officers. Introductory sessions and quarterly monitoring meetings were held with the investment managers who will be on the West Midlands Sustainable Equities framework, attended by an officer and the independent adviser. As reported at the October meeting, the LAPF Investment Forum was attended in August and included a number of sessions on responsible investment.

Statutory and Policy Implications

23. This report has been compiled after consideration of implications in respect of finance, the public sector equality duty, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION

That members consider whether there are any actions they require in relation to the issues contained within the report.

Name of Report Author: Tamsin Rabbitts
Title of Report Author: Senior Accountant – Pensions & Treasury Management

For any enquiries about this report please contact: Tamsin Rabbitts

Constitutional Comments

24. This is an updating information report and the Nottinghamshire Pension Fund Committee is the correct body for considering that information and any further action which members may wish to take in light of that information.

Financial Comments (TMR 18/11/2020)

25. There are no direct financial implications arising from this report.

Background Papers

None

Electoral Division(s) and Member(s) Affected

All

Independent Adviser's Report for Nottinghamshire Pension Fund Committee

William Bourne **10 December 2020**

Market commentary

1. When I last wrote in early September, I expected markets to recover on the back of the massive monetary and fiscal easing put in place in most countries after the COVID-19 epidemic. I thought economies were likely to follow, albeit not necessarily immediately. I continued to view inflation as the main long-term risk to the Fund's solvency.

2. Equity markets and most risk assets have returned to pre-epidemic levels, despite the onset of a second COVID wave. However, there has been huge divergence between the winners, largely tech stocks such as Apple, and hard-hit stocks such as airlines, shops and leisure. The latter failed to recover meaningfully from their lows, at least until a very sharp rally in early November when a possible vaccine was announced.

3. The major theme of the quarter has been a renewed form of lockdown in many countries to try and prevent health systems being overwhelmed. The authorities have once again done their best to provide ample fiscal and monetary support, but a steady stream of retail, leisure, and travel businesses have failed, unable to cope with another pause in trading, while others have chosen to make widespread redundancies.

4. The world's economy has recovered from its lows of the second quarter when many countries were in lockdown, but to date the rebound is lacklustre. The OECD's current estimate is for a 4.4% decline in the global economy in 2020 and a rise of around 5.1% in 2021. The U.K. pattern was similar, albeit with a much steeper fall and correspondingly greater recovery. The long-term OECD estimate is a global growth rate of 3.5%, not markedly changed from before the crisis. Their inflation forecast is also steady at 3.2%, although current levels in most advanced economies are below 2%.

5. The major event of the quarter was the US election. The result is still being disputed by some, but it is clear to most observers that Biden has won a convincing victory over Trump. However, the Democrats will not have a majority in the Senate, which will restrict the power of the new Administration to anything radical. Equity markets took a positive view of this.

6. **The UK economy remains vulnerable because of BREXIT**. Six weeks before the transition period ends, there is still little clarity whether or not there will be an agreement over trade and services. A big problem is the likely lack of reciprocity between the UK and the EU on financial services. Markets have discounted some of the risks, but the potential for a worse outcome is still present.

7. Although attention is focused on equity markets, **bond markets will probably provide the first signs of any change in the market environment**. UK 10-year gilt yields have risen from a low of 11bps in the summer to 40bps, and their US equivalent from 50bps to 94bps. There are few signs of inflation on the High Street today, so I view this move as mainly a technical correction from the extreme yield low in the spring. There may be some volatility in UK index-linked gilts over the next few months, as it looks inevitable that the Government will rebase the payment from RPI to CPI, roughly 1% lower.

8. Private markets in 2020 are perhaps the dog which hasn't (yet) barked. In March I and others were predicting some distress in private credit in particular. However, the Federal Reserve flooded the credit markets with easy money, and so far hedge funds, private equity and private credit have shown remarkably few signs of problems, certainly compared to investors' experience in the Global Financial Crisis in 2008/9. They have managed their liquidity (i.e. ability to pay out redeeming investors on time) better this time round, but I shall still be surprised if there are not some upsets.

9. **Real estate remains the asset class with most uncertainty hanging over it.** Landlords have been able to receive the majority of rent owed except for in the retail and leisure industries, but generally commercial property valuations are beginning to be marked down in the more affected segments. The renewed lockdown has intensified stress in areas such retail, leisure, and travel, and at some point there will be substantial write downs here. This will present both opportunities and risks for investors.

10. In the short term I would expect the current market environment to continue because of the support provided by central banks and governments. There are some signs that we are approaching a turning point: the very narrow market leadership, the extreme valuations of some stocks, and the rise in bond yields. However, unless there are external political shocks, **I expect the catalyst for a major change to be a shift in inflation expectations leading to higher bond yields**. At the moment that still looks a few years away.

11. That implies that market returns from equities and private markets will continue to be broadly in line with actuarial expectations. I am cautious about the outlook for bonds and at least in the short term for real estate.

RECOMMENDATION

That members consider whether there are any actions they require in relation to the issues contained within the report.