Nottinghamshire County Council Pension Fund Climate Strategy

1. Introduction

Climate action failure is the stand-out, long-term risk the world faces in likelihood and impact according to the 2020 Global Risks Report from the World Economic Forum. If ‘business as usual’ continues, the world could heat up by about 5 degrees by 2100 which would cause profound societal damages and significant human harm. According to the Intergovernmental Panel on Climate Change (IPCC), GHG emissions need to fall by 45% vs 2010 levels by 2030 in order to avoid the worst effects of climate change.

As a long-term asset owner, the Fund would like to see stable, well-functioning and sustainable markets which will foster long-term value creation and sustainable returns. Climate change cuts across industries, markets and economies and is a risk that cannot be fully diversified. How companies manage climate-related transition and physical risks and opportunities is highly likely to affect long-term profits and company returns. Policy makers response equally so. The Fund endeavours to take a holistic approach to managing climate change risk and to act in a manner that will enable broader transition towards a low-carbon economy through a combination of portfolio construction, engagement and policy advocacy.

2. Governance of Climate Change Risk

The Pension Fund Committee is responsible for approving the Fund’s policies and procedures including the Fund’s Climate Strategy. Responsibility for the implementation of the Strategy is held by the Service Director for Finance, Infrastructure and Improvement, the Group Manager Financial Services, and the Senior Accountant Pensions and Treasury Management. The Pension Fund Committee will review the strategy on an annual basis. This will be scheduled to coincide with the annual update of carbon risk metrics. Committee members receive training on climate change annually to help them discharge their responsibilities.

As a primarily externally managed Fund, the implementation of much of the management of climate-related risk is delegated onwards to portfolio managers, with oversight from the Fund Officers. Where appropriate, LGPS Central assists the Fund in assessing and managing climate-related risks.

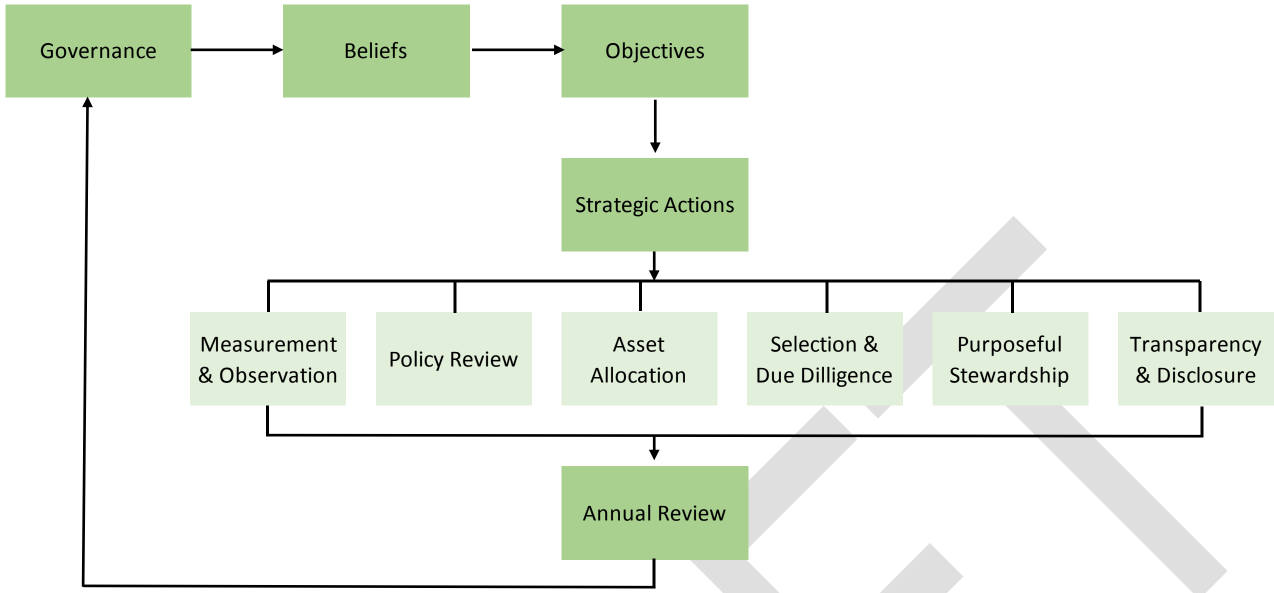


Figure 1: Depiction of the Climate Strategy

3. Evidence-based beliefs related to climate change

1. As a result of anthropogenic activities, the world is warming at an unsustainable rate. Already the world is approximately 1°C warmer than pre-industrial levels. Unabated, such change would be devasting for our way of life.

2. There is overwhelming evidence that climate change is impacting the environment. This will have long-term consequences for our financial system. We hold that the economic damages of climate change will outweigh the costs of precautionary mitigation.

3. Climate change is a financially material risk for the Fund. It has the potential to impact our members, employers and all our holdings across asset classes. Due consideration of climate risk falls within the scope of the Fund's fiduciary duty.

4. Climate change has the potential to impact the funding level of the Fund through impacts on employer covenant, asset pricing, and longer-term inflation, interest rates and life expectancy.

5. The Fund strongly supports the Paris Agreement on climate change.

6. A transition to a low-carbon economy is essential. This requires greenhouse gas emissions to decline to net-zero by 2050. This will happen not only by focussing on the suppliers of energy but the demand for energy must also undergo a major transformation.

7. All companies should align their business activities with the Paris Agreement on climate change. It is possible for a high-emitting company to undergo this transformation and thrive in the transition to a low-carbon future.

8. Investors have an important role to play in the transition to a low-carbon economy. We would be less likely to realise a Paris-aligned energy transition were investors to cease influencing company behaviours.

9. A global co-ordinated response is needed to limit the rise in temperatures. No individual investor is influential enough to act alone. Governments, policy-makers, consumers, companies and investors all have a role to play. Acting in collaboration will increase the likelihood of an orderly transition to a low-carbon economy.

10. Climate-aware decisions are most effectively made with accurate, relevant, complete, and comparable data.

4. Climate-Related Objectives

Identify, understand and assess risks and opportunities

The Fund aims to utilise the best available information and tools to identify, understand and assess climate change risks and opportunities across regions and sectors that are material to the Fund. This includes both relevant climate-related transition and physical risks and opportunities likely to impact Investment Strategy and Funding Strategy.

Fund Resilience

The Fund aims to ensure the investment portfolio, Funding Strategy and employer covenant are resilient to climate change impacts.

To achieve climate change resilience, the Fund aims to ensure that material short, medium- and long-term climate change considerations play an integral part in the stewardship of the investment portfolio. This includes climate change integration in the selection and due diligence, and continuous monitoring of assets.

The Fund intends to influence investee companies and fund managers through routine engagement and voting on climate change issues.

Policy advocacy and transparency

The Fund works alongside like-minded organisations to support the ambitions of the Paris Agreement. This includes advocating for Paris-aligned regulations and policies with governments, policy makers, the investment industry and other stakeholders.

The Fund aims to be fully transparent with its stakeholders through regular public disclosure, aligned with best practice.

5. Strategic Actions

5.1 Measurement & Observation

The Fund will make regular measurements and observations on the climate-related risks and opportunities relating to our Fund. This includes:

- An annual carbon risk metrics assessment of the Fund's listed equities and fixed income assets.
- A triennial economic assessment of the Fund's asset allocation against plausible climate-related scenarios
- Monitoring the likelihood of different climate scenarios, drawing on the Fund's suppliers and advisers
- Identification of the greatest climate-related risks to the Fund.

The Fund aims to use the best available tools and techniques to analyse climate-related risks and opportunities the Fund is exposed to. It is recognised that certain methodologies are in the early stages of development, including measuring Fund alignment with the Paris Agreement. As such, efforts to develop credible methodologies will be supported.

5.2 Policy Review

The Fund will conduct a governance review to ensure the management of climate risk is fully embedded in the Fund's processes, committees, and reporting cycles. Specifically, the following will be considered:

- Integrating communications on climate risk into the communications strategy
- Clarifying 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 Investment Strategy Statement
- Updating the Governance Policy Statement to explain how climate risks are governed
- Reviewing as part of the Funding Strategy Statement the extent to which climate risks could affect other risks noted in the FSS
- Updating the Fund's "Approach to Responsible Investment" in the Investment Strategy Statement to include the six responsible investment beliefs.
- Exploring options to incorporate the 'Approach to Environmental Risks' disclosures into the Investment Strategy Statement.

5.3 Asset Allocation

Where permitted by a credible evidence base, climate change factors will be integrated into reviews of our asset allocation, subject to the requirements of the Investment Strategy Statement and Funding Strategy Statement. This includes exploring potential investments in sustainable private equity, green bonds and low-carbon passive equities. The Fund will also consider additional allocations to Global Sustainable Equities and Infrastructure.

The Fund will move towards its Long Term Target Strategic Asset Allocation weightings, as per the recommendations of its 2020 Climate Risk Report.

5.4 Selection and Due Diligence

In the selection and due diligence of new funds material climate-related risks and opportunities will be considered, alongside the manager's approach to managing climate risks.

The Fund's expectations on climate risk management will be specified in investment mandates, investment management agreements and other relevant documentation.

5.5 Purposeful Stewardship

The Fund will monitor engagement with its investee companies and portfolio managers through its Climate Stewardship Plan (Appendix 1). The Fund will report progress against its Climate Stewardship Plan on an annual basis. (It should be noted that although the Climate Stewardship Plan is new, some of the activity within it already takes place as part of the ongoing risk management of the Pension Fund.)

Appointed investment managers will be regularly monitored to ensure climate-related risk is fully integrated into the investment process. The Fund will make use of the IIGCC's "addressing climate risks and opportunities in the investment process" as an aid. In addition, the Fund will:

- Discuss with equity managers the influence of climate factors on their sector positioning
- Discuss with real asset managers their physical risk resilience and GRESB participation
- Engage corporate bond managers on their approach to assessing climate risk within their portfolios in the absence of reported GHG emissions data

Through LGPS Central, the Fund will join collaborations of like-minded institutional investors to collectively lobby for Paris-aligned climate policies.

The Fund will make will use of voting rights and will co-file or support climate-related shareholder resolutions where appropriate.

5.6 Transparency & Disclosure

The Fund will prepare and disclose a TCFD report annually, which will include carbon risk metrics.

The Fund will report progress on the annual Climate Stewardship Plan to the Nottinghamshire Pension Fund Committee on an annual basis.

A summary of voting and engagement activities will be published in the Annual Report, along with a summary of the Fund's Climate Risk Report in a manner consistent with the TCFD Recommendations.

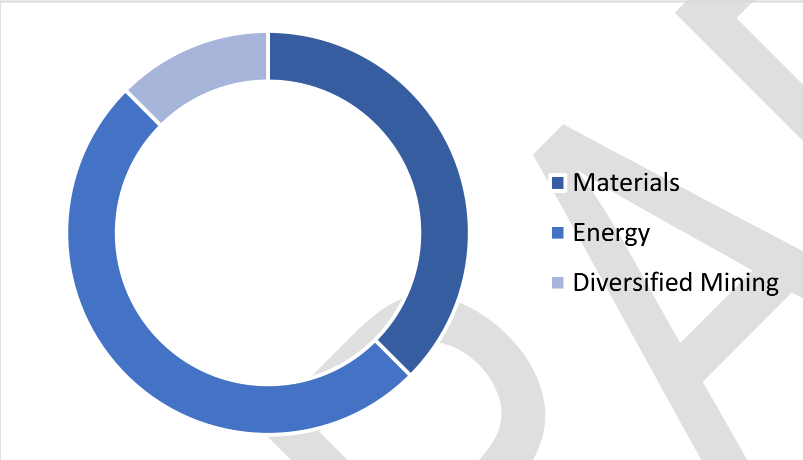
Appendix 1: Climate Stewardship Plan

The Climate Stewardship Plan identifies the areas in which stewardship techniques can be leveraged to further understand and manage climate-related risks within the Fund. The Climate Stewardship Plan is based on the findings of the Fund's Climate Risk Report.

Part 1: Company Engagement

The Fund will monitor engagement with a focussed list of investee companies of particular significance to the Fund's portfolio. The plan sets stewardship objectives over several years, with annual updates following refreshes to the Fund's carbon risk metrics.

Figure 2 Sectors included in the Fund's Climate Stewardship Plan



Part 2: Manager Monitoring

The Fund will monitor major appointed investment managers to ensure climate-related risk is fully integrated into the investment process. The Fund will engage these managers on the following issues:

Asset Class	Topic
Equities	• The influence of climate factors on sector positioning • Stewardship activities with companies identified in the Climate Risk Report
Fixed Income	• Approach to assessing climate risk in the absence of reported GHG emissions data • Engagement with the most intensive carbon issuers • Extent of investment in green bonds
Real Assets	• Physical risk resilience • GRESB participation