Nottinghamshire County Council

Nottinghamshire Pension Fund Committee

Thursday, 08 December 2022 at 10:30

County Hall, West Bridgford, Nottingham, NG2 7QP

AGENDA

1	Minutes of the last meeting held on 10 November 2022	5 - 8
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	Pension Administration and Transformation update report	9 - 16
5	Independent Adviser's report	17 - 22
6	Work Programme	23 - 28
7	Climate Risk Analysis and Taskforce on Climate-related Financial Disclosures	29 - 50
8	Fund valuation and performance	51 - 60

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 Climate Risk Analysis and Taskforce on Climate-related Financial Disclosures - Exempt Appendix.docx

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

11 Fund valuation and performance - exempt appendix

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

12 Fund Managers' presentations

a) LGPS Central

b) LGIM

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 Jo Toomey (Tel. 0115 977 4506) 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 10 November 2022 at 10.30 am

membership

COUNCILLORS

Eric Kerry (Chairman)
Mike Introna (Vice Chairman)

Chris Barnfather
André Camilleri
John Clarke MBE - **Absent**
Bethan Eddy
Stephen Garner - **Apologies**
Sheila Place
Francis Purdue-Horan
Tom Smith
Lee Waters - **Apologies**

NON-VOTING MEMBERS:

Nottingham City Council

Councillor Graham Chapman
Councillor Sally Longford - **Apologies**
Councillor Zafran Khan

District / Borough Council Representatives

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

Trades Unions

Alan Woodward - **Apologies**
Chris King

Scheduled Bodies

Sue Reader - **Apologies**

Pensioners' Representatives

Vacancy x 2

Independent Adviser

William Bourne

Officers in Attendance

Nigel Stevenson	(Chief Executive's Department)
Sarah Stevenson	(Chief Executive's Department)
Jon Clewes	(Chief Executive's Department)
Tamsin Rabbitts	(Chief Executive's Department)
Ciaran Guilfoyle	(Chief Executive's Department)
Jo Toomey	(Chief Executive's Department)

1. MINUTES OF THE LAST MEETING HELD ON 1 SEPTEMBER 2022

The minutes of the last meeting held on 1 September 2022 were confirmed as a correct record for signing by the Chair.

2. APOLOGIES FOR ABSENCE

- Councillor Stephen Garner (other reasons)
- Councillor Lee Waters (other reasons)
- Councillor Sally Longford (Nottingham City Council)
- Alan Woodward (Trade Union representative)
- Sue Reader (Scheduled Bodies representative)

3. DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS

None were disclosed.

4. TO NOTE THE APPOINTMENT OF COUNCILLOR CHRIS BARNFATHER TO FILL THE CONSERVATIVE VACANCY ON THE COMMITTEE

Members noted that Councillor Chris Barnfather would fill the Conservative vacancy on the Committee.

5. PENSION DASHBOARDS

The report provided an overview of the introduction of a new Pensions Dashboard and the proposed phases for deployment. It also set out the actions that the Fund could need to implement the dashboards.

During discussions, Members:

- Explored how the dashboard would work from the perspective of the customer and the impact the introduction of dashboards would have on employers and on pension funds of different sizes, particularly very small funds
- Asked about data security and the protections to help prevent fraud

RESOLVED 2022/041

1. That, having considered the implications of the Pension Dashboard Programme, the Committee agreed to receive further update reports as the project becomes clearer and the National Programme progresses.

2. That an update report on the resource requirements for the Fund to enable the implementation of the Pension Dashboard Programme be received once further information was available.

6. REVIEW OF PROGRESS ON THE CLIMATE RISK ACTION PLAN

The report of the Service Director – Finance, Infrastructure and Improvement reviewed progress against the Climate Action Plan.

RESOLVED 2022/42

1. That the work that has been undertaken be endorsed and the progress made against the Climate Action Plan be noted.

2. That no further actions were required in relation to progress on the Nottinghamshire County Council Pension Fund Action Plan.

7. DEPARTMENT OF LEVELLING UP, HOUSING AND COMMUNITIES CONSULTATION

The report presented for Committee's consideration, a draft response to a consultation that was being undertaken by the Department of Levelling Up, Housing and Communities (DLUHC).

RESOLVED 2022/043

That the submission of the response appended to the report be approved.

8. TREASURY MANAGEMENT MID-YEAR REPORT 2022-23

The report of the Service Director – Finance, Infrastructure and Improvement provided a mid-year review of the Pension Fund's treasury management activities in 2022/23 for the 6 months to 30 September 2022.

During discussions, Members:

- Requested comparative data against which the Fund's treasury management performance could be benchmarked
- Noted that the Fund, together with other Local Government Pension Schemes, was becoming increasingly cashflow negative
- Explored the Fund's ability to move with changes to the base rate, following recent increases

RESOLVED 2022/044

That the actions taken by the Section 151 Officer to date, as set out in the report, be endorsed.

9. PROXY VOTING

The report set out information on proxy voting undertaken on the Fund's behalf during the second quarter of 2022, setting out the number of meetings attended and resolutions voted upon.

During discussions, Members:

- Requested a breakdown of the number of resolutions where a vote was cast against or in abstention, rather than the combined total given in the report
- Suggested it would be helpful for the information supplied by Hermes to include the outcome of any vote
- Asked whether there was a way of capturing those resolutions that related to climate
- Felt that any additional information that could be provided would help show the impact that the votes of the Fund was having over time

RESOLVED 2022/45

That officers explore opportunities to provide additional information about votes cast and their impact within the report.

10. LOCAL AUTHORITY PENSION FUND FORUM

The report gave an overview of two meetings of the Local Authority Pension Fund Forum held in July and October 2022.

During discussions, Members:

- Asked whether there was discussion at the October meeting of the impact of the Gilt LDI situation on pensions.

RESOLVED 2022/46

That no further actions are required in relation to the issues contained within the report.

11. WORK PROGRAMME

RESOLVED 2022/047

That the work programme be agreed.

The meeting concluded at 11:29am

CHAIR

Nottinghamshire County Council

Report to Pension Fund Committee

8 December 2022

Agenda Item: 4

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

LOCAL GOVERNMENT PENSION SCHEME – TRANSFORMING PENSION ADMINISTRATION UPDATE REPORT

Purpose of the Report

1. To update members on the data audit and improvement workstream within the "transforming pension administration through digital development and new ways of working programme".

Information

Background

2. Committee is aware from previous reports that pension administration is changing nationally, and in the LGPS with changes to regulations, and with the requirements and scrutiny of the Pension Regulator. LGPS administration needs to reflect this change through the delivery of a range of digital services which include increased automation, significantly reduced manual inputting and amending of member data, ensuring that employers fulfil their responsibilities as a scheme employer within the Fund and for scheme members to be able to access their pension record 24/7.

3. The Pension Regulator has stipulated that it expects Pension Funds to enable scheme employers and members to interact with the Fund via digital platforms.

4. The data audit and improvement workstream is critical to the delivery of the entire transformation programme. The move to monthly returns and the deployment of the members portal will only be successfully delivered once the data held by the Fund is improved. This workstream is also key to the delivery of the national pension dashboard programme. Ongoing maintenance of the data will be supported by the move to monthly returns and the deployment of the self-service members portal.

Data Audit and Improvement

5. As previously reported to Pension Committee the Pension Regulator requires all Funds to maintain accurate records. The Fund is required to have a data improvement plan as specified by the Regulator. Failure to do so can put the Pension Fund at risk of failing to meet its legal obligations, and the Regulator will take enforcement action where schemes are not meeting the standards expected and are taking appropriate steps to improve pension records.

6. The Fund is required by the Pension Regulator to hold and measure two types of data within the Civica Universal Pension Manager (UPM) System scheme records: **Common Data and Scheme Specific Data.**

7. **Common data** is used to identify scheme members and includes names, addresses, national insurance number and data of birth

8. **Scheme specific data** is essential to calculate benefit entitlement such as employee contributions, pensionable pay, service history. It also encompassed data relating to events that occur during an individual's membership, for example transfer, purchase of additional pension and pension sharing orders.

9. To date the data audit and improvement workstream has supported the Fund to achieve a significant improvement in its data scores, as detailed below

	September 2020	September 2021	October 2022	Percentage point Improvement %
Common Data	73%	84%	87%	14%
Scheme Specific Data	41%	54%	64%	23%

10. There is currently no national benchmark of data accuracy scores across LGPS Funds. The Pension Regulator requires all Funds to provide their scheme's data scores by completely the annual Scheme Return. Clearly the acitivites that have been undertaken by the Nottinghamshire LGPS over the last two years demonstrate that we have a direction of travel of improving both the common and scheme specific data scores and that activities in this arena are continuing which will lead to a further improvement in the accuracy of the data held.

11. As reported to Pension Committee previously, the Fund is also required to respond to a range of other external factors which impact on the data that the Fund holds such as the GMP Reconciliation project and McCloud Court of Appeal judgement regarding age discrimination and more recently . Accurate data will also assist the Fund in responding to requests received via the national Dashboard system.

12. The latest data audit was run in November 2022, to show the progress that had made in improving the data and to provide the Pension Regulator with their annual data return figures. A comprehensive suite of 430 data validation checks (DVCs) were deployed. The DVCs were agreed between the Fund and Civica and cover both common and scheme specific data across **189,155** pension folders which covers a total of **143,349** individual members of the Nottinghamshire Pension Fund. This has provided the Fund with an accurate and informed data position as well as access to a dynamic data quality dashboard.

13. The following table details the baseline figures as at September 2020 and the progress achieved over the last two years, showing the number of members and the data validation checks not passed in volume range.

As at Sept 2020 Nos of Members	As at Nov 2021 Nos of Members	As at Nov 2022 Nos of Members	DVC not passed	Total progress from September 2020
24,035	66,036	82,343	Passed all DVCs	An increase of 58,308 (57%) of members passing all checks
56,658	56,668	46,835	1-3 amendments required	A reduction of 9,833 members
26,825	11,388	10,336	4-6 amendments required	A reduction of 16,489 members
13,507	2,608	2,663	7-9 amendments required	A reduction of 10,844 members
13,408	1,339	1,172	10+ amendments required	A reduction of 12,236 members
134,433	**138,039**	**143,349**		**An increase of 8,916 members being included in the Data Audit.**

14. The Adminisitration team have access to a suite of Data Quality Dashboard which enables them to look at the data held at Fund level, employer level and membership category (active, deferred, deceased etc). At Scheme Employer level the Fund is able to review the data position for each employer, compare employers and identify employers with good/bad attributes and therefore provide targeted support.

15. As part of the audit improvement phase a series of bulk data improvement (BDIs) tasks have been developed. The application of the BDIs has results in **45,848** (data validation failures) DVFs being resolved, which is **25.1**% of the **182,187** DVFs that were reported last year as being in the 2021 TPR run. The project agreed to postpone the implementation of the Service BDI as this overlaps with the data cleanse work being undertaken with employers for McCloud. Once the McCloud returns are received and loaded a further review of the Service BDI will be undertaken.

16. The remaining data validation amendments require work to be undertaken with individual scheme employers. Civica and the Pension Administration Service have worked with a pilot Scheme Employer to shape this work. The employer has provided feedback on the initial DVCs that the Fund highlighted as requiring employer input. Following this review a defined list of DVCs has been agreed as requiring employer cleanse. A process map has been designed that will be followed with employers to resolve individual member data resolution.

17. It has also been determined that employers with less than 20 outstanding Data Validation Amendments will not be provided with bulk cleanse files. These DVC's will be cleansed through ongoing data BAU channels to ensure the bulk cleanse work remains cost effective. Taking

these decisions into account it was been highlighted that a total of **17,532** DVCs are suitable for employer cleanse as of the latest audit run.

18. The following table details at a high level the number of scheme employers and the number of DVC failures that require review and cleanse by the employer.It is anticipated that this work will commence in the quarter 4 2022-2023.

	Pre bulk fix – count as at 16 March 2022	DVF requiring employer review and cleanse – count as at 25 October 2022
No of employers +100 failures	24	24
DVF count	17693	13539
DVF %	84.93%	77.22%

No of employers +50 failures	36	17
DVF count	18485	1205
DCF %	88.73%	6.8%

No of employers +20 failures	77	47
DVF count	19790	1462
DVF %	94.99%	8.34%

No of employers <20 failures	150	121
DVF Count	1083	940
DVF %	5.20%	5.36%

19. Throughout this workstream the Fund has taken a blended approach working with Civica to determine which party is best placed to work to resolve the outstanding issues. Where a bulk resolution is identified this has been deployed by Civica. The Fund will interact directly with Scheme Employers and members where individual data amendments require resolving. The Fund will work to minimise external spend where it can but also ensure the most cost effective approach is taken in using external input to work through the data validation results.

20. It is of paramount importance that once the data audit and improvement are completed that the Fund maintain the quality of both the common and scheme specific data that it holds. The final phase, phase 4 will focus on data quality maintenance, as informed by periodic data quality dashboards, enabling ongoing identification of any emerging data quality trends. The annual cost for this activity is to be confirmed.

21. One of the other key areas to support the maintenance of the quality of the data will be the implementation of monthly returns which is also a key requirement for the deployment of the national Dashboards. The Fund are awaiting confirmation from Civca to the kick off of this

project at the start of 2023. Ultimately, the Administration Team will work to deploy the members self-service portal providing all scheme members with the ability to maintain their personal details and be able to initiate requests as well as simulate pension benefit estimates in time.

Resourcing

22. One of the key outcomes from the data audit programme will be the implementation of bulk data processing. With the implementation of monthly returns this will enable the Fund to run bulk processing jobs for activities such as refunds and leavers. Moving the administration team away from a one to one relationship when processing such tasks to one of one to many. Over time this should see the release of experienced pension officer from day to day tasks of refunds and processing leavers to working on the more complex activities such as pension into payment and death processes. The Fund will need to consider the resourcing of the ongoing maintenance of the data held but this will be the subject of a separate report.

Employer Support and Compliance

23. The Employer Support and Compliance (ES&C) team will play a key part in the ongoing maintenance of data quality through their support to all Scheme Employers, as well as the implementation of monthly return and the scheme employers portal.

24. Following appointment to the vacant Employer Compliance and Support Office post the Scheme Employer Portal rolled out will be further progressed.

25. The team have been engaged in employer audits for some months now and the aim of this workstream is to bring membership records up to date in advance of the rollout of monthly returns and will complement the work planned with employers as part of the data audit and improvement workstream.

26. A series of Induction briefings are currently being delivered by the ES&C Team. These are aimed at new employers but also give existing employers an opportunity to attend where staff are new to LGPS administration. The briefings provide an overview of the Fund, the duties and responsibilities of employers and sources of guidance and support to enable the employer to carry out their scheme administration responsibilities.

Other Options Considered

27. Data audit and improvement is a regulatory requirement and the Fund is required to have a data plan and be able to demonstrate how data supplied to the Fund is improving. Therefore, there is a statutory obligation upon the Fund and its Scheme Employers to progress the data workstream.

28. The Pension Administration Service could continue to operate as it currently does utilising paper and pdf forms but this is not considered a viable option given both the increasing legislative demands and increasing number of scheme employers, members and their expectations in this digital age.

29. Without the development of digital platforms for Scheme Employers and members to interact with the Fund consideration may have to be given to increasing the number of pension administration staff.

Reason/s for Recommendation/s

30. For the Nottinghamshire Pension Fund to be able to meet ongoing statutory responsibilities, increased expectation of members and scheme employers to interact with the Fund online and via self-serve it is imperative that the Fund transforms its service offer ensuring that it is cost efficient and effective and meet its regulatory and statutory requirements.

31. Data improvement is a continuous process and not a one-off exercise. Good quality data is critical to the Pension Fund and a vital element in the success of digital transformation. Without the implementation of the proposed data improvements it will become increasing difficult and risky for the Nottinghamshire Pension Fund to fulfil its statutory obligations within the LGPS and will not enable the Fund to move its service online enabling members to self-serve.

Statutory and Policy Implications

32. 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.

Data Protection and Information Governance

33. A high-level Data Privacy Impact Assessment has been completed and signed off for the programme. This will be reviewed to ensure that the aspects of the programme detailed within this report are included.

Financial Implications

34. The data audit and improvement workstream is working within the project funding previously approved by Pension Committee.

RECOMMENDATION/S

It is recommended that the Members:

1) Agree to receive ongoing update reports on the progress of the programme.

Marjorie Toward
Service Director – Customers, Governance and Employees

For any enquiries about this report please contact:
Sarah Stevenson, Group Manager Business Services Centre on 0115 9775740 or
sarah.stevenson@nottscc.gov.uk

Constitutional Comments (KK 30/11/22)

35. The proposals in this report are within the remit of the Nottinghamshire Pension Fund Committee.

Financial Comments (KRP 30/11/22)

36. The financial implications are set out in the body of 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.

- None

Electoral Division(s) and Member(s) Affected

- All

Nottinghamshire County Council

Report to the Nottinghamshire Pension Fund Committee

8 December 2022

Agenda Item: 5

REPORT OF THE ADVISOR TO THE NOTTINGHAMSHIRE PENSION FUND COMMITTEE

INDEPENDENT ADVISER'S REPORT

Purpose of the Report

1. To provide an opportunity for the Advisor to the Committee to update and brief the Committee on matters relevant to the Pension Fund (Appendix A).

Information

2. The Nottinghamshire Pensions Fund Committee receives regular updates from its advisor. The updates set out issues affecting the fund, including matters on a national and global level.

3. The last update was presented to the Committee at its meeting on 1 September 2022.

Statutory and Policy Implications

4. 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

5. There are no financial implications arising as a result of this report.

RECOMMENDATION/S

1) That the report of the Advisor to the Nottinghamshire Pension Fund Committee be noted.

William Bourne
Advisor to the Nottinghamshire Pension Fund Committee

For any enquiries about this report please contact:

Jo Toomey, Advanced Democratic Services Officer
Telephone: 0115 977 4506
Email: jo.toomey@nottscc.gov.uk

Constitutional Comments (KK 04/11/2022)

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

Financial Comments (SES 02/11/2022)

7. There are no specific financial implications arising directly from this 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.

- None

Electoral Division(s) and Member(s) Affected

- All

Independent Adviser's Report for Nottinghamshire Pension Fund Committee

William Bourne **17th November 2022**

Market Commentary

1. In September I warned that a global recession was looking quite likely. Since then, we have seen substantial interest rate rises and evidence of slowing economies almost everywhere. Only in the U.S has there been some evidence of higher employment and the economy doing better.

2. Central banks have continued to tighten policy further to lower inflation rates. The European Central bank has now raised rates to 1.25%, U.K. rates have risen to 3%, and U.S. rates are now 4%. Only Japan is maintaining rates at close to zero, and there are some signs of movement even there. The U.S. Federal Reserve has also withdrawn over 1 trillion dollars of liquidity from bond markets since the peak, which has the same impact as a much larger rate rise. It is no surprise that the US$ has been super strong, reaching 30- and 40-year highs against both the yen and sterling.

3. **The hawkish stance of central banks has had some success in lowering inflation**. October CPI fell back to 6.2% in the U.S. as energy prices came down, but remains at 11% in the U.K., albeit the core rate excluding food and energy was 6.5%. Central banks and bond markets are both forecasting that inflation will fall (e.g., the Office for Budget Responsibility's forecast for the UK is 9% in 2022 and 7.4% in 2023), but there is clearly a risk that it may remain higher for longer.

4. The Fed. has started to signal a slightly less aggressive approach to monetary policy and will certainly reverse course (the jargon word here is 'pivot') when they believe inflation is tamed. The Bank of England may be slower, as it has more need to regain credibility.

5. The short-lived Truss Government's financial statement unsettled the gilt market and sterling dramatically. Despite a rapid U-turn by its successor, the episode has brought to light both how fragile the government's finances are and how thin the UK gilt market is. The Chancellor's Autumn statement raising taxes and cutting spending by a combined £55bn underlined that.

6. The gilt sell-off was exacerbated by the U.K. private sector Defined Benefit pension funds' widespread investment in leveraged LDI (liability driven investment) strategies. The rise in bond yields forced

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them to liquidate collateral, largely held as gilts, to cover margin calls. The Bank of England stepped in to stabilise gilt prices through a short-term emergency purchasing program. Gilt yields have subsequently fallen from the 5% peak to around 3.2% at the time of writing, but the BoE purchases have left a large overhang of stock which they at some point, will need to sell in the market. The Fund has no exposure to LDI and very limited exposure to gilts.

7. **A global recession remains highly likely**, probably more pronounced in Europe than the U.S., as consumer spending is under a substantial squeeze from higher interest rates, higher taxes, and higher energy prices. The Bank of England expects it to last for at least a year.

8. One consequence of the combination of higher bond yields and a recession is a higher likelihood of company failures. Low cost of capital has for 15 years allowed ailing companies to struggle on or be refinanced, but that has changed. Early casualties in the U.K. were Made.com and Joules.

9. FTX Exchange was a casualty of a different sort. The third largest crypto currency exchange was effectively a Ponzi scheme. Millions of investors, among them some large institutions, have lost ~~most~~ all of their money.

10. Equity markets so far have been remarkably sanguine about all the negative news. U.S. corporate earnings per share have continued to rise, albeit at the lowest rate since COVID. Investors may also be starting to bet on a Fed pivot in the next few months. However, in my view a further leg down in equity markets is almost inevitable.

11. Geo-politics are back with a vengeance. The passing of the Chips and Science Act makes it clear that **the U.S. now views China as its main economic and leadership competitor** and will take whatever measures are needed to try and thwart its progress. The continuing war between Russia and Ukraine continues both to put upward pressure on food and energy prices.

12. Despite this, in the longer term the fog of uncertainty is slowly clearing. Interest rates and bond yields will stay higher, perhaps in the 2% to 5% range. Monetary policy will be used to relieve times of stress (e.g. the Bank of England's recent emergency package) but not as a semi-permanent feature. Economic growth in the major economies will notwithstanding remain low. Globalisation is, if not in reverse, no longer moving forward. Big Tech continues to march on, but there are now losers (Meta, Twitter) as well as winners. Capital for investment or leverage is both more expensive and scarcer.

13. The last of these means that investors such as the Fund who are providers of capital to private companies should, so long as they show discrimination in investing, be adequately rewarded in the longer term. The same may not be true of lenders to governments. The Bank of England is manipulating the level of yields (the jargon word here is 'yield curve control') and investors are not receiving the return they should for the risk they are taking. While this may persist for a while,

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eventually the stresses will show up somewhere.

14. **My main scenario remains benign in the longer term**, but the immediate course of markets looks challenging for all investors. The combination of recession, geo-political confrontation, and a less supportive monetary environment means that valuations of all assets are likely to come down. Worse outcomes are possible if company earnings collapse or the financial system comes under stress. The Fund’s cash weighting will help mitigate the short-term damage and provide opportunities to invest at better prices but will not insulate it from market falls.

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Nottinghamshire County Council

Report to Pension Fund Committee

8 December 2022

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.

Other Options Considered

4. None.

Reason/s for Recommendation/s

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

Statutory and Policy Implications

6. 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:
Jo Toomey, Advanced Democratic Services Officer
E-mail: jo.toomey@nottscc.gov.uk
Tel: 0115 977 4506

Constitutional Comments (HD)

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

Financial Comments (NS)

8. 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 (updated 29 November 2022)

Report Title	Brief summary of agenda item	Report Author
12 January 2023 – Nottinghamshire Pension Fund Annual General Meeting		
Actuarial Issues	Barnett Waddingham LLP presentation	
Management and Financial Performance	Financial management presentation	
Investment Performance	Pensions and treasury management presentation	
Pensions administration	Presentation from the Pensions Administration team	
Presentation of the Pension Fund accounts	Formal presentation of the Pension Fund accounts to Committee before the AGM	Tamsin Rabbitts
2 March 2023		
Pensions Administration – Tracing Service		Sarah Stevenson / Jon Clewes
Fund Valuation & Performance – Qtr 3	Summary of quarterly performance	Tamsin Rabbitts
Independent Adviser's Report	Independent Adviser's review of performance	Independent Adviser
Fund Valuation & Performance	Detailed review of quarterly performance (exempt)	Tamsin Rabbitts
Managers Presentations	Presentations by Fund Managers (exempt)	Schroders and Abrdn
Strategic Asset Allocation Working party report	Report on the discussions and any decisions arising from the January working party meeting on our Strategic Asset Allocation and Investment Strategy and any other issues discussed	Tamsin Rabbitts
Treasury Management Strategy 23/24	Strategy for forthcoming financial year	Ciaran Guilfoyle
Conferences and training report	Planned training and conferences for 22/23	Tamsin Rabbitts
Results of the triennial valuation	Report on the outcome of the triennial valuation	Tamsin Rabbitts / Jon Clewes

27 April 2023		
Review of progress on the Climate Risk Action plan	6 monthly report	Tamsin Rabbitts
Climate Stewardship Report	Progress on the Fund's climate stewardship strategy	Tamsin Rabbitts
Treasury Management outturn 22/23	Summary of TM activity for year ended 31 March 2023	Ciaran Guilfoyle
Proxy Voting	Summary of voting activity	Ciaran Guilfoyle
LAPFF Business Meeting	Report from LAPFF Business Meeting	Ciaran Guilfoyle
Report on the LAPFF conference	Report on the presentations attended at the LAPFF conference in December	Keith Palframan
8 June 2023		
Fund Valuation & Performance – Qtr 4	Summary of quarterly performance	Tamsin Rabbitts
Independent Adviser's Report	Independent Adviser's review of performance	Independent Adviser
Fund Valuation & Performance	Detailed review of quarterly performance (exempt)	Tamsin Rabbitts
Managers Presentations	Presentations by Fund Managers (exempt)	LGPS Central
13 July 2023		
Proxy Voting	Summary of voting activity	Ciaran Guilfoyle
LAPFF Business Meeting	Report from LAPFF Business Meeting	Ciaran Guilfoyle
LGPS Central Pooling Update		
Annual Administration Performance Report		Jon Clewes
Local Pensions Board Annual Report		
To be placed		

Review of Work of the Pension Fund Committee and Pension Board	*Review commenced during autumn 2022 and is subject to any impacts which may need to be addressed as a result of Government response to the Good Governance in the LGPS proposals*	Heather Dickinson / Marjorie Toward
McCloud Judgment update report		Jon Clewes
Results of GMP reconciliation		Jon Clewes
Pension Fund Review of Cyber Security – Pension Regulator Requirement		Sarah Stevenson / Jon Clewes

Nottinghamshire County Council

Report to Pension Fund Committee

8 December 2022

Agenda Item: 7

REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT

CLIMATE RISK ANALYSIS AND TASKFORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES REPORT

Purpose of the Report

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

Information

2. In 2020, in order to enable the Pension Fund to identify its exposure and understand its financial risk arising from climate change, the Fund commissioned LGPS Central to produce some climate risk analysis and scenario modelling, and a TCFD report which contains the key elements of the Climate Risk report. The scenario modelling is only performed every few years, but has been refreshed for 2022 and includes a 1.5° scenario. The climate risk analysis has been repeated based on data at 31 March 2022.

3. This Climate Risk Report has been issued to the Nottinghamshire Pension Fund, and has been presented to the members of the Nottinghamshire Pension Fund Committee by LGPS Central at a training session to communicate the findings and recommendations of the Climate Risk Report, and enable Members to appreciate the challenge in obtaining reliable data for these calculations and the complexity of modelling these issues.

4. Some modifications have been made to the climate risk report this year. Financed emissions have been included as a metric and a comparison between 2019 and 2021 emissions numbers is provided. Financed emissions measure the absolute tons of CO_2 for which an investor is responsible. This is an important metric when measuring the net zero alignment of an investment portfolio and or the decarbonisation trajectory of the portfolio. Unlike Carbon Intensity metrics, financed emissions are not influenced by market capitalisation or revenue. Financed emissions are recommended by the IIGCC Net Zero Framework as one of a number of metrics that investors should monitor.

5. A Net Zero coverage metric is also included. This is calculated as the weight of the portfolio invested in companies that have set a "net zero" emissions target, as defined by the company. Whilst we recognise that not all Net Zero commitments are equal and therefore this metric has limitations, we think that is useful to know which companies have not yet set a target. This can potentially help with engagement and voting prioritisation.

6. In order to give a better indication of a portfolio company's actual exposure to fossil fuels and clean technology, the percentage of revenue derived from these activities is provided. This is also provided at portfolio and fund level.

7. The fund has also completed its second climate scenario analysis this year. The Investment Consultant Mercer's have been retained for this work; three climate scenarios are analysed, Rapid Transition, Orderly Transition and Failed Transition which explore a range of plausible futures over 5 to 40 years. Each scenario analysis has a different combination of transition and physical risks associated with it, playing out over different time frames, with transition risks impacting earlier and physical risks impacting later.

8. Appendix A presents the TCFD report which shares the key results of the analysis.

9. There are restrictions on what can be publicly reported from the climate risk analysis due to commercial confidentiality of supplier intellectual property, so the Climate Risk report is attached as exempt Appendix B.

10. The purpose of the climate risk analysis is to help the Pension Fund better understand the risks and implications of climate change. It does this based on the available data. As this is dependent on what companies currently publish, it should be noted that this data is incomplete. The model requires a number of assumptions and the output of the model should be interpreted in this context. Data is improving, partly due to pressure from engaged shareholders such as ourselves, but the sensitivity to assumptions and estimations and incompleteness of the data needs to be appreciated in interpreting the results of this work.

11. Despite this caveat, the analysis is supportive of the Fund's current investment strategy.

- It shows that the year end equity holdings continue to be below the market cap benchmark in terms of carbon footprint and weight of fossil fuel reserves, which indicates that the fund has been considering and managing climate risks.
- It demonstrates that a scenario consistent with an orderly transition is of greatest benefit to the Pension Fund financially which means the Fund's financial interests are aligned with global environmental interests.

12. Members should be reassured of these signs that they are discharging their responsibilities appropriately.

Report recommendations and considerations

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

Category	Action	Timing	Notes
Climate Stewardship Plan	Add NextEra Energy, Reliance Industries, Cemex and Southern Company to the Climate Stewardship Plan for 2023-24. (Anglo-American was added for 2022-23)	2023-24	With the support of LGPS Central

14. There are no new items for the Climate Action Plan but some wording changes and deletions to reflect completed actions. Progress on existing actions in the Climate Action Plan was

reported to the November Committee meeting. The wording changes will be reflected at the next review.

Ongoing work

15. 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 have made investments to sustainable funds since year end. Over time our exposure to fossil fuels will reduce as a result of these asset allocation and diversification decisions.

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

Other Options Considered

17. The Pension Fund is not required to undertake climate risk analysis or to publish a TCFD report. However undertaking climate risk analysis and publishing a TCFD report are regarded as best practice and are consistent with the Pension Fund's commitment to transparency.

Reason/s for Recommendation/s

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

Statutory and Policy Implications

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

Financial Implications

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

RECOMMENDATION/S

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

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

For any enquiries about this report please contact: Tamsin Rabbitts

Constitutional Comments (KK 28/11/2022)

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

Financial Comments (TMR 28/11/2022)

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

Background Papers and Published Documents

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

- None

Electoral Division(s) and Member(s) Affected

- All

Nottinghamshire Pension Fund Climate-related Disclosures

Report prepared in alignment with the recommendations of the TCFD

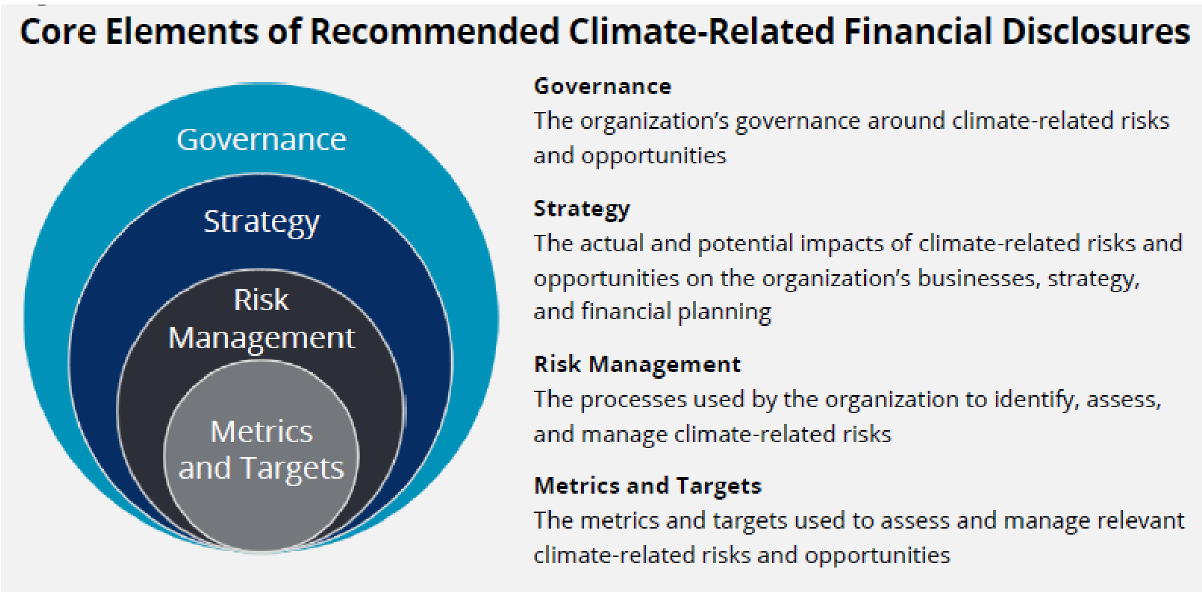
November 2022

Introduction to the TCFD

The Taskforce on Climate-related Financial Disclosures (TCFD) 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: TCFD Disclosure Pillars



The 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 policymakers 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.

About this report

This report is Nottinghamshire Pension Fund's (NPF or 'the Fund') third climate-related disclosure report. It describes the way in which climate-related risks are currently managed within the Fund.

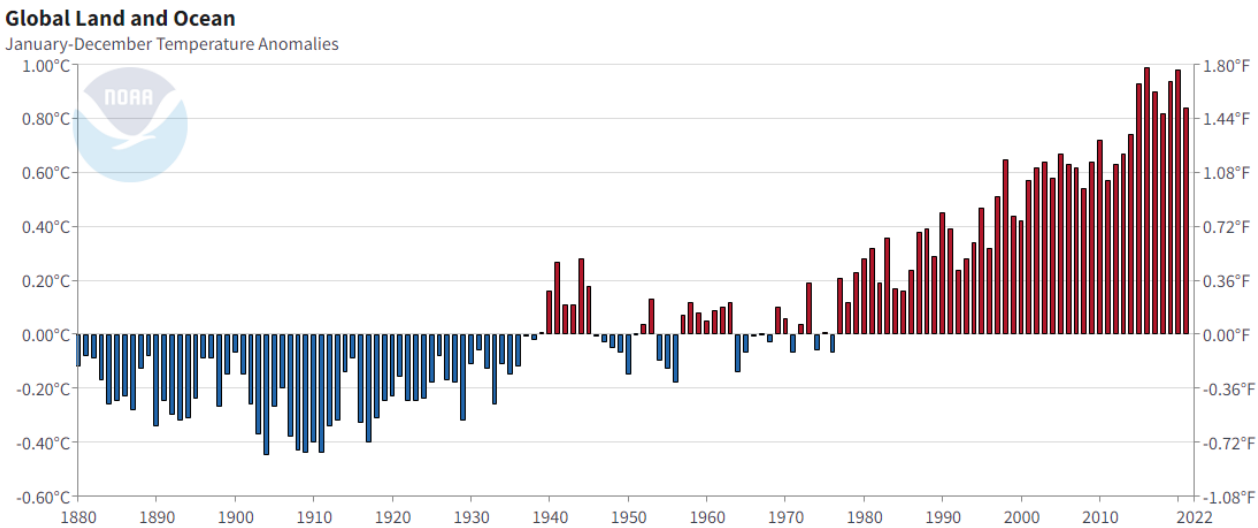
Since October 2020, NPF has received three Climate Risk Reports from the Fund's pooling company, LGPS Central Ltd. These reports provide an in-depth review of the Fund's climate risks under different climate change scenarios across all asset classes. The Fund uses the findings of these reports to inform the Climate Strategy.

In the interests of being transparent with the Fund's beneficiaries and broader stakeholder base, this report discloses the most recent Carbon Risk Metrics Analysis and Climate Scenario Analysis undertaken on the Fund's assets. We expect to update our Carbon Risk Metrics on an annual basis.

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 seven 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 climatic 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 20th century average.[1]



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.

[1] NOAA National Centers for Environmental information, Climate at a Glance: Global Time Series, published October 2022, retrieved on November 14, 2022 from https://www.ncei.noaa.gov/access/monitoring/climate-at-a-glance/global/time-series

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

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)

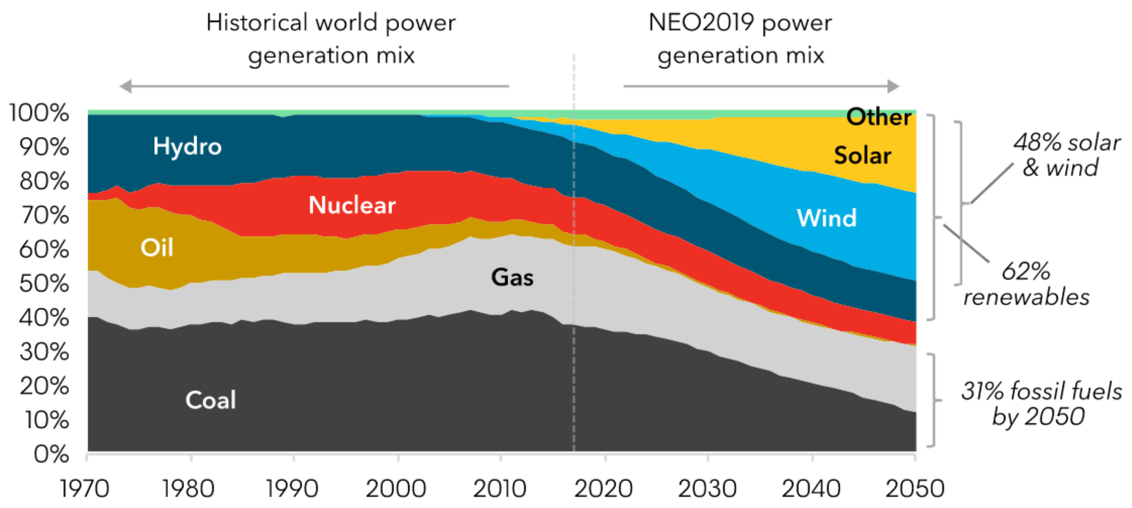
In order to achieve the long-term temperature goal set out in Article 2, Parties aim to reach global peaking of greenhouse gas emissions as soon as possible, recognizing that peaking will take longer for developing country Parties, and to undertake rapid reductions thereafter in accordance with best 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.

Given its contribution to global greenhouse gas (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 the 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.



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 full Council of Nottinghamshire County Council which has delegated the management and administration of the Fund to the Nottinghamshire Pension Fund Committee.

The Nottinghamshire Pension Fund Committee ("the Committee") is responsible for preparing the Investment Strategy Statement (ISS) and Climate Strategy. The ISS includes the funds approach to responsible investment and recognises climate change as a factor that could have a serious impact on financial markets. The Climate Strategy is premised on 10 foundational evidence-based beliefs about climate risk, considering climate science, the energy transition, and climate stewardship. The Climate Change Strategy is reviewed on an annual basis. The 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.

As per the Climate Strategy, the Fund is committed to providing decision-makers with appropriate training, including specialised training on climate change.

The Local Pensions Board has an oversight role in ensuring the effective and efficient governance and administration of the Fund, including securing compliance with 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. Where appropriate, the Fund's pooling company, LGPS Central Ltd, assists in assessing and managing climate-related risks.

As detailed in the Climate Strategy, the Fund leverages partnerships and initiatives – including the Institutional Investors Group on Climate Change (IIGCC) – to identify and manage climate risk. The Service Director for Finance, Infrastructure and Improvement, the Group Manager Financial Services, and the Senior Accountant Pensions and Treasury Management are accountable to the Pensions Committee for delivery of the Climate Strategy.

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.

Since 2020 the Fund Officers have received an annual Climate Risk Report, which allows a view of climate risk throughout its total equities and fixed income portfolios, and identify further means for the Fun to manage its material climate risks.

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	Resource scarcity Extreme weather events Sea level rise

	Policy tightening Consumer preferences	
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 increased sea level rise for coastal infrastructure assets or supply chain impacts for companies as a result of severe weather events.

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's Climate Change Strategy sets out the Fund's approach to managing the impact of climate-related risks. The main management techniques within investment strategy are: measurement and observation; policy review; asset allocation; selection and due diligence; purposeful stewardship; and transparency and disclosure.

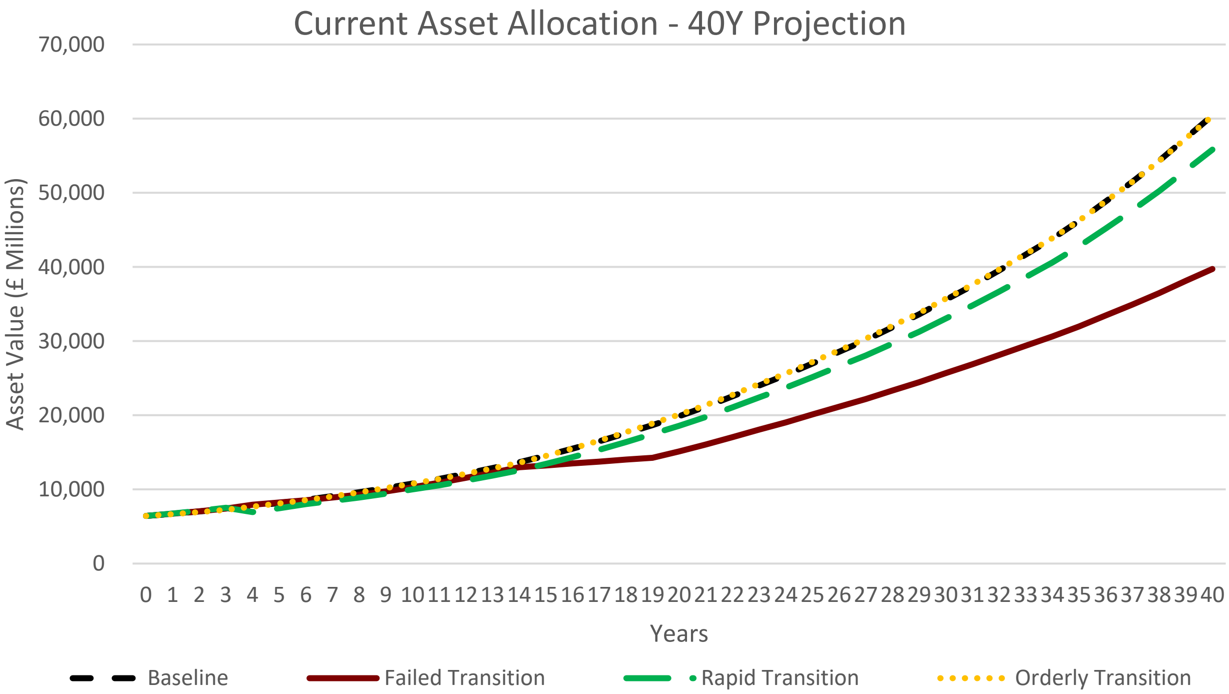
The Fund is exploring options to further embed climate-related risks and opportunities into its investment strategy, including reviewing potential investments in sustainable asset classes where this supports the Fund's investment and funding objectives.

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.

In 2022 the Fund engaged the expertise of an external contractor, Mercer LLC, 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 the fund and asset-class level). All asset classes are included in this analysis. The climate scenarios considered are Rapid Transition, Orderly Transition and Failed Transition. This analysis is carried out every 2 to 3 years and the results of the 2022 analysis are provided below.

The scenarios are defined according to the change since pre-industrial times in mean global surface temperatures. A rapid transition scenario leads to a 1.5°C temperature increase by 2100, and is characterised by sudden divestments on a global scale in 2025 in order to align society to the Paris Agreement goals. An early and smooth transition is represented by a 1.6°C temperature increase by 2100, with the markets pricing-in dynamics occur gradually over four years. A failed transition is represented by a temperature increase of 4.3°C by 2100, with severe physical and extreme weather events and the markets pricing in these risks.

Graph 2: Cumulative Return Projections by Climate Change Scenario.[2]



The analysis shows that over medium- to long-term, a successful transition is imperative for the Fund as its asset allocation fare better under Rapid and Orderly transition scenarios versus the Failed transition. Over the long term for nearly all investors a successful transition leads to enhanced projected returns when compared to scenarios associated with higher temperature outcomes due to lower physical damages.

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 an orderly scenario tend to be the worst performers in a failed scenario 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.

[2] Extract above from Mercer Limited's (Mercer) report "Climate Change Scenario Analysis" dated October 2022 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.

Risk Management

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

The Fund seeks to identify and assesses climate-related risks at the total Fund level and the individual asset level. The Fund's 2020 and 2021 Climate Risk Reports include a combination of both top-down and bottom-up analyses[3]. 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). Based on the findings of its Climate Risk Report, the Fund has devised a Climate Stewardship Plan 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 Fund manages climate risk in different ways according to the nature, duration, magnitude and time horizon of the risk itself. As set out in the Fund's Climate Strategy, the main management techniques are: measurement and observation; policy review; asset allocation; selection and due diligence; purposeful stewardship; and transparency and disclosure.

Engagement and shareholder voting are 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, whereby 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. In September 2020, CA100+ introduced a Benchmark Framework which identifies ten key indicators of success for business alignment with a net zero emissions future and goals of the Paris Agreement.

[3] Climate Scenario Analysis only included in the 2020 Climate Risk Report.

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.

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.
Local Authority Pension Fund Forum	NPF 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.

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 co-filed climate-related shareholder resolutions at the meetings of BP Plc, Barclays Plc, and Credit Suisse.

The Fund reports quarterly on its voting activities. These reports are publicly available on the Pension Fund website. In addition LGPS Central reports quarterly on its voting and engagement activities. These reports are publicly available via the LGPS Central website.

Based on its first Climate Risk Report, the Fund has developed a Climate Stewardship Plan which, alongside the widescale engagement activity undertaken by LGPS Central, investment managers, EOS at Federated Hermes, and LAPFF, includes targeted engagement with eight investee companies of particular significance to the Fund's portfolio. Wherever feasible, the engagement objectives are designed to be SMART (Specific, Measurable, Actionable, Relevant and Time-bound) to enable the Fund to adequately assess a company's progress. The Fund believes that all companies should align their business activities with the Paris Agreement on climate change.

Table 4: Companies included in the Climate Stewardship Plan

Company	Sector
BHP	Materials
BP	Energy
CRH	Materials
ExxonMobil	Energy

Glencore	Materials
Rio Tinto	Diversified Mining
Shell	Energy
TotalEnergies	Energy
Anglo American[4]	Materials

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 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 is further managed through the Fund's Climate Stewardship Plan.

[4] Anglo-American is not currently in the plan, but is a recommended addition following the 2022 Climate Risk Report.

Metrics and 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 receives annual reports from LGPS Central Ltd which set out the carbon risk metrics for its listed equities and fixed income portfolios. The poor availability of data in unlisted asset classes prevents a more complete analysis at this time. As the data quality for fixed income remains low at only 45%, this data has also been excluded from this report. Data quality for listed equities remains imperfect, the application of a wide range of metrics (as listed below) still allows for a meaningful analysis.

The carbon risk metrics analysis includes:

- portfolio carbon footprints[5]
- financed emissions of the portfolio[6]
- 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
- weight of the portfolio invested in companies that have set net zero targets
- metrics assessing the management of climate risk by portfolio companies

The full results of these analyses fall beyond the scope of this TCFD report, but are outlined in detail in the published Climate Risk Report. These 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 the Fund's total equities.[7]:

[5] Following TCFD guidance we use weighted average portfolio carbon footprints.
[6] Calculated by multiplying the attribution factor by a company's emissions, giving a figure of the absolute tons of CO2 for which an investor is responsible.
[7] Analysis undertaken on the listed equities portfolios with holdings data as of 31st March 2022. The information in Table 5 was provided to the Fund in a report authored by LGPS Central Limited. In LGPS Central

Nottinghamshire County Council

Table 5: Carbon risk metrics for the equity portfolio as of 31st March 2022[8]

		Financed Emissions (tCo2e)	Carbon Footprint (tCO2e/$M revenue)			Weight in Fossil Fuel Reserves %			Weight in Thermal Coal Reserves %			Weight in Clean Technology %		
Portfolio Name	Benchmark	PF	PF	BM	% Diff	PF	BM	% Diff	PF	BM	% Diff	PF	BM	% Diff
Quoted Equities Asset Class	Quoted Equity Blended Benchmark	267,640	123.3	149.3	-17.40%	9.34%	9.96%	-0.62%	3.28%	3.47%	-0.19%	33.36%	34.35%	-0.99%

The Fund's total Equities portfolio is 17.4% more carbon efficient than the blended benchmark. This means that, on average, for every $m of economic output companies produce, the Fund's investee companies emit 17.4% fewer GHG emissions than the companies in the blended benchmark. The Total Equities portfolio has a slightly lower exposure to both fossil fuel reserves and thermal coal reserves than its blended benchmark, but also has less weight in clean technology.

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 of credible methodologies and data currently available. Like most investors, the Fund is supportive of the development of target-setting methodologies, and the increasing completeness of carbon datasets. The Fund wishes to set meaningful and challenging climate targets for its investment portfolio and work is underway to assess options within the limitations of currently available data.

Limited's report, the Total Equities portfolio comprises the Total Active Equities and the Total Passive Equities portfolios weighted according to their size in GBP. The Total Active Equities portfolio contains two underlying portfolios managed for the Fund by LGPS Central. The Total Passive Equities portfolio contains six underlying portfolios managed for the Fund by LGIM and one underlying portfolio managed by LGPS Central.

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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.

Nottinghamshire County Council

Appendix 2: Glossary

Clean Technology/ Weight in Clean Technology: the weight of a portfolio invested in companies whose products and services include clean technology. Products and services eligible for inclusion include Alternative Energy, Energy Efficiency, Green Building, Pollution Prevention, Sustainable Water.

Coal Reserves/ Portfolio exposure to thermal coal reserves: the weight of a portfolio invested in companies that own thermal coal reserves.

Engagement: dialogue with a company concerning particular aspects of its strategy, governance, policies, practices, and so on. Engagement includes escalation activity where concerns are not addressed within a reasonable time frame.

Fossil Fuel Reserves/ Portfolio exposure to fossil fuel reserves: the weight of a portfolio invested in companies that own fossil fuel reserves.

Physical risk/ climate physical risk: the financial risks and opportunities associated with the anticipated increase in frequency and severity of extreme weather events and other phenomena, including storms, flooding, sea level rise and changing seasonal extremities.

Portfolio Carbon Footprint/ Carbon Footprint: A proxy for a portfolio's exposure to potential climate-related risks (especially the cost of carbon), often compared to a performance benchmark. It is calculated by working out the carbon intensity (Scope 1+2 Emissions / $M sales) for each portfolio company and calculating the weighted average by portfolio weight.

Scope 1 Greenhouse Gas Emissions: Direct emissions from owner or sources controlled by the owner, including: on-campus combustion of fossil fuels; and mobile combustion of fossil fuels by institution-controlled vehicles.

Scope 2 Greenhouse Gas Emissions: Indirect emissions from the generation of purchased energy

Scope 3 Greenhouse Gas Emissions: Indirect emissions that are not controlled by the institution but occur as a result of that institutions activities. Examples include commuting, waste disposal and embodied emissions from extraction.

Stewardship: the promotion of the long-term success of companies in such a way that the ultimate providers of capital also prosper, using techniques including engagement and voting.

Transition risk/ climate transition risk: the financial risks and opportunities associated with the anticipated transition to a lower carbon economy. This can include technological progress, shifts in subsidies and taxes, and changes to consumer preferences or market sentiment.

Voting: the act of casting the votes bestowed upon an investor, usually in virtue of the investor's ownership of ordinary shares in publicly listed companies.

Appendix 3: Important Information

Extract above from Mercer Limited's (Mercer) report "Climate Change Scenario Analysis" dated August 2022 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.

The following notices relates to Table 4 (above), which is 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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Nottinghamshire County Council

Report to Pension Fund Committee

8 December 2022

Agenda Item: 8

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 2022.

Information and Advice

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 2022 in comparison with the benchmark, together with the comparative position 3 and 12 months previously. The benchmark is a long-term target which the fund will move towards over the next year.

	Latest Quarter		Long term	Previous Quarter		Previous Year	
	30 Sept 2022		**Benchmark**	**30 June 2022**		**30 Sept 2021**	
	£m	%		£m	%	£m	%
Growth	3,690	59.7%	60%	3,683	58.6%	4,172	64.3%
Inflation Protection	1,635	26.4%	28%	1,660	26.4%	1,345	20.7%
Income	602	9.7%	10%	649	10.3%	698	10.8%
Liquidity	258	4.2%	2%	292	4.6%	271	4.2%
	6,185	**100.0%**	**100%**	**6,283**	**100.0%**	**6,486**	**100.0%**

4. Liquidity includes the Fund's short bond portfolio which is designed to return cash to the Fund over the next year or so as commitments to less liquid investments are called.

5. Within Inflation Protection are investments in Infrastructure assets amounting to £447.5m or 7.2% of the fund. If funds committed but not yet drawn down are included, the allocation to infrastructure would total 10.0% of the fund. Following the decisions made by Pension Fund

Committee in March 22 there is a long-term target for investments in infrastructure to be 9.8% of the fund.

6. The table below shows the detailed breakdown by portfolio of the Fund as at 30 September 2022 together with the total value of each portfolio at the previous quarter end.

	Core Index		**Schroders**		**LGPS Central**		**Aegon S**		**Abrdn**		**Specialist**		**Total**	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
Growth														
UK Equities	399.4	34%	614.6	38%	0.0	0%					0.0	0%	1,014.0	**16%**
Overseas Equities														
North America	245.6	21%	605.0	37%							0.0	0%	850.6	14%
Europe	211.8	18%	119.8	7%							148.7	9%	480.3	8%
Japan	114.1	10%	56.7	3%							77.5	5%	248.3	4%
Pacific	114.4	10%	48.3	3%									162.7	3%
Emerging Markets	78.7	7%	92.6	6%	128.2	12%					0.0	0%	299.5	5%
Global	0.0	0%	65.3	4%	323.3	30%					0.0	0%	388.6	6%
	764.6	66%	**987.7**	61%	**451.5**	42%					**226.2**	14%	**2,430.0**	**39%**
Private Equity					20.2	2%					225.3	14%	245.5	**4%**
Inflation protection														
Property														
UK Commercial									399.9	64%			399.9	6%
UK Commercial - Local									36.0	6%			36.0	1%
UK Strategic Land									31.7	5%			31.7	1%
Pooled - UK									37.8	6%	218.5	14%	256.3	4%
Pooled - Overseas									118.0	19%	29.9	2%	147.9	2%
									623.4		**248.4**	16%	**871.8**	**14%**
Infrastructure					60.7	6%					386.8	24%	447.5	**7%**
Inflation Linked											316.1	20%	316.1	**5%**
Income														
UK Bonds														
Gilts					127.4	12%							127.4	2%
Corporate Bonds														
					127.4	12%							**127.4**	**2%**
Overseas Bonds														
Corporate Bonds					275.7	26%							275.7	4%
					275.7	26%							**275.7**	**4%**
Credit					133.9	13%					65.1	4%	199.0	**3%**
Liquidity														
Cash/Currency	0.0	0%	27.7	2%	0.1	0%	0.0	0%	0.0		114.1	7%	141.9	**2%**
Short bonds							115.8	100%					115.8	2%
Total	**1,164.0**	19%	**1,630.0**	26%	**1,069.5**	17%	**115.8**	2%	**623.4**	10%	**1,582.0**	26%	**6,184.7**	
Previous Qtr Totals	1,184.4	19%	1,638.0	26%	1,103.4	18%	132.1	2%	653.3	10%	1,571.6	25%	6,282.8	

7. The value of the Fund’s investments has decreased by £98.1 million (1.6%) since the previous quarter following the market turmoil in September. Over the last 12 months the value has decreased by £300.9 million (-4.6%).

8. The table below shows the first half Fund Account for 2022/23 with the unaudited full year figures for 2021/22.

Summary Fund Account	Q2 2022/23 £000	Full Year 2021/22 £000
Employer contributions	(76,633)	(165,539)
Member contributions	(21,788)	(51,127)
Transfers in from other pension funds	(3,435)	(5,860)
Pensions	92,627	186,770
Commutation of pensions and lump sums	18,606	34,297
Lump sum death benefits	3,964	6,945
Payments to and on account of leavers	4,059	8,893
Net (additions)/withdrawals from dealings with members	**17,400**	**14,379**
Administration Expenses	**696**	**3,246**
Oversight & governance expenses	**(247)**	**1,531**
Investment Income	(32,460)	(94,147)
Profits & losses on disposals & changes in value	(60,187)	(415,159)
Taxes on income	171	295
Investment management expenses	1,326	20,657
Net Returns on Investments	**(91,150)**	**(509,011)**
Net (increase)/decrease in net assets	**(73,301)**	**(469,198)**

Sustainable investments and fossil fuels

9. The Pension Fund has been asked to publish figures showing the Fund's direct and indirect holdings of fossil fuel companies together with the Fund's investments in Sustainable equities and renewable energy.

10. This data is published together with detailed caveats below. It is anticipated that these figures will show a gradual increase in investment in Sustainable equities and renewable energy. It is further anticipated that investments in fossil fuels will decrease as a proportion of the Fund over time. However fossil fuel holdings will vary from quarter to quarter in Schroders (direct) portfolio as investments are made based on Schroders assessments of market opportunities. Valuations will also change from quarter to quarter in both categories due to changes in share prices which are highly correlated to the oil price. Consequently this downward trend is unlikely to be smooth.

	Latest Quarter		**Previous Quarter**		**Previous Year**	
	30 Sept 2022		**30 June 2022**		**30 Sept 2021**	
	£m	% of Fund	£m	%	£m	%
Schroders Fossil fuel	109.7	1.77%	102.9	1.56%	85.7	1.32%
Other Fossil fuel	90.3	1.45%	85.3	1.30%	84.2	1.30%
Total Fossil fuel	200.0	3.22%	188.1	2.86%	169.9	2.62%
Sustainable & Renewable	763.5	12.30%	747.6	11.37%	291.3	4.49%

11. In the most recent quarter oil and gas supply continues to be constrained, which has increased energy prices globally. In the longer term this should speed the transition as a high oil price incentivises alternatives and investment to reduce consumption. However in the short term this has increased prices and hence valuations of both Oil and Gas holdings and renewable energy investments in the Fund. Schroders gained just over £7m on their Oil and Gas holdings during the quarter.

12. Schroders hold a number of Oil and Gas companies within the Active Equity portfolio. Sustainability forms part of their criteria in assessing companies for investment. For example one of their holdings, Equinor, develops not only oil but gas, wind and solar energy.

13. The ‘Other Fossil fuel’ category is almost entirely the Energy sector in our passive portfolio and will reflect the share of the index relating to Energy. Despite the removal of Russian shares from the index and the write off of holdings in some the Oil majors, the increased oil price has increased the value of our passive holdings. It should be noted that the Energy sector includes any renewable energy companies within the index, and that some oil and gas producers are also involved in the production of biofuels, hydrogen, wind power and solar energy, so have a renewables element. As a result of these two factors the figure for fossil fuels is likely to be overstated, and the figure for renewables understated.

14. Equally there will be some companies such as those in the mining sector which do not fall within this category but may produce for example coal which would not be included in these figures.

15. For this reason, while the data provided should show the Fund’s exposure to fossil fuels reducing over time, it can only be an indicative part of our risk monitoring and does not provide the full picture.

16. A more thorough assessment of the Fund’s equity investments is provided by LGPS Central’s 2022 carbon risk analysis which assesses the carbon footprint and weight in fossil fuel and coal reserves. This analysis is being presented to Committee at this meeting. As the Fund implements our long-term investment strategy these figures are projected to reduce, reflecting some further mitigation of climate change risk.

17. The ’sustainable and renewable energy’ investment figure contains more estimates. The figure includes nine specific investments – the Renewables Infrastructure Group, Impax Environmental, Aegon Sustainable Diversified Growth Fund, the three LGPS Central Global Sustainable Equity funds which were new investments during the quarter, and three renewable energy infrastructure investments – Capital Dynamics Clean Energy Infrastructure VIII, Green Investment Bank’s Offshore Wind Fund and the Langar Lane Solar Farm.

18. An estimate of the renewable energy investments within the Fund’s other infrastructure funds was added to these identified investments. Not all funds identified this as a sector in their reporting so this data is incomplete. Furthermore because of the longer reporting cycle for unlisted investments the estimate was based on both valuations and percentages from earlier in the year, so this figure can only be considered indicative, but is likely to be an underestimate.

19. It can be seen that the Fund’s investments in Sustainable Equities and Renewable Energy is now several times higher than those in Fossil Fuel investments. A gradual increase in the amount invested in this area has been demonstrated over the last year and this will increase as our Strategic Asset allocation is implemented.

20. Because of the way they are calculated, these numbers will only ever be indicative, but are helpful for the pension fund in identifying risk and progress.

Core Index Portfolio

21. 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).

	30 Sept 2022			**30 June 2022**	
	Portfolio		**B/Mark**	**Portfolio**	
	£000	**%**	**%**	**£000**	**%**
UK Equities	399,445	34.3%	35%	413,624	34.9%
Overseas Equities:	764,634	65.7%	65%	770,808	65.1%
North America	245,632	21.1%	20%	237,574	20.1%
Europe	211,764	18.2%	20%	221,717	18.7%
Japan	114,144	9.8%	10%	113,067	9.6%
Pacific Basin	114,378	9.8%	10%	117,856	10.0%
Emerging Markets	78,716	6.8%	5%	80,594	6.8%
Cash	0	0.0%	0%	0	0.0%
Total	**1,164,079**			**1,184,432**	

22. The table below summarises transactions during the quarter.

Sector	**Purchases £000**	**Sales £000**	**Net Purchases £000**
UK Equities			0
Overseas Equities			
North America			0
Europe		5,125	-5,125
Japan			0
Pacific Basin			0
Emerging Markets	0	0	0
Totals	0	5,125	-5,125

Schroder Investment Management Portfolio

23. 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 Sept 2022			**30 June 2022**	
	Portfolio		**B/Mark**	**Portfolio**	
	£000	**%**	**%**	**£000**	**%**
UK Equities	614,612	37.7%	40.0%	647,150	39.5%
Overseas Equities	987,599	60.6%	59.5%	936,494	57.2%
North America	604,977	37.1%	36.3%	556,054	33.9%
Europe	119,797	7.4%	7.0%	113,513	6.9%
Japan	56,669	3.5%	3.5%	56,577	3.5%
Pacific Basin	48,255	3.0%	2.9%	48,266	2.9%
Emerging Markets	92,589	5.7%	5.8%	97,446	5.9%
Global Small Cap	65,312	4.0%	4.0%	64,638	3.9%
Cash	27,675	1.7%	0.5%	54,341	3.3%
Total	**1,629,886**			**1,637,985**	

24. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
UK Equities	21,768	15,956	5,812
Overseas Equities			
North America	100,266	75,441	24,825
Europe	26,380	19,391	6,989
Japan	3,944	3,980	-36
Pacific Basin	0	0	0
Emerging Markets	0	0	0
Global Small Cap	0	0	0
Totals	**152,358**	**114,768**	**37,590**

LGPS Central

25. The table below summarises the valuation by asset class of investments managed by LGPS Central. The proportional holdings are also shown. However the 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 Sept 2022 Portfolio £000	%	30 June 2022 Portfolio £000	%
Global equity	323,286	30%	318,695	29%
EM equity active	128,227	12%	133,131	12%
Corporate bonds	275,702	26%	301,882	27%
Gilts	127,413	12%	147,836	13%
Private Equity	20,246	2%	19,419	2%
Infrastructure	60,728	6%	44,376	4%
Credit	133,881	13%	137,980	13%
Cash	147	0%	107	0%
Total	**1,069,630**		**1,103,426**	

26. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
Bonds			
Gilts	31,331	30,889	442
Corporate Bonds	0		0
Equities			
UK	0		0
Global	0		0
Emerging Markets	0		0
Private Equity	826		826
Infrastructure	14,662		14,662
Credit			0
Totals	46,819	30,889	15,930

There main significant movement was a £14.6m call on the Infrastructure fund. The remaining committed capital will be drawn over the next few years.

Abrdn (previously Aberdeen Standard Investments)

27. 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
01/07/2022	Unit 1B, Nursling Industrial Estate, Southampton	New lease
05/07/2022	Blenheim Industrial Estate	Rent Review
07/07/2022	Unit 6, Blenheim Industrial Estate	Rent Review
08/07/2022	Western Avenue, Ealing	Exclusivity Agreement
		Rent Review
25/07/2022	Christchurch Industrial Estate, Harrow	Memorandum
23/08/2022	Greybrook House, 28 Brook Street	New lease
31/08/2022	Unit 5, Concorde Park, Concorde Way, Fareham	New lease
21/09/2022	Unit 3A Brooke Park, Siemens Plc	Reversionary lease
		Rent Review
29/09/2022	Units 2A and 2B Bagshot Retail Park (Waitrose)	Memorandum

Specialist Portfolio

28. 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 Sept 2022		30 June 2022	
	£000	%	£000	%
Private Equity	225,300	15.3%	218,300	14.9%
Infrastructure	386,800	26.4%	376,700	25.7%
Credit	65,100	4.4%	61,500	4.2%
Property Funds	248,400	16.9%	257,300	17.5%
Aegon DGF	316,100	21.5%	327,700	22.3%
Equity Funds	226,200	15.4%	225,100	15.3%
Total	**1,467,900**		**1,466,600**	

The reduction in Private Equity is largely the result of the reclassification of the Darwin funds at the beginning of the new year. The Darwin Bereavement fund is now categorised as infrastructure and the Darwin Leisure funds are now included in property as agreed at the Pension Fund Committee meeting in March.

29. The table below summarises transactions within the quarter.

Sector	**Purchases £000**	**Sales £000**	**Net Purchases £000**
Private Equity	-4,191	3,650	-7,841
Infrastructure	5,588		5,588
Credit			0
Property Funds		1,314	-1,314
Aegon DGF			0
Equity Funds		2,290	-2,290
Totals	1,397	7,254	-5,857

Responsible Investment Activity

30. 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.

31. 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 .

32. The committee is receiving a report on the progress being made by the companies identified on our Climate Stewardship plan as part of the Climate Risk Analysis.

33. 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 here https://www.nottspf.org.uk/about-the-fund/investments .

34. LAPFF (Local Authority Pension Fund Forum) have engaged with a number of companies during the quarter. More information can be found in their quarterly engagement report which can be accessed on the Fund's (or on LAPFF's) website. LAPFF business meetings were attended.

35. Responsible investment considerations run through everything done by the Fund and there have been many specific actions taken during the quarter. The LAPF Strategic Investment Forum was attended by two committee members and an officer. This included sessions on the energy transition, carbon in fixed income, climate change, the effectiveness of engagement, and setting responsible investment targets. The LGPS Central pool Responsible Investment Working Group was attended in July and considered such issues as remuneration, plastic pollution, biodiversity and modern slavery. The Pension Fund committee held a working party meeting which was attended by LGPS Central to deliver a training on voting strategies.

36. Regular investment monitoring meetings included a review of responsible investment by the funds being scrutinised.

Statutory and Policy Implications

37. 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

1) It is recommended 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

38. 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 24/11/2022)

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