NOTES OF THE PENSION FUND ANNUAL EMPLOYERS AND TRADE UNIONS MEETING HELD AT COUNTY HALL, WEST BRIDGFORD ON TUESDAY 6 OCTOBER 2015 AT 10:00 AM.

Present

Members of the County Council's Pensions Committee

Councillor Mike Pringle (Vice-Chair)
Councillor Kay Cutts
Councillor Sheila Place
Councillor Ken Rigby
Councillor Parry Tsimbiridis
Councillor John Wilkinson

Representatives of Employers and Trade Unions

Mr J Cooper	-	North Notts. College
Mr M Davis	-	The Manor Academy
Mr M Hope	-	Ashfield Homes
Ms S Norton-Lane	-	The Manor Academy
Ms J Silverwood	-	Nottingham University Samworth Academy
Ms J Worrall	-	Bilborough College

Representatives of the Corporate Director, Resources

Mr S Cunnington
Ms M Mannion
Mr N Robinson

Representative of the Corporate Director, Adult Social Care, Health and Public Protection

Mr P McKay

Clerk to the Panel

Mr. K Ford - Resources Department

Other Attendees

Mr M Gallimore
Mr G Gardner
Mr G Hewitt
Mr M Howard
Mr P Jaggar
Mr N Lee
Mr K Miller
Mr C O'Donnell
Ms T Ravenhall
Ms J Thompson

NOTE:-

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

CHAIR

In the absence of the Chairman of the Pensions Fund Committee (Councillor Reg Adair), the meeting was chaired by the Vice-Chairman (Councillor Mike Pringle).

1. WELCOME AND OPENING REMARKS

Councillor Mike Pringle opened the meeting and welcomed representatives to the Annual Meeting.

2. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Reg Adair and Chris Barnfather, both of whom were on other County Council business.

3. NOTES OF THE ANNUAL MEETING HELD ON 7 OCTOBER 2014

The notes of the 2014 meeting, circulated with the papers for the meeting were noted.

4. MANAGEMENT AND FINANCIAL PERFORMANCE

Neil Robinson, Group Manager, Financial Management, gave a presentation to the meeting on the overview of the management and financial performance of the Fund. In summary he highlighted:-

- the continuing downward trend in net additions from members;
- the Fund has a positive net cash flow for the foreseeable future;
- net assets were up by 9.3% in the last financial year and 16.7% since the last valuation;
- the Fund has low costs but this might not satisfy Government requirements for cost savings; and
- a Pensions Board has been established in line with new requirements and the process of appointing members has commenced.

5. INVESTMENT PERFORMANCE

Simon Cunnington, Senior Accountant, gave a presentation to the meeting on the Investment performance of the Fund. In summary he underlined:-

- the various key Statement of Investment principles which underpin investment activity;

- the fact that asset allocation had the greatest impact on returns;

- as a long term responsible investor, the Fund had a policy of actively engaging with companies in which it invests and it was felt that the greatest impact on behaviour could be achieved when working together with others;

- investment returns were well ahead of the valuation assumption;

- equity returns were behind the strategic benchmark due to the recent strength of the US economy;

- the main managers were in line with or ahead of their long term benchmarks; and

- the Government's recent budget announcement on 7 July 2015 about the need for administering authorities to pool assets to significantly reduce costs, whilst maintaining overall investment performance.

In response to issues raised by Committee Members in discussion, officers clarified the following points:-

- a significant increase in transfers out of the scheme had not been seen as a result of the recent legislative changes which allowed Fund members to transfer their pension allocation to a deferred contribution scheme. This was in line with national trends. This would continue to be closely monitored by the team and updates would be brought to the Pensions Sub-Committee about this;

- the Government had confirmed that exemptions to deliver local projects would be permissible but clarification of the levels of exemptions was still awaited.

6. <u>PENSIONS ADMINISTRATION – UPDATE ON PENSIONS ADMINISTRATION SYSTEM</u>

Maura Mannion gave an update on implementation of the Civica Universal Pension Manager (UPM), covering the following key areas:-

- the background to the joint procurement of the new pensions administration scheme which aimed to share the costs with other Local Government Pension Administration Authorities;

- Phase 1 of the implementation of the system;

- the current position, including data issues, the planned live date and the formation of the Civica Public Sector User Group;

- future functionality development plans; and

- scheme employer responsibilities.

7. QUESTIONS

In line with procedures, a number of Fund members had submitted questions in writing prior to the meeting. As the questions all concerned the Fund's investments in fossil fuels, Simon Cunnington gave an overall response to the questions. The written questions and the amalgamated response are appended to the notes of this meeting.

In response to further supplementary questions asked at the meeting, Simon Cunnington clarified the following points:-

- if the Fund was unhappy with the response it received to concerns raised in active engagement with companies producing fossil fuels then the ultimate response would be divestment from a company, although it was reiterated that the most effective way to influence was felt to be to remain involved and engaged (including with any companies who were seeking to undertake activity within Nottinghamshire);

- with regard to alternative indexes which excluded fossil fuel companies out-performing those that included them, it was underlined that investment analysis was an ongoing process and that recent indexes may have been affected by the low price of oil. The use of alternative indexes would be considered in future training sessions;

- in relation to local investment in renewable energy and the Government's reduction in subsidies for wind farms and solar panels, it was not known whether the LAPFF were lobbying on that specific issue. It was clarified that not all investment was focussed solely in the UK but any potential impact on risk and returns of such policy changes would continue to be addressed appropriately.

The Chairman thanked the Fund members for their questions and for attending the meeting.

The meeting closed at 10.59 am

CHAIRMAN
Notes of AGM – 6 October 2015

QUESTIONS RECEIVED IN WRITING PRIOR TO THE PENSIONS AGM MEETING AND AMALGAMATED RESPONSE FROM OFFICERS

Question from Jeannie Thompson

1. Do you agree with Mark Carney, Bank of England, that there needs to be a sweeping reallocation of resources from fossil fuels to sustainable energy resources as climate change poses such a big threat to the economy?'

Questions from Michael Howard

1. In Nigel Stevenson's letter regarding fossil fuel disinvestment of 25th September he told us that "LAPFF's engagement strategy is to push for an orderly carbon transition by requiring companies to identify and tackle carbon risks in their business models."

   Given that the business of these companies is almost exclusively the extraction of fossil fuels, and that the burning of these fossil fuel causes climate change, it is impossible to move their business models away from carbon risks. Given this, shouldn't both the LAPFF and more importantly the NPF change its strategy and divest from fossil fuel companies?

2. The Intergovernmental Panel on Climate Change estimates that only one-third to one-fifth or fossil fuel reserves can be exploited if we are to avoid dangerous climate change. In a speech on 29th September the Governor of the Bank of England Mark Carney stated that:
   "If that estimate is even approximately correct it would render the vast majority of reserves 'stranded' – oil, gas and coal that will be literally unburnable without expensive carbon capture technology, which itself alters fossil fuel economics."

   The market value of fossil fuel companies is based on the expectation that they will be able to exploit all known reserves that they hold, meaning that if this is not the case then their share prices will drop considerably. Even if the market hasn't yet begun to take stranded assets into account and adjust prices accordingly, it could begin to as soon as December when an international agreement may be reached in Paris to limit emissions.

   This is a great worry to me as a member of the pension fund. Would it not be financially prudent to drop investments in fossil fuel companies now before the market adjusts?

Question from Peter Jaggar

1. To my amazement I have recently discovered that the Notts Pension Fund, of which I am now a beneficiary, has a large number of holdings invested in fossil fuel companies. This would appear to be contrary not

only to regional and national commitments to reduce greenhouse gas emissions but also to environmental objectives in the Council's own Strategic Plan 2014-18.

Questions from Graham Gardner

1. As at 31 March 2015, the fund had direct investments of £56.9m in HSBC, £27.5m in Barclays, £31.9m in Rio Tinto, £24.8m in BHP Billiton, £8.4m in Glencore. All of these are major investors in large scale coal extraction around the world destroying people's local environments. Is this the sort of future you want to build for Nottinghamshire's pensioners and their descendants?

2. Between 31 March and 30 September this year, Rio Tinto shares have lost 20%, bhp Billiton 32%, Glencore 68%. What is your reaction to this in the light of the governor of the bank of England's statement on 29th September, which implies that some of the world's largest mining and oil companies are over-valued by the market, as more than two-thirds of proven carbon fuel reserves cannot be used if the temperature rise by the end of the century it to be kept to two degrees above pre-industrial levels?

Amalgamated Response from officers to the above questions

The Nottinghamshire Pension Fund agrees that there are significant potential risks arising from investment in fossil fuel companies and the possible impact from the changing policy environment. However, the certainty and timing of these impacts are far from clear and the Fund is consequently attempting to achieve the very difficult task of balancing risk and return over the short, medium and long term in order to secure the affordability and sustainability of the scheme.

The Fund has always adopted a policy of actively voting at company meetings and engaging with companies through its membership of the Local Authority Pension Fund Forum.

The Forum has long been concerned about climate and carbon-related risks to the underlying investment portfolios of member funds and has been engaging with companies and on public policy since 2002 to address the many risks related to climate change.

The Fund does not support divestment from fossil fuel companies but considers active engagement with companies producing fossil fuels as a productive approach to effecting change. The approach of direct and collaborative engagement contrasts with blanket divestment. Once an asset owner divests, their ability to influence both the short term and long term direction of individual companies and the national and international energy sector is severely curtailed.

An example of engagement is the coordination undertaken with LAPFF member funds to co-file and support shareholder resolutions to both the BP and Shell 2015 AGMs on strategic resilience for 2035 and beyond. The resolutions ask the companies to report on their operational emissions management; asset portfolio resilience to the International Energy Agency (IEA)'s scenarios; low-carbon energy research and development and investment strategies; relevant strategic key performance indicators and executive incentives; and public policy positions relating to climate change. The resolutions followed a long process of engagement with the companies on climate risks, stranded assets and reporting this information in the context of their business models.

LAPFF also works in cooperation with other investors and organisations to maximise the voice of asset owners including through its membership of the Aiming for A Investor Coalition, through collaborative engagement with the Investor Network on Climate Risk and as a signatory to the Principles for Responsible Investment.

The Fund already has a number of investments focused on sustainable energy and having recently agreed a specific allocation to infrastructure, the level of investment is likely to increase over time.