

**REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT****CLIMATE RISK ANALYSIS****Purpose of the Report**

1. To present the Climate Risk Analysis from LGPS Central Ltd to Members, review the recommendations of that report, and agree a plan of action.

**Information**

2. As described in February, in order to enable the Pension Fund to identify its exposure and understand its financial risk arising from climate change, LGPS Central has been commissioned to produce some climate risk analysis.
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 Working Party meeting which was a training session to communicate the 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. Appendix A records the Members who attended the Working Party meeting.
5. There are restrictions on what can be reported of the report due to commercial confidentiality of supplier intellectual property, so the report is attached as exempt Appendix B. As can be seen from the proposed Action Plan, the key elements of the report will be published as part of our Task Force on Climate-related Financial Disclosures (TCFD) report.
6. 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 needs to be appreciated in interpreting the results of this work.

7. Despite this caveat, the analysis is supportive of the Fund's current investment strategy in three ways:-

- it demonstrates that a 2°C scenario is of benefit to the Pension Fund financially which means the Fund's financial interests are aligned with global environmental interests.
- It shows that the March 19 equity holdings were already below the market cap benchmark in terms of carbon footprint and weight of fossil fuel reserves, which indicates that the fund has been considering and managing climate risks.
- And it shows that as the Fund progresses towards the long term strategic asset allocation these positions will further improve.

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

## Report recommendations and considerations

9. The report provided a number of recommendations to Nottinghamshire Pension Fund for the Committee's consideration. As a result of these the following Action Plan is proposed:

## Proposed Action Plan

Ref	Category	Action	Timing	Notes
	<b>Governance</b>			
1	Governance	Publish a TCFD Disclosure. This will incorporate the key elements of the Carbon Risk Report.	December 20	LGPS Central to provide support
2	Policies	Develop a Climate Strategy. This should be consistent with the TCFD recommendations and include a Climate Stewardship Plan, monitored regularly by the Nottinghamshire Pension Fund Committee	March 21	LGPS Central to provide support
3	Governance	Schedule agenda time at Nottinghamshire Pension Fund committee meetings at least annually for discussion of progress on climate strategy	An annual review will take place to coincide with the annual update of metrics	
4	Governance	Schedule one training session on general RI matters and one climate-specific training per year	6 months	LGPS Central to provide training

5	Policies	<p>Update policies to reflect climate risk e.g. consider:-</p> <ul style="list-style-type: none"> <li>• communications on climate risk into communications strategy</li> <li>• make clear the roles of key governance committees, especially the Pension Fund Committee, in approving and monitoring the Fund's approach to responsible investment and climate change in the ISS</li> <li>• Update the Governance Policy Statement to explain how climate risks are governed</li> <li>• Review as part of the FSS the extent to which climate risks could affect other risks noted in the FSS</li> <li>• Update the Fund's "Approach to Responsible Investment" in the ISS to include the six responsible investment beliefs.</li> <li>• Consider incorporating the Fund's "Approach to Environmental Risk within this disclosure"</li> </ul>	July 21	
6	Reporting	In the Annual Report include a summary of this Climate Risk Report in a manner consistent with the TCFD Recommendations and a summary of the Fund's annual voting activities.	Oct 21	LGPS Central to provide support with this
	<b>Strategy</b>			
7	Asset Allocation	Notwithstanding other factors in the Fund's asset allocation process, seek to move towards the Long Term Target Strategic Asset Allocation weightings	Ongoing	
8	Asset Allocation	The Fund should attempt to take a view on the likelihood of different climate scenarios, drawing on its suppliers and advisers.	Ongoing	With the support of LGPS Central
9	Asset Allocation	Monitor fund managers, discussing with equity managers the influence of climate factors on their sector positioning and with real assets managers their physical risk resilience & GRESB participation. Use IIGCC's "Addressing climate risks and opportunities in the investment process"	Ongoing – will form part of the annual stewardship plan	With the support of LGPS Central

10	Asset Allocation	Explore the potential for additional allocations to Global Sustainable Equities and Infrastructure if evidence suggests there could be asymmetrical return profiles (i.e. with expected relative upside in a 2°C scenario and no meaningful relative downside)	Will be reviewed as part of the annual review of asset allocation	Initial and current allocations to be explored first...
11	Asset Allocation	Explore potential investments in sustainable private equity, green bonds and low-carbon passive equities.	Ongoing	Longer term consideration
12	Policy Engagement	Continued public support for the Paris Agreement and join collaborations of like-minded institutional investors to collectively lobby for Paris-aligned climate policies via LGPS Central	Ongoing	With the support of LGPS Central
<b>Risk Management</b>				
13	Company Stewardship	Create an annual stewardship plan	April 21	With the support of LGPS Central
14	Company Stewardship	Through LGPS Central, engage corporate bond managers on their approach to assessing climate risk within their portfolio in the absence of reported GHG emissions data	Ongoing – will form part of the annual stewardship plan	With the support of LGPS Central
15	Company Stewardship	Prioritise the most material/ strategic real assets investment manager exposure for dialogue on climate risk. Consider using the recent IIGCC guide for this endeavour.	Ongoing – will form part of the annual stewardship plan	With the support of LGPS Central
16	Company Stewardship	Continue to engage the companies highlighted in the Climate Stewardship Plan through selected stewardship partners	Ongoing – will form part of the annual stewardship plan	With the support of LGPS Central
17	Company Stewardship	Report progress on the Climate Stewardship Plan to the Nottinghamshire Pension Fund Committee on an annual basis.	July 22	With the support of LGPS Central
<b>Metrics and Targets</b>				
18	Metrics	Repeat Carbon Risk Metrics analysis annually	Timescale dependent on LGPS Central availability	Timescale dependent on LGPS Central availability

19	Metrics	Repeat Climate Scenario Analysis every 2-3 years	Summer 22	
20	Metrics	Report annually on progress on climate risk using the TCFD framework	Autumn 21	Timescale dependent on LGPS Central availability

10. Exact timing will be dependent on resources both within the Pension Fund and LGPS Central.

11. A number of points for consideration have not been included in the action plan. These points, and the reasons for not including them are identified below

<i>Points for consideration not in Action plan</i>	<i>Reason for not including</i>
Consider inclusion of climate risk on the Fund's Risk Register	Climate risk is already included in the Risk Register at the October 20 update
Consider reporting against the Stewardship Code	The Fund is supportive of the Stewardship code and recognises that LGPS Central is a Tier 1 signatory to the Stewardship Code.
Encourage real assets managers to participate in GRESB (Global Real Estate Sustainability Benchmark)	This can best be pursued via LGPS Central
Consider the feasibility of setting decarbonisation targets	This is potentially an option in the future, but currently the data is not good enough to set a reliable target. Instead there is a planned direction of travel which will be reported against at the annual progress report.

## Ongoing work

12. While this work is ongoing the Pension Fund will continue to implement its long term Strategic Asset allocation. This includes an increasing allocation to infrastructure investments, a significant proportion of which are in clean energy, and a gradual reduction in equity investments. Within our equity investments we are looking at a number of low carbon and sustainable funds. Over time our exposure to fossil fuels will reduce as a result of these asset allocation and diversification decisions.

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

## Other Options Considered

14. Each of the proposed actions can be considered individually for inclusion or exclusion from the Action Plan.

## **Reason/s for Recommendation/s**

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

## **Statutory and Policy Implications**

16. 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**

17. The recommendations included in the Action Plan should be deliverable within existing resources.

## **RECOMMENDATION/S**

That the Action Plan detailed in Paragraph 9 is agreed for incorporation into the Pension Fund Committee Work Plan.

**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 29/09/2020)**

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

## **Financial Comments (TMR 28/09/2020)**

19. The financial implications are set out in paragraph 17.

## **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