Nottinghamshire County Council

Nottinghamshire Pension Fund Committee

Annual General Meeting

Monday, 17 January 2022 at 13:30

County Hall, West Bridgford, Nottingham, NG2 7QP

AGENDA

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

NOTES OF THE PENSION FUND ANNUAL EMPLOYERS AND TRADE UNIONS MEETING HELD ON THURSDAY 21 JANUARY 2021 AT 10:30 AM.

VIRTUAL MEETING.

Present

Members of the County Council's Pensions Committee

Councillor Eric Kerry (Chair)
Councillor Stephen Garner (Vice Chair)
Councillor Reg Adair
Councillor Chris Barnfather
Councillor Tom Hollis
Councillor Sheila Place
Councillor Mike Pringle
Councillor Francis Purdue-Horan
Councillor Parry Tsimbiridis

Representatives of Members, Employers and Trade Unions

Councillor Graham Chapman	-	Nottingham City Council
Chris King	-	UNISON
Councillor David Lloyd	-	Newark & Sherwood District Council
Councillor Gordon Moore	-	Rushcliffe Borough Council
Terry Needham	-	Member Representative
Councillor Anne Peach	-	Nottingham City Council
Sue Reader	-	Nottingham Trent University
Alan Woodward	-	GMB

Representatives of the Chief Executive's Department

Jon Clewes
Keith Ford
Keith Palframan
Tamsin Rabbitts
Nigel Stevenson
Sarah Stevenson

Clerk to the Panel

Pete Barker – Chief Executive's Department

Other Attendees

William Bourne – Adviser to the Committee
Barry McKay – Barnett Waddingham

1. WELCOME AND INTRODUCTION

Councillor Eric Kerry opened the meeting and welcomed Members of the Committee, employers' representatives and the general public to the Annual Meeting.

2. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Samuel Webster.

3. DECLARATIONS OF INTEREST

There were no declarations of interest.

4. NOTES OF THE ANNUAL MEETING HELD ON 3 OCTOBER 2019

Councillor Hollis spoke about the authority's climate strategy and its policy of engagement rather than divesting investment from fossil fuels. The Chair was advised by the clerk that this was an appropriate part of the meeting for Councillor Hollis to address these issues. Mr Ford, the Team Leader of Democratic Services, subsequently advised that this was incorrect and stated that such issues should be discussed when relevant reports are considered by the Committee.

The notes of the 2019 meeting, circulated with the papers for the meeting, were noted.

5. ACTUARIAL ISSUES

Barry McKay, a partner in Barnett Waddingham, presented an actuarial update to Committee. **In summary** the following was highlighted:-

- The valuation is undertaken every three years. The last valuation was in March 2019 and much has happened since then.
- There has been an improvement on overall finding from 87% (2016) to 93% (2019)
- There has been a reduction in the number of deaths over the same period
- There has been an improvement in investment performance in the same period, an actual return of 10.3% pa against an expected figure of 5.4% pa
- There has been a slowdown in the improvements to life expectancy
- Cost of benefits has increased
- Contributions from employers have remained static
- From March 2019 markets have been volatile

- From March 2019 there has been a strong investment performance - 8% was expected but 13% has been achieved

- Initially markets were affected significantly by Covid but the situation has improved

- If carrying out the evaluation now, assumptions would include a higher valuation on liabilities because returns are forecast to reduce

- Prediction for rate of inflation has fallen

- Increase of liabilities has broadly matched growth in assets at 13%

- Value of fund at 31 December 2020 similar to value of fund at 31 March 2019 which given all that has happened in that period is a relatively good result

- Information to members does not include changes to membership and the changes to longevity assumptions as data showing effects of Covid is not available yet. These changes will be detailed in the 2022 valuation.

- Mortality rates in April/May 2020 and Nov/Dec 2020 spiked due to Covid

- In 2020 the mortality rate exceeded the 5 year average, though non-covid related deaths have fallen

- Excess deaths due to Covid concentrated in older age groups

- Impact on pension fund needs to be assessed but may not be significant as older members tend to have smaller pensions and receive them for less time than younger members

- It is difficult to predict future mortality rates given the uncertainties around Covid with potential variations and the effect of vaccines

- Funding levels improved between March 2019 and January 2020, the direction of travel was affected negatively by Covid, funding levels have now recovered to those of December 2019

- Given differences in the employers in the Notts scheme, with their different timeframes, a valuation every three years appears to be the correct interval to ensure that employers' contributions remain adequate

- Long term approach to valuation accounts for any short term volatility

- There has been a flurry of consultations recently – McCloud/95k Cap/Employer Flexibilities/GMP Equalisation

- Government estimation of impact of McCloud on LGPS is £2.5bn. Our estimation is £1bn as we are assuming wages will grow at a level of 1% above CPI whereas the government assumed a growth of 2.5% Given the total value of the LGPS scheme of £300bn neither scenario is significant.

- McCloud will result in a greater workload for the admin teams, the cost of which may exceed the cost of liabilities

- Effects of McCloud likely to be more significant for Academies than for Councils. More volatile situation for admissions bodies.

- The employer flexibilities consultation focuses on three strands – contribution reviews, exit payments and deferred debt arrangements

- Contribution reviews – potential for contributions to be changed

- Exit payments – for employers it has been too expensive to stay and too expensive to leave, possibility of such payments being spread to be investigated

- Deferred debt arrangements – for employers who want to leave the scheme but do not want to trigger cessation, their debt may increase or decrease, to be treated as an ongoing employer

- Assumption is most will be in favour of proposed changes as they will help funds manage their risks

- In future our work will involve checking data quality, both employers' and members', monitoring funding and working increasingly with employers.

The Chair thanked Mr McKay for his comprehensive presentation. There were no questions.

6. MANAGEMENT & FINANCIAL PERFORMANCE – FINANCIAL MANAGEMENT PRESENTATION

Keith Palframan, Group Manager, Financial Services, then delivered a presentation on the management and financial performance of the Fund. In **summary** the following was highlighted:-

- Mr Palframan informed members that his presentation would include details of key figures from the accounts; net additions/(withdrawals) from members; net return on investments; investment management expenses; and an update on LGPS Central.

- The funding level is calculated every 3 years by the Fund's actuary, Barnett Waddingham, with the last funding trial having taken place on 31 March 2019.

- The increased funding level is due to increased employer contributions and a better than anticipated return on investments.

- Value of fund had been affected negatively by Covid but by September 2020 the fund had recovered.

- Trend is for net withdrawals as a fund.

- Contributions no longer cover benefit payments

- In the future the fund will not be able to rely on member contributions but investment income is available to support cash flow.

- In terms of investment income, a reduction in the value of equities is due to investments in accumulation funds rather than income units so that profits are automatically invested.

- Assets do not need to be sold to pay pensions.

- Asset values when compared with investment income are relatively stable.

- As at 31 March 2020 net assets had reduced by 7% but as stated previously the fund recovered by September 2020

- Expenses equate to 0.1% of the fund. It is expected that over time fees can be driven down given the negotiating power of LGPS Central.

- LGPS Central was established in April 2018 as the Fund's pooling company. Asset allocation remains in the control of the Pension Fund Committee but LGPS Central continues to develop investments including those in corporate bonds and various equities.

- Cash flow remains positive though net assets have reduced in value. The market volatility caused by Covid 19 remains an issue.

In response to issues raised by Members, the following points were clarified: -

- It is not possible to state how the rate of return would have been affected if the Fund had divested from investment in fossil fuels. The figure of £81m is not verifiable.

- Some companies will be part of the solution making a blanket withdrawal problematic

- Professional advice is still that engagement is a better approach than divestment.

- Companies that do not adapt to the changing energy market will go out of business.

7. <u>INVESTMENT PERFORMANCE – PENSIONS AND TREASURY MANGEMENT PRESENTATION</u>

Tamsin Rabbitts then delivered a presentation on investment performance. In **summary** the following was highlighted :-

- The presentation covers returns to 31 March 2020

- Investments are in equities, property and bonds

- The pandemic has caused much volatility but by year end the 5 year returns were only slightly behind the expected returns and the triennial valuation

- Returns were behind the strategic benchmark owing to the emphasis on UK rather than US investments, with the latter continuing to perform strongly. The position is compounded by exchange rates.

- Each quarter the Committee received reports and presentations from the individual investment managers, with each manager given individual performance benchmarks:

  - Schroeders have experienced a volatile period but the last 6 months have showed improvements
  - Kames returns have remained stable with only one year in the last ten being negative
  - Aberdeen Standard returns have been positive every year since 2010 with the emphasis on long term income lessening the impact of market turbulence
  - LGPS Central are able to choose investments but it is the Committee that decides asset allocation

- A major review of asset allocation was undertaken. This is a long term target which will take time to move towards.

<u>Summary</u>

- Valuations reduced at year end due to the market fluctuations caused by the global pandemic

- Consequently the fund's net assets decreased during 2019/20

- Equity returns are behind the Fund's strategic benchmark largely due to the lower weighting to US equities which have performed exceptionally well

- Despite last year's reductions, total returns over 5 years are only slightly behind the actuary's assumed return

- Asset allocation is the most important factor in driving long term investment returns

In response to issues raised by Members, the following points were clarified: -

- Investment Managers have their own specific benchmarks, it would be a substantial piece of work to revisit them but the issue could be discussed at the next Working Group.

- The allocation of work to the investment managers will change with LGPS Central likely to manage more investments over time. Asset allocation will be reviewed annually by the Committee.

- Investment strategy is reviewed annually, this can be carried out more often if required and this was the case 2 years ago when the markets were particularly volatile.

- Changing the strategy is not straightforward and much depends on the nature of the change. Large amounts of money could be involved, the moving of which takes time, especially if investments were to be made in more illiquid assets.

8a. PENSIONS ADMINISTRATION - PRESENTATION

Jonathan Clewes then delivered a presentation regarding pensions administration. In **summary** the following was highlighted:-

- Figures in the presentation relate to 2019/20 with the valuation having taken place on 31 March 2020

- Scheme membership continues to grow

- Consolidation work with academy trusts is ongoing with a number of trusts requesting to join the scheme from a variety of geographical locations

- The regulator continues to require funds to improve the quality of their data

- Work required by new legislation includes feeding data into the national database and into the pensions portal

- The number of processes completed by the Administration team increases as the number of members increases

- Significant work has been undertaken with employers, especially around year end tasks

- Bills will be sent to those employers where the Team had to undertake work on year end activity

- All statutory deadlines were met

- The quality and timeliness of work has improved

- The cost per member is approximately £14 compared to over £20 within the CIPFA Benchmarking Club

- Worst performance is around divorce settlements, this is usually the case and is linked to the difficulty of obtaining the required information

- Covid has proved to be a challenge but the Fund has continued to function and meet its statutory obligations

- Covid has increased the death rate – 136 in November 2020 compared with 77 in November 2019, and this trend has continued through the year

- The number of deferred members has increased as people seek to access their pensions early, this is a development also being experienced by other funds

- The Regulator continues to highlight the problem of pension scams to both employers and employees

In response to issues raised by Members, the following points were clarified: -

- The issue of resourcing the Team adequately is discussed regularly

- The development of the portal helps in this regard, as well as reducing costs. More details of the development of the portal will be given in the next presentation. Priority will always be given to ensuring that data is accurate.

- Any trust can apply to move to another fund, if the Secretary of State approves the move then the fund is obliged to take on the assets and liabilities

8b. TRANSFORMING PENSIONS ADMINISTRATION - PRESENTATION

Sarah Stevenson then delivered a presentation regarding transforming pensions administration through digital development and new ways of working. In **summary** the following was highlighted:-

- There were some positives to Covid, one of which was the confirmation of the importance of progressing digital services now people are more tech savvy.

- There is a requirement for the fund to have an improvement plan and a programme as to how the plan's aims can be achieved and these have been in place for a while.

- Phases 1 and 2 around data audit and forensic analysis are complete.

- 430 data validation checks across 173,647 pension folders for 134,496 members have taken place.

- The forensic analysis is now complete.

- Phase 3, the data resolution phase, is now underway.

- 500,000 data validation amendments have been identified with 140,000 already resolved through the loading of the 2019/20 year end data.

- There is a requirement to interact directly with Scheme Employers and Members and a host of employer engagement sessions have been organised.

- Phase 4 is Data Quality Maintenance.

- Employers currently submit returns at year end, which includes substantial additional information about members and creates a significant peak in workload.

- Moving to monthly returns will eliminate this peak and ensure that the data held is up to date.

- The pilot with NCC is now complete and the next step is to roll out to 4 district and borough employers and two large educational employers before rolling out to all employers.

- The digitisation of the process, with its in-built checks, will reduce the amount of work coming into the office and allow staff to concentrate on complex cases.

- Training and development requirements are being identified to ensure that the right people and systems are in place.

- It was hoped that the development of the portal would be further ahead by now but it is essential that the issue with data quality is resolved first.

- Scoping work is currently underway with NCC's partner and more information should be available to Committee at the next meeting.

In response to issues raised by Members, the following points were clarified: -

- Risk and issues logs are kept to militate against any problems with the IT systems. Other funds are ahead of Nottinghamshire in their use of IT and their experiences have been drawn upon.

- Members expressed their appreciation for the work undertaken.

- A motion recommending divestment from fossil fuels may be brought to the next meeting of the Committee. The issue can be discussed at the next Working Party.

9. QUESTIONS

21 questions were submitted to the Pension Fund for answering at the AGM. Many of these were on similar themes. Given the volume of questions, for the meeting some of these were grouped and answered together. All questions submitted have been published on the Pension Fund website with individual responses.

The questions and responses put during the meeting were as follows:-

Question 1

Question from Nottingham City Council, one of the biggest employers in the Fund.

"Nottingham City Council has declared a climate and ecological emergency and is committed to being carbon neutral by 2028.

On behalf of the many employees of the City Council, partner organisations and citizens of Nottingham who are concerned about the impact of their

Pension Fund on climate change, and, given the decreasing financial performance of fossil fuel related investments, I would like to ask that the Pension Fund agree to consult with its members on a divestment strategy and timeline before the next AGM, in order to ensure the long term sustainability of the Fund and to play it’s part in the prevention of catastrophic climate change.”

Councillor Sally Longford,

There were six similar questions.

Response

The Pension Fund shares the concerns of Nottingham City Council about climate change. Climate action failure is the stand-out, long-term risk the world faces in likelihood and impact according to the 2020 Global Risks Report from the World Economic Forum.

How companies manage climate-related transition and physical risks and opportunities is highly likely to affect long-term profits and company returns. Policy makers response equally so. We therefore actively debate how the Fund alongside other like-minded investors can best encourage a broad transition towards a low- carbon economy.

We have discussed divestment at length particularly over the past few years, most recently at a Working Party in 2020 to discuss the Climate Risk Analysis report procured from LGPS Central. From these and previous discussions we have concluded that divestment is a less effective strategy than engagement at delivering beneficial outcomes as well as being less consistent with our fiduciary duty to pension fund members. Engagement remains a more powerful and more effective tool that we use both at corporate, industry and policy levels to influence not just individual company behaviour but the “rules of the game”. By the same token that we ask companies to align their businesses with the Paris Agreement, we ask policy makers to take policy action that will facilitate the transition to a low-carbon economy. As an example of the latter our pool company LGPS Central has co- signed, on our behalf, letters to EU and UK leaders asking for a green recovery from the health pandemic.

Importantly, focussing on the exclusion of Oil and Gas companies ignores the impact other companies have on climate change. Almost every business in the world to some extent depends on the use of fossil fuels and will do so for some time to come. Selling shares in oil & gas companies will not make real world changes to greenhouse gas emissions, indeed it could be counterproductive. It requires systemic change across many industries and governments to make the impact required to limit global warming. We believe there needs to be corporate change across a wide range of sectors, which in our view is more likely with an engagement strategy. Many companies seek out investors for their views on decarbonisation plans and strategies.

Our Investment Strategy Statement therefore continues to state that the Pension Fund believes that a strategy of engagement (i.e. working from the inside to influence company behaviours) rather than exclusion is more compatible with fiduciary duty and will lead to a better outcome in terms of climate change.

We note that most other LGPS funds and major pension funds take this view. If Nottinghamshire Pension Fund were to sell its fossil fuel holdings to another less engaged investor the pressure on those companies would reduce with potentially a negative impact on carbon emissions and speed of transition. The Fund actively influences companies by engagement through our investment managers and LAPFF, and by exercising our voting rights.

Our pooling company, LGPS Central is an active member of a collaborative engagement called ClimateAction 100+. ClimateAction 100+ engages 161 companies across the globe that are responsible for 80% of industrial carbon emissions globally. The initiative builds on a simple but powerful logic: If you engage and influence the highest emitters, you influence whole sectors, markets and the global economy. ClimateAction 100+ is currently being ramped up through a Benchmarking project. All companies are asked to set an explicit target of net-zero emissions by 2050 – and to provide verifiable evidence that this will be achieved in the short, medium and long term. This introduces an element of “no-where to hide” and investors will be able to assess companies’ progress relative to sector-peers and across the board.

Question 2

Question from the Nottingham City Council Energy Projects Team which also asks about divestment plans and consulting members. This includes the comment:-

“Energy Services understand that the Nottinghamshire Pension Fund has no investments in sustainable, low carbon or renewable energy equity funds.”

Response

The implication that the Fund has no investment in renewable energy or sustainable investments is not true. Over the past fifteen years, the Fund has made investments in a range of listed investment trusts and private funds whose model is partially or wholly based on sustainable investments. Examples are The Renewable Infrastructure Group, Impax Environmental Markets Trust on the listed side and Green Investment Offshore Wind Bank on the private side. In addition our two main active managers have carbon footprints of 58% and 31% respectively of their benchmarks, showing that they also pay attention to investing sustainably. We expect, subject to due diligence, to make a significant allocation to a sustainable equity mandate when LGPS Central has one available.

We gave our reasons in the previous response why one of our investment beliefs stated in our Investment Strategy Statement is that engagement is a more appropriate response than divestment and more likely to lead to a better outcome in terms of climate change. We emphasise again that in doing this we are aligned with the great majority of pension funds around the world who have a fiduciary duty to members. We discuss this issue at Committee on a regular basis, but at the moment there are no plans to divest from fossil fuels.

We understand the request to consult members or employers. If the Fund

were planning to make an investment or divestment for non-financial reasons, it would have to have good reasons for believing that Fund members shared its belief. As the Fund has not invested or divested for non-financial reasons, there is no requirement at this stage to hold a consultation, which carries a significant cost.
We note also that the Fund is not bound by the results of a consultation, though it should take them into consideration.

To summarise, we share the questioners' ambitions that the Pension Fund should invest in a way which is consistent with mitigating climate change and we are actively pursuing that strategy. However we do not share their view that divesting from fossil fuels is the most effective way of achieving that.

<u>Question 3</u>

Question from Mr Patrick Hort.

"Since we are agreed that minimising average temperature rises is the goal, and since 1.5 degrees represents LESS warming than 2 degrees – but was NOT modelled – please can you tell me when a risk analysis of 1.5 degrees will be made available to the committee?"

There were three similar questions and we will respond to these together.

<u>Response</u>

The Pension Fund takes the financial risks of climate change very seriously and commissioned LGPS Central to deliver a Climate Risk Report which was taken to Committee in October. This analysis is supportive of the Fund's current investment strategy in three ways:-

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

2) 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.

3) It shows that as the Fund progresses towards the long term strategic asset allocation these positions will further improve.

LGPS Central uses an external service provider to conduct the Climate Scenario Analysis for the Climate Risk Reports. The service provider considers its 2˚C scenario to be aligned with the commitments of the Paris Agreement.

The direction of travel is more important than the target in order to achieve a better outcome and we will continue to monitor carefully the development of climate change science, both in its modelling of different scenarios and the impact they might have on the world and ultimately the Fund's financial investments. At the time of the tendering process in 2019, data limitations meant the service provider had not yet developed a 1.5 ˚C scenario. It is likely that a 1.5˚C scenario will be developed by the service provider in due course as climate change integrated assessment models are updated to consider such a scenario. In future Climate Scenario analysis, LGPS Central will consider including a 1.5˚C scenario if data quality and models permit.

Question 4

Question from Nicholas Pearson.

In October 2020 South Yorkshire Pension Authority voted to make its investment portfolio carbon neutral by 2030, and asked officers to produce a route map for this in 6 months. Given the environmental and financial risks of continuing with fossil fuel and other high carbon investments, and the massive investment opportunities in low carbon and renewable energy industries, can I ask when Nottinghamshire Pension Fund will be setting a similar target?

Response

We agree with the aspiration to reduce carbon emissions, and the Climate Risk Analysis we undertook in 2020 demonstrates that by showing that our active equity managers' carbon footprint is around half that of the benchmark. However, we have to balance this desire with all the other objectives which the Pension Fund is obliged to follow, most notably our fiduciary duty to members. We cannot allow one goal to dominate everything.

A core investment principle is to allocate in a considered way on the basis of robust data. If we use unreliable data, we may end up with a poor outcome.

Carbon data scoring is still a young industry in the process of development, and, while the data provides useful insights there are a number of limitations. For example, little attention is paid to Scope 3 emissions (i.e. by the user), and much data provided by companies is neither audited or standardised. As climate-related data quality and availability improves, more reliance can be placed on that data.

We anticipate that as we implement our long-term investment strategy we will reduce carbon emissions from the portfolio and will continue to review target setting as part of the overall climate-risk monitoring we will be undertaking on an ongoing basis.

This will be done alongside continuing robust ESG integration into investment decisions by our investment managers and active and responsible stewardship (engagement and voting) of the assets we hold.

Question 5

Question from Sue Mallender.

Fires in the Amazon and Pantanal region of Brazil - driven by illegal logging and cattle ranching - are increasing carbon emissions, damaging carbon sinks and destroying some of the most biodiverse areas in the world. Does the Pension Fund have an investment policy on preventing deforestation? What concrete actions is it taking to prevent deforestation associated with its investments?

Response

Through our pooling company LGPS Central, and our main equity managers Legal & General and Schroders we engage on the long-term investments risks inherent in deforestation both at policy and company levels. We recognise the crucial role that tropical forests play in tackling climate change, and protecting biodiversity, which again has an impact on economic development and the stability and well-functioning of capital markets.

As examples of a concrete action taken recently:-

LGPS Central is on the Advisory Committee of an Investors Policy Dialogue on Deforestation initiative known as IPDD which expects Brazilian authorities to halt and reverse deforestation while allowing investors access to data to monitor progress.

This message has been communicated by investors over the last 4-5 months to the highest political levels, including to the Brazilian Vice President, the Governor of the Brazilian Central Bank and members of the Brazilian Congress. IPDD will be a two- year project that also aims to span other regions of the world that face deforestation risk.

For Legal and General tackling deforestation is recognised as a key element of achieving net-zero emissions and as such features significantly in the engagement their Investment Stewardship team undertakes across a wide range of companies. Deforestation features as part of Legal and General's Climate Impact Pledge as it is one of the issues they raise with companies in the relevant sectors and also with governments.

Legal & General have been engaging with some of the largest food companies on tackling deforestation since 2016. In addition, they are publicly assessing 125 food companies on the strength of their deforestation policies. The lack of a deforestation policy may result in a vote against at the companies' upcoming AGM.

Schroders recognise that deforestations, changes in land use, increasing agricultural intensity, over-population, climate change and pollution contribute to biodiversity loss and therefore take these factors into consideration in their ESG analysis of companies and engage with companies where they believe their practices are unsustainable.

Question 6

Question from Ben Homfray

Did the training course on Climate Risk recently given to the Pension Fund Committee by LGPS Central include an explanation of the different impacts projected by the IPCC between heating of 1.5, 2.0, 3.0 and 4.0 degrees C? And if not, what actions are the Committee prepared to take to familiarise themselves with impacts projected by the United Nations Environment

Programme and the IPCC?

Response

The answer to the question is, yes, the training course on Climate Risk recently given to the Pension Fund Committee by LGPS Central did include a section looking at estimates of the different impacts of varying degrees of temperature increase.

Climate related scenario analysis is an immature discipline. It is difficult modelling the impacts and implications on a multi asset investment portfolio of an unprecedented global transition, which is in the process of being affected by governments around the world. It is the intention to repeat this analysis as the data and analytical tools evolve, and the Pension Fund Committee will continue to receive training from LGPS Central.

Question 7

Question from Julia Bristow relating to an article which appeared in the Financial Times last year.

Response

The article in the Financial Times refers to estimates compiled by environmental campaign group Platform London. We have not been provided with the basis on which these estimates have been calculated so are unable to comment in detail on them. At a high level the article estimates performance over a relatively short time frame and it is not clear whether or not the article assesses performance on a total return basis, covering both share price and dividend payments.

Question 8

Questions about investments in renewable energy and sustainable investments, particularly to replace fossil fuel investment.

Response

As part of portfolio diversification the Pension Fund has committed to an allocation of 8% to Infrastructure, equivalent to over £440m. Some of the investments already made are specifically in renewable energy funds, but the clean energy sector makes up a significant share of the infrastructure investment universe so this constitutes a major proportion of our more general infrastructure funds. It should be noted that many other infrastructure investments (for example in public transport infrastructure) contribute indirectly to reducing the demand for fossil fuels.

However most of these infrastructure investments are made through private equity funds. This places them outside the scope of the Climate Risk Analysis which focusses on equity investments as this is the only area where some reportable data exists. This is one of the limitations of this kind of analysis and is why it is not the only information considered by the Pension Fund in assessing its climate risk and its investment strategy.

The Pension Fund states in its Investment Strategy Statement an investment belief on the relevance of climate change for financial markets. In line with this belief, the Fund actively looks for investments which can be expected to benefit as a result of the long-term impacts of climate change. Opportunities may also arise from the response of policy makers and potential disruption in the market. The Fund will continue to look for investments which can be expected to benefit as a result of the current and long-term impacts of climate change and other global issues.

More specific plans for the next financial year include the evaluation of sustainable equity investments and the Fund is working with LGPS Central to develop a Sustainable fund. Over time the Pension Fund's exposure to fossil fuels will reduce as a result of these diversification decisions as we implement our long term investment strategy.

In response to issues raised by Members, the following points were clarified: -

- The strength of feeling of the questioners is clear.
- Cllr Hollis stated that he disagreed with the Fund's investment strategy.
- The Chair stated that the Committee would continue to operate non-politically.
- The possibility of publishing the questions prior to the meeting would be considered.
- It is not possible to state whether the fund has lost money by investing in fossil fuels.
- Data published by companies is not necessarily audited and must be treated with caution.
- Investments have been overweight in UK and passive funds – issue to be addressed at next Working party.
- The IT systems have all been procured through the appropriate channels and their relevance is constantly reviewed. Other technologies are also monitored along with what is coming onto the market to ensure that the support given to the fund remains as efficient as possible.

The Chairman thanked everyone for their attendance and confirmed that the Committee does understand climate risk and that the fund's position would continue to be reviewed.

The meeting closed at 1.06pm

CHAIRMAN