

**REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT****CLIMATE RISK ANALYSIS AND TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES****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 will only be performed every few years, but the climate risk analysis has been repeated based on data at 31 March 2020 and 31 March 2021.
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. Appendix A presents the TCFD report which shares the key results of the analysis.
5. 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.
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.

- 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.
- And it shows a small improvement since the first analysis. It is anticipated 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 provides a number of new recommendations for incorporation into the Climate Action Plan for the Committee’s consideration. These are as follows:-

Category	Action	Timing	Notes
Strategy	Explore the potential options to monitor and manage climate risk in alternative asset classes	2022	With the support of LGPS Central
Metrics	<ul style="list-style-type: none"> <li>• Continue to monitor manager engagement progress with key carbon intensive and fossil fuel holdings</li> <li>• Continue to monitor manager approaches to managing climate risk within the portfolios</li> <li>• Continue to monitor manager performance on carbon risk metrics relative to the benchmark</li> </ul>	Ongoing	With the support of LGPS Central

10. Progress on existing actions in the Climate Action Plan is reported in a separate report.

### Ongoing work

11. 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.

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

### Other Options Considered

13. 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**

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

## **Statutory and Policy Implications**

14. 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**

15. 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 07/10/2021)**

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

## **Financial Comments (TMR 06/10/2021)**

17. The financial implications are set out in paragraph 15.

## **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