



REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT

RESPONSE TO PETITION PRESENTED TO THE CHAIRMAN OF THE COUNTY COUNCIL

Purpose of the Report

1. The purpose of this report is to recommend to Committee the response to the issue raised in a petition to the County Council.

Information

2. A 140 signature petition was presented to the 10 October 2019 meeting of the County Council by Councillor Stuart Wallace as Vice Chairman (Ref:2019/0371). The petition was submitted by residents of West Bridgford North Division, calling on Nottinghamshire County Council to take action to ensure that Nottinghamshire Pension Fund meets Extinction Rebellion Nottingham's demands regarding fossil fuel divestment.
3. These demands are that the Pension Fund:
 - a. Creates a culture of transparency in relation to all the investments held by it (including infrastructure investments and equity investments held in Managed Funds), so it is possible for both the Fund itself and for members to identify the value and location of investments in companies that extract and sell fossil fuels.
 - b. Declare divestment from all fossil fuel-related assets over the next three years.
 - c. Produce a plan for this, including for the replacement of fossil fuel investments with investments in companies whose activities mitigate climate change, and for local investment within Nottinghamshire in ecologically sustainable projects.

Response to a)

4. The Nottinghamshire Pension Fund is committed to openness and transparency and publishes investment holdings on a regular basis. This list of holdings includes significant amounts in passive funds which reflect particular indices. The proportion of investments in particular companies within these indices is publicly available information, and anybody interested can calculate this for themselves. The pension fund does not hold a register which

records all investments within Managed Funds. Any such register would take significant resources to create and our right to publish this information may be restricted. The benefit to the Pension Fund of this detailed information would be insufficient to justify the additional costs which would be incurred to create it. The proportions invested in major industries within our passive investments, such as fossil fuels, are monitored by the Pension Fund as part of our risk management. The Pension Fund also holds a number of actively managed pooled funds. These are a much smaller part of our investments and the risk profile is managed by the appointed managers in line with our Environmental, Governance and Social Investment standards.

Response to b)

5. There are a number of reasons why full divestment from fossil fuel related assets would not be the right decision at the present time.
6. Nottinghamshire Pension Fund has the following belief about financial markets, as stated in our Investment Strategy Statement: “Diversification is a key technique available to institutional investors for improving risk-adjusted returns.” This includes diversification across asset classes, regions, and sectors. Divesting from certain sectors – for example the energy sector – would limit the fund’s diversification opportunities.
7. Almost every business in the world to some extent depends on the use of fossil fuels. Selling shares in oil & gas companies will not make real world changes to greenhouse gas emissions. We believe there needs to be corporate change, which in our view is more likely with an engagement strategy. Our partners engagement programme stretches far beyond fossil fuel producers. As long as fossil fuel demand remains strong, fossil fuel supply will continue. Therefore, our engagement programme covers both the supply side and the demand side.
8. As described in Nottinghamshire Pension Fund’s Annual Report, engagement continues to highlight and improve the resilience of corporate strategies at global resource companies in the wake of climate change agreements. Our asset pool LGPS Central has set out a Responsible Investment & Engagement Framework and an Annual Stewardship Plan which align with and support Nottinghamshire Pension Fund’s approach. Climate change is one of LGPS Central’s specific stewardship themes. Through LGPS Central, and its stewardship partner Hermes EOS, we engage very widely on climate change with companies, auditors of companies, industry standard setters and policy makers. We exert influence through exercising our voting rights through our proxy voting service . We actively seek changes to corporate behaviour through global climate-related investor partnerships including Climate Action 100+, Institutional Investor Group on Climate Change and the Transition Pathway Initiative (TPI). TPI was set up for asset owners like pension funds so that they can better understand the risks they carry through holding for instance heavy carbon-emitting companies, and to act on that information.
9. We favour engagement over divestment because we believe that engagement is more supportive of fiduciary outcomes (particularly effective risk management) and more supportive of societal outcomes (because were we to sell our shares to climate-unaware investors, corporate change is far less likely).
10. A policy of exclusion would increase the costs of managing the Pension Fund investments, and crucially would be inconsistent with the investment beliefs of the rest of our Pool, significantly increasing the costs of investment for both ourselves and partner funds.

11. For these reasons full divestment is not considered appropriate.

Response to c)

12. As full divestment is not considered appropriate, a plan to implement this is not required. However, in line with our approved Investment Strategy Statement, the Nottinghamshire Pension Fund is likely to reduce its investments in fossil fuel production, through an increased allocation to infrastructure investments, a significant proportion of which is 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 to increase diversity. Over time our exposure to fossil fuels will reduce as a result of these asset allocation and diversification decisions.

13. It is recommended that the lead petitioner be informed accordingly.

Other Options Considered

14. None. It is Council policy to respond to petitions.

Statutory and Policy Implications

15. 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.

RECOMMENDATION/S

It is recommended that:

- 1) the proposed response be approved, and the lead petitioner be informed accordingly;
- 2) the outcome of Committee's consideration be reported to Full Council.

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 22/10/2019)

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

Financial Comments (TMR 21/10/19)

17. There are no financial implications arising as a result of 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