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Nottinghamshire County Council

Climate Change and Responsible Investment Team
Department for Work and Pensions

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Dear Sirs,

XX December 2021

RE: Climate and investment reporting - open consultation

Dear Sirs,

Local Government Pension Scheme – changes to the local valuation cycle and management of employer risk

The Nottinghamshire County Council Pension Fund have comments on the consultation on the proposed amendments as follows:

1 Measuring and Reporting Paris Alignment

Question 1 – We propose to amend the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 to require trustees of schemes in scope to measure and report their scheme's Paris alignment by adding a requirement for them to select and calculate a portfolio alignment metric and to report on that metric in their TCFD report.? Do you agree with this policy proposal?

Nottinghamshire Pension Fund already publishes a TCFD report, although this is not yet a requirement under the LGPS regulations. We think this metric will provide a valuable additional data point for stakeholders interested in the impact of their investment portfolio and how climate related risks are being managed, but feel insufficient attention is being given to the quality and availability of data for reporting. The government should be working to ensure that reported data is more consistent and reliable and required by all organisations above a certain size, not just listed companies. The LGPS has a diverse range of investments, but for a significant proportion of them the required information is not available.

However there are no metrics which communicate full information about climate risk and the transition to net zero, so there will be a challenge in communicating what this metric shows and what it doesn't show.

Question 2 - We propose that:

(a) trustees who are subject to the requirements in Part 1 of the Schedule to the Climate Change Governance and Reporting Regulations on or after 1 October 2022 (including trustees to whom the requirements are re-applied in accordance with regulation 3(4), 4(4) or 5(4)) will be required to select, calculate and report on a portfolio-alignment

metric and to publish the findings in their TCFD report within 7 months of the relevant scheme year end date in the same way as they are for other metrics. This will apply to:

- **trustees of a trust scheme which had relevant assets equal to, or exceeding, £5 billion on their first scheme year end date which falls on or after 1st March 2020, and who remain subject to the requirements in Part 1 of the Schedule on 1 October 2022**

- **trustees of a trust scheme which has relevant assets equal to, or exceeding, £1 billion on a scheme year end date which falls on or after 1st March 2021**

- **trustees of all authorised master trusts and authorised collective defined contribution schemes**

After 1 October 2022

(b) trustees will cease to be subject to the requirements to select, calculate and report on a portfolio alignment metric in accordance with regulations 3(4), 4(3), 4(5), 5(3) and 5(5) of the Climate Change Governance and Reporting Regulations:

- **trustees of a scheme with relevant assets of less than £500 million on a scheme year end date which falls after 1 October 2022 will cease to be subject to the requirements to select and calculate a portfolio alignment metric with immediate effect, but must still report on their selected portfolio alignment metric in their TCFD report for the scheme year which has just ended, unless the relevant assets on the scheme year end date were zero**

- **trustees of an authorised scheme which ceases to be authorised after 1 October 2022 (a "formerly authorised scheme") and which had relevant assets of less than £500 million on the scheme year end date immediately preceding the scheme year in which authorisation ceased, will cease to be subject to the requirements to select, calculate and report on a portfolio alignment metric with immediate effect**

- **trustees of a formerly authorised scheme which has relevant assets of less than £500 million on a scheme year end date after authorisation ceased, will cease to be subject to the requirements to select and calculate a portfolio alignment metric with immediate effect, but must still report on their selected portfolio alignment metric in their TCFD report for the scheme year which has just ended, unless the relevant assets on the scheme year end date were zero**

Do you agree with these policy proposals?

As these questions relate to the scope of these requirements and the LGPS is currently outside the scope we have no comments to make.

Question 3 - We propose to incorporate the requirements to measure and report a portfolio-alignment metric into the existing Climate Change Governance and Reporting Regulations so that the requirements are subject to the same disclosure and enforcement provisions as the other metrics requirements.

Do you agree with this policy proposal?

Again, the LGPS is regulated in a different way so this is not directly relevant to us. There is concern that the proposal is focussed on the existence of a disclosure rather than on the quality or completeness of the report, but understand the difficulty in assessing this. There is a reference for reporting on ‘all’ the assets of the Pension Fund and we would refer you to the response in Q1 about the difficulty in obtaining data on many less liquid asset classes.

Question 4 - (a) Do you have any comments on the draft amendments to the Regulations?

(b) Do you have any comments on the draft amendments to the statutory guidance?

Please include in your answer any comments you have on whether you consider that they meet the policy intent stated in this chapter.

We particularly welcome comments on the definition of a portfolio alignment metric and whether respondents think it reflects the policy intent??

The LGPS will have different regulation and guidance specific amendments. Our main concerns relate to the accuracy and availability of the underlying data. Without significant improvements in this it is possible, even likely, that the metrics disclosed may give a misleading impression of the investments of the Pension Fund, and the trend over time.

Question 5 - Do you have any comments on the new regulatory burdens to business and benefits of requiring schemes to measure and report their Paris alignment??

Although this is an additional burden to business, (which we would like to see extended to further types of investment), we feel that the process of measuring emissions and other climate related metrics will focus management’s mind on the environmental and financial risks and so this will be of benefit to them over the longer term.

The aspect of making companies aware and engage with these issues is the major benefit of this proposal. The requirement for Pension Funds to report may also have the beneficial effect of encouraging them to engage with companies and organisations to further manage these risks where this is not already happening.

However there is a risk that as a result of this additional reporting, Pension Funds will be incentivised to divest from carbon intensive stocks in order to improve portfolio metrics. This could have a detrimental impact on those companies who will end up owned by different organisations with no motivation to influence a long term transition, who may wish to extract the maximum value in the short term which could have a significant environmental impact. The risk of this unintended consequence should at least be explicitly acknowledged.

The largest burden may well be in ensuring that these metrics are explained properly to stakeholder groups and in dealing with queries and questions around methodology, data and alignment.

Question 6 - Do you have

(a) any comments on the impact of our proposals on protected groups and/or how any negative effects may be mitigated?

(b) any evidence on existing provision made by trustees in response to requests for information in alternative accessible formats?

(c) any other comments about any of our proposals??

No further comments.

2 Stewardship and the Implementation Statement

Question 7 – Should DWP include a vote reporting template in its implementation statement guidance which trustees are expected to use? If so, should such a template be based on the PLSA's vote reporting template? What changes, if any, would be needed to the PLSA template if it were to be adopted?

What are your views on the adoption of an engagement reporting template? Should it be separate from any vote reporting template or integrated with it, so that – in relation to equities – both voting and engagement activities are described for the same set of assets?

Nottinghamshire Pension Fund already publishes details of voting on our segregated mandates, and quarterly engagement and voting reports for significant equity managers. Prescribing the format of such reporting could create an additional overhead without adding any value.

The Fund works with multiple partners on engagement initiatives, each of which publish quarterly reports which are uploaded to our website. Again requiring this information to be reported in a particular way could generate additional work for no benefit.

Question 8 – Do you have any comments on our cross-cutting proposals for the draft Guidance on Statements of Investment Principles and Implementation Statements, in particular that:

(a) they are written for members?

(b) these are trustees' statements, not their consultants'?

(c) Implementation Statements should set out how the approach taken was in savers' interests?

(d) trustees should be able to include material from voluntary disclosures, such as Stewardship Code reporting, as long as they meet the requirements in the Regulations??

The LGPS has different guidance which is incorporated into our Investment Strategy Statement, and different stakeholders in that the investment performance of our fund has an impact not just on members, but on employers and local tax payers. The LGPS guidance is felt to be sufficient.

As these proposals do not apply to the LGPS we have no comments.

Question 9 – (a) Do you have any comments on our proposed Guidance on stewardship policies?

(b) Do you have any comments on our proposed Guidance on significant votes?

Nottinghamshire Pension Fund has long believed that Responsible Investment and Stewardship were core to achieving long term returns, managing risk, and using our influence to achieve both financial and non financial benefits for all. Consequently our Fund, and most LGPS funds are already undertaking stewardship in line with your stated beliefs.

The low standards of asset manager voting policies being vague and unambitious, and failure to engage on climate issues are not recognised by this Fund. Any such managers would not be considered as appropriate investment managers for our assets.

We currently disclose all of our direct voting activity. A requirement to identify 'significant votes' would add an additional overhead to this reporting but might be very useful.

Guidance will be required to define 'significant votes'.

Question 10 – Do you have any comments on our proposed Statutory Guidance on the information to be included in the Implementation Statement with regard the requirements under the Disclosure Regulations, Schedule 3, paragraph 30(f)(i)-(iv)?

The LGPS does not require an IS. However the fund is expected to consistently operate in accordance with our Investment Strategy as set out in the Investment Strategy statement.

Q11. Do you have any comments on our proposed Statutory Guidance on meeting the Implementation Statement requirements in the Disclosure Regulations relating to choosing investments?

The LGPS does not require an IS. However the fund is expected to consistently operate in accordance with our Investment Strategy as set out in the Investment Strategy statement.

Q12. Do you have any comments on our proposed Guidance on meeting requirements in the Investment Regulations and Disclosure Regulations relating to investment strategy?

The LGPS has different guidance which is incorporated into our Investment Strategy Statement,

Q13. Do you have any comments on our proposed Guidance on meeting requirements in the Investment Regulations and Disclosure Regulations relating to financially material considerations (including ESG and climate change)?

This is already reflected in the guidance to the LGPS.

Q14. Do you have any comments on our proposed Guidance on meeting requirements in the Investment Regulations and Disclosure Regulations relating to non-financial matters?

This feels more appropriate for DC schemes than DB. For DC schemes it is appropriate that members have the option to make decisions relating their non-financial beliefs as the consequences of those decisions will fall directly to those members. For DB schemes those risks impact other stakeholders and decisions based on non-financial matters should not purely relate to members views.

Should any decisions be made relating to non-financial beliefs it is important that it is clearly disclosed the basis on which those decisions were made, justification of the immateriality of financial impact, and explanation of how members and other stakeholders views were incorporated. However there should be no implication that decisions should or will be made based on non-financial beliefs. The beliefs of members and all stakeholders are likely to be diverse and disparate, and making non-financial decisions for the entirety of such a group is fraught with danger.

Q15. Do you have any comments on our proposed Guidance on meeting requirements in the Investment Regulations and Disclosure Regulations relating to arrangements with asset managers?

Nottinghamshire Pension Fund has a diverse range of investments held with a significant number of managers. Although we can see the potential benefit of such disclosure, the overhead of reporting this for all asset managers would be significant. Were this to be introduced it would be helpful to limit it to material investments only.

Yours faithfully,