NOTES OF THE PENSION FUND ANNUAL EMPLOYERS AND TRADE UNIONS MEETING HELD ON MONDAY 17 JANUARY 2022 AT 1:30 PM.

COUNTY HALL, WEST BRIDGFORD, NOTTINGHAM, NG2 7QP

Present

Members of the County Council's Pensions Committee

Councillor Eric Kerry (Chair)
Councillor André Camilleri (Vice Chair)
Councillor Stephen Garner
Councillor Mike Introna
Councillor Sheila Place
Councillor Mike Pringle
Councillor Roger Upton
Councillor Lee Waters
Councillor Gordon Wheeler

Representatives of Members, Employers and Trade Unions

Councillor Gordon Moore — Rushcliffe Borough Council

Representatives of the Chief Executive's Department

Keith Ford
Keith Palframan
Tamsin Rabbitts
Nigel Stevenson
Sarah Stevenson (in remote attendance)

Other Attendees

William Bourne – Adviser to the Committee
Barry McKay – Barnett Waddingham (in remote attendance)

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 Graham Chapman (Nottingham City Council)
- Councillor Zafran Khan (Nottingham City Council)
- Councillor David Lloyd (Newark & Sherwood District Council)
- Sue Reader (Scheduled Bodies representative)

3. DECLARATIONS OF INTEREST

There were no declarations of interest.

4. NOTES OF THE ANNUAL MEETING HELD ON 21 JANUARY 2021

The notes of the Annual General Meeting held on 21 January 2021, having been circulated with the papers for the meeting, were noted.

5. ACTUARIAL ISSUES

The Chairman welcomed Barry McKay from Barnett Waddingham, who provided an update about actuarial issues regarding the Fund's upcoming revaluation.

Members were advised that Regulation required a revaluation of the Fund every three years to check on its funding level, checking that assets held by the Fund were sufficient to pay benefits accrued by its members and to set contribution rates for each employer for the next three years. This would be implemented from 1 April 2023.

Members of the Committee were reminded that the Fund's liabilities were the values placed on the promise of benefits accrued by members of the Fund. To calculate these, assumptions were made about anticipated performance of different asset classes. Demographic modelling of scheme members was also undertaken.

While employee contributions were set out in statute, the valuation would determine the contribution made by employers. There were two elements to the employer contribution. The first was the primary rate, which was the cost of future benefit accrual. The second rate was the adjustment of the primary rate to reflect the employer's circumstances.

A draft timetable for the 2022/23 valuation was shared, which culminated in the issuing of a Valuation report and Rates and Adjustments Certificate, which would be published by 31 March 2023.

Reference was made to the performance of assets in recent years, which had been positive, with markets continuing to perform well in spite of the COVID-19 pandemic. Mr McKay indicated that the prolonged, strong asset performance in recent years could be tempered by a period where they performed less well. This would lead to scheme employers having to pay more money in contributions to make up the gap. Members' attention was also drawn to the rate of inflation, which was high in the short-term; this was expected to settle down, with a recent increase in interest rates to try to control it. A longer-term view would be taken with regard to inflation, and it was anticipated that this may be slightly higher than the valuation in 2019. Increased inflation placed pressure on the Fund's liability because benefits were linked to the Consumer Price Index.

Mr McKay set out his expectations from the process, highlighting that whilst assets had performed well, liabilities had also increased. He stated that the primary contribution rate was expected to be higher. He added that while overall contribution rates may need to increase, stability was the key focus.

To assist in the valuation process, scheme employers were asked to provide timely accurate data and to make the Fund aware of any events or employer changes that needed taking into account during the revaluation process. Mr McKay indicated that the outcome of the revaluation process was expected in October/November 2022, which would give employers time to plan their budgets for 2023/24 onwards.

As technical difficulties prevented members of the Committee asking questions, they were asked to save them until the meeting in February 2022, when Mr McKay was expected to be in attendance.

6. MANAGEMENT & FINANCIAL PERFORMANCE – FINANCIAL MANAGEMENT PRESENTATION

A brief presentation was delivered by Keith Palframan, Group Manager Financial Services, and Tamsin Rabbitts, Senior Accountant (Pensions and Treasury Management).

The presentation gave an overview of key figures from the accounts, net additions and withdrawals from members and net returns on investments. This information was put into the context of the actuarial funding level, which in 2020/21 remained at 93%. It was noted that during the year the outward cashflow trend continued, but this was offset by employers' deficit contributions.

The presentation also gave an update on investment management expenses and on LGPS Central. The LGPS Central pool was established on 1 April 2018 and invests in corporate bonds, emerging market equities, passive UK and global equities, active global and emerging market equities, and private equity on behalf of the Fund. In 2021 new investments were made in Emerging Market debt. LGPS Central also managed the Fund's gilts mandate. While LGPS Central made investments on behalf of the Fund, the Nottinghamshire Pension Fund Committee retained responsibility for asset allocation.

One member of the Committee raised questions about investments in fossil fuels and two vacancies on the committee for pensioner representatives. Questions on these themes had been submitted for the question and answer session later in the meeting and were addressed at that time.

7. INVESTMENT PERFORMANCE – PENSIONS AND TREASURY MANGEMENT PRESENTATION

The Senior Accountant (Pensions and Treasury Management) gave a presentation on investment performance.

The target return on assets following the last valuation was 5.8% each year. Members were advised of the portfolio structure for 2020/21 as at 31 March 2021, including the amount invested through each manager.

The Fund's strategic benchmark is based on its agreed asset allocation strategy. It used a high-level market index for each asset class, which helped to inform decisions regarding asset management. An overview was provided of the performance of each investment manager over the past 10-years, and the allocation ranges against each asset class.

Members were informed that the low valuations at the end of 2019/20, which were the result of market fluctuations caused by the global pandemic, had recovered. This meant that the Fund's net assets had increased significantly during 2020/21. The total returns that were achieved over 5-years were ahead of the actuary's assumed return. It was noted that asset allocation was the most important factor in driving long-term investment returns.

8. PENSIONS ADMINISTRATION

As a result of technical difficulties that arose during the meeting, this presentation was deferred to a future meeting of the Committee.

9. QUESTIONS

39 questions were submitted to the Pension Fund for answer at the AGM. As a number of the questions were on similar themes, they were grouped and answered together. All questions submitted would be published on the Pension Fund website with individual responses.

Question 1

When will the Pension Fund align itself with 1.5°C, and when will it put in place the emissions reduction targets required to achieve this?

The Pension Fund asks companies to align their businesses with the Paris Agreement and we ask policy makers to take policy action that will facilitate the transition to a low-carbon economy. Our pooling company, LGPS Central Ltd has committed to aligning its assets under management to Net Zero by 2050 (or earlier) in accordance with the IIGCC Net Zero Framework. In addition 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.

Nottinghamshire Pension Fund supports the climate agreement reached at COP26 in Glasgow, which keeps 1.5°C goal alive, and will continue to consider setting targets as modelling develops.

Question 2

The IPCC has clearly indicated that any global warming beyond 1.5 degrees is potentially catastrophic and 1.5 degrees has now been adopted by general consensus at CoP26 as the maximum acceptable temperature rise.

Previous risk assessments of the effects of climate change on Pension Fund investments have only considered 2, 3 and 4 degree C scenarios.

Could the committee please update on progress with this and provide a firm timetable for delivery of a risk assessment based on 1.5 degrees and a detailed plan for bringing investments in line with this target.

The Pension Fund takes the financial risks of climate change very seriously and commissioned LGPS Central to deliver a Climate Risk Report. The first report which was taken to Committee in October 2020 included a scenario analysis which will be refreshed approximately every three years. This analysis is supportive of the Fund's current investment strategy in three ways:

- 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

- It shows that equity holdings were and 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 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. At the time of the tendering process in 2019, data limitations meant the service provider had not yet developed a 1.5˚C scenario. Scenario analysis is an evolving discipline 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. A 1.5˚C scenario is currently being developed by the service provider as climate change integrated assessment models are updated to consider such a scenario. In future Climate Scenario analysis, LGPS Central expects to be in a position where we are able to model a more comprehensive set of scenarios that includes a 1.5˚C scenario.

Question 3

Notts Pension Fund has previously said that 2 degrees of warming would be financially beneficial to the Fund.

Does the Fund believe that a 2 degree C world would be one in which its members would benefit in a holistic sense (encompassing general health, finances, food security, exposure to heath- or life-threatening extreme weather events, societal cohesion and political stability, etc)?

This is a misunderstanding of the report following the analysis mentioned previously. Of the three scenarios the 2° scenario, the lowest, was the best financially for the Fund with its exposure to renewable energy and underweight to carbon producers. However the trend was clear, and had a lower scenario been modelled this would have been even better for the Fund.

In the ongoing engagement that LGPS Central, undertakes on our behalf, we expect investee companies to set decarbonisation reduction targets that align with a trajectory to achieve a goal of limiting global temperature increase to 1.5°C with low or no overshoot. This expectation takes into account the International Panel on Climate Change Special Report on the impacts of global warming of 1.5°C and the International Energy Agency's Net-Zero by 2050 report published in May 2021. During the second half of 2021 all companies within the ClimateAction 100+ engagement project received letters iterating this expectation as part of an overall expectation to align with all elements of the ClimateAction 100+ Benchmark at the latest by 2023.

Question 4

What is the Pension Fund doing to ensure that bond investments are aligned with limiting global heating to 1.5°C?

A4 The majority of the Fund's long term Corporate Bond investments are invested through LGPS Central. LGPS Central is developing a strategy to align its assets under management to Net Zero by 2050 in accordance with the IIGCC Net Zero framework. This includes bond portfolios.

Question 5

Will the Pension Fund follow the example of Wiltshire Pension Fund and the Environment Agency Pension Fund and actively reach out to all of its members - individuals and employers - for their views on climate issues and the Fund's investments?

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.

Nottinghamshire Pension fund has completed a climate risk analysis and published a TCFD report.

The duty of the Nottinghamshire Pension fund is to manage the fund in the best interests of all members, we expect our external managers to take into consideration all material risks including climate change when making investment decisions. Paying pensions and achieving the financial returns to enable us to do so remains the primary focus of the pensions committee.

Question 6

Notts Pension Fund has said that it will invest £250m in a new LGPS Central Global Sustainable Equities Fund. This is less than 5% of the total value of the Nottinghamshire Fund.

When will the LGPS Central Global Sustainable Equities Fund be launched?

The LGPS Central Global Sustainable Equities Fund will be launched during the first half of 2022

Will it be Paris-aligned in the same way that the Brunel Partnership Fund's investments are?

The Sustainable Equity Fund will be an actively managed mandate with fund managers and analysts making active decisions about the companies in which they wish to invest, analysing the Environmental, Social and Governance profiles of those companies and identifying long term themes aligned to sustainable development and the transition to a lower carbon economy.

LGPS Central is developing a Net Zero Alignment strategy that will include these mandates and will actively manage climate risks including transition risks.

Given that other LGPS Pension Funds have allocated far larger shares of their investments to sustainable equities, will Notts be increasing its investment beyond £250m?

Nottinghamshire Pension Fund reviews its Strategic Asset allocation on an annual basis. A 5% allocation was agreed last year. The Fund has grown since then so the specific figure mentioned will need to be updated.

Sustainable funds have limited track records, and therefore the Fund may wish to make allocations to them over a period of time as confidence in their ability grows.

Question 7

The scientific consensus is that to limit warming to 1.5°C, global carbon emissions must be cut by around 50% by 2030. On current evidence does Notts Pension Fund reasonably believe that the following oil and gas companies - in which it has investments - will achieve a 50% absolute emissions cut across their Scope 1, 2 and 3 emissions by 2030?

- ***Royal Dutch Shell?*** According to the TPI (the Transition Pathway Initiative), Shell’s emissions intensity aligns with the National Pledges benchmark in 2029. This is not aligned with 1.5°C

- ***BP?*** According to the TPI, BP is not aligned with National Pledges, nor with 1.5°C

- ***ExxonMobil?*** According to the TPI, Exxon is not aligned with National Pledges, nor with 1.5°C

- ***Chevron?*** According to the TPI, Chevron is not aligned with National Pledges, nor with 1.5°C

- ***ConocoPhilips?*** According to the TPI, ConocoPhilips is not aligned with National Pledges, nor with 1.5°C

- ***Total?*** According to the TPI, Total’s emissions intensity aligns with a 1.5°C benchmark in 2047

- ***Equinor?*** According to the TPI, Equinor is not aligned with National Pledges, nor with 1.5°C

- ***Eni?*** According to the TPI, Eni's emissions intensity aligns with a 1.5°C benchmark in 2048

Based on the information above, the short answer is "no". However, we need to be mindful of different sectors having different transition pathways if we are to reach a 1.5°C scenario as modelled by the International Energy Agency's Net-Zero by 2050 report. For instance, coal has to fall by 50% by 2030, whereas oil and gas need to reduce by around 28% and 8% respectively.

Another important element to bear in mind, is that most of the emissions which oil and gas companies are assessed on are Scope 3 emissions, not operational Scope 1 and 2 emissions. The challenge here is that the reporting of Scope 3 – use of sold products – is either incomplete or not done on a consistent basis across companies. There is ongoing discussion with oil and gas companies on these complexities, for instance through the Transition Pathway Initiative.

Our overall expectation of these companies, as articulated through ongoing engagement by LGPS Central, is clear in that targets, strategies, capex spend etc all need to line up with the Paris Agreement, keeping temperature rise to 1.5°C with no, or low overshoot. At the same time, we need to be cognisant of the complexity involved in this transition. It is clear that the European oil and gas companies are further ahead in their transition than their American counterparts. Equally, the European companies are actively seeking investor views and dialogue on these matters, whereas the American oil and gas companies have often resisted shareholder influence. Against that backdrop, it was a very positive step and an enhancement of the chances of Paris-alignment, when one third of Exxon's Board changed at the 2021 AGM. This was due to pressure from minority shareholders including LGPS Central, who succeeded in getting three new, climate savvy Board members onto the Exxon Board. It is quite telling that Exxon fought hard to avoid this result, but in the end could not stop the majority shareholder view.

It is very difficult to predict what carbon reduction levels will be achieved between now and 2030 and beyond. However, as owners of the companies we recognise the importance of accelerating the rate of decarbonisation and as responsible investors we are committed to holding management to account on their carbon performance. We consider that progress on these important issues would be slower in the absence of responsible investment and engagement.

Question 8

Notts Pension Fund claims to have a number of "sustainable" investments. One of these investments is Impax Environmental Markets. Impax Environmental Markets generates approximately 1.7 tonnes CO2 emissions per £1000 of investment, above the market average.

The financial technology company UTIL put sustainability funds to the test, and recently found that 253 ESG funds that appeared in Europe in 2020 were changes in branding only. Given these concerns, how does the Pension Fund assess the environmental impact of its investments to minimise "greenwashing"?

Launched in 2002, Impax Environmental Markets plc is today the UK's largest environmental investment trust. The Fund has held shares in Impax since 2014, which is well before the recent popularity in 'sustainable' funds.

Their objective is to deliver long term capital growth by investing in companies offering solutions to environmental challenges, particularly

- clean energy and energy efficiency
- water treatment and pollution control
- waste technology and natural resource management
- sustainable food

Because of the areas in which it operates it may well have a carbon intensity above that of the average company.

In 2019 Impax Environmental Markets plc was awarded the Green Economy Mark by the London Stock Exchange in recognition of the company's revenues from products and services that contribute to the global green economy.

The Pension Fund is aware of the risk of 'greenwashing' and works with LGPS Central to challenge external managers on portfolio construction and the ESG metrics reported.

Question 9

A number of Local Authority Pension Funds in the Brunel Pension Partnership have moved substantial investments into a Paris-aligned passive equity fund based on a FTSE Russell index. It is now more than six years since Notts Pension Fund AGM in 2015 was told that "alternative indexes would be considered" to address the risk of fossil fuel reserves becoming stranded assets. How much longer will it be before you move your passive equity investments into a Paris-aligned fund?

It is possible for the Pension Fund as a whole to be Paris-aligned whilst continuing to hold some passive funds indexed against market capitalisation. The Fund has significantly reduced its allocation to passive equities during the year and reviews its asset allocation at least once a year. All options are considered on an ongoing basis.

It should be noted that there are advantages to market cap funds:

- If the global market reaches net zero this will be reflected in these funds and they will be aligned

- If the global market does not reach net zero, fossil fuel companies are likely to outperform so some exposure to these through a market cap fund will improve the performance of an investment strategy which has been positioned for a net zero transition

- The management cost of market cap passive funds continues to be considerably cheaper than other indices

Question 10

As a County resident, I would like to ask how the Pension Fund assesses the environmental impact of its infrastructure investments? Will it work to ensure that all infrastructure investments are aligned with limiting global heating to 1.5 degrees C?

LGPS Central is developing its Net Zero strategy in accordance with the IIGCC Net Zero framework. Whilst this will initially focus on Equities, Corporate Bonds, Sovereign Bonds and Real Estate assets, focus will turn to private market and infrastructure as data disclosure and analysis evolves.

LGPS Central is working on our behalf with a number of external managers to improve ESG reporting across the asset class. This project will identify key risk indicators and key performance indicators that should standardise reporting across the Private Equity sector and facilitate better assessment of both the ESG performance of assets and funds as well as the measurement of impact.

Before investment in an infrastructure fund or asset takes place, due diligence is undertaken to assess the Environmental, Social and Governance Risks (including climate change) associated with the investment opportunity and how these risks are being managed. Ongoing monitoring is also undertaken to ensure that the investment manager continues to satisfy expectations.

The Fund has recently made significant commitments to LGPS Central's Infrastructure fund. LGPS Central are actively looking for opportunities in the renewables and green tech space and assets that are positively positioned in terms of the transition to a lower carbon economy. A significant exposure to renewables is planned in this fund and this resulted in a significant allocation to a renewables focused fund in 2021 which also has exposure to energy from waste in the UK.

Question 11

Do you agree that, in order to support the aims of the Paris Agreement, the option for individual pension fund members of investing additional voluntary contributions (AVC's) in funds which include oil and gas companies should be closed?

Pension Fund members should be able to make their own investment decisions.

There are two AVC companies for members of the Nottinghamshire Pension Fund – Prudential and Scottish Widows. For those members who feel this is an appropriate strategy, both companies have environmental funds.

The Prudential Positive Impact fund aims to provide a higher total return than the MSCI ACWI Index over any five-year period; and to invest in companies that aim to have a positive societal impact through addressing the world's major social and environmental challenges. The fund manager has discretion to invest in companies with limited exposure to fossil fuels but which are driving or significantly participating in the transition to a more sustainable economy.

The Scottish Widows Environmental Fund aims to provide capital growth by investing in companies showing a commitment to the protection and preservation of the natural environment. The Fund will not invest in thermal coal, gas, oil or tar-sands companies.

It should be noted that these funds are identified as ‘Medium to Higher risk’ or ‘Adventurous’ and so will not be suitable for every investor.

Question 12

There is currently no Pensioner representation on the Pension Fund Committee. Please can you indicate the process by which the empty posts will be filled – and by what date.

The vacancies will be advertised in the Annual Pensioner information Leaflet which will be circulated to all pensioners within the fund with the Pension Payslips at the end of March.

The communication will provide information on how pensioners can apply.

Interested pensioners will be asked to complete a simple application, with anyone shortlisted being invited to interview.

Unfortunately, previous attempts made to recruit to the Pensioner Representative vacancies have failed to attract interest.

The meeting closed at 2:42pm

CHAIRMAN
Notes of AGM – 17 January 2022