Nottinghamshire County Council Pension Fund Climate Strategy

1. Introduction

As the world faces the escalating impacts of climate change, urgent action is required to limit the worst effects of global warming. The recently released Intergovernmental Panel on Climate Change (IPCC) Sixth Assessment Report (AR6) has made it clear that we need to act now to limit global warming to 1.5 degrees Celsius. In order to achieve this, greenhouse gas emissions must peak no later than 2025 and be reduced by almost 50% from 2010 levels by 2030, and reach net zero around mid-century.

The Fund supports the finance industry's role in transitioning to a low-carbon economy through our climate strategy. We seek sustainable markets that create long-term value and returns. Climate change is a risk that can't be fully diversified, and how companies and policymakers respond to it will likely affect profits and returns. The Fund takes a holistic approach to managing this risk through portfolio construction, engagement, and policy advocacy for a low-carbon economy.

2. Governance of Climate Change Risk

The Pension Fund Committee is responsible for approving the Fund’s policies and procedures including the Fund’s Climate Strategy. Responsibility for the implementation of the Strategy is held by the Service Director for Finance, Infrastructure and Improvement, the Group Manager Financial Services, and the Senior Accountant Pensions and Treasury Management. The Pension Fund Committee will review the strategy on an annual basis. This will be scheduled to coincide with the annual update of carbon risk metrics. Committee members receive training on climate change annually to help them discharge their responsibilities.

As a primarily externally managed Fund, the implementation of much of the management of climate-related risk is delegated onwards to portfolio managers, with oversight from the Fund Officers. Where appropriate, LGPS Central assists the Fund in assessing and managing climate-related risks.

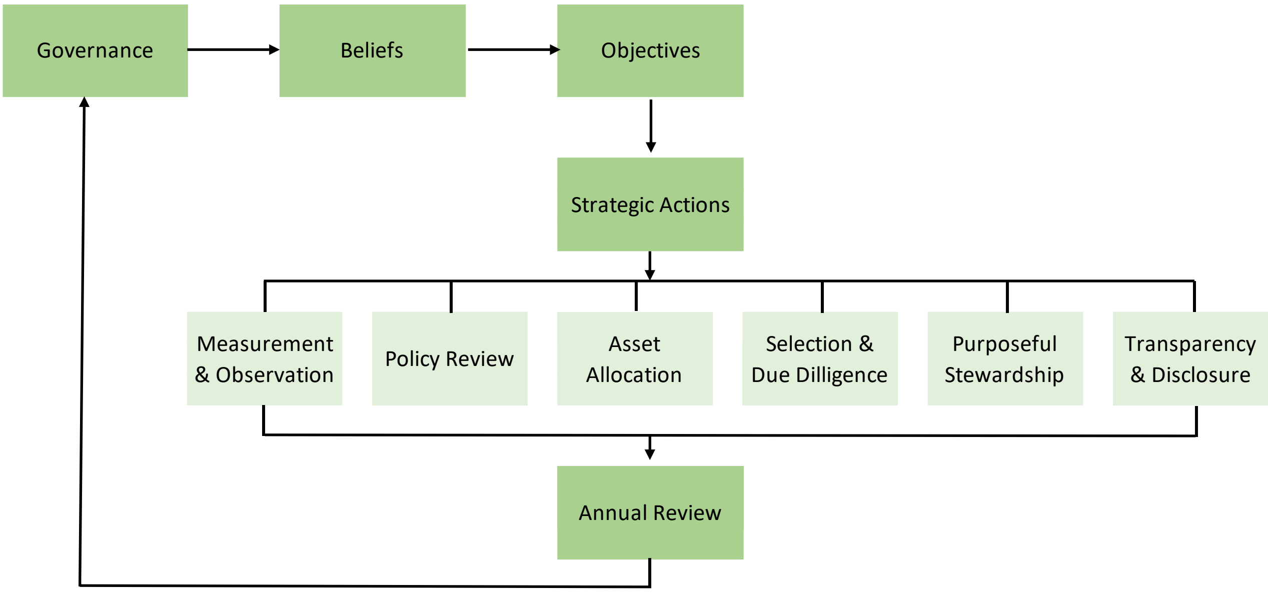

Figure 1: Depiction of the Climate Strategy

3. Evidence-based beliefs related to climate change

1. As a result of anthropogenic activities, the world is warming at an unsustainable rate. Already the world is approximately 1.1°C warmer than pre-industrial levels. Unabated, such change would be devasting for our way of life.

2. There is overwhelming evidence that climate change is impacting the environment. This will have long-term consequences for our financial system. We hold that the economic damages of climate change will outweigh the costs of precautionary mitigation.

3. Climate change is a financially material risk for the Fund. It has the potential to impact our members, employers and all our holdings across asset classes. Due consideration of climate risk falls within the scope of the Fund's fiduciary duty.

4. Climate change has the potential to impact the funding level of the Fund through impacts on employer covenant, asset pricing, and longer-term inflation, interest rates and life expectancy.

5. The Fund strongly supports the Paris Agreement on climate change.

6. A transition to a low-carbon economy is essential. This requires greenhouse gas emissions to decline to net-zero by 2050. This will happen not only by focussing on the suppliers of energy but the demand for energy must also undergo a major transformation.

7. All companies should align their business activities with the Paris Agreement on climate change. It is possible for a high-emitting company to undergo this transformation and thrive in the transition to a low-carbon future.

8. Investors have an important role to play in the transition to a low-carbon economy. We would be less likely to realise a Paris-aligned energy transition were investors to cease influencing company behaviours.

9. A global co-ordinated response is needed to limit the rise in temperatures. No individual investor is influential enough to act alone. Governments, policy-makers, consumers, companies and investors all have a role to play. Acting in collaboration will increase the likelihood of an orderly transition to a low-carbon economy.

10. Climate-aware decisions are most effectively made with accurate, relevant, complete, and comparable data.

4. Climate-Related Objectives

Climate Risk Assessment:

Conduct thorough assessments of climate risks and opportunities for the Fund's investments, including both transition risks (such as policy and regulatory changes) and physical risks (such as extreme weather events).

Climate-Aware Portfolio Management:

Ensure that the Fund's investment portfolio, including existing assets and future acquisitions, is resilient to climate change impacts by considering material climate-related risks and opportunities in the Fund's investment decision-making process. This includes climate change integration in the selection and due diligence of assets, as well as continuous monitoring of assets to ensure that they remain aligned with the Fund's climate objectives.

Engagement with Companies:

Engage with companies in the Fund's portfolio to encourage them to reduce their greenhouse gas emissions and improve their climate resilience.

Carbon Footprinting:

Measure and disclose the carbon footprint of the Fund's investments to better understand the Fund's exposure to climate risks and opportunities.

Stewardship:

Use the Fund's shareholder influence to advocate for more sustainable business practices and policies, such as setting emissions reduction targets, reporting on climate risks, and integrating climate considerations into corporate governance.

Policy Advocacy:

Advocate for public policies that support the transition to a low-carbon economy, such as carbon pricing, renewable energy incentives, and energy efficiency standards.

Education and Communication:

Educate stakeholders on the importance of addressing climate change and the Fund's efforts to manage climate risks and opportunities, while being transparent about the Fund's approach to climate change.

5. Strategic Actions

5.1 Measurement & Observation

The Fund will make regular measurements and observations on the climate-related risks and opportunities relating to our Fund. This includes:

- An annual carbon risk metrics assessment of the Fund’s listed equities and fixed income assets.
- A triennial economic assessment of the Fund’s asset allocation against plausible climate-related scenarios
- Monitoring the likelihood of different climate scenarios, drawing on the Fund’s suppliers and advisers
- Identification of the greatest climate-related risks to the Fund.

The Fund aims to use the best available tools and techniques to analyse climate-related risks and opportunities the Fund is exposed to. It is recognised that certain methodologies are in the early stages of development, including measuring Fund alignment with the Paris Agreement. As such, efforts to develop credible methodologies will be supported.

5.2 Asset Allocation

Where permitted by a credible evidence base, climate change factors will be integrated into reviews of our asset allocation, subject to the requirements of the Investment Strategy Statement and Funding Strategy Statement. This includes exploring potential investments in sustainable private equity, green bonds and low-carbon passive equities. The Fund will also consider additional allocations to Global Sustainable Equities and Infrastructure.

That Members use the Climate Strategy as a means to consider divestment from fossil fuels.

5.3 Selection and Due Diligence

In the selection and due diligence of new funds material climate-related risks and opportunities will be considered, alongside the manager's approach to managing climate risks.

The Fund's expectations on climate risk management will be specified in investment mandates, investment management agreements and other relevant documentation.

5.4 Purposeful Stewardship

The Fund will monitor engagement with its investee companies and portfolio managers through its Climate Stewardship Plan (Appendix 1). The Fund will report progress against its Climate Stewardship Plan on an annual basis. (It should be noted that although the Climate Stewardship Plan is new, some of the activity within it already takes place as part of the ongoing risk management of the Pension Fund.)

Appointed investment managers will be regularly monitored to ensure climate-related risk is fully integrated into the investment process. The Fund will make use of the IIGCC's "addressing climate risks and opportunities in the investment process" as an aid. In addition, the Fund will:

- Discuss with equity managers the influence of climate factors on their sector positioning
- Discuss with real asset managers their physical risk resilience and GRESB (Global Real Estate Sustainability Benchmark) participation
- Engage corporate bond managers on their approach to assessing climate risk within their portfolios in the absence of reported GHG emissions data

Through LGPS Central, the Fund will join collaborations of like-minded institutional investors to collectively lobby for Paris-aligned climate policies.

The Fund will make will use of voting rights and will co-file or support climate-related shareholder resolutions where appropriate.

5.5 Transparency & Disclosure

The Fund will prepare and disclose a Taskforce for Climate-related Financial Disclosures (TCFD) report annually, which will include carbon risk metrics.

The Fund will report progress on the annual Climate Stewardship Plan to the Nottinghamshire Pension Fund Committee on an annual basis.

A summary of voting and engagement activities will be published in the Annual Report, along with a summary of the Fund's Climate Risk Report in a manner consistent with the TCFD Recommendations.

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Appendix 1: Climate Stewardship Plan

The Climate Stewardship Plan identifies the areas in which stewardship techniques can be leveraged to further understand and manage climate-related risks within the Fund. The Climate Stewardship Plan is based on the findings of the Fund's Climate Risk Report.

Part 1: Company Engagement

The Fund will continue to monitor engagements with a [1] list of investee companies across materials, energy and mining sectors that face a high level of climate risk and are of particular significance to the Fund's portfolio. All of these companies are captured by the Climate Action 100+ (CA100+) engagement project[2], in which our pooling company LGPS Central is an active participant.

In leveraging this investor partnership the Fund is able to engage and monitor progress for the focus list companies against the CA100+ Net Zero Benchmark Framework. All companies have been asked to set a a 2050 net zero emissions ambition and to provide verifiable evidence of how that will be achieved in the short, medium and long term. Each company is assessed against eight key Framework indicators and the results are made publicly available by CA100+. Company response and engagement progress will feed in to voting decisions undertaken by the Fund. LGPS Central will provide an annual update on engagements on the investee companies listed in the Fund's Climate Stewardship Plan. The Fund will continue to engage investee companies on all elements of the CA100+ Framework but with particular emphasis on:

Company	Sector	Issue/Objective
BHP	Materials	• For BHP to suspend memberships from any association that is not aligned with their own climate change goals • For BHP to establish clear short-, medium- and long-term GHG reduction targets that cover all material scope 1, 2 and 3 GHG emissions and are aligned with a 1.5°C warming trajectory
BP	Energy	• Achievement of the high-level objectives of the CA100+ initiative • To duly account for climate risks in financial reporting

[2] Climate Action 100+ (CA100+) was initiated in December 2017 and is supported by more than 500 investors with 47 trillion USD in AUM. The project builds on a relatively simple but powerful logic: Engage and influence the highest emitters (80% of global industrial emissions) and you influence whole sectors, markets and the global economy with a view to assisting an orderly transition to a low-carbon economy.

CRH	Materials	• Improved disclosure around its membership and involvement in trade associations engaged in climate issues • More robust reporting of Scope 1, 2 and 3 emissions • Increased development of activities focusing on low-carbon cement solutions
ExxonMobil	Energy	• Achievement of the high-level objectives of the CA100+ initiative including attainment of the specific indicators in the CA100+ Benchmark Framework
Glencore	Materials	• Achievement of the high-level objectives of the CA100+ initiative including attainment of the specific indicators in the CA100+ benchmark
Rio Tinto	Diversified Mining	• Achievement of the high-level objectives of the CA100+ initiative
Shell	Energy	• To set and publish targets that are aligned with the goal of the Paris Agreement • To fully reflect its net-zero ambition in its operational plans and budgets • To set a transparent strategy for achieving net-zero emissions by 2050
Total	Energy	• Achievement of the high-level objectives of the CA100+ initiative including attainment of the specific indicators in the CA100+ Benchmark Framework
Anglo-American	Materials	• Achievement of the high-level objectives of the CA100+ initiative
NextEra Energy	Utilities	• To set science-based targets (SBTs) through the Science Based Targets initiative (SBTi).
Reliance Industries	Energy	• To disclose and set clear implementation targets for its decarbonisation strategy, including a strategy to meet those targets.
Cemex	Materials	• To enhance capex strategy disclosure with relation to the achievement of its decarbonisation targets.
Southern Company	Utilities	• To set science-based targets (SBTs) through the Science Based Targets initiative (SBTi).

The Fund will continue to monitor identified investment managers to ensure climate-related risk is fully integrated into their investment process. The Fund will engage its managers on the following issues:

Asset Class	Topic
Equities	• The influence of climate factors on sector positioning • Stewardship activities with companies identified in Climate Risk Report
Fixed Income	• Approach to assessing climate risk in the absence of reported GHG emissions data • Engagement with the most intensive carbon issuers

	• Extent of investment in green bonds
Real Assets	• Physical risk resilience • GRESB participation