Pension Fund AGM – 4th October 2018

Question from

Jeannie Thompson

Unison agreed at its 20127 conference to campaign for disinvestment from fossil fuels extraction and to "call on local LGPS to invest safely for pension holders well being by disinvesting over 5 yrs and reinvesting into the just transition giving due regard to fiduciary duty"

Will the Notts pension fund agree to meet Unison representatives to discuss the need to protect members funds from the long term risks of fossil reserves becoming "stranded assets" which we will not be able to burn if want to avoid uncontrolled climate crisis?

Answer

Members' pensions are not at risk as this is a defined benefit scheme and members' pensions are underwritten by employers.

The Pension Fund Committee regularly considers all risks associated with its investments and has produced an Investment Strategy Statement which includes details on its approach in this area.

The Pension Fund Committee includes Nottinghamshire County Councillors, Nottingham City Councillors, Nottingham Local Authorities' Association representatives, a Scheduled Body representative, Pensioner representatives and 2 Trades Union representatives, one of whom is from Unison.

We take seriously the risks of climate change and to the value of fossil fuel equities and partner both directly and indirectly through LGPS Central with a number of organisations who are actively engaging with companies to ensure they have a sustainable strategy for the future given the likely changes in power generation and fuel use. It is important that responsible investors continue to exert this influence, so we do not agree that disinvesting in all fossil fuel companies is an appropriate response to the issue.

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Question from

Jill Gross

There is frequent mention of risk and risk management in the Annual Report. Given that climate change (and here I use terms found in the report) is "almost certain" and that the impact will be "catastrophic" resulting in "very high risk", why is there no analysis of the risks to investments associated with climate crisis to be found in the Annual Report?

Answer

The Nottinghamshire Pension Fund Annual Report does not state that climate change is “almost certain”, or that the impact will be “catastrophic” resulting in “very high risk”.

What the report does do is provide information in the Risk Register on the risks to the fund (covering governance, investment and administration).

The risks to investments associated with climate change is covered by risk Inv 3 – Fund assets are assessed as insufficient to meet long term liabilities. In terms of total investments this risk was assessed as High. There are a number of controls and ongoing monitoring to mitigate this risk.

In addition the report sets out the Funds Investment Strategy Statement which provides details on the Funds approach to social, environmental and corporate governance factors.

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Question from

Richard McCance

1. At the 2015 AGM we were told that 'the use of alternative indexes (which exclude fossil fuel companies) would be considered in future training sessions. This was not discussed until a Working Party in January 2018, and still not considered by the Pension Fund Committee. Why a complete lack of urgency on this subject?

2. The Department of Work and Pensions has just produced revised regulations for trust-based pension funds, requiring a Statement of Principles, to cover financially material considerations, including climate change. Will Notts Pension Fund (which is not Trust-based, so not directly covered by these regulations}, follow a similar approach.

Answer

The outcome of the January Working Party was discussed at the next available Pension Fund Committee in March 2018.

Local Government Pension Schemes are required to produce an Investment Strategy Statement (ISS) in accordance with the Guidelines set out by the Ministry of Housing, Communities and Local Government (MHCLG) and to keep this updated. The revised ISS following the March meeting includes a section on the Funds Investment Beliefs and is available on the Funds website and in the Annual Report.

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Question from

Rosemary Jarrett

The Parliamentary Environmental Audit Committee released the following statement on June 4th 2018:

The government should make it mandatory for large companies and asset owners- such as pension funds-to report their exposure to climate change risks and opportunities by 2022.

The Committee also want to see pension savers like myself being given greater opportunities to engage with decisions about where our money is invested.

Given the horrendous consequences of ignoring increases in global warming, brought about by the use of carbon based fuels, will the Committee of Nottinghamshire Pension Fund, listen to myself and other concerned pension savers and introduce an audit of investments, noting the risks to climate change from the activities of Companies that we invest in?

Answer

The Local Government Pension Scheme is governed by rules and regulations set out by the Ministry of Housing, Communities and Local Government (MHCLG) and the Nottinghamshire Fund complies with all regulations.

MHCLG have specified that all Funds must prepare an Investment Strategy Statement (ISS) which sets out:

a) A requirement to invest money in a wide variety of investments;

b) The authority's assessment of the suitability of particular investments and types of investments;

c) The authority's approach to risk, including the ways in which risks are to be measured and managed;

d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;

e) The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and

f) The authority’s policy on the exercise of rights (including voting rights) attaching to investments.

The Nottinghamshire Pension Fund ISS is regularly reviewed and is included in the annual report and available on the Funds website.

Investments change frequently, so an audit would only ever be on a snapshot in time. We prefer a more robust process of evaluating financially material considerations in the selection, retention and realisation of investments. This includes but is not limited to environmental, social and governance considerations, including climate change,

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Question from

Cath Sutherland

Notts Pension Fund has over £300m invested in fossil fuel company equities, over £200m of this in companies exposed to the fracking bubble. This is a risk to the security of our future pensions because:

- There are warnings from the Bank of England and other respected financial institutions that government-level decisions are likely to be made in the next few years that most known fossil fuel reserves will have to be left in the ground and will become "stranded assets" with big write-downs in value probable.
- There are continued warnings that the major oil companies are increasing debt while reducing capital expenditure.

Sudden collapses in markets in the past have seemed inconceivable until they suddenly happen, but have always been predicted, with the predictions being ignored. This applies to housing bubbles in the past, and to the 2008 financial crash. The collapse in fossil fuel markets are likely be even more disruptive.

How much longer will it take before Nott's Pension Fund investment managers take heed of the warnings about investments in fossil fuels, and implement a strategy to disinvest in them within a few years?

Answer

I would like to reassure all pension fund members that their pensions are not at risk. The LGPS is a defined benefit scheme and benefits are funded by employers and not dependent on the performance of investments.

Climate change is one of many material financial Responsible Investment (RI) risks that the Fund has identified and actively seeks to manage.

We take seriously the risks of climate change and to the value of fossil fuel equities and partner both directly and indirectly through LGPS Central with a number of organisations who are actively engaging with companies to ensure they have a sustainable strategy for the future given the likely changes in power generation and fuel use. It is important that responsible investors continue to exert this influence, so we do not agree that disinvesting in all fossil fuel companies is an appropriate response to the issue.

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Question from

Peter Jaggar

Notts Pension Fund has over £300m invested in fossil fuel companies - which is the energy of the past and known to be responsible for potentially disastrous climate change. Since the Fund has identified climate change as a financial risk, please can you explain how the management of the portfolio has been changing to reflect this, and in particular indicate how much (%tage and actual amounts) is now invested in renewable energy and/or low carbon infrastructure - the energy of the future? Can you give examples of investment in local low carbon infrastructure?

Answer

Nottinghamshire Pension Fund currently has a 5% allocation to Infrastructure investments and much of this investment is in renewable energy. As at end June 2018 £201m was invested in infrastructure, with a further £10m invested in Impax Environmental, amounting to 4% of the fund. The remaining 1% of the allocation has been committed and is awaiting investment.

This is an increasing area of investment (infrastructure investment having increased from £149m a year previously). An increase to this allocation will be discussed at the next Pensions Working Party, a move which will reduce our investment in fossil fuels and increase our investment in renewable energy and low carbon infrastructure.

We do have a very local investment in renewable energy in the Langar Lane Solar Farm.