AGM questions and answers 3rd October 2019

Financial risk of divestment from tobacco

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In February 2017 a report from the Fund's Independent Advisor concluded that "tobacco stocks are likely to remain an attractive investment for pension funds and a financial case for divestment cannot be made". Although that report mentioned vaping as a potential threat, there was no discussion of the risks of regulatory hazard to tobacco - for example no reference to ongoing consideration by the US FDA of banning menthol cigarettes. The Advisor's report was supported by reference to the MSCI World Tobacco Index which showed better returns in previous years than for the MSCI World Index. However, this Index now shows (30 August 2019 https://www.msci.com/documents/10199/60e06c7e-e189-4193-b7d4-fcee21c3c2fa) a decline in net returns from the tobacco industry since mid 2017 with net returns in 2018 of minus 35.36% for World Tobacco compared to minus 8.71% for the World Index, and for the last three years an average net return for World Tobacco of minus 10.31%p.a. compared to plus 9.63%p.a. for the World Index.

Is it still the view of the Fund that returns from tobacco are so good that it would be unlawful to divest from tobacco?

Nigel Lee

Thank you for your question.

Return comparisons have to be made over a long time period in order to be meaningful, and there will always be short periods of both over and underperformance. These should not be the basis for any investment decision. Our Independent Adviser in his report placed weight on the flow of growing dividends which tobacco companies generate over long periods. This is particularly beneficial to pension funds such as this one aiming to match liabilities. He also commented that tougher regulation is likely to benefit incumbent tobacco producers, because it creates larger barriers to entry. On this basis it remains our view that there are no financial grounds for divestment from tobacco at the moment. However we do review the position on a regular basis.

Dear Nottinghamshire LGPS,

As a member of the Nottinghamshire Pension Fund I wish to ask the following question at its forthcoming AGM on October 3rd 2019:

I would like to know exactly which fossil fuel companies my pension money is being invested in. In Nigel Stevenson's letter of 3rd September 2019 to me in response to my concerns over fossil fuel investments he said that "We are transparent on our holdings in companies". Over 70% of the value of the Pension Fund's equity holdings is in Pooled funds (formerly called 'Managed Funds' in the published equity listings). The Pensions Fund's published holdings do not provide any details of which companies' shares are held within these Pooled funds. Please can you tell me exactly which fossil fuel companies the Pension Fund currently has investments in, and the value of these investments in each company? This includes investments through Pooled funds.

Please confirm receipt of this email.

Many thanks

Michael Howard

Thank you for your question.

The Nottinghamshire LGPS Pension Fund publishes all its direct holdings on a quarterly 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 proportions held in major industries, 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.

Dear Nottinghamshire LGPS,

I wish to ask the following question at the forthcoming AGM of the Nottinghamshire Local Government Pension Scheme on October 3rd 2019

"Nigel Stevenson's letter of 3rd September 2019, which I received after writing to the Pension Fund Committee to express my concerns over fossil fuel investments, said that the Pension Fund's engagement strategy is 'supportive of societal outcomes'. As a result of your engagement strategy, which fossil fuel companies have emissions strategies which meet the emissions reductions pathway set out as necessary by the Intergovernmental Panel on Climate Change to avoid catastrophic climate change? If there are none, how do you regard engagement as 'supportive of societal outcomes', when the societal outcomes will be the catastrophic impacts of climate change?"

Please confirm receipt of this email,

Yours Faithfully

Stephen Flaherty, Member of Nottinghamshire LGPS

Thank you for your question.

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.
For example, LGPS Central is supporting 161 engagements with the most carbon intensive companies globally across sectors (including oil & gas, mining, autos and aerospace), via a collaborative investor initiative Climate Action 100+ . Climate Action 100+ engagements have three key objectives:

- **robust governance of climate risk,**
- **climate change disclosure in line with the recommendations of the Taskforce on Climate-related Financial Disclosures, and**
- **the alignment of business models with a 2°C pathway.**

Examples of positive developments following engagement are:

Anglo American - have a long-term ambition for 'carbon-neutral operations'.

Arcelor Mittal - are committed to be 'carbon neutral in its European operations by 2050'

BHP Billiton – have a goal of net-zero emissions by 2050, including scope 3 emissions

SSAB – have a target to 'become fossil-free within entire operations by 2045'

Thyssenkrupp – have a target for carbon-neutral steel production by 2050

HeidelbergCement – have a target verified as a Science Based Target and an announced ambition to be carbon neutral by 2050

Eni SpA – have a 2030 objective to achieve net zero emissions (Scope 1) in its upstream business by 2030 and to become "carbon neutral" in the long term

Daimler – aim to have a Carbon-neutral fleet of passenger cars by 2039

Volkswagen – aim to have a Carbon-neutral vehicle-fleet by 2050

Centrica – intend to demonstrate Paris Agreement alignment by 2031 and develop a path to net zero internal emissions by 2050

CEZ – have a commitment to generate carbon-neutral electricity before 2050

E.ON – are committed to be 'carbon neutral by 2050'

EDF – have a commitment to carbon neutrality (direct emissions) by 2050

ENEL – have a commitment to 'carbon neutrality' by 2050

LGPS Central also report seeing significant progress made by BP, Shell, Glencore, Centrica and Rio Tinto.

For example, fFollowing Climate Action 100+ engagement through LGPS Central involvement, Shell has set carbon intensity targets as part of overall carbon reduction ambition. These targets are linked to remuneration/incentive plans. Shell has set new standards of transparency on involvement with trade associations (some of which lobby against climate measures). Following a review of the extent to which the climate change positions of these trade associations aligns with that of Shell, membership of the American Fuel & Petrochemical Manufacturers was revoked.

At the AGM this spring we co-filed, through LGPS Central, a shareholder resolution that calls for BP to articulate a business strategy, including capital expenditure decisions, consistent with the Paris Goals. 99% of ballots voted were in favour of this resolution. LGPS Central will continue engagement with BP to hold the company to account against the commitments made.

LGPS Central has also engaged Centrica Plc on decarbonising the business model, best practice disclosure, and helping customers reduce their carbon footprint in line with the Paris agreement; Rio Tinto on sale of thermal coal assets, improved risk management, best practice disclosure, and transparency over trade associations, and Glencore Plc on decarbonising the business model, limiting coal production, and increasing production of commodities supporting a low-carbon economy.

However despite all this positive progress, we recognise more needs to be done to hold companies to account relative to their climate targets and commitments. LGPS Central is a member of the Transition Pathway Initiative (or TPI) and sits on their Steering Group which develops metrics to hold companies to account. TPI, supported by its academic partner the Grantham Research Institute on Climate Change and the Environment at the London School of Economics and Political Science, provides a tool that measures both companies' climate change management and their carbon performance (including forward trajectory relative to the Paris goals).
TPI covers heavy emitting sectors (currently 14 sectors covered) and is working on new, robust ways to measure Paris alignment with a sector-specific lens.

Dear Nottinghamshire LGPS,

I wish to ask a question at the forthcoming AGM of the Nottinghamshire Local Government Pension Scheme on October 3rd 2019.

I'm not sure if I'll be able to attend the meeting in person as I'm at a tree planting course that day with another lady from Extinction Rebellion but I have a question for the people on the pension fund that I would like to be asked.

Climate change is not personal or political. I know that divesting from fossil fuels may not be easy for you. However, these are the facts (from IPCC 2018 report in my own words...):

Fact: We have until 2030 to halve global carbon emissions to have a 50% chance of keeping to a 1.5 degree Celsius rise in temperature which will still pose serious problems for us as a species, but less so than a rise above this. We are already witnessing unprecedented temperatures, floods, wildfires etc.

My question is this: Are we really willing to subject future generations to death because it is too "difficult" to take all the necessary & perhaps unprecedented steps to try & prevent these deaths? Even if it doesn't kill you personally, would you be comfortable knowing that collective inaction on climate change will lead to the beginning of even more erratic weather patterns, drought & famine, the deaths of thousands, then millions, then the extinction of all humans?

Every bit of action is necessary. I sincerely hope you do what is right & continue to do what is right both inside & outside of work to prevent the deaths of future generations.

Please confirm receipt of this email.

Thanks
Heather Sarno

Thank you for your question.

The purpose of the Pension Fund is to

- **to keep the contribution rate as constant as possible at reasonable cost to the taxpayers**
- **to manage employers' liabilities effectively**
- **to ensure that sufficient resources are available to meet all liabilities as they fall due and**
- **to maximise the returns from investments within reasonable risk parameters.**

We acknowledge that striking a balance between our stated purpose and the wider, long-term risks posed by for instance climate change is a demanding task. Our fiduciary duty and our stewardship responsibilities cross the whole investment chain, including in-house operations and engagement with external managers, companies, civil society, industry standard setters and policy makers.

The full spectrum of risks and opportunities linked to climate change and the transition to a low carbon economy are owned by all parties. As a long-term asset owner, we strive to build portfolio resilience to climate risks and to capture opportunities, through ESG integration and focused stewardship (as mentioned in examples above at company and sector levels).

We also place importance on supporting policy makers in adopting progressive and clear measures. This month the Institutional Investor Group on Climate Change, where our pool LGPS Central is a member, is asking EU leaders (ahead of the October European Council) to take urgent action and to provide investors with long-term certainty through a net-zero emissions target to be achieved by 2050 at the latest.

Dear Nottinghamshire LGPS,
I wish to ask the following question at the forthcoming AGM of the Nottinghamshire Local Government Pension Scheme on October 3rd 2019

"Extinction Rebellion Nottingham would be very pleased to give the Extinction Rebellion talk 'Heading for Extinction and what to do about it' to members of the Nottinghamshire Pension Fund Committee. The talk provides the latest science on climate change and biodiversity loss. The talk can be given at a time and place convenient to the Committee – perhaps as an addendum to a regular Committee meeting. Will the Committee accept this offer?"

Please confirm receipt of this email

Yours sincerely

Rachel Adams
Member of the Notts LGPS and of Extinction Rebellion Nottingham

Thank you for your question.

The Pension Fund Committee would like to thank Extinction Rebellion for their offer but the constitution prevents public speaking at committee meetings. The Committee are very familiar with the issues of climate change. If Extinction Rebellion would like to send a link to any online material we can circulate this to committee members.

Dear Nottinghamshire LGPS,

I wish to ask the following question at the forthcoming AGM of the Nottinghamshire Local Government Pension Scheme on October 3rd 2019

The Carbon Tracker Initiative's latest analysis shows that Shell, BP, and ExxonMobil all approved new non-Paris Agreement compliant fossil fuel exploration and extraction projects in 2018. Latest holding data shows that the Pension Fund holds £41.7m in BP shares and £73.9m in Royal Dutch Shell shares, while through its Pooled Legal & General North America Equity Index fund holding it also has holdings in ExxonMobil.

Does the Pension Fund believe that the achievement of the objective of the Paris Agreement on Climate Change – to limit global temperature rise to a safe level - is important? If so, why is it investing in companies who are undertaking new activities which work against the achievement of this objective, and bring us closer to catastrophic climate breakdown?

Please confirm receipt of this email,

Regards,
Kay Head

Thank you for your question.

We believe the achievement of the Paris agreement is very important. Through LGPS Central we have signed the Global Investor Statement on Climate Change issued by the Institutional Investor Group on Climate Change, urging global political leaders to take action. A progressive policy environment which provides long-term certainty would be supportive of the Fund's primary purpose to pay pensions.

The Global Investor Statement on Climate change calls on policy makers to:

- **achieve the goals of the Paris Agreement,**
- **accelerate private sector investment into the low carbon transition and**
- **commit to improve climate-related financial reporting.**

The Fund holds a diversified portfolio of investments to generate returns at an acceptable level of risk, in order to pay pensions and keep contributions stable.

In 2019 – after the 2018 carbon tracker analysis – BP and Shell announced ambitions to align their business models with the Paris Agreement

If engaged investors were to sell all the equity of oil & gas companies to un-engaged investors, companies would be less likely to change

The next two questions refer to Scope 3 emissions and were answered together.

Dear Nottinghamshire LGPS,

I wish to ask the following question at the forthcoming AGM of the Nottinghamshire Local Government Pension Scheme on October 3rd 2019:

Nigel Stevenson's letter to me regarding climate change and the Pension Fund's investments said that '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)'. In its November 2018 discussion paper TPI looked at attempts - or not - by 10 fossil fuel companies to measure and reduce emissions.

The TPI report concluded that the majority of oil and gas companies do not currently measure the major part of their emissions: those from the products they sell (known as Scope 3 emissions). Most have no reduction targets relating to these emissions, and those targets which do exist are likely insufficient to meet the Paris Agreement target relating even to 2°C of global warming (N.B. 2°C is now judged a catastrophic level of warming: the Intergovernmental Panel on Climate Change regards a maximum of 1.5°C as 'safe'). Some companies measure operational emissions, but in its discussion of the paper LGPS Central regarded operational emissions as 'irrelevant' in comparison to Scope 3 emissions.

Given this, do you regard the engagement strategy as successful to date in changing corporate behaviour to a model which will avoid catastrophic climate change impacts?

Please confirm receipt of this email,

Yours sincerely,

Carolyn Caldwell
Pension Fund Member

Dear Nottinghamshire LGPS,

I wish to ask the following question at the forthcoming AGM of the Nottinghamshire Local Government Pension Scheme on October 3rd 2019:

"The Pension Fund believes in an engagement model with companies to manage climate change risks. The Chair's Foreword to the Fund's 2017-18 Annual Report says "This engagement approach continues to highlight and improve the resilience of corporate strategies at global resource companies in the wake of climate change agreements". The Paris Agreement on Climate Change commits all States to limit global temperature rise to well below 2°C and to pursue efforts to limit it to 1.5°C. (N.B. Following the IPCC's Special Report of 2018 1.5°C is now accepted as the maximum 'safe' level of warming.) The Pension Fund directly owns shares £41.7m in BP shares (as at 30 June 2019). BP has no plans to measure Scope 3 emissions (those from the fossil fuel products it sells), saying that it has no responsibility for them. These emissions make up the vast majority of the emissions relating to BP's activities. Do you regard BP's position as consistent with responsible corporate behaviour and the prevention of catastrophic climate change impacts? Can you point to any results from shareholder engagement with BP which are consistent with the reductions in its emissions required to prevent catastrophic climate change? If not, why does the Pension Fund persist with attempts to engage with BP rather than divesting from its shares?"

I would very much appreciate it if you would please confirm receipt of this email.

I will be attending the meeting on October 3rd to hear the response to my question.

Yours Faithfully,

Darren Wells

Thank you for your question.

The Pension Fund agrees that these Scope 3 emissions are extremely important, and that is taken into account in our engagement with and investments in (for example) motor companies, airlines and transportation companies who are able to both monitor and control their emissions. The Pension Fund does not focus exclusively on fossil fuel companies.

Through the TPI Steering Group, LGPS Central contributes financially to the TPI research quoted in the question precisely because we want to know where there are gaps, and to encourage companies to fill in the disclosure gaps.

At BP's AGM this spring we co-filed, through LGPS Central, a shareholder resolution that calls for the company to articulate a business strategy, including capital expenditure decisions, consistent with the Paris Goals. 99% of ballots voted were in favour of this resolution. We will continue engagement with BP to hold the company to account against the commitments made. BP's new Paris aligned strategy does recognise the importance of downstream emissions.

Shell is taking into account scope 3 in its 50% carbon reduction target by 2050. They emphasise the importance of establishing sector-wide matrix for doing this meaningfully, and Shell is actively seeking dialogue with industry peers on this particular issue. Scope 3 emissions make up approximately 80% of global emissions yet it is the most challenging element to assess. TPI is doing some ground-breaking work around Scope 3 emissions, for instance recently discussed in a workshop on diversified mining. Mining companies need to assess the lifecycle intensity per unit of commodity, and ultimately, mining companies need to change the way they make steel. Currently, metallurgical coal is used alongside iron ore in the production of steel.

Dear Nottinghamshire LGPS

I wish to ask the following question at the forthcoming AGM of the Nottinghamshire Local Government Pension Scheme on October 3rd 2019.

"In 2015 the Environment Agency Pension Fund declared an aim to substantially decarbonise their equity portfolio by 2020. In 2018 their Chair Joanne Segars (also the Chair of LGPS Central) announced they had already reduced their exposure to coal, oil and gas by over 90% while maintaining strong financial performance. Is there any reason why Nottinghamshire Pension Fund cannot emulate this achievement?"

Please confirm receipt of this email.

Best wishes

Andrew Martin

Thank you for your question.

In line with our approved Investment Strategy Statement the Nottinghamshire Pension Fund is moving in the same direction, with 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. Over time our exposure to fossil fuels will reduce as a result of these asset allocation and diversification decisions.

Dear Nottinghamshire LGPS,

I wish to ask the following question at the forthcoming AGM of the Nottinghamshire Local Government Pension Scheme on October 3rd 2019.

"Publically available information shows that the Pension Fund has holdings in ExxonMobil through its Pooled Legal & General North America Equity Index fund holding. It is possible and probably likely it holds shares in other oil majors such as ConocoPhilips and Chevron through this Legal & General fund and/or the Schroder North American Equity Fund. How do you engage on climate change risks with companies owned through Pooled funds? Further, what are the opportunities for doing so when these companies are based in North America?"

Please confirm receipt of this email,

Yours Faithfully

Sonia Moratto

Thank you for your question.

Our passive funds reflect the index they track so will contain the companies within the index. However this does not prevent the manager of the fund from engaging with the companies held in this fund. Legal and General undertake substantial engagement activities and use the combined investor power through these huge funds to influence companies. They produce quarterly engagement reports which are published online and are circulated to members. Their high ESG standards were assessed before the decision was made to invest through Legal and General. As a large international company, both Legal and General and Schroders have resources to engage with companies all over the world.

Dear Nottinghamshire LGPS,

As a pension fund member -I wish to ask the following question at the forthcoming AGM of the Nottinghamshire Local Government Pension Scheme on October 3rd 2019

"Analysis of the public disclosures and public messaging activities of ExxonMobil, Royal Dutch Shell, Chevron, BP and Total by the group Influence Map shows that from the end of 2015 - when the Paris Agreement on Climate Change was signed - to the end of 2018 these companies spent over $1bn of shareholder funds on lobbying and public messaging designed to delay, control or block policies to tackle climate change. Latest equity holdings show the Pension Fund directly holds £41.7m in BP shares and £73.9m in Royal Dutch Shell shares. Limited information available on its Pooled Legal & General North America Equity Index fund holding shows it also has holdings in ExxonMobil, with a likely value in the millions of pounds.

How do the activities of these companies match the expressed concern of the Pension Fund over climate change risks?

Do you believe that these activities show that the Pension Fund's engagement with fossil fuel companies over climate change risks is successful or unsuccessful in changing their behaviour?"

I hope to attend the meeting,

Please confirm receipt of this email,

Yours,

Stuart Jackson

Thank you for your question.

We place great value on the work of Influence Map and use it actively in our engagement efforts. Influence Map's data are used in collaborative engagement work which LGPS Central undertakes in collaboration with other investors within the Climate Action 100+ initiative. This led to focussed engagement with mining companies – referred to above – and over summer some intensive engagement with automotive and chemicals companies. The data of Influence Map were used to determine which sectors and companies we prioritised. Just two weeks ago, LGPS Central attended a presentation from Influence Map in order to receive an update on the state of play, and to plan to build on engagement successes for the year ahead.

Based on research from Influence Map identifying German car and chemicals companies as "laggards" relative to their lobbying activities, Climate Action 100+ initiated an engagement project this year targeting these companies asking for Paris alignment. The alternative – divesting – would in our view guarantee the preservation of the status quo, i.e. no change to lobbying practices.

Dear Nottinghamshire LGPS,

I am a member of the Nottinghamshire Local Government Pension Scheme and I wish to ask the following question at the forthcoming AGM of the Nottinghamshire Local Government Pension Scheme on October 3rd 2019

"The Intergovernmental Panel on Climate changes states that to have a 50% chance of avoiding catastrophic, irreversible climate change we must cut global emissions by 45% by 2030, and to net zero around 2050. Shell's plan is to cut the carbon intensity of each unit of energy it sells by 50% by 2050, while also increasing the amount of energy it sells, amounting to a less than 50% reduction in its carbon emissions. Do you regard Shell's plans as consistent with preventing catastrophic climate change? If not, why does the Pension Fund hold investments in Shell?"

Please confirm receipt of this email.

Yours faithfully,

Dr Sarah Maloy

Thank you for your question.

Shell has come a long way and is arguably a leader within oil & gas. Both Schroders and LGPS Central, among others, have been part of that journey via regular dialogue with the company and engaging to decarbonise.

Beyond its own commitments, Shell is actively reaching out to all industry peers to discuss and define meaningful scope 3 emission reduction targets. While Shell is not responsible for the efficiency of the vehicle of the end user, the company is looking to expand its products, business model and investments in order to provide for instance electricity charging for cars.

We recognise that different sectors will have different decarbonisation pathways and that we need, alongside investor engagement, policy engagement that can lead to clear and targeted policy interventions in alignment with Paris goals. Through LGPS Central we are members of the Institutional Investor Group on Climate Change advocating policy action. This month the Institutional Investor Group on Climate Change is asking EU leaders (ahead of the October European Council) to take urgent action and to provide investors with long-term certainty through a net-zero emissions target to be achieved by 2050 at the latest.

Dear Nottinghamshire LGPS,

I would like to ask the following question at the forthcoming AGM of the Nottinghamshire Local Government Pension Scheme on October 3rd 2019:

"How many hours per year, on average, does each committee member spend considering the suitability of the investments of £5 billion Pension Fund?"

Please can you confirm receipt of this email?

Yours sincerely,

Patrick Hort

Thank you for your question.

Including meetings, training events and meeting preparation, members spend a minimum of 50 hours a year on Pension Fund Committee matters considering both investments strategy and Pensions administration issues.

The Pension Fund Committee is supported by Officers, our Independent Adviser, Investment managers and LGPS Central.

Dear Nottinghamshire LGPS,

I wish to ask the following question at the forthcoming AGM of the Nottinghamshire Local Government Pension Scheme on October 3rd 2019

"Over 1,100 institutions around the world, with total value of over $11trillion, have chosen to partially or fully divest from fossil fuels. Around 160 pension funds are divesting, including full divestment commitments from Cardiff Council, Waltham Forest Council, Southwark Council, Monmouthshire Council and both the New York City Employees' and Teachers' funds. What do you believe is different about the way these institutions evaluate climate change and stranded assets risk in comparison with the Nottinghamshire Pension Fund?"

Please confirm receipt of this email,

Yours sincerely,

Sue Smithson
Member of Nottinghamshire Pension Fund.

Thank you for your question.

Unfortunately we cannot comment on decisions taken by other institutions decisions. Having said that, we do feel committing to divest from fossil fuels at the present time would be not the right decision, because almost every business in the world to some extend 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.

Pension Fund Committee members will review our investment strategy in the new year in full knowledge of the need to balance all risks including climate change.

Dear Nottinghamshire LGPS,

I wish to ask the following question at the forthcoming AGM of the Nottinghamshire Local Government Pension Scheme on October 3rd 2019

"The Pension Fund's Investment Strategy Statement refers to investments decisions made in the light of the 'long-term impacts of climate change'. Given the recent commitment at the United Nations, by many Insurance Companies and other Pension Funds, to move their investment away from Carbon-Heavy industries now, What is the Pension Fund's definition of 'long-term' in relation to climate change? Scientific climate attribution studies have shown that many extreme weather events we are already experiencing are either directly the result of human-induced climate change or have been made many times more likely by it. This includes the 2018 heatwave in the northern hemisphere, which a full scientific assessment concluded couldn't have occurred without human-induced climate change. When you make investment decisions, are you taking into account the impacts of climate change scientifically assessed as happening now?"

Please confirm receipt of this email,

Yours sincerely,

Rosemary Jarrett,

Nottinghamshire Local Government Pension Scheme member.

Thank you for your question.

When making investment decisions the Pension Fund is required to take into account all known risks relating to the financial effect of current and long term impacts of climate change and other environmental, social and governance risks. We will consider amending the wording of our Investments Strategy Statement at the next review to make this clearer. Thank you for your question.

Dear Nottinghamshire LGPS,

I wish to ask the following question at the forthcoming AGM of the Nottinghamshire Local Government Pension Scheme on October 3rd 2019

"The County Council states on its website that as a signatory to the Nottingham Declaration on Climate Change it is committed to "encouraging all sectors in our local community to take the opportunity to adapt to the impacts of climate change, reduce their own greenhouse gas emissions and make public their commitment to action". Please can you tell me what local investments the Pension Fund has made to help the County Council achieve these commitments since the signing of the Nottingham Declaration in the year 2000? Will the Pension Fund commit to increasing investments within Nottinghamshire into clean energy and other activities which help to mitigate climate change?"

I am a member of the Pension Fund. Please confirm receipt of this email, Yours sincerely

John Hort

Thank you for your question.

The Pension Fund is separate from the County Council.

The purpose of the Pension Fund is to
•to keep the contribution rate as constant as possible at reasonable cost to the taxpayers
•to manage employers' liabilities effectively
•to ensure that sufficient resources are available to meet all liabilities as they fall due and
•to maximise the returns from investments within reasonable risk parameters

In meeting these objectives the Pension Fund may make investments which are local, are in clean energy or mitigate climate change, and has done so, but this is not the aim of the Pension Fund and it would not be appropriate to commit to do so.

Dear Nottinghamshire LGPS,

I wish to ask the following question at the forthcoming AGM of the Nottinghamshire Local Government Pension Scheme on October 3rd 2019

"As at 30 June 2019 the Pension Fund held over £41.7million in BP shares, while publically available information shows that through its Pooled Legal & General North America Equity Index fund holding it also has holdings in ExxonMobil. BP and ExxonMobil lobbying disclosures show that over the last 3 years both companies have lobbied the US Government to open up the Arctic National Wildlife Refuge - the US's largest wildlife refuge - to exploratory oil drilling. The US Government is now in the final stages of completing the process of allowing drilling for oil there. In light of the need for radical reductions in carbon emissions to avoid catastrophic climate breakdown, does the Pension Fund believe that the opening up of new areas for oil exploration is sensible? Does it support the exploitation of a pristine and highly fragile wildlife refuge? If it does not, why is it - through its investment in BP's and ExxonMobil's shares - providing capital to the companies to lobby for and pursue these activities?"

Please confirm receipt of this email,

Yours sincerely

Sue Mallender Notts LGPS member

Thank you for your question.

We fully recognise that some of the positive work undertaken by companies can be undermined by the lobbying work they perform either directly or via trade associations. We have therefore joined fellow investors, via Climate Action 100+, the Institutional Investor Group on Climate Change and the Transition Pathway Initiative, in calling on companies to be transparent about their lobbying activities, lobbying expenditure, and to review the positions taken by trade associations to ensure consistency on climate change.

We have seen some engagement successes on lobbying with Rio Tinto and Shell providing transparency on trade associations. Shell has decided to cease its membership of the American Fuel & Petrochemical Manufacturers trade association, an association that opposes carbon taxes, following our engagement.

LGPS Central has this month stated its support of a shareholder resolution that asks mining company BHP Group to suspend membership in trade associations where Paris alignment is lacking. Following engagement, BHP did a review of its trade association memberships two years ago, and as a result decided to exit the World Coal Association. While BHP has led the way in being transparent and has taken initial action, we are concerned that the other associations BHP is still a member of continue to lobby in a way that runs contrary to the company's and shareholder interests.

Influence Map, a data provider to Climate Action 100+ has highlighted certain German-listed companies as laggards on lobbying disclosure, leading institutional investors to prioritise those companies for engagement.

Dear Nottinghamshire LGPS,

I wish to ask the following question at the forthcoming AGM of the Nottinghamshire Local Government Pension Scheme on October 3rd 2019

"In response to my email to the Pension Fund regarding my concerns over fossil fuel investments, I received a letter from Nigel Stevenson dated 3rd September 2019. In it he said "Diversification is a key technique available to institutional investors for improving risk-adjusted returns." How do you balance the greater diversification offered by holding fossil fuel company shares against the stronger returns shown by share indexes which exclude fossil fuel companies – for example, the FTSE Ex Fossil Fuel Share Index and the MSCI Ex Fossil Fuel Share Index? Given this stronger performance by the indexes which exclude fossil fuel companies, would the financial performance of the Pension Fund have been better over the last 5 years if you had benchmarked against one of these indexes, and if so, by how much? "

Please confirm receipt of this email,
Yours,

Rosemary Mansfield

Thank you for your question.

The benefits of diversification are demonstrated over long time periods. Given hindsight it is easy to find strategies which have outperformed, and others which have underperformed in comparison. And just comparing against a different benchmark does not necessarily affect the performance of an active portfolio. However it is true that the FTSE All-share index, and to a lesser extent, the FTSE All-World index, have a significant proportion of oil and gas companies. To increase diversification and reduce our exposure to this market the pension fund is considering moving some of our passive equity investments to low carbon and sustainable funds.

Dear Nottinghamshire LGPS,

I wish to ask the following question at the forthcoming AGM of the Nottinghamshire Local Government Pension Scheme on October 3rd 2019

"How do you monitor the results of your engagement with fossil fuel companies on climate change risks, and what do you regard as progress by them in addressing these risks which is adequate for you to continue to hold their shares?"

Please confirm receipt of this email,

yours Anna Dixon

Thank you for your question.

Through LGPS Centrals' membership of TPI (the Transition Pathway Initiative) and TPI steering committee influence, we assess fossil fuel companies and other high emitting companies on two key parameters 1) management quality and 2) carbon performance (how companies are positioned to reach the Paris goals). So far 274 companies in 14 sectors have been assessed on these parameters and given a score. With this information, we are able to monitor progress and see who the leaders and laggards are. The assessments are used actively in engagement and voting. As an example, we will vote against the board of a company if that company's TPI management quality is 1 or 0 (on a scale where 4 is the maximum score).

The TPI assessments are a part of a broad set of data that goes into Climate Action 100+ engagements alongside data from Carbon Tracker Initiative, 2 Degrees Investing Initiative and Influence Map. While engagements are ongoing, we will assess a company's performance relative to

1) **climate governance (including lobbying),**
2) **emissions (including setting targets, alignment with Paris, technology mix) and**
3) **disclosure.**

Supplementing this, is a 'soon to be released' progress report from Climate Action 100+ which will cover progress made in all engagements since inception of the project in December 2017. The overall goals for Climate Action 100+ are clear and progress is measured against those goals, and engagement will be escalated depending on the response of a given company.

LGPS Central uses Hermes Equity Ownership services to supplement their engagement and voting efforts globally. Below is a description of how Hermes monitors engagements with fossil fuel and other high emitting companies:

"The long-term outcome we seek is an oil & gas sector which invests in capital consistent with containing climate change to well below 2°C and which achieves net-zero emissions associated with its products and operations in line with the goals of the Paris Agreement, avoids pollution, always respects all human rights and operates with zero fatalities and injuries.

Key objectives on Climate Change include:

- **(i)** **the publication of a strategy consistent with the goals of the Paris Agreement, including long-term goals and short-to-medium term targets;**
- **(ii)** **disclosure and management of climate change risks in line with the guidelines of the Task Force on Climate related Financial Disclosures; and**
- **(iii)** **corporate public policy support for continued ambition to deliver the goals of the Paris Agreement on climate change and demonstration of aligned political lobbying activities."**

We wish to ask the following question at the forthcoming AGM of the Nottinghamshire Local Government Pension Scheme on October 3rd 2019

"Shell's Annual Report 2017 noted fossil fuel divestment as a risk to the company.

The growing global divestment movement – with over 1100 institutions now committed to divestment - will eventually harm major fossil fuel companies' profits and stock valuation, which in turn makes capital investment in fossil fuel exploration and new extraction harder. In line with Intergovernmental Panel on Climate Change analysis, radical reductions in fossil fuel exploration and extraction are societally desirable as they are necessary to prevent catastrophic climate change. Given this, why should the Pension Fund not commit to divestment?"

Please confirm receipt of this email,

Yours Faithfully,

Julian and Judy Marsh

For information, the following text is the actual quote from that Annual Report "some groups are pressuring certain investors to divest their investments in fossil fuel companies. If this were to continue, it could have a material adverse effect on the price of our securities and our ability to access equity capital markets. Similarly according to press reports, other financial institutions also appear to be considering limiting their exposure to certain fossil fuel projects. Accordingly, our ability to use financing for future projects may be adversely impacted."

Thank you for your question.

We applaud Shell for being transparent about climate risks, including regulatory risk, divestment risk and the increased attention to climate change from society, something we have encouraged via engagement.

Shell recently expressed (at a Responsible Investor conference mid-September this year) an aim to align with customer preferences/needs through decarbonisation of products and use of energy. When a company is showing credible signs of listening both to shareholders and customers, we see continued engagement and collaboration as a far superior tool to use in order to seek sector-wide changes. The herd mentality is a driver not to be underestimated and we need corporate leaders who have the courage to expose the risks they face.

True exposure of climate risk should also extend into future oil price assumptions in the accounts of companies. Through LGPS Central we are currently engaging with auditors because we are concerned that auditors do not sufficiently consider climate risks in company reports and accounts.

The Notts County Unison branch would like the following question to be raised at the Pensions AGM.

Nottinghamshire County Council's website states that "we… are a signatory to The Nottingham Declaration on Climate Change. This Declaration commits the Council to tackling the causes and effects of climate change and to encouraging all sectors in our local community to take the opportunity to adapt to the impacts of climate change, reduce their own greenhouse gas emissions and make public their commitment to action." According to the US Environmental Protection Agency, over 75% of global greenhouse gas emissions relate directly to the use of fossil fuels. Can you explain how the Pension Fund's investments in fossil fuel companies - administered by the County Council - are in line with the Council's commitment to tackle the causes of climate change?

Thank you for your question.

The Pension Fund is separate from the County Council.

The purpose of the Pension Fund is to

- **•to keep the contribution rate as constant as possible at reasonable cost to the taxpayers**
- **•to manage employers' liabilities effectively**
- **•to ensure that sufficient resources are available to meet all liabilities as they fall due and**
- **•to maximise the returns from investments within reasonable risk parameters**

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 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.