PENSIONS COMMITTEE 17 SEPTEMBER 2021

PUBLIC QUESTION TIME

1. Question from Clare Cooper

In case you have not read the latest IPCC report, here are some quotes:
"The IPCC 6th Assessment Report (AR6) is the most important assessment of humanity's future on Earth to date...Never have we had so much scientific evidence to demonstrate that we are in the midst of a global climate emergency….As the IPCC makes clear, the coming 9 years until 2030 are critically decisive and will set in motion changes that will impact humanity for the coming centuries, if not millenia….[They say that] everyone must phase out fossil fuels at record speed (cutting emissions in half each decade)….We can see the IPCC Report as the final warning, the bell signaling the final round. It is now or never. there is no room left for manoeuvre, no carbon budget left to spend." *Climate Crisis Advisory Group - ccag.earth/reports- The Final Warning Bell August 2021*

In addition, information from the next year's draft IPCC report states that global greenhouse gas emissions must peak in the next four years, coal and gas-fired power plants must close in the next decade and lifestyle and behavioural changes will be needed to avoid climate breakdown.

It is clear that fossil fuels must be phased out – it's either that fossil fuels become history or humanity *will* become history. It's that clear.

Any short term increase in share price would present the opportunity for divestment with minimum financial loss to the fund.

Q. From these stark and urgent warnings, how does the Shropshire County Pension Fund Committee justify continuing to invest in fossil fuels, which will become worthless assets, even within the short term?

What are your moral and ethical reasons for continuing to invest in the ultimate destruction of the earth and all its inhabitants, including yourselves?

Response:

Please refer to the response for question three.

2. Question from Kris Welch

In response to previous questions SCPF has given these reasons against divesting.

1. *Engagement is effective in changing company behaviour.* Engagement is effective for many issues, but has negligible impact on the core product of fossil fuel companies. The largest gas and oil producers including Shell and BP, are still not aligned with the Paris Agreement. Here are just two, of many, examples of fossil fuel green-washing **:**

Shell only commits to reducing the emissions ***intensity*** of their energy products, so they can increase fossil fuel production if balanced with renewable capacity.
BP's policies exclude its stake in Rosneft, which accounts for one third of its global production.

Tragically, new drilling has been announced this year; Shell off the coast of Texas and Brazil, and BP of the edge of the world's largest cold water coral reef. The year the International Energy Agency said there can be no further fossil fuel expansion in any country beyond 2021 if global climate goals are to be met.

Intensive engagement with major fossil fuel companies has been going on for decades, with negligible real impact; their anti-climate lobby built on the tactics used by the tobacco industry. With the domino effect of climate feedback loops that are beginning to happen, and the speed of climate breakdown, the policy of engagement is equivalent to doing nothing.

2. *The fund needs a diverse portfolio.* An investigation by Imperial College London found that diversification is not lost by divestment, that investors with long-term horizons should avoid oil and chemical stocks on investment grounds, and that fossil fuel companies are fighting decarbonisation tooth and nail. Divestment need not affect the number of asset managers and the number of fossil fuel companies, approx 16, account for a tiny percentage of the fund's total. Divestment will not compromise diversity.

3. *Divested stock may be bought by others with lower ESG principles*. By this argument the fund should include shares in eg drugs, guns, sex shops etc in order to keep others from having them. The fiduciary duty is to look after the pension fund, not retain high risk investments just in case someone else buys them.

4. *Divestment will adversely impact other companies that rely on fossil fuels.* The same argument as above applies, the fiduciary duty is to look after the pension fund.
   Additionally other industries are making their own transition to renewables. SCPF major shareholders Astrazeneca, Tesco, Microsoft are acting on their de-decarbonisation plans and moving to renewable energy. Technology is rapidly advancing; eg a Swedish company is producing steel without the use of fossil fuels and in Canada a company makes 'CarbiCrete' a cement free concrete. Industries can see the future and are racing to ditch fossil fuels.

My question is what other reasons does the fund have against divestment?

Response:

Please refer to the response for question three.

3. **<u>Question from Dr Jamie Russell</u>**

To date over $11trillion has been committed to divest from fossil fuels by institutional investors and groups around the world. Divestment is not an untried option; many institutions have done it and none have regretted or reversed the decision.

Among those who have committed to divestment are UK councils, universities, churches, government pension funds, insurance companies and many others.

The largest UK pension fund by members, NEST announced their divestment in March 2021. NEST stated that by re-investing directly in green energy generation, it will secure stable, long-term returns for pension savers, whilst also achieving its ambition of becoming a net-zero carbon investor.

In 2014 Rockefeller's – the family built on oil – divested and reinvested in clean, renewable energy, saying divestment "is a moral imperative to preserve a healthy planet."

On 1 September 2021 the finance minister of Iraq, one of the founding members of Opec, made an unprecedented call to fellow oil producers to move away from fossil fuel dependency and into renewable energy.

In a world where government regulation against heavy polluters is getting stricter, and traditional oil and gas companies are seeing their business models under threat, it simply makes good financial sense to divest.

Re-investing in renewables has several advantages:

It is ethical and offers the opportunity to invest in line with your values.

The sector is at the forefront of technological development. More efficient solar cells, using a structure called a "perovskite", is just one example of the cutting-edge research that is leading to lucrative breakthroughs in increasing generation capacity.

The renewables sector benefits from worldwide government support, including pledges from many countries to reduce their carbon footprints – requiring greater use of renewable energy.

Renewable energy can boost the economy by creating jobs in rural areas and lowering fuel imports.

Divestment offers the opportunity to put more pension money into financially growing, and ethically better, alternatives. A recent Forbes article notes: "Renewable energy investments are delivering massively better returns than fossil fuels in the U.S., the U.K. and Europe"

My question is: what advantages to divestment does SCPF recognise?

Response:

We are in a situation which is extremely urgent yet complex. If you narrow the tools at your disposal to a choice of "engage or divest", you easily miss the opportunities of a wide spectrum of engagement actions and escalation tactics including company dialogue, vote against Board members, public statements, shareholder proposals, industry standard setter dialogue and policy dialogue. We fear that divestment is over-estimated as a tool which will create change, whereas in reality it is a reaction more than an action.

How companies manage climate-related transition and physical risks, and opportunities is highly likely to affect long-term profits and company returns. The question we ask ourselves is: How can investors best encourage a broad transition towards a low-carbon economy and at the same time maintain attractive investment returns for their beneficiaries?

It is not sufficient to talk only to Oil & Gas companies. We actively engage both fossil fuel producers and all the companies on the demand side asking companies 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. To us, this is the most viable and most impactful way of using our voice. If we divested we would lose our seat at the table where we can directly influence as owners.

As an example: Exxon Mobil, a company that in every regard has been much slower to react to investors' demands for transition than Shell and BP, and as a consequence several responsible investors have divested. Other responsible investors that are still invested in Exxon succeeded this AGM in getting three new Board members onto the Board, and three of Exxon's existing Board members out. This is extraordinary and the company fought to stop it from happening. This was a targeted effort by minority shareholders (supported by LGPS Central) to get real change by revamping the Board, which ultimately holds Exxon to account. The campaign sought four new Board members and achieved three. An impactful and large investor in the US (CalPERS) was recently quoted as follows – which speaks to the downside of using divestment as a tool: "If a whole string of funds hadn't divested from Exxon in the last year or two, we could have won that vote and had four on the board."

To us, it is not about easing one's conscience, nor finding the most arguments against divestment, it is about using the investor voice and the breadth of ownership tools that we genuinely believe are key to achieving real-world decarbonisation.

4. <u>Question from Joanna Blackman</u>

In the light of the recent IPCC report, no informed person or organisation can fail to be aware of the terrifying future that burning fossil fuels is bringing ever closer. With that knowledge comes responsibility.

In the Paris Agreement, the world agreed that 1.5°C heating would be catastrophic and that all efforts should be made to avoid it, and that a rise of 2°C must not happen at any cost. Recent UN & IPCC reports have warned that we are now on course for at least a 3 to 4°C rise, with consequences so deadly, catastrophic and permanent that we can barely comprehend them. Professor Kevin Anderson, deputy director of the Tyndall Centre for Climate Change Research, has said that: "There is a widespread view that a 4°C future is incompatible with any reasonable characterisation of an organised, equitable and civilised global community.”

In stark contrast, climate scenarios produced by Mercer LLC for Shropshire's TCFD report predict that 4°C of heating will only impact the fund by as little as -0.06% to -0.1%, essentially no problem. (See Table 2 on page 11 of the TCFD report).

In seeking to understand this huge discrepancy, my questions are:

1. Does the Pensions Committee believe that Table 2 on page 11 of the TCFD report reliably predicts the future of financial markets as the world burns?
2. What does Mercer know about the future that thousands of scientists don’t know, which makes Mercer so optimistic about a world of 2°C, 3°C , and 4°C of heating?
3. Why does the Committee choose to trust the predictions and opinion of Mercer - one consultancy firm, over and above the research and evidence of thousands of scientists from across a wide spectrum of disciplines, institutions and countries, who are desperately urging the world to limit global heating to 1.5°C?

Response:

Members of the Pension Committee appreciate the risks of climate change, both environmental and financial. We agree that the science is clear. Climate action failure is the stand out, long term risk the world faces in likelihood and impact according to the 2020 Global Risks Report from the World Economic Forum. If ‘business as usual’ continues, the world could heat up by about 5 degrees by 2100 which would cause profound societal damages and significant human harm.

Climate change is a core stewardship theme that we have asked LGPS Central to engage companies on, on our behalf. Through LGPSC, we engage alongside peer investors to pursue the goals of ClimateAction 100+ which stipulate 10 key asks under a Net Zero Benchmark framework.

Under the 2°C scenario, climate-related *transition* risks are prominent, while climate-related *physical* risks are depressed as the world mitigates the impacts of climate change. In a 4°C scenario, where little corrective action is taken to tackle climate change, climate-related *physical* risks are higher and climate-related *transition* risks are lower. Therefore, an important consideration to note is that climate-related transition and physical risks impact asset classes differently across the climate change scenarios. SCPF’s asset allocation has a low allocation to <u>real</u> assets – which are most vulnerable to <u>physical</u> risks – and a large allocation in *fixed income assets* – which are relatively less sensitive to the different climate scenarios. The analysis undertaken on behalf of SCPF is a scenario analysis, rather than a deterministic prediction of future investment returns, and gives an indication of the direction of travel and the impact on different asset classes relative to each other.

SCPF will periodically utilise Climate Scenario Analysis, along with a variety of other methods, to assess the level of climate risk the Fund is exposed to. There are difficulties in modelling the impacts and implications of climate change on a multi asset investment portfolio and SCPF will stay up to date on the best methodologies and tools available in the market for future Climate Scenario Analysis.

5. Question from Suzanne Freegard

This Pensions Committee is set to vote on whether to divest Shropshire County Pension Fund from fossil fuel companies at its meeting in November. I would like to be assured that committee members will have the opportunity to debate and decide this important issue from the position of understanding all sides of the issue.

A member question at this committee's meeting in March noted that the committee has received presentations about continued engagement with fossil fuel companies on climate change, but it has not seen much from the divestment side of the debate. Supporting this question, Cllr Mellings said: "We have had a very clear steer around engagement, and that appears to be the preferred option, but there is an equally strong case, and some of us might argue an even stronger case, for divestment." Responding to the question, Chair Cllr Biggins said: "That is a point well made. We will take that on board."

My question today is, has this been taken on board? Specifically, what training opportunities have been provided for committee members to learn about divestment and the experiences of other pension funds and councils which have committed to divesting? Have the arguments for divestment and sustainable re-investment been given equal space for consideration alongside those for engagement?

Also, the NGO, Platform London, is offering a webinar about divestment exclusively for this committee, Pension Board members and any Shropshire and Telford & Wrekin councillors and officers who are interested at 6pm on 13th October. Are all committee members aware of this opportunity?

Response:

Committee members have been on an extensive training programme over the last 12 months on all climate related issues and further training is planned at today's meeting and the next meeting in November. Pension Committee members and Pension Board members have been contacted directly about the webinar, some members have already attended the previous webinar organised by Platform London.

6. Question from Fossil Free Shropshire

Will the Committee allow Fossil Free Shropshire a five minute opportunity to address the meeting in November?

Response:

Due to COVID-19 and social distancing restrictions which are still in place only 1 member of FFS will be able to make a maximum of a 3 minute presentation in November. The presentation should be sent to Officers/Members at least 8 days prior to the Pension Committee meeting on the 26 November.