

PENSIONS COMMITTEE 15TH SEPTEMBER 2023

PUBLIC QUESTION TIME

1. Question from Mr Christopher Pike

It is now nearly 4 years since the Fund has held an Annual Meeting. Will the Committee reinstate this element of accountability and instruct the Fund to Organise an Annual Meeting this autumn or at the earliest possible date.

Response:

The Fund's new approach to delivering the content of the AGM was discussed at the last Pension Committee meeting on the 23 June 2023, a recording of which is available on the Council's website so can be listened back to. Further details are also included in the Pension Administration report which was agenda item 9 at the same meeting and is also available on the website. Scheme members can contact the Pensions team throughout the year through a number of different communication channels to discuss any issues, face to face meetings are also available.

2. Question from Mr Mike Cripps

As a member of the Pension Fund, I'm shocked that the Fund still has investments in fossil fuels. It is now 20 months since the Committee voted against the Council's motion calling on the Fund to divest from fossil fuels. Over this time period, there have been many new alarming scientific reports including findings that the earth is dangerously close to many tipping points. Also over these 20 months, we have witnessed accelerating climate impacts around the world including devastating floods in Pakistan; apocalyptic wildfires in Canada, Greece and Hawaii; heatwaves reaching 40-50°C; prolonged droughts and crop failures. Will the Committee now reconsider its decision in the light of this accelerating emergency?

Response:

Shropshire County Pension Fund recognises the need for an orderly decarbonisation of the real economy and the investment risks associated with the stranding of economic assets brought about by the transition to a lower carbon economy. However, we do not consider that excluding fossil fuels from our investable universe is the appropriate response to these risks.

Responsible corporate ownership is essential during this time of transition, and we do not consider that our divestment from high emitting industries will serve to accelerate this transition. Divestment by long term responsible investors from high emitting sectors will result in a larger proportion of shares being owned by investors less concerned about ESG issues including climate change. We do not consider that this will contribute to more responsible corporate behaviour or increase the trajectory of decarbonisation.

It is our view that disengagement is not the correct response to an accelerating emergency.

Many of the largest polluters will be central to a successful and just transition. For example, the oil and gas sectors' access to, and understanding of, global energy infrastructure is critical to a timely and just transition. Current climate timescales do not

allow the time to rebuild our energy infrastructure from the ground up. By collaborating with those companies who have meaningful commitments towards decarbonisation, we can help to encourage an orderly transition and the investment in innovation required. As responsible long-term investors we engage in dialogue with corporations to encourage ambitious transition plans and the evolution of corporate strategy.

3. Question from Ms Jo Blackman

This summer, the world experienced its hottest three months on record by a substantial margin, according to the UN's World Meteorological Organization. The UN Secretary General responded by warning leaders that:

"The era of global warming has ended; the era of global boiling has arrived. Leaders must lead. No more hesitancy. No more excuses. No more waiting for others to move first. There is simply no more time for that. It is still possible to limit global temperature rise to 1.5 degrees Celsius and avoid the very worst of climate change. But only with dramatic, immediate climate action."

In the light of this warning, will the Committee review its Climate Change Strategy, including its complete reliance on engagement with fossil fuel companies and its assumption that incremental change is fit for purpose?

Response:

Our approach to climate risks, and similarly other ESG risks, include identifying, assessing and managing these risks according to our investment strategy.

We expect our FCA-regulated managers to integrate ESG considerations into their investment processes and we challenge them on their delivery of this expectation. Through integration, the managers should identify and assess risks and opportunities (including ESG risks) of each investment based on its fundamentals. Once these risks are identified and assessed, managers will manage the risks according to their risk management framework.

Our preference to management of climate risk is through active stewardship of these companies. This is in line with our view that an orderly transition presents the best outcome to our investment return. We consider that corporates need strong and responsible owners that are prepared to take a longer-term view and consider the interests of other stakeholders. In the absence of such ownership and leadership, the economy will not accelerate this transition and is likely to have the opposite effect. Through divestment, we would forfeit our position to effectively influence high emitting companies, a risk which is compounded by the understanding that other, less responsible investors would be willing to continue holdings these assets, while not driving the company to transition in an orderly manner.

We are also cognisant that industries are not equally challenged by climate change. For example fossil fuel companies and financial services face different exposure to the risk of stranded assets and not all companies within industries are responding equally to these risks.

We are also aware of the risks of focusing on the supply of fossil fuels and neglecting the demand side of the debate. It is unlikely that the supply of fossil fuels will decline without a reduction in demand. A holistic approach to investment and the associated stewardship activity is required.

We believe that through our holistic approach to responsible investment, we can contribute positively towards the transition to a low carbon economy.

4. Question from Ms Gillian Davis

This weekend, as world leaders gather at the UN Climate Ambition Summit in New York, millions of people are uniting to demand a rapid, just and equitable end to fossil fuels. Will the Committee play its part in a transition to a safer, healthier and sustainable world, by raising its ambition and divesting from fossil fuels?

Response:

Shropshire County Pension Fund's approach to stewardship is underscored by a belief that our influence as a shareholder is best leveraged through meaningful engagement with portfolio companies. We remain confident in our conviction that divestment from the fossil fuel sector will not influence the transition to a lower carbon economy and will not impact real world emissions.

We remain committed to using the influence conferred upon as shareholders to positively influence corporations and policy makers in order to accelerate the transition to a lower carbon economy.

Our stewardship strategy involves direct engagements with portfolio companies and regular monitoring of external managers, with a formal escalation process which we use when insufficient progress is being made towards the fulfilment of our engagement objectives. Our fund managers can sell a holding in a company or choose not to invest in company at any time and we expect ESG analysis to be an integral part of their investment process.

Progress towards a low carbon economy is unlikely to be linear, but the evidence is clear that engagement is working. This is demonstrated by the differences in climate transparency and decarbonisation ambition between companies engaged by the CA100+ (an investor-led collective engagement initiative) and those not, as well as the differences between publicly and privately-owned companies.

5. Question from Mr Dougald Purce

Carbon Tracker's new report, "Loading the Dice Against Pension Funds"* , reveals that many pension funds, including Shropshire, use investment models that predict that global warming of 2°C to 4.3°C will have only a minimal impact on member portfolios, relying on economists' flawed estimates of damages from climate change. The report underscores that such economic studies cannot be reconciled with warnings from climate scientists that global warming on this scale would be "an existential threat to human civilisation." It is understood that a number of financial reporters such as IPE Magazine have contacted the SCPF for comment.

Will the Committee follow Carbon Tracker's advice to "look at the compelling evidence in the climate science literature, and to implement investment strategies which are based on a rapid wind-down of the fossil fuel system, and on a 'no regrets' precautionary approach?"

* <https://carbontracker.org/reports/loading-the-dice-against-pensions/>

Response:

The data quoted in the Carbon Tracker report is taken from the funds 2020 TCFD report and reflects the predictions made in the Mercer Climate change analysis at that time, the fund have issued two further TCFD reports since this time. The analysis in our pension fund's third Climate-Related Disclosures Report, published in November last year, was based on an updated model that Mercer has developed in partnership with Ortec Finance and Cambridge Econometrics.

We are aware that climate scenario analysis is a developing field, which uses assumptions about inherently unpredictable matters over long-time horizons. We view the outputs from the analysis as directional information on the sensitivity of the pension fund's portfolio to different climate scenarios to be considered in tandem with all other factors which potentially affect investment returns. The results show that a successful transition is much better than a failed transition in terms of the investment returns and therefore our determination remains to engage with companies and policy makers in an effort to accelerate that transition in line with our fiduciary responsibilities.

6. Question from Mr Martin Oddsocks

In mid August, the judge presiding in the US's [first constitutional climate trial](#) ruled in favour of a group of young plaintiffs who had accused the Montana state government of [violating their right](#) to a healthy environment. In the light of this and the increasing number of climate litigation cases worldwide, are the Committee members concerned about any legal liability they may have for the climate impacts of the Fund's investment decisions?

Response:

Climate litigation is a growing area of law, with implications for corporations and investors alike. In the case from Montana cited in the question, the judge ruled that the Montana Environmental Policy Act, which prohibits climate considerations from environmental reviews, was violating the plaintiff's constitutional right to a healthy and stable environment.

This ruling recognised the connection between a changing climate and citizen's right to a healthy environment. There is no financial redress in the claim but a request about a declaration from the state that it had violated the claimants' constitutional rights.

Most of the climate litigation cases are directed towards governments as claimants are increasingly relying on constitutional and human rights laws in their attempts to hold governments accountable for addressing climate change.

It is paramount that we continue with our net zero commitment, which encompasses undertaking analyses on the status of the portfolios, engaging and analysing the latest findings on climate change, challenging our managers, and promptly reporting our actions towards a sustainable future.

With regards to our portfolio companies and external managers, we expect them to develop and commit to ambitious climate transition plans, as well as implementing meaningful strategies towards their achievement. In this way, and by continuing to monitor and analyse the current state of affairs of climate litigation, we can continue to identify our exposure to potential liabilities that may arise.