



11 September 2019

Agenda Item: 10

**REPORT OF THE SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE AND
IMPROVEMENT**

FINANCIAL RISKS OF FOSSIL FUEL INVESTMENTS QUERY

Purpose of the Report

1. The purpose of this report is to inform the Pension Board of queries from the public regarding fossil fuel investments.

Information and Advice

Background

2. A query was received by the Chair of Nottinghamshire Local Pensions Board on 12 May 2019 regarding the pension funds investments in equities of companies exposed to fossil fuels. This email can be seen in Appendix A.
3. A response was provided to Mr Lee on 24th May 2019. This response is Appendix B.
4. Further emails have been received by Pension Fund Committee Members and the Chair of the Pensions Board in respect of fossil fuel investment. These emails have been sent by Extinction Rebellion Nottingham on behalf of individual pension fund members. An example email is shown in Appendix C.
5. The Pension Fund Committee takes Responsible Investment very seriously and the financial implications of environmental, social and governance issues are considered for every investment. All the Pension Funds investment managers are expected to demonstrate high standards of responsible investment. The Pension Fund Committee regularly receives training on responsible investment issues and reviews reports on responsible investment by our main investment managers.
6. The fund's responsible investment beliefs are set out in the Investment Strategy Statement which can be found on the fund website <https://www.nottspf.org.uk/media/1738354/iss-april-2019.pdf> . The committee reviews the Investment Strategy Statement on an annual basis, most recently at the May Committee meeting <https://www.nottinghamshire.gov.uk/dms/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/4405/Committee/526/SelectedTab/Documents/Default.aspx> .

7. The fund is conscious of the risks of climate change and works with partners to engage with oil and gas companies through LAPFF, PIRC, LGPS Central, LGIM and Schroders in particular.
8. The Pension Fund Committee reviewed benchmarking policy alongside asset allocation at the Working Party in November. A report on the recommendations from this meeting went to committee in January.
<https://www.nottinghamshire.gov.uk/dms/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/4224/Committee/526/SelectedTab/Documents/Default.aspx> The Committee believes the current indices are the most appropriate benchmarks for the Pension Fund investments.

Reason/s for Recommendation/s

9. This report has been compiled to inform the Pension Board of the queries received.
10. Statutory and Policy Implications
11. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance, finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

Financial Implications

12. There are no financial implications arising from this report.

RECOMMENDATION

It is recommended:

1. That the Pension Board consider the emails and decide whether they require further information regarding responsible investment in general or the financial risks of fossil fuel investments.

Nigel Stevenson
Service Director – Finance, Infrastructure and Improvement

For any enquiries about this report please contact:

Tamsin Rabbitts, Senior Accountant Pension Fund and Treasury management
tamsin.rabbitts@nottscc.gov.uk

Constitutional Comments (KK 23/08/19)

13. The proposal in this report is within the remit of the Nottinghamshire Local Pension Board

Financial Comments (TMR 13/08/19)

14. There are no financial implications arising from this report.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- None

Electoral Division(s) and Member(s) Affected

- All

Appendix A

To: James Lacey, Chair of Nottinghamshire Local Pensions Board
From: Nigel Lee, Nottingham Friends of the Earth

Dear Mr Lacey,

Notts Pension Fund - financial risks of fossil fuel investments

I am writing to you as Chair of Notts Local Pensions Board.

You will be aware of advice from the Bank of England and others about the risks of investment in fossil fuels - which may become 'stranded assets' with consequent reduction in value of shares.

You will also be aware that any future deficit on Notts Pension Fund will have to be met by contributing employers, including NTU.

We have been told that the Pension Fund must invest in fossil fuel companies because they are a significant component of the FTSE All Share World Index which is used to benchmark the Fund's investment in equities.

However, looking at in-house investment in equities as at 31 December 2018, it seems that over 12% of around £810m is in oil and gas companies (see analysis below), whereas only 6.22% of the FTSE All Share World Index is in oil and gas. A further 5% or so is in mining companies with a significant interest in coal. (We don't know what proportion of the £2.3bn in 'pooled equities' is in fossil companies.) An obvious question is: why the excess investment in fossil fuel companies?

Can you please let us know:

(1) Has the Pensions Board reviewed how the Pension Fund assesses the financial risks of investing in fossil fuel equities?

(2) Has the Pensions Board reviewed benchmarking policy, including the possibility of benchmarking equities against an ex-fossil index?

Yours sincerely,

Nigel Lee
Nottingham Friends of the Earth
[personal contact details removed for report]

Notts Pension Fund - Equities (valuation date 31/12/2018)

Total Equities Holdings (market value): £3,135m

including:

Pooled Equities: £2,325m

Other Equities: £810m

The £810m direct investment in equities included:

Oil & Gas

Royal Dutch Shell A: £10,464,875

Royal Dutch Shell B: £54,970,190

BP £33,921,785

Total £1,927,299

Galp Energia £1,359,058

Mining

Rio Tinto £17,363,582

BHP £21,474,219

Appendix B

Subject: RE: Notts Pension Fund - financial risks of fossil fuel investments

Dear Mr Lee,

Thank you for your enquiry.

The investments you refer to are part of the Pension Fund's active equity portfolio managed by Schroders. Schroders choose specific stocks to invest in where they think there is the potential for realising value rather than investing based on market sector, and these particular investments delivered nearly £13m in growth for the pension fund over the quarter.

Schroders have assessed Shell and BP as at the better end of the industry in terms of being proactive on climate change issues. Shell, for example, has recently committed to cutting the carbon intensity of its energy products by 50% by 2050 and continues to diversify away from oil. Carbon reduction targets are also built into executive pay. Schroders have engaged extensively with both companies and others in the sector to influence their strategy and ensure they are well placed for a lower carbon world.

The Pensions Board is responsible for reviewing the work of the Pension Fund Committee.

The fund's responsible investment beliefs are set out in the Investment Strategy Statement which can be found on the fund website <https://www.nottspf.org.uk/media/1738354/iss-april-2019.pdf>. The committee reviews the Investment Strategy Statement on an annual basis, most recently at the May Committee meeting. The fund is conscious of the risks of climate change and works with our partners to engage with oil and gas companies through LAPFF, PIRC, LGPS Central, LGIM and Schroders in particular.

The Pension Fund Committee reviewed benchmarking policy alongside asset allocation at the Working Party in November. A report on the recommendations from this meeting went to committee in January. The Committee believes the current indices are the most appropriate benchmarks for the Pension Fund investments.

The Board reviews the decisions of the Pension Fund Committee at each board meeting, however the Board has not met since either of these meetings. These issues will be considered at the next meeting.

Yours sincerely,

James Lacey

Dear Pension Fund Committee Members, Chair of the Local Pension Board

Please note that this email is being sent on my behalf by Extinction Rebellion Nottingham. Please reply to me at my personal email address shown above.

I am writing to you as a member of the Pension Fund regarding investments in fossil fuels.

You may have seen news reports on the unprecedented forest fires which have burnt in Siberia - many within the Arctic Circle - over the last two months, fuelled by summer temperatures 8-10 degrees higher than average. Clouds of smoke from these fires have appeared as far away as Canada. The fires threaten to fuel climate feedback effects which will accelerate warming and in turn fuel more fires. This is just one example of the climate breakdown we are beginning to experience. The record breaking temperatures we experienced in the UK last month are a further one, while July 2019 was globally the hottest month ever recorded.

It is estimated that the Pension Fund currently holds £310m-£607m in fossil fuel shares. In light of the extreme impacts we are already experiencing and the Climate Emergency recently acknowledged by the UK Parliament I do not believe the Pension Fund should be supporting further fossil fuel extraction.

As a member of the Pension Fund I am also very concerned about the financial risks that these investments pose to the value of my pension. My local Council underwrites the Pension Fund and as a local Council Tax payer and service user I am further concerned about the financial risk to the Council.

International efforts to reduce carbon emissions will mean that most known fossil fuel reserves must stay "in the ground" to avoid catastrophic climate change. The market value of fossil fuel companies is based largely on the notion that all known reserves can be exploited. This means that as global efforts to combat climate change ramp-up there will soon be a large reduction in their share prices, reducing the value of the Pension Fund.

I would like to highlight that information produced regularly by FTSE shows that investment portfolios which exclude fossil fuel company shares perform at least as well as those that include them. Investments in fossil fuels produce financial risks but no additional rewards.

I believe that the Pension Fund is currently failing in its fiduciary duty towards me as a member.

The Pension Fund often says it can maintain fossil fuel investments because it "engages" with fossil fuel companies to get them to reduce emissions. However, this engagement does not work: even the plans of Shell - seen as the "best" of the fossil fuel companies on reducing emissions - are completely inadequate in meeting the scale of the challenge we face. The UN's Intergovernmental Panel on Climate Change says that to avoid catastrophic impacts we must reduce global emissions by 45% by 2030, and to net zero around 2050. Shell's plans amount to a less than 50% reduction in their emissions by 2050. Divestment from all fossil fuels and investment in clean alternatives is the only answer.

I would like to see the hundreds of millions of pounds currently invested in global fossil fuel corporations used instead to make low carbon investments, including in the green economy and in local sustainable projects within Nottinghamshire. Local investments would help the environment, local organisations and businesses.

I am writing both in a personal capacity and in support of Extinction Rebellion Nottingham's fossil fuel divestment campaign. In summary, the campaign's demands are that the Pension Fund:

1. Create a culture of transparency in relation to the investments held by the Fund, so it is possible for members to identify the value and location of investments in companies that extract and trade fossil fuels
2. Declare divestment from all fossil fuel-related assets over the next three years.
3. Produce a plan for this and for the alternative positive investments as soon as possible.

Will you take action to ensure the Pension Fund meets these demands?