

PENSIONS INVESTMENT SUB-COMMITTEE

30TH JANUARY 2020

QUESTIONS FROM MEMBERS OF THE PUBLIC

From Gill Slater

(1) The LA Pension Fund Forum Chair advises '*it is becoming increasingly clear that local authority investors must press investee companies to take all possible steps to stem the climate crisis*'. Given the 17th Dec report omits to consider the impact of fossil fuel investments on the climate, what steps are being taken in response to that advice?

The Investment Strategy Statement sets out that the Authority's primary responsibility is to secure the best returns for the fund in the interests of council tax payers and pension fund members. In April 2014 the Local Government Association published legal advice on the fiduciary duties of LGPS administering authorities confirming that the power of investment must be exercised for investment purposes and not wider purposes.

Having also considered the difficulties involved in identifying companies meeting any ethical investment criteria; the possibility of judicial review in the case of any company included in error; the difficulty and cost of monitoring any policy; the unpredictable impact on investment performance; the complications that would arise in relation to performance measurement; and the lack of support for such a policy from other employers in the fund, the authority has decided to take no action at this time in developing an ethical investment policy.

Notwithstanding this, the Sub-Committee works with investment managers over the long-term and following discussions it is evident that environmental issues are central to the value that our managers place on the investments that they make on behalf of the pension fund.

The managers employed by the pension fund dedicate considerable resources to engagement with companies favoured with investment in relation to environmental, social, and governance issues, and have a proactive approach to ensure that long term value is not eroded by unsustainable behaviours or activities which are incompatible with responsible investing. The Sub-Committee is in the process of revising its Statement of Investment Principles.

Supplementary question:

When revising the Statement of Investment it will be important to note that no oil or gas companies are close to Paris Agreement compliance to keep temperatures below 2 degrees. Will this committee investigate divestment acknowledging that investment in these companies is at odds both with the

Council's intentions of reducing carbon emissions through its net zero strategy, and with public expectation made clear, I understand, to the Environment and Community Services PDS Committee yesterday?

Reply:

The Vice-Chairman responded that the Council had considered divestment, but preferred a strategy of engagement. As a long term investor that Council did not want to do anything at variance with its own interests, and the whole subject would evolve over an investment horizon of ten years or more.

Additional Supplementary Question from Cllr Simon Jeal:

Councillor Jeal raised the issue of ESG (Environmental, Social and Governance) investment, suggesting that stewardship should be discussed.

Reply:

The Vice-Chairman responded that individual investment managers were very attuned to ESG issues, but the issue was not just about ESG – it was about good investment, which took into account ESG.

Additional Supplementary Question from Cllr Simon Fawthrop:

Councillor Fawthrop commented that divestment would be a drastic measure. He argued that not all the products of any company were equally bad – for example the plastics produced by oil companies were put to many good purposes. It was therefore important not to “throw the baby out with the bathwater” as the negative elements would diminish over time.

Reply:

The Vice-Chairman agreed with this and stated that he thought the Council had a responsible approach to ESG and was going in the right direction.

Additional Supplementary Question from Cllr Simon Fawthrop:

Councillor Fawthrop clarified that the Pension Fund had been excluded from the 2029 target when the motion had been passed by full Council.

Reply:

The Vice-Chairman agreed.

(2) Warnings regarding stranded '*stranded fossil fuel assets*' continue to flood in from 'Global investor groups' (FT Dec 2019), Switzerland's financial market supervisor (FINMA) etc. If, as minuted (17th December) the ISS is to be finalised by the end of Jan 2020, when, and on what evidence, will consideration be given to Fossil Fuel investment risks?

Reply:

Please see the response to the previous question.

Supplementary Question:

Mark Carney, Governor of the Bank of England, chairing the Financial Stability Board Task Force on Climate-related Financial Disclosures stated that a carbon budget consistent with a 2°C Paris Agreement target “would render the vast majority of reserves ‘stranded’”. How can informed decisions

about our pension funds be made without a detailed report to this Sub-Committee for you to consider and for the public to see?

Reply:

The Vice-Chairman responded that, taking risk management at a macro level, there were hundreds of thousands of risks. The Council's actions were responsible; it was important not to make rash value judgements which might not match up with the fiduciary duties involved in managing the pension Fund.

Additional Supplementary Question from Cllr David Jefferys

Councillor Jefferys commented that the major energy companies would be leading the way on environmental issues by investing more in offshore wind and battery technology.

Additional Supplementary Question from Cllr Simon Jeal

Councillor Jeal commented that some sectors were more exposed to climate change risk than others. He therefore suggested that MJ Hudson Allenbridge, as the Council's investment advisor, should be asked to provide an analysis of climate change risk to the Pension Fund.

Reply:

The Vice-Chairman responded that he was not drawn to this, and he was not sure that the output would be very helpful or relevant, or support the Council's fiduciary duty.

Additional Supplementary Question from Cllr Simon Fawthrop

Councillor Fawthrop suggested that if any trade union members were unhappy with the Council's investment strategy they could withdraw from the fund and invest elsewhere. He asked whether the unions had clean hands – whether their headquarters were green, and whether they had targets for becoming carbon neutral.

Additional Supplementary Question from Cllr Christopher Marlow

Councillor Marlow stated that holding shares in gas and oil companies was unlikely to affect investment in new oil or gas fields

In response to Councillor Fawthrop, Ms Slater clarified that she was not attending the meeting as a trade union representative.

The Vice-Chairman thanked Ms Slater for her questions which had sparked an interesting debate.