Friends of the Earth Scotland and Platform

Briefing for the Strathclyde Pension Fund Committee 2nd June 2021

Working with fund members, Councillors, and concerned individuals, Friends of the Earth Scotland and Platform advocate for divestment from fossil fuels as part of bringing about a just transition to a zero carbon society. Our February 2021 report found the Strathclyde Pension Fund invested an estimated £508 million in fossil fuel companies and set out steps towards going fossil free.

Recommendations

We would recommendation the Committee:

1. **Approve the motion proposed under Item 3**, enabling disinvestment to take place in principle.
2. Insist on **close involvement in the development of minimum standards** for energy companies, ensuring they reflect the concerns raised by Glasgow City Council on 1st April.
3. Ensure that publicly available minimum standards are approved swiftly so that firm action to divest from fossil fuels can be celebrated **prior to COP26**.

Climate and the SPF

> "Climate Change is the greatest challenge of our lifetime, and one with potentially devastating implications for all sectors of society if we do not rise to that challenge and act decisively and quickly."
> – Cllr Anna Richardson, City Convenor for Sustainability and Carbon Reduction[1]

Climate change is predicted to have wide-ranging adverse impacts on Glasgow, the wider Strathclyde region, and the members of the Strathclyde Pension Fund. Rising sea levels, increased rainfall and more powerful storm systems will cause material damage and create major transition costs associated with mitigation and adaptation. It is widely understood that the burning of fossil fuels is the single biggest cause of climate change.

The Strathclyde Pension Fund have recognised that climate change represents a systemic risk to the fund, and Glasgow City Council have declared a climate emergency.

Both bodies have a number of practical policies in place to address climate change, but so far these have not addressed the pension fund's reliance on fossil fuel investments.

With the impending arrival of global delegates at the UN climate talks, demands to meaningfully align the Fund's investments with climate objectives will only grow.

Item 3 Proposal

The actions proposed under the paper for Item 3 are necessary to enable the Strathclyde Pension Fund to begin divestment from fossil fuels, and we would recommend they be adopted.

It is welcome that the SPF would formally recognise the role of disinvestment in screening out the worst offenders from its portfolio. Making clear that divestment is an option is

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[1] 'Climate Emergency Implementation Plan', Glasgow City Council
https://www.glasgow.gov.uk/CHttpHandler.ashx?id=50623&p=0

necessary to improve the behaviour of the other companies the SPF invests in. Indeed, ruling out divestment, as the SPF has previously done, is effectively writing poorly behaved companies a blank cheque, making engagement efforts less effective.

However, whilst the motion enables divestment in principle , it does not make clear how it would be applied, so further work will be required by the Committee to fulfil fossil fuel divestment.

As well as approving the motion, the Committee should set a timetable for its implementation.

Specifically, it should insist on seeing, and approving, strong minimum standards that rule out fossil fuel investment at the next meeting.

Examples of energy sector minimum standards that could be adopted:

- Companies should not have more than 10% of their business in fossil fuel extraction.
- Companies should have a robust policy in place to plan to stop extracting fossil fuels by 2030.

Other criteria with which to assess the oil and gas sector can be reviewed in the report ‘Big Oil Reality Check’, September 2020.[2]

Robust minimum standards that make explicit that fossil fuel companies should be excluded would constitute a policy of fossil fuel divestment that we would celebrate.

Best practice

Over 150 pension funds globally have made a commitment to divest from fossil fuels, according to 350.org.[3] By this we mean that their publicly stated policy requires investment in fossil fuels to be reduced over time. We would recommend that Councillors and the SPF consult some of these funds, which include:

- Cardiff LGPF[4]
- Waltham Forest LGPF[5]
- Lambeth LGPF[6]
- New York City Pension Fund[7]
- Three of the Swedish state pension funds[8]

Since the detail of all their policies is not consistently available it would be prudent for the SPF and the Committee to open communications with all or some of these funds to find out more about their approach.

Furthermore, fund managers already employed by SPF have already divested a number of their products from fossil fuels. Legal & General and Baillie Gifford manage 32% of the

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[2] http://priceofoil.org/2020/09/23/big-oil-reality-check/

[3] https://gofossilfree.org/divestment/commitments/

[4] https://foe.cymru/cardiff-council-makes-historic-decision-ditch-fossil-fuels

[5] https://www.walthamforest.gov.uk/content/council%E2%80%99s-decision-divest-fossil-fuels-helps-tackle-climate-emergency-and-create-better

[6] https://love.lambeth.gov.uk/lambeth-fossil-fuel-divestment/

[7] https://www1.nyc.gov/office-of-the-mayor/news/053-21/mayor-de-blasio-comptroller-stringer-trustees-estimated-4-billion-divestment-from

[8] https://www.reuters.com/article/climatechange-investments-sweden-idUSL8N2B97HA

SPF's portfolio[9]. Both have options that are net-zero and 1.5c compliant, namely 'Legal & General Future World Fund' and 'Baillie Gifford Global Alpha Paris-Aligned' respectively.

Legal and financial risks of fossil fuels

LGPS legal advice and Law Commission guidance for England says fiduciary duty rules do allow pension funds to consider ethical factors in investment decisions as long as these do not negatively affect financial performance and are not contrary to members' wishes.[10]

In fact, the legal risk of *continuing to back fossil fuel companies* by not divesting may be greater: several legal opinions have concluded that pension fund trustees take insufficient action on climate could be exposing themselves to legal challenge.[11]

In recent years low-carbon funds have prospered:

- Between 2010 and April 2021 MSCI found that 'fossil free' funds earned more than funds which contained oil, gas and coal companies'.[12]
- A study over ten years up until mid-2020 found that sustainable funds delivered higher returns than traditional funds, both before and during the pandemic.[13]
- In March 2021, BlackRock, the largest asset manager in the world, came to the same conclusion.[14]
- Modelling by LSE has shown that divesting from fossil fuels between 1925-2017 would have had no negative financial impact on funds.[15]

Alternatively, studies have found that fossil fuel investors have lost out:

- In 2015, UK local councils lost up to £683 million off the value of their pension funds as a result of failed investments in coal firms[16]
- By November 2020 the Local Government Pension Scheme (LGPS) had collectively lost £2 billion by not divesting from oil and gas.[17]

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[9] https://www.spfo.org.uk/CHttpHandler.ashx?id=52466&p=0

[10] *Referral to the Pensions Regulator Local Government Pension Scheme and Climate Risk, Feb 2017 – Client Earth and ShareAction* https://www.documents.clientearth.org/wp-content/uploads/library/2017-02-10-clientearth-referral-to-the-pensions-regulator-lgps-funds-coll-en.pdf
QC Opinion: The legal duties of pension fund trustees in relation to climate change, April 2017 – Client Earth https://www.documents.clientearth.org/library/download-info/qc-opinion-the-legal-duties-of-pension-fund-trustees-in-relation-to-climate-change/
"Is it always about the money?" Pension trustees' duties when setting an investment strategy, Guidance from the Law Commission http://www.lawcom.gov.uk/app/uploads/2015/03/lc350_fiduciary_duties_guidance.pdf
FTSE ex Fossil Fuels Index Series https://www.ftserussell.com/products/indices/ex-fossil-fuels
Legal Opinions and Summaries, Local Government Pension Scheme Advisory Board http://www.lgpsboard.org/index.php/board-publications/legal-opinions

[11] ClientEarth (2016) *Pension trustees could face legal challenge for ignoring climate risk – leading QC confirms*, 2 December. Available at: https://www.clientearth.org/latest/latest-updates/news/pension-trustees-could-face-legal-challenge-for-ignoring-climate-risk-leading-qc-confirms/

[12] MSCI (2021) *MSCI ACWI ex Fossil Fuels Index (GBP)*. Available at: https://www.msci.com/documents/10199/d6f6d375-cadc-472f-9066-131321681404

[13] Riding, S. (2020) Majority of ESG funds outperform wider market over 10 years, *Financial Times*, 13 June. Available at: https://www.ft.com/content/733ee6ff-446e-4f8b-86b2-19ef42da3824

[14] Sanzillo, T. (2021) IEEFA: Major investment advisors BlackRock and Meketa provide a fiduciary path through the energy transition, *Institute for Energy Economics and Financial Analysis*, 22 March. Available at: https://ieefa.org/major-investment-advisors-blackrock-and-meketa-provide-a-fiduciary-path-through-the-energy-transition/

[15] Grantham, J. (2018) The mythical peril of divesting from fossil fuels, *LSE Grantham Institute*, 13 June. Available at: https://www.lse.ac.uk/granthaminstitute/news/the-mythical-peril-of-divesting-from-fossil-fuels/

[16] https://www.ft.com/content/cb6adb90-6e7b-11e5-aca9-d87542bf8673

[17] Marriage, M. (2015) Almost $1bn wiped off the value of UK pensions' coal investments, *Financial Times*, 11 October. Available at: https://www.ft.com/content/cb6adb90-6e7b-11e5-aca9-d87542bf8673

In a landmark case last week a Dutch court forced Royal Dutch Shell to take much more serious action to align with the Paris Agreement.[18] A 2020 report found that no major oil and gas company was aligned with the Paris Agreement,[19] so it is reasonable to expect that such companies will face further legal challenges and turmoil, with their investors paying the price financially.

In October 2020, a report by London School of Economics assessed 125 oil and gas producers, coal miners and electricity groups on their preparedness for a lower-carbon economy. They found “no major oil, gas or coal company is on track to align their business with the Paris climate goal of limiting the global temperature rise to well below 2°C by 2050, despite net-zero emissions pledges[20].”

Engagement practices will not protect the SPF’s investments from the precarious position that fossil fuel companies find themselves in in 2021. Divestment is the necessary tool for this.

Furthermore, the policy proposed can begin a process of divestment, but we have a concern that the company mentioned in the motion, Susainalytics, may be hostile to the Committee’s intentions. The SPF acknowledges the company have been hired “to focus engagement activity”[21] and the term divestment appears only 38 times on the Susainalytics website, while it mentions ‘engagement’ 2,210 times.

The Committee’s continued oversight and involvement in holding up best practice examples of fossil free investors will be important in realising a policy that protects the best interests of corporate and individual members of the fund, whilst supporting the sustainability goals of the City.

Appendices

i. Extract from Glasgow City Council motion, 1st April. The Council:

“resolves to write to the Strathclyde Pension Fund Committee, asking that it make a **formal commitment to fossil fuel divestment prior to COP26**, with the intention of divesting completely as quickly as possible, and no later than 2029; that it should continue to engage on the basis of the Responsible Investment strategy to address the impact and future of fossil fuels; and that it further considers how it can reinvest the Pension Fund Members’ hard-earned money to drive a green recovery for the wider Strathclyde region.”

ii. On Tue 2nd June the SPF Committee is asked to (extract):

1. Agree that an assessment of energy sector companies in SPF portfolios is conducted to ensure all are meeting **minimum standards to be agreed** in consultation with investment managers and Sustainalytics.
2. Agree that **if** any do not meet these standards, that **SPF should disinvest** from them.
3. Agree that any disinvestment should be completed as quickly as possible whilst ensuring no detriment to the financial stability of the fund.

Flood, C. (2020) UK public pension funds suffer £2bn hit to oil investments, *Financial Times*, 28 November. Available at: https://www.ft.com/content/f74502ad-8ae9-4715-a297-364ab8418c11

[18] https://www.bbc.co.uk/news/world-europe-57257982

[19] http://priceofoil.org/2020/09/23/big-oil-reality-check/

[20] https://www.ft.com/content/16091645-98b3-4041-9ca2-053fb60181ba

[21] P.11, Item 3 Motion, 2nd June 2021 https://www.glasgow.gov.uk/councillorsandcommittees/viewSelectedDocument.asp?c=P62AFQDNDXNT0GZL0G