Fossil fuel divestment and the Strathclyde Pension Fund

A briefing for the SPF Committee, August 2021
Friends of the Earth Scotland

Working with fund members, Councillors, and concerned individuals, Friends of the Earth Scotland advocate for divestment from fossil fuels as part of bringing about a just transition to a sustainable, healthy and zero carbon society.

Friends of the Earth Scotland have prepared this briefing for the Strathclyde Pension Fund Committee to inform its September meeting, seeking a conclusive view on if and how to divest from fossil fuels.

This briefing contains:

1. An up to date and comprehensive analysis of the total fossil fuel investments held by the SPF.

2. Case studies of the New York and Islington pension funds' divestment policies, and a list of other relevant examples.

3. Background information on fossil fuel stocks held by the SPF and legal and financial matters.

A new estimate of the SPF's fossil fuel investments

Earlier this year Friends of the Earth Scotland published a nation-wide assessment of local government pension investment in fossil fuels based on March 2020 data.[1] Screening directly held investments for the 200 largest fossil fuel production companies and assessing the investments of the largest indirectly held funds we estimated that Strathclyde Pension Fund had £508 million investment in fossil fuels.

Using new data published on the SPF website and using a more rigorous method covering a wider basket of companies we have now completed a revised assessment the SPF's fossil fuel investments. Our summary findings are as follows:

SPF	**2020**	**2021**
Total fossil fuel investment	**£618 m**	**£836 m**
Direct	£173 m	£138 m
Indirect estimate	£445 m	£698 m

The study can be downloaded in full here.

Our assessment shows that whilst the SPF's direct holdings decreased during the 2020-21 financial year, the huge increase in arms-length investment by the SPF means that total fossil fuel exposure has likely increased.

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[1] https://foe.scot/campaign/fossil-fuel-divestment/local-government/

It is welcome that the SPF have begun regularly publishing a list of their investments online, including a list of direct investments in oil and gas. However, it is misleading to suggest that the directly held/in-house investments in oil and gas represent the only exposure the fund has to fossil fuels.

Whilst the assessment summarised here is the most rigorous we have yet produced, an estimate produced by a third party organisation such as ourselves will never be as accurate or up to date as one produced by the fund themselves. **For this reason our figures must be understood as an estimate**. We would challenge the SPF to come up with their own thorough assessment of their direct *and* indirectly held investments in the fossil fuel industry.

Case Study: New York State

Of the 150 pension funds who have committed to divest from fossil fuels the largest is the State of New York.[2]

The New York State Common Retirement Fund is a $268 billion fund providing pension cover for over one million public workers.

In September 2018 the Fund announced a comprehensive new policy to address the climate crisis through their investments including divestment from fossil fuel companies. At the same the fund announced a goal of doubling the pension funds' investments in renewable energy and green infrastructure from 1% to 2%, or about $4 billion within three years.

State comptroller, Thomas P. DiNapoli said “New York State’s pension fund is at the leading edge of investors addressing climate risk, because investing for the low-carbon future is essential to protect the fund’s long-term value.”

The State are using in-house staff and consultants, including Carbon Tracker, to assess which of their investments to sell. Divestment must be completed by December 2024.

Divestment is required from fossil fuel producers, oil and gas service companies, and fossil fuel transportation and storage such as pipeline operators and LNG terminals.

Assessments are being carried out in tranches according to GICS sub-sectors, with the outcomes – i.e. which companies have been earmarked for divestment – published on completion.

The first tranche was completed in June 2020 and saw divestment of 22 thermal coal companies. They stated that all these companies exceeded a 10% revenue threshold and failed to evidence a rapid exit from fossil fuels. Tar sands were reviewed in the second tranche, with seven companies divested.

After this New York State will work through their investments in shale oil and gas; integrated oil and gas; other oil and gas exploration and production; oil and gas equipment and services; and oil and gas storage and transportation.

New York haven’t published the precise criteria they are using to carry out this assessment, but according to US organisation Stand.Earth who have been speaking to the Comptroller’s office about the ongoing process, the following are taken into account:

- Capex spending on expansion projects
- Investments in non-fossil fuels
- Diversification

2 https://gofossilfree.org/divestment/commitments/

- Reporting
- Responsiveness to their requests for more information
- CDP disclosure
- Climate related goals of the companies including the strength and detail of any plans to get to zero emissions

Companies which are deemed to be aligned with the Fund's decarbonisation policy are subject to regular reassessment, and progress reports are published annually.

Following the example of the New York State fund, two of New York City's funds announced their own divestment policy in January 2021.

New York case study sources:

New York State Pension Fund Sets 2040 Net Zero Carbon Emissions Target – December 2020 https://www.osc.state.ny.us/press/releases/2020/12/new-york-state-pension-fund-sets-2040-net-zero-carbon-emissions-target

Mayor de Blasio, Comptroller Stringer, and Trustees Announce Estimated $4 Billion Divestment from Fossil Fuels – January 2021 https://www1.nyc.gov/office-of-the-mayor/news/053-21/mayor-de-blasio-comptroller-stringer-trustees-estimated-4-billion-divestment-from

Mayor de Blasio, Comptroller Stringer, and Trustees Announce Pension Funds More Than Double Climate Change Solutions Investments to Over $6 Billion – March 2021 https://www1.nyc.gov/office-of-the-mayor/news/210-21/mayor-de-blasio-comptroller-stringer-trustees-pension-funds-more-double-climate

DiNapoli Moves State Pension Fund Toward Net Zero Target, Restricts Investments in Oil Sands Companies – April 2021 https://www.osc.state.ny.us/press/releases/2021/04/dinapoli-moves-state-pension-fund-toward-net-zero-target-restricts-investments-oil-sands-companies

New York State Common Retirement Fund Climate and Divestment Plan Background – 2021 https://gofossilfree.org/ny/wp-content/uploads/sites/53/2020/12/Backgrounder_EmbargoedDec9_8amEDT.pdf?_ga=2.259624014.538306626.1623352264-1700290530.1613593540

Leading the Way on Climate Investment (Comptrollers Office Face Sheet) https://www.osc.state.ny.us/common-retirement-fund/leading-way-climate-investment

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Case Study: London Borough of Islington

Islington's local government pension fund was valued at £1.4 billion in 2021 with 21,000 members. 46% of the fund is invested in public equities and 25% in property.

Islington pension fund use the term 'decarbonisation' to describe the process of removing the exposure of their investment portfolio to fossil fuel reserves and production, as well as green-house gas intensive activities. The fund is also keen to exploit opportunities presented by the transition to a low-carbon economy. They have implemented a number of relevant measures in recent years:

- In 2017 the fund moved half of its passive equities to the low carbon tracker funds with the other half invested in-house tracking the FTSE UK Low Carbon Optimised Index.
- In 2018 the Pension Fund Committee committed to divestment of all fossil fuels in the fund by

2022, to be enacted by divesting their own holdings and switching to fossil-free passive funds.

- £172 million initially allocated to sustainable infrastructure. The target was increased to 20% in 2021.
- Ongoing effort to fully decarbonise the portfolio as a “next step” after divestment from fossil fuels. Targets are set for 2026, 2030 and 2050.
- Comprehensive carbon foot-printing and ESG review conducted of whole portfolio annually, in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).
- Appointment of a fund manager with ESG specialism, a low-carbon infrastructure manager, and advice sought from Mercers and others.
- Councillors and officers attend specialist climate transition, objectives, framework and implication training.

Minimum standards for companies to determine if divestment is required are as follows:

- Assessment of absolute potential emissions in tonnes of CO_2e, a reserves based measure that focuses on emissions that could be generated if the proven and probable fossil fuel reserves owned by the companies in the portfolio were burned.
- Assessment of the carbon intensity of companies as measured by Weighted Average Carbon Intensity 2, an indicator of current climate-related risks facilitating comparison across asset classes and industry sectors.

Since 2016 Islington’s policies have resulted in a 55% reduction in fossil fuel exposure, **69% reduction in absolute potential emissions** and a 33% reduction in current carbon intensity.

On financial performance, Islington is in the top quartile of performance in the local government scheme, and in the three years since its divestment policy has taken effect, has outperformed the scheme average.

Islington case study sources:

- *Islington Council’s Pension Fund is coming out of carbon. September 2018. https://www.islington.media/news/islington-council-s-pension-fund-is-coming-out-of-carbon*
- *London Borough of Islington: Impact Investing Case Study, Pensions for Purpose. August 2019. https://www.pensionsforpurpose.com/london-borough-of-islington-case-study.pdf*
- *Investment Strategy Statement. December 2020. https://democracy.islington.gov.uk/documents/s23482/LBI%20Pension%20Fund%20-DRAFT%20Investment%20Strategy%20Statement%20DEC20%20tracked%20-%20revJULY19.pdf*
- *Decarbonisation Policy: Update Net Zero Carbon Transition. June 2021. https://democracy.islington.gov.uk/documents/b11170/Pensions%20Sub-Committee%20-%2026%20November%202018%2026th-Nov-2018%2019.30%20Pensions%20Sub-Committee.pdf?T=9*
- *London Borough of Islington review, M J Hudson. December 2020. https://democracy.islington.gov.uk/documents/s24420/Appendix%201-%20MJ%20Hudson%20-%20LBIDec%202020%20Rept%20Final.pdf*

More pension fund examples

Fund	AUM	Fund members	Fossil fuel divestment	Further information
New York (New York State Common Retirement Fund), USA	£163 bn	1 million	Fossil fuel divestment commitment (2018) to be completed by 2024	*See case study, above*
Islington LGPF, UK	£1.4 bn	21,000	Fossil fuel divestment commitment (2018)	*See case study, above*
Cardiff LGPF, UK	£2.0 bn	43,000	Fossil fuel divestment commitment (2019) to be completed by 2024	https://foe.cymru/cardiff-council-makes-historic-decision-ditch-fossil-fuels https://www.futuregenerations.wales/news/cardiff-council-vote-to-divest-pensions-from-fossil-fuels-is-part-of-a-growing-movement-in-wales/
Lambeth LGPF, UK	£1.4 bn	21,900	Fossil fuel divestment began in 2019	https://love.lambeth.gov.uk/lambeth-fossil-fuel-divestment/
AP1 state pension fund, Sweden	£35.9 bn	n/a	Fossil fuel divestment commitment (2020), anticipated completion in 2021	https://www.reuters.com/article/climatechange-investments-sweden-idUSL8N2B97HA
Welsh Parliament pension fund, UK	Not disclosed	Not disclosed	Fossil fuel divestment commitment (2020)	https://foe.scot/press-release/welsh-assembly-divest-pension-fund-fossil-fuels/
MP's pension fund, Denmark	Not disclosed	Not disclosed	Fossil fuel divestment began in 2018	https://translate.google.com/translate?sl=auto&tl=en&u=https://akademikerpension.dk/ansvarlighed/vi-ekskluderer/vi-frasaelger-fossile-selskaber/
Washington D.C. (District of Colombia Retirement Board), USA	£6.53 bn	20,700	Fossil fuel divestment commitment (2013), completed (2016)	https://lims.dccouncil.us/downloads/LIMS/32802/Introduction/PR20-1118-Introduction.pdf https://dcist.com/story/16/06/06/dc-retirement-board-divests-from-fo/
State of Main (Maine Public Employees Retirement System), USA	£11.2 bn	156,000	Divestment legislation passed in 2021 applies to State pension fund	https://legislature.maine.gov/bills/getPDF.asp?paper=HP0065&item=4&snum=130 https://www.reuters.com/ https://electrek.co/2021/06/

Public disclosure is limited and some funds on this list have indicated that they would be open to disclosing more information about their approach with the SPF and the Committee directly.

As well as the pension funds listed, fund managers, including some already employed by SPF, have divested a number of their products from fossil fuels: Legal & General and Baillie Gifford manage 32% of the SPF's portfolio[3] and both have options that are fossil free. L&G's 'Emerging Market Equity Future Core' fund[4] and Baillie Gifford's 'Positive Change Equities Fund'[5].

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[3] https://www.spfo.org.uk/CHttpHandler.ashx?id=52466&p=0
[4] https://www.legalandgeneralgroup.com/media-centre/press-releases/lgim-partners-with-ap1-to-launch-an-innovative-esg-fossil-fuel-free-emerging-market-equity-index-fund/
[5] https://fossilfreefunds.org/fund/baillie-gifford-positive-change-equities-fund/BPESX/fossil-fuel-investments/FS0000DD78/F00000ZAFI

Fossil fuel case studies

UK and Netherlands based **Royal Dutch Shell** has been associated with a number of environmental and human rights violations worldwide.

The company has threatened to drill in the fragile environment of the Arctic[6] and is involved in shale gas fracking in a number of countries, a highly polluting form of oil and gas drilling.[7]

In January 2021 a Dutch court ruled that Shell must compensate a number of Nigerian villages for loss of life, illness and destruction caused by their pollution.[8] In May a court further ruled that the company must cut emissions by 45% by 2030, deeming its own climate plans to be insufficient.[9]

Youth strikers protesting Shell's sponsorship of London's Science Museum, June 2021

The company operates part of the Mossmorran gas plant in Fife, one of Scotland's largest polluters, and the scene of recent protests over emissions.[10]

Strathclyde invest **£4,800,000** directly in Shell. The total investment including through intermediaries in unknown.

UK-based **BP** are one of the world's biggest fossil fuel producers. After spending a brief period branded as *beyond petroleum* BP have continued to explore for new oil and gas, including in Scottish waters.[11]

BP have been found to have close ties with the oppressive regime in Azerbaijan.[12] They were fined $18.7 billion, the largest environmental fine in US history, for the 'gross negligence' regarding the 2010 Deepwater Horizon spill which devastated the Gulf of Mexico.[13]

The company is a financial backer of the proposed gas export scheme in Mozambique which has been associated with forced displacement and militarisation.[14]

Strathclyde invest **£8,600,000** directly in BP. The total investment including through intermediaries in unknown.

Legal and financial risks of fossil fuels

LGPS legal advice and Law Commission guidance for England states that the fulfilment of fiduciary duties do not prohibit pension funds from considering ethical factors in investment decisions, provided that doing so does not lead to a significant detrimental impact on financial performance.[15]

[6] https://www.theguardian.com/business/2015/sep/28/shell-ceases-alaska-arctic-drilling-exploratory-well-oil-gas-disappoints

[7] https://www.shell.com/energy-and-innovation/natural-gas/tight-and-shale-gas.html

[8] https://www.foei.org/news/justice-shell-compensate-nigerian-farmers-oil-spill

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

[10] https://theferret.scot/ineos-sse-exxon-carbon-polluter/

[11] https://www.thenational.scot/news/16908656.bp-granted-approval-new-30-million-barrel-north-sea-oil-field/

[12] https://issuu.com/platformlondon/docs/all_that_glitters_pdf

[13] https://www.theguardian.com/environment/2015/jul/02/bp-will-pay-largest-environmental-fine-in-us-history-for-gulf-oil-spill

[14] https://foe.scot/solidarity-frontline-communities-bp-agm/

As fossil fuels are being increasingly economically and politically side-lined, the risk may in fact be on the other foot. Several legal opinions have concluded that pension fund trustees who take insufficient action on climate could be exposed to legal challenge[16], and fossil fuel companies themselves are facing legal reprisals for their contribution to climate breakdown.

In a landmark case concluded in May a Dutch court forced Royal Dutch Shell to take much more serious action to align with the Paris Agreement[17] and UK campaigners have won the right to take the UK Government to the High Court over fossil fuel expansion.[18]

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[19]." This is not the only study which has concluded that major oil and gas companies are working against the Paris Agreement[20].

It is reasonable to expect that fossil fuel companies may face further legal challenges and turmoil, with their investors paying the price financially, or left legally exposed themselves.

The impact of this turmoil has already had some financial impact. Studies have found that fossil fuel investors have lost out in recent years:

- 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.[21]
- By November 2020 the Local Government Pension Scheme (LGPS) had collectively lost £2 billion by not divesting from oil and gas.[22]

Whilst in contrast 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'.[23]

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15 *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

16 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/

17 https://www.bbc.co.uk/news/world-europe-57257982

18 https://www.energyvoice.com/oilandgas/north-sea/339988/climate-campaigners-uk-government-high-court-north-sea-oil-plans/

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

20 For example: http://priceofoil.org/2020/09/23/big-oil-reality-check/

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

22 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
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

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

- 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.[24] In March 2021, BlackRock, the largest asset manager in the world, came to the same conclusion.[25]

- Modelling by LSE has shown that divesting from fossil fuels between 1925-2017 would have had no negative financial impact on funds.[26]

Oil and gas companies have shown themselves to be unwilling and unable to change course fast enough to meet the challenges of the transition away from fossil fuels. Continued fruitless engagement will merely leave the SPF exposed to the risks inherent in these company's outdated business models.

To this end, we would also advise the SPF to seek further outside expertise regarding fossil fuel divestment and not be limited to previous hires. The SPF acknowledges that Sustainalytics were hired "to focus engagement activity"[27] and the term divestment appears only 38 times on the Susainalytics website, while it mentions 'engagement' 2,210 times. The crafting and implementation of an effective divestment strategy will require other voices with more relevant experience.

Glasgow City Council motions for fossil fuel divestment

The following two motions are relevant in the SPF's discussions for September.

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. Extract from Strathclyde Pension Fund Committee motion, 2nd June:

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.

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24 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

25 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/

26 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/

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