

Public Questions

Question from Peter Welch, Oona Menges, Clare Cooper, Mike Watkins, Kate Griffiths

I am a resident of Shropshire, paying council tax. I have recently learnt that SCPF considers me to be a stakeholder in the fund. Could you please tell me exactly what this means?

- What fiduciary duty does the fund have towards me as a stakeholder?
- As a council tax payer, does this mean that some of the money I pay in council tax, ends up in the pension fund through pension contributions from the council as an employer? If the pension fund finds itself in financial shortfall will I, as a council tax payer, be funding this shortfall through taxes? Either through Shropshire council tax or from government taxes if the fund requires government assistance?

Shropshire residents are not stakeholders in the fund, Pension Fund Scheme members are stakeholders. The Council's funding sources are not allocated to specific expenditure items, however, as one element of the Council's overall funding, Council Tax will contribute to expenditure items including employer pension fund contributions and any pension fund shortfall identified as a result of actuarial valuations. As such it would be incorrect to determine the proportion of Council Tax that contributes to the pension fund. I would like to draw your attention to the fact that as a result of the last actuarial valuation when the funding level increased from 84% to 94% this has resulted in a saving in the amount paid in employer contributions.

Question from Gillian Davis, Steve Hale, Su Evans-Turner, Elizabeth Knowles and Manda Scott

In the most recent annual report available to the public (2018-19), the pension fund's investments in Shell and BP amounted to £27 million. At the recent Shropshire Council meeting, Cllr Biggins stated that the fund's Shell and BP investments total £10.2 million. Can you please explain what has happened to the missing £17 million? Have some shares been sold or have these funds dropped in value?

Our UK Equity Manager has reduced the size of the position in BP and Shell due to cash outflow at the request of the fund for rebalancing exercises. The global pandemic, in the last quarter of the financial year, has had a significant impact on global equity markets resulting in a fall in share prices globally. This has not just impacted on BP and Shell specifically.

In addition, the overall value of our passive global equity manager's portfolio, which tracks the FTSE All world developed index, has reduced in value in total (this affects share value of all companies included within the index) due to the global pandemic.

Specifically, in relation to BP and Shell, the combined weighting of BP and Shell as at 31st March 2019 was around 1% of the total index. This has dropped to around 0.6% as at 31st March 2020.

Question from Clare Wearden, Susan Caroline, Richard Davies MBE, Mike Streetly, Sharuff Morsa, Nikki Locke, Simon Nightingale, Ms J Gough, Annette Clarke, Judy Coleridge, Isobel Lewis, John Hutchinson, Peter Gilbert, Natalia Guryeva, Andrew Dady, Suzanne Freegard, Adam Shipp, Susan Barber, Pauline Wilson, Jill Bedford, Hannah Peters, Callum Fone, Tina Teearu, and Di Hill.

Fossil fuel investments increasingly pose a financial risk to investors as a result of both Covid19 and the global transition to a more sustainable economic and environmental model. Renewables now consistently out-perform fossil fuels; and investments that exclude fossil fuels have been outperforming those that include them since 2011 (see MSCI ACWI ex Fossil Fuel Index). Given these factors, why isn't the Shropshire County Pension Fund divesting from fossil fuels and re-investing in renewables and a localised, green economy?

Any evidence to support or oppose this point is entirely dependent on the time horizon. If you change the time horizon, you change the outperformance or underperformance. For example, on a 3-month basis, Oil and gas has outperformed as the sector has risen from the OPEC price wars and COVID-induced demand reduction. While hindsight is certain, the future is uncertain, and that is why investors choose to diversify across asset classes, regions and sectors. Whilst the outlook for oil and gas may well be influenced by the policy reaction to climate change, it is difficult to argue that much of the performance of the fossil fuels sector since 2011 has been driven by climate risk. For example, the Paris agreement in December 2015 does not appear to have had a market impact on the sector. The sector's fortunes have varied rather with the emergence of US shale, the Chinese economy cooling, supply side issues (notably OPEC decisions), and geopolitical tensions, among other factors. No index is truly ex-fossil fuels. The top 5 stocks in the index are Apple, Microsoft, Amazon, Facebook and Alphabet. Without fossil fuels, these companies could not power their servers, deliver parcels to customers or have customers re-charge their devices.

Between 31/12/05 and 30/06/20, both the FTSE Developed GBP Total Return Index and FTSE Developed ex Fossil Fuels Total Return Index have produced a return of around 9% p.a. so are very similar. The passive global equity portfolio the Fund invests in includes 100% GBP currency hedging and an equity protection strategy which protects the total fund from falls in equity markets between -3% to -27%. This

has been of significant importance during the global pandemic. The portfolio tracks the FTSE Developed World index.

Shropshire County Pension Fund already invests in renewables, our Infrastructure portfolio invests in renewable platforms such as Vena Energy and Clearway and Offshore wind in partnership with Orsted who lead in offshore wind in the UK and providing green energy solutions. Our global equity managers also hold positions in renewable companies so it is a well diversified portfolio.

Question from Denise Samari, Emma Bullard, Liz Evans, Dougald Purce, Julie Hughes, Jonathan Lill, Samantha Mager, John Slowley, Mike Cripps, and Fran Hunt.

As members of the Pension Fund, we trust you to make sound investments, but those in fossil fuels i.e. Shell, BP and any others are financially unsound, as well as morally bankrupt. These companies pollute the air we breathe and are wrecking the earth we depend on to stay alive and well. Will you therefore act to retain our trust as pension members, by divesting completely from fossil fuels?

The Pensions committee is currently reviewing its investment strategy in conjunction with its investment advisors. The review is due to commence today at our July meeting and will be discussed further at the September meeting. This review will take into account all the risks the Fund has to continually manage including Fossil Fuel investments. Updates on Climate Stewardship will also be discussed at the July and September meetings where the Responsible Investment team at LGPS Central (our pooling partner) will be able to share more information from their detailed analysis.

It must be noted that almost every company in the investible universe is at present dependent to some extent on fossil fuels. Were the Fund to cease investing in BP and Shell, but remain invested in iron & steel companies, construction businesses, auto manufacturers, shipping companies, retail companies, supermarkets, cement manufacturers, airlines, etc, the Fund would still be invested in fossil fuel dependant sectors.

The Fund prefers to engage with the companies in which it invests and influence company behaviours. Following engagement pressure:

BP has committed to becoming net zero.

Shell has committed to reducing its net carbon footprint by 65% by 2050.

Glencore has put a cap on its production of coal.

Rio Tinto has committed to carbon neutral growth between now and 2030.

And Barclays has committed to net zero.