PENSIONS COMMITTEE - 4 DECEMBER 2020

PUBLIC QUESTIONS

1. Julian Dean

Earlier this year Shropshire Council, the administering authority for SCPF, agreed the following:

To instruct the Acting Chief Executive to write to the Pension Fund Committee asking the Committee to follow best practice by;

1. Adding a statement to their strategy that climate change constitutes financial risks to the fund.

2. Setting a 3 year timescale for the reinvestment of funds currently invested in fossil fuel dependant assets.

3. Developing an investment strategy consistent with sustainable development goals and developing a local sustainable economy.

How has the committee responded to this direction set by the full council?

RESPONSE:

The Pension Committee is currently embarked on an extensive programme of work to understand all aspects of its responsibilities, and the options available to it, for managing the risk of climate change and to date the Committee have received a Climate Risk report, issued a public TCFD report and media release and are receiving further presentations at today's meeting from LGPS Central, BMO and Majedie on Climate Risk, Engagement and Responsible Investment. The recommendations agreed as part of this process are included in the public TCFD report and SCPF is one of the first Pension Funds in the country to disclose this information. The Pension Committee is working towards developing a separate climate strategy and climate stewardship plan which will be published in the next 9-12 months.

2. Paul Cooper

A Freedom of Information request in August 2020 asked for a full picture of SCPF's investments in fossil fuels and renewables. In reply, SCPF stated that it did not hold this information.

In that case, Shropshire Council cannot be sure that the Pension Fund is only investing in companies or assets that do not contravene Council policies.

Will SCPF do their duty as responsible Councillors by obtaining this vital information and making public all the companies that pensioners' money is invested in?

RESPONSE:

The majority of the Pension Funds investments are held in pooled funds, the monthly reports received from its Investment Managers detail the units held in the pooled fund and the current value not the underlying investments. Under the FOI legislation information can only be provided if that information is held. Details of segregated mandates held with investment managers which do list underlying investments are supplied.

The Pension Fund releases an Annual Report each year which details all the current investment managers, the asset class the manager invests in and details of the top 10 holdings of the Fund which is publicly available and on the Pension Funds website. The Fund also releases information about the pooled funds in which it invests.

3. Dr Jamie Russell – sent on behalf of two Shropshire children - daughter Alice Russell (aged 9) and her friend Annabel Read (aged 10)

Dear Pension Fund Committee

In September we wrote a letter to you along with over a hundred other children from Shropshire, asking you to stop investing in fossil fuels because we are worried about the climate crisis and our future. We were sad that we never received a reply to our letter from you.

Recently we watched the documentary A Life On Our Planet by Sir David Attenborough. He warns that the planet is in danger and says “It’s crazy that our banks and our pension funds are investing in fossil fuels when these are the very things jeopardising the future we are saving for.”

Is Sir David Attenborough right, yes or no?

RESPONSE:

A response to the public question submitted to the Pension Committee meeting on the 18 September was read out during the meeting and is also included on the Council’s website with all the other public questions submitted to Pension Committee. The Pension Committee is currently in the process of reviewing the impact of Climate Change on the Fund under different climate risk scenarios as previously advised. Last week the Fund issued its public TCFD report and a press release which can be found on the Pension Funds website. Further discussions on this important issue are being discussed at today’s meeting and future Pension Committee meetings.

4. Kris Welch

Shropshire and Telford & Wrekin councils together provided 60% of last year's employer contributions. Both of these councils have called on the fund to divest, and more are joining them eg Oswestry, Shrewsbury, Much Wenlock, Wem town councils.

SCPF Investment Strategy Statement states that **Shropshire Council is the Administering Authority** for the Fund and that the Authority's policy on social, environmental and corporate governance considerations should be taken into account in the selection, non-selection, retention and realisation of investments**.**

The Authority (Shropshire Council) has made a clear statement on environmental policy and investments via the motion to divest passed, in July 2020.

In addition, the SCPF TCFD report (Dec 2020) states:

" *Roles and responsibilities at the Fund are set out clearly in the Fund's Governance Compliance Statement.* ***Overall responsibility for managing the Fund lies with Shropshire Council*** *which has delegated the management and administration of the Fund to the Shropshire County Pension Fund Committee.*

Since Shropshire Council, fully supported by Telford & Wrekin and other councils, has delivered an unequivocal divestment message, by what powers is SCPF ignoring the wishes of the responsible administering authority of the fund

RESPONSE:

Shropshire County Pension Fund follows its own policies on social, environmental and corporate governance considerations which have been approved by the Pension Committee. Shropshire Council does not have a policy which the Pension Fund should follow when considering investment decisions. Overall responsibility for managing the Fund lies with the Pension Committee not Shropshire Council.

5. Dave Ashdown – on behalf of Fossil Free Shropshire

Fossil Free Shropshire would like to ask a question at the next Pension Fund Committee meeting on Friday on behalf of our supporters.

The question is:

In October 2018, the United Nations' Intergovernmental Panel on Climate Change (IPCC) released a landmark report which is informing the world's response to the climate emergency. The report states that urgent and unprecedented decarbonisation is needed by 2030 in order to keep global warming to a maximum of 1.5C, beyond which even half a degree will significantly worsen the risks of drought, floods, extreme heat and poverty for hundreds of millions of people. Yesterday we left a copy of the IPCC report at Shirehall for the Pension Fund Committee to look at as it considers the findings of its own recent Climate Risk report.

Would the committee be kind enough to advise us:

a) which members have already read the UN IPCC report?

b) which members will be willing to do so before the next Pension Fund Committee meeting?

RESPONSE:

All relevant information will be made available to Pensions Committee Members working within the timescales and ahead of making decisions.

6. Gillian Davis

I would like to ask the Pension meeting, on Friday 4th Dec, the following question:-

SCPF states that the policy of engaging with fossil fuel companies is more effective than divestment or the threat of divestment.

1. Specifically focussing on fossil fuel companies, when was the engagement policy drawn up by SCPF, on what evidence was the conclusion reached that engagement is more effective than divestment, and who was responsible for agreeing it?

RESPONSE:

Shropshire County Pension Fund has been engaging with the companies in which it invests for many years. It uses an external provider, BMO to do this on the Fund's behalf and they are presenting at today's meeting regarding engagement rather than divestment. This forms part of the programme of work that the Pensions Committee will be undertaking over the next 9-12 months. Each year the Fund agrees with BMO the engagement priorities which are reported quarterly to Pension Committee, Climate Change is one of those priorities.

2. What instructions were given to the fund's stewardship partners over engagement with fossil fuel companies? Please outline exactly what SCPF stated that it wishes to achieve with respect to fossil fuel companies and is compliance with the Paris Agreement one of SCPF's aims for engagement? If no instructions were given, please say so.

RESPONSE:

An update will be provided by BMO at today's meeting.

7. Joanna Blackman

SCPF's Climate Related Disclosures Report (December 2020) describes three 'plausible climate scenarios' and concludes that the impact of 2°C, 3°C and 4°C of

global heating on annual returns would be minimal (i.e. in the range +0.05% to -0.10%).

However, scientists across the world agree that even at 1.5°C, billions will experience food and water shortages, and that a 2°C world would be catastrophic. We are now at 1.3°C heating and are already seeing devastating flooding, apocalyptic wildfires and increasing numbers of super-strength hurricanes. (One example of many: Dr. Peter Carter M.D. - expert reviewer for the IPCC).

a) How confident is the Pensions Committee that the report is fit for purpose, given the huge discrepancies between the projections in the report and those of climate scientists?

RESPONSE:

The Climate Scenario Analysis was undertaken utilising the services of Mercer LLC. Mercer have been a pioneer in this field since 2011, making continual improvements to their model over the years. Their current model captures developments in the collective understanding of environmental science, and climate change-related political and technological developments, since 2015. This draws on Cambridge Econometrics global E3ME model, with comprehensive regional and sector data. E3ME is recognised globally as one of the leading models for comprehensive economic modelling of policy and technology scenarios. The three climate change scenarios were developed using existing climate change models and through an extensive literature review.

The Fund remains conscious that Climate Scenario Analysis requires by necessity the use of assumptions about an inherently unpredictable phenomena, and as such the results are viewed with these limitations in mind. We think, however, that investors looking to manage climate risk proactively ought to attempt an ‘inference to the best explanation’ and this is what the Fund has aimed to do throughout this report. The Fund will review its techniques and tools for assessing climate risk as additional methodologies develop.

b) Why does the report not address the scenario of 1.5°C heating? Does it consider that this is now unachievable?

RESPONSE:

At the time of the tendering process in 2019, data limitations meant the service provider had not yet developed a 1.5˚C scenario. It is likely that a 1.5˚C scenario will be developed by the service provider in due course as climate change integrated assessment models are updated to consider such a scenario. In future Climate Scenario Analysis, the Fund will consider including a 1.5˚C scenario if data quality and models permit.

c) The report states:

“Over the coming decade, a 2°C outcome is, according to the model used, the best climate scenario from a returns perspective (adding 0.05% in annual returns to the Asset Allocation on a timeline to 2030)”.

Does SCPF accept its responsibility (alongside others) to do everything in its power to avert 2°C of global heating, or is the Fund reassured by LGPS Central’s assessment that a 2°C world would lead to a marginal improvement in annual returns?

RESPONSE:

The Fund believes in seeking out the best available climate-related research in order to make its portfolio as robust as possible. Since Mercer’s analysis identifies that the Fund would perform better in a 2ºC scenario, SCPF is of the view that the implementation of climate policies aligned with the goals of the Paris Agreement would be to the Fund’s benefit (given the model’s assumptions). Through its pooling company, LGPS Central, SCPF is involved in a number of engagements that are aiming to get companies to align their business strategies with the Paris Agreement, which sets out high-level goals of limiting global warming to 2ºC or well below. As alluded to in the answer to question 2, a 1.5ºC degree scenario is being explored from a climate modelling perspective. Through a collaborative engagement initiative which LGPS Central is a part of, Climate Action 100+, we ask the world’s largest emitters across sectors to set an ambition to achieve net-zero emissions by 2050 across all material GHG emissions. Further to this, companies are asked to establish medium-term targets or goals consistent with a global reduction in emissions of 45% by 2030 relative to 2010 levels. The latter is in line with keeping the average global temperature increase to no more than 1.5ºC degree.