PENSIONS COMMITTEE – 5TH MARCH 2021

PUBLIC QUESTIONS

1. Question from Dr Jamie Russell

Since Shropshire Council voted to divest its pension fund in July 2020, I understand that several other councils including Telford & Wrekin and Shrewsbury have written to the Pensions Committee in support of this motion.

Could the Pensions Committee kindly provide:

i. A full list of employers, including councils, it has received divestment requests from since 1 July 2020.

ii. An estimate of what percentage of employer contributions into the fund these councils represent when combined.

iii. An insight into what percentage of employers would need to write to the Pensions Committee in order to trigger a commitment to pursue divestment by the Pensions Committee.

RESPONSE:

i) Shropshire Council, Telford & Wrekin Council, Oswestry Town Council, Shrewsbury Town Council, (less than 2%)

ii) 27.049m or 1.28% of the total fund value of £2.118 billion

iii) Responsibility for all decisions relating to SCPF rests with Pension Committee not Employers of the Fund. Only 4 out of over 200 employers have written to the Fund (less than 2%).

2. Question from Mrs Chris Welch

Who, ultimately, is legally responsible for the Shropshire Council Pension Fund: the council, the pension committee or another body?

RESPONSE:

Shropshire Council is the Administering Authority for the Shropshire County Pension Fund. Responsibilities for all decisions in respect of SCPF are delegated to the Pension Committee.

3. Question from Ms Jo Blackman

I note that the Corporate Governance Monitoring report to be discussed by the Pensions Committee on 5th March sets out a timeframe which includes: "3rd December 2021: Agree formal response to the Council motion". This is 17 months after the motion was agreed.

What is the status of the Committee's discussion of and/or decision making re the Council's divestment motion? Why is the Committee apparently waiting 17 months to table discussion of the motion? Has the Pensions Committee commissioned any reports on the pros & cons of divestment, the likely impacts on returns, balance of risks etc? If not, how will it ensure that divestment is given proper consideration as an alternative option to engagement, when revising and agreeing its Investment Strategy and Climate Strategy/Climate Stewardship Plan?

RESPONSE:

The status of the significant progress made to date following the Council's motion and timeline for future decisions, Chairs statements, public questions submitted and the responses provided and specific presentations on all of the above issues raised can be found by following the link to all the Pension Committee meetings on the Council's website.

4. Question from Pat McCarthy

The February 2021 Divest UK report from Platform London and Friends of the Earth states:

"Investing in fossil fuels is increasingly costly. It's a financial risk - with UK Public Pensions losing £2 billion on oil investments in the last 4 years. It's also a political risk - with the UK public more concerned about climate change than ever before."

As a pension member with SCPF I know the fund has a diverse portfolio and I welcome the prudent financial decision making that this demonstrates. However, I am perplexed to see the Fund arguing for continuing investment in fossil fuels when weekly financial reports bring news of their fall in value, plus news of the steady rise in the value of renewables. Additionally, there is a constantly growing list of big institutions, companies and other pension funds who are divesting from fossil fuels.

I personally believe that a pension fund that does not have a clear investment strategy which is in line with the Paris agreement, is not fulfilling its fiduciary duty and is exposing pensioners to high risk as a result. I know many other pension holders who also want to see fossil fuel investments removed from the fund – as much for the sake of their children and grandchildren, and as their ethical duty - as well as for the financial sense it makes.

To me, divestment from fossil fuels seems an obvious step that needs URGENT action. Can you reassure me that the Fund will start divestment and transition to renewables no later than this year? What is stopping SCPF from instructing its investment managers to divest?

5. Question from Clare Cooper

Mark Carney, the United Nations envoy for climate action and finance (and former Governor of the Bank of England), has repeatedly warned investors in fossil fuels that they face ‘potentially huge’ losses from climate change action that could make vast reserves of oil, coal and gas ‘literally un-burnable’. He also said all companies and financial institutions must justify their continued investment in fossil fuels, and warned that assets in the sector could end up “worthless” (The Guardian 30/12/19).

More recently, Carney warned that climate crisis deaths "will be worse than Covid" and stressed that as we emerge from the pandemic, "the scale of investment in sustainable energy and sustainable infrastructure needs to double" - which presents "an enormous investment opportunity" (BBC News 5/2/21).

Since Shropshire County Pension Fund has such a diverse portfolio, why hold on to fossil fuels, why not divest and reinvest in a sustainable future?

RESPONSE TO Q4 & Q5:

SCPF believe climate risks and opportunities can be better addressed through modelling and careful analysis than with the blunt tool of divestment across an entire sector.

While we understand the desire of some investors simply to walk away from the sector, we believe this may not be the best course of action for the following reasons

1. Even though the energy transition is likely to impact some sectors much more than others, we do not believe they should be considered in isolation. Indeed, it is our view that investment decisions should be informed by a comprehensive framework to evaluate climate risk and temperature-alignment across *all* sectors.

2. Many sectors can display long periods of underperformance that may or may not be followed by subsequent strong relative gains. This is why diversification remains an important tool for any long-term investor, in our view.

3. By divesting from entire sectors, investors lose their ability to exert a positive influence via active engagement. There is a growing body of evidence that supports the assertion that this engagement can lead to significant positive change (and LGIM will provide examples at today’s meeting)

6. Question form Cllr David Vasmer

In the Corporate Governance Monitoring report, it sets out a timeframe which includes: "3rd December 2021: Agree formal response to the Council motion**"**. Surely this should be considered **before** deciding investment strategies, climate strategies and stewardship plans. Could the Pensions Committee itself commission a report on the case for divestment, the pros & cons, likely impacts on returns, balance of risks etc?

RESPONSE

Work on investment strategies, climate strategies & stewardship plans needs to be undertaken first before the Committee can make a formal response to the Council motion. Several reports and presentations have already been received by the Committee as part of the extensive review currently being carried out in this area. These reports and presentations have included some of the pros and cons of divestment and are available on the Council's website. A further presentation on these issues is being provided by Legal & General at today's meeting.