PENSIONS BOARD

26 APRIL 2024

PUBLIC QUESTION TIME

(questions carried over from 26 January 2024 meeting which was cancelled)

1. **Question from Mr Michael Cripps**

As a pension fund member, I'm shocked that the Fund has not held an Annual Meeting for over 4 years.
Will the Pensions Board call on the Pensions Committee to reinstate this element of accountability and democracy by arranging an Annual Meeting at the earliest possible date?

Response:

The Fund's approach to delivering the content of the AGM in new ways was discussed at the Pension Committee meeting on the 23 June 2023 a recording of which is available on the Council's website so can be listened back to. Further details were also included in the Pension Administration report which was agenda item 9 at the same meeting and is also available on the website. Scheme members can contact the Pensions team throughout the year through a number of different communication channels to discuss any issues, face to face meetings are also available. All key Fund information is publicly available on the fund's website and the fund sends out newsletters and bulletins with regular scheme updates, holds webinars, online meetings and employer meetings. At its last meeting, the Pension Board considered and agreed with the decision of the Pension Committee to not hold a public AGM but to deliver its content in a different way.

2. **Question from Ms Joanna Blackman**

Carbon Tracker's recent report, "Loading the Dice Against Pension Funds" *, reveals that many pension funds, including Shropshire, use investment models that rely on economists' flawed estimates of damages from climate change to predict that global warming of 2°C to 4.3°C would have only a minimal impact on member portfolios. The report makes it clear that these flawed economic models cannot be reconciled with warnings from climate scientists that global heating on this scale would be "an existential threat to human civilisation."

Will the Pensions Board urgently call on the Pensions Committee to follow Carbon Tracker's advice to *"look at the compelling evidence in the climate science literature, and to implement investment strategies which are* *based on a rapid wind-down of the fossil fuel system, and on a 'no regrets' precautionary approach?"*

* https://carbontracker.org/reports/loading-the-dice-against-pensions/

Response:

The data quoted in the Carbon Tracker report is taken from the funds 2020 TCFD report and reflects the predictions made in the Mercer Climate change analysis at that time, the fund have issued two further TCFD reports since this time. The analysis in our pension fund's third Climate-Related Disclosures Report, published in November 2022, was based on an updated model that Mercer has developed in partnership with Ortec Finance and Cambridge Econometrics.

This most recent climate scenario analysis, which utilised the analysis by Mercer, re-affirmed our belief that the Fund's investments (and other investments in general) will perform better in a successful 1.5ºC scenario, compared to a failed transition scenario. Stewardship (as opposed to divestment) remains the preferred tool to advocate for a change with our investee companies. Failure to steward these investments may result in such companies continuing to pollute – leading to the world failing to transition.
We acknowledge that climate scenario analysis remains a developing field, which uses assumptions about inherently unpredictable matters over long time horizons. We view the outputs from the analysis as directional information on the sensitivity of the Fund's portfolio to different climate scenarios to be considered in tandem with all the other factors which have the potential to impact on investment returns. We welcome the continued development of climate scenario analysis to support pension funds' management of the risks associated with climate change and will are engaging on a suitable partner when undertaking further climate modelling as part of the 2024 report.

The Board are comfortable that the Committee is aware of the potentially devastating impacts of climate change and the need for the global economy to accelerate its transition to a low carbon energy solutions. However, we do not consider that divesting from fossil fuels will accelerate this transition. It is important that companies are owned by responsible investors that demand long-term thinking from corporate management and credible transition plans. It is also important that the demand for fossil fuels within the economy reduces and is replaced by demand for renewable energy. Focusing on only the supply of fossil fuels does not address this challenge.

3. **<u>Question from Mr Dougald Purce</u>**

As a member of the Pension Fund, I'm deeply concerned that the Fund still has investments in fossil fuels. It is now 2 years since the Pensions Committee voted against the Council's motion calling on the Fund to divest from fossil fuels. Over this period the proposed plausible climate scenarios prepared by LPGS Central Ltd* have been shown to be at best a questionable miss use of statistics covering 1.5ºC & 1.6ºC scenarios then leaping 2.7 degrees to a 4.3ºC scenario thus screening / avoiding the irreversible and disastrous implications of 2.5ºC to 3ºC of climate change. In the last two years there have been many new alarming scientific reports including findings that the earth is already dangerously close to many tipping points. At the same time, we have witnessed accelerating climate impacts around the world including devastating floods in Pakistan; apocalyptic wildfires in Canada, Greece and Hawaii; heatwaves reaching 40-50°C; prolonged droughts and crop failures and accelerated ocean warming.

Will the Board call on the Pensions Committee to urgently reconsider its decision in the light of this accelerating emergency?

*Shropshire Pension Fund Climate Risk Report (Nov 2022) Referenced on page 13 of the 2023 Climate Risk Management Report (Nov 2023).
[2023 Climate Risk Management (shropshirecountypensionfund.co.uk)]

Response:

Shropshire County Pension Fund recognises the need for an orderly decarbonisation of the real economy and the investment risks associated with the stranding of economic assets brought about by the transition to a lower carbon economy. However, we do not consider that excluding fossil fuels from our investable universe is the appropriate response to these risks.

Responsible corporate ownership is essential during this time of transition, and we do not consider that our divestment from high emitting industries will serve to accelerate this transition. Divestment by long term responsible investors from high emitting sectors will result in a larger proportion of shares being owned by investors less concerned about ESG issues including climate change. We do not consider that this will contribute to more responsible corporate behaviour or increase the trajectory of decarbonisation.

Climate scenario analysis is an evolving discipline, and both the pension Committee and Board are aware of the limitations. Our analysis was produced by Mercer, a respected investment consultant that has worked with pension funds on the assessment of climate risk for many of years. However, our position on climate change is not dictated by the results of our scenario analysis. It is the conviction of the Fund that the integration of Environmental, Social and Governance risks (including climate change) into investment processes is the most effective way to manage the complex and nuanced physical and transition risks associated with climate change and the transition. Coal, Gas and Oil all face different risks in terms of the transition and the role that they will play in the energy mix of the future is not uniform. Therefore, they face different risks of asset stranding over different timeframes. The Board is aware that the Committee considers that a more nuanced approach to managing these risks is preferable and that a blanket divestment from all fossil fuels is not optimal in terms of managing investment risk or accelerating the transition. The assessment of these investment risks at both company and sector level is delegated to our regulated external managers and not decided by our scenario analysis. The Board supports the Committee’s approach that this is the best way to protect the value of our investments and fulfil our fiduciary responsibilities. It is important that the voice of responsible long-term investors is heard in corporate board rooms during this period of unprecedented transition.