Pension committee presentation

Thank you for allowing me to speak in support of the petition calling for the divestment of the East Sussex Pension Fund from fossil fuels.

The Fund currently has an estimated £172m invested in the fossil fuel industries.[1] These investments are damaging our climate's equilibrium and pose a serious risk to local people's pensions.[2]

According to recent scientific studies Global warming is now 1˚C higher than in pre-industrial times[3]. We need to move fast to a low carbon future.

Scientists have estimated[4] that at least half of the world's proven fossil fuel reserves will have to remain unburnt if we are to have a 50% or better chance of keeping global warming to less than two degrees Celsius.

This is why over 500 institutions, representing over $3.4 trillion in assets, have committed to some form of divestment from fossil fuel companies. These include the cities of Oxford, Oslo, Berlin and Washington D.C., and the Lancashire County Council Pension Fund.[5]

In the minutes of your meeting in July, Kevin Allen said,

> *the Board should take disinvestment seriously, provided that it does not interfere with the administering authority's fiduciary duties*

The new code of practice from the UK Pensions Regulator[6], announced in August, states that Trustees of UK pension funds should consider environmental, social and governance factors when making investment decisions, where such factors are "financially significant".
It is clear from this that considering **climate risk** is an essential fiduciary duty.

In July the Swedish pension fund AP4 made the biggest divestment move of any institution to date[7]. The $35bn pension scheme will decarbonise its $14.7bn global equity portfolio by 2020. Eva Halvarsson, CEO at AP4, said the fund's starting point in assessing the financial impact of climate risks on portfolio companies, was to determine whether they had been factored into the market price. "Disinvestment from these companies serves to protect the fund's long-term return on invested assets."

According to Barclays's head of European utilities equity research Mark Lewis, the fossil fuel industry risks losing $33 trillion in revenue over the next 25 years because global warming may drive companies to leave oil, natural gas and coal in the ground[8]. Lewis is on the G20 Taskforce on Climate Related Financial Disclosures, which will table recommendations for action by the financial sector later this year.

In your July minutes Sue McHugh stated that "any analysis of the value in fossil fuel disinvestment ought to include a quantified cost to the fund of disinvestment". The cost of *not* divesting may be more significant.

The recommendation of your finance officer in response to our petition was as follows.

> *The Committee is recommended to agree that the Fund should continue to seek to use its influence as a corporate investor to positively influence companies' behaviour.*

There is mounting evidence that engagement with fossil fuel companies cannot work fast enough to make significant change. This week a report by The Fossil Free Index, reviewing climate risk-related shareholder resolutions between 2012 and 2016, found that though the number of resolutions had increased, their influence had been modest and shareholder support had barely increased over the five years. [9]

Decades of engagement with fossil fuel companies like Shell, BP and Exxon have failed to produce significant moves towards changing these companies' business models. On the contrary, Big Oil spends millions thwarting efforts to address climate change. **The East Sussex Pension Fund has some £4.3m invested in Exxon Corporation. Exxon currently spends £27m a year delaying and obstructing climate legislation**.[10]

The Local Authority Pension Fund Forum is actively engaging with fossil fuel companies, but their own report, published in conjunction with the Carbon Tracker Initiative, admits that investment in oil and gas could pose a risk to investors:

> *Despite the formation of the Oil and Gas Climate Initiative, virtually all the oil majors in Europe (and the US) continue to plan on rising demand for both oil and gas and have planning scenarios that reflect this. Two-degree demand scenarios appear to be largely ignored. High risk (high cost) investments may well end up destroying shareholder value should management fail to consider a two-degree scenario in their planning. There is a financial argument that those that can't reassure investors could be considered as divestment candidates*. [11]

Pensions are about creating a secure future for its investors. The new pooled funds that are due to come on stream next year are an opportunity for the East Sussex Pension Fund to re-assess its approach to its environmental, social and governance responsibilities. The financial risk posed by climate change to your investors' money makes it absolutely clear that your fiduciary duty is to divest from all fossil fuel holdings in the top 200 publicly traded fossil fuel companies within five years and put pensioners' money in sustainable low-carbon investments.

[1] 'REVEALED: UK Councils have £14 billion invested in fossil fuels', Fossil Free UK, 24 September 2015, http://gofossilfree.org/uk/revealed-uk-councils-have-14-billion-invested-in-fossil-fuels/. The £172m figure is based on data collected through Freedom of Information Requests (FOIs) to administering authorities for the 2013/14 financial year. It includes direct equity holdings in the top 200 fossil fuel companies as well as estimated fossil fuel investments in pooled equity funds

[2] https://www.foe.co.uk/.../**local-government-pensions-fossil-fuel-divestment-89508**.pdf

[3] http://www.metoffice.gov.uk/research/news/2015/global-average-temperature-2015

[4] http://www.nature.com/nature/journal/v517/n7533/full/nature14016.html

[5] http://gofossilfree.org/commitments

[6] http://uksif.org/2016/08/02/esg-is-part-of-fiduciary-duty-says-new-code-of-practice-from-uk-pensions-regulator-responsible-investor/

[7] https://www.ft.com/content/4bfa92da-49c5-11e6-b387-64ab0a67014c?siteedition=uk&_i_location=http%3A%2F%2Fwww.ft.com%2Fcms%2Fs%2F0%2F4bfa92da-49c5-11e6-b387-64ab0a67014c.html%3Fsiteedition=uk&_i_referer=&classification=conditional_standard&iab=barrier-app

[8] http://www.bloomberg.com/news/articles/2016-07-11/fossil-fuel-industry-risks-losing-33-trillion-to-climate-change

[9] http://fossilfreeindexes.com/2016/09/06/shareholder-resolutions-carbon-underground-200-companies-2012-2016-complex-picture/

[10] http://influencemap.org/report/Climate-Lobbying-by-the-Fossil-Fuel-Sector

[11] http://www.carbontracker.org/report/engaging-for-a-low-carbon-transition/ page 24.

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