

Report to: **Pension Committee**

Date of meeting: **8 September 2016**

By: **Chief Finance Officer**

Title: **Petition – Divest East Sussex Pension Fund from Fossil Fuels**

Purpose: **To consider the receipt of a petition relating to the divestment of East Sussex Pension Fund investment from Fossil Fuels.**

RECOMMENDATION

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 and reserve the right to apply ethical or environmental criteria on a case by case basis where relevant and appropriate.

1. Background

1.1 The Council has received a petition headed '*Divest East Sussex Pension Fund from Fossil Fuels*'. The petition contains approximately 400 signatures and was presented to the Chairman at Full Council on 12 July 2016 (Appendix 1). The wording of the petition is as follows:

"We are asking East Sussex County Council to move their money: divest from companies which threaten the environment, and actively commit to investing further in low-carbon assets and renewable energy within the next five years."

1.2 Additionally, a campaign has accompanied the petition with messages having been sent by post to the Leader, Pension Committee Chairman, and e-mail to Pension Committee members (Appendix 2). A leaflet (Appendix 3) entitled '*How is Your Pension Fund Invested and is it safe*' has been distributed widely. The leaflets identify the campaigners as the Climate Forest Row and Eastbourne & District Friends of the Earth, with the Lead Petitioner as Fossil Free Hastings.

1.3 The Pension Committee is responsible for deciding East Sussex Pension Fund ('the Fund') investment policy and is therefore the appropriate body to consider this petition. The Pension Board assists the Pension Committee in its work and so is also able to consider the petition and submit any comments to the Committee.

2. Proposals and Details

2.1 Institutional investors generally and Local Government Pension Funds in particular are facing increasing scrutiny of their investments in companies involved in the extraction and trading of fossil fuels (e.g. oil, coal and gas). This follows increasing public awareness of the issues of climate change and global warming, along with their associated economic and environmental impacts.

2.2 Locally, some ESCC fund members have aligned themselves with national campaigns seeking to persuade Pension Fund managers to disinvest in companies in the fossil fuel sector. Campaigns of this nature have typically provided a common narrative for individuals or organisations to use when approaching pension funds. The LGPS has also received many direct approaches from various groups on this issue. In April 2016, for example, Hastings Borough Council passed a unanimous fossil fuel divestment motion (Appendix 2).

3. The Fund's approach to ethical investments

3.1 The current investment strategy of the Fund is detailed in the Statement of Investment Principles (SIP) approved by the Pension Committee on 24 November 2015. Our approach is

broadly in line with that of other LGPS funds, i.e., to secure the best realistic return over the long-term; to meet pension commitments, within an acceptable level of risk, by ensuring there is diversification across all asset classes; and to keep employer contribution rates stable. The Fund pursues this strategy by appointing expert specialist investment managers who are given an unconstrained ability to invest within their individual mandates.

3.2 The SIP also details the Fund's policy on socially responsible investments. The Fund has chosen to permit its investment managers to adopt a policy of socially responsible investment, providing that they treat the financial interests of scheme members as paramount and their investment policies are consistent with the standards of care and prudence required by law.

3.3 The Fund requires its investment managers to be active in their constructive shareholder engagement with companies regarding socially responsible investment issues; the proactive engagement of fund managers with these companies has been shown to influence positive change. The Fund did not interfere in the day-to-day investment decisions of the Fund's investment managers, and chooses not to actively invest or disinvest from companies solely or largely for social, ethical or environmental reasons.

3.4 From the Fund's perspective, simply disinvesting from a particular category or group of companies is likely to reduce the Fund's ability to secure the best realistic return over the long-term whilst keeping employer contributions as low as possible. Furthermore, it denies the opportunity for the Fund to influence companies' environmental, human rights and other policies by positive use of shareholder power, a role the Fund takes very seriously. The Fund has reserved the right to apply ethical or environmental criteria to investments where relevant and appropriate on a case by case basis.

4. Local Authority Pension Fund Forum

4.1 The Fund is a member of the Local Authority Pension Fund Forum (LAPFF). LAPFF is a coalition of 68 LGPS Funds that engages directly with companies on behalf of their member funds. LAPFF actively considers the question of environmental, social and governance (ESG) investments, and in particular issues relating to: labour practices, wage equality, the arms trade, tobacco and the environmental impact of major oil companies.

4.2 The East Sussex Fund currently addresses ESG and ethical investment issues both at a fund level and collectively through LAPFF. The Fund believes active engagement with investee companies is the best way to bring about desirable change whilst managing overall investment risk issues. The approach of direct and collaborative engagement contrasts with the approach of blanket divestment advocated by the campaigners. Once an asset owner divests, their ability to influence both the short and long-term direction of individual companies and the national and international energy sector is severely curtailed.

5. Conclusion and recommendations

5.1 The cornerstone of the Fund's policy on ethical investment – as set out in its SIP – is its interpretation of the Fund fiduciary duty and legal position regarding its duty towards ethical investment. The Committee does take into account ethical, environmental, governance and other non-commercial policies when considering investments generally and when selecting fund managers. The Fund should continue to seek to use its influence as a corporate investor to positively influence companies' behaviour and reserves the right to apply ethical or environmental criteria on a case by case basis where relevant and appropriate. This approach is considered the best way to bring about positive change whilst securing the best realistic return over the long-term to meet the Fund's future commitments to beneficiaries whilst keeping employer contributions as low as possible.

MARION KELLY
Chief Finance Officer

Contact Officer: Ola Owolabi, Head of Accounts and Pensions
Tel. No. 01273 482017
Email: Ola.Owolabi@eastsussex.gov.uk

BACKGROUND DOCUMENTS

None