

Report to: Pension Committee

Date: 4 September 2017

By: Chief Finance Officer

Title of report: Petition relating to divest East Sussex Pension Fund from Fossil Fuels

Purpose of report: 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 consider and comment on the report

1. Background

1.1 The Council has received a petition headed '*Divest East Sussex Pension Fund from Fossil Fuels*'. The petition was presented to the Chairman at Full Council on 23 May 2017 (Appendix 1) and is available in the Members' Room. The wording of the petition is as follows:

"We the undersigned call on East Sussex County Council to follow their lead and divest the East Sussex Pension Fund from its holding in fossil fuel companies."

1.2 In addition, Brighton & Hove City Council and Lewes Town Council recently considered a motion put forward by a Member which promoted the principles of divestment from any financial vehicles which engaged with fossil fuels and related industry. Also, to commit itself, over the course of the next five years, to divest the East Sussex Pension Fund from direct ownership and any commingled funds that include fossil fuel public equities and corporate bonds, and to focus re-investment in areas that minimise climate change and reduce the Fund's carbon footprint.

1.3 The minute related to this debate and the subsequent resolutions (Appendices 2 and 3) is seeking that this be brought to the attention of the Pension Committee and Board. 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 East Sussex Pension 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.

3. The Fund's approach to ethical investments

3.1 The current investment strategy of the Fund is detailed in the Investment Strategy Statement (ISS) approved by the Pension Committee on 27 February 2017. 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 ISS also details how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of 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 does 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 over 72 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 Pension 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 ISS – 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.

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BACKGROUND DOCUMENTS

None