COUNTY COUNCIL – 17 OCTOBER 2017

QUESTION FROM MEMBERS OF THE PUBLIC

1. Question from Dirk Campbell, Lewes, East Sussex

At the East Sussex Pension Committee's training day on 13 June, the speakers from Hymans Robertson explained how much of a struggle it was – and how long it was taking – to use "engagement" to address relatively simple and straightforward issues such as board diversity.

How realistic does the Pension Committee believe it is that "engagement" can be used to get the entire oil industry to put itself on a pathway of "managed decline" (the strategy suggested by one of the speakers from the Local Authority Pension Fund Forum on 13 June)?

Response by the Chair of the Pension Committee

Hymans Robertson provided slides on 13 June 2017, in which they merely noted that 'engagement' is one of the options available to the East Sussex Fund.

The Fund requires its investment managers and the Local Authority Pension Fund Forum (LAPFF) 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 believes that collaborative engagement is more productive than acting alone and works together with other LGPS funds through its membership of LAPFF. Company engagement is an important element, encouraging development of low carbon-aligned business models, and it is in the best interest of the Fund to get the entire oil industry to put itself on a pathway of "managed decline".

Membership of LAPFF (combined assets of 72 LGPS funds) gives greater power and influence when acting together on investor issues. The Forum recognises the issue of continued fossil fuel extraction as a collective investment risk for all asset owners and as an engagement and policy priority. For companies engaged in fossil fuel extraction, LAPFF's approach is to undertake robust engagement on aligning their business models with a 2°C scenario and to push for an orderly low carbon transition.

2. Question from Arnold Simanowitz, Lewes, East Sussex

At the East Sussex Pension Committee's 13 June 2017 training day on ESG (Environmental, Social and Governance) issues and climate risk, Legal and General Investment Management explained that "engagement to address climate risk" required action to be taken on "poor performers", and that such action could include divestment "from some funds". What are the Pension Committee's red lines with respect to climate risk that it believes should trigger divestment from a particular fund?

Response by the Chair of the Pension Committee

These ‘red lines’ have not been defined at present but the Pension Committee has agreed to commission carbon foot printing reports on all of its equity portfolios. These will help inform the Committee in their future discussions with fund managers and in further consideration of the issues surrounding climate change.

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 Committee takes very seriously. The Committee has reserved the right to apply ethical or environmental criteria to investments where relevant and appropriate on a case by case basis.

Engagement remains ongoing with the oil & gas companies and an important engagement focus by the fund manager and LAPFF is the restriction of capital expenditure (capex) on high cost resource extraction and promotion of the return of any additional cash generated to shareholders.

3. Question from Patricia Patterson-Vanegas, Forest Row, East Sussex

Last year, a peer-reviewed research article in the journal Atmospheric Chemistry and Physics predicted that if global warming is allowed to reach 2 degrees Celsius above pre-industrial temperatures, sea levels are likely to increase “several metres over a timescale of 50 to 150 years”. What contingency planning has East Sussex County Council made regarding the possible impact of a 2m sea level rise on communities and businesses in East Sussex?

Response by the Lead Member for Transport and Environment

The United Nations Intergovernmental Panel on Climate Change makes it clear, in its most recent reports, that climate change is a highly complex and long term challenge characterised by great uncertainty. Consequently, there is a difficult balance to achieve between over-adapting (ie .by preparing for events that do not happen) and under-adapting (eg. waiting for changes to occur and then reacting as they happen) to climate change.

The main legal mechanisms to address climate change are:

1) the UK Government’s Climate Change Act of 2008, which includes a requirement for the Government to develop a climate change adaptation plan, to be reviewed on a 5-yearly cycle. The first adaptation plan was published in 2013 and is currently being reviewed in light of the latest climate change risk assessment, which was updated in January 2017.

2) The United Nation’s Paris Agreement of 2015, which sets out the framework for
multilateral cooperation to prevent more than a 1.5°C increase in global temperatures

above pre-industrial levels, rather than the 2°C increase quoted in the journal of Atmospheric Chemistry and Physics.

There is no legal requirement for East Sussex County Council to develop and implement a climate change adaptation plan. However, the 2013 National Adaptation Plan identified that Local Authorities have a central role to play in adapting to climate change through the need to ensure that their local assets and services are resilient to the effects of climate change. The County Council recognises this and seeks to adapt its assets and services through its statutory functions for Emergency Planning and Public Health, and as the Lead Local Flood Authority for East Sussex. Examples of practical measures being taken by the County Council include:

1) the Emergency Planning team, as a member of the Sussex Resilience Forum, prepares for the effects of extremes of weather, including storms and flooding. Measures include cascading early warnings from the Met Office and the Environment Agency about extreme weather events before they occur to enable front line staff to take appropriate action. These include notifications of disruption to County Council services, such as the closure of schools and adult social care centres.

2) every County Council Department has a Business Continuity Plan, to ensure the rapid and co-ordinated re-establishment of priority services after events that cause service disruption.

3) the Corporate Sustainable Buildings Policy specifies a number of adaptation measures, including the installation of sustainable drainage systems in new County Council developments.

4) the County Council, together with its Highways service provider Costain CH2M, is working towards implementing the new national Code of Practice on taking a risk based approach to managing highway infrastructure assets (‘Well Managed Highway Infrastructure: A Code of Practice’). This includes using the local Flood Risk Management Plans, produced by the County Council as the Lead Local Flood Authority, to take a targeted, risk-based approach to maintenance of drainage assets to reduce the risk of flooding.

5) Through our role as the Lead Local Flood Authority for East Sussex, requesting that proposals for new development have appropriate means of disposing of surface water in extreme rainfall events, which includes allowances made for the impacts of climate change.

The County Council has committed to reviewing its approach to adaptation on a 5 yearly cycle, to take on board key recommendations that may come from the government’s own 5 yearly review of the national approach to climate change adaptation.

In addition to measures taken by the County Council, a number of partner organisations also have policies and plans in place that contribute to ensuring that East Sussex is likely to be reasonably resilient to the effects of climate change in the short term (e.g. the Environment Agency’s Shoreline Management Plans). Examples of practical measures to manage risks include the flood alleviation scheme being constructed by the Environment Agency in Newhaven.

4. Question from Rosalyn St Pierre, Barcombe, East Sussex

At the 2015 UN Climate Change Conference in Paris 196 nations – including the UK Government - agreed to hold global warming to “well below 2 degrees” , and to “pursue efforts to limit the temperature increase to 1.5 degrees” Celsius.

What analysis and advice has the Pension Committee received about the likely impact of a 1.5 degree scenario on the value of fossil fuel companies?

Response by the Chair of the Pension Committee

The Pension Committee has taken advice from various sources, and has received ESG reports from Hymans Robertson, LAPFF, the Environment Agency at recent Pensions Training days, and has discussed ESG issues at various meetings in great detail over the past 12 months. The Pension Committee resolved at the Quarterly Meeting on 4 September 2017 to:-

- Include within its revised Investment Beliefs published document, a list of specific ESG Investment Beliefs;
- Agreed that the East Sussex Pension Fund should sign up to the UK Stewardship Code;
- Request an analysis of the Fund’s exposure to carbon risk within its equity holdings.

The Committee has delegated individual stock selection to its active investment managers as they are best placed to carry out the detailed research on companies, as referred to in the question. It is not feasible for the Committee to form its own opinions of whether individual company share prices are currently too high or too low given all the possible future impacts on the businesses (technology changes, litigation etc.). Its role is to be satisfied that the managers have taken these factors into account.

5. Question from Gabriel Carlyle, St Leonards on Sea, East Sussex

Is the East Sussex Pension Committee aware of the warning, in the Bank of England’s June 2017 quarterly bulletin, that ‘the financial risk from an abrupt transition to a lower-carbon economy can increase if, over the coming years, portfolios are not aligned with climate targets’, that ‘If governments push ahead with climate policies, but investors do not adapt their investment strategies accordingly, misallocation will grow.’ and that ‘This could ultimately lead to a ‘climate Minsky moment’ — a rapid system-wide adjustment that threatens financial stability ...’?

Response by the Chair of the Pension Committee

In addition to responses above, the Pension Committee is aware of the risks to financial returns arising from climate change and this is stated in the East Sussex Pension Fund ISS (Investment Strategy Statement). This topic has therefore received a large amount of Pension Committee and officers time, and will continue to be given attention.

Monitoring of progress and outcomes includes LAPFF's participation in the Transition Pathway Initiative, which aids understanding of where companies are placed in the transition to a low carbon economy and their competence to manage this transition. LAPFF supports member pension funds addressing concerns around climate and carbon intensive investments through a combination of individual engagements at corporate level, working with investor coalitions, contributing to the regulatory and policy debate and adding to institutional investor voices engaging with international forums

6. Question from Arkady Johns, St Leonards on Sea, East Sussex

In June, India announced that it would end sales of gas and diesel cars by 2030, and last month the Economist reported China's announcement that its government is developing a long-term plan to phase out vehicles powered by fossil fuels.

In assessing the likely future value of the East Sussex Pension Fund's investments in fossil fuels, what assumptions are the East Sussex Pension Committee and its fund managers making regarding the speed with which fossil-fuel-powered-vehicles will be replaced by electric vehicles?

Response by the Chair of the Pension Committee

Please see the responses to questions 2 and 4 above. The Environmental, Social and Governance issues, including fossil-fuel and climate change are consistently and regularly reviewed by the Pension Committee

7. Question from Esme Needham, Hastings, East Sussex

A recent report by the UN Environment Programme and Columbia Law School found that some 894 climate change legal cases have now been filed in 24 countries. What assessment has the Pension Committee made of the possible risks that future litigation could pose to its investments in fossil fuel companies?

Response by the Chair of the Pension Committee

Please see the response to question 4 above.

The Pension Committee is committed to actively exploring carbon light options and smart beta approaches to our investment in order to reduce inadvertent exposure to those fossil fuel companies with unsustainable business models and those companies involved in very high carbon intensive businesses. Additionally the East Sussex Fund is looking at adopting elements of the Environment Agency Pension Fund's constructive engagement approach to dealing with Fund Managers in this area, taking into consideration the Committee fiduciary duties and potential financial and non- financial risk