COUNTY COUNCIL – 3 DECEMBER 2019

QUESTION FROM MEMBERS OF THE PUBLIC

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

In October 2018, in a written answer to a question from a member of the public, the Chair of the East Sussex Pension Committee stated that the Fund's exposure to oil and gas producers was 'in the region of 4% of the fund total investments', or about '6.5% of its total equity investments.' This, it was explained was 'constituted by direct investments of £6.2m around 1.6% of the Fund's direct equity investments and an estimate of its indirect investments of around 7.5% (circa £138.8m)' (Response by the Chair of the Pension Committee to question from Frances Witt, 16 October 2018, https://tinyurl.com/145mresponse).

What are the corresponding figures for the Fund's exposure to oil and gas in the year's 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017 and 2019? Also, what was the Fund's exposure to coal producers for the years 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018 and 2019?

Response by the Chair of the Pension Committee

The costs incurred in analysing a large number of historic investment portfolios, bearing in mind the number of different investment managers that have been employed by the Fund over the last ten years, and the fact that managers have not been measuring these exposures until more recently, would be substantial. The Fund is focused on understanding its current exposures and how these change going forward.

2. Question from Julia Hilton, Hastings, East Sussex

The East Sussex Pension Fund's Responsible Investment Policy states that 'The Fund will incorporate climate risk assessment as part of the annual investment strategy review (considering the Fund's investment strategy under a range of climate change scenarios, including a 2ºC scenario).'

Were any 2ºC scenarios considered at this year's annual investment strategy review? If they were then what was the Fund's assessment of the climate risk posed to it under such scenarios by its continued investment in oil and gas companies?

Response by the Chair of the Pension Committee

The ability to factor in alternative climate scenarios in the Annual Investment Strategy Review is quite recent. One feature of the Asset Liability Modelling carried out in 2019 was consideration of the impact on future funding levels under alternative scenarios and we can build on that analysis in the investment strategy review planned for early 2020. This leads into the discussions on the general level of investment risk being taken and high level strategy rather than providing a steer on individual companies or sectors at this stage. The Fund will look in more detail at portfolio risks as part of the forthcoming review.

3. Question from Frances Witt, Lewes, East Sussex

Does the East Sussex Pension Committee accept the conclusion of the the recent report Investing in a time of climate change – the sequel (https://bit.ly/2KOqtPo) from the institutional investment advisor Mercer that: ‘Advocating for and creating the investment conditions that support a “well-below 2^0 C scenario” outcome ... is most likely to provide the economic and investment environment necessary to pay pensions ... over the timeframes required by beneficiaries.’?

And, if so, how does it reconcile this conclusion with its continued investment in the five largest publicly-traded oil and gas majors (ExxonMobil, Royal Dutch Shell, Chevron, BP and Total) who have together spent over $1bn of shareholder funds over the last four years trying to undermine the 2015 Paris climate agreement in an effort to maintain the social and legal license to operate and expand their fossil fuel operations?

Response by the Chair of the Pension Committee

Mercer's report on climate change summarises some of the possible scenarios for the future, and the Fund and its advisors are fully cognisant of the risks involved in some of the more pessimistic ones. Mercer’s view and approach is just one of many amongst advisors, and that needs to be borne in mind when evaluating their models and recommendations. The Fund notes that they suggest four activities investors might take to help mitigate climate change, all of which the Fund and its managers are currently undertaking, in some cases for many years. Details and examples are contained in the ESG statement, recently published.

The fourth and last of these is screening out companies deemed to be irresponsible or not acceptable to profit on. The Fund states among its beliefs that it will use evidence-based long-term appraisal when making investment decisions. The Committee has together with its advisors considered a policy of divestment from the oil majors but is firmly of the view that that action would not result in a better outcome from a climate-change perspective, quite apart from the extra costs and risks involved, which the Fund's employers and members would eventually have to pay.

4. Question from Arnold Simanowitz, Lewes, East Sussex

On 15 October 2019 this Council declared a climate emergency. Presumably the Pension Committee therefore accepts that there is such an emergency. If there is an emergency what steps is the Pension Committee going to take to deal with that emergency or does the declaration just amount to words?

Response by the Chair of the Pension Committee

The Committee, with its advisors, is well aware of the potential risks from climate change. The Fund's decisions have implications for members and employers in the long-term, and therefore takes these risks seriously. However, it is also important that the Fund makes decisions with due consideration of all factors, not just the single issue of climate change. That does not mean the Fund and its Advisors are doing nothing. The Fund has spent more time on discussing how best to mitigate Climate Change than almost all other LGPS Funds, and the ESG statement reviews some of the actions we have taken. A full Strategy Day on this subject was held in 2017 to which Climate Change Activists were invited to make their point and to listen to the arguments on both sides.

Decarbonisation, energy innovation and climate policy continue to surprise and evolve. The fund is mindful that although the climate challenge is internationally accepted and the need for abatement recognised, policy is yet to settle into a set of concrete agreed long term actions with respect to key sectors and even where agreement is found policy approaches and priorities differ between countries. Moreover, history indicates that policy has a tendency to alight on one solution, observe unintended consequences, only to settle on another solution as understanding becomes more complete or technological advancement supersedes a decade or so later. Cementing an investment strategy at one snapshot in time with current technologies is imprudent. Prudence requires a continual re-evaluation of risk and opportunity which moves with new information.