COUNTY COUNCIL – 11 FEBRUARY 2020

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 East Sussex Pension 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 is the East Sussex Pension Fund's current exposure to oil and gas producers (both in absolute value and as a percentage of the Fund), and how are these split between direct and indirect investments?

Response by the Chair of the Pension Committee

The Fund monitors its exposure to companies with fossil fuel reserves using the industry definition developed by MSCI. On this basis, the total level of investment at 30 September was estimated at £175m, or 4.5% of total Fund assets. The total level of exposure, and changes over time, is monitored on a quarterly basis by the Pension Committee, which was presented with the September 2019 report at its meeting on 25 November 2019 - https://democracy.eastsussex.gov.uk/ieListDocuments.aspx?CId=373&MId=3997&Ver=4

2. Question from Andrea Needham, Hastings, East Sussex

According to the UN-backed Principles of Responsible Investment (PRI), which represents investors with $86 trillion of assets under management, the ever-worsening impacts of climate change are going to produce an inevitable policy response on the part of the world's governments. Indeed, they predict "an inevitable policy response by 2025 that will be forceful, abrupt and disorderly because of the delay …. creat[ing] considerably greater disruption than many investors and businesses are prepared for today."

A recent analysis by Carbon Tracker concluded that 'oil projects developed pre-2025 may never generate the value expected at sanction if [such a] policy response is not anticipated' ('Handbrake Turn: The cost of failing to anticipate an Inevitable Policy Response to climate change', 31 January 2020, https://www.carbontracker.org/reports/handbrake-turn). As an illustrative measure, they note that 'oil assets that enter production in 2019-2025 are modelled as having an aggregate NPV 50% lower if calculated based on a flat oil price from start-up equal to the maximum that results post-IPR, rather than the one we model as prevailing beforehand.'

Do the East Sussex Pension Committee and its fund managers agree that such a policy response is inevitable and, if so, what do they anticipate will be the likely financial impact on the Fund, given its current trajectory?

Response by the Chair of the Pension Committee

We delegate stock selection to our investment managers. Our active equity manager, Longview, has no exposure to fossil fuel assets, and our passive managers are constrained by their mandate to replicate the indices, albeit one of the Fund's passive mandates has been designed to have a lower exposure to companies with high levels of carbon emissions. We are not in a position to comment on the details of either of these reports or on the likely financial impact on the Fund. We are as concerned as the questioner about the possible implications of climate change, and we question our managers on this front regularly.