Dear

Thank you for your letter of the 15 June 2020 addressed to the Pension Committee for the East Sussex Pension Fund. This response addresses the request of Lewes District Council in the following matters:

1. Immediately freeze any new investment in the top 200 publicly traded fossil fuel companies

2. Ask all fossil fuel companies in which the pension fund holds investments for a firm commitment to entirely decarbonise by 2030; and

3. Commit itself, over the course of the next 4 years, to divest the East Sussex Pension Fund from any investments in companies that do not provide that commitment by March 2021.

The ESPF understands that the Paris agreement and Climate Change pose both risks and opportunities to its pension portfolio. These risks are not confined to fossil fuel companies, but touch on every aspect of economic activity.

The Fund seeks to balance the fact that 80% of the World's primary energy currently comes from fossil fuels with the fact that an energy transition will unfold over the next 30-40 years. It must also reconcile its need for income to pay pensions with the fact that many of the more carbon intensive companies and sectors provide a significant proportion of the market's dividend income.

The Fund does not view blanket divestment from an entire sector, on which the global economy currently relies, as an effective or fiduciary approach. It does recognise though that uncertainties around the energy transition justify reduced exposure to these companies, while pressure is brought to bear on them to better align their long-run business models with the objectives of the Paris Agreement. The Fund believes that a combination of underweight exposure and collaborative active engagement, via its membership of Institutional Investors Group for Climate Change (IIGCC) /Climate Action 100+ (CA100+) and also by its Active Managers, is the most effective mechanism for reconciling current economic reality with the energy transition, while promoting change in oil and gas company strategy and behaviours.

IIGCC/CA100+ represents over 33 Trillion Euros in assets and over 250 investors from 16 countries and other stewardship providers. The Fund's Active Managers already participate in IIGCC. Such investor collaboration has made substantial demonstrable progress over the last 3 years in persuading major companies, including a number of oil and gas majors like BP, to more seriously address the energy transition. IIGCC/CA100+ provides a powerful mechanism for asset owners, through sector technology focus on decarbonisation pathways, proactive engagement with the largest global firms, involving direct dialogue with company managements, proxy voting, shareholder resolutions, and national policy engagement, to hold companies to account and to motivate better alignment with the energy transition.

The Fund does not own holdings in individual companies. In common with most LGPS Funds, It gains its exposure to Equity markets by recourse to a combination of holdings in passive index funds and active fund managers. MHCLG guidance encourages the use of index funds as an intrinsic part of investment strategy at an LGPS Fund pool level.

Index funds simply offer a cheap way of gaining exposure to the entire market as defined by the reference index. As the owner of an index fund, you are not consciously investing in any individual companies. You are passive around those choices as these are dictated by the composition of the index.

Up to 75% of the Fund’s fossil fuel exposure has historically come via exposure to these passive index funds. Recognising that many of the current market indices are not well aligned with the aims of the Paris Agreement, the Fund has been investigating alternative approaches over the last 9 months.

Recent decisions by the Pension Committee, driven by work seeking to better align the Fund with sustainability, energy transition risks and opportunities, will see reduced exposure to passive index funds where much of the fossil fuel exposure resides, significant investment in an index approach better aligned to the Paris Agreement, new exposure to a number of active impact funds which seek to capitalise on sustainability and energy transition opportunities and a doubling of exposure over the next few years to infrastructure (including renewable) assets.

In conclusion, the Fund’s current approach of investor collaboration has made substantial demonstrable progress in engaging major companies to more seriously address the energy transition. The motion requested is an impractical solution to the problem and would not deliver greater benefits than collaborative coalition.

East Sussex Pension Fund