COUNTY COUNCIL – 22 MARCH 2022

QUESTIONS FROM MEMBERS OF THE PUBLIC

1. Question from Elaine Hills, Brighton

Hastings Borough Council, Lewes Town Council, Lewes District Council, Peacehaven Town Council, Bexhill Town Council, UNISON, Maria Caulfield MP and Caroline Lucas MP have all called on the East Sussex Pension Fund to divest from fossil fuels.

My own Council, Brighton & Hove City Council, has now passed three motions (in 2017, 2020 and February 2022 respectively) calling on the East Sussex Pension Fund to do so.

Moreover:

(a) the Fund now appears to have shrunk its investments in fossil fuels down to something like 0.5% of the Fund's total assets;

(b) the Fund's current policy of 'engaging' with fossil fuel companies has failed to align a single oil & gas major with the goal of limiting global warming to 1.5ºC;

(c) some 1,500 institutions around the world – collectively worth over $39 trillion – have already made some form of divestment commitment, including six UK pension funds;

(d) a public commitment to fully divest the East Sussex Pension Fund from fossil fuels over the next five years poses no financial risk to the Fund;

(e) by making such a public commitment, the Fund would be sending a powerful signal to policymakers to get serious about tackling the climate emergency, which requires the rapid phasing out of fossil fuels.

Given the above facts, why does the East Sussex Pension Fund continue to reject the calls for it to make a public commitment to fully divest from fossil fuels over the next five years?

Response by the Chair of the Pension Committee

The Pension Fund has stated in its Statement of Responsible Investment Principles, and through other communication channels, that it does not agree with blanket divestment of any sector; this is not effective stewardship of our beneficiaries pensions and the Fund must ensure it invests in a wide range of assets and be an active owner of those assets. The Fund also states that it retains the ability to divest from individual companies where material risks remain following engagement activity. This approach is supported by government advice and the Funds advisers. As part of its climate strategy the Fund has removed all exposure to fossil fuel companies where there is no active decision to hold those companies – so we do not invest in a fossil fuel company just because it is in an index. The Fund's very limited exposure to fossil fuel companies is held through its investment managers who carry out significant research and are actively engaging with the companies. In addition to this, the Fund has invested 10% of its assets specifically to climate impact solutions and 15% to passive like equities that are more resource efficient or Paris aligned. A large portion of the portfolio is also invested in real assets such as property and infrastructure.

To remove a fossil fuel company from the Fund does not change real world carbon emissions as it does not reduce the global demand for those fossil fuels, it instead moves the problem elsewhere – either to an investor who is less climate conscious or to increase the market share of national oil companies who are less transparent about their activities and have higher carbon footprints per unit of fuel on average than listed fossil fuel companies.

There has been significant moves in the right direction of a number of fossil fuel companies as a result of active ownership by investors. Research published by the Transition Pathway Initiative in November 2021 finds that "three oil and gas firms – Occidental Petroleum, TotalEnergies and Eni – have set emissions reduction targets which are ambitious enough to reach net zero by 2050 and to align with TPI's 1.5°C benchmark". The Pension Fund believes that by exercising its powers as shareholders we can influence high emitting companies to effectively transition a low-carbon world and actively reduce real world carbon emissions. This can be done by investors bringing shareholder resolutions on climate disclosures and climate strategy and by voting against management or auditors where climate strategy is insufficient. An example where engagement is starting to see some results is with the vote to put three people on the board of ExxonMobil in 2021 who have expertise and experience in transitioning away from fossil fuels – the Funds Investment managers voted on our behalf to help make this happen. Since this change in Board membership ExxonMobil are no longer planning to increase oil production in the years to 2025 and has started to invest in decarbonization strategies with targets for greenhouse gas emission reductions. There is still a long way to go but this shows a marked change in the company as a result of this active ownership. The Fund publishes a report on engagement activity quarterly and is submitting its response to the FCA's 2020 Stewardship Code this summer.