

Response from Fossil Free Greater Manchester to GMPF's INVESTMENT STRATEGY STATEMENT

Our comments concern section 9: Socially Responsible Investment.

1. (9.1) We note, and welcome, the statement that “... *the Fund may choose to actively invest in or disinvest from companies for social, ethical or environmental reasons, so long as that does not risk material financial detriment to the Fund*”, a policy position adopted in 2015 in response to a previous consultation. In this connection we also note that the Fund has excluded tobacco investments on public health and reputational grounds. This is a clear precedent for divesting from other stocks detrimental to public health and well-being.
2. (9.2) We note, and welcome., the statement that “*As a responsible investor, the Fund wishes to promote corporate social responsibility, good practice and improved company performance amongst all companies in which it invests.*” However, we will go on to question the Fund's strategies for doing this.
3. (9.3) We acknowledge the primary duties of the Fund's Trustees “*to manage the Scheme in the best financial interests of the Scheme members and beneficiaries*”. However we suggest that explicit reference be made to The Pensions Regulator's guidance: “*Most investments in pension schemes are exposed to long-term financial risks, which may include risks around long-term sustainability. These can relate to factors such as climate change, responsible business practices and corporate governance. We expect you to assess the financial materiality of these factors and to allow for them accordingly in the development and implementation of your investment strategy.*”¹
4. (9.4) We welcome the statement that the Fund will pursue specific issues with companies. As we argue below, this requires the deployment of a repertoire of methods and sanctions since not all these issues will yield to the same kinds of pressure.
5. (9.5) We very much welcome the inclusion in this draft of the statement, “*Climate change is a key financially material environmental risk*”. However, the implication of this is not clearly stated - that the Fund must be decarbonised in order to mitigate that risk.

We propose amending paragraph 9.5 to read as follows, and moving the rest of the current text into a new paragraph:

Climate change is a key financially material environmental risk. The Fund recognises that it must decarbonise its portfolio in order to reduce this risk.

1 <http://www.thepensionsregulator.gov.uk/trustees/db-investment-strategy.aspx>

6. We note that “*Company engagement is a key element of the Fund’s approach to climate change*” and question the privileging of this method above others. We do acknowledge that engagement can be an effective means of exerting influence on company policy and practice. By “engagement” we mean shareholder activism, through proposing and supporting motions and raising questions at Annual General meetings, by convening meetings with company directors on specific issues, and by writing formally as a shareholder to request actions and changes. Engagement also requires rigorous follow-up, monitoring and evaluation and from LAPFF reports we are not convinced this is necessarily in place.

For engagement to be effective it also requires clear objectives, timescales and sanctions should objectives not be achieved. If engagement is the only tool in the Fund’s hands, then it is likely to be ineffective. As global consulting firm Mercer note in their influential 2015 Climate Risk report:

“Options depend on portfolio analysis, implementation considerations, and scenario signposts over time. May include exiting positions with highest climate risk exposure...”²

As the draft document stands it looks like the Fund’s only strategy is engagement and we doubt if this is the case, at least given the precedent of tobacco investments. We would expect to see this reflected in the Investment Strategy Statement by adding the following new paragraph after current paragraph 9.8:

The Fund recognises that for engagement to be effective it requires clear objectives, timescales and sanctions such as reducing exposure to the companies in question should the objectives not be achieved.

7. (9.6) This paragraph makes a claim, that GMPF, with other partners, has a powerful voice. We would want to question this, given the evidence on fossil fuel companies, for example on the ineffectiveness of the engagement strategy with the Fund’s two biggest holdings, Shell³ and BP⁴ and with mining companies⁵, at least in the absence of the multi-pronged strategic repertoire that we outline above. The evidence is that the fossil fuel companies have shown no moves away from strategies of further exploration and extraction of fossil hydrocarbons. There is no prospect of them becoming integrated energy companies. We therefore seriously question the privileging of “engagement” in the Fund’s draft statement.

2 <https://www.mercer.com/our-thinking/investing-in-a-time-of-climate-change.html>

3 <https://shareaction.org/wp-content/uploads/2017/10/InvestorReport-AimingForA-Shell.pdf>

4 <https://shareaction.org/wp-content/uploads/2017/10/InvestorReport-AimingForA-BP.pdf>

5 <https://www.marketforces.org.au/2017-agm-rio-tinto-ignore-community-and-climate-concerns/>
<http://londonminingnetwork.org/2016/04/the-real-world-is-thus-the-2016-anglo-american-agm/>
<https://www.carbontracker.org/glencore-seaborne-coal-demand-climate-risk-disclosure-china-india/>

8. (9.9) We note with approval that, *“The Fund actively invests in low carbon and renewable energy technology where suitable opportunities arise, in order to encourage a move toward a lower carbon economy.”* However, we note that these investments remain small in comparison to the Fund's exposure to fossil fuel holdings.

We would want to see more ambition and a focus on Greater Manchester's low carbon economy, as prioritised in the GMCA's Strategy, by amending paragraph 9.9 as follows:

The Fund actively invests in low carbon and renewable energy technology and will seek to increase the scale of investment in this sector, in order to encourage a move toward a lower carbon economy in Greater Manchester and beyond.

9. (9.10) We would also like to see more ambition on Local Investments, and for the criteria to be extended to include environmental as well as social impacts, as follows:

The Panel has approved an allocation to Local Investments, which has the twin aims of generating a commercial return and delivering a positive social and/or environmental impact. The Panel will review and actively seek opportunities to increase this allocation.

Conclusion

1. We welcome the commitment from the Fund to actively decide to invest or divest for social, ethical or environmental reasons (with the necessary qualification re: financial probity). But we are concerned that this principle seems to be only partly reflected in the discussion on climate risk. This seems perverse given the high loading of fossil fuel investments in the Fund's portfolio.
2. We welcome the recognition of climate risk as a material issue for the Fund's investment strategy as well as the Fund's commitment to joint action with other investors. But we find the privileging of engagement over other elements of a viable repertoire a matter of concern, effectively impairing the Fund's effectiveness as a responsible investor.
3. We welcome, the Fund's commitments to invest in low carbon alternatives and the local economy but believe there is room for a stronger statement of commitment to these areas.
4. We urge the Fund to include the following suggested new wording within the Investment Strategy Statement:

Amendment to paragraph 9.5 (and move the remainder of paragraph 9.5 into a new paragraph):

Climate change is a key financially material environmental risk. The Fund recognises that it must decarbonise its portfolio in order to reduce this risk.

New paragraph after current paragraph 9.8:

The Fund recognises that for engagement to be effective it requires clear objectives, timescales and sanctions such as reducing exposure to the companies in question should the objectives not be achieved.

Amendment to current paragraph 9.9:

The Fund actively invests in low carbon and renewable energy technology and will seek to increase the scale of investment in this sector, in order to encourage a move toward a lower carbon economy.

Amendment to current paragraph 9.10:

The Panel has approved an allocation to Local Investments, which has the twin aims of generating a commercial return and delivering a positive social and/or environmental impact. The Panel will review and actively seek opportunities to increase this allocation.

Fossil Free Greater Manchester continues to call for full divestment from fossil fuel holdings by means of a phased programme of responsible divestment and re-investment in positive alternatives. We propose that the first divestments are from those fossil fuel companies (such as coal mining companies, and companies involved in tar sands and other unconventional oil and gas) that are most damaging to the climate and the shared futures of Fund members, citizens of Greater Manchester and the world, and future generations.

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