APPENDIX B

Greater Manchester Pension Fund

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To Dr Ali Abbas and Dr Mark Burton
for Fossil Free Greater Manchester
By Email

Date: 06 June 2016

Dear Dr Abbas and Dr Burton

Thank you for your letter and for acknowledging the work we are doing towards an orderly transition to a low carbon economy. We will continue to do all that we can on this important issue. We were extremely pleased to have recently been ranked 30th in the world by the Asset Owners Disclosure Project (AODP) for the leadership we have shown in managing climate risk in investments.

As we have consistently indicated to you, the Fund has no plans to divest from fossil fuel companies at this time. The primary duty of the Management Panel is to pay the pension promises earned by its members. In doing this it is also critically important that the cost is affordable to members, employers and the taxpayer. Many local government services are under extreme pressure due to Central Government cuts and it has never been more important than now to maximise resources for front line services. Moreover, in reaching decisions the Fund must comply with its fiduciary responsibilities. Indeed, our recent investment in the South Lanarkshire wind farm was driven by our expectations of generating a commercial return.

GMPF has an excellent long term investment track record. It is important to note that over the last 25 years, the value of its returns has been over £2 billion more than would have been the case if it had achieved the average LGPS fund return. All employers and the taxpayer have benefited from this outperformance through lower employer contribution rates and GMPF being better funded than most LGPS funds, which will provide more long term benefits to the employers in the Fund and enables more to be spent on local services.

A recent report from the Carbon Tracker Initiative (http://www.carbontracker.org/wp-content/uploads/2016/05/Sense-Sensitivity_Full-report2_28042016.pdf) highlighted the significant value of the oil majors' upstream assets within a 2 degree warming scenario. Perhaps surprisingly, Carbon Tracked argue that this value is likely to be maximised under a 2 degree warming scenario rather than a 'business-as-usual' approach, unless oil prices move to historically unprecedented highs. Carbon Tracker state that "this has crucial implications for [asset] owners who may be surprised at just how much value can be created by oil & gas companies in a carbon-constrained scenario", and it is one reason why we have been engaging with companies to disclose an analysis of their business models under a 2 degree warming scenario.

Shares in oil & gas and mining companies have been extremely volatile over the past few years, with a falling oil price and uncertainty over the future levels of growth, and therefore demand for commodities, in China. The study by Platform reflects this volatility.

The Fund is a patient, long term investor. Our overall 'value' style of investing may lead to prolonged periods of over and underperformance compared to a style neutral approach. This approach has served the Fund extremely well over the long term. Inevitably, over discrete, short term periods within a volatile market, such as that identified by Platform, the value of our holdings may decrease, as was the case with our holdings in mining companies in the 18 months from April 2014 to September 2015, but we will have received income over that period. Any decrease in the value of our holdings is only crystallised into a realised loss if and when those shares are sold. If, as you requested, we had disinvested from these shares in September 2015, the Fund would have incurred a loss. However, our Fund Manager believes that the share prices of mining companies will recover to generate positive returns for the Fund over their investment horizon. Indeed, in the first quarter of 2016, mining shares were amongst the very best performers yet it would be wrong to claim this as a 'success' in isolation. The Management Panel has challenged, and will continue to challenge, the Fund Manager on this issue.

We should also acknowledge that the large mining companies' operations (including those tracked by Platform) are much more diversified than a singular focus on coal. Your attribution to coal as the sole reason for the decrease in value over-simplifies the situation. Furthermore, some mining companies are now adapting their business models and divesting of coal assets themselves. But we acknowledge the importance and relevance of mining companies to climate change, which is why we co-filed climate change resolutions at Anglo American, Rio Tinto and Glencore at this year's AGMs.

Engagement is a key element of our approach to climate change. By joining forces with 69 other LPGS funds within the Local Authority Pension Fund Forum, we collectively have a very powerful voice. If we disinvest, we cannot engage with these companies. Rather, we would encourage you to work with us to achieve your objectives.

The focus of LAPFF's engagement to date has been on those highest emitting companies where we can have the biggest potential impact. We are clear that 'business as usual' for fossil fuel companies is not an option, and that is why we believe that challenging these companies to disclose their business models, and the assumptions that underpin their investment decisions, will lead to greater capital discipline. This could have the dual success or enhancing shareholder value, whilst also reducing greenhouse gas emissions.

We fundamentally believe that if fossil fuel company transparency and disclosure can be improved, all investors within the market will be armed with the necessary information with which to make investment decisions that fully reflect the risks of stranded assets under a 2 degree warming scenario. LAPFF has seen a 'step change' in companies' attitudes towards disclosure as a result of this engagement (see http://www.lapfforum.org/press/files/2016_Rio_AGM_result.pdf).

In order to enhance and refine the engagement approach, LAPFF has recently commissioned a paper from the Carbon Tracker Initiative on how best to engage with oil and gas companies on aligning their business plans with a 2 degree warming scenario. The paper will be published in summer 2016 and we look forward to being able to share further details of this exciting work.

Finally, the outcome of all LAPFF engagement is published within the Quarterly Engagement Reports (see http://www.lapfforum.org/Publications/engagement).

Yours sincerely

Councillor Kieran Quinn
Chair - Greater Manchester Pension Fund