Fossil Free Greater Manchester
c/o Manchester Friends of the Earth
Green Fish Resource Centre
46-50 Oldham Street
Manchester
M4 1LE
18 July 2019

Please reply to fossilfreegm@gmail.com

Councillor Brenda Warrington
Chair: Greater Manchester Pension Fund
Guardsman Tony Downes House,
5 Manchester Road
Droylsden,
M43 6SF

Dear Councillor Warrington,

Meeting between GMPF and Fossil Free Greater Manchester
Thank you for arranging the meeting with us on 11 July. We are writing to summarise the key points of the discussion from our perspective and to clarify our understanding of the issues and our ongoing position.

Although the meeting had been mooted for over a year, we received short notice about the meeting which meant a number of our colleagues were unable to attend. We note that a briefing note was produced and this has since been shared with one of our members, but this was not tabled either before or during the meeting. We appreciated the presence of your senior managers, your deputy chair and your advisors from PIRC at the meeting.

1. **Decarbonisation plans and time line**
The Fund confirmed that it plans to become carbon neutral by 2050. This is an inadequate response to the climate emergency. No rationale was given for selecting a date 31 years from now. We note that Greater Manchester Combined Authority and the City of Manchester have set science-based, Paris compliant carbon budgets with projected net

zero date of 2038 and both have said they will review the possibility of bringing that target date forward. The IPCC has noted that the world has no more than 11 years to make radical reductions to greenhouse gas emissions, the majority of which come from burning fossil fuels. The Fund did say that it anticipated decarbonising its investments before 2050 but claimed that the strategy needs time. The Fund put emphasis on becoming carbon neutral rather than carbon free. However there is no technology available for mitigating continued carbon emissions at the required scale.

The Fund is using Investing in the Just Transition Initiative and Truecost in an advisory capacity to make changes. We pointed out that Truecost is not Paris compliant.

The Fund confirmed that it is moving £2.3Bn from passive tracker funds to a low carbon actively managed fund and we would appreciate more details. This coincides with a change in Fund manager. While you emphasised that this has taken a lot of work to achieve given the need for robust risk assessment, we would appreciate seeing that risk assessment.

It was pointed out that the policy environment set by central government makes it very difficult to plan for decarbonisation. We acknowledge the unhelpful policy context . However, we do not believe that this significantly impedes the switching of investments out of the fossil fuel industry. After all, other investors are doing just that and the science dictates the need to do it.

2. Rationale for continued investment in Fossil Fuels and perceived risk of divestment.

It was pointed out to us that financial performance is paramount since this enables pensions to be paid without a cost to the employers. We do not disagree with this reality. We argued that the evidence was that fossil stocks did no better over time than other stocks, citing the Grantham, Trinks et al studies[1] and the two major Ex-Fossil Fuel indexes[2]. The Fund countered that they had calculated that the funds in fossil fuels gained them £400M over the last three years, which they would not have achieved had they divested. We would like you to show us how this figure was calculated and what it specifically refers to (i.e. methodology, period, including stocks examined and comparators), otherwise it is open to the charge of cherry-picking. Our own investigation of BP returns over the period 21 July 2016 to 21 July 2019, indicates that it underperformed[3], as did Centrica[4]. Moreover, we note a) the higher volatility of fossil fuel stocks (so this could easily go the other way) and b) these stocks are vulnerable to passing the peak in demand leading to stranding and a sudden drop in values and returns. This point was acknowledged by the Executive Director, Governance, Resources and Pensions. GMPF

1 http://www.lse.ac.uk/GranthamInstitute/news/the-mythical-peril-of-divesting-from-fossil-fuels/ https://www.sciencedirect.com/science/article/pii/S0921800917310303

2 https://www.msci.com/documents/10199/d6f6d375-cadc-472f-9066-131321681404 https://research.ftserussell.com/products/downloads/ftse_stranded_assets.pdf

3 For the three-year period 21 July 2016 to 21 July 2019, BP returned an average annual rate (including reinvested dividends) of 9.72% which is below the rate of 10.74% achieved by CRBN, an ETF that tracks the MSCI ACWI Low Carbon Target Index (info on CRBN here: https://www.ishares.com/us/products/271054/ishares-msci-acwi-low-carbon-target-etf).

4 Whose own website https://www.centrica.com/investors/announcements-tools/share-price-tools/charting-comparison shows that for the same three-year period the total return end price was 116.36 versus a start price of roughly 238, which works out to about -21% annually.

seem to believe that active fund management will allow you to assess when fossil fuels have peaked. Yet we know that these peaks can cause sudden and precipitous declines in stock values and returns, so in our view that confidence seems misplaced[5]. We would add that there are other investments that yield comparably higher returns and a balanced portfolio would inevitably have higher and lower performing holdings with corresponding spreads of risk. On reflection we feel that the higher yield argument is a post-hoc rationalisation for an unethical investment portfolio, but perhaps we could see the calculation.

3. Impact of divestment

GMPF challenged the idea that divestment would lead to good outcomes since other, less ethical investors (e.g. Blackrock) would buy your shares and that would entail business as usual; maybe those companies would not be challenging the boards of oil and gas companies. We pointed out that divestment is meant to a) remove the social license for continued fossil fuel extraction, b) it will eventually harm profits and stock valuation which in turn makes capital investment in exploration and new extraction harder for the fossil majors. As we noted, this seems to be the view of Shell's CEO and also the Head of OPEC, both of whom have recently cited the divestment movement as a major threat[6]. There is also evidence that divestment decisions are harming stock values. While this has been largely a transient effect, it now seems likely that the impacts are becoming more sustained as the divestment movement builds up[7]. While the Fund argues that there could be a cost to employers (meaning cuts to services) were you to divest from fossil fuels, our concern is that this is now more likely if the Fund *keeps* its fossil fuel investments.

It was argued that tobacco divestment had been shown to be ineffective since tobacco firms simply switched markets to the global South. However the two cases are not comparable. Fossil fuel majors do not have significant new markets to exploit in the same way that tobacco firms could. A better comparison is that of apartheid South Africa, where sanctions and divestment meant firms there being starved of funds that went to other economies: that is what we are already beginning to see with fossil fuels.

It was claimed that many supposed divestment commitments were unreal – divestment has not followed. This is true in some cases, though these commitments are generally over a five-year period so not instant, but it does not alter the picture: a growing movement is taking money out of the fossil fuel industry and, together with other trends and pressures, beginning to harm that industry, reducing its capacity for the capital expenditure that directly causes ecosystem destruction.

5 “History has many examples of technology disruptions occurring faster than originally predicted and laying waste to the incumbent technology. …... Some companies were agile enough to adapt, reinvent themselves, and embrace the new technologies, but these were the exceptions. More often than not, new companies emerged to take their place.” http://fossilfreeindexes.com/2019/07/17/what-the-energy-transition-means-for-investors/ We might ask, what industry in history has faced similar combined regulatory, technological and public pressures to those encircling the oil and gas industry today, and survived? Probably none.

6 https://cleantechnica.com/2018/06/26/shell-acknowledges-global-divestment-movement-in-its-annual-Report/
https://grist.org/article/opec-head-climate-activists-are-the-greatest-threat-to-oil-industry/

7 https://res.mdpi.com/sustainability/sustainability-11-03122/article_deploy/sustainability-11-03122.pdf?filename=&attachment=1

4. Engagement

We pointed out that engagement, while relevant in many sectors has demonstrably not impacted on the carbon emissions from fossil fuel companies, only impacting on non-core areas such as disclosure and R & D, and that unevenly. Against all the evidence, your advisors still feel that it is relevant, inexplicably citing resolutions made at Exxon and Chevron, both along with your biggest holdings, Shell and BP, still spending tens of millions each year lobbying against climate action[8], as examples of successful engagement. We pointed to the National Trust as a body that has chosen to divest because engagement has not worked.

PIRC did take on board the need for objective setting, timelines and sanctions, so there can be transparency about engagement with companies. They said they were working on a framework for this. This is long overdue and would provide objective criteria to assess the effectiveness of engagement and help make the decision to exit from a company when it failed to respond. We have seen a draft of guidance on engagement from Client Earth which could be helpful: it would be worth asking for the final version. However, we reiterate, engagement will not change a company whose core business is fossil fuel extraction into something entirely different. It's a bit like talking to a leopard in the hope that it will change its spots. Moreover, engagement does not manage the risk to the Fund of having some 10% of its investments in the fossil fuel industry: putting all your eggs in the engagement basket is unnecessarily risky given your fiduciary duties.

5. Alternative Investments

It was stated that the Fund is constantly looking to source other investments but that it is difficult to find enough with decent yields and there is also strong and increasing competition (including Chinese investment that is “willing to pay anything”) so that your investment managers get outbid. You cited Clyde Wind Farm and Albion Community Renewables as successful investments in renewables. When we argued that the alternatives to fossil fuels do not have to be renewables you again cited the gain made in oil/gas over the rest of the portfolio (but see our critique, above)

You stated that you are actively developing the renewables market / industry through your partnership with other Pension Funds in GLIL Infrastructure LLP: however, this is not exclusively investing in renewables[9].

6. **Comparison with other funds and transparency**

It was claimed that other pension funds are not doing as much to divest as is suggested in their publicity and communication[10]. GMPF was said to be actually taking a lead in ‘doing

8 https://www.theguardian.com/business/2019/mar/22/top-oil-firms-spending-millions-lobbying-to-block-climate-change-policies-says-report

9 https://realassets.ipe.com/news/uk-pension-funds-add-further-550m-to-glil-infrastructure-partnership/realassets.ipe.com/news/uk-pension-funds-add-further-550m-to-glil-infrastructure-partnership/10027195.fullarticle The GLIL site https://www.glil.co.uk/ is not publicly available but see this summary on the Northern Pool site, https://northernlgps.org/node/48

10 We wrongly claimed Merseyside was divesting from coal. They are however making similar moves to GMPF by shifting tracker funds to low carbon managed funds.

something' but it was claimed that you do not have the time to relay this information to interested parties. We pointed out that despite being a leader among LGPFs, you are seen as being on the back foot on the climate issue and it would help to provide more information, especially to members, beneficiaries and citizen stakeholders. In this light we are concerned to find that members are now to be excluded from the Fund's AGM (now retitled the employer update meeting) which we see as a rather clumsy and counterproductive attempt to avoid public scrutiny. We call for the reinstatement of the AGM with a chance for employers, members and other stakeholders to ask questions of the chair and fund managers, in line with best practice at other pension funds such as WYPF.

We requested more frequent updates on your holdings. This was refused this on the basis of commercial sensitivity. The claim is that because GMPF is so successful as a pension fund (though benchmark comparisons seem to suggest poorer recent comparative performance) you cannot divulge your strategy and companies regularly as other funds and private investors would copy them. This frankly seems implausible. Being copied is hardly likely to impair the return from your investments: our contacts in the investment industry suggest to us that in most cases the impact would be in the other direction. One solution would be to issue lists of holdings at quarterly intervals, three months in arrears, with selective redaction of any information deemed particularly commercially sensitive. For clarity, we also ask that you publish number of shares held as well as the total value of each holding, and that you publish the data in Excel format to make it easier for fund members, trustees and stakeholders to analyse.

7. **Comments about the fossil free campaign**

PIRC took issue with our leaflet and website claims about your profile as the "largest and dirtiest in the country". Unfortunately the claim is accurate. We explained that this was on the basis of the study by a group of NGO's coordinated by Platform London in 2017[11]. Interestingly PIRC seemed unaware of this work, though the Fund's Director of Investmens was aware of it.

PIRC's managing Director also queried what our priorities for GMPF would be: we reiterated that it is the reduction of complicity with continued exploration and extraction of "unburnable" carbon.

8. Further contact

We thanked you for your time (over an hour) and a constructive discussion, although we will continue to differ on a number of issues as outlined above. We do appreciate the complexities of decarbonising your investment portfolio and moving to a position where pensions are not dependent on an industry that has taken humanity to the edge of a precipice. We accept that you are moving in the right direction but we continue to assert, with evidence, that the speed of your decarbonisation is inadequate to the scale and urgency of the climate crisis, which as you all know is very much here and getting worse by the month.

11 http://gofossilfree.org/uk/fuellingthefire

You suggested inviting us to your next meeting for stakeholders with (we think) the *Investing in a Just Transition Initiative*. We confirm that we would like to receive an invitation, although we would appreciate more room for discussion and the presentation of critically constructive perspectives.

Yours sincerely,

Dr. Mark Burton Janet Bolton
for the Fossil Free Greater Manchester group