Fossil Fuel Greater Manchester
Statement on Greater Manchester Pension Fund's "Low Carbon Fund".

1 October, 2020

A year ago, Greater Manchester Pension Fund (GMPF) announced that it was moving some £2.3 Billion of funds from passive tracker investments to a new "low carbon Fund". They have also claimed that this is one of the largest divestments from fossil fuels by any UK Pension Fund.

We have fact checked this claim.
In summary, we do welcome this move which shows that divestment is possible, despite previous arguments by GMPF that it would not be. The choice of fund appears to be a fairly good one, particularly strong on avoiding coal mining stocks. However, this is not full divestment since the low carbon fund will still have some fossil fuel heavy investments within its portfolio and we estimate the effective value of fossil fuel stocks sold via this indirect method to be no more than £124 Million. This is small in comparison to the pension fund's overall fossil fuel investments (approximately £1.7 Billion). We call on the Fund to follow up this minor initiative by divesting all of their climate damaging investments.

More detail.
Despite several direct requests to GMPF managers to provide details of the investments sold and bought under this "low carbon" initiative, we received no response until we submitted a Freedom of Information Act request on 10 August, 2020. We received a response just after the 28 day deadline.
We asked for the following:

1) A list of the investments sold to fund this transfer.
2) A list of the investments purchased as the "low carbon" fund.
3) The dates on which these transactions were made.
4) The monetary value of the sales made and the costs of the new investments made under 1 and 2 above, respectively.
5) The quantitative information available to you on the carbon intensities of a) the assets sold and b) the new investments made.
6) Your estimate of the tonnes of carbon dioxide equivalent reduction attributable to the Fund's actions at 1 and 2 above.

Their answers follow, with commentary.

1) The assets sold. The first two columns hold the information provided by GMPF. The 6 columns to the right show our estimates of the proportions of fossil fuel holdings in each of these donor funds and consequently our calculation of the estimated value of fossil fuel investments. The trust tells us that *"assets to the value of £2.37bn were transferred on 2 September 2019"*. We looked at the composition of the GMPF tracker funds in late 2019 and our analysis is based on publicly available information about those Funds via Trustnet.com which gives a breakdown by industrial sector. We assumed 100% of Oil and Gas, 50% of basic materials (i.e. from coal mining) were fossil fuel related. No information by sector was available for the last fund in this table. However, adding the relevant estimates for that small sale would make little difference to our conclusion.

From GMPF FOIA response		*Fossil Free GM analysis*			
Donor Asset Fund	Quantum of Assets (£'m)	*% Oil and Gas*	*%Basic materials*	*Estimated % fossil fuels*	*Value fossil fuels*
North America Equity Index Fund	1470	*5.70*	*2.40*	*6.9*	*101.43*
Europe (ex UK) Equity Index Fund	337		*6.70*	*3.35*	*11.29*
Japan Equity index Fund	217		*5.70*	*2.85*	*6.18*
Asia Pacific (ex Japan) Developed equity Index Fund	105		*10.30*	*5.15*	*5.41*
Diversified Multi Factor Equity Fund	241			*0*	*0.00*
Total	2370				*124.31*

We conclude that the £2.37 Billion sale of assets contained approximately £124 Million worth of fossil fuel holdings.

2) GMPF say *"Following a short period of reconciliation and trading reorganisation, the Low Carbon Scientific Beta Factor Based Index portfolio became fully live at the close of business on 9 September 2019. … The monetary value of the new portfolio at inception corresponds to the value of transferred assets ".*
We have looked at the Scientific Beta index. This is an index of stock market shares, *"removing companies with strong coal investments and by reducing exposure to companies with high carbon emissions per unit of revenue. The effect of these screens is a material reduction in the carbon footprint and exposure to companies most likely to be negatively affected by carbon transition risks."* Scientific Beta is not an investment fund itself but the GMPF has utilised the services of an investment manager (possibly Legal and General) to make a bespoke fund whose composition is based on the Scientific Beta low carbon index. As such we cannot evaluate the fossil fuel industry composition of this new fund. An industry insider tells us that the Index is rigorously constructed, taking carbon reduction seriously. However there is no guarantee that there are no fossil fuel assets in the index. Assuming that there are some residual fossil fuel stocks in GMPF's bespoke low carbon fund, the figure quoted above of around £124 Million would be near the upper limit of the effective divestment from fossil fuels in the GMPF's low carbon transfer. Rather alarmingly, when we apply our methodology for calculating the fossil fuel composition of these tracker funds to the L&G Fund that tracks Scientific Beta, we find a higher fossil fuel proportion than for the GMPF donor funds. We have asked GMPF to provide a summary, by industry sector, of the holdings within their new "low carbon fund". At present all we can conclude is that the effective divestment of fossil fuel stocks is worth somewhere between £0 and £124 Million. Taking the mid-point of £62 Million, that would mean a divestment of nearly 4% of the GMPF total fossil fuel holdings[1].

The GM Pension Fund is to be commended for taking this small step, which shows that they need not be afraid of the D word. But the real work of decarbonisation of the Fund's portfolio has a very long way to go.

1 The last time the Fund reported on its holdings, March 2019, it had £1.3 Billion of shares in fossil fuel companies (what we call direct holdings) and what we estimate to be at least £350 Million worth of fossil fuels in its pooled equity funds (rather like Unit Trusts or OEICS). Since Rio Tinto moved out of coal, this has reduced from our previous estimate of £1.8 Billion.