Fact check: Why the GM Pension Fund can and must stop funding the fossil fuel industry

October 2020

Fossil Free Greater Manchester is a grassroots coalition of organisations, scheme members and local residents who are working to persuade the Greater Manchester Pension Fund (GMPF) to commit to a speedy and full divestment from the fossil fuel industry. The GMPF's largest direct investments are with Shell and BP. At 31 March 2019, they had direct holdings of over **£1.3 billion in fossil fuel companies**, along with an estimated £350 million in pooled equity funds. This is a total of **£1.7[1] billion**, **which is 7% of their holdings** (March 2019 Annual Report).

GMPF stands out in the financial sector for its commitment to the fossil fuel industry. The equivalent Lancashire pension fund has only 1.89% of its investments in fossil fuels. Investors managing over $11 trillion of assets globally have now made divestment commitments, and it's working - last year Goldman Sachs said that divestment has "in our view been a driver of the [coal] sector de-rating over the past five years."

It is incongruous that a Fund which has relatively high levels of investment in renewable energy is making such slow progress in divesting from fossil fuels. GMPF justify this by talk of fiduciary duty, the value they see in engaging with fossil fuel companies as shareholders and making the best possible returns for investors.

We show below how these arguments can be rebutted. While councils and other employers across Greater Manchester have pledged to take urgent action to avert the climate emergency, they are let down by the slow progress of GMPF and its claim that aiming for carbon neutrality by 2050 is an adequate response. Manchester City Council, for example, is committed to achieving carbon net-zero by 2038, Bury Council by 2030, Stockport Council by 2038, Oldham Council by 2025 and by 2030 for the borough as a whole, and the University of Manchester will divest its fossil fuel investments by 2022.

The biggest threat to workers, pensioners, employers and taxpayers is the climate emergency - inaction by GMPF increases the risk of climate instability and economic collapse.

It's time for GMPF to stop making excuses and use its expertise and investments to rapidly divest from fossil fuels and thereby help to create a safer future for all GM residents.

1 The last time the Fund reported on its holdings, March 2019, it had £1.3 billion of shares in fossil fuel companies (known as 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 then, Rio Tinto has moved out of coal and so we estimate that the Fund's fossil fuel holdings may now be closer to £1.7 billion than £1.8 billion.

Common GMPF arguments and our response

GMPF position	Rebuttal
GMPF has a fiduciary duty to get the best returns for employers and pensioners. We don't want to see the contribution employers make to increase.	The advice on fiduciary duty is that "the precise choice of investment may be influenced by wider social, ethical or environmental considerations, so long as that does not risk material financial detriment to the fund"[2]. Fossil free indices (that track the average performance of fossil-free investments), such as the MSCI ACWI ex Fossil Fuels Index, have outperformed all-stock indices over the past decade and clean energy has outperformed fossil fuels over the last 3 years. In 2019, the (then) head of the Bank of England Mark Carney warned that investments in the fossil fuel industry could become 'worthless'. Holding fossil fuel stocks poses a greater risk of financial detriment than divesting from them. The Fund decided to divest from tobacco companies on public health grounds in 2014. Clearly, this was still within its fiduciary duty. The climate crisis is an extremely serious public health threat.
GMPF says that the Government has made clear that using pension policies to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries are inappropriate.	This point is irrelevant because moving funds out of coal, oil and gas companies is not pursuing action against a foreign nation or the UK defence industry. The Pension Fund of South Yorkshire, Merseyside Pension Fund, the government managed pension fund NEST, Southwark Borough pension fund and many other public and private pension funds and organisations have declared that they are divesting from fossil fuels.
GMPF is not involved in fracking	While it is true that the fund has no direct investments in companies fracking in the UK, it does fund companies such as BP and Shell which are involved in fracking in other countries. If it isn't appropriate to invest in fracking in the UK, it is equally inappropriate to invest in fracking elsewhere.
GMPF's carbon footprint was 20% less carbon intensive than the benchmark as at 31.3.17 in our active equities.	GM has not made public the information on which this claim is based, but it is contradicted by the 2017 Fuelling the Fire report, which found that GMPF was the dirtiest of all the UK's local authority pension funds, with the highest percentage of its direct holdings in fossil fuels (7.23%). Shockingly, that has ***increased*** to 8.7% of direct holdings at 31 March 2019. These companies are accused of lobbying against acceptance of climate science and continuing with fossil fuel exploration. This includes BP, which despite announcing that it will go 'net zero' by 2050 (too late) has not committed to stopping exploration of new oil and gas reserves.

2 Opinion of Nigel Giffin QC, given to the Local Government Association, 25 March 2014

GMPF gets a high rating for taking account of climate change risk e.g. in the 2016 annual survey by the global 'Asset Owners Disclosure Project' GMPF was 30th	GMPF fell 17 places to 47th in the 2017 AODP rankings. (It didn't feature in the 2018 ranking, as that was limited to the 100 largest pension funds.) GMPF talks of taking account of climate change risk: the point is to do something about it. See our analysis of the AODP ranking,
In 2019, GMPF announced that it was moving some £2.3 Billion of funds to a new "low carbon Fund". It considers this a significant divestment.	This involves moving assets from tracker funds to a "low carbon fund". Although the Pension Fund transferred £2.37 billion to a low-carbon fund, we estimate that only £124 million of these funds were invested in fossil fuels before. This means that only a small proportion of the Fund's fossil fuel investments have been taken out and put in a low-carbon fund instead. A drop in the ocean compared to the Fund's overall fossil fuel investments. Analysis of the GMPF March 2019 Annual Report suggests it increased its holding in coal major Glencore by over 20% in the previous year at a cost of up to £30 million.
GMPF uses its shareholdings in the industry to bring shareholder resolutions at companies including Shell, BP, Anglo American and Glencore. This is known as "engagement".	Decades of engagement with fossil fuel companies has failed to change their business models. For example, Carbon Tracker found that all the major oil companies - including Shell and BP - sanctioned projects in 2018 that aren't compliant with the Paris Climate Agreement. The National Trust cited the failure of engagement as a key reason for their divestment decision. And the lack of real climate action by all the oil firms has been documented in 2020 by the NGO Oil Change International. GMPF's engagement strategy lacks clear aims and sanctions. In 2018, GMPF even declined to join a joint shareholder resolution to request Shell to set greenhouse gas intensity targets in line with the Paris Agreement. GMPF joined others to ask BP to go net zero by 2050 but BP is still exploring new oil and gas reserves.
If GMPF disinvest, the shares will go to others who do not care about the environment	This assumes engagement works, which it doesn't (as highlighted above). Divestment has been shown to have an impact (see above).
GMPF are working towards a 'Just Transition'. Immediate divestment would damage workers' livelihoods.	There is no guarantee that continued investment in oil and gas companies will improve the position of workers in these industries. It is the oil and gas companies who need a commitment to a Just Transition not the GMPF. GMPF argue above that their divestment would result in others buying the shares but here they inconsistently, and without evidence, claim it would have an impact on workers in those industries.
Divesting from fossil fuels would reduce the diversity of the Fund's investments	It is unwise to invest in poorly performing sectors, even if it does improve diversification. The Fund divested from tobacco even though this reduced diversity and yet the Fund is confident that its investments continued to perform well.

Most of the emissions associated with carbon fuels come from combustion or consumer demand rather than the production stage.	Once fossil fuel extraction ends, carbon emissions from these sources will cease. A likely route out of such carbon emissions are fossil free electricity supplies. Reducing capital expenditure via hitting share prices means less new exploration, eventually less oil, higher prices and hence market pressure on downstream users to switch to cleaner technology.
The IEA 2019 World Energy Outlook expects global energy demand to increase by 30% by 2040 and fossil fuels to constitute 77% of overall energy over that period. The main driver for this is population growth and growing demand in sub-Saharan Africa	As might be expected, the IEA's 2020 Outlook paints a radically different picture. The traditionally cautious IEA anticipates substantially suppressed global energy demand over the next decade, especially for oil and coal.[3] The IEA is taking part in a EU funded project entitled 'An Affordable and Sustainable Energy System for Sub-Saharan Africa.' Its aim is 'to create sustainable and inclusive economic growth in selected Sub-Saharan African countries through the transition towards a low-carbon and climate-resilient energy sector, while delivering universal and affordable energy access to all.'[4] GMPF should be using its resources to help sub-Saharan Africa to develop renewable energy, rather than become dependent on fossil fuels which will then have to be phased out at further cost by 2050. GMPF should also invest in technologies that increase energy efficiency, such as energy efficient social housing.
There are many other essential uses of hydrocarbons, such as medicines, plastics, fertilizers, pesticides, detergents, packaging materials, paints and synthetic fibres.	The carbon emissions from these are tiny compared with fossil fuel combustion. Most of these products do not produce carbon emissions and many can be recycled. Alternative materials are appearing and if fossil fuels are no longer available, necessity will be the mother of invention, as we have seen with the growing range and efficiency of renewable energy sources.

Each GM council has a representative on the GMPF Management Board. Is your representative aware of these arguments? Has your council added to the pressure on GMPF to commit to and speed up divestment?

If there are other arguments from GMPF that we need to add to this document, let us know, and for more detailed information, please contact us by email at fossilfreegm@gmail.com and visit our website www.fossilfreegm.org.uk.

Fossil Free Greater Manchester
www.fossilfreegm.org.uk

3 World Energy Outlook 2020, Outlook for Energy Demand, International Energy Agency.
4 Energy Sub-Saharan Africa, International Energy Agency.

Appendix 1: GMPF fossil fuel holdings at 31 March 2019

Direct Holdings [1]	**£**	**£**
Anglo American	114,033,575	
AP Moeller – Maersk	3,133,758	
BHP Billiton	8,266,098	
BP	326,442,632	
Canadian Natural Resources	10,340,584	
Centrica	74,535,383	
Chevron	12,935,273	
CNOOC	13,412,399	
Concho Resources	5,803,164	
Equinor	37,432,248	
GDF Suez	4,634,695	
Glencore	167,079,182	
Hess	11,663,372	
Itochu	24,233,085	
Mitsubishi	32,237,536	
Range Resources	5,864,657	
Repsol	12,071,967	
Royal Dutch Shell	343,050,932	
Santos	18,622,938	
Teck Resources	1,606,226	
Total	67,515,441	
Tullow Oil	19,712,561	
Total direct holdings in fossil fuels		**1,314,627,706**
Legal & General Equity Funds [2]		
UK Equity Index	50,846,018	
North America Equity Index	97,162,649	
Europe (ex UK) Equity Index	62,622,694	
Japan Equity Index	27,840,987	
Asia Pacific (ex Japan) Equity Index	31,767,320	
Emerging Markets Equity Index	84,818,943	
Total equity fund holdings in fossil fuels		**355,058,612**
Total fossil fuel holdings		**1,669,686,318**

Notes:

1. List of direct holdings over £1 million in companies involved in extraction and/or refining coal, oil or gas. Source: GMPF mainstream holdings at 31 March 2019: https://www.gmpf.org.uk/investments/holdings.htm

2. Estimate of fossil fuel holdings in Legal & General equity funds based on published sector allocations (calculated as 100% of holdings in Oil & Gas sector and 50% of holdings in Basic Materials sector.) Source: GMPF mainstream holdings at 31 March 2019: https://www.gmpf.org.uk/investments/holdings.htm Sector allocations: https://www.legalandgeneral.com/investments/funds/full-fund-range/