Briefing for GM councillors on GMPF response to calls to divest from fossil fuels

Jan 2021

Introduction

Fossil Free Greater Manchester is a grassroots coalition of organisations and individuals who are working to persuade the Greater Manchester Pension Fund (GMPF) to commit to a speedy and full divestment from fossil fuel industry. The GMPF's largest direct investments are with Shell and BP and overall they now have £1.8bn invested in this industry, which is 7.5% of their holdings (March 2019 Annual Report).

All 10 local authorities have declared a climate emergency but the Greater Manchester Pension Fund (GMPF) (run on behalf of all the local authorities and other employers) continues to hold large investments in the fossil fuel industry. The GMPF's largest direct investments are with Shell and BP. As of 31st 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 at least **£1.65 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 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 are 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.

Common GMPF arguments and their rebuttal

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". Fossil free indices, such as the MSCI AWF ex Fossil Fuel Index, have outperformed all-stock indices over the past decade and clean energy has outperformed fossil fuels over the last 3 years. We'd therefore argue that holding fossil fuel stocks poses a greater risk of financial detriment than divesting from them. The Fund didn't feel its fiduciary duty would be fettered when

	it decided to divest from tobacco companies on public health grounds in 2014 - and climate change is considered to be the greatest public health threat of our time.
GMPF Position	**Rebuttal**
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 to the fossil fuel arguments as moving funds out of coal, oil and gas companies is not pursuing action against a foreign nation or the UK defence industry.
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, we would argue that it's equally inappropriate to invest in fracking elsewhere.
GMPF holds about 5% in traditional fossil fuel companies such as BP, Shell and Centrica (Oct 2019)	Our analysis of the Fund's holdings at 31 March 2019 (see Appendix 1 on page 4 below) shows it has direct holdings of over £1.45 billion in fossil fuel companies, along with an estimated £350 million in pooled equity funds. This totals £1.8 billion, which is over 7.5% of the total fund value of £23.8 billion. While these companies are household names in the UK, there have been numerous reports showing how they have worked against acceptance of climate science, used "greenwash" and continue with fossil fuel exploration.
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.
GMPF gets a high rating for taking account of climate change risk eg. in the 2016 annual survey by the global 'Asset Owners Disclosure Project'. The Environment Agency were 1st, Greater Manchester 30th..."	GMPF fell 17 places to 47th in the 2017 AODP rankings. (It didn't feature in this year's ranking, as that was limited to the 100 largest pension funds.)
GMPF has taken a major step and significant step towards divestment by approving that £2.3 billion of the Fund Assets to be moved to a low carbon approach at the AGM in Oct 2018	This decision is welcome but a year later we have seen no evidence that this move has yet taken place. It involves moving assets from tracker funds to a "low carbon fund": depending on which funds are moved and where they're moved to, this may be only a tiny 3% reduction in overall fossil fuel exposure - hardly an appropriate response to a climate emergency. We hope the fund will announce when this small step is finally taken, as there is no transparency regarding current investments. Analysis of the GMPF March 2019 Annual Report suggests it has increased its holding in

	coal major Glencore by over 20% in the past year at a cost of up to £30 million.

GMPF Position	Rebuttal
GMPF uses its shareholdings in the industry to bring shareholder resolutions at companies including Shell, BP, Rio Tinto, 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. 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.
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 claims that its inaction on fossil fuel investments is designed to keep down the costs of public sector pensions to the taxpayers of Greater Manchester. **Yet many believe that the biggest threat to workers, pensioners and taxpayers is failing to respond to the climate emergency - increasing 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.

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?

As a councillor, you could:

1. Get in touch with us so we can collaborate on the campaign;
2. Discuss fossil fuel investments and risk with the council’s Chief Financial Officer;
3. Help us to gather information on how the Fund is responding to the Climate Emergency;
4. Engage with the Pension Fund Management and Advisory Panel;
5. Set up meetings with the GMPF management panel, campaigners and fund members;
6. Put in a divestment motion to the full council;
7. Push to update the council’s ethical investment policy to exclude fossil fuels.

Get in touch with us to let us know your progress. We can support you!

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

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	
Rio Tinto	138,401,420	
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		**1,453,029,126**
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		**1,808,087,738**

Notes:

1. Source: Mainstream securities holdings at 31 March 2019, GMPF website
2. Source: As above. Fossil fuel holdings in Legal & General equity funds estimated using published sector allocations (100% of holdings in Oil & Gas sector and 50% in Basic Materials sector).