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

July 2021

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 pension fund's largest direct investments are with Shell and BP. At 31 March 2020, by our calculations, they had direct holdings of £863 million in fossil fuel companies, along with an estimated £100 million in pooled equity funds. This is almost **£1 billion invested in fossil fuel companies**, **which is 4.4% of their holdings** (March 2020 Annual Report).

GMPF stands out among local government pension schemes for its commitment to the fossil fuel industry. The equivalent Lancashire pension fund has only 1.2% of its investments in fossil fuels and Cheshire just 1%.

Investors managing over $11 trillion of assets globally have now made divestment commitments, and it's working – in 2018 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 the imperative of making the best possible returns for investors. We show below how these and other GMPF 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 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.

Principal 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"[1]. Many other local government pension funds have already committed to divesting from fossil fuels – see below. The GM Pension 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's investment performance is good because of its holdings in fossil fuel companies.	The Fund's 2020 Annual Report shows that GMPF's investment performance was poor compared with most other Local Government Pension Schemes (LGPS) in 2019-20. It made a loss on its investment of 6.6% compared with the average loss of 4.8%. According to PIRC, which advises the Local Authorities Pension Forum, '*UK equities performed worse than their overseas peers, in part because of the high exposure to oil and gas... Funds with a high commitment to the domestic equity market* (such as GMPF) *would have underperformed their peers.*' This poor performance is not particular to the pandemic. GMPF's investment performance has been below the LGPS average for the last 15 years. Many LGPS with much smaller holdings in fossil fuels performed far better in 2019-21. For example, the value of Merseyside Pension Fund's investments (2.8% fossil fuel holdings) declined by only 1.1%, and the Lancashire Pension Fund (1.2% fossil fuels) even saw its investments increase in value by 1.8% over the same period. Our analysis suggests a clear negative association between the performance of pension funds and their exposure to the fossil fuel industry. 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 financial risk than divesting from them.
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, and the London Boroughs of Islington, Lambeth, Southwark and Waltham Forest and many other public and private pension funds 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 (where attempts to develop fracking have been defeated by campaigners), it does fund companies such as BP and Shell which are involved in fracking in other countries on a large scale. If it isn't appropriate to invest in fracking in the UK, it is equally

1Opinion of Nigel Giffin QC, given to the Local Government Association, 25 March 2014

	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 had ***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.
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 involved 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. Our analysis of GMPF's investments in 2019 and 2020 (taken from their 2020 Annual Report), reveals that the Pension Fund did quite the opposite, increasing its holdings in fossil fuels over this period. We found that holdings in the oil and gas giants Shell and BP, went up by 27.3% and 18.6% respectively, and holdings in Glencore, a company whose operations include coal mining, increased by 42.3%.
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 core business, i.e. fossil fuel extraction. 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 lack of real climate action by all the oil firms has been documented in 2020 by the NGO Oil Change International. The National Trust cited the failure of engagement as a key reason for their divestment decision. 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. Although GMPF joined others to ask BP to go net zero by 2050, 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). In contrast, divestment has been shown to have an impact (see above).
GMPF are working	There is no guarantee that continued investment in oil and gas

towards a 'Just Transition'. Immediate divestment would damage workers' livelihoods.	companies will improve the position of workers in these industries. It is the oil and gas companies who need to make a commitment to a Just Transition not the GMPF. GMPF argue (see above) that their divestment would simply result in others buying the shares, but here they inconsistently, and without evidence, claim that if they divested it would damage workers' livelihoods in those industries. A truly Just Transition would be aided by the principled move of assets from polluting industries to the new clean industries, thereby helping provide a future for these workers, many of whose skills will be transferable.
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. There is plenty of scope for diversification of holdings without resorting to damaging sectors.
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. Reducing capital expenditure by 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 International Energy Agency's (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.[2] The IEA's Oil 2021 report finds that '*rapid changes in behaviour from the pandemic and a stronger drive by governments towards a low-carbon future have caused a dramatic downward shift in expectations for oil demand over the next six years*.' Furthermore, the IEA's report prepared for the international climate change conference - COP26, concludes that in order to achieve net zero carbon emissions by 2050, '*from today, (there must be) no investment in new fossil fuel supply projects.'* In another recent report, the IEA argues that '*it's time to make clean energy investment in emerging and developing economies a top global priority.'* 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.'[3] 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 re-focus its investments towards renewable energies and technologies that increase energy efficiency, such as energy efficient social housing.

2World Energy Outlook 2020, Outlook for Energy Demand, International Energy Agency.

3Energy Sub-Saharan Africa, International Energy Agency.

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. Action against the damaging pollution from plastics will be aided by the downscaling and eventual closing of the fossil fuel industry.

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

Appendix 1: GMPF fossil fuel holdings at 31 March 2020

Direct Holdings [1]	**£**	**£**
Anglo American	90,088,702	
Apache	935,616	
ArcelorMittal	8,497,335	
BHP Billiton	12,147,281	
BP	238,901,784	
Cabot Oil & Gas	1,856,317	
Chevron	2,920,702	
CNOOC	12,237,352	
ConocoPhillips	988,519	
ENGIE	2,574,692	
Equinor ASA (Statoil ASA)	31,040,163	
Glencore	92,988,316	
Hess	9,022,433	
Inpex	532,671	
ITOCHU	26,907,074	
Lundin	1,166,086	
Marathon Oil	804,927	
Mitsubishi	2,897,202	
Mitsui	1,479,035	
Noble Energy	1,515,904	
Repsol	8,041,608	
Royal Dutch Shell	243,980,770	
Santos	9,529,106	
Sumitomo	825,485	
Suncor Energy	3,019,576	
Tauron Polska Energia	799,886	
Teck Resources	565,704	
Total	55,100,197	
Other	1,475,034	
Total direct holdings in fossil fuels		**862,839,477**
Legal & General Equity Funds [2]		
UK Equity Index	10,016,949	
North America Equity Index	2,579,176	
Europe (ex UK) Equity Index	6,308,005	
Japan Equity Index	9,864,755	
Asia Pacific (ex Japan) Equity Index	12,268,257	
Emerging Markets Equity Index	59,347,939	
Total equity fund holdings in fossil fuels		**100,385,080**
Total fossil fuel holdings at 31 March 2020		**963,224,557**

Fossil Free Greater Manchester (http://www.fossilfreegm.org.uk), April 2021

Notes:

1. List of direct holdings over £500,000 in companies included in The Carbon Underground 200.
   Source: GMPF mainstream holdings at 31 March 2020

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 20% of holdings in Basic Materials sector.)
   Source: GMPF mainstream holdings at 31 March 2020
   Sector allocations: Legal & General Fund Centre