GMPF ADVISORY PANEL MEETING 19 March 2021

FFGM's Reply to Chair's Opening Remarks

Extracts from the chair's opening remarks with FFGM's reply

1. Brenda Warrington (BW): Balancing the long-term solvency of the Fund as a whole, whilst maintaining its affordability for employers and taxpayers, is a fiduciary responsibility that is taken very seriously. The Fund was recognised nationally as being one of the top performing funds over the last 30 years creating an additional £3.4 billion of value above that of the average local government pension fund.

   FFGM: The chair is very selective in choosing the last 30 years. The Fund's 2020 Annual Report[i] reveals 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%. Many LGPS with much smaller holdings in fossil fuels performed far better in 2019-21. But GMPF's poor performance is not particular to the pandemic. Its performance has been below the LGPS average for the last 15 years.

   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. So it's not surprising that GMPF's performance has been declining, given that it has the largest percentage holdings in fossil fuels (4.4%) of any LGPS.

   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.

2. BW: Meeting the Paris Agreement to achieve net zero carbon emissions by 2050 and a 2030 target in line with the IPCC's 1.5 degree pathway, is actively being explored.

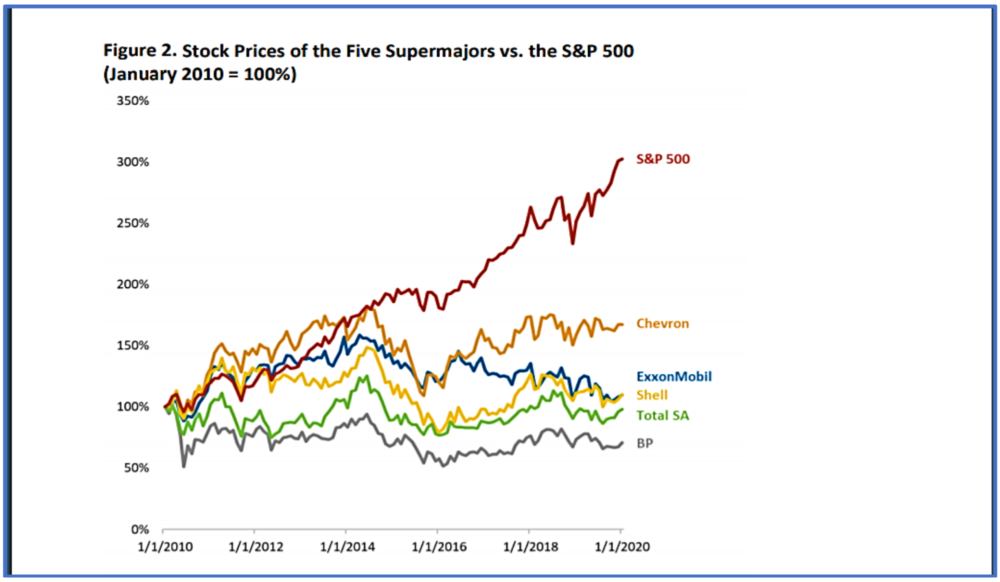
   FFGM: While councils and other employers across Greater Manchester have pledged to take urgent action to avert the climate emergency, they are let down by the slow progress of GMPF, which is aiming for carbon neutrality by 2050. Manchester City Council, for example, is committed to achieving carbon net-zero by 2038, Bury by 2030, Stockport by 2038, and Oldham by 2025.

3. BW: The Fund is the biggest direct local government pensioner investor in renewable energy and energy efficiency, with a half a billion pounds allocated in a number of areas including biomass and wind farm assets.

   FFGM: We are pleased that FFGM is the biggest investor in renewable energy and energy efficiency. (Although this isn't surprising, as it's the largest LGPS.) It's a wise move, given that the International Energy Agency's 2020 World Energy Outlook predicts that future demand for renewables will grow much faster than oil and gas. GMPF has shown a commitment to clean energy, now it needs to do the rest of the job and get out of the dirty energy that is fossil fuels. Our analysis indicates that at March 2020 GMPF's investment in renewables was £607M (of which 130M was in biomass, not regarded by all experts as truly renewable). Direct and indirect investments in fossil fuels was £963M – twice as much as in genuine renewables. This position might have changed by now. Perhaps councillor Warrington would like to update us all: we would be delighted to learn that true renewable investments have surpassed those in fossil fuels.

4. BW: The Fund and its trustees owe (a fiduciary duty) to its members and ultimately the taxpayer. The Fund has to demonstrate that its investment decisions do not threaten its financial performance to deliver pensions, and at the last valuation period, over £400 million more in returns had been achieved than if the Fund had divested from equities in companies such as BP or British Gas.

   FFGM: Once again, the Fund is being very selective in the valuation period that it uses to calculate its returns. These figures are based on the period April 2017-March 2019, when oil and gas share values started at a relatively low level and continued to an unusually high level. After this, there was a sustained fall in share prices prior to Covid, and of course a huge drop during the pandemic. This is a long-term trend. The graph below shows that oil and gas companies' performance has been falling behind the wider stockmarket (S&P 500) since 2010.



Source: Institute for Energy Economics and Financial Analysis (IEEFA), January 2020.

   While we anticipate a post pandemic jump in oil and gas returns. The long-term trend is widely expected to decline, albeit with continued volatility, especially with the new commitments to reduce fossil fuel consumption generated by COP26.

5. BW: The need for a 'Just Transition' is required, which ensures that the burden of this cost is not transferred to the employers and taxpayers of Greater Manchester alike, which would result in significant Council tax hikes, and importantly avoid job loses for residents across the conurbation who are employed in these industries.

   FFGM: The future for UK oil and gas workers is already very uncertain. Direct and indirect employment in the UK oil and gas industry collapsed from 247,000 in 2014 to 118,000 in 2020. There is little evidence that the fossil fuel companies helped those losing their jobs to transition to other sectors. A recent survey found that many UK oil and gas workers want to change industry, with over 80% of offshore workers considering switching. Many of their skills are transferable to renewable energy. If GMPF were interested in a Just Transition, then it could actively help workers to make the transition, by transferring its oil and gas investments to renewable energy, energy efficiency and social investments across Greater Manchester.

   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.

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[i] See graph on page 23 of the Annual Report.