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

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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**.

> See our list of GMPF's fossil fuel holdings, taken from the Fund's March 2020 Annual Report. As the Annual Report is only available between 6 months and a year after the date of its listed holdings, this reduces the transparency and accountability of the Fund's operations.

GMPF stands out among local government pension schemes for its commitment to the fossil fuel industry. A recent report concluded that in 2020 GMPF had by far the largest holdings in fossil fuels, almost twice that of the funds with the next highest holdings – Strathclyde, West Midlands and West Yorkshire - which each had about half a £bn invested in fossil fuels. In contrast, 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 easily 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 has pledged to divest its fossil fuel investments by 2022.

The biggest threat to workers, pensioners, employers and taxpayers is the climate emergency - inaction by GMPF contributes to 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	Our response
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 legal advice on fiduciary duty to the Local Government Pension Scheme Advisory Board 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". It makes financial sense to get out of fossil fuels. Pension Funds with smaller FF holdings are getting better returns – see next item. Many other local government pension funds have already committed to divesting from fossil fuels – see below. GMPF divested from tobacco companies on public health grounds in 2014. Clearly, this was still within its fiduciary duty. The climate crisis is a much greater public health threat.
GMPF's investment performance is good because of its holdings in fossil fuel companies.	The Fund's 2020 Annual Report (page 23) notes that GMPF's investment performance was ranked 50th among 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 LGPS, *funds with a high exposure to oil and gas in the domestic equity market* (such as GMPF) *underperformed their peers.* Many LGPS with much smaller holdings in fossil fuels performed far better in 2019-21. 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. GMPF's poor performance is not particular to the pandemic. It's 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. 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 achieved over £400 million more in returns than if it had divested its' shares in oil, gas and coal mining companies.	We asked GMPF for details of how they reached the £400m figure and were told that it is based on their returns from energy, mining and utility companies for the period April 2016 to March 2019. The calculations therefore include sectors other than fossil fuels, such as renewable energy and all types of mining, not just coal. The period used for comparison also presents a misleading picture. Looking for example at BP, one of GMPF's biggest holdings, [other oil stocks performed similarly], it is clear that during the period April 2016 to March 2019, BP's shares started at a relatively low level and continued to an unusually high level. However, there was a sustained

	fall in BP's share price even prior to Covid, and a huge drop at the start of the pandemic. Fossil fuel shares are more volatile (they fluctuate more in value) than investments as a whole, so it's important not to cherry-pick a time-frame that is unrepresentative of the bigger picture. As noted above, finance industry comparisons between stock market indices, with and without fossil fuels, indicate consistent performance by the fossil-free indices equal to or better than those that include fossil fuels.
It's better to engage with fossil fuel companies and change their behaviour. GMPF uses its shareholdings to bring shareholder resolutions at companies including Shell, BP, Anglo American and Glencore.	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 Oil Change International. Many fossil fuel companies are accused of lobbying against acceptance of climate science and continue 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. 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.
GMPF are working towards a 'Just Transition'. Immediate divestment would damage the livelihood of fossil fuel workers.	The future for oil and gas workers is already very uncertain. Direct and indirect employment in the UK oil and gas sector collapsed from 247,000 in 2014 to 118,000 in 2020. There is little evidence that oil and gas companies helped those losing their jobs to transition to other sectors. This decline will continue. The International Energy Agency (IEA) concluded in its report Net Zero by 2050, that from 2021 there must be no new oil and gas fields approved for development. Those still working in the sector understand that the future is bleak. 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, which the IEA's 2020 World Energy Outlook predicts will grow much faster than oil and gas. Maintaining fossil fuel investments only delays political action, and will in the long run make transition less just. Instead GMPF could promote an ordered transition by removing investments now and using its leverage to push for investment in retraining workers and in communities dependent on high carbon jobs. GMPF could help by transferring its fossil fuel investments into the communities that are affected and renewable energy.

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 a recent report that found that in 2020 GMPF had by far the largest holdings in fossil fuels, almost twice that of the funds with the next highest holdings – Strathclyde, West Midlands and West Yorkshire.
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 gets a high rating for taking account of climate change risk, e.g. GMPF was 30th in the 2016 annual survey by the global 'Asset Owners Disclosure Project'	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,
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. Yet the Fund is confident that its investments continue to perform well. There is plenty of scope for diversification of holdings without resorting to damaging sectors.
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.[i] 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*.' 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.'* It is participating in a EU funded project entitled 'An Affordable and Sustainable Energy System for Sub-Saharan Africa.' The 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.'[ii] China has announced that it will end funding for coal-fired power plants abroad. Yet GMPF is still supporting these projects by investing in coal mining companies that operate in developing countries. GMPF should follow the IEA's lead and invest in projects 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 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 inappropriate to invest in fracking elsewhere.
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 Funds of the London Boroughs of Islington, Lambeth, Southwark and Waltham Forest, Cardiff, the government managed pension fund NEST, the Environment Agency, and many other public and private pension funds have declared that they are divesting from fossil fuels.

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, January 2022
www.fossilfreegm.org.uk

[i] World Energy Outlook 2020, Outlook for Energy Demand, International Energy Agency.

[ii] Energy Sub-Saharan Africa, International Energy Agency.