**Question to DCC Full Council Meeting 5 December 2018**

**By Lisa Hopkinson, Divest Derbyshire campaign**

The Pensions and Investments Committee recently consulted on its Investment Strategy and received 3 responses, all of which recommended divestment from fossil fuels. The Committee chose to ignore these responses and stick to its failed strategy of engagement despite the fact that there is growing evidence that fossil fuel holdings are a significant long term financial risk.

This year New York City announced it would divest its US$5 billion fossil fuel interests from its pension within 5 years. Their Chief Resilience Officer said this was part of their fiduciary duty to pensioners because the outlook for fossil fuel investments was poor. A growing number of local authority and other pension funds have decided to divest from fossil fuels on fiduciary grounds.

Given the financial (and environmental) risks of investing in fossil fuels, how does the Derbyshire Pension Fund justify investing £257 million in fossil fuel companies, including those with fracking operations, rather than low carbon stocks, affordable housing and green jobs in Derbyshire, and what is it doing to ensure that the climate risks of its investments are fully assessed and transparently reported?

**Verbatim Response from Councillor Tony King**

CLLR KING: Thank you very much indeed for your question. It gives me the opportunity really to emphasise and point out this Council’s and my personal commitment to reducing carbon emissions for a reduction of consumption of fossil based energy and the use of low carbon vehicles wherever possible.

At the moment Derbyshire County Council administers the Local Government Pension Scheme in Derbyshire on behalf of over 230 employers and over 100,000 members. The Pensions and Investment Committee, which is responsible for the management and administration of the Pension Fund on behalf of the Council, recognises that climate change risks and opportunities could be experienced across the complete and whole Pension Fund portfolio and to that end we have expert financial advisers who have done a fantastic job for us over the last few years and we are very happy about that.

The fund is a long-term investor and aims to deliver long-term sustainable investment returns to support the accumulation of sufficient assets to meet scheme members’ benefits when they fall due, and that is our prime responsibility. In other words we are investing pension funds in the best way possible. As the administering authority of the Pension Fund the Council has a fiduciary duty to act in the best interests of the scheme’s members whilst seeking to protect local taxpayers and employers from unsustainable pension costs. It is vital that the fund is able to access the widest possible choice of investments in order to have the opportunity to secure the best risk adjusted returns.

Now let’s get on to fossil fuels, if we can, to directly answer your question. The fund currently has £165m invested directly in oil and gas companies. That represents 3.5% of the total funds of the Pension Fund, which I think you will agree is fairly small anyway. The fund also has a further £60m invested in diversified mining companies. Now it is true that approximately half the activity and revenue from the mining companies is derived from the extraction of trading in fossil fuels. However, the other half comes from metals and minerals, many of which are used in the manufacture of critical components for low carbon technology.

The majority of oil and gas and mine exposure in the portfolio is viable in the UK equity market. There has been a recent revision to the fund’s Investment Strategy Statement following consultation with the UK equity weighting in the fund’s strategic asset location which was reduced from 25% to 16%, so that will start taking effect on the 1 January 2019 and will lead to a gradual reduction in the fund’s exposure both to commodity companies which includes mining and oil and gas companies, so things are happening.

It is worth bearing in mind, however, and I know about this personally, that many of the energy companies are at the forefront of developing alternative low carbon technologies and the fund as a long-term shareholder recognises the timeframe for the transition to a low carbon world. The funds will continue to invest in these areas and will also continue to invest in areas of low carbon technologies as they become available. The fund has investments in renewable energy generation and transmission assets via its infrastructure portfolio, including some of the largest solar onshore and offshore wind farms in the UK, batteries and connections into the National Grid. The fund needs to make further investments in these areas when attractive returns are available.

The fund’s recently approved Investment Strategy Statement included the following: it is recognised that risks and opportunities related to climate change could be experienced across the whole of the fund’s investment portfolio and that the current understanding of the potential risks posed by climate change and the development of consistent climate related disclosure are still at an early stage.

It is also recognised that it will take time for companies to adapt to change in regulatory and market positions; the incorporation of environmental, social and governance factors into the investment process and funds to which Government activities will seek to manage the risks associated with climate change.

In addition to that as an innovation, a report on the funds, management of climate change risks within the portfolio will in future be included each year in the fund’s annual report. Thank you.

THE CHAIRMAN: Do you wish to ask a supplementary question?

MS HOPKINSON: Thank you very much for that detailed response. Just a couple of points and a question, if I may. First of all I am very pleased that the fund is going to reduce its holdings of fossil fuel stocks. I am also pleased it is investing in renewables although the investment in renewables is a fraction of the investment in fossil fuel holdings and, secondly, I understand the fiduciary duty and the responsibility to pensioners but there are alternative investments that can give you equal or better value. Would the fund consider talking to other local authority pension funds which have decided to divest and which have found alternative, more socially and environmentally beneficial investments to see what other investments you could find that don’t involve making climate change worse?

CLLR KING: Can I take that in part, as it were. I understand the point about returns on low carbon investments stocks etc etc. The fund also has to consider risk and just because returns may be equal to what we are getting from other areas it does not mean to say that these companies are not risky.

MS HOPKINSON: You are saying that renewable and other alternatives are more risky than fossil fuel stocks?

CLLR KING: Some are, yes. Well that is what we are advised and that is what we consider.

For the second part of your question obviously we take note of what other pension funds are doing and we use that to inform us, hence the reduction in the dependence upon the UK stocks and commodities’ markets.

MS HOPKINSON: Thank you.