**Divest Derbyshire**
**Response to the Derbyshire Pension Fund consultation**
**Draft Climate Strategy**
**October 2020**

This is a response to the Derbyshire Pension Fund (DPF) consultation on its Draft Climate Strategy on behalf of the Divest Derbyshire campaign. The Divest Derbyshire campaign is a grassroots coalition of Derbyshire organisations and individuals who are working to persuade DPF to commit to a full and speedy divestment from the fossil fuel industry.

We are in an unprecedented climate emergency and the world is rapidly shifting towards renewables as our societies transition away from climate-wrecking fossil fuels. However, the DPF continues to support the extraction and burning of fossil fuels through its investments. The fund has shareholdings in BP, Shell, Exxon Mobil and many other US oil and gas producers. At the end of 2018 the fund had £165m invested directly in oil and gas companies and a further £60m invested in diversified mining companies. As of Sep 2020 the value of those holdings had dropped dramatically to around £70m in oil and gas.

We believe there is a clear case for divestment from fossil fuels on **both financial and ethical grounds**. **The world is changing rapidly, we ask the DPF to change with it.**

## Our recommendations

While we welcome the publication of the Fund's draft climate strategy, we feel it does not go nearly far enough to address the significant climate risks from fossil fuels specifically.

Based on all available evidence that we have seen (and have sent to the Committee over the last 4 years), and the views of a significant sample of Fund members[1] and three local councils who have passed motions in support of divestment[2], we urge Committee members to adopt the following aims:

- To achieve a portfolio of assets with net zero carbon emissions by 2030
- To divest from all fossil fuel holdings by 2023 at the latest
- To invest at least 80% of the Fund portfolio in low carbon and sustainable investments by the end of 2025

**Why net zero by 2030?**
We do not consider that achieving net zero by 2050 is compatible with the Paris Agreement which requires a significant cut in emissions over the next ten years. Note that the South Yorkshire Pension Fund has recently voted unanimously to go net zero by 2030. There will be a further meeting in 6 months to review a route plan.

**Why divest by 2023?**

[1] A survey of 128 Pension Members carried out by Divest Derbyshire and the Derbyshire Pensioners Action Group in July 2020 found that two-thirds (66%) were concerned about investment in oil and gas companies.
[2] Derby City Council in March 2018, Chesterfield Borough Council in July 2020, and Amber Valley Borough Council in September 2020.

Climate change is an environmental issue but it also poses an enormous financial risk to many investments, particularly those in fossil fuels (coal, oil and gas). Fossil fuel investments are now financially risky due to the global transition to a more sustainable economic and environmental model. As the world transitions towards renewables, former Bank of England Governor Mark Carney has warned that climate change could render fossil fuels assets 'worthless' due to billions of dollars of "stranded assets" such as oil reserves.

Donald MacDonald, Chair of the International Investors Group on Climate Change and Trustee Director of the BT Pension Scheme, said this in 2015:

"*Change is likely to be swift as pension funds recognise their fiduciary duty to address climate risk in all parts of their portfolios and, where necessary, to reallocate investment away from high carbon-related activity likely to destroy substantial shareholder value in a remarkably short time*."

The Pension Bill currently passing through Parliament and new demands from the Financial Conduct Authority, will require more action and transparency on climate risk from pension funds. This will also help to hold those who are not acting on climate risk to account.

Global oil demand is widely thought to have already peaked and renewables are now cheaper than fossil fuels in every major region in the world. We strongly disagree with the fund's Climate-Related Disclosures Report which states that "*fossil fuels are expected to continue to provide a large proportion of the global energy mix for many years to come*". The IPCC has warned that fossil fuel emissions must be halved by 2030 if global warming is to be limited to 1.5°C above pre-industrial levels. Many experts consider the impacts of the energy transition will be colossal and fossil fuels represent a systemic risk to financial markets.

The longer the DPF waits to rebalance its portfolio towards a more sustainable model, the greater the risk to the pension fund holders and council tax payers will be.

In response to the climate emergency, many institutions have already divested. In the UK this includes many pension funds (including the UK's biggest fund and local authority pension funds), councils, universities, churches, medical colleges, the Environment Agency and the National Trust. Not a single institution has regretted or reversed the decision.

The consultation FAQs include a question '*Why can't the fund commit to a faster reduction in the carbon emissions of its investment portfolio*?' yet does not provide any evidence in answer to this. It argues that it is essential for the fund to invest in a diversified portfolio of assets. We agree and see no contradiction between this statement and divesting from fossil fuels. Three years should be plenty of time to divest from any direct holdings as well as transferring more funds to low carbon and sustainable investments.

Note that we do not consider a reduction in carbon footprint which excludes Scope 3 emissions (e.g. emissions resulting from burning fossil fuels) to be meaningful.

**Why invest in alternative investments sooner?**
We support a shift in the Fund's portfolio to low carbon and sustainable investments but consider that this should be at least 50% and preferably 80% by 2025. We also urge the

Fund to ensure that any alternative investments are truly 'low carbon and sustainable' as many funds purporting to be 'sustainable' including the LGPS Central Pool's 'All World Equity Climate Multi-Factor Fund' have significant fossil fuel and mining holdings (see pp80-103 of their March 2020 Portfolio statement).

Note there are a growing number of 'green' investment options, including the fossil free versions of large indices such as the MSCI ACWI and the S&P 500, both of which outperform their parent index.

Increasing low carbon investments would allow Derbyshire to demonstrate its commitment to the green economy, thereby encouraging investment and boosting local jobs, and avoid the financial turbulence that will result as the fossil fuel sector collapses.

Divestment and reinvestment in low carbon alternatives will allow council employees to be certain that their pensions are part of the county's transition towards net zero rather than an obstacle to it.

**Why not continue to engage with companies?**
The consultation FAQ section presents the reasons why the Fund is in favour of engagement over divestment. It argues that engagement allows the Fund to use its influence as an active investor to improve 'environmental social and corporate governance' (ESG) practices in companies. However, engagement is slow and complicated and there is no evidence of any multinational corporation changing its core business model in response to investor pressure. Nor is it the responsibility of the DPF to shepherd oil majors into improving their ESG practices.

Despite some companies increasing their investment in renewables in recent times (with BP leading) a new comprehensive analysis by Oil Change International shows that not a single climate plan released by a major oil company (including BP) comes close to aligning with the urgent 1.5C global warming limit. And many companies continue to invest in oil exploration, such as Shell which is progressing with 35 new fossil fuel explorations by 2025.

More importantly, engagement does not mitigate the financial risks the sector faces from stranded assets. Why continue to invest in an oil company as it attempts to catch up on renewable investments instead of investing directly in a renewable energy company with no stranded oil assets?

We urge the Pension and Investments Committee members to support our recommendations. Thank you.

The Divest Derbyshire campaign is supported by the following organisations (in alphabetical order:

Amber Valley Against Fracking; Bolsover Against Fracking; Chesterfield and District TUC; Chesterfield Climate Alliance; Clay Cross Against Fracking; Creswell Against Fracking; Derby Climate Coalition; Derbyshire Dales Climate Hub; Eckington Against Fracking; Glossopdale Transition Initiative; Hope Valley Climate Action; Melbourne Area Transition; Sustainable Edale; Sustainable Hayfield; Transition Belper; Transition Buxton; Transition Chesterfield; Transition New Mills; Transition Wirksworth; University of Derby Students' Union