Derbyshire Pension Fund Investments of ethical concern
A Divest Derbyshire briefing
June 2023

Summary

The £5.9 billion Derbyshire Pension Fund, which is managed by the County Council, has millions of pounds invested in companies with unethical products and/or practices, including the following:

- **Tobacco** - at least £31 million indirectly in British Tobacco and other tobacco companies and £0.8 million directly invested in Phillip Morris International
- **Military and nuclear weapons** – nearly £2 million directly invested in companies involved in weapon production including Lockheed, Honeywell International and Raytheon Technologies. Raytheon and Lockheed Martin are involved in the manufacture of cluster munitions that are banned for use by most countries.
- **Metals and Minerals Mining** – at least £41 million indirectly invested in Rio Tinto (accused of environmental and human rights violations as well as unethical corporate behaviour) and Glencore (responsible for widespread and systematic corruption
- **Oil and gas** – Over £88 million directly or indirectly invested in Shell and BP, number 6 and 7 on the list of most polluting fossil fuel companies, whose investments are fuelling climate change
- **Tar sands** – £0.6 million directly invested in Conoco Phillips, ranked as the 14th most polluting company in the world in 2019, with significant investment in extraction from Canadian tar sands

This briefing lists a number of alternative Index Funds which are aligned to socially responsible values and are fossil free. These would not only be more ethical but could offer greater financial stability in the longer term.

Take action

Members of the Derbyshire Pension Fund (still paying into or receiving a pension) please write to Councillor David Wilson, the Chair of the Pensions and Investments Committee (Councillors who are legally responsible for the Fund) and tell him that you don't want your pension contribution funding unethical companies and practices.

Contact details here: David.Wilson@derbyshire.gov.uk and please cc the Secretariat: pensions@derbyshire.gov.uk

Residents of Derbyshire or Derby please write to your local Derbyshire County Councillor or Derby City Council and raise your concerns.

You can find your Councillor's contact details here: Derbyshire County Councillor contact details and Derby City Councillor contact details

Please share this briefing widely with your networks. Thank you!

Introduction

The Derbyshire Pension Fund ('the Fund') is managed by Derbyshire County Council and has over 100,000 members, retired or working for over 280 employers in Derbyshire. These include Derbyshire County Council, all constituent Borough and District Councils including Derby City Council. Other employers include Chesterfield College; Derby College; Derbyshire Fire Authority; Derbyshire Policy Authority; Peak District National Park Authority; University of Derby, hundreds of Derbyshire schools (for non-teaching staff) and a large number of smaller employers.

According to the April 2023 Investments Report, the total value of the Fund was £5.9 billion, which was invested in equities/stocks (56%), infrastructure and property and other income assets (26%), government bonds (15%) and cash (3%).

This briefing paper is presented by Divest Derbyshire, a cross-county coalition of organisations and individuals who advocate that the Fund should urgently divest from fossil fuels. The value of the oil and gas stocks in January 2023 was around 2.5% of the total, equivalent to around £149 million[1].

Previously and on many occasions, we have not only highlighted the financial risks of fossil fuel investments but have outlined the moral dilemma this presents[2]. There is a strong ethical imperative to keep fossil fuels in the ground to prevent catastrophic loss of life and extinction of species from the accelerating impacts of climate change.

Additionally, while oil and gas stocks are a major concern, the Fund might also consider the principle of investing in tobacco companies, producers of military and nuclear weapons, and companies involved in the mining of tar sands. This briefing concerns the ethics of the Fund's investments in fossil fuel companies and other businesses via equities/stocks.

In many cases we reference the UN Global Compact which is the world's largest corporate sustainability initiative; and provides a framework of 10 principles (including universal principles on human rights, labour, environment, anti-corruption) and advises firms that they can follow this framework if they wish to take action to advance societal goals. While the UNGC do not rate companies themselves, several ESG rating companies (eg MSCI) rate companies using the UNGC framework as a guide, to assess the extent to which a company causes, contributes or is linked to violations of international norms and standards.

UK Equities

In April 2023 the Fund had over £800 million indirectly invested in UK equities via the Legal and General Investment Management (LGIM) UK Equity Index Fund, as well as a further £52 million in UK equity investment companies and UK Unit Trusts.

The UK Equity holdings are less transparent following the replacement of direct equity holdings with an investment into the LGIM UK Equity Index Fund in early 2020. The Fund aims to track the performance of the FTSE All Share Index by either investing directly in the securities of that index, or indirectly through other LGIM funds.

[1] According to a response from the Council Leader to a public question (question d) "*The weight of oil and gas stocks in the fund's investment portfolio has been reduced by approximately 65% over the last ten years from just over 7% in January 2013 to around 2.5% in January 2023*."
[2] E.g. see a previous Divest Derbyshire 2020 Briefing.

Based on some of the top holdings of this LGIM Fund (which reflects the highest weighted companies in the FTSE All Share Index) we estimate in April 2023 the Fund was indirectly invested in the following:

- Shell and BP (number 6 and 7 on the list of the most polluting fossil fuel companies, responsible for numerous past environmental and human rights abuses and continuing to major in fossil fuels despite their greenwashing claims)[3] The Church of England recently announced it is divesting from Shell, BP and other big oil companies due to their failure to align with efforts to halt global warming[4]. (around £87 million
- HSBC Holdings (one of the largest investors in fossil fuel exploration and currently on the UN Global Compact watch list) (around £38 million)
- British American Tobacco (used a range of unethical and corrupt practices to maintain profits)[5] (around £22 million)
- Rio Tinto (a metals and minerals mining company, accused of environmental and human rights violations as well as unethical corporate behaviour[6]) and Glencore (a metal and minerals mining company responsible for widespread and systematic corruption[7]). (around £41 million)

US equities

In April 2023 the Pension Fund had £62.6 million directly invested in US equities, including £3 million in US listed oil and gas producers (BP, Shell, Conoco Phillips, Diamond Back Energy, EOG Resources and Marathon Petroleum). A summary of the US equities of ethical concerns is shown in Table 1 below.

Table 1: US equities of ethical concerns held directly by Derbyshire Pension Fund (as of April 2023).

Sector	Company	Value (£) (April 2023)	Ethical concern
Oil & Gas Producers	BP PLC	1,003,005	Fossil fuels
	Conoco Phillips	606,444	Fossil fuels including tar sands
	Diamondback Energy Inc	103,049	Fossil fuels
	EOG Resources Inc	186,607	Fossil fuels
	Marathon Petroleum Corp	314,964	Fossil fuels
	Shell Plc	864,190	Fossil fuels
Oil & Gas Services	Schlumberger Ltd	312,611	Fossil fuels
Chemicals	Celanese Corp	171,945	Tobacco
Aerospace	Boeing	285,892	Military & nuclear weapons
	General Dynamics	335,433	Military & nuclear weapons
	Lockheed Martin	414,650	Military & nuclear weapons
	Raytheon Technologies	519,867	Military & nuclear weapons

[3] See Client Earth (undated). Greenwashing Files: Shell. And Global Witness (2023) Fossil Fuel Greenwash
[4] Church of England (2023) Church Commissioners and Church of England Pensions Board announce fossil fuel disinvestment.
[5] Tobacco Tactics (2021) The BAT Files: How British American Tobacco Bought Influence in Africa
[6] See Financial Times (2020) Rio Tinto executive coach reported ethical concerns to regulators
[7] See Global Witness (2022) Seismic change needed at Glencore following a decade of corruption

General Industrial	Ametek Inc	126,799	Military weapons
	Ball Corp	74,673	Nuclear weapons
	Honeywell Int	229,239	Nuclear weapons
Tobacco	Philip Morris International	851,780	Tobacco

Conoco Phillips are one of the largest companies engaged in exploration, extraction and refining of fossil fuels with significant investment in extraction from Canadian tar sands[8]. It was ranked as the 14th most polluting company in the world by The Guardian in 2019[9].

The Fund has £2 million invested in six energy companies, which currently all generate electricity through fossil fuels.

The Fund has £1.6 million directly invested in aerospace companies, and potentially much more through aggregated funds. All directly held companies in this sector are currently involved in the manufacture of military weapons AND also nuclear weapons - as are Ball Corp and Honeywell International, in the general industrial sector. Raytheon and Lockheed Martin are involved in the manufacture of cluster munitions that are banned for use by most countries.

In other words, a significant proportion of the asset allocation to US equities are in companies which would not be accepted into an investment portfolio that screened out companies that breach the UN Global Compact.

Emerging Markets

In April 2023 the Fund had £316 million indirectly invested in emerging markets, including £167 million in the International LGPS Central Emerging Market Equity Active Multi and £100 million through the LGIM Emerging Markets Index Fund (which tracks the performance of the FTSE Emerging Index).

The top holdings within the LGIM Fund include:

- Tencent Holdings - currently on the UNGC watch list, indicating its involvement in controversial business or a violation of the Global Compact.
- Reliance Industries – a fossil fuel company
- Vale – whose principal industry is fossil fuels and is also on the UNGC watchlist.

The LGPS fund[10] includes oil companies (e.g. Brazil's Petroleo Brasileiro), companies of ethical concern (eg Tencent), companies involved in coal mining (e.g. South Africa's Anglo American) and many banks funding coal production (e.g. Singapore's DBS)[11].

Alternatives

The Pension Fund Trustees have elected to invest in funds lacking Environmental, Social or Governance (ESG) screening, rather than selecting funds which are aligned to socially responsible values and are fossil free. These would not only be more ethical but would offer greater financial stability in the longer term.

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[8] See Reuters (2023) ConocoPhillips to buy rest of Canada's Surmont oil site, bumping Suncor and The Globe and Mail (2023) Alberta oil sands win $4.4-billion endorsement from Texas energy giant ConocoPhillips

[9] See The Guardian (2019) Revealed: the 20 firms behind a third of all carbon emissions. s

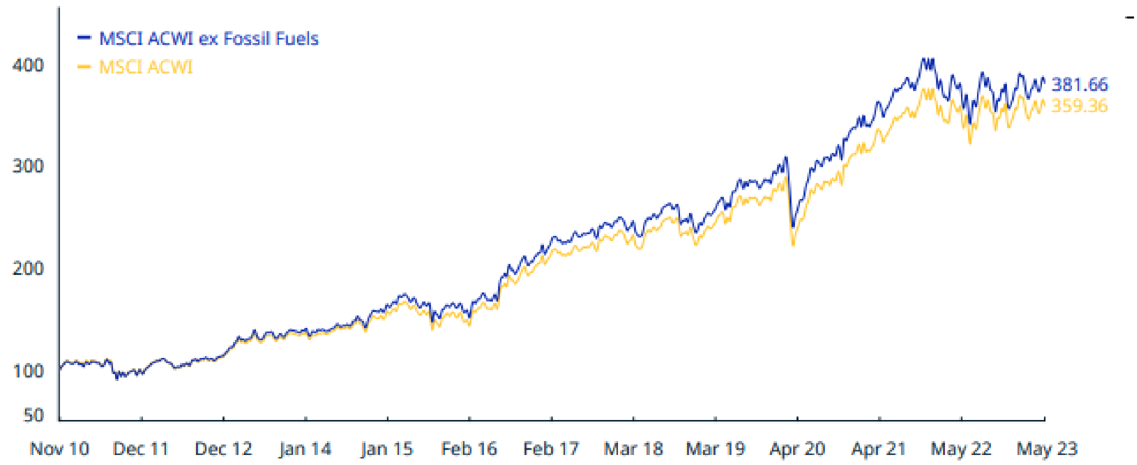
[10] LGPS Central (2022) ACS Investments. September 2022, the latest publicly available report in June 2023.

[11] The Economist (2023) Who is keeping coal alive?

With increased data flows and greater reporting requirements from listed companies, it now easier for research houses to construct indices based on a desired set of criteria[12]. This has then made it possible for investment managers to replicate these indices and create funds mapped to the criteria set, by buying and holding the same component companies as the index they want to replicate. This research is used by some of the largest index investors to create retail investment funds that follow the same exclusionary ground rules. For example

- The Legal & General MT Fossil Fuel Free Climate Equity Index Fund, launched in May 2021, excludes companies associated with fossil fuels, tobacco and/or certain companies that do not comply with the United Nations Global Compact screening criteria, and manufacturers of Controversial Weapons.
- The MSCI ACWI ex Fossil Free Index (which is indicative of global equity returns) and which has outperformed its parent index over the period November 2010 to May 2023 (see Figure below)
- The S&P 500 Fossil Free Index (which is indicative of US equity performance) which has outperformed its parent index.
- The Genus Fossil Free Fund (a composite of the S&P 500, the MSCI ACWI and the Toronto Stock exchange benchmark) has also consistently outperformed its benchmark since 2013.
- The FTSE Global All Cap Choice index, which excludes fossil fuel companies, companies with fossil fuel reserves and companies with supporting services, and screens out tobacco, alcohol, adult entertainment and weapons, both conventional, small arms and nuclear, shows no loss of performance and returns compared to the FTSE Global All Cap.

CUMULATIVE INDEX PERFORMANCE — GROSS RETURNS (GBP)
(NOV 2010 – MAY 2023)



[12] Indices are put together by research companies (eg MSCI, FTSE Rusell, Solactive) to demonstrate the performance of a particular metric such as company size, sector, region or country. The FTSE 100 is an example of an index, based on the top 100 companies registered on the London stock exchange by size. Indices are also used by fund managers to find an index with the criteria that they find most suits their needs and then replicate it by buying the companies in the index (either all the companies or a representative sample).

Can the Pension Fund divest on ethical grounds?

There is a well-established argument for divestment from fossil fuels on both ethical and financial grounds which would be entirely compatible with the Trustee's fiduciary duty. However, can the same be argued for companies, which may be considered to pose less of a financial risk but whose business activities are considered unethical, in contravention of the UN Global Compact and ultimately out of step with local government seeking to support is local citizens and economy?

When making investment decisions Pension Trustees are legally required to consider factors that are financially material concerning risks or returns. This could be regardless of whether or not these factors might involve ethical concerns.

In 2017, the Department for Communities and Local Government issued guidance for Local Government Pension Schemes (LGPS) which stated that LGPS ''*may also take purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment to the scheme and where they have good reason to think that scheme members would support their decision*."[13] Fiduciary duty should not be misinterpreted as a duty to maximise short-term returns but rather a consideration of factors which may be material over the long term.

In other words, it is reasonable for a Fund to divest from companies on ethical grounds, if there is no significant risk of financial detriment to the scheme and where scheme members are supportive.

It is expected that many scheme members would be supportive of divesting from tobacco, arms and fossil fuel companies. In 2020 Divest Derbyshire conducted a survey of pension members and found that nearly 9 in 10 of those surveyed were concerned about investments in tobacco and arms companies, and nearly 7 in 10 were concerned about investments in fossil fuels.

Conclusions

The Derbyshire Pension Fund is invested in fossil fuel companies (including those involved in oil tar sands), mining companies responsible for environmental and human rights violations, tobacco companies and companies that manufacture military and nuclear weapons. These are not the assets that many Derbyshire Pension Fund members would like to be associated with, or to benefit from.

Derbyshire County Council employs public servants who, in the main, wish to make their communities and society a better place. A significant portion of the pension scheme investments managed by the Authority are within companies that represent the antithesis to this ethos.

There are many better alternative investments that match or indeed outperform the less ethical companies and funds. We urge the Fund to divest from these unethical investments.

[13] Dept for Communities and Local Government (2017) Local Government Pension Scheme.