

Divest Derbyshire Briefing, February 2020



Divest Derbyshire, a coalition of groups across Derbyshire, are calling on the Derbyshire Pension Fund to divest all of its stocks from [200 fossil fuel-producing companies](#). In this briefing we will set out the reasons we want this; why it is in the interests of fund members to divest; and the practicalities of how to divest. With acknowledgements to Divest Lambeth campaign and Friends of the Earth for some of the information contained in this briefing.

The case for divestment

In the 2015 Paris Climate Agreement, the world came together and pledged to limit climate change to 1.5 degrees if possible, and a maximum of 2 degrees. There is a finite amount of CO₂ (or carbon budget) that we can put into the atmosphere before we go beyond 1.5 or 2 degrees of warming.

But [a recent report](#) shows that fossil fuel companies plan production of coal, oil and gas that would emit many times that budget. The world's listed oil and gas majors must cut combined production to keep emissions within international climate targets. We simply cannot burn all of the world's fossil fuel reserves. The business models of companies like Shell and BP rely on governments failing to meet their promises under the Paris Climate Agreement.

The Derbyshire Pension Fund invests many millions of pounds in the fossil fuel companies responsible for causing climate change and air pollution. The Fund is responsible for the actions of the companies it owns. It is Pension Fund money that the fossil fuel industry spends to explore for more oil and gas.

Fossil fuel companies are not safe investments

We understand and respect that the Derbyshire Pensions and Investments Committee are committed to their fiduciary duty of providing the best possible rates of return to Derbyshire Pension Fund members. Indeed, many members of Divest Derbyshire have their own money in that fund. We are calling on the Derbyshire Pension Fund to divest because we are convinced that holding fossil fuel stocks are not only contributing to climate change, but are a bad investment, and contrary to that fiduciary duty.

As the reports above show, the actions of the fossil fuel companies are incompatible with the promises governments have made to tackle climate change. Their investment strategy is not only dangerous and immoral, it is also financially unsound. It makes no sense to base your financial projections on assumptions that are fundamentally at odds with the stated policies of every government in the world (with the notable exception of Donald Trump's US administration).

The Bank of England, the Intergovernmental Panel on Climate Change (IPCC) and others have repeatedly highlighted the growing magnitude of climate risks to financial markets, including in April 2019 [estimating stranded asset losses at over US\\$20 trillion globally](#) by 2050. [One report](#) suggests that Black Rock's investments in fossil fuels lost investors an estimated US\$90 billion over the past decade "due largely to ignoring global climate risk".

Thinktank [Carbon Tracker has warned](#) that the oil industry is at risk of a global market shock that could halve the value of fossil-fuel investments if governments delay setting policies to tackle the climate crisis. [Carbon Tracker estimate](#) that the drop in value will occur in the early 2020s. Local government pension funds that fail to divest in time will foot serious losses.

Business as usual is not an option. Either the fossil fuel companies continue to extract reserves and cause catastrophic and runaway climate change, or fossil fuel companies cut production of oil, gas and coal and are left with vast amounts of assets that will stay in the ground and their value written off.

Failed strategy of engagement

Derbyshire Pension Fund argues that they need to keep their fossil fuel investments, so they can “engage” with companies, to try to persuade them to change their behaviour. Shareholder engagement can work in some sectors, where the change required does not challenge the companies’ core business model. For example, we applauded the resolution, proposed by Central LGPS, for [Barclays Bank to phase out loans to fossil fuel companies](#).

But engagement does not work well where it’s the company’s core business model which needs to change, such as the coal, oil and gas sector. Fossil fuel companies still refuse to re-align their business models with a 2-degree world. For example [it was reported in October 2019](#) that the world’s 50 biggest oil companies, with Shell among the leaders, plan to increase production of oil by more than 35% between now and 2030. This is the opposite of the 45% reduction in carbon emissions by 2030 that is necessary to have any chance of holding global heating at a relatively safe level of 1.5 degrees C. While oil companies may be investing in renewables this is a tiny fraction of their investment in fossil fuels: Shell’s investment in renewables represents only US\$1-2 billion (4-6%) of its annual US\$25-30 billion investment in fossil fuel exploration and production. Thirteen companies, including Shell and BP, are projected to blow almost a quarter of the remaining 1.5 degrees C carbon budget.

Major oil companies like Shell, BP, Equinor and Total have sought to reassure investors that they are responding to climate concerns. The first three have said they will test their new investments for consistency with low-carbon scenarios. Since the start of 2018 all major oil and gas companies have approved projects that are not consistent with the Paris goals. [Analysis shows](#) that more than 70% of Shell’s and 57% of BP’s potential 2019-2030 spending on new projects is outside a 1.6°C pathway and at risk of being stranded assets in a low-carbon world.

It is not clear why Derbyshire Pension Fund is continuing to invest money in companies with a heavy risk from stranded assets, while relying on a strategy of ‘engagement’ to pressure the companies to act on climate change. The analogy would be investing in Blockbuster video in the early 2000s, hoping to persuade it to set up an online streaming service, rather than investing in Netflix. Or investing in Kodak hoping to persuade it to go digital. Rather than investing in oil companies and engaging them to reduce their climate risk, wouldn’t it be better to invest directly in companies who are part of the climate solution and don’t have the risk of stranded assets?

Many organisations have already divested

Derbyshire would not be going it alone. Many financiers and fund-holders have already divested. In total, funds managing [US\\$14 Trillion dollars have now divested](#). These funds include the Rockefeller Family Fund and [Norway’s \(the world’s largest\) sovereign wealth fund](#). Several Local Authority Pension Funds, including Southwark, Islington, Lambeth and Waltham Forest have all committed to full divestment from coal, oil and gas. Other local-authority pension schemes have made partial divestment commitments, including the Environmental Agency Pension Fund, Merseyside, South Yorkshire, Hackney and Haringey.

The law on Fiduciary Duty

Fiduciary duty requires pension funds to assess the financial risks due to climate change. Derbyshire Pension Fund continues to insist that they cannot divest, because their “fiduciary duty” meant they had to ignore so-called “ethical” issues. Pension trustees are legally required to take into account

factors which are financially material to risks or returns when making investment decisions, regardless of whether or not those factors might sometimes be considered to be ethical concerns. In other words, not only can ethical issues considered, but to be compliant with fiduciary duty the financial risks of the fund's exposure to the fossil fuel sector must also be assessed.

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.” 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.

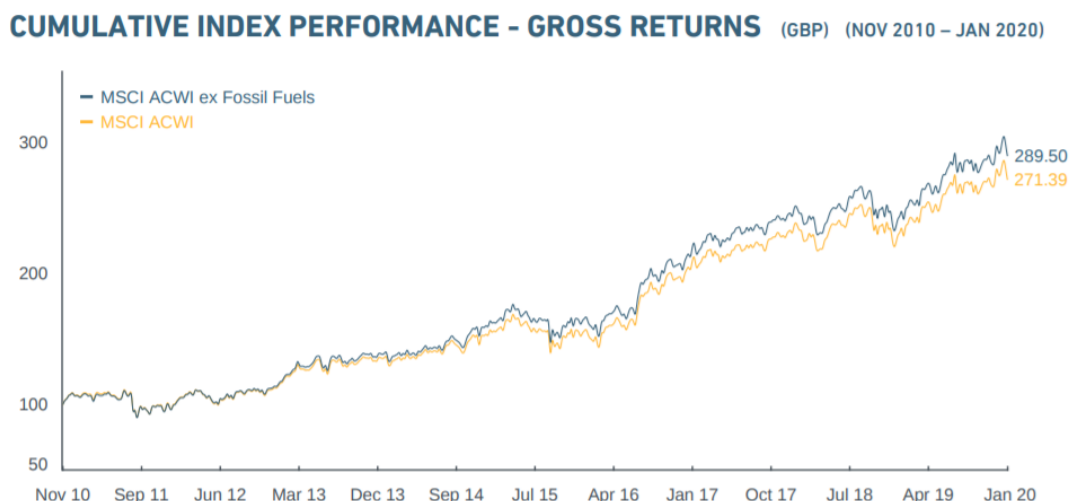
A December 2016 legal opinion for ClientEarth from two leading UK barristers found that pension fund trustees who fail to consider climate risk [could be exposing themselves to legal challenge](#).

Climate change is a growing risk to all society, not just individual pension funds. If pension funds are not addressing these risks, they are arguably complicit in seeing those risks increase. Even if the Derbyshire Pensions and Investments Committee did not want to act on ethical grounds, it should take action on financial grounds, given the increasing risks posed by holding high-carbon investments.

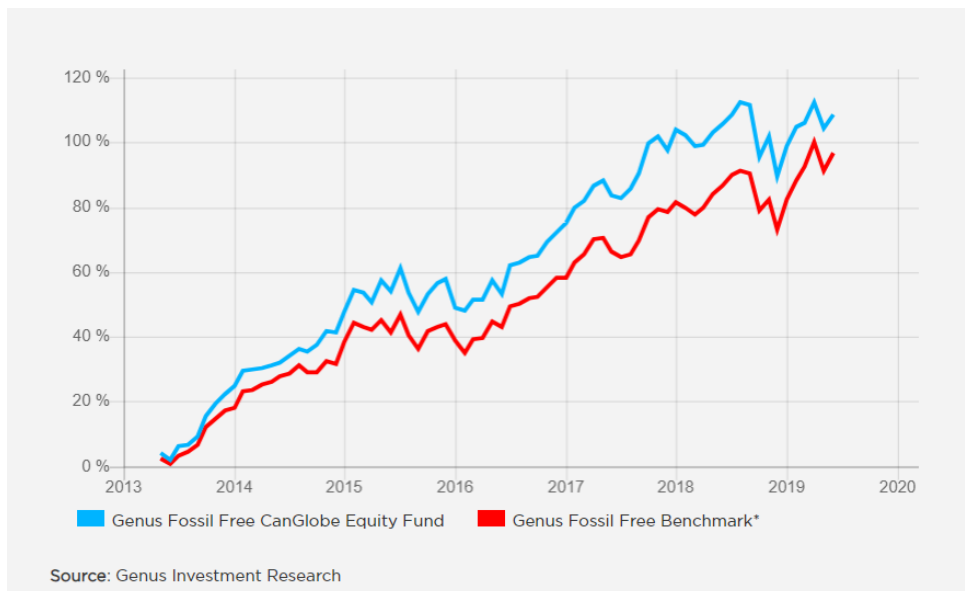
[We have previously recommended](#) that the Committee should amend the Investment Strategy to add that “*the administering authority will seek to exclude stocks from the portfolio where there is evidence that these are associated with long term financial risks, as well as ESG concerns, in line with fiduciary duties.*” By failing to address the climate risks of their investments, and exclude those that pose a long term risk, the Committee is failing in its fiduciary duty.

Alternative investments

If Derbyshire Pension Fund was to divest from fossil fuels, what would it do with the money instead? There are a growing number of ‘green’ and fossil free investment options available for investors. These include fossil free versions of large indices such as the [MSCI ACWI](#) and the [S&P 500](#), both of which outperform their parent index.



There are also a few fossil free funds such as the [Genus Fossil Free Fund](#) which has outperformed its benchmark (a composite of the S&P 500, the MSCI ACWI and the Toronto Stock exchange benchmark) consistently since 2013.



While some local government Pension Funds have claimed that they would have lost money had they sold out of oil and gas stocks in the last few years, this is based on a flawed analysis over a narrow three or four year historical time period.¹ However in the interests of comparison with their three year analysis, the [FTSE All-World ex Fossil Fuels](#) and the [FTSE Developed ex Fossil Fuels](#) have both outperformed their parent (fossil fuel containing) indices in the last three years. This contradicts the findings that fossil fuel divestment would have reduced investment returns.

However it is important to remember that past performance does not guarantee future results. In the case of fossil fuel companies this warning should be taken very seriously.

Other Pension Funds are investing in more socially and environmentally beneficial projects:

- The Southwark Pension Fund plans to invest [£65m into two new renewable energy funds](#).
- Danish pension funds and a consortium of institutional investors invested [£2bn \(€2.3bn\) in the Walney Extension offshore wind farm project](#) in the UK.
- Danish pension funds have pledged to invest [\\$52 billion in energy infrastructure, green stocks and bonds and energy efficient construction](#) up to 2030.
- The Avon Pension Fund has committed [£115m or 2.5% of its assets to Renewable Infrastructure funds](#).

¹ Friends of the Earth (2020) Examining the financial implications of fossil fuel divestment. Briefing, Jan 2020.