Dear Sir

On behalf of the coalition Divest Derbyshire please see below our response to the Derbyshire Pension Fund's consultation on its investment strategy statement, responsible investment framework and climate strategy.

We have chosen to send our responses in directly by email as the online questionnaire has severe limitations, already outlined in an email to all Derbyshire County Councillors, sent on 17th January 2024, as follows:

- Lack of inclusivity
- Inherent bias and closed questions
- Difficulty of language
- Failure to publicise properly
- Short timescale to respond

However, we have attempted to structure our response in accordance with the consultation questions, as far as possible.

1.In what role are you responding to this consultation?

Derbyshire based business or organisation (see Q2)

2.If you indicated at Q1 that you are representing a participating employer or local business/organisation, please provide your name and organisation.

I confirm that my responses reflect the comments of the following participating employer/local business/organisation and understand that this information may be subject to disclosure under the Freedom of Information Act 2000

Lisa Hopkinson for Divest Derbyshire

3.Do you agree with the proposed changes to the **Fund's Strategic Asset Allocation Benchmark** ***following the ongoing improvement in the Fund's funding level?***

No opinion

4.Please submit any comments you may have about the updated Investment Strategy Statement (max 250 words)

No comments

5.Do you agree that the Fund's updated Responsible Investment Framework reflects the right approach to managing responsible investment, including environmental, social and governance factors?

No

6.Please submit any comments you may have about the updated Responsible Investment Framework (max 250 words)

The Framework makes reference to climate risk and states that "*The Committee recognises that financial markets will be impacted by climate change and by the response of climate change policy makers*". Worryingly, the high level of risk is not reflected in the strategy. The Framework also states that "*The current understanding of the potential risks posed by climate change…are still at an early stage*". This is a completely misleading statement of fact and exposes the complacency of the financial advisors and Committee. Current investment managers continue to fail to take into account the significant risk from fossil fuels, judging from the £200 million still invested in fossil fuels, and the growing evidence of risks from stranded assets.

7.Do you agree with the Fund's ambition, as set out in the updated Climate Strategy, to be net carbon neutral by 2050?

We think this is a leading question. We consider 2050 as far too late. The latest scientific consensus is that keeping warming below 1.5C would require reaching net zero before 2040.

Much of the current focus in the climate strategy report is the achievement of net zero by 2050 but this ignores the raft of recent research into the immediate and urgent need to act to reduce the financing of activities that continue to add to the climate emergency and to consider the research that talks about a tipping point for the climate.

A tipping point occurs when a small change sparks an often rapid and irreversible transformation. It could be positive or negative where for example a natural threshold is crossed tipping the Earth into a different, irreversible state potentially hostile to humanity such as sea temperature increases, melting of the ice sheet, loss of vital biodiversity, reduced food security and malnutrition. For an authoritative discussion of the risks and opportunities, see Global Tipping Points led by Professor Tim Lenton.

This has important implications for the finance sector and the future value of investments. There is no knowing when a tipping point will be reached or how catastrophic this could be. Reaching a tipping point could also a risk derailing the transition to net zero by hampering the low economy and climate mitigation efforts through diverting resources needed to deal with immediate consequences. This is discussed in a recent report by Aviva Investors: The tipping point for climate finance - Making financial flows consistent with the Paris Agreement.

Another report Net-Zero Transition Planning for Pension Funds and other Asset Owners, led by the University of Exeter, also highlights the risks from tipping points. Report co-author Jack Oliver said: "*Using EEIST's risks and opportunities approach, we recommend pension funds examine their plans to assess how far they reflect plausible future events, given the radical uncertainty financial markets face from climate change - much of which simply cannot be modelled*."

The Climate Strategy needs to acknowledge the importance of tipping points and bring the net carbon date forward in accordance with the scientific assessment of risks.

Human-caused climate change has already resulted in 1.2°C of warming compared with pre-industrial levels which is already increasing the intensity of harmful extreme weather events. The Pensions and Investment Committee need to rise to the challenge and establish a workable climate risk management strategy and embed a risk culture and adopt useful climate scenarios.

Any pensions consultants advising the Fund should be required to take climate risk into consideration.

8.Do you agree with the proposed targets set out in the updated Climate Strategy related to reducing the carbon intensity and financed emissions of the Fund's listed equities and investment grade bond investments by the end of 2030?

No. The weighted average carbon footprint of listed equities had already been reduced by 50% by the end of 2023. The targets need to be much more ambitious than the proposed 60% and should be closer to 90% by 2030.

We do however support the new metric of 'absolute financed emissions' rather than the misleading benchmarks currently used

9.Do you agree with the proposal to increase the target for the Fund to invest in low carbon and sustainable investments from 30% of 45% of total investment assets by the end of 2030?

No. The target for investing in low carbon and sustainable investments (e.g. low carbon social housing) should be approaching 100% by the end of 2030 rather than leaving 55% of investments as unsustainable and high carbon.

10.Do you agree with the proposal to introduce targets to aim to assess/estimate the carbon footprint of the Fund's other assets and measure the Fund's climate-related engagement and stewardship activities by the end of 2030?

Yes

11.Please submit any comments you may have about the updated Climate Strategy

Section 5.1 of the Climate Strategy states "*Methodologies for assessing the impact of future climate-related scenarios, including the possibility of measuring against alignment with the Paris Agreement, remain at an early stage of development,and the Fund will support efforts to develop more reliable and comparable methodologies*."

The Pension Fund should be aware that the Task Force for Climate Related Disclosure (TFCD) Data reporting was launched by the Financial Stability Board in 2015 the same year as the Paris Agreement and data reporting plus AI modelling has increased significantly. Rapid developments are also being made by MSCI (Morgan Stanley Capital International), Morningstar, Sustainalytics and FTSE Russell all of whom have years of expertise analysing data from capital markets.

By maintaining a position that climate investing is a nascent and unreliable area of reporting is to mislead members into a false sense of security and seems to contradict stated intentions in section 5.2 of the Asset Allocation & Targets to assess and measure the reduction in the carbon footprint of the fund.

It would appear from the latest investment holdings that the Fund no longer holds direct equity and investment is instead with collective investment funds either run in-house by the Local government pension scheme (LGPS) or by investment managers such as Legal and General Investment Management (LGIM). LGIM appears to be managing collective funds for UK Equity, Japan, Emerging Markets and Global Low Carbon through their index funds. Looking at the Fund Fact sheets and the accompanying ESG (Environmental, Social and Governance) Fact Sheets there are areas that seem completely at odds with the stated climate objectives:

- **LGIM UK Equity Index Fund**: The two oil companies Shell and BP make up 11.7% of the fund and 10.9% overall of the fund's allocation to UK Equities. These two oil companies are responsible for 57.7% of the carbon footprint for the LGIM UK Equity Index Fund. LGIM have assessed that currently the fund has an implied temperature alignment of 2.5 degrees.
- **LGIM World Emerging Markets**: shows an average temperature alignment of 3.1 degrees attributed to 42.7% of the fund aligning with a temperature in excess of 3%. The fund aims to track the FTSE Emerging Markets Index and companies at the top of the index, by weight, are Tata Steel, NTCP ltd the Indian energy company that includes coal mines and coal based electricity generation and China Resources Power Holdings plus cement producing companies.
- **LGIM Japan Equity Index Fund**: currently has a temperature alignment of 2.9 degrees and includes the production of steel for the car manufacturers Toyota, Honda and the chemical company Shin Etsu which according to their website is the largest manufacturer of PVC for water pipes and window frames using ethylene from oil.
- **LGIM MSCI World Low Carbon Target Index Fund:** has a temperature alignment of 2.9 degrees with only 16.7% of the fund covered by climate engagements and 22% of the fund with an implied temperature alignment of 3 degrees.

Currently there is no integrated climate modelling in the asset allocation strategy. The consultation states clearly that it wants the asset allocation, the responsible framework and the climate strategy to be seen as working together. The strategies need to consider recent science and current global temperatures, the temperature alignment of the investment and the impact on climate change together.

Two key reports that we forwarded to the Committee last year from the Institute of Actuaries - The Emperors New Climate Scenarios and the think tank, Carbon Tracker - Loading the Dice Against Pensions both state that pension schemes which finance business activities in the expectation of investment returns are risking the future of their members pensions by relying on economic data that doesn't take into account the scientific data that models the full extent of the damage created if temperatures were to rise beyond 1.5 degrees.

To address all of the above the Climate Strategy needs to commit to the most obvious action on climate change, divesting from fossil fuel companies. We do not support continued investment in fossil fuel companies, all of which pose a financial risk to the fund as well as being unethical by contributing to catastrophic climate change. Even government ministers have warned that climate change can affect people's retirements savings if pension funds fail to act in time, and that climate change poses a financial risk that is 'too important to ignore'.

Many local authority Pension Funds have already committed to divest from fossil fuels, most recently the conservative-lead Wiltshire Pension Fund has voted to divest from all fossil fuels by 2030 and has said "*this approach aims to ensure that the fund's risk of exposure to stranded assets is well managed, and that it can benefit from the investment opportunities presented by the transition to a low carbon economy*."

To date, 6 out of 9 Derbyshire district/borough/city councils (who are all members of the Fund) have voted for divestment of fossil fuels: Derby City Council (2018), Chesterfield Borough Council (2020), Amber Valley Borough Council (2020), Bolsover District Council (2021), High Peak Borough Council (2021) and Derbyshire Dales District Council (2023).

The Fund should fully divest from fossil fuels as a matter of urgency, respecting the views of the majority of its member councils as well as the public and a likely majority of its members.

The millions invested in fossil fuels could be put to much better and less risky use by investing in industries and financial instruments that are environmentally and socially responsible.

Please note that we still stand by our response to the 2020 consultation on the previous climate strategy.

12.Did you find the Fund's responses to some frequently asked questions helpful?

No, we found some of the responses inaccurate and misleading. In particular the responses to the questions:

- Why does the Fund favour engagement over divestment?
- Why does the Fund still invest in fossil fuel companies (see box below)

Box: Why does the Fund still invest in fossil fuel companies?

The Fund adopts a strategy of engagement rather than divestment from certain sectors/industries in order to influence behaviour and enhance value. While fossil fuels are expected to continue to account for a large part of total power generation in the coming decades, fossil fuel companies have a key role to play in the transition to a greener-economy and are investing significantly in renewable energy solutions.

Collaborative engagement with these companies has gained traction in recent years and the majority of the world's leading publicly owned international oil companies have committed to being carbon neutral by 2050.

As the transition to a low carbon economy progresses and business models are reshaped, the Fund's active investment managers will continue to assess the sustainability of fossil fuel companies' earnings as part of the investment process.

Contrary to what is stated in the FAQs, the Fund's preferred strategy of engagement has done nothing to decrease fossil fuel companies' carbon-emitting activities and their strategies are not aligned with the Paris Agreement. The Local Authority Pension Fund Forum annual report for 2023 reveals that out of 18 recommendations directly related to climate policies, just three were followed, and in two of these cases they simply related to reports that doubtless would have been approved in any case. None of the recommendations relating to BP, Shell, Drax or Rio Tinto were followed.

The science is clear: The 1.5˚C limit is only possible if we ultimately stop burning all fossil fuels. A report by the IEA shows that oil and gas companies currently account for just 1% of clean energy investment globally – and 60% of that comes from just four companies.

13.If you wish to be contacted when the outcome has been published, please provide you contact details

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