Greater Manchester Pension Fund

Administered by Tameside Metropolitan Borough

By email: lori.hughes@oldham.gov.uk
Dr Carolyn Wilkins OBE
Chief Executive / Accountable Officer
Oldham Council
Level 4, Civic Centre
Oldham
OL1 1UL

Chair of the Greater Manchester Pension Fund
Guardsman *Tony Downes* House
5 Manchester Road, Droylsden
Tameside, M43 6SF

Tel: 0161 301 7151
Fax: 0161 301 7001
Email: bill.fairfoull@tameside.gov.uk

Website: www.gmpf.org.uk

Date: 20 August 2019

Dear Dr Wilkins OBE,

OLDHAM COUNCIL MEETING 20 MARCH 2019 - GREATER MANCHESTER PENSION FUND DIVESTMENT FROM FRACKING AND FOSSIL FUELS

Thank you for your letter of the 26 March 2019 providing me with a copy of the motion agreed at Oldham Metropolitan Borough Council at its meeting on 20 March, 2019 and in particular:-

Council notes that:

- *Given the adverse impact of fracking, the Greater Manchester Combined Authority has recently agreed to put planning measures in place for a 'presumption' against fracking operations in Greater Manchester.*

- *Despite this the Greater Manchester Pension Fund, as the largest in the country, has over £1.2 billion invested in coal, oil and gas companies including over £150,000 invested with companies engaged in fracking operations in neighbouring Lancashire.*

I hope the information set out below explains the Fund's position.

For the avoidance of doubt the Pension Fund does not have over £150,000 invested in fracking in Lancashire nor in any direct investments in fracking per se - this is misinformation.

The Funds investment holdings are a matter of public record and can be found here https://www.gmpf.org.uk/investments/holdings.htm

It should be noted along with each and every Authority on the Fund your Council has a representative on the Greater Manchester Pension Fund appointed through AGMA, currently your representative is Cllr Abdul Jabbar and at the time of passing your motion it was Cllr Ball.

Since passing your motion, I have met with Fossil Free GM on the 11 July 2019, the Fund has also had one of its quarterly trustee meetings on the 19 July 2019, where it discussed this matter as it regularly does every quarter, and on Friday 26 July 2019, the Greater Manchester Combined Authority considered a Climate Emergency Motion.

I stood to support this motion both in my capacity as Executive Leader of Tameside Council and in my capacity as the Chair of the Greater Manchester Pension Fund in respect of which, Tameside Council is the Administering Authority.

The Pension Fund was not part of the motion because we do not fall within the legal jurisdiction of the Greater Manchester Combined Authority, because of our overriding fiduciary duty as a Pension Fund and as the guardians of employees deferred pay - we must be seen to be acting without undue influence.

As a statutory public service scheme, the Local Government Pension Scheme has a different legal status compared with trust based schemes in the private sector. Matters of governance in the Local Government Pension Scheme therefore need to be considered on their own merits and with a proper regard to the legal status of the scheme. This includes how and where it fits in with the local democratic process through local government law and locally elected councillors who have the final responsibility for its stewardship and management.

The Local Government Pension Scheme is also different in the respect that unlike most private sector schemes where the accrued benefits payable to members are always subject to the risk of scheme under-performance or even failure, the accrued benefits paid by local authorities are established and payable according to statute and underpinned from local authority revenue and not the pension funds themselves.

In simple terms, the pension funds exist to defray the pension costs incurred by the local authority. On this basis, it is the local authority itself, and local council tax payers, who bear the financial and investment risks of the scheme and to who the fiduciary duty is owed not its members.

However, I wanted to reassure you that the Greater Manchester Pension Fund is aligned with the Climate Emergency Motion and fully support it - whilst explaining what we are doing and having been doing.

The Greater Manchester Pension Fund, which can trace its origins back to 1891, is one of the earliest schemes amongst local authorities with the trusteeship of deferred pay and providing retirement benefits for employees. Throughout its history it has been a leading light - and maybe because it is Northern industrial heritage, it has navigated successfully through stormy global financial crashes and other geopolitical challenges spanning over 3 very different centuries.

It has never let its members down whilst ensuring low cost, sustainable contribution rates for employers and taxpayers alike.

It has been a force for good ensuring that employees get to live out their retirement with dignity and raising environmental, social and governance standards across companies both in UK and abroad through engagement.

Greater Manchester Pension Fund is now ranked as the 11th biggest pension fund in the UK, and the 153rd biggest in the world, up seven places from last year.

As the largest local government pension scheme in the country, the Fund manages the pension arrangements for nearly 600 employers and nearly 400,000 members from across the public sector, in Greater Manchester and beyond.

Balancing the long term solvency of the Fund as a whole - while maintaining its affordability for employers - is a fiduciary responsibility that we take very seriously indeed.

We are recognised nationally as being the top performing Fund over the last 30 creating an additional £3.7 billion of value above that of the average local government pension fund. Put simply, what that means is £3.7 billion that employers and taxpayers of Greater Manchester didn't have to pay because we invested prudently and wisely.

The past year has been one of the most turbulent in the world of pensions in recent memory - as ongoing concerns over global trade wars and Britain's exit from the European Union - has fostered an atmosphere of considerable uncertainty and turbulence. However, thanks to the hard work of our trustees, managers, advisors and staff, I am pleased to state that today we stand at £24.8 billion.

It has also become increasingly apparent that the Pension Fund's response to the generational challenge presented to us by the climate crisis and environmental protection is an area of significant concern to all of us, trustees, members, employers and stakeholders alike.

Greater Manchester Pension Fund pledged 2 years ahead of the Government to become 100% net carbon neutral by 2050 - at the very latest, whilst working hard to achieve this much sooner. As part of that process to deliver that commitment expediently, the Fund has undertaken a number of exercises to acquire an in-depth understanding of our own carbon footprint. Progress will continue to be regularly evaluated, taking care to ensure that we avoid stranded assets - and can deliver pensions to our members in a way that remains sustainable for employers and taxpayers.

We know through these independent assessments of the fund by globally recognised companies such as 'Trucost' that currently the companies we invest in already produce more power through renewables than they do from coal and oil. **The exercise found that our active equity holdings were 17% more efficient than the benchmark on the best practice weighted average carbon intensity method.**

We are also the biggest direct local government pensioner investor in renewable energy and energy efficiency, with a half a billion pounds allocated in a number of areas including biomass assets and a significant stake in the Clyde wind farm, one of the largest off-shore facilities of its kind in Europe. I would also like to put on record we do not hold any direct holding in fracking - whatever you may read about us.

These efforts to date have been recognised by the House of Commons Environmental Audit Committee with Mary Creagh MP describing us as having the highest levels of engagement of all UK Pension Funds to manage the risks that climate change poses to UK pension investments.

As a pension fund, we can point to a track record of using our position on the Local Authority Pension Fund Forum, to challenge companies in which we have an interest, to direct their own efforts towards environment sustainability and other issues of concern to.

Over the past year we have had a number of successes in such engagements, including co-filing a resolution requesting that BP set out a business strategy consistent with the goals of the Paris Agreement on climate change.

It is because of this history of close and productive dialogue that 80% of our members agree that a consultative approach is more effective than divesting holdings to others who may not share our commitment to responsible investment and engagement.

Earlier in the year we also refreshed and published our Responsible Investor Policy, which can be found on our website:
https://www.gmpf.org.uk/documents/investments/GMPF%20RI%20Policy%202019.pdf
with support from our independent and leading Ethical, Social & Governance advisor PIRC - http://pirc.co.uk/

We are working as part of Northern Local Government Pension Scheme, which is the collective assets of Greater Manchester, Merseyside and West Yorkshire to use our collective weight to influence the environmental, ethical and social standards of companies.

We publish our voting records https://votingdisclosure.pirc.co.uk/?cl=Uyc5OTknCnAxCi4=&pg=1 and quarterly reports on our actions here: https://northernlgps.org/taxonomy/term/15

Additionally, a notable addition to last year's accounts was a section on the Pension Fund's approach to climate risk aligned to meet the Financial Stability Board's Task Force on Climate

Related Disclosures (TCFD) – this was at page 34 of our 2019 Annual Report https://www.gmpf.org.uk/documents/annualreport/2019.pdf, which was published on 31 July 2019 following approval of our accounts by our external auditors.

Let nobody tell you otherwise, fighting the climate crisis is one of our highest priorities. Failure to deliver on this will not just threaten the viability of the Pension Fund - it will threaten the viability of our economy, our society, and our planet as a whole.

However, this must be addressed within the fiduciary duty that the Fund and its trustees owe to its employers and ultimately the taxpayer. We have to demonstrate that our investment decisions do not threaten its financial performance to deliver pensions, and the fact of the matter is over the last 3 years, we achieved **over £400 million more in returns than if we had <u>divested</u>** from equities in such companies such as BP or Centrica, formerly known as British Gas.

That's £400million, we will not be looking to employers or taxpayers to find – that's £400million more available for front line public services over the last 3 years whilst we have all had to address austerity.

Accordingly, with such clear evidence that disinvestment rushed at this stage would cause material financial detriment to the fund and its stakeholders, we need to find a **'Just Transition'**, which ensures we do not transfer the burden of this cost to the employers and taxpayers of Greater Manchester alike, which would result in significant Council tax hikes, and importantly avoids job loses for residents across the conurbation who are employed in these industries.

Moreover, as part of a recent review of investment strategy we are currently implementing £2.5 billion of the fund assets being divested to a low carbon approach targeting a significant reduction in carbon footprint and intensity.

This is the undoubtedly the biggest divestment commitment ,but more importantly actual action rather than words or promises taken by any Local Authority taken anywhere in the UK.

This significant commitment and action has been recognised by Go Fossil Free and is recorded on their website - https://gofossilfree.org/divestment/commitments/

In the interests of transparency and engagement, I agreed for the first time in the history of the Fund to a meeting with Fossil Free GM on the 11 July 2019, during which we recognised we share same goal of a zero-carbon economy as quickly as possible although Fossil Free GM would like us to go faster.

This was a productive meeting as acknowledged by FossilFree GM in response a twitter on GMPF twitter feed: https://twitter.com/GMPF_Local Government Pension Scheme/status/1149696675247730688

"GMPF pleased to meet @FossilFreeGM y'day. Whilst we might disagree on best way to get there, we share same goal of a zero-carbon economy as quickly as possible. We're also committed to a Just Transition ensuring interests of workers & communities are properly taken into account." And their response:

Thanks, It was a helpful discussion. We still say do #morefaster and especially dump the most damaging holdings. But we did find some common ground".

We are working on this but we are also committed to a Just Transition ensuring interests of workers & communities are properly taken into account.

Earlier in the year we signed up to <u>'Just Transition'</u> http://www.just-transition.info/ because we know delivering a just transition will be key to the UK's success in building a zero-carbon and resilient economy. However, we also know we need to do this in a sustainable way that supports an inclusive economy, with a particular focus on workers and communities across the country.

The Paris Agreement on climate change states that its Parties take into account:

> *"the imperatives of a just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities".*

The Grantham Research Institute on Climate Change and the Environment, at the London School of Economics and Political Science together with the Sustainability Research Institute at the University of Leeds, Principles for Responsible Investment (PRI) and the Trades Union Congress (TUC) analysis shows that unless a transition is effected carefully, the parts of the country that will be impacted most will be the North of England including Greater Manchester.

On Friday 19 July 2019, the trustees of the Greater Manchester Pension Fund, which includes an elected representative from each of the Greater Manchester Authorities together with Trade Union representation agreed following a presentation from Professor Robbins of 'Just Transition' that we needed to achieve a carbon neutral status in a just and fair way to everyone and approved the approach set out in the leaflet enclosed herewith.

Accordingly, it was very disappointing that having met Fossil Free GM, the previous week to share our work that Fossil Free GM decided that after the trustees meeting in the morning to attack Guardsman Tony Downes House in the afternoon. This was whilst a meeting was taking place to explain to employers' staff who had been invited to the Fund to explain what work had to be undertaken to face the next 3 year valuation process.

Whilst I would always support a person's right to protest, I would only support peaceful, non-destructive methods.

Fossil Free GM supporters demonstrated complete contempt for the memory of Guardsman Tony Downs and even when this was pointed out to them they continued with their wanton activity of barricading the staff in the building whilst hurling abuse and spray painting the outside of the building. You can see this here:

- https://mobile.twitter.com/stocksyatlarge/status/1152189385481342977

And reported locally:

- https://www.wearetameside.co.uk/news/tameside-reporter/two-arrested-at-pension-fund-fossil-fuel-protest-in-droylsden/
- https://www.manchestereveningnews.co.uk/news/greater-manchester-news/climate-change-protest-slammed-vandalising-16646487

It was necessary for the visitors to the building to be escorted by the Police out of the back of the building through the carpark because protesters had barricaded the front door, making the building unsafe.

Not only that, I was informed that members of staff at the reception area of the building including a new apprentice, were very upset and indeed frightened.

Moreover, the family of Tony Downes attended the building, as they were so distressed to see on social media the desecration to a building that was dedicated to their son and other young men who have lost their lives fighting for our freedoms and democracy.

The cost to the taxpayer in Tameside to clean up the unnecessary damage and graffiti is unacceptable. The deployment by the Police of a tactical aid team consisting of at least three vehicles together with more than fifteen officers was a further cost to the public purse.

I want to be clear whilst those protesters should be ashamed of their actions – I am proud of the work Greater Manchester Pension Fund and its trustees are doing to tackle climate risk, whilst addressing our fiduciary duty to taxpayers.

We are in the middle of some of the most fundamental changes that Britain as a whole, and pensions in particular, have ever seen. It is my hope that given the magnitude of the challenges we face, we will all do our part to deliver the actions required to tackle climate change and that includes every single one of us.

I can assure you the Pension Fund is playing its part and will continue to do so in line with our values, which have stood the test of time over 3 centuries to deliver our fiduciary duty to ensure that former public sector workers get to live out their retirements with dignity, with low cost sustainable pensions to employers and taxpayers whilst protecting the environment for our children.

We want a zero-carbon economy as quickly as possible and we are working on this but we are also committed to a Just Transition ensuring interests of workers & communities are properly taken into account.

The Greater Manchester Mayor and the Combined Authority on Friday supported the actions of the Fund and condemned the actions of the GM Fossil Free and their supporters.

I will end on this note, my short time as Chair of the Greater Manchester Pension Fund so far, has taught me three things; that change is constant, that change has to be managed, and that change can only be managed when we work together

I trust this clearly sets out the Fund's position and the work we are doing.

Yours sincerely,

Cllr Brenda Warrington - Executive Leader of Tameside Council – Administering Authority
<u>Chair of the Greater Manchester Pension Fund</u>

- GMPF's direct infrastructure vehicle, GLIL, began investing in October 2015 and has completed **three transactions worth more than £500 million with a particular focus on renewable energy or energy efficiency:**

  - Clyde Wind Farm – approximately £300m - one of the largest wind farms in Europe, with 206 operational turbines capable of generating 522 megawatts.
  - East Anglia and South West rail franchises – approximately £100m - more than 1,000 new vehicles creating faster, more frequent and less polluting journeys.
  - Biomass Portfolio – £130m investment in a portfolio of 8 plants across the UK provides enough energy to power thousands of homes.

- Another innovative approach adopted by GMPF is an allocation of up to £210 million into an **Impact Portfolio.** This portfolio has the twin aims of generating a commercial return and delivering a positive local impact. Examples of investments made in renewable energy include:

  - Albion Community Power - £20m commitment to a power generation company seeking to develop community-scale renewable energy projects.
  - Iona North West Investments - £40m commitment into new and existing environmental infrastructure projects in the North West, creating hundreds of jobs from clean energy funding.

- Our **Infrastructure Funds** portfolio has a number of funds that have invested in renewable energy production in the UK, the US and in parts of Europe, representing around a quarter of the portfolio. The following are the main examples:

- Arclight Energy Partners VI - $45m commitment in US wind and hydroelectric assets.
- I Squared Infrastructure - $50m commitment in US hydroelectric power assets, various wind and solar assets in the US, solar assets in Spain.

- There are also two specialist renewable energy funds within the portfolio:

- Impax New Energy Investors II - €11m commitment - portfolio of mainly European wind assets but also solar PV assets.
- Capital Dynamics Clean Energy Infrastructure - $32m commitment - portfolio of wind assets in the US and the UK.

Conclusion

- GMPF stands by the belief, **which 80% of our stakeholders agreed with**, that our consultative approach is more effective than divesting our fossil fuel holdings and **passing the buck** on to someone else who may not share our commitment to responsible investment.

- **GMPF will continue to engage with companies and policymakers, and will continue to be the biggest LGPS investor in low carbon and renewables, to continue along the path of an orderly and just transition to a net zero emissions economy.**

gmpf

GMPF's Approach to Climate Risk

Background

- Over 30 years, the value of GMPF returns has been **£3.1 billion** more than would have been the case if it had achieved the average LGPS fund return, **enabling more to be spent on local services.**

Policy Position

- Government's Environmental Audit Committee concluded that GMPF reached the **highest standard** of being 'more engaged'.

- GMPF's policy states that climate change risk is **financially material** to long-term performance of investments and shareholder value. **GMPF's long-term goal is for 100% of assets to be compatible with the net zero-emissions ambition by c.2050 in line with the Paris agreement.**

Investing in a Just Transition

- GMPF has signed up to the 'Investing in a Just Transition' initiative, because we know delivering a just transition will be key to the UK's success in building a zero-carbon and resilient economy.

- We need to do this in a sustainable way that supports an inclusive economy, with a particular focus on workers and communities across the country.

- **Analysis shows that unless a transition is effected carefully, there will be significant impacts on workers and communities in the North.**

Engagement

- Through our own activities and by our membership of the Local Authority Pension Fund Forum (LAPFF) and other organisations, we aim to support 1.5 to 2 degree business model scenarios.

- GMPF's policy is that robust engagement on a collective basis is preferable to placing restrictions on particular types of investment. Recent years have seen an unprecedented number of investors support climate related resolutions with companies. **Boards that have previously been intransigent on addressing the strategic business implications of climate change have had to devote attention and resources to it as a result of shareholder pressure, which would not be the case with non-ethical asset owners.**

- Recent significant developments to our approach include:

  - We are a signatory to **The Climate Action 100+** which aims for investors to primarily engage with companies in their 'home' markets. Outcomes are demonstrable and can be endorsed. For example, Carbon Tracker has identified that 90% of Petrobras' reserves will be required in a 2 degree scenario because they are low cost reserves relative to the reserves of the rest of the market. If companies are able to conclusively demonstrate that their business is consistent with the below 2 degree scenario, they may be de-listed from the Climate Action 100+ initiative.

  - Supporting the **Transition Pathway Initiative**, which aims to evaluate what the transition to a low carbon economy looks like for companies in high-impact sectors starting with oil and gas, mining, electricity generation, cement, iron and steel and autos. This enables asset owners and other stakeholders to make informed judgements about how companies with the biggest impact on climate change are adapting their business models to prepare for the transition to a low carbon economy.

  - Partnering with the **Climate Majority Project,** which will provide research on company risks and opportunities, analysis of corporate-board climate competencies, and involvement in campaigns to refresh boardrooms as well as supporting the development of a pipeline of credible 'climate-literate' director candidates.

Investment in Low Carbon and Renewables

- GMPF is at the forefront of actions to finance an orderly transition to a low carbon economy.

- A key element of this is currently in development, which would see the replacement of over **£2 billion** of GMPF's passive, index tracking investments, with an enhanced approach that would **significantly reduce GMPF's exposure to carbon emissions and intensity** within the next financial year. Some would describe this approach as **partial divestment**.

- There are a number of different investments that are aligned with a low-carbon transition. The **carbon footprinting** exercises we have undertaken showed that within GMPF's measured public market investments, the utility companies' energy mix is positioned better than the benchmark when it is compared to a 2 degree increase scenario. **The companies we invest in already produce more power through renewables than they do from coal and oil.** The exercise found that the active equity holdings were 17% more efficient than the benchmark on the best practice weighted average carbon intensity method.