15th September 2021

Dear Chair and Members of the Gloucestershire County Council Pension Committee,

Continuing Pension Investment in Fossil Fuel Companies

We are writing to express our grave concern that the continued investment by the Gloucestershire County Council Pension Fund (and partner districts) in fossil fuel exploration, production and distribution - through participation in the Brunel Pension Partnership - will have a negative effect on all residents of the county, particularly those of the younger generation.

We are sure you agree that it is vital to avoid harm to our children, grandchildren and descendants. In 2018, a change in UK law required pension schemes to take account of environmental and social risks when they make investment decisions on behalf of savers. The risks attending climate change are already substantial even in this country, as we have seen from the drought and reduced harvests in East Anglia in 2018, the floods we experience in this county most years now, and the issue of the first ever 'Extreme Heat Warning' by the UK Met Office on 19th July 2021.

The global impacts are even more disturbing – in the past few months alone we have seen fires in Siberia, a Canadian "heat dome" that killed over one billion marine animals, devastating widespread floods across central Europe, and the announcement that the Amazon rainforest is now believed to be a net emitter of carbon dioxide[1]. The latest IPCC report, released in August 2021, states that global warming will exceed the hoped for 1.5% (and indeed the far more damaging 2%) during the 21st century, without urgent and deep reductions in carbon dioxide (CO2) and other greenhouse gas emissions. U.N. Secretary-General António Guterres described the report as a "Code Red for humanity".

Continued use – and therefore production of – fossil fuels is responsible for polluted air so severe in some areas that it is lethal, and at a minimum prevents asthma sufferers going outside and/or being physically active[2], thus excluding these residents from much of community life. We are also conscious of the dreadful effects of oil spillage around the world, and the human rights abuses linked with oil production and pipelines, as well as the fact that the huge expenditure on political lobbying causes a dampening effect on vital climate and ecological action[3].

Finally, we believe that there are financial risks for the Gloucestershire County Council Pension Fund in remaining dependent in any part on fossil fuel investments, because there is growing evidence that funds which exclude such assets perform better than their peers. Research by Morningstar, published in July 2020, examined the performance of 745 Europe-based sustainable funds and found that the majority of strategies had done better than non-ESG funds over one, two, five and ten

[1] https://www.nationalgeographic.com/environment/article/amazon-rainforest-now-appears-to-be-contributing-to-climate-change

[2] https://www.asthma.org.uk/support-us/campaigns/our-policy-work/air-pollution-affects-asthma/

[3] https://www.forbes.com/sites/niallmccarthy/2019/03/25/oil-and-gas-giants-spend-millions-lobbying-to-block-climate-change-policies-infographic/?sh=5d082efb7c4f

years.[4] Research from Morgan Stanley[5] shows that over the last decade, performance of funds which *excluded* fossil fuel investments have performed better than those which *included* it, and this is confirmed by a report of the Institute of Energy Economics and Financial Analysis (IEEFA) on Black Rock[6], the world's biggest investor, which it is estimated lost $90 million through retaining the shares of fossil fuel companies. As a consequence, Black Rock, the world's biggest asset manager, is moving to sustainable investment, joining Climate Action 100+.

The council's current exposure to fossil fuel investment

According to the report 'Divesting to protect our pensions and the planet'[7], Gloucestershire County Council Pension Fund held £100m, 4.4% of its total pension fund, in fossil fuel production and distribution companies as at 31st March 2019. This investment in fossil fuel companies was reported as a conservative estimate, based on Freedom of Information requests, and was partly indirect, arising from holdings which Brunel manages in other funds such as Legal and General UK Index Fund.

We imagine that changes have taken place in the intervening two years. We therefore ask whether the £100 million figure is still likely to be accurate, or to what precise extent is the Fund still exposed to the risk to fossil fuel companies' financial futures?

Engagement as a strategy

The argument is often made that it is more effective to engage with fossil fuel companies to improve their operations rather than divestment. We do not believe this is the case, and nor do the pension funds of many other large bodies, including the National Trust[8], which are distancing themselves from this strategy. Other large workplace pension providers already offer funds based on divestment rather than engagement, such as the fossil-fuel free fund offered by Legal & General, so it is not the case that alternatives do not exist.

Where Brunel is concerned, this 'engagement' with fossil fuel companies may be carried out in-house or, more likely, by a third party such as Hermes, who will respond to generic ESG issues and will not necessarily reflect specific concerns such as the risk of stranded assets, even if mentioned by the Committee to Brunel.

The UK Divest Report states:
"*Claims of effective engagement leading to net zero pledges have been made by local authority pension funds. The Local Authority Pension Fund Forum … has claimed that their engagement partly led to BP's plans to go 'net zero' (LAPFF, 2020c). … BP says that it can meet this target while, for instance, continuing exploration, approving new extraction projects, relying on unproven carbon*

4 https://www.ft.com/greenpensions

5 https://www.morganstanley.com/content/dam/msdotcom/ideas/sustainable-investing-offers-financial-performance-lowered-risk/Sustainable_Reality_Analyzing_Risk_and_Returns_of_Sustainable_Funds.pdf

6 http://ieefa.org/wp-content/uploads/2019/07/Inaction-BlackRocks-Biggest-Risk-During-the-Energy-Transition_August-2019.pdf

7 https://www.divest.org.uk/wp-content/uploads/2021/03/UKDivest_Report.pdf

8 https://www.edie.net/news/6/ABP-and-National-Trust-sign-up-to-net-zero-investment-initiative/

removal technologies and declining to commit to an end date for extraction. If this is considered a positive outcome of engagement then it is clearly not fit for purpose."

Despite their stated climate-friendly aspirations, the amount that the major fossil fuel companies invest in renewables is still pitiful in comparison to ongoing investment in fossil fuels. Even after decades of engagement they do not appear to be changing their business models. They continue to explore for further reserves and to develop existing reserves, much of which is unburnable if the Paris goal to restrict climate change to 2 degrees is to stand a chance of being achievable, let alone 1.5 degrees.

This year the new report 'Net Zero by 2050'[9] from the International Energy Association (IEA) stated **"There is no need for investment in new fossil fuel supply in our net zero pathway.** Beyond projects already committed as of 2021, there are no new oil and gas fields approved for development in our pathway, and no new coal mines or mine extensions are required." The text in bold reflects the original statement. Yet fossil fuel companies have invested over $700bn to expand the sector since the Paris Climate Agreement[10].

Our Request

Like every large body, Gloucestershire County Council's Pension Fund must address the growing risks of climate change. Divestment is a moral and financial response to these risks. It increases the societal pressure on fossil fuel companies to change course, and on political actors to curb the industry's influence and legislate against their activities. And it protects pension funds from risks that fossil fuel companies' valuations will fall rapidly.

In view of the above, and in addition to letting us know the amount of the Pension Fund's current exposure to fossil fuel companies, we ask:

1. That the Committee consult scheme employers and scheme members through the Pension Board on a proposal that it agree a motion to this effect, committing to reducing to zero the Gloucestershire Pension Fund's holdings in companies whose main business is the production and distribution of fossil fuels, by a definite date.

2. That the Committee ask Brunel to make available investment opportunities across the various asset classes which would entirely avoid the financial risks of investment in companies whose main business is fossil fuels. (This could be achieved if the promised 'Paris-aligned portfolio' were to exclude investment in such companies.)

Yours faithfully,

Cllr Cate Cody
Cllr Beki Hoyland
Cllr Chris McFarling

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9 https://www.iea.org/reports/net-zero-by-2050

10 https://www.theguardian.com/environment/2019/oct/13/top-investment-banks-lending-billions-extract-fossil-fuels

Cllr Chloe Turner