Hello.

Thank you for allowing us, Climate Action Leicester and Leicestershire to speak to the submission we made to this meeting.

We start from an assumption that you as a pension fund, and the members for whose benefit you run the pension fund, want to do what you can to enable the world to stay below 1.5oC of global heating given the catastrophic effects that going above this temperature rise would have.

Obviously as a pension committee your duty is to ensure that the fund is able to pay its members pensions now and in the future. And equally obviously, if climate change passes 1.5oC of global warming then the international financial system is likely to become very unstable and could completely collapse and pension funds will cease to be able to pay pensions at all. So choosing to invest in ways which minimise climate change makes sense as a pension fund with a duty of care to your members.

We’ve given you this report because we feel it makes 3 things clear: firstly that investing in fossil fuels is becoming financially risky; secondly that divestment from fossil fuels does fit within your fiduciary duty, and thirdly that the process of engagement with fossil fuel companies is not working fast enough to stay below 1.5oC of global warming – while public divestment could speed this process.

**Taking these in turn, let’s start with the problem that investing in fossil fuels is financially risky because at some point the fossil fuel bubble is going to burst.** This is due to the international shift away from fossil fuels and the shift to renewable energy which is already taking place.

This shift mean it is increasingly likely that – in spite of the massive fossil fuel company lobbying to block and slow it - at some point in the next few years international requirements and legislation are going to be put in place to phase out the use of all fossil fuels.

The evidence for this can be seen at COP26 the international climate negotiations earlier this month, where the phasing out of all fossil fuels was seriously discussed even though it didn’t make it into the final agreement, and the phasing down of coal was agreed on.

One of the side deals at COP26 was the launch of the [Beyond Oil and Gas Alliance](https://action.greenpeace.org.uk/e/854853/ending-oil-and-gas-extraction-/27q57j/430244503?h=3LE1BX6lrbAp2j6WIuuwmf8YY30lSe3p6at_HQaOptA), a coalition of 8 countries - including France, Denmark, Ireland and Costa Rica - who have committed to end fossil fuel production within their territories.

In another side deal, 20 counties including the UK, US and Canada have agreed to stop public financing of fossil fuels in other countries – this agreement has also been signed up to by some major development institutions including the European Investment Bank and the East African Development Bank.

The shift from fossil fuels to renewable energy is happening even without this kind of legislation though. Solar, wind and battery technology are becoming substantially cheaper than fossil fuel extraction, and even on its own this will eventually put an end to the fossil fuel industry – the question is will it happen fast enough to prevent more than 1.5 degrees of global heating? Joint research from Imperial College and the IEA has shown that the share price of fossil fuel companies are up 57% over the past decade, versus 423% growth for renewable firms.

To give you an example of what happens to a business when its core activity is superceded by a new technology, look at the Blockbuster Video stores. When Netflix came along – a different way of doing the same thing just as renewables are for fossil fuels – blockbuster was financially doomed as a company. Anyone invested in it was not left in a good position. The same happened to Kodak film when digital cameras came along. Fossil fuels are now in a similar position to those companies just before their bubbles burst.

So fossil fuel investments are becoming increasingly risky.

**Now we come to the second point in our submission - that divestment does fit with fiduciary duty. We particularly want to point out:**

* the reference to Black Rock and Meketa on page 4. Here, 2 major investment advisors did separate studies and both showed that fossil fuel divestment did not have a negative impact on investment funds
* also the point on page 6 that both LGPS legal advice and Law Commission guidance say that fiduciary duty rules do allow pension funds to consider ethical factors in investment decisions, so long as these do not negatively affect financial performance and are not contrary to members’ wishes
* 5 Local Government pension schemes in the UK have in fact fully divested from fossil fuels (2 of them, Waltham Forest and Southwark divested in 2016 5 years ago), without negative financial or legal repercussions
* the leading international climate network, C40, finds that divestment sits comfortably within the fiduciary duty of trustees for the following reason - ‘climate change is a material financial risk,’ .

As a pension fund you are in a position where oil prices have been trending downwards ever since they peaked in 2008 and economic modelling of divesting from fossil fuels has been shown to have no negative financial impact on funds. The recent surge in energy prices also gives you a significant opportunity to sell in a rising market. Why take the chance on these investments in an increasingly volatile market? There is no fiduciary duty to invest in risky companies.

**The third strand of our submission is about the effectiveness of the funds present strategy of engagement, which we would ask you to reconsider.**

These companies are all part of trade organisations which work to block and slow climate legislation. We’ve just watched the fossil fuel industry send more lobbyists to COP26 than any country. And these lobbyists have successfully delayed the inevitable introduction of fossil fuel phaseout, making it substantially less likely that the world will manage to stay under 1.5degrees of heating.

The question is not ‘would engagement work if there was more time?’ It is “Is engagement able to work fast enough to get a sufficient reduction in the production of fossil fuels, and their carbon emissions by 2025 and 2030?” Because if engagement isn’t working fast enough, then as a pension fund with your duty of care to your pension holders, what reason do you have to remain invested in the increasingly risky area of fossil fuels?

On this topic, please would you consider the following in our submission:

* Page 8, A survey of 64 institutional investors, with almost $11tn in assets, found that only 17% believe oil groups will transform their businesses to focus on green energy.
* There have been more than 5 years of engagement with fossil fuel companies by investors across the world and yet fossil fuel companies are still developing new reserves which cannot be burnt if we are to stay below 1.5degrees.
* Page 8, In April 2021, the Local Authority Pension Fund Forum (LAPFF) said that it did not believe Shell was changing its business to respond to climate change fast enough and that its net-zero plans were unreliable. This is not surprising because Shell who we’ve heard cited at this committee as being responsive to engagement, is in the process of opening the Cambo oil field in the North Sea. If Shell goes ahead with this, Cambo will extract 170 million barrels of oil in its first phase alone. The emissions equivalent to this much oil is 18 coal-fired power stations running for a year. The field would remain in operation until 2050 – by which time the world needs to be carbon neutral.
* In October 2021, the Treasury, the Department for Business, Energy & Industrial strategy and the Department for Work & Pensions published a report for the pensions and investment sector entitled Greening Finance: A Roadmap to Sustainable Investing. They clearly state that, in some cases, engagement may need to be escalated to ‘withholding capital or divestment for example where a company is not taking appropriate action to transition to net-zero’.

**Engaging with fossil fuel companies rather than making a public divestment commitment effectively provides cover for these companies’ ongoing attempts to block and slow-down effective climate action.**

If you want to see these companies stop causing climate change then it would be more effective for you to:

* cease to invest in them (which would have the added benefit of reducing your own carbon footprint) and
* instead put your engagement efforts into the banks and companies you continue to invest in to get them to reduce carbon emissions and stop supporting the mass production of fossil fuels

This would be effective in reducing the worlds use of fossil fuels because what is deemed ‘acceptable’ within our society is informed in no small part by the actions of trusted public bodies, such as local councils and pension funds. The power of these trusted bodies comes in their ability to grant or rescind the social license for individuals, groups and companies to operate in a given way. In turn, the decision to grant or rescind this license of acceptability holds huge sway over legislation because as a country, we legislate for or against a practice once it is considered morally controversial. In other words, shunning or divestment is a powerful social control mechanism.

Over 60% of all UK universities and 80 faith institutions have committed to divesting from fossil fuels. Both the Welsh Parliament and Northern Ireland Assembly have committed to divest their pension funds, and 360 MPs from across the political spectrum have called on their pension fund to divest.

As an LGPS Pension fund committee your choice to continue investing in, or to formally stop investing in fossil fuel companies carries real weight when it comes to providing social license to their activities because you represent society. By publicly deciding to divest you can encourage people and government to question if these companies should be allowed to continue to operate given the devastating price people are already paying across the world and the price our children will pay.

Please, please, please divest from fossil fuels and put your weight behind the growing call for regulation to require a fast transition away from fossil fuels to renewable energy. We don’t want this pension fund to be caught out when the carbon bubble bursts any more than you do. And we all desperately need to act to keep the world below 1.5degrees of global warming.

Thankyou