



Pensions Committee

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| Date: | Monday, 2 November 2020 |
| Time: | 6.00 p.m. |
| Venue: | Virtual |

This meeting will be webcast at
<https://wirral.public-i.tv/core/portal/home>

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SUPPLEMENTARY AGENDA

9. APPENDIX 1 INVESTMENT STRATEGY PROPOSALS (Pages 1 - 4)

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Agenda Item 9

Dear Councillors,

We are writing as a group of healthcare professionals working across Liverpool to commend you on your work so far on divesting the Merseyside pension fund from fossil fuels and to ask that you continue make progress with this agenda as a matter of urgency.

As a healthcare community we believe we have a professional responsibility to protect society from harm to human health. There is a body of overwhelming evidence that the burning of fossil fuels poses serious threat to public and planetary health. The Intergovernmental Panel on Climate Change reported that “rapid, far-reaching and unprecedented” action is required to limit global warming to 1.5°C. Exceeding this will have catastrophic effects on human health.

In 2019, both the Wirral Council and Liverpool City Council declared a climate change emergency and pledged to make Liverpool a net zero carbon city by 2030. Despite this, the Merseyside Local Government Pension Fund continues to invest millions of pounds in fossil fuel companies and other high carbon index companies.

Divestment from fossil fuels is also financially prudent. The vast majority of oil, gas and coal reserves must remain in the ground, in order to limit emissions and contain global warming to 1.5°C. Financial experts have warned that large amounts of fossil fuel assets will drop in value or become “stranded” as the world transitions to low carbon energy sources. Fossil fuel investments therefore pose a significant financial risk to investments. Furthermore, divestment sends a strong message to the public about the acceptability of fossil fuel companies.

The achievements of the Merseyside Pension Fund Committee in divesting one third of their passive funds is a fantastic first step. Liverpool and Wirral Councils have a history of leading the way in terms of divestment. However, there is more work to be done.

We are calling on you to:

1) Move the remaining passive funds into the low carbon index by the end of 2020

2) Commit to divesting the active funds by the end of 2021

3) Produce clear aims and deadlines for how these aims are going to be reached

We look forward to hearing back from you regarding this pressing public health issue.

Best Wishes,

Medact Liverpool

Medact Liverpool

Our Ref: MPF/PC

Your Ref:

Direct Line: 07852 842 559

Please ask for: Councillor Pat Cleary

Date: 16 September 2020

Dear Medact Liverpool

Thank you for your letter outlining your group's concerns in relation to the investment strategy of Merseyside Pension Fund and its capacity to respond to the climate change emergency. I would like to assure you that the Fund recognises the magnitude and urgency of this emergency and that work is well underway to set the investment strategy on a pathway toward achieving an overall 'net zero carbon' goal in line with the Paris Climate Accord.

In March 2016, the Fund's governing body (the Pensions Committee of Wirral Council) recognised the implications of the Paris Accord and resolved that the Fund should align its strategy to the Paris goals, principally to limit the rise in global temperature to 1.5 degrees Celsius by achieving net zero carbon emissions by 2050. In consequence, the Fund's climate risk strategy has been developed with the understanding that this implies rapid transition to a low carbon economy which, in terms of the Fund's investment portfolio, requires that we mitigate our risk (by seeking to reduce the carbon emissions associated with the portfolio) and allocate investment to climate solutions. This has led us down the path of decarbonisation, whereby we have identified our carbon exposures and implemented measures to reduce exposure (including using a low carbon index in our passive portfolio, as well as very actively engaging with portfolio companies to move them onto credible emissions reduction pathways e.g. through the Climate Action 100+ initiative); as well as actively investing in low carbon economy assets (such as renewable energy projects) through our infrastructure portfolio.

You rightly point to the calamitous health impacts of unchecked climate change, which would likely affect disproportionately the future pension beneficiaries of the Fund. The economic impacts are no less severe; we have conducted analysis that indicates that in a scenario where no serious climate risk mitigation occurs (implying a temperature rise of 4 degrees) in 20 years, the Fund's assets could be worth £9.5 billion less than assumed in the base case projection, equivalent to 26 years of projected 2020 pensioner out-go. This is a worst-case scenario, but I refer to it here to illustrate that recognition of the magnitude of climate risk is an under-pinning of our strategic thinking. We also recognise that the findings of the latest IPCC report call for an urgent escalation of emissions reduction in the real economy to occur by 2030, in order for the world to remain on track to reach the 2050 Paris goal. Accordingly, the Fund is working to update its strategic objectives to take account of this climate emergency.

In February 2020, the Pensions Committee approved a new investment strategy for the Fund, in which the core allocation to equities (our most carbon-intensive asset class) will be significantly reduced (to 43% from 53%) and the allocation to global infrastructure increased (of which, renewable energy assets are a core component). Further detailed work on implementation is now being carried out, particularly on the configuration of the equity and bonds portfolios (60% of the Fund's assets) to incorporate targets that are aligned to the Paris net zero goal. This work is making use of the Net Zero Investment Framework, recently published by the Institutional Investors Group on Climate Change (of which, the Fund is a member); and which sets a credible basis for pension funds to commit to Paris-alignment using common definitions and recommended methodologies for decarbonising investment portfolios in a way that is consistent with the net zero goal. A key feature of the Framework is the recommended use of science-based pathways as a central tool to assess appropriate investment portfolio targets. Such pathways give an indication of the shape of a net zero-aligned portfolio (e.g. by defining the emissions reductions required from a given baseline), as well as the timescales on which such alignment must be reached (& from this point, 5 and 10-year milestones will be key).

While this work is ongoing, it would be premature to announce any further commitments in relation to the three specific requests made in your letter. However, I can say that the further use of low carbon indexation and suitable Paris-aligned target setting are integral to what is currently under consideration. Any updates to the Fund's climate strategy will be made public once finalised and approved; and the Fund will continue to report progress in its Annual Report & Accounts (in the TCFD statement) which can be found on our website.

More specifically, the next Pensions Committee meeting (2nd November 2020) will consider a recommendation (with my support) to align the investment strategy with Paris on the basis (including key definitions & timescales) set out in the Institutional Investors Group on Climate Change Net Zero Frame (<https://www.iigcc.org/our-work/paris-aligned-investment-initiative/>). This would set 2030 as the milestone reference point for our target-setting on further decarbonising the portfolio (reducing emissions; investing in climate solutions), but also what we do in our stewardship work and in future fund manager selection & monitoring.

Can I thank you again for contacting me about this vital subject? If you have any follow-up questions, then please do not hesitate to get back in touch.

Yours faithfully

A handwritten signature in black ink that reads "Pat Cleary". The signature is written in a cursive, slightly slanted style.

Councillor Pat Cleary

Wirral Council & Chair of Pensions Committee for Merseyside Pension Fund

patcleary@wirral.gov.uk

07852 842 559