Local Authority Pension Fund Forum

Pension Fund Investments in Fossil Fuels: Guidance for Members for divestment enquiries

Summary

The Forum is aware of the emerging research regarding stranded assets which addresses the fundamental concerns over continued fossil fuel extraction, this is an issue we recognise as an a collective investment risk for all asset owners and is an engagement and policy priority.

LAPFF's current approach, in common with many of our member funds, is that robust engagement on a collective basis with companies is preferable to placing restrictions on particular types of investment.

2014-2015 saw a significant rise in international campaigns aimed at a range of asset owners including university endowment funds, pension funds and banks. In 2015, the campaigns have gained additional prominence with some high profile divestment decisions: the Church of England announced withdrawing investments in companies involved in thermal coal and tar sand extraction and the Guardian Media Group announcing plans to withdraw from investments in coal, oil and gas companies. The Norwegian Sovereign Wealth Fund (GPF) has also announced plans to reduce its portfolio exposure to coal assets.

Several LAPFF member funds have received requests asking for clarification or information on the fund's position on fossil fuel investments as well as information on actual holdings. Some requests have asked for information on how the fund has considered the risk of certain investments having the potential to be 'stranded assets'.

LAPFF Engagement

The Forum has long been concerned about climate and carbon related risks to the underlying investment portfolios of member funds and has been engaging with companies and on public policy since 2002 to address the many risks related to climate change.

LAPFF does not comment on individual investment policies of its members, but considers active engagement with companies producing fossil fuels as a productive approach to effecting change.

The approach of direct and collaborative engagement contrasts with blanket divestment. Once an asset owner divests, their ability to influence both the short and long-term direction of individual companies and the national and international energy sector is severely curtailed.

An example of engagement is the coordination undertaken with member funds to co-file and support shareholder resolutions to both the BP and Shell 2015 AGMs on strategic resilience for 2035 and beyond. The resolutions ask the companies to report on their operational emissions management; asset portfolio resilience to the International Energy Agency's (IEA's) scenarios; low-carbon energy research and development (R&D) and investment strategies; relevant strategic key performance indicators (KPIs) and executive incentives; and public policy positions relating to climate change.

The resolutions were intended to be supportive but also stretching. The 'stretching' element for most fossil-fuel companies is to set out their business strategy in alignment with remaining within a two degree increase in global temperature, one of the range of IEA scenarios.

The resolutions followed a long process of engagement with the companies on climate risks, stranded assets and reporting this in the context of their business models. The AGM resolutions were supported by both companies, carried by record margins and prompted Swedish pension funds to file a similar resolution at Norwegian Statoil which also carried by a record margin.

Subsequently EU based oil and gas companies have raised their profile in calling for a global carbon pricing regime and more investment in low carbon energy sources, on the back of heightened shareholder support.

The Forum has also supported resolutions encouraging Chevron and Exxon to set carbon reduction targets and at Chevron to reduce capital expenditure on high cost, unconventional projects and increase the amount authorised for distribution to shareholders in the form of dividends as a climate risk hedging mechanism.

Encouraging appropriate regulatory frameworks is also crucial. A recent example is the Forum's participation in correspondence from global asset owners and managers to the G7 leaders urging stronger action by major industrial nations on emissions, and climate action.

This combination of individual engagements at corporate level, working with investor coalitions and adding to institutional investor voices engaging with international forums is at this stage the most effective approach in giving voice to Forum members concerns on climate and carbon.

LAPFF also works in cooperation with other investors and organisations to maximise the voice of asset owners including its membership of the Aiming for A Investor Coalition, collaborative engagement with the Investor Network on Climate Risk (INCR) and being a signatory to the Principles for Responsible Investment.

As set out in the Forum's Statement on Climate Change 'LAPFF members are interested in investment opportunities afforded by a low-carbon future which increase diversification and provide long-term returns'. As agreed by members in June 2015, the Forum's engagement strategy requiring companies to identify and tackle carbon risks in their business models will be developed further to push for an orderly carbon transition.

A range of material on climate change risk and disclosure for members illustrating LAPFF action, support and guidance is available at http://www.lapfforum.org/members-folder/member-resources/issue-briefs-1. Relevant voting alerts can be found at http://www.lapfforum.org/members-folder/voting-alerts-1.

