

Public Document Pack



Proposals

Pensions Committee

1.30 pm Tuesday, 5th December, 2023

Hybrid Meeting - Burns Suites/Microsoft Teams - COSLA, 19 Haymarket Yards, Edinburgh EH12 5BH

This is a public meeting and members of the public are welcome to attend.

The law allows the Committee to consider some issues in private. Any items under "Private Business" will not be published, although the decisions will be recorded in the minute.

Contacts

Susan Handyside, Governance Manager, Lothian Pension Fund

Email: susan.handyside@edinburgh.gov.uk

Andrew Henderson, Committee Services, City of Edinburgh Council

Email: andrew.henderson@edinburgh.gov.uk



Amendment by Councillor Burgess

Pensions Committee

5 December 2023

Item 6.4 Stewardship

Adds;

1.3 Notes the following;

1.3.1 Regarding section 2.4 of the LPF officers report - 'This paper expands on the fund's approach to engagement rather than indiscriminate divestment, an approach that has been reviewed regularly by the Pensions Committee and officers, who have always agreed that engagement is more responsible and potentially impactful' – that this has not been and is not the unanimous view of the Pensions committee;

1.3.2 Regarding section 2.5 of the LPF officers report - 'Several times in the past, the Pensions Committee has considered the rationale for and against divestment/ inclusion and always concluded that exclusion of a whole sector would constrain the fund and potentially be a breach of the fiduciary duty owed to the members and employers, who fund the scheme. When it comes to investing or not investing in shares, they have supported analysis of financial returns on a case-by-case basis' - that this has not been and is not the unanimous view of the Pensions committee;

1.4 Amends the SRIP at page 7, "Deny debt, engage equity" as below;

While the trading of equities (shares) doesn't [may not in itself] affect the capital position of a company, subscribing to new bonds and new equity does provide companies with funding. Within our equity portfolio we engage with our holdings, and that engagement includes using the tools and strategies we have at our disposal to influence companies to commit to align with the goals of the Paris agreement. In our

debt portfolios we aim to deny funding to those non-aligned companies. We expect this approach to be more effective means of achieving necessary change - a real reduction in greenhouse gas emissions - than divestment. Where material risks remain following engagement activity we retain the ability to divest.

Moved by: Councillor Steve Burgess

Seconded by:

Addendum by Councillor Burgess

Pensions Committee

5 December 2023

Item 6.5 Holdings Report

Committee adds to recommendations;

2. Recognises that the Lothian Pension Fund (LPF) and its Pension committee have a fiduciary duty to maintain a sustainable income in order to pay the pensions of scheme members and manage costs for employers into the future - noting that some existing members could be collecting their pensions in 50 years' time (~2070);
3. Further recognises the UN Intergovernmental Panel on Climate Change warning that unless global average temperatures can be kept below 1.5 C, climate change will cause increasingly devastating impacts worldwide likely to destabilise the global economy, and that the IPCC update in 2023 found that there is now a greater than 50% chance of reaching 1.5 degrees C between 2021 and 2040;
4. Notes the recent report by the Institute of Actuaries, University of Exeter, 'Emperor's New Climate Scenarios – a warning for financial services' showing that estimates of the impact of climate change on the global economy and financial assets is being significantly underestimated;
5. Notes the fiduciary duty to recognise the specific financial risk to the LPF of continuing to invest in fossil fuel companies, particularly given the risk of reduced investment value as government regulation on climate change intensifies and further notes the risk of LPF being left with 'stranded assets'. Recognises that the extent of this financial risk is difficult to accurately estimate, but that a precautionary approach to continued fossil fuel investments would be in line with fiduciary duty;

6. Therefore is concerned that climate change threatens the future income of the LPF, the pensions of its members and furthermore, its members' ability to enjoy their pensions and retirement in the long-term;

7. Notes that the LPF is putting significant effort into engagement with fossil fuel companies, however further notes that the Climate Action 100+ assessment in October 2023 showed that none of the major oil and gas companies' future capital expenditure plans are aligned with the Paris Agreement;

8. Welcomes that the Lothian Pension Fund is already committed to 'support the goal of transitioning the real economy to net zero greenhouse gas emissions by 2050 or sooner' and 'to research and support the deployment of new impact capital into projects set to benefit from the transition to a low carbon economy' and further welcomes that 3% of the LPF is currently invested in renewable energy;

9. Notes that the LPF already has an existing commitment to consider divestment from companies who by 2025 do not have a plan to align with the Paris Agreement of the UN Framework Convention on Climate Change;

10. Notes that since investments in fossil fuels represents only 2% (1/50th) of the value of the LPF, transfer of investment away from those companies whose principal business is extraction and supply of fossil fuels, should not significantly affect the overall income of the fund;

11. Notes the concern of LPF officers about calls for divestment across a range of issues, however believes that the direct threat to members' pensions from ongoing fossil fuel exploitation and climate change, provides a strong fiduciary justification and financial case for divestment from fossil fuel companies and alternative investment including low carbon energy and industry, that cannot be made for investments in other areas;

12. Believes that the LPF can do more to contribute to the ongoing transition from polluting fossil fuels to low carbon energy and industry in order to help mitigate climate change, contribute to protecting the global economy, sustain LPF income and protect members' pensions and well-being;

13. Therefore, requests that LPF officers provide a report to the next committee on the progress being made towards, and the feasibility of, reducing current investments

in fossil fuel companies and increasing investment in the transition to low-carbon energy and industry, including;

- a. the pros and cons for sustainability of fund income over the short to long-term
- b. a potential outline plan and timeline for achieving this goal

Moved by: Councillor Steve Burgess

Seconded by:

This page is intentionally left blank