NOTICE OF MOTION

Report of the County Solicitor

Recommendation: that consideration be given to any recommendations to be made to the County Council in respect of the Notice of Motion set out hereunder having regard to the relevant factual briefing/background papers and any other representations made to the Committee.
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The Notice of Motion submitted to the County Council by the Councillor shown below has been referred to the Investment and Pension Fund Committee in accordance with Standing Order 8(2) - for consideration to make a recommendation back to the Council.

A factual 'Briefing Note/Position Statement' prepared by the Director of Finance (Designate) is also included below, to facilitate the Council discussion of the Notice of Motion.

Divestment (Fossil Fuels and Local Government Pension Scheme) (Councillor Hodgson)

Devon County Council notes:

- Devon County Council has around £157 Million invested in fossil fuels via the Local Government Pension Scheme. This is about 3.9% of its total fund and currently the 5th highest of all the Local Government Pension schemes in the UK[1]
- The United Nations Paris 2015 Agreement commits our governments to keep the global temperature increase to under 2 degrees and aim for 1.5 degrees. Carbon budgets produced by the Intergovernmental Panel on Climate Change, United Nations and the International Energy Agency show that preventing two degrees of warming relies on not burning 60-80% of all proven fossil fuels.
- With COP26 taking place in Glasgow in November 2021, there is increased emphasis by the UK government on showing global climate leadership, especially in relation to finance. Divesting our pension is a clear and meaningful action that can be taken at a local government level.
- Fossil fuel investments are financially risky as a result of both the Covid19 pandemic and the global transition to a more sustainable economic and environmental model. They are now being consistently out-performed by renewables.[2]
- Former Bank of England Governor Mark Carney warned in December 2019 that fossil fuel investments risk becoming "stranded assets" (i.e., worthless) as investors exit the sector. "A question for every company, every financial institution, every asset manager, pension fund or insurer – what's your plan?"
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- As continued investments in fossil fuels pose material financial risks to portfolios, funds have fiduciary duties to consider the benefits of decarbonising as part of their investment strategies. Fiduciary duty is defined by the Law Commission as 'ensuring that pensions can be paid, ensuring that this is undertaken at the best possible value'.
- Pension funds have a legal duty to treat members "fairly as between them". That means taking seriously the longer-term interests of younger members who may well be affected more by the climate transition.
- Continued engagement with fossil fuel companies does not stop them polluting and recent court action with Shell (DCC Treasurer's Investment Management Report to Pension Fund Committee 17.09.21) indicates that company's resistance to reduce its reliance on fossil fuels in line with the Paris Agreement.

This Council commits to:

1. Reviewing its Investment Strategy and developing and implementing a Responsible Investment Policy which rules out new investments in fossil fuel companies and divests as a matter of urgency from those fossil fuel companies it is currently invested in.

2. Calls on Devon County Council's Pension Fund to divest from fossil fuels by requesting its representative(s) on the Pension Fund Committee to call for the development and adoption of responsible investment policies which:

   a. Immediately freeze any new investment in the top 200 publicly-traded fossil fuel companies.[3]

   b. Divest from direct ownership and any commingled funds that include fossil fuel public equities and corporate bonds to achieve net zero by **2030**, in line with the aspirations of our Devon Carbon Plan. This requires a faster rate of change than the current 7% transition per annum.

   c. Set out an approach to quantify and address climate change risks affecting all other investments.

   d. Actively seek to invest in companies that will reduce greenhouse gas emissions and minimise climate risk.

   e. Seek investment in the Paris Aligned Benchmark via Brunel as part of the transition.

3. Recognising that fossil fuel investments should be considered as part of the council's 'carbon footprint' and divesting our pension fund is one of the most impactful steps we can take to reduce our impact on our community and the world. A detailed report on the carbon footprint of the Devon Pension Fund investments will be provided to this Council

4. Requests the Devon Pension Fund to poll its individual investors for their views of divestment from fossil fuel companies and increased investment in companies that support sustainable initiatives such as renewable energy.

Footnotes
[1] 2021 figures taken from the report *Divesting to protect our pensions and the planet – An analysis of local government investments in coal, oil and gas*. Available at: https://www.divest.org.uk/councils
[2] *Energy Investing: Exploring Risk and Return in the Capital Markets*, Joint Report by the International Energy Agency and the Centre for Climate Finance & Investment, Paris. Available at: https://www.iea.org/reports/energy-investing-exploring-risk-and-return-in-the-capital-markets
[3] As determined by the most recent Carbon Underground 200 list.

Briefing Note / Position Statement from the Director of Finance (Designate)

The Investment and Pension Fund Committee has made significant advances in recent years in the way that the Devon Pension Fund's investment strategy addresses the issue of climate change. The investment strategy recognises the risks to the Fund and to wider society arising from climate change.

The Paris Agreement is recognised, and the Devon Fund through its partnership with the Brunel Pension Partnership is working with all investee companies to press for significant progress across the global economy to effect real change. Brunel have been represented at COP26 and are pressing for changes across the investment industry to effectively tackle the climate change challenge.Brunel are seen as global leaders in their approach to managing climate change through their investments.

The divest.org.uk website highlights the Devon Fund's exposure to fossil fuel suppliers, but contains a number of inaccuracies. The holdings accredited to some of the funds shown, for example the Arcmont Senior Debt Fund I and the Wellington Multi-Sector Credit Fund appear to have been extrapolated and are not accurate. The analysis also shows a fossil fuel company investment of £6.9 million via the L&G Emerging Markets Equity Index Fund, which is a fund that the Devon Pension Fund has never had an investment in. The motion is also inaccurate in that divest.uk.org's analysis has Devon as having the 14th highest exposure in fossil fuel companies, not the 5th highest. The ranking is also reflective to some degree of the total size of the Devon Fund compared to some of the smaller LGPS funds.

What the analysis does highlight with a degree of accuracy is the high level of exposure to fossil fuel companies via the UK Passive allocation. This is something the Investment and Pension Fund have already addressed through its decision to move that investment to the new UK Climate Transition Benchmark fund that is due to be launched in January (unfortunately delayed from November).

The motion's proposal to immediately divest from any commingled funds that include fossil fuel public equities is not currently practical unless the Fund wishes to move all of its assets away from passive management. Passive funds track market indices, and will all have some exposure to fossil fuel suppliers. Moving all the Devon Fund's passive equity allocation to actively managed funds would cost additional fund management fees of around £5 million, and bring additional relative risk compared to benchmark. The new passive Climate Transition and Paris Aligned Benchmark funds that are being launched will significantly reduce exposure to companies with fossil fuel reserves, and are a welcome innovation. There have not previously been passive funds available that take climate change transition metrics into account in weighting allocations to individual companies. These funds will positively allocate to companies that are transitioning their businesses, but will not totally eliminate the exposure to fossil fuel reserves.

While engagement with fossil fuel companies may not stop them polluting, nor does divestment. Selling our shares to other investors does not deprive the companies involved of any resources. Shell, as an example, has raised no new capital through share issues for the last 4 years. Over the same period, Shell have received £1.219 trillion in revenue from their customers, which demonstrates that to deprive them of resources the key is to reduce the demand from their customers for their product. Other capital funding will have come from banks and the issuing of bonds (which the Devon Fund does not own, directly or indirectly). This is why engagement with all companies on how they are transitioning their businesses is an important part of the activity conducted by Brunel and other partners on behalf of the Devon Fund.

The Fund has committed to achieve net zero by 2050, in line with the Paris Agreement, and to achieve a 50-75% reduction in the Weighted Average Carbon Intensity (WACI) of its equity investments by 2030. The Devon Fund has already made significant progress, with a 37% reduction in the WACI of it's investments since March 2019. To achieve net zero by 2030 would require a very large number of companies across the globe to have achieved net zero in their business operations to enable the Fund to have a sufficient pool of net zero companies to invest in to achieve a well diversified investment strategy. While this would be welcome, it is not something the Pension Fund can control.

The Investment and Pension Fund Committee will receive regular reports on progress in reducing the carbon footprint of the Fund's investments, together with information on fossil fuel reserves exposure. The Committee will be able to regularly review the investment strategy to ensure that progress is being achieved in managing the risks associated with climate change.

This Report has no specific equality, environmental, legal or public health implications that will not be assessed and appropriate safeguards and/or actions taken or included within the detailed policies or practices or requirements in relation to the matters referred to herein.

JAN SHADBOLT

[**Electoral Divisions**: All]

Local Government Act 1972: List of Background Papers

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Background Paper	Date	File Reference
NIL		