SHEFFIELD CITY COUNCIL

COUNCIL MEETING – 5TH APRIL, 2017

ITEM OF BUSINESS NO. 5.3 – MEMBERS' QUESTIONS ON THE DISCHARGE OF THE FUNCTIONS OF THE SOUTH YORKSHIRE JOINT AUTHORITIES FOR FIRE & RESCUE AND PENSIONS

Questions relating to the South Yorkshire Pensions Authority to be asked at the meeting by Councillor Douglas Johnson – to be answered at the meeting by Councillor Paul Wood (Pensions Authority Spokesperson)

(provided in written form, in advance of being asked and answered at the meeting, for the benefit of attendees)

Questions of Councillor Douglas Johnson

On November 2nd 2016, Sheffield City Council passed a motion stating that "there is not only a convincing moral and environmental case for institutional investors to divest from fossil fuels, but also a compelling financial one". With that in mind, what steps is South Yorkshire Pensions Authority (SYPA) taking to:-

1. mitigate the financial and reputational risks arising from the Pensions Authority's continuing investment in fossil fuel stocks, shares and bonds?

2. ensure the effective implementation of the Climate Change Policy adopted by SYPA in March 2016 - and in particular the commitment in that Policy for the Fund to "endeavour to manage a tilt within portfolios in favour of lower carbon assets in-line with the Paris Agreement, with a view towards progressively decreasing the Fund's carbon exposure"?

3. ensure that the positive steps taken on fossil fuel divestment by this Council (via its November 2016 motion) and SYPA (via its March 2016 Climate Change Policy) are carried forward by the Border To Coast pensions partnership that SYPA is in the process of joining?

Answer of Councillor Paul Wood

I have set out below an answer which I have received from the Pensions Authority outlining its position. I can also report that the Pensions Authority has agreed to set up a working group to look at its investments policies, which will convene after the Annual Meeting of the Authority.

The South Yorkshire Pensions Authority takes Responsible Investment seriously, which includes environmental, social and governance (ESG) issues as well as stewardship of its investee companies. Its primary focus is on appropriate engagement. Environmental risks include climate change where the associated risks and opportunities may have a material impact on the financial performance of the Fund. SYPA has done a number of research reports over the years which culminated in a climate change policy being published by the Authority in March last year (a copy of the Policy can be found at - http://www.sypensions.org.uk/Investments/Investment-Policies-and-statements - see 6th document on the list).

A report to the Authority's Investment Board in December 2016 addressed implementation of the Climate Change Policy over the last year (the report can be found at – http://meetings.southyorks.gov.uk/documents/s43546/Clmate%20Policy%20Report.pdf?zTS=C – and an appendix to that report, on the Institutional Investor Group on Climate Change (IIGCC) can be found at – http://meetings.southyorks.gov.uk/documents/s43547/IIGCC%202016%20Update%20appendix.pdf?zTS=C).

The Authority considers ESG factors when investing in companies and is a member of a number of organisations which work to mitigate the risks of climate change through engagement with companies and policy makers. This includes membership of the Local Authority Pension Fund Forum (LAPFF) and the Institutional Investors Group on Climate Change.

The Authority commissioned a carbon footprint of its four main equity portfolios in December 2015 and is due to carry out the next footprint in December of this year. In addition, officers are in the process of developing in-house monitoring of the carbon intensity of internally managed equity and bond portfolios.

The Authority continues to encourage companies to assess their business models and implement strategies in alignment with a 2°C policy[1] outcome. Meetings have taken place with a number of oil & gas, mining and utility companies throughout the year with officers of the Fund and via the LAPFF.

(1. The Paris climate agreement aims at holding global warming to well below a 2° Celsius and to "pursue efforts" to limit it to 1.5 degrees Celsius. Companies need to ensure their business strategies are therefore aligned with a 2°C outcome.)

The Authority continues to exercise its voting rights and supported a number of shareholder resolutions relating to climate issues. These included resolutions at the Chevron and Exxon Mobil AGMs and also co-filed shareholder resolutions at the Rio Tinto, Glencore and Anglo American AGMs.

The Authority's policy is corporate engagement rather than divestment to help to improve the prospects of tackling climate change, reduce the investment risk and improve investment returns in the fossil fuel industry. Divestment is considered unlikely to succeed in changing global levels of either supply or demand of fossil fuel production.

Over the last year the Authority has continued to make investments in low carbon assets. These have included a green bond and an infrastructure fund which invests in hydro and wind power assets. The Authority continues to consider and review renewable and green investment products based on investment returns.

The carbon audit undertaken by the Fund highlighted companies across the portfolios for engagement on GHG emissions targets, carbon risk strategy and carbon disclosure. Although the Authority will engage directly with companies where feasible and appropriate, collaborative engagement with other LGPS funds through its membership of LAPFF is more productive. Engagement is a long term process with change amongst large companies taking time. Horizons for engagement improvements therefore need to be sufficiently long to enable companies to initiate change. Engagement remains ongoing with the oil & gas and mining companies along with attendance by members of the LAPFF Executive at various AGMs. The Authority is also a signatory to the CDP (previously known as the Carbon Disclosure Project) and took the lead in engaging with some UK based companies to disclose environmental information.

The Authority is a long standing member of the Institutional Investor Group on Climate Change (IIGCC), an organisation which is seen as the pre-eminent European voice for institutional investors on action to address climate risk and climate change. The IIGCC has continued to engage with policy makers across Europe to develop and implement policy measures that encourage the use of investor capital to finance the transition to a low carbon economy and encourage investment in climate change adaptation.

The new pooling arrangements with the Border to Coast Pensions Partnership does not change the Authority's responsibility to set its own asset allocation strategy and corporate governance policies. The new Pool will need to take account of those. The latest Investment Regulations require all LGPS Funds to show how they take account of ESG factors including policy on exercising voting and other rights attached to investments. The Border to Coast submission to Government in July 2016 required pools to confirm they would have a Responsible Investment policy in place by April 2018, recognising the importance of stewardship responsibilities. The submission included the proposed BCPP Responsible Investment Approach. This will be developed over the next year and it is expected that detailed policies will need to be formulated and agreed in collaboration and consultation with the partner funds in due course.

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