Submission from Climate Action Leicester and Leicestershire.
LLGPS's Net Zero Climate Strategy Plan. September 2022.

We strongly support the LLGPS developing a Climate Strategy. We also know that you are doing it in a context of Leicestershire, Leicester, Rutland and the district Councils producing their own Net Zero strategies and of the financial world moving much too slowly to keep the world below 1.5ºC of global heating.

This submission outlines questions which your Net Zero Strategy consultation has raised, and makes suggestions about what an effective Net Zero Climate Strategy could – and we believe should – look like.

Qu 1. What do you hope to achieve with your climate strategy? Is it to reduce the risk which climate change poses to the Pension Fund? Is it to reduce the contribution which the Fund makes to causing climate change in the world? Is it to help the world move faster towards Net Zero?

You know from your own climate risk assessments that investing in fossil fuel companies Shell, BP and Glencore carries a high climate risk to the Fund. The world is moving away from the fossil fuel dependency that has caused climate change towards net zero carbon. The companies' will ultimately not be able to sell the oil and gas reserves, which they have spent so much money opening up for production. At some point soon the Fund's fossil fuel investments will become stranded assets because they have been superseded by renewable energy sources and are no longer viable as a source of income to the Fund. So yes, climate change poses a risk to the Fund and an extra high risk in respect of the proportion of the Fund invested in fossil fuel companies.

The contribution the Fund makes to climate change in the world is also something we believe you should be trying to reduce as fast as possible. As a pension fund primarily providing pensions for Local Government workers, most of the employers paying into the scheme are local Councils. This pension scheme is run by and for local councils and their employees. It is these same local councils who will have to provide support systems to local people as the impacts of climate change in the UK worsen – just as you are having to during the Covid pandemic. We believe you therefore have every reason to seek to reduce the Fund's carbon footprint more urgently and help to push the world towards Net Zero much faster than it is currently going – because you represent and support real people and communities who will pay the price if the world goes above 1.5ºC of global heating.

As real world climate change gets worse it will directly cost local government pension funds.
Here are some of the reasons why:

- The world's economic and environmental systems will become ever more precarious making it harder and more expensive to manage climate risk to pension investments. Many of the companies the fund invests in will start to frequently lose key infrastructure due to storms, sea level rise, fires, floods, droughts, disease, civil unrest and war as climate change worsens, reducing their capacity to operate and their profits, and having a knock-on effect on the economy.
- Employees' capacity to continue to work and pay pension contributions will fall and their need to claim their pensions early will rise due to increasing climate related ill health.
- The cost of living (people's capacity to survive the effects of climate change) will rise and therefore the money the Fund has to pay out in pensions will rise. Meanwhile people's capacity to pay income and council tax will fall impacting on the revenues used to pay the employees and make employer contributions to the fund.
- Councils will have to support ever more vulnerable communities reducing still further the funds they have with which to pay both staff and pension contributions.

As Climate Action we believe the Fund is currently focussing on the wrong measures in its draft climate strategy. There are 4 main problems as we see it:

- **The measures you are consulting on are more in the nature of targets.** What we feel you need are specific requirements you expect the companies to achieve by specific dates. For example, there are specific CA100+ criteria you could require them to meet within the next few years. In other words you need clear time limited Key Performance Indicators and a clear plan for what you would do if the companies you invest in fail to meet them.
- **You only have target dates of 2030 and 2050.** Given that the world's carbon emissions need to have reduced by half by 2030 in order to stay under 2ºC of global heating, we believe you need interim targets for 2025 and 2028 in order to check that the necessary progress is being made.
- **You are not focussing your engagement on companies which can facilitate reaching net zero**. You should be focussing your climate engagement on the banks, insurance companies and utility companies you invest in so that they stop supporting the production and use of fossil fuels. These are organisations which both have the capacity to change what they are doing, and which - by removing their support of the fossil fuel industry - can both prevent it from opening up new oil, gas and coal reserves which the world cannot afford to burn, and reduce their own carbon emissions. We believe it is a mistake to focus your engagement on companies like Shell, BP and Glencore whose business model requires that they continue producing catastrophic quantities of fossil fuels well beyond 2050. These are the companies after all that are still lobbying to prevent effective climate legislation as well as opening up new reserves which they know the world cannot afford to use.
- **You are not using the moral and social licence which you wield as a Local Government Pensions Scheme** to help move the world towards net zero as fast as possible. As a pension fund representing public opinion you wield far more power by making the behaviour of the companies you invest in look acceptable or unacceptable, than you do through your ownership of shares. This is why pension funds ending investment in Apartheid South Africa made such a big difference in ending apartheid there. By publicly divesting now from the fossil fuel companies which are fuelling the climate crisis you have the power to send clear messages:
    1. To the UK government that you and the public do not support fossil fuel companies continued development of new fossil fuel reserves
    2. To the UK government that you and the public you represent want to see effective climate legislation put in place urgently.
    3. To the public that supporting fossil fuel companies and their dangerous activities is unacceptable.
    4. To the public that this pension fund takes their futures and tackling climate change seriously, and do not put fossil fuel profits before people's lives.

What should your climate strategy's primary policies prioritise?

1. Stop investing in the top 200 publicly traded fossil fuel companies by 2025. Ensure you have done this by 2027. This is less than 4% of your fund's investments but carries real political clout. It includes stopping investing in Shell, BP and Glencore. Make a public statement now saying you are divesting because you do not support their ongoing development of new fossil fuel reserves and call on the government to stop subsidising them and to put in place effective climate legislation urgently.
2. Focussing your carbon reduction engagement efforts on the banks, insurance, and other companies you invest in which support the ongoing production of fossil fuels – and push them to end this support urgently.
3. Move the <4% of your funds currently invested in the top 200 fossil fuel producers to projects focussed on developing local Leicestershire and Rutland based renewable energy, home insulation and other solutions to climate change.
4. Put in place policies for the remainder of your investments which will put the Pension Fund ahead of the UK curve of change to Net Zero in order to drive the UK and world faster – don't support business as usual.

How robust are your assumptions about the value of fossil fuel company investments?

Mark Campanale (the founder of Carbon Tracker) advises that pension funds:

"Require the investment managers looking after the fund to produce a valuation model on the impact on fund returns/valuations of companies the scheme owns of a 50% drop in demand for coal, oil and gas within the next decade. This model should also assume lower oil prices commensurate with a 1.5ºC scenario, i.e. $25-30 a barrel. The report should be written as a risk report."

While this 50% drop may not happen, it is also entirely possible that it will. Even if you only ask for this risk report for the 10 main fossil fuel companies you are invested in, it would then give you a reasonable alternative model for the fund to compare with its present model.

What secondary policies could you put in place to put the pension fund ahead of the UK curve to Net Zero, and set an example by tackling climate change faster?

1. You need clear time-limited climate criteria which companies you invest in are expected to achieve. For example you could require them to meet the more useful CA100+ criteria such as short and medium term Green House Gas reduction targets which are "aligned with the goal of limiting global warming to 1.5ºC", and capital alignment to decarbonise their activities.

2. You need to have clear policy about:

When you require the companies you invest in to meet these criteria by – given the urgency with which climate change needs to be tackled, these dates need to be well before 2030.

What your investment managers should do if the companies fail to meet these criteria. For example:

- systematically vote against the re-election of all the companies directors at every AGM until specified changes are made.
- define the point at which you would publicly divest from the company in question. Divesting from banks and insurance can have an impact given that they enable the development of new fossil fuel reserves.

3. You need a clear set of stock picking criteria (possibly the same as the criteria in point 1) when it comes to buying in the primary market i.e. bonds, venture capital and private equity portfolios. It is here that your shareholder engagement can actually make a real difference to the behaviour of the companies you invest in.

Why vote against re-election of company directors?

As small shareholders, even when working with other small shareholders you have very little influence over the companies you invest in. This is why the fossil fuel companies you are invested in have not responded convincingly to decades of engagement on the topic of climate change.

One of the few areas you do carry clout in is the capacity to embarrass company directors by voting against their re-election. In this case even the actions of a very few can have a considerable effect as it makes the company appear less competent.

Dr Ellen Quigley, advisor to the chief financial officer (responsible investment) at the University of Cambridge:

"Universal owners [such as pension funds] control enough of the market to be capable of creating 'guardrails' – sets of common expectations for companies that demand reductions in economy-wide environmental and social harms, enforced through votes against the re-election of board members. In the primary market – bonds, loans, private equity, venture capital and so on – it actually matters what universal owners own, as their investments can help the companies in question, so a strict filter must apply. As clients of and investors in banks, the most significant purveyors of new financing, universal owners have a role to play in redirecting capital flows away from fossil fuel expansion and infrastructure to avoid 'locking in' growing greenhouse gas emissions."

In summary, we believe the measures the Fund is considering and consulting on are not going to be sufficient to take a lead in moving faster towards net zero as many local people will be looking to you to do. Instead they seem designed to keep the Fund in line with the UK's gradual and quite possibly insufficient curve to Net Zero. We would suggest that as well as the main 4 points outlined on page two in the green box, you also strengthen the targets you are currently consulting on.

Your primary measure 1. Net Zero by 2050, with an ambition for sooner.

Our comments: You could make the target Net Zero by 2045 with an ambition for sooner. The assumption the target of 2050 is based on, is that most companies will only reduce their carbon emissions in line with their country's legal requirements, especially companies with high carbon footprints, and that it would be hard for the pension fund to enforce faster action to reduce carbon emissions. However, by making it clear to your investment managers and the companies you hold shares in that you do require swift carbon reduction (and by divesting from fossil fuel companies showing that you are serious about this requirement) we believe the fund can both encourage the UK government to put in place stronger legal requirements and push companies to act more urgently. The Hymans Robertson report you had your last meeting made it clear that 2045 is a possible target.

Our second question to you. Which pathway to Net Zero is the Pension Fund using, and why? You could delay action until 2040 and then 'race' for the last decade which is likely to be bad for the fund and terrible for the world. Or you can act sooner and faster, with a higher probability of getting to net zero. Carbon Tracker outline 3 possible pathways to Net Zero on p13 of their Absolute Impact report https://carbontracker.org/reports/absolute-impact-2022/

Your primary measure 2. By 2030, a 40% reduction in net carbon emissions from 2019 reported levels - an interim target that applies to the listed equity asset class (the asset class that relates to shares of publicly traded companies).

Our comments: Make the target a 45% reduction by 2030, and also put in place 2025 and 2028 targets to ensure the change is happening fast enough. We disagree with the idea that increasing contributions to the fund automatically result in a higher carbon footprint. If the additional funds are required to be invested into low carbon companies and local solutions like renewable energy generation and home insulation, they can have relatively low carbon footprints, and possibly even negative footprints in some cases like wind generation and home insulation.

Our third question to you. What does this target actually mean in practice? How are you going get the companies in your portfolio to cut their emissions by a minimum specific amount by 2030? Will you ask companies to produce fully costed business plans for shareholders that explains how they will achieve this? Do you plan to sell the high emitting users of fossil fuels?

Your primary measure 3. By 2030 reduce the carbon intensity of the Fund's equity portfolio by 50% from 2019 reported levels.

Our comments: The target should be higher, it should apply to all investments and portfolios, not just equity, and again there should be interim targets for 2025 and 2028 to ensure the fund is on track. It's essential that the WACI measurement includes scope 3 (the users emissions) for all of your investments otherwise the measurement is meaningless. Carbon accounting software that can provide Scope 3 does exist.

Our fourth question to you. As with your second primary measure what does this target mean in practise? And if the companies owned by the pension scheme have no costed transition plan, how will trustees and indeed scheme members know whether the climate strategy is resilient/fit for purpose?

Your question 4, secondary measure 1. Reduce the proportion of the Fund with fossil fuel exposure within the equity portfolio (was 8.5% at 31st Dec 2019) by 31st March 2030.

Our comments: Obviously we support this, but we want it to be much more specific. Any serious carbon reduction strategy starts by **publicly ending investment in the top 200 publicly traded fossil fuel companies which are driving the climate crisis**. In the case of this pension fund, these companies include Shell, BP, Glencore, ExxonMobil, BHP and Mitsubishi. The whole point of a public commitment to divest is to stigmatise fossil fuels in the eyes of the government and public, in order to encourage policies which phase out fossil fuels. This is far more likely to cause a change in the behaviour of companies than engagement with fossil fuel companies which gives them moral licence to continue producing fossil fuels.

For other companies – especially in the case of your investment in the primary market, including bonds, loans and private equity - with fossil fuel exposure within the fund, **you then need to set guardrails/requirements for them to reduce their fossil fuel exposure. We would suggest an 80% reduction in exposure by 2030 and also targets for 2025 and 2027 in order to ensure a smooth change rather than a dangerous attempt do it all at once in the last year or two.**

Your question 5 secondary measure 2. Increase the asset coverage to 90% by 2030 (currently at 45% 2022 Est) to be analysed for WACI - this target will be dependent on the industry agreeing commonly accepted standards.

Our comments: The issue is not what proportion of the fund is analysed for WACI – it is ensuring that the companies involved in the production and sale of fossil fuels are included for analysis, and that scope 3 is included. With selective analysis you could just analyse fossil fuel companies and others with fossil fuel exposure, rather than 90% of your investments. This would be both more effective and cheaper. Without the inclusion of scope 3, your analysis is misleading as the company's products might have a high footprint when used (for example oil or gas) or a low one (for example solar panels).

Your question 6. Secondary measure 3. Increase allocation to climate solutions (use EU taxonomy) as defined by weight in clean technology from the base 2019 weight of 34.1% by 2030.

Our comments: Overall this is a good idea which we strongly support. However, you need to set in place some specific exclusions. Due to lobbying, the EU taxonomy of climate solutions includes some technologies which are actually not climate solutions. Examples of this are some biofuels (which have high carbon footprints as well as reducing food production, for example Drax power station's carbon footprint has gone up since it switched to burning wood rather than gas), dirty hydrogen (as opposed to green hydrogen made using renewable energy) generated with fossil fuels which again has a very high carbon footprint, and nuclear (which is both much too slow, expensive and dangerous to reduce emissions in line with net zero by 2050 as well as taking funding away from cheap effective solutions such as wind and solar). Please do increase your support of solutions, but also ensure that you exclude the technologies which are actually undermining climate action, otherwise your investments will be working against the Net Zero which you are trying to achieve.

Your questions 7 and 8, secondary measures 4 and 5. Increase percentage of portfolio underlying companies in material sectors with net zero targets, aligned to a net zero pathway or subject to direct or collective engagement to over 90% by 2030 for listed equities, corporate bonds and sovereign bonds. By 2030, 90% of the Fund's financed emissions to be either net zero, aligned to a net zero pathway or subject to engagement programme to bring that about.

Our comments: Clearly increasing investment in companies aligned to net zero pathways is exactly what you should be doing, and a target of 90% isa good one. However, **the words "or subject to direct or collective engagement" create an enormous and dangerous loophole**, since the past 30 years of climate engagement have not proved effective. Companies without net zero 1.5^{o}C aligned pathways by 2030, are not companies who are going to survive the transition.

There is no longer time to engage with fossil fuel companies.

A key component of the carbon emissions that are resourced through our Councils is the pension fund investments. Currently, the Leicestershire Pension Fund invests in companies such as BP & Shell, whose main business is the exploitation of fossil fuels. Whilst some of these companies now invest a little in renewable energy, clean energy investments by the oil and gas industry remained at 1% of total capital expenditure in 2020. Further, while some of these companies may have pledged support for the Paris Agreement, just 20 fossil fuel companies – including Shell and BP – are planning to spend £715BN on *new* oil and gas fields before 2030 - a direct contradiction of the ambitions of the Paris Agreement and your climate plans as councils.

Currently, you use your pension fund holdings in fossil fuel companies to 'engage' with these companies. You conduct this 'engagement' through the Local Authority Pension Fund Forum (LAPFF). LAPFF was founded in 1991. Over the last 30 years, LAPFF has delivered some brilliant work for the fund - engaging companies on human rights and employment standards amongst other issues very well. However successful it has been in these areas, it has not managed to alter the predominant business activities of fossil fuel companies.

By way of comparison - slightly over half of all cumulative global carbon dioxide emissions have occurred since 1990. More than 50% of all global carbon dioxide emissions caused by human activity in history have occurred since we started trying to change company behaviour through the LAPFF. When engagement with such companies, however well intentioned, has met such inadequate success, a different approach is needed.

Continuing to take this course of action over and over and expecting different results is deeply irresponsible.

They are companies who reduce the worlds chance of avoiding catastrophic climate change. Including this wording means continuing to invest in fossil fuel companies would be allowed even though what they do is produce oil, gas and coal which cause a large proportion of the worlds carbon emissions.

Your question 15, Should the fund allow carbon offsetting.

Our comments: You should not support the use of, or use, carbon credits or offsetting to reach net zero. While we understand the attraction of carbon offsetting, and its necessity once everything else possible has been done, at the moment most companies producing Net Zero plans are also using offsetting as a way of avoiding doing everything possible to reduce their carbon emissions. For example, in the case of fossil fuel companies, many have offsetting plans which there is not enough land in the world to put into place and yet have not ended the development of new fossil fuel reserves as part of their net zero plans. Projects reducing carbon emission need to be funded in their own right in order to reduce the likelihood of catastrophic climate change – not used as ways for companies or pension funds to continue emitting greenhouse gases.

Your question 14. Divestment vs Engagement.

Our comments: We want you to publicly divest from the top 200 fossil fuel companies, and then engage with your other investments.

Divestment is an essential part of the process of engagement. It shows the companies that you engage with that there is a reason for them to listen to you. It sends messages to governments, companies and the public that change is necessary, and prevents your money from supporting unacceptable things. Engagement is also valuable and essential. However it needs to have teeth (including the threat of divestment and voting against re-election of company directors) and to be carried out with companies who can and are interested in responding to it.

Fossil fuel companies, such as Shell and BP, have a business model business is based on producing and selling more fossil fuels. Asking them to change is like asking supermarkets to stop selling food. They have good greenwashing in place, and therefore seem responsive to engagement, but they are still developing new oil and gas reserves. We don't think they have any real interest in genuinely moving away from fossil fuel production – if they did, they wouldn't be wasting vast sums of money on developing new reserves which cannot be used in a Net Zero world. Refusing to invest in such companies is not an investment risk – it reduces risk, both to the pension fund, and to the world. And divesting from these companies would enable you to focus your engagement on companies which can make a real difference to climate change – such as banks and insurance companies – and which would not have to change their business model in order to act.

Useful reading and watching:

- "Stock-picking for humanity". A clearly written article in everyday English, about effective shareholder tactics by Dr Ellen Quigley, a senior research associate in climate risk and sustainable finance at the Centre for the Study of Existential Risk, and advisor to the chief financial officer (responsible investment) at the University of Cambridge. https://aeon.co/essays/here-are-responsible-shareholder-tactics-that-actually-work

- The CA100+ criteria and which companies are meeting them: https://www.climateaction100.org/whos-involved/companies/ Many of these criteria are about reporting rather than action which means a company can tick a lot of boxes while not doing anything useful to reduce its carbon emissions. This is why the capital alignment, and short and medium term alignments to 1.5°C criteria are so important.

- A 5 minute video from 22/4/22 of the UN Secretary General Antonio Guterres on climate change, fossil fuels and renewable energy and investment (start 2mins 15seconds in) https://www.youtube.com/watch?v=P8rlLaT8v4Q&ab_channel=UnitedNations

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