LGPS Central Joint Committee

Date: Friday 2 February 2024
Venue: Council Chamber, County Hall, Leicestershire County Council, Glenfield, Leicester LE3 8RA
Time: 11:00-13:00

SUPPLEMENTARY REPORT

6.	**Public Question Time / Open Session** • A period of up to 15 minutes will be set aside for the taking of questions and answers. *Note: this updated report contains the questions and the corresponding responses which were read out during the Joint Committee.*	3 - 5

For further information or advice, please contact:
Aaron Thomas, Clerk to LGPS Central Joint Committee
Cheshire West and Chester Council, The Portal, Wellington Road, Ellesmere Port, Cheshire, CH65 0BA
aaron.thomas@cheshirewestandchester.gov.uk

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Item 6: Public questions

The following public questions and responses will be dealt with in the meeting:

DLUHC consultation
Question 1: received 7 January 2024 from Mr D Plunkett In paragraph 9 of the 2023 DLUHC consultation "Next Steps on LGPS Investments", the percentage transferred from the eight partner funds to LGPS Central was 30%, which was identified as the lowest of all of the Pools, and contrasted with LPP at over 80% transfers. In respect of LGPS Central's response to the consultation: **i) Will LGPS Central now publish their full response to the DLUHC consultation on their website; and** **ii) At which meeting did the eight LGPS funds agree the LGPS Central response to the DLUHC consultation?**
i) The Company's response has been published on their website, and can be found in the 'Consultations' section of the 'News' channel. ii) Various meetings were held with Partner Funds where the Company's position was discussed. Partner Funds received a copy of the Company's consultation response ahead of submission to DLUHC. The response is reflective of the Company's views, and each Partner Fund submitted their own individual response.

Responsible Investment
Question 2: received 15 January 2024 from Mr D Challen The FCA Policy Document PS23/16 signals that the UK will implement rules on Sustainability Disclosure Requirements (SDR) and Investment Labels, to ensure claims on ESG are honestly and fully disclosed, and to prevent greenwashing by funds. Similarly in France the term Responsible Investment will not be allowed from 2024 for any fund that invests in fossil fuels. The LGPS Central Climate Fund invests in fossil fuel companies, and gambling, tobacco, and arms companies. **Will LGPS Central divest such companies from this portfolio voluntarily, before UK rulings force them to do so?**
LGPS Central maintains that stewardship is a superior approach to driving change in the real economy compared to divestment. Regarding equities, divestment would resemble trading out of a position, rather than directly withdrawing finance from a company, as our investments are secondary finance. Thus, stewardship remains integral to our climate strategy. We believe climate change is a complex challenge requiring a nuanced response. Fossil fuel companies possess the resources, expertise, and incentive to contribute to this response, and this contribution is essential for a successful and just transition. Regarding regulation, there are no signs that the UK Chancellor & HM Treasury or the UK's leading opposition party plan to restrict the investment universe of UK pension schemes or follow the French Finance and Economy Minister's

announcement. Any such decision would be political rather than regulatory (FCA). UK regulations focus on representing and clearly labeling investment strategies and products concerning sustainability, without mandating divestment from fossil fuels or any sector.

Divestment would not decrease demand for fossil fuels, which can only occur through technological and policy changes driving clean energy substitutes' mass adoption—a focus area for Stewardship.

Climate Change

Question 3: received 26 January 2024 from Ms J Blackman

Carbon Tracker's recent report, "Loading the Dice Against Pension Funds" (see pages 18, 56-57)*, reveals that many pension funds, including some in the LGPS Central pool, use investment models that rely on economists' flawed estimates of damages from climate change to predict that global warming of 2°C to 4.3°C would have only a minimal impact on member portfolios. The report makes it clear that these flawed economic models cannot be reconciled with warnings from climate scientists that global heating on this scale would be “an existential threat to human civilisation.”

To illustrate this failure, the Carbon Tracker report refers to Mercer's investment modelling and gives as an example the climate scenarios and modelling produced by Mercer for Shropshire County Pension Fund's Climate-Related Disclosures Report 2020 (see pages 10-11)**.

Will the LGPS Central Joint Committee now urgently:
i) Follow Carbon Tracker's advice to “look at the compelling evidence in the climate science literature, and to implement investment strategies which are based on a rapid wind-down of the fossil fuel system, and on a ‘no regrets’ precautionary approach?”
ii) Find new investment consultants who use investment models founded on contemporary climate science and which assume the need for a rapid wind-down of the fossil fuel system, and on a ‘no regrets’ precautionary approach?”

* https://carbontracker.org/reports/loading-the-dice-against-pensions/

** https://shropshire.gov.uk/committee-services/documents/s26021/6. Appendix A TCFD Disclosure Final Report.pdf

Please note that the scope of the LGPS Central Joint Committee, as per its Terms of Reference, is a public forum for the Administering Authorities within the LGPS Central Pool to provide oversight of the delivery of the objectives of the Pool, the delivery of client service, the delivery against the LGPS Central business case, and to deal with common investor issues.

The data quoted in the Carbon Tracker report were taken from 2020 TCFD reports and reflect the predictions made in the Mercer climate change analysis at that time. Further TCFD reports have been issued since that time, which have utilised an updated model that Mercer has developed in partnership with Ortec Finance and Cambridge Econometrics. The reports acknowledged that climate scenario analysis remains a developing field, which uses assumptions about inherently unpredictable matters over long time horizons. The outputs from the analysis are used as directional information on the sensitivity of the Funds' portfolio to different climate scenarios, and considered in tandem with all the other factors which have the potential to impact on investment returns.

Pooling partners are aware of the potentially devastating impacts of climate change and the need for the global economy to accelerate its transition to low carbon energy solutions. However, pooling partners have not reached a conclusion that divesting from fossil fuels will accelerate this transition. We recognise advice from our pooling company on the importance of i) companies being owned by responsible investors that demand long-term thinking from corporate management and credible transition plans, and ii) the demand for fossil fuels within the economy reducing and being replaced by demand for renewable energy. We are advised that focusing on only the supply of fossil fuels does not address the challenge. We recognise that climate change results in risks for investors, as indicated by recent climate scenario analysis which illustrated that a successful transition and restricting global warming to 1.5°C is a much more favourable outcome than a failed transition in terms of investment performance. Pooling partners welcome the continued development of climate scenario analysis to support our management of the risks associated with climate change.