WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
23 March 2023

DIVESTMENT STATEMENT

Purpose of the Report

1. The purpose of this report is to finalise discussions regarding agreeing a position and statement regarding the topic of divestment.

Key Considerations for Committee

Background

2. The Committee discussed divestment at the meeting on 2 March 2023, as part of the Responsible Investment Update item. Many excellent points were raised, and it was resolved that making a decision on this particular point would be deferred to the 23 March 2023 meeting.

3. Comments requiring amendment to the statement were around covering the topic of energy security, and the link to the Fund's strategic allocation to renewable infrastructure and climate solutions, as well as amending the wording around setting a target.

4. A further suggestion was made that due to the complicated nature of this topic, the statement would need to be supported by an explanation of the position. It is proposed that this is actioned by adapting the explanatory wording included in the paper at the 2 March 2023 meeting, such that is it suitable for inclusion in the next revision of the Fund's Responsible Investment Policy, which is scheduled for September 2023. This wording is included below.

5. The revised statement is as follows:

   As a long-term investor, WPF's goal is to protect the investments from climate change risk, and safeguard the financial future of the Fund. We support a global warming scenario of well below 2°C, and have an ambition to achieve net-zero carbon emissions across all investment portfolios by 2050. We do not see a long-term place for fossil fuel investments in our portfolios, and will work towards being fully divested from these companies by 2030. In the short term we will continue to monitor our holdings in these companies, to ensure that any such investments are helping to finance real-World change. Alongside this, we will continue to invest in renewable infrastructure and climate solutions, to help create sustainable replacements for traditional fuel sources, and contribute positively towards ensuring energy security. This approach aims to ensure that the Fund's risk of exposure to stranded assets is well managed, and that the Fund can benefit from the investment opportunities presented by the transition to a low carbon economy.

6. The supporting wording, for inclusion in the next revision of the Fund's Responsible Investment Policy, is as follows:

Fossil Fuel Divestment – the Fund's position

What is divestment?
Divestment = the intentional act of moving money and investments out of a company. This is most often spoken about with regard to fossil fuel investments, and there is significant pressure on LGPS funds to divest from all fossil fuel companies. This pressure comes both from scheme members and wider campaigns.

The background
WPF's position with regard to divesting from fossil fuels has historically been that we do not require our investment managers to exclude any specific holdings from our investment portfolios. Nevertheless, often managers will avoid certain types of stock, for example those which violate the UN Global Compact, or controversial weapons. The Fund's view is summed up in one of our investment beliefs: "***Stewardship and engagement are generally more effective tools than divestment in encouraging changes that will help safeguard the Fund's investments. The Fund values the benefits of working with other investors to strengthen these activities and achieve better outcomes***." Brunel adopt a similar approach, and their engagement escalation policy permits eventual selective divestment if companies are not making the necessary changes after attempts have been made to engage.

We accept that this can be a divisive and complicated area, and that arguments have been made on both sides. Some argue that it is better for investors such as WPF to remain invested as that is how we can drive change, and that if we are not invested then someone else will be, who may have worse intentions as an investor. Others argue that this is a fallacy, and that the strongest way to deliver change is to not be invested at all, and that if companies want our capital, they will make the required changes in order to become investable.

The Fund also holds the following investment belief: "***In order to protect the Fund's investments into the future, the Fund supports a global warming scenario of well below 2°C, and states an ambition to achieve net-zero carbon emissions across all investment portfolios by 2050***". The Fund still holds a small amount of investments in fossil fuel companies, which we acknowledge could be seen to be in conflict with this belief, and could even be interpreted as potentially supporting the very scenario we are trying to avoid, which would be financially detrimental to the Fund, and therefore incompatible with the fiduciary duty to our beneficiaries.

What is a fossil fuel company?
An important factor to consider here is "what is a fossil fuel company?". The definition can range from purely extractive industries, all the way through to distribution and retail of fossil fuels. Investing in some of these companies might not be at odds be the Fund's wider goals – for example, a utility company could work to change its supply to renewables, and future-proof its activities. Or a distribution company could adapt its business to be part of a low carbon future. It can be hard to see how extractive companies can be part of the solution – but even here, they could form part of a forward-looking portfolio, if they were being supported to wind down operations, and distribute assets to investors. In reality, each investment situation will be different and will need careful evaluation and consideration.

Through the Fund's allocation to the Paris-aligned passive portfolio, some companies are removed from the investable universe if they meet certain criteria. These are as follows:

- Companies with:
    - 1 % or more of revenues from exploration, mining, extraction, distribution or refining of hard coal & lignite
    - 10 % or more of revenues from the exploration, extraction, distribution or refining oil fuels
    - 50 % or more of revenues from the exploration, extraction, manufacturing or distribution of hydrocarbons, hydrogen and carbon monoxide mixtures present in gaseous state
- Electricity producers with carbon intensity of lifecycle GHG emissions greater than 100 gCO_2e/kWh (50%+revenues)
- Any companies found or estimated by them or by external data providers to significantly harm one or more of the environmental objectives under the "Do No Significant Harm" definition
    - Currently this includes Pure play Coal and Pure play Tar sands companies

The Fund uses these exclusion criteria from the Paris-aligned benchmark as its definition of "fossil fuel companies", and monitors holdings on this basis. This is reported annually, as part of the Climate Report (including reporting in line with the Task Force on Climate-related Financial Disclosures/TCFD).

What about investment pooling?
Due to the nature of investment pooling, there can be barriers to implementing any divestment policy at the current time, due to the fact that pooled portfolios have to contain the same holdings for all client funds, and a consensus position would need to be sought. The Fund's position has been communicated to Brunel and other investment managers, and the Fund continues to work with Brunel and other client funds in order to advance the approach in this area.

Environmental Impacts of the Proposals

7. This report includes information on actions and policies which directly deal with addressing climate change risk.

Safeguarding Considerations/Public Health Implications/Equalities Impact

8. There are no known implications at this time.

Proposals

9. The Committee is asked to
    - Approve the statement and supporting wording on fossil fuel divestment.

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Unpublished documents relied upon in the production of this report: NONE