



Statement to Avon Pension fund's March 2015 committee meeting on investments in fossil fuels and climate change.

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It is now a widely held view that climate change poses a significant financial risk to the investment system and UK pension fund portfolios and that continued investment in the fossil fuel industry is unsustainableⁱ. Despite this, at the beginning of 2014, the Avon Pension Fund had more than £17.4million invested in fossil fuel industries.

We are here today to highlight the risks facing the Avon Pension Fund as a result of its continued investment in fossil fuel companies. We urge the pension fund committee to act on behalf of pension holders to reduce exposure to these risks by divesting from fossil fuel interests and instead invest in supporting the transition to a low carbon economy.

Investing in fossil fuels is environmentally unsustainable

Based on overwhelming scientific evidence, we have now reached international consensus that once we surpass two degrees of global warming we are entering into the territory of unpredictable and 'dangerous' climate change (ii).

According to Fossil Free's 2015 Carbon Underground Report, the top 200 fossil fuel companies have reserves equivalent to an additional 555 Gigatons of potential CO₂ emissionsⁱⁱⁱ. Pro rata with the total reserves this is almost five times more than can be emitted if we are to have an 80% chance of preventing warming from exceeding the critical two degree threshold. Furthermore, this estimate includes only those reserves already factored into the share price of corporations which continue to pump billions of shareholder dollars into the quest for deeper, more remote and longer term fossil fuel supplies. Deutsche Bank estimate that in 2014 alone, the oil industry spent \$650bn on exploration and the development of new reserves^{iv}.

Investing in fossil fuels is economically unsustainable

Aside from the obvious environmental, social, and economic implications of perpetuating our reliance on fossil fuels and our relentless advancement towards 'catastrophic' climate change, it is increasingly clear that the fossil fuel industry is based on a fundamentally unsustainable business model. This in turn throws into question the viability of their long term investment potential.

There has been much discussion around the 'carbon bubble' resulting from the over-valuation of stocks in coal, gas and oil reserves and the belief that much of this value may never be realised. In the event that an international agreement on climate change is reached, many of the fossil fuel assets currently listed on the world's stock market could become 'stranded'^v. The Bank of England is currently undertaking an enquiry into the risk of fossil fuel companies causing a major economic crash if their coal, oil, and gas assets are rendered worthless^{vi}.

In this context, we must seriously question whether investment in fossil fuels is an appropriate strategy for long-term pension funds. We think not. And we are not alone in doing so. International non-profit 350's Fossil Free campaign is putting pressure on organisations all over the world to shun unsustainable fossil fuel investments. What is more, a growing number of these organisation are responding and committing to divest from fossil fuels, realising that to do so makes economic as well as environmental sense. The Fossil Free website lists some of the many colleges, universities, cities, counties, religious and other institutions that have committed to divestment both here and around the globe. The list names the University of Bedford, University of Glasgow and Oxford City Council among others^{vii}2

Avon Pension Fund position on climate change and fossil fuel investment

We are grateful to Liz Woodyard for her openness in recent correspondence regarding APF's approach to responsible investment in the face of climate change concerns. From this exchange we understand that:

- As set out in its investment strategy and responsible investment policy, APF relies on ESG policies let by investment managers to help guide responsible investments. However, these policies do not appear to take into account the impact associated with its £17.4m of fossil fuel investments.
- APF is awaiting further understanding on the relationship between fossil fuels and climate change and on the approaches to managing those risks before responding to the climate change agenda
- APF has not yet established the carbon footprint of its investment portfolio
- Investment managers have not been asked by APF to specifically consider the feasibility of allocating capital away from fossil fuels
- Alternative indices for passive investments have been considered as part of a strategic review

We urge APF to divest from fossil fuels and invest instead in supporting the shift to a low carbon economy^{viii}. In addition to the environmental and economic reasons described above, we see APFs continued support of the fossil fuel industry as inappropriate given our region's desire to position itself at the forefront of sustainability and low carbon innovation. As European Green Capital, Bristol City Council has already committed not to invest in fossil fuels.

Based on our correspondence with LAPFF, we understand that the preferred strategy for pension funds is to use their investments as a lever to influence the activities of fossil fuel companies rather than commit to divestment. We understand that in some cases pension fund shareholders have begun to challenge Exxon, Shell, and BP to show how their business model is compatible with two degree warming.

In this context, we call for APF to:

1. Share with us the results of their engagement with fossil fuel companies and, crucially, their escalation strategy should such engagement fail to deliver results with the urgency necessitated by the scale of the risk faced.

2. Consider the financial feasibility of divesting from fossil fuels over a period of time with a view to:
 - a. Immediately freeze any new investments in fossil fuels
 - b. Divest immediately from pure-play coal companies
 - c. Divest from direct ownership and any commingled funds that include fossil fuel public equities and corporate bonds within five years
3. Take a proactive and strategic approach to supporting the transition to a low-carbon economy by:
 - a. Assessing what proportion of the fund's assets are invested in industries that facilitate this transition (e.g. renewable energy, waste management etc.)
 - b. Requiring asset managers to present information on a range of opportunities for low-carbon investment
 - c. Setting a target for increased investment in the low-carbon economy
4. Contact the Environment Agency Pension Fund, a global leader in concurrently protecting financial returns and mitigating climate change

As pension holders and citizens, we have a considerable stake in the work of the APF in this area and welcome the opportunity to attend a meeting with members where our recommendations could be explored in more details. Please address any contact to FossilFreeBristol@gmail.com

ⁱ <http://www.bloomberg.com/news/articles/2014-12-02/oil-investors-may-be-running-off-a-cliff-they-can-t-see>

ⁱⁱ Smith J. B., et al.

2009 Assessing dangerous climate change through an update of the Intergovernmental Panel on Climate Change (IPCC) 'reasons for concern' Proc. Natl Acad. Sci. USA 106 4133–4137
 doi:10.1073/pnas.0812355106 (doi:10.1073/pnas.0812355106)

https://www.ipcc.ch/pdf/assessment-report/ar5/syr/AR5_SYR_FINAL_SPM.pdf

ⁱⁱⁱ Fossil Free Indexing <http://fossilfreeindexes.com/>

^{iv} Page 19 https://www.dbresearch.com/PROD/DBR_INTERNET_EN-PROD/PROD000000000349119/Konzept+Issue+02.pdf

^v <http://www.theguardian.com/environment/2015/jan/07/much-worlds-fossil-fuel-reserve-must-stay-buried-prevent-climate-change-study-says>

^{vi} <http://www.theguardian.com/environment/2014/dec/01/bank-of-england-investigating-risk-of-carbon-bubble>

^{vii} <http://blueandgreentomorrow.com/2013/07/05/norwegian-pension-fund-divests-from-financially-worthless-fossil-fuels/>

<http://www.telegraph.co.uk/finance/newsbysector/energy/oilandgas/1114591/Rockefeller-family-sells-out-of-fossil-fuels-and-into-clean-energy.html>

^{viii} http://unfccc.int/files/press/press_releases_advisories/application/pdf/pr20140115_ceres_final1.pdf
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