

## Pension Fund Investments in Fossil Fuels

### Summary

The Forum is aware of the emerging research regarding stranded assets which addresses the fundamental concerns over continued fossil fuel extraction. This is an issue we recognise as a collective investment risk for all asset owners and is an engagement and policy priority.

LAPFF's view, held in common by many of our member funds, is that robust engagement on a collective basis with companies is preferable to placing restrictions on particular types of investment.

The years 2014-2015 saw a significant rise in international campaigns for divesting from fossil fuels aimed at a range of asset owners including university endowment funds, pension funds and banks. In 2015, campaigns have gained additional prominence with the announcement of some high profile divestment decisions from the Church of England; the Guardian Media Group; the Norwegian Sovereign Wealth Fund and US state pension funds, CalPERS and CalSTRS.

Several LAPFF member funds have received requests asking for information on the funds' positions on fossil fuel investments followed by calls for divestment. There are a number of NGOs coordinating many of these requests including [Fossil Free UK](#) and its partner organisations.

### LAPFF Engagement

The Forum has long been concerned about climate and carbon-related risks to the underlying investment portfolios of member funds and has been engaging with companies and on public policy since 2002 to address the many risks related to climate change.

LAPFF does not support divestment from fossil fuel companies but considers active engagement with companies producing fossil fuels as a productive approach to effecting change. The approach of direct and collaborative engagement contrasts with blanket divestment. Once an asset owner divests, their ability to influence both the short and long-term direction of individual companies and the national and international energy sector is severely curtailed.

The Forum's engagement strategy is to ask companies to identify and tackle carbon risks in their business models. In doing so, the Forum supports an orderly transition requiring companies to identify and tackle carbon risks in their business models.

For coal, oil and gas companies, particular attention is given to carbon asset risk, by promoting a low carbon transition. For oil and gas companies, the focus should be on value at risk, particularly from high cost projects and support can be given to returning capital to investors where appropriate.

An example of engagement is the coordination undertaken with member funds to co-file and support shareholder resolutions to both the BP and Shell 2015 AGMs on strategic resilience for 2035 and beyond. The resolutions ask the companies to report on their operational emissions management; asset portfolio resilience to the International Energy Agency (IEA)'s scenarios; low-carbon energy research and development and investment strategies; relevant strategic key performance indicators and executive incentives; and public policy positions relating to climate change.

The resolutions were intended to be supportive but also stretching. The 'stretching' element for most fossil-fuel companies is to set out their business strategy in alignment with a two degree increase in global temperature, relating to the IEA 450 ppm scenario.

The resolutions followed a long process of engagement with the companies on climate risks, stranded assets and reporting this information in the context of their business models. The AGM resolutions were supported by both BP and Shell, garnered votes of over 98% support from shareholders and prompted Swedish pension funds to file a similar resolution at Norwegian Statoil which also carried by a record margin.

Subsequently EU based oil and gas companies have raised their profile in calling for a global carbon pricing regime and more investment in low carbon energy sources, on the back of heightened shareholder support.

The Forum has also supported resolutions encouraging Chevron and Exxon to set carbon reduction targets and at Chevron to reduce capital expenditure on high cost, unconventional projects and increase the amount authorised for distribution to shareholders in the form of dividends as a climate risk hedging mechanism.

Encouraging appropriate regulatory frameworks is also crucial. A recent example is the Forum's participation in correspondence from global asset owners and managers to the G7 leaders urging stronger action by major industrial nations on emissions, and climate action.

LAPFF considers that this combination of individual engagements at corporate level, working with investor coalitions and adding to institutional investor voices engaging with international forums is at this stage the most effective approach in giving voice to Forum members concerns on climate and carbon.

LAPFF also works in cooperation with other investors and organisations to maximise the voice of asset owners including through its membership of the Aiming for A Investor Coalition, through collaborative engagement with the Investor Network on Climate Risk and as a signatory to the Principles for Responsible Investment.

As set out in the Forum's [Statement on Climate Change](#), LAPFF members are interested in investment opportunities afforded by a low-carbon future which increase asset diversification and provide long-term returns. The Forum's engagement strategy is to ask companies to identify and tackle carbon risks in their business models. LAPFF will continue to engage with companies on aligning their business models with a 2°C scenario, to push for an orderly carbon transition and to file and support relevant shareholder resolutions to companies.