ITEM No …4………..

REPORT TO: **PENSION SUB-COMMITTEE OF THE POLICY & RESOURCES COMMITTEE & PENSION BOARD – 6 JUNE 2016**

REPORT ON: **INVESTMENT IN FOSSIL FUEL**

REPORT BY: **EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

REPORT NO: **214-2016**

1 PURPOSE OF REPORT

This report reviews the current position regarding the investment in fossil fuels following recent concerns being raised by environmental groups to local government pension funds in Scotland.

2 RECOMMENDATIONS

The Sub-Committee are asked to note the content of the report.

3 BACKGROUND

3.1 CLIMATE CHANGE AND FOSSIL FUELS

Climate change is a potential environmental, social and economic risk. There are a number of groups concerned about the potential effects that have been campaigning for institutional investors, such as pension funds, to review their investments in fossil fuel companies.

3.2 CASE FOR DIVESTMENT

Assets which have suffered from unanticipated or premature write-downs in value caused by a variety of risks can occur across different sectors. In the context of fossil fuels the main risk centres on regulatory changes in the future which could limit or curtail companies' ability to extract and monetise their oil, gas and coal reserves.

Whilst there are arguments for immediate divestment, there are also a number of counter arguments stating that there are also costs and risks associated with these proposals which are not easily quantified. Furthermore, the role of Pensions Committees in the LGPS (Scotland) is fiduciary in nature and any decision made (financial or non-financial) should have regard to the best interests of that party to whom the fiduciary duty is owed.

4 TAYSIDE PENSION FUND POSITION

4.1 INVESTMENT STRATEGY AND RISK MANAGEMENT

The fund's external investment managers actively invest to achieve defined investment objectives. They manage Investment risks on a portfolio basis through geographic and sectoral diversification, and the risks of unanticipated or premature write-downs in value are integral to relevant investment cases. At a fund level, as fiduciary duty requires, investment risks and return are managed further by diversification through the strategic asset allocation across a range of asset classes.

4.2 RESPONSIBLE INVESTING AND STEWARDSHIP

The fund has an Environmental, Social and Corporate Governance Policy that requires all active investment managers be signatories to the United Nations Principles of Responsible

Investment (UNPRI) and engages independent governance and shareholder advisory services.

4.3 FOSSIL FUEL EXPOSURE

The fund’s main exposure to fossil fuels is through listed equities. Although there is no definitive list of “fossil fuel” companies, the funds exposure to the global energy sector across 12 companies equated to £73.5m (2.6% of total fund value). This could vary according to the active mangers’ buy and sell decisions.

5 FINANCIAL IMPLICATIONS

There are no financial implications.

6 POLICY IMPLICATIONS

This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management.

There are no major issues, other than Risk Management itself, which is addressed through the register.

7 CONSULTATIONS

The Chief Executive and Head of Democratic and Legal Services have been consulted in the preparation of this report.

8 BACKGROUND PAPERS

None

MARJORY M STEWART
EXECUTIVE DIRECTOR OF CORPORATE SERVICES 27 MAY 2016