Westmorland & Furness Council

Cumbria Pension Fund

Cumbria Pension Fund - Review of Responsible Investment Policy
Meeting for Interested Parties

10 November 2023 - 11:00 – 13:00 Castle Green Hotel, Kendal

Agenda:

11:00 - 11:10	Welcome and Introductions	Doug Rathbone, Chair of Pensions Committee
11:00 – 11:25	Context & Overview of the Pension Fund	Pam Duke, Director of Resources (S151 Officer) Westmorland and Furness Council Pete George, Acting Senior Manager, Cumbria Pension Fund
11:25 – 12:50	Round table discussion questions	John Harrison, Independent Chair
12:50 - 13:00	Next Steps and Feedback	Pam Duke, Director of Resources (S151 Officer)
13:00	Close of meeting	

The Fund would like to thank all those who made the time to attend the meeting (attendee list on the final page) and communicate their views either in respect of their own position or that of the Fund employer they were representing.

The meeting started with a welcome statement and a brief introduction from Pam Duke (Director of Resources) which included a round table of introductions. Attendees on the day are listed as an appendix to these minutes. Pam also indicated how today's meeting was the starting point of the process of engagement and consideration of the views of interested parties, scheme members and employers, the Pensions Committee and Pension Board members. This engagement will help to inform a review of the Fund's approach to responsible investing and the wider investment strategy.

This was followed by a welcome from Doug Rathbone, Chair of the Pensions Committee, who laid out to those present what the Fund was seeking to achieve from the day.

Doug Rathbone welcomed John Harrison as the independent Chair for the session, together with Patrick Mulligan (Chair of the Cumbria Local Pension Board), Rachel Elwell, CEO of Border to Coast Pensions Partnership ("Border to Coast") and Simon Daniel from the Fund's external legal advisors, Eversheds Sutherland.

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Acting Senior Manager, Pete George then presented the proposed timeline for the work on the Responsible Investment (RI) Policy and Investment Strategy Review and some key facts about the Fund, its current investment approach, strategy and assets.

John Harrison, the Independent Chair, outlined that views would be taken on three questions throughout the meeting and encouraged all attending to give their views, which have been recorded below noting the initials of those speaking at that time.

Round table question 1:
Cumbria Pension Fund Committee and Officers have an overarching objective to manage a sustainable and solvent Local Government pension fund and adhere to their fiduciary duty. To what extent can being a responsible investor support this overarching objective?

GC, representing the Lake District National Park Authority (LDNPA) noted that the Authority does not have a formal position at this stage, however they expect to set out a position in due course. Consequently, his comments throughout the meeting would be based on their work to date. GC indicated the issue of the need for the Fund to be sufficiently funded to meet its liabilities; and went on to comment that as the Fund is currently well funded there was an opportunity to strike a balance between financial considerations and wider factors, possibly consider a little more risk to consider climate friendly assets and explore companies with ESG outcomes that support Climate Transition. The Chair asked whether the ESG considerations for LDNPA had been focused mainly on the E of ESG and this was confirmed as climate change focused.

VL, representing Keswick Town Council, concurred with this view and confirmed the Town Council understand the need for fiscal responsibility; however, they had declared a Climate Emergency so now had an ESG/climate focus. In addition, they are also interested in the Social aspects considering they operate in an area of deprivation.

CB representing Kendal Town Council, noted that their Council recognise that there is a Climate Emergency. However they are concerned that investment yields are maintained so as to not negatively impact its members / employer costs. CB said that some colleagues from the Town Council had suggested that pension investments could be used as a means to mitigate the Climate Emergency.

GC again commented that the Fund should be a responsible investor and can possibly afford to forego some investment return if it helps manage the greater climate risks.

SD, from Eversheds Sutherland, affirmed that the Administering Authority and the Pensions Committee hold a duty to ensure pensions get paid – this is manifested in the primary (fiduciary duty) of attaining the best realistic investment return given the unlimited time horizon and the need to control risks. However, being a responsible investor and recognising the importance of climate change and other ESG issues can be an integral part of that duty.

PD, the Director of Resources, commented that the Fund is seeking views on Responsible Investment (RI) which is not the same as Ethical investing. RI includes the consideration of the risks and opportunities of each of the E, S and G areas when reviewing the Fund's investment choices; whereas Ethical investing refers to an approach to investing in line with moral principles or beliefs, and most commonly includes the exclusion of certain products on ethics grounds, as opposed to financial materiality.

SD indicated that, in accordance with the Administering Authority's fiduciary duty, ethical issues (or non-financial factors) can be considered if it is reasonable to think the scheme members would agree AND there would be no significant financial detriment to the Fund (which may in turn cause a financial burden to all employers in the Fund, a point which also brings their views into focus).

RE, from Border to Coast indicated that in discussions with academics, there are generally 3 categories of motivation behind the Divestment vs Engagement debate (summarised below). As already discussed in the meeting, the LGPS may operate in the first two categories but not the third.

1. Invest primarily to achieve a financial return – the LGPS has a 100-year time horizon and it is true that all ESG factors will have an impact on returns over that period
2. As responsible stewards of investments it may additionally be possible to make a difference (initially through good stewardship including engagement and through how capital is deployed) without materially changing expected investment returns
3. Ethical investing: some investors fundamentally have a problem receiving returns from companies that operate in specific sectors.

AW representing Cumbria Divest broadly agreed with the Fund's approach towards RI (not ethical) and commented an integral part of fiduciary duty is to incorporate ESG considerations into investment decisions to manage investments in a long-term sustainable way – it's about how the risks are taken into account. AW said that being a responsible investor, and taking Environmental, Social and Governance (ESG) factors into account when making investment decisions, is now viewed as risk management tool by most mainstream investors. AW agreed that engagement is a key tool in making a difference to the companies the Fund invests in. However in respect of the fossil fuel sector she feels it is too late for engagement with this sector. AW highlighted that there have already been so many extreme weather events e.g. fires and floods linked to climate change and that this will lead to crop failures and food shortages - these concerns means that it is the biggest systemic risk to the global financial system and the world. The Chair asked how this could be linked to the Fund's objectives and AW indicated it should be how the Fund articulates its policies, states the Fund's views and frames the approach. AW noted that she was aware of another LGPS fund that chose to divest by deciding not to maximise returns but looking at how they could implement climate change considerations within their responsible investment policy. AW said that it should be very important to consider the risk of stranded assets of holding fossil fuels as there will be a time when valuations fall, at which point it will be too late to divest. AW noted that such an event could be very soon.

The Chair reiterated the long-term time horizon of the Fund and the need to balance fiduciary duty to maintain reasonable returns. DB, a representative of Cumbria Divest, indicated that she did not agree that Climate Change is just one aspect of considerations but rather that it should be the overriding one. DB suggested that the Fund should have a tighter grip on the climate science and that it should not be investing in things that can harm scheme members and their environment in the long term – she considers this is a large part of the Fund's fiduciary duty and her view was that fiduciary duty is about looking after beneficiaries in the long term (particularly younger members who have long time horizons) and not just looking at short term financial returns.

SW, a further representative of Cumbria Divest, indicated her concerns over the speed of change in respect of the Climate Emergency and that some still talk of 2050 as if it's a long way off when actions over the next 5-7 years, will see massive impacts on world climate and a lot of science models are backward looking and therefore out of date. Cumbria Divest are currently conducting a survey asking 'if we don't act now - will it be too late?'.

MS, Environmental Officer for UNISON Cumbria County Branch, indicated he would argue the need to divest from fossil fuels companies however he is pleased 'sustainability' is considered, of which there are 3 parts – Financial – Social – Environmental. He stated many considered sustainability from a financial viewpoint but believes this should factor in the risk of stranded assets, and the insurance costs of extreme weather events. In respect of social aspects, there are already starting to be a large number of climate refugees and this will only get worse as sea levels around the world continue to rise. In respect of Environmental aspects MS stated – there is no worth in having a job, if we are on a dead planet or of a pension if life is unliveable.

PM, the Independent Chair of Cumbria Local Pension Board, commented that ideas about divesting are understandable to an extent but need to be considered in the wider Pension Fund context. He asked RE to comment on the recent government consultation on pooling of LGPS assets including the aim that by 2025 the investment will mainly be held in funds managed by Border to Coast. He also asked whether the Cumbria approach was aligned to Border to Coast and how Border to Coast balance the views of all 11 LGPS Funds whose investments are managed by the company.

RE indicated that Border to Coast seeks alignment of views for the approach to RI and that Cumbria is aligned. This was confirmed by PG from a Cumbria Fund perspective. RE said that Border to Coast work with Robeco (an industry-leading provider of engagement and voting services) and collaborate with other large asset owners to gain scale. Border to Coast is a very active asset owner, however this is a dynamic area that is constantly progressing. RE indicated she agreed with all she has heard and that Border to Coast views climate change as a systemic risk. RE noted that Border to Coast review their RI policies annually and these do include exclusions which are being strengthened for the 2024 policies in respect of controversial weapons and percentages of revenue derived from thermal coal extraction and power generation.

RE said that Border to Coast consider the risk of stranded assets and acknowledge that this financial risk runs across many companies, not just fossil fuel companies. Border to Coast have a Net Zero target of 2050 or sooner and a roadmap to reach it, this includes investing in opportunities to support the transition to a low carbon economy including technology to replace oil & gas. RE noted there is a climate scientist in Border to Coast's RI team, the company has a wide range of research and data available to it and is well placed to assess the risks. RE also noted that Border to Coast have a supportive group of Partners Funds who agree with its approach to undertake engagement rather than divestment.

AW challenged the climate scenarios that investment managers use and pointed to academic articles questioning whether they were too finance focused and not based on climate science therefore inaccurate. RE accepted that no model is perfect and indicated that Border to Coast seek to understand the parameters used within models and use any output as part of a more holistic approach.

CB recognised that a particular challenge for Local Government Pension Funds was the need to find an appropriate balance between considering ethical views and financial matters.

PD acknowledged the passionately held views being expressed and affirmed the need to consider the statutory fiduciary duty. PD also highlighted that the elected Members responsible for the Fund need to act in the best interests of the Pension Fund and not be overly influenced by their personal views.

The Chair concluded that there was commonality within the investment approach undertaken by the Cumbria Pension Fund, but differences of opinion arise with the Fund's approach to its investment in the fossil fuel sector and the potential timing of the stranded assets risk. He also suggested that, following the conversation, the Fund may wish to consider explicitly referencing Climate Change within its RI Policy.

Round table question 2:
Given that Responsible Investment is part of the overall investment decision making process, to what extent do we believe that the best way to achieve this is to influence through active engagement and encourage continuous improvement rather than through divestment?

AW stated that RI is key to managing investments in a sustainable way to achieve long term returns, that there is a place for engagement in many sectors as part of an active engagement approach but, in the case of fossil fuels, she considers it is too late. AW said that the effects of the climate emergency are being experienced now, it is pretty much already too late to achieve less than 1.5

degrees warming. AW highlighted that fossil fuel companies have this year pulled back from their emissions targets whilst making unprecedented profits and investing in new oil and gas production. AW considered that this demonstrated that engaging with fossil fuel companies has failed. AW asked what Border to Coast's escalation policy is on this and what are their red lines? For example what would lead them to the point of divestment? She highlighted again the risk of stranded assets in the fossil fuel sector and how there could be a massive revaluation at any point when investors realise they don't want to be invested in fossil fuels anymore given the rise in renewable energy and new technologies which will replace fossil fuels plus potential increased regulation against fossil fuel use. AW highlighted that there is analysis that shows correlation between large investors divesting and reduced emissions. She also made the point that it is worthwhile engaging with other sectors eg the banks and flagged the good work that Border to Coast is doing on this and other topics.

RE asked what those present thought the outcome of divestment would be? RE said that, for example, Border to Coast had previously opted to disinvest from Exxon in part due to the company's unresponsiveness to engagement from its shareholders. However, this does not necessarily mean that disinvestment is appropriate for the entire fossil fuel sector. RE said that Border to Coast's position continues to be that engagement can be effective. Cumbria's investments total £3bn but collectively, Border to Coast has influence over £60bn and the LGPS in total has investments totalling some £360bn. There are vast differences across behaviours in companies in the UK, Europe, the US and Emerging Markets with many in the latter groups less well progressed on this journey but active engagement can & does change actions.

RE highlighted that there are academic studies/opinion that can support the argument on both sides, including a significant body of evidence indicating that divestment is shown to increase the production of fossil fuels. There are examples of mining companies separating core business from their coal production activities which has resulted in coal specific companies who do not have an actively engaged shareholder base and simply increase production. There is also the need for a Just Transition, where the social impact of any change needs considered and the impacts mitigated, as a country the UK has effectively exported the majority of its manufacturing emissions to the rest of the world and we therefore have a responsibility to help the rest of the world on their journey to decarbonise (especially emerging market countries).

AW raised the point that Shell & BP have been subject to engagement and voting actions for a number of years but, regardless of this, both companies have weakened their approach to emissions targets this year, asking is it not clear that engagement is not working and we should get out of these holdings now? AW suggested that these investments would be better invested in low carbon projects within Cumbria.

RE countered that a large chunk of the world's energy derives from oil and gas and divesting from Shell and BP won't change that, and these companies need to invest in the new technologies needed to replace oil & gas and make energy greener. RE also noted that, through its private market propositions including its Climate Opportunities portfolio, Border to Coast do consider and invest in both UK and global energy transition initiatives.

PD indicated that part of responsible investment is to look at the opportunities not just the risks and the Fund may be able to take a little more risk to consider investments in local impact or climate friendly opportunities. It was also recognised that the Government define “local” as being investments within the UK.

GC accepted that Border to Coast has divested from Exxon on an investment case basis and that at a portfolio level the best approach is definitely to engage (company by company). However, it was recognised that there will be holdings at the centre of the Venn diagram where engagement will reach the end of the line. GC suggested the need for a framework where targets for engagement are set and if not achieved and engagement is not working that clearly defined steps are taken. GC is sceptical that engagement will work within the oil and gas sector as they have been at the vanguard of climate science for decades and he believes it is time for the Fund to actively invest in renewables and transition technologies. GC also noted it would be good to get a more definitive view of whether divestment leads to increased fossil fuel production.

CB & VL indicated they would welcome investment in Cumbrian projects that seek the best financial returns through climate supportive investments.

SW said that, in her opinion, it was time to reduce investment in these sectors to make them change and that the time for engagement with fossil fuel companies had passed. AW concurred with this; but recognised that Border to Coast were actively engaging with companies in which it invested but felt that this was too late for the fossil fuel sector with the possible exception of those in emerging markets where investors can seek to help improve and change their model.

MS cautioned that a rapid change in the main industry within communities needs to be balanced in line with a ‘Just Transition’ but agreed it is time to divest from fossil fuels and invest in the green economy, preferably locally.

The Chair concluded that the was general agreement with the Fund and Border to Coast’s approach to active engagement with the exception of fossil fuels where was a divergence of opinion as to the effectiveness of engagement within this sector.

Round table question 3:

How can we use our Responsible Investment approach to achieve a broad range of environmental social and governance (“ESG”) objectives?

DR highlighted that this question seeks views as to how the Committee may develop its ongoing approach to RI. He said that the Committee are open to challenging the Fund's current policies and have already drafted revised Investment beliefs with this being a dynamic document that will be reviewed alongside the updating of the Responsible Investment policy. Border to Coast have comprehensive policies and it acknowledged that it takes time to make changes to investments in a responsible way. DR also noted that the Fund articulates its approach within its Stewardship report and that this approach will continue to be developed.

The Chair indicated the current RI policy considers ESG factors within the context of financial return seeking assets – which is an aspect that is continually moving.

AW said that Cumbria Divest is not seeking across the board divestment from the Pension Fund but consider that it is too late for the fossil fuel sector to change as a result of further engagement.

GC reiterated that active engagement is about having a framework, and that if engagement is proving to be unsuccessful then there should be a stepped process towards divestment.

PM mentioned he thought Border to Coast were constructing a 'green fund' and requested more information. RE confirmed Border to Coast launched Climate Opportunities 18mths ago, which incorporated innovative investments linked to Climate transition, new technologies etc, it is within private markets (and it includes elements of venture capital) and RE believes it can play a part in any Partner Fund's investment strategy. RE noted that Climate Opportunities 2 will launch in April 2024 – investments are made globally (not just the UK), noting also that there is a massive need for this kind of investment in Emerging Markets. RE said that Border to Coast also have a UK Opportunities Fund, which seeks to help growth and regeneration, including things such as social housing i.e. seeking returns that deliver 'Impact'.

SD sought to emphasise 3 points:

- In accordance with fiduciary duty, pension funds have the ability to divest from investments where there is a risk of long-term financial detriment to those assets.
- Under the LGPS Investment Regulations, the Administering Authority is required to prepare an Investment Strategy Statement and the government has stated that its preference is for Funds to consider the best way to engage with companies to promote their long term success rather than simply to divest. He noted that the Fund's Investment Strategy Statement is compliant with the government's expectation in this regard.
- There are practical factors to consider in respect of divestment, such as the structure of the funds and vehicles through which the Fund's asset portfolio is currently invested, especially where they are less liquid in nature. That said, it is inevitable that, 100 years from now, pension funds won't be invested in the same companies they are now. He therefore noted that there could possibly be an explanation of the Fund's phasing or timing approach to divestment which could help articulate the journey as it is expected to develop.

AW stated that Cumbria Divest believe the risk of stranded assets will be an event without notice – a catastrophic fall in value. She asked how would the Fund explain the resulting impact on the funding level?

PD agreed we have a responsibility to make the right decisions on climate change and use the Fund's portfolio to best effect, recognising that it needs to be return seeking but also having impact for change. She highlighted that there was clear differences in how this could be accomplished but all views would be represented to the Cumbria Pensions Committee as part of the engagement feedback.

PD reflected that the Fund doesn't highlight enough of what it and Border to Coast already do, there is lots already happening and that the Fund should provide more information to Pensions Committee on its actions and approach.

PD concluded that all points raised at this meeting and through the wider engagement associated with the review of the responsible investment policy will be considered by the Cumbria Pensions Committee.

The Chair thanked everyone for attending, representing their views and respecting the views of others.

Attendee List:	**Initials**	
John Harrison	JH	Independent Chair
		Cumbria Pension Fund Representatives:
Doug Rathbone	DR	Chair of Cumbria Pensions Committee
Patrick Mulligan	PM	Chair of Cumbria Local Pensions Board
Pam Duke	PD	Director of Resources (Section 151 Officer), Westmorland & Furness Council
Pete George	PG	Acting Senior Manager - Cumbria Pension Fund
Lucy Taylor	LT	Finance Manager - Pensions Investments and Governance (Note Taker)
		Interested Party Representatives:
Debbie Binch	DB	Cumbria Divest
Martin Sleath	MS	Environmental Officer for UNISON Cumbria County Branch
Susanne Walley	SW	Cumbria Divest
Anne-Marie Williams	AW	Cumbria Divest
		Employer Representatives:
Chris Bagshaw	CB	Town Clerk, Kendal Town Council
Gavin Capstick	GC	Director of Visitor Services and Resources, Lake District National Park
Vivien Little	VL	Town Clerk, Keswick Town Council
		Other Representatives:
Rachel Elwell	RE	CEO, Border to Coast Pensions Partnership (Border to Coast)
Simon Daniel	SD	Partner, Eversheds Sutherland (International) LLP