Fact-check: Why the Greater Manchester Pension Fund can and must stop funding the fossil fuel industry

August 2023

Who are we?

Fossil Free Greater Manchester is a grassroots coalition of organisations, scheme members and local residents who are working to persuade the Greater Manchester Pension Fund (GMPF) to commit to a speedy and full divestment from the fossil fuel industry.

The Pension Fund's Fossil Fuel Holdings

The pension fund's largest direct investments are with Shell, Glencore and BP, all companies that extract oil, gas or coal. At 31 March 2022, by our calculations, GMPF had direct holdings of **£1.64 billion in fossil fuel companies, which is 5.6% of their holdings**.

GMPF stands out among local government pension schemes for its commitment to the fossil fuel industry. A recent report concluded that in 2020 GMPF had by far the largest holdings in fossil fuels, almost twice that of the funds with the next highest holdings – Strathclyde, West Midlands and West Yorkshire - which each had about £½bn invested in fossil fuels. In contrast, Lancashire pension fund has only 1.2% of its investments in fossil fuels and Cheshire just 1%.

Divestment is growing and it works

Investors managing over $32 trillion of assets globally have now made divestment commitments. Since 2014 the amount of assets publicly committed to divestment has grown by over 75,000% and the number of institutional commitments to divestment has grown by 720%. The Church of England is only the latest in a long line or organisations that have decided to divest.

Divestment is working – in 2018 Goldman Sachs said that divestment has "in our view been a driver of the [coal] sector de-rating over the past five years." A study released in 2021 concluded that the "effect of the fossil fuel divestment movement is highly significant" in reducing the ability of fossil fuel companies to raise new capital. A further study in the 2022 Journal of Banking and Finance provided evidence that divestment both reduced the share value of the targeted fossil fuel companies and reduced their fossil fuel emissions.

Who controls GMPF?

As with other multi-council pension funds, one local authority leads on administering the fund. In the case of Greater Manchester, this is Tameside Council. Each local authority within Manchester is represented on the GMPF Management Panel. The Panel carries out a similar role to the trustees of a pension scheme and is, constitutionally, **the key decision-maker** for the investment strategy.

Eight out of Ten Greater Manchester Councils want GMPF to divest

8 of the 10 Greater Manchester councils have asked GMPF to divest from fossil fuel companies – either by passing a council resolution and / or signing a joint letter to GMPF in 2021. Their requests have been totally ignored.

How can this be, when GMPF is managed on behalf of the 10 Greater Manchester councils and all the councils have a representative on the Fund's Management Panel?

The explanation is that Tameside Council manages the pension fund and therefore 11 of the 20 GM Council representatives on the Management Panel are Tameside councillors. Tameside Council controls the Panel's decisions and refuses to change.

The ten GM councils pay millions of pounds in employers' contributions to GMPF every year. (£441m in 2021.) Yet the Fund does all it can to stifle open debate. It:

- Regularly ignores correspondence on this matter from GM councils.
- Refuses to attend GM council meetings to explain its position.
- Claims that GM councils have no powers of scrutiny over GMPF.
- Takes most Management Panel reports in private, thereby preventing GM council representatives from discussing these with their own council officers.
- Refuses to give panel members the opportunity to vote against proposals.
- Holds its Annual General Meeting with employers behind closed doors.

GMPF's hollow arguments for investing in fossil fuels

Why is it that a Fund which has relatively high levels of investment in renewable energy is refusing to divest from fossil fuels? GMPF justify this by talk of fiduciary duty, the value they see in engaging with fossil fuel companies as shareholders and the imperative of making the best possible returns for investors. We show in **the table** below how these and other GMPF arguments can easily be rebutted.

Time for Greater Manchester to Divest!

Greater Manchester led the industrial revolution using its coal. Now it's time for it to lead again and, as the biggest local government pension scheme in the UK, to make a stand on divestment.

The biggest threat to workers, pensioners, employers and taxpayers is the climate emergency. Inaction by GMPF contributes to the risk of climate instability and economic collapse and tarnishes a city region with an ambitious carbon reduction agenda.

Unison's conference unanimously adopted a motion for divestment of pension funds in July 2017.

Fossil fuel investments are increasingly volatile. Presently they are riding high, but as the world decarbonises, that will not be the case forever. Now is a good time to sell, before share prices plummet again.

It's time for GMPF to stop making excuses and use its expertise and investments to rapidly divest from fossil fuels and thereby help to create a safer future for all GM residents.

Fossil Free Greater Manchester, August 2023.
www.fossilfreegm.org.uk

GMPF’s arguments against divestment and our response

GMPF position	Our response
It’s better to engage with fossil fuel companies and change their behaviour. GMPF uses its shareholdings to bring shareholder resolutions at companies including Shell, BP, Anglo American and Glencore.	Decades of engagement with fossil fuel companies has failed to change their core business, i.e. fossil fuel extraction. The big oil companies continue to expand fossil fuel production while reneging on their weak commitments to reduce emissions. (Big Oil walks back on climate pledges.) So it’s no surprise that our analysis of the Local Authority Pension Funds’ Forum (LAPFF) engagement activities revealed that it has completely failed to persuade fossil fuel companies to reduce their emissions. LAPFF represents most local authority pension funds, including GMPF. Our findings tally with the Church of England, which recently concluded that, despite its own and others’ engagement activities, fossil fuel companies had not aligned with the Paris Climate Agreement. Following a similar decision by the National Trust, the Church of England announced in June 2023 that, given big oil’s failure to genuinely change, it will divest from fossil fuel companies. Fossil fuel companies have long lobbied against climate change policies. By continuing to back Big Oil, GMPF lends credibility to the companies’ narrative that they are changing when all the evidence shows the opposite.
GMPF has a fiduciary duty to get the best returns for employers and pensioners. We don’t want the contribution employers make to increase.	The legal advice on fiduciary duty to the Local Government Pension Scheme Advisory Board is that “the precise choice of investment may be influenced by wider social, ethical or environmental considerations, so long as that does not risk material financial detriment to the fund”. It makes financial sense to get out of fossil fuels. Despite last year’s exceptional earnings following Russia’s invasion of Ukraine, GMPF’s investment performance over the last 10 years was still no better than other local government pension schemes. Yet fossil fuel holdings are exceptionally risky. (See next item). Many other local government pension funds (Cardiff, Islington, Lambeth, Southwark, Waltham Forest) have already committed to divesting from fossil fuels. GMPF divested from tobacco companies on public health grounds in 2014. Clearly, this was still within its fiduciary duty. The climate crisis is a much greater public health threat.
GMPF’s investment performance is good because of its holdings in fossil fuel companies. The Fund’s draft 2022 Annual Report records that ‘over the periods of 1, 15, 20, 25 & 30	In fact, GMPF’s investment performance since 2005 was average and then steadily deteriorated. Its ranking dropped from 38th to 41st out of 61 Local Government Pension Schemes (LGPS) in 2021. As expected, GMPF outperformed many LGPS in 2021-22, due to the spike in fossil fuel earnings following sanctions on Russian energy exports. But these extraordinary earnings only just brought GMPF’s investment performance back to the average for LGPS over the last ten years. (See graph on page 23 of its draft 2022 Annual Report.)

years, the Main Fund has outperformed the average local authority.’	Despite the recent spike in fossil fuel earnings, fossil free indices (that track the average performance of fossil-free investments), such as the MSCI ACWI ex Fossil Fuels Index, still outperformed all-stock indices over the past decade. The future for fossil fuel investments is high risk. The International Energy Agency’s (IEA) latest forecast anticipates that ***total demand for fossil fuels will decline steadily from the mid-2020s by around 2 exajoules per year on average to 2050.*** IEA World Energy Outlook 2022**.** In 2019, the (then) head of the Bank of England Mark Carney warned that investments in the fossil fuel industry could become ‘worthless.’ As recent events have shown, fossil fuel stocks are hugely volatile and pose a greater financial risk than divesting from them.
GMPF are working towards a ‘Just Transition’. Immediate divestment would damage the livelihood of fossil fuel workers.	The future for oil and gas workers is already very uncertain. Direct and indirect employment in the UK oil and gas sector collapsed from 247,000 in 2014 to 122,000 in 2021. There is little evidence that oil and gas companies helped those losing their jobs to transition to other sectors. Those still working in the sector understand that the future is bleak. A recent survey found that many UK oil and gas workers want to change industry, with over 80% of offshore workers considering switching. Many of their skills are transferable to renewable energy. The IEA’s 2022 World Energy Outlook predicts renewable energy will continue to grow rapidly while demand for fossil fuels will decline steadily from the mid-2020s. Maintaining fossil fuel investments only delays political action, and will in the long run make transition less just. Instead GMPF could genuinely promote a just transition by transferring its investments in fossil fuels to renewable energy and other low carbon initiatives while pushing for investment in retraining workers and in communities currently dependent on high carbon jobs. THAT would really be working for a just transition.
We have set a target to reduce our carbon footprint by 50% by 2030. (GMPF Annual Report 2022.)	GMPF’s chosen ‘carbon footprint’ is a carbon intensity measure that records emissions per £ revenue. This is a totally misleading indicator that may fall even when total emissions are rising. Even the Local Authority Pension Fund Forum has described carbon intensity measures as ‘discredited.’ Government regulations specify that private pension funds must publish at least 3 carbon metrics, of which one must be the absolute (i.e. total) emissions of its investments. Although these regulations don’t yet apply to LGPS, they are widely accepted as good practice. A recent government consultation has proposed the same for LGPS. What’s more, GMPF’s carbon footprint ignores up to 95% of emissions caused by fossil fuel companies – those produced by users burning their products (known as scope 3). If the total emissions of GMPF’s fossil fuel holdings were included, we estimate that GMPF’s carbon footprint would increase by over 75%!

	Almost half of GMPF's absolute carbon emissions derive from its holdings in fossil fuel companies. The only way it could possibly halve these is by selling its £1.6bn direct holdings in these companies and reinvesting the money in clean alternatives.
GMPF achieved over £400 million more in returns than if it had divested its shares in oil, gas and coal mining companies.	We asked GMPF for details of how they reached the £400m figure and were told that it is based on their returns from energy, mining and utility companies for the period April 2016 to March 2019. The calculations therefore include sectors other than fossil fuels, such as renewable energy which has had high earnings, and all types of mining, not just coal. The period used for comparison also presents a misleading picture. Looking for example at BP, one of GMPF's biggest holdings, [other oil stocks performed similarly], it's clear that during the period April 2016 to March 2019, BP's shares started at a relatively low level and continued to an unusually high level. However, there was a sustained fall in BP's share price even prior to Covid, and a huge drop at the start of the pandemic. Fossil fuel shares are more volatile (they fluctuate more in value) than investments as a whole. So it's important not to cherry-pick a time-frame that is unrepresentative of the bigger picture. In fact, Finance industry comparisons between stock market indices, with and without fossil fuels, indicate consistent performance by the fossil-free indices equal to or better than those that include fossil fuels over the last decade. If GMPF had sold its fossil fuel shares and reinvested in other sectors, it would have earned as much if not more from its investments.
In 2019, GMPF announced that it was moving £2.3 Billion of funds to a new "low carbon Fund". It considers this a significant divestment.	This involved moving assets from tracker funds to a "low carbon fund." Although the Pension Fund transferred £2.37 billion to a low-carbon fund, we estimate that only £124 million of these funds were invested in fossil fuels before. This means that only a small proportion of the Fund's fossil fuel investments have been taken out and put in a low-carbon fund instead. A drop in the ocean compared to the Fund's overall fossil fuel investments. Our analysis of GMPF's investments in 2019 and 2020 (taken from their 2020 Annual Report), reveals that the Pension Fund did quite the opposite, increasing its holdings in fossil fuels over this period. We found that holdings in the oil and gas giants Shell and BP, went up by 27.3% and 18.6% respectively, and holdings in Glencore, a company whose operations include coal mining, increased by 42.3%.
The International Energy Agency's (IEA) 2019 World Energy Outlook expects global energy demand to increase by 30% by 2040 and fossil fuels to constitute 77% of	As might be expected, the IEA's perspective has radically changed since the Covid pandemic and Russia's invasion of Ukraine. The IEA's most recent World Energy Outlook (WEO) 2022 concludes that, *new policies in major energy markets will help propel annual clean energy investment to more than USD 2 trillion by 2030, a rise of more than 50% from today… The increase in renewable electricity generation will be sufficiently fast to outpace growth in total electricity generation, driving down the contribution of fossil fuels for power…*

overall energy over that period.	***For the first time, a* WEO *scenario based on prevailing policy settings has global demand for each of the fossil fuels exhibiting a peak or plateau**… coal use falls back within the next few years, natural gas demand reaches a plateau by the end of the decade, and rising sales of electric vehicles (EVs) mean that oil demand levels off in the mid-2030s... **Total demand for fossil fuels declines steadily from the mid-2020s by around 2 exajoules per year on average to 2050.***
GMPF says that the Government has made clear that using pension policies to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries are inappropriate.	This point is irrelevant because moving funds out of coal, oil and gas companies is not pursuing action against a foreign nation or the UK defence industry. The Pension Funds of the London Boroughs of Islington, Lambeth, Southwark and Waltham Forest, Cardiff, the government managed pension fund NEST, the Environment Agency, and many other public and private pension funds have declared that they are divesting from fossil fuels.

If there are other arguments from GMPF that we need to add to this document, please let us know. For more detailed information, please contact us by email at fossilfreegm@gmail.com and visit our website www.fossilfreegm.org.uk.