

**REPORT OF CORPORATE DIRECTOR RESOURCES**

**AGENDA ITEM: 7**

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**FOSSIL FUEL INVESTMENTS**

**Reason for this Report**

1. This report has been prepared to update the Committee on progress towards reviewing the Pension Fund's investments in fossil fuels.

**Background**

2. Environmental groups (e.g. Friends of the Earth) have campaigned for several years against the reliance of developed and developing countries on fossil fuel sources (coal, oil and gas) for energy, on the grounds of the impact on the environment of both the extraction and consumption of fossil fuels.
3. Recent campaigns have focused on the long term financial viability of major oil and gas producers, raising issues such as agreements by governments to aim to reduce consumption and the increasing costs of extraction. Campaigners have argued that LGPS funds should cease investing in these companies on financial grounds i.e. that the companies may not be able to provide the long term capital growth and dividend income required by fund investment strategies.
4. Following the election of a new Council in May 2017, Cardiff Council published the "Capital Ambition" document setting out its five year plan. The plan included a commitment to "Work with the Pensions Committee to consider divesting Council investments from fossil fuel companies". A more detailed Corporate Plan for 2018-21 is being prepared and will set out proposals to address the commitments in Capital Ambition.

**Issues**

5. The role of the Investment Advisory Panel is to make recommendations to the Committee regarding the Fund's investment strategy, having taken advice from the independent advisors and officers as required by the LGPS Investment Regulations.
6. In response to the commitment given in Capital Ambition, the Panel has received two reports setting out the issues to be considered before any amendments could be made to the Fund's strategy.
7. The report presented to the Panel in December addressed the following issues:

- The fiduciary responsibilities of the Council and the roles of the Committee, the Panel and the Local Pension Board in fulfilling those responsibilities
  - Commitments made by other LGPS funds to amend their investment strategies to take account of environmental issues
  - The Fund's current exposure to fossil fuel related investments
  - Options for investment strategies including low carbon investing as well as full disinvestment
8. The Panel noted the work carried out to date and recommended that officers consider wider ESG (environmental, social and governance) issues, consult with other LGPS funds in Wales and consider the development of a Climate Change Investment Policy.
  9. ESG issues will be included in topics to be discussed at the joint meeting of the Pensions Committee and Local Pension Board on 23 March.
  10. The Wales Pension Partnership will work with its ACS operator Link Fund Solutions and consultants Russell Investments to consider how ESG issues can be addressed to meet the current and future requirements of the eight constituent pension funds.
  11. The UK Government announced in December 2017 that it will consult on changes to Pension Scheme Investment Regulations to allow Pension Funds to consider social factors in making investment decisions. The Panel and Committee will be advised of the proposed changes so that a response can be made to the consultation.

### **Legal Implications**

12. This report is presented for information. Detailed legal advice should be obtained as proposals are developed to amend the Fund's investment strategy.

### **Financial Implications**

13. There are no financial implications arising directly from this report. Any recommendations made to future Committee meetings to amend the Fund's investment strategy will be accompanied by an assessment of the financial impact on the Fund and its contributing employers.

### **Recommendations**

14. That the Committee notes the work undertaken to date on review the Fund's investment in fossil fuel related companies.

**CHRISTINE SALTER**  
**CORPORATE DIRECTOR RESOURCES**