Polluted Pensions?

Clearing the air around UK pensions and fossil fuels

UK DIVEST

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PLATFORM

Executive Summary

1. The global climate crisis is widespread, rapid and intensifying. The International Energy Agency recommends a "huge decline in fossil fuel use" if the Paris climate goals are to be reached and further devastation ameliorated.

2. The important role of pensions in tackling the climate crisis is now widely recognised. The UK Parliament Work and Pensions Committee declared in their 2021 report that pensions "should make an impact in reducing the real economy's contribution to climate change".

3. To reach the UN Paris Agreement goals on climate change the International Energy Agency recommends "a huge decline in the use of fossil fuels". Fossil fuels are also a financial risk, with fossil fuel investors having lost US $123 billion in the last decade.

4. UK pension funds and schemes invest £3 trillion on our behalf. This money is intended to safeguard our future, but action to ensure it is invested in a sustainable way has been limited.

5. The 27 largest UK pension funds and schemes provide pensions for over 20 million people with assets of at least £473 billion: 16% of the UK's total pension assets and 3.2% of all UK household wealth.

6. An assessment of these 27 funds and schemes found that none had made a full commitment to divest from fossil fuels, and only half published any information about their specific investments.

7. The two largest funds for whom no information could be found about their specific investments were Now Pensions, with 1.8 million members and the BT Pension Scheme, valued at £57 billion.

8. An analysis of a sample of six of the largest funds who have published information online found that typically 4.3% was invested in the top 200 fossil fuel companies.

9. £128 billion would be invested in fossil fuels across UK pension funds and schemes if our sample is applied to the whole sector. This represents an investment of £1,916 in fossil fuels for every person in the UK.

10. Over 150 pension funds globally have chosen a different path and made a public commitment to divest from fossil fuels. UK examples include the London Boroughs of Islington and Lambeth, Cardiff, and the Welsh Parliament.

11. The most effective divestment policies include a clear, time-bound commitment to divest from fossil fuels with regular reporting and accountability structures. The leading funds back this up with new investment in sustainable technologies and infrastructure and consideration of climate impacts across their portfolio.

12. New York City and State committed to divest their combined funds of US $458 billion in 2018 and 2020 respectively. Energy companies are being reviewed for their transition plans and new investment in sustainable sources of energy have also been announced.

13. Pension fund members, trade unions and activists continue to advocate for divestment from fossil fuels. Pension funds and schemes need to respond to tackle the climate crisis and safeguard their members' future.

Introduction

Every year, employees and employers pay millions of pounds into UK pension funds. After they part with this wealth it largely leaves the public eye, becoming the purview of a vast constellation of people including stock brokers, fund managers, investment consultants, shareholder engagement specialists, bankers, board members, and regulators.

When it comes out the other end the money in our pension funds should enable us to survive, or even thrive in our retirement. But pension fund members live with an uncertain future. Too often the pensions industry is distracted by a narrow definition of its legal duties and the profits of middlemen.

When it comes to the biggest challenge of our time, the climate crisis, the industry has taken some initial steps, but they are often timid, with far-off targets set that do little to lead practical change. The result has often been inaction and inertia.

Recognising the power of pensions to invest in the safeguarding of our climate, the UK Parliament Work and Pensions Committee launched an inquiry at the start of 2021. Commending a range of recommendations, in particular on improving transparency, the Chair of the Committee Stephen Timms MP noted that "pension schemes can play a major role in helping the real economy transition to net zero".[1] The Committee's report elaborated: "the purpose of pension schemes setting net zero targets is not solely that the schemes themselves should be net zero aligned, but that they should make an impact in *reducing the real economy's contribution to climate change*." In other words, pension funds can and should shape the future.

Investment in a sustainable future has never been more urgent. In its latest report the UN Intergovernmental Panel on Climate Change (IPCC) gave the world a stark warning: climate change is widespread, rapid, and intensifying, and only drastic

[1] UK Parliament, September 2021. 'Government must seize COP26 opportunity to build consensus on role of pension schemes in tackling climate change, MPs say' https://committees.parliament.uk/committee/164/work-and-pensions-committee/news/157820/government-must-seize-cop26-opportunity-to-build-consensus-on-role-of-pension-schemes-in-tackling-climate-change-mps-say/

reductions in greenhouse gases in this decade can prevent even more widespread devastation and extreme weather.[2]

The core challenge in addressing this crisis is transitioning away from fossil fuels. In May 2021, the International Energy Agency (IEA) produced a roadmap for how the global energy sector could meet the Paris Agreement goals. It recommended "a huge decline in the use of fossil fuels", stating that "there is no need for investment in new fossil fuel supply in our net zero pathway" and there should be "no new oil and gas fields approved for development".[3] Underscoring this, the UN Secretary General Antonio Guterres said we must "sound a death knell for coal and fossil fuels, before they destroy our planet."

Calls to wind down fossil fuel production have been made for decades, but fossil fuel companies remain undeterred. In 2019, major oil and gas companies spent over 99% of their capital expenditure on the development of fossil fuels, and the vast majority were planning to increase production decades into the future, despite making "net zero" pledges.[4]

Those investors who have placed their faith in fossil fuel companies have lost out: UK local government pensions collectively lost £2 billion by not divesting from oil and gas[5] while sustainable funds have been shown to deliver higher returns, both before and during the pandemic.[6] A 2021 study by Carbon Tracker found that globally,

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[2] UN, August 2021. 'Secretary-General's statement on the IPCC Working Group 1 Report on the Physical Science Basis of the Sixth Assessment' https://www.un.org/sg/en/content/secretary-generals-statement-the-ipcc-working-group-1-report-the-physical-science-basis-of-the-sixth-assessment

[3] IEA, May 2021. 'Net Zero by 2050: A Roadmap for the Global Energy Sector' https://www.iea.org/reports/net-zero-by-2050

[4] Oil Change International, 2020. 'Big Oil: Reality Check' http://priceofoil.org/2020/09/23/big-oil-reality-check/

[5] Financial Time, 2020. 'UK public pension funds suffer £2bn hit to oil investments': https://www.ft.com/content/f74502ad-8ae9-4715-a297-364ab8418c11

[6] Financial Times, 2020. 'Majority of ESG funds outperform wider market over 10 years': https://www.ft.com/content/733ee6ff-446e-4f8b-86b2-19ef42da3824

investors have lost US $123 billion by betting on fossil fuel stocks in the last ten years while renewable energy investments *gained* US $77 billion.[7]

Unable to respond to the pace of change required and faced with transition costs and stranded assets, the future prospects for fossil fuel companies look increasingly bleak. Instead of adapting to the future energy economy they have instead lobbied for financial handouts and undermined public policy that would cut fossil fuel demand and help keep us safe from environmental catastrophe.[8] We need investment to be moved away from fossil fuel production and we need the polluters' poor behaviour to be challenged.

The UK pension industry looks after £3 trillion in assets.[9] Where invested in the best interests of society, our pensions are a powerful force for good. Are they playing their part in the effort to transition our economy away from fossil fuels?

To answer this question this report looks at transparency across 27 of the UK's largest pension funds, and what this means for the sector at large. We then analyse the fossil fuel investments of a selected sample to give a broader estimate of the scale of fossil fuel investment across the industry. Finally, we will consider best practice approaches to addressing the problem and recommendations for action.

Transparency Trouble

Data collection presents a challenge when seeking to assess the fossil fuel investments of UK pension funds. This is because transparency is highly variable.

We set out to gather data from the UK's 25 largest pension funds and schemes,[10] plus the three largest auto-enrolment funds by membership: NEST, the People's Pension and Now Pensions. Since they are managed together, we have merged the available data for Lloyds and HBOS, giving us 27 funds and schemes.

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and Institute for Energy Economics and Financial Analysis (2021) 'Major investment advisors BlackRock and Meketa provide a fiduciary path through the energy transition': https://ieefa.org/major-investment-advisors-blackrock-and-meketa-provide-a-fiduciary-path-through-the-energy-transition/

[7] Carbon Tracker, March 2021. 'A tale of two share issues': https://carbontracker.org/reports/a-tale-of-two-share-issues/

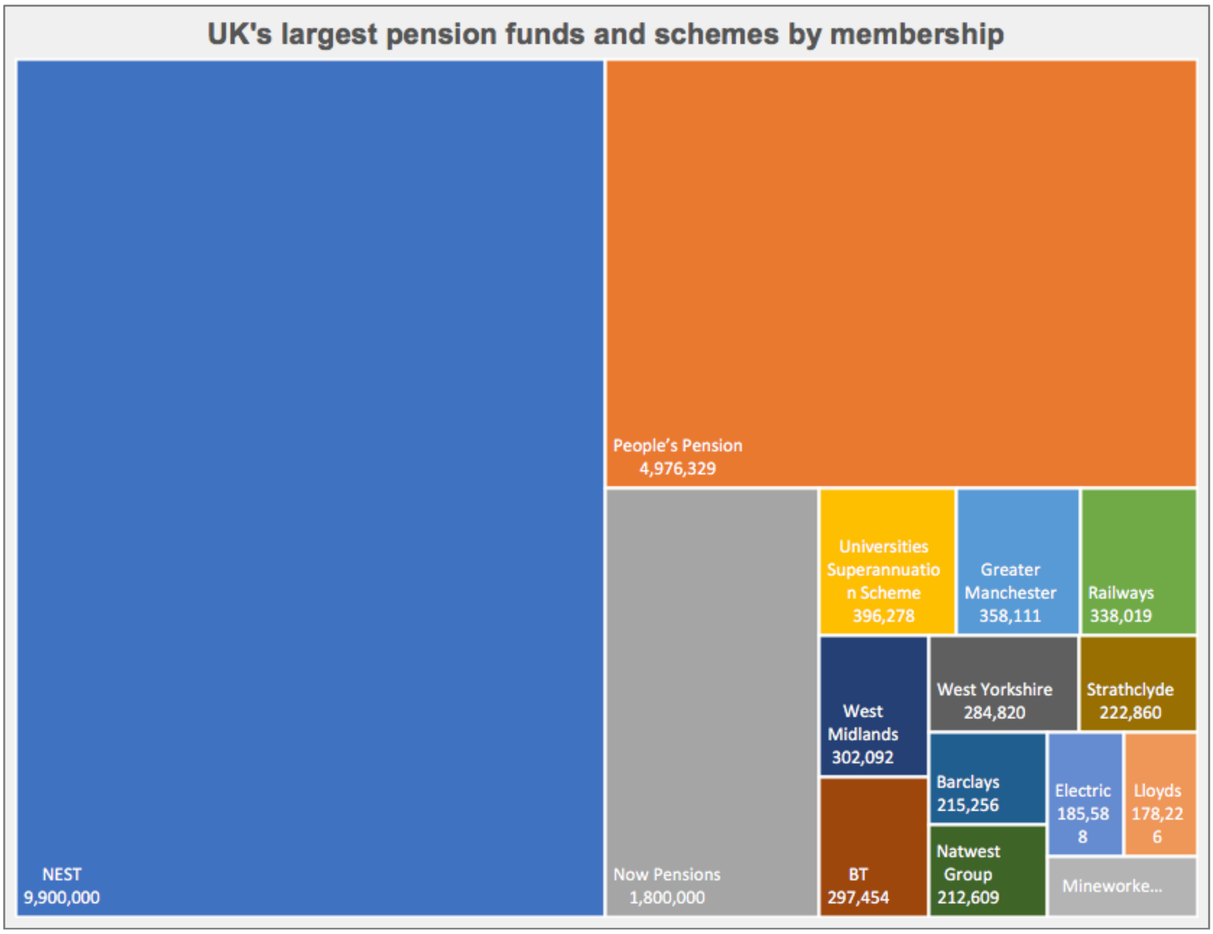
[8] The lobbying efforts of the fossil fuel industry are well documented, recent examples from the UK and US follow:
Guardian, September 2021. 'UK ministers 'met fossil fuel firms nine times as often as clean energy ones'' https://www.theguardian.com/environment/2021/sep/10/uk-ministers-met-fossil-fuel-firms-nine-times-more-often-than-clean-energy-companies
DeSmog, September 2021. 'Oil Industry Launches Lobbying Blitz as Congress Targets Fossil Fuel Subsidies' https://www.desmog.com/2021/09/02/oil-intangible-drilling-axpc-congress-fossil-fuel-subsidies/

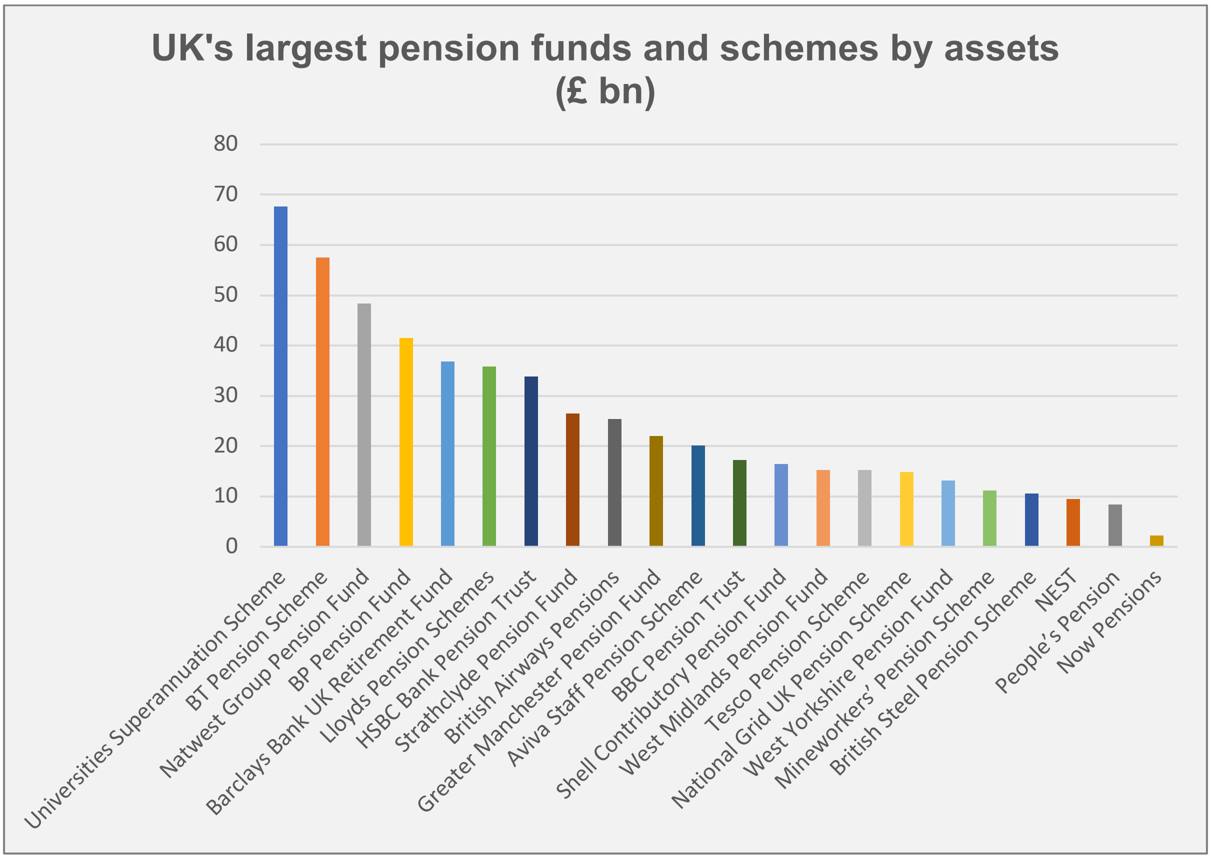
[9] See 'The Scale of the Problem', later in this document, for an explanation of this figure.

[10] We refer to the 25 largest funds according to the 2018 UK Parliament Environmental Audit Committee report 'Greening Finance: embedding sustainability in financial decision making' https://publications.parliament.uk/pa/cm201719/cmselect/cmenvaud/1063/106310.htm

Pension Fund or Scheme[11]	Members	Assets Under Management (AUM) £ billion, 2020	Availability of data on specific investments
NEST	9,900,000*	9.500	Top 10 holdings published
People's Pension	4,976,329*	8.421	Top 200 holdings published
Now Pensions	1,800,000*	2.194	No data in public domain
Universities Superannuation Scheme	396,278	67.684	Top 100 holdings published
Greater Manchester Pension Fund	358,111	22.034	Entire portfolio published
Railways Pension Scheme	338,019	Not available	No data in public domain
West Midlands Pension Fund	302,092	15.288	Entire portfolio published
BT Pension Scheme	297,454	57.493	No data in public domain
West Yorkshire Pension Fund	284,820	13.214	Entire portfolio published
Strathclyde Pension Fund	222,860	26.473	Entire portfolio published
Barclays Bank UK Retirement Fund	215,256	36.800	No data in public domain
Natwest Group Pension Fund	212,609	48.396	Data on individual pension options published
Electricity Pensions	185,588	Not available	No data in public domain
Lloyds Pension Schemes	178,226*	35.853	Data on individual pension options published
Mineworkers' Pension Scheme	177,288	11.220	Top 10 holdings published
British Steel Pension Scheme	125,176	10.632	No data in public domain
HSBC Bank Pension Trust	112,723	33.876	Data on individual pension options published
BAE Systems Main Scheme	108,286	Not available	No data in public domain
National Grid UK Pension Scheme	105,149	14.869	No data in public domain
British Airways Pensions	65,992	25.395	Top 200 holdings published
BBC Pension Trust	63,616	17.287	Top 20 holdings published
Shell Contributory Pension Fund	41,988	16.463	Top 10 holdings published
Rolls-Royce Pension Scheme	12,014	0.451	No data in public domain
BP Pension Fund	Not available	41.463	No data in public domain
Aviva Staff Pension Scheme	Not available	20.125	No data in public domain
Tesco Pension Scheme	Not available	15.225	No data in public domain
Ford Pension Fund	Not available	Not available	No data in public domain
Total	*20,479,874*	*473.149*	

[11] Those in blue are assessed in more detail in 'The Scale of the Problem'.
Membership data is from 2017 (Professional Pensions, 'The Top 100 Pension Schemes 2017': https://www.professionalpensions.com/analysis/3060952/-100-pension-schemes-2017) except where marked (*), where data are from 2020/2021 and sourced from individual fund or scheme annual reports.


UK's largest pension funds and schemes by membership
People's Pension
4,976,329
Universities Superannuation Scheme
396,278
Greater Manchester
358,111
Railways
338,019
West Yorkshire
284,820
Strathclyde
222,860
West Midlands
302,092
Barclays
215,256
Electric
185,588
Lloyds
178,226
NEST
9,900,000
Now Pensions
1,800,000
BT
297,454
Natwest Group
212,609
Mineworke...


UK's largest pension funds and schemes by assets (£ bn)
80
70
60
50
40
30
20
10
0
Universities Superannuation Scheme
BT Pension Scheme
Natwest Group Pension Fund
BP Pension Fund
Barclays Bank UK Retirement Fund
Lloyds Pension Schemes
HSBC Bank Pension Trust
Strathclyde Pension Fund
British Airways Pensions
Greater Manchester Pension Fund
Aviva Staff Pension Scheme
BBC Pension Trust
Shell Contributory Pension Fund
West Midlands Pension Fund
Tesco Pension Scheme
National Grid UK Pension Scheme
West Yorkshire Pension Fund
Mineworkers' Pension Scheme
British Steel Pension Scheme
NEST
People's Pension
Now Pensions

The assembled group of funds and schemes provides pensions for over 20 million people in the UK, with assets of at least £473 billion.[12]

According to the Office of National Statistics (ONS), UK pension funds hold £3 trillion in assets,[13] while total UK household wealth amounts to £14.6 trillion.[14] This means that the funds accounted for above represent 16% of the UK's total pension assets and 3.2% of all UK household wealth.

Transparency in the funds and schemes was found to be variable:

- For 13 of the funds and schemes, just under half, no information about their specific investments could be found. The largest of these by membership is Now Pensions (1.8 million members) and the largest by assets is the BT Pension Scheme (£57 billion).
- 7 of the funds made some information available, such as listing the top 10 top holdings across their funds (in the case of NEST, Shell, BBC and the Mineworkers Scheme), or listing investments by pension option (in the case of the high street bank schemes).
- 7 of the funds published detailed information online, such as detailed lists of their holdings, or complete breakdowns of their investments. All four of the funds in the Local Government Pension Scheme (LGPS) fell into this category, the others being the People's Pension, the Universities Superannuation Scheme and British Airways.

The majority of the largest funds and schemes appear to have made no commitment to divest from fossil fuels or invest according to the Paris Agreement climate goals.

Of those that have made climate commitments the BT Pension Scheme[15] and the People's Pension[16] are pledged to go "net zero" climate emissions within the next decade or so and NEST,[17] the USS[18] and the National Grid[19] are selectively divesting from coal.

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[12] This is an underestimate due to fund value data not being available for four funds, see table.

[13] The ONS values private pension liabilities at £2,553 bn and public funded pensions at £413 bn. The total amount invested in pension funds can therefore said to be £2,966 bn, or £3 trillion. Data source, ONS, 2018: https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/articles/pensionsinthenationalaccountsafullerpictureoftheuksfundedandunfundedpensionobligations/2018

[14] ONS, 2018: https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/totalwealthingreatbritain/april2016tomarch2018

[15] BT Pension Scheme, 2020. 'Climate Change Policy': https://www.btps.co.uk/MediaArchive/SchemeSite/BTPS%20Climate%20Change%20Policy%20September%202020.pdf

[16] The People's Pension, 2018. 'Responsible Investment Policy': https://thepeoplespension.co.uk/wp-content/uploads/2019/03/TPP-Responsible-Investment-Policy-v2-Nov-2018.pdf

[17] NEST, 'Climate Change Policy': https://www.nestpensions.org.uk/schemeweb/dam/nestlibrary/climate-change-policy.pdf

[18] USS, 2020. 'USS to make first divestments after long term investment review': https://www.uss.co.uk/news-and-views/latest-news/2020/06/06012020_uss-to-make-first-divestments-after-long-term-investment-review

[19] National Grid Pensions, 2021. 'Climate Change Strategy Statement': https://bit.ly/3mgkwwo

These commitments are encouraging, although we would want to test implementation, especially of “net zero” commitments, against real investment data.

In the case of the People’s Pension and the USS, their promises may be monitored by fund members and the general public alike in the coming years, as long as they maintain their record of transparency. This cannot be said of the other funds and schemes listed.

The impact of the UK Government’s official backing of the Taskforce on Climate-related Financial Disclosures (TCFD) appears to be limited. It’s remarkable, for example, that despite endorsing the scheme HSBC, NEST and BT Pensions have very limited or no information available about their specific investments.[20]

It will be impossible to judge the efficacy of commitments made by funds who do not publish specific information about their investments, so publishing regular, detailed and specific information should form part of any trustworthy climate change strategy.

Fortunately for our purposes in this study, enough funds have provided information online that we can make some assessment of the general state of the industry’s investment in fossil fuels.

The Scale of the Problem

We have analysed the investments of several of the largest UK pension funds to create a representative sample of the UK pensions industry.

Taking into account the data available and seeking to include a range of different kinds of funds, we have chosen two high street banks, a local authority, an auto-enrolment fund, a public-sector employer and a former state-run company.[21]

The table includes the total assets *published* by each fund. This is generally not the same as their reported total assets (Assets Under Management) since, as can be seen, only the Strathclyde Pension Fund published full details of its assets. For the other funds we have had to use the published data as a proxy to represent the whole fund’s investments. Published assets have then been screened for the 200 largest fossil fuel companies.[22]

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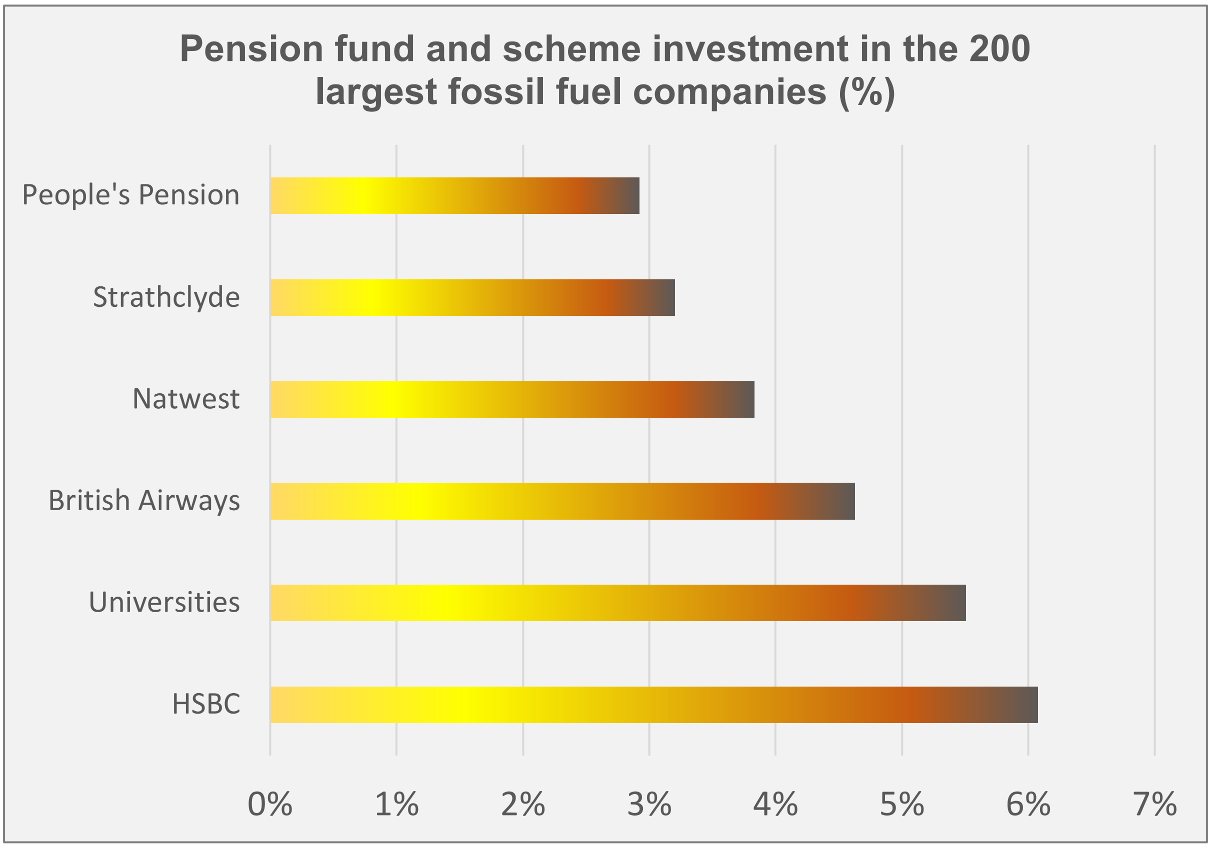
[20] As of September 2021, 36 UK pension funds have signed the TCFD, including BT Pension Scheme, Greater Manchester Pension Fund, West Midlands Pension Fund, HSBC Pensions and NEST: https://www.fsb-tcfd.org/supporters/

[21] A justification for how we selected the six funds in our analysis can be found in ‘Sources’, at the end of this document.

[22] Our complete methodology is detailed further in ‘Sources’, at the end of this document.

Fund or Scheme	Published Assets £ millions	Coal		Oil & Gas		Coal, Oil & Gas	
		£ million	%	£ million	%	£ million	%
British Airways Pensions	2,500	24	1.0	91	3.7	114	4.7
HSBC Bank Pension Trust	300	6	2.0	12	4.0	18	6.0
NatWest Group Pension Fund	501	6	1.3	13	2.6	514	3.9
People's Pension	1,934	0	0	56	2.9	56	2.9
Universities Superannuation Scheme	10,331	73	0.7	495	4.8	567	5.5
Strathclyde Pension Fund	26,372	319	1.21	525	1.99	843	3.2
						Median	**4.3**



Adjusted for the number of assets reviewed in each, we find the median investment in fossil fuels found across the six funds and schemes to be 4.3%.

This is comparable to a 2020 study of pension funds across the entirety of OECD member states published in the journal Energy Research & Social Science, which came to a figure of 3.8%.[23]

According to the Office of National Statistics (ONS), UK pension funds hold £3 trillion in assets.[24]

Taking the funds analysed above as a representative sample of the whole industry, we estimate that **£128 billion is invested in fossil fuels by UK pension funds**. **This amounts to £1,916 invested for every person in the UK.**[25]

Fossil Free Pensions

Unlike the funds just discussed, a number of pension providers have made public commitments to divest from fossil fuels.

There is no one blueprint for an effective fossil fuel divestment policy, but notably commendable commitments have included a clear, time-bound commitment to divest from fossil fuels with regular reporting and accountability structures. The leading funds also place divestment from poorly behaving companies within a broader framework that includes investment in sustainable technologies and infrastructure, consideration of climate impacts across portfolios, and broader investor and public policy efforts to address the climate crisis.

According to US-based organisation 350.org, over 1,300 organisations have made public commitments to divest from fossil fuels, including 150 pension funds.[26] The case studies that follow give a picture of how funds of different scales may seek to implement divestment within their own contexts.

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[23] Rempel and Gupta, 2020. 'Conflicting commitments? Examining pension funds, fossil fuel assets and climate policy in the organisation for economic co-operation and development (OECD)': https://www.sciencedirect.com/science/article/pii/S221462962030311X

[24] As discussed, the ONS values private pension liabilities at £2,553 bn and public funded pensions at £413 bn. The total amount invested in pension funds can therefore said to be £2,966 bn, or £3 trillion. Data source, ONS, 2018: https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/articles/pensionsinthenationalaccountsafullerpictureoftheuksfundedandunfundedpensionobligations/2018

[25] UK population of 66.8 million, ONS 2021: https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/articles/overviewoftheukpopulation/january2021

[26] 350, September 2021, 'Fossil Free Commitments': http://gofossilfree.org/commitments/

New York

The New York State Common Retirement Fund (NYSCRF) is a US $268 billion fund providing pensions to over one million public workers.[27]

In December 2020, the fund announced a comprehensive new policy to address the climate crisis likely to result in divestment from fossil fuel companies, with additional measures to increase investments in climate solutions to US $20 billion.

State comptroller, Thomas P. DiNapoli said “New York State’s pension fund is at the leading edge of investors addressing climate risk, because investing for the low-carbon future is essential to protect the fund’s long-term value.”

The fund is using in-house staff and consultants, including Carbon Tracker, to assess the performance, outlook and transition readiness of its fossil fuel holdings. Reviews of all fossil fuel holdings including any resulting divestment must be completed by December 2024.

Activities which will flag companies for review include fossil fuel production, oil and gas servicing, and fossil fuel transportation and storage, such as pipeline operators and Liquified Natural Gas terminals.

Assessments are being carried out in tranches according to Global Industry Classification Standard sub-sectors, with the outcomes – i.e. which companies have been earmarked for divestment – published on completion.

The first tranche was completed in June 2020 and saw divestment of 22 thermal coal companies that exceeded a 10% revenue threshold and failed to evidence a rapid exit from fossil fuels. Tar sands were reviewed in the second tranche, with seven companies divested in April 2021.

In August 2021, the fund began a review of its significant investments (US $640 million) in shale oil and gas companies while announcing divestment from 5 further coal companies. In 2022 the Fund will then begin to review other oil and gas holdings; oil and gas equipment and services; and oil and gas storage and transportation.

New York State hasn’t published the criteria it is using to carry out this assessment, but according to US organisation Stand.Earth who have been speaking to the Comptroller’s office about the ongoing process, the following are taken into account:

- Capital expenditure on expansion projects
- Investments in non-fossil fuels
- Diversification
- Reporting

[27] Sources for this case study are included in the end notes.

- Responsiveness to their requests for more information
- Carbon disclosure[28]
- Climate related goals of the companies including the strength and detail of any plans to get to zero emissions

Companies which are not earmarked for divestment are subject to annual reassessment with progress reports published annually. The first of these was published in April 2021.

New York City's pension funds, which are held separately from the State, are worth US $190 billion. It announced its intention to divest from fossil fuels in January 2018, with the Mayor announcing in January 2021 that US $4 billion in fossil fuel holdings would mostly be sold by the end of the year. The City's pensions are also increasing investment in climate solutions to US $6 billion.

London Borough of Islington

The London Borough of Islington Pension Fund was valued at £1.4 billion in 2021 with 21,000 members.[29] 46% of the Fund is invested in public equities and 25% in property.

Islington's fund uses the term 'decarbonisation' to describe the process of removing the exposure of its investment portfolio to fossil fuel reserves and production, as well as green-house gas intensive activities. The Fund is also keen to exploit opportunities presented by the transition to a low-carbon economy. It has

[28] Specifically company disclosures promoted by the organisation CDP: https://www.cdp.net/en/scores

[29] Sources for this case study are included in the end notes.

implemented a number of relevant measures in recent years:

- In 2017 the Fund moved half of its passive equities to the low carbon tracker funds with the other half invested in-house tracking the FTSE UK Low Carbon Optimised Index.

- In 2018 the Pension Fund Committee committed to divestment of all fossil fuels in the Fund by 2022, to be enacted by divesting its own holdings and switching to fossil-free passive funds.

- £172 million initially allocated to sustainable infrastructure. The target was increased to 20% in 2021.

- Ongoing effort to fully decarbonise the portfolio as a “next step” after divestment from fossil fuels. Targets are set for 2026, 2030 and 2050.

- Comprehensive carbon foot-printing and Environmental and Social Governance (ESG) review conducted of the whole portfolio annually, in line with the recommendations of the *Taskforce on Climate-related Financial Disclosures*.

- Appointment of a fund manager with ESG specialism, a low-carbon infrastructure manager, and advice sought from Mercers and others.

- Councillors and officers attend specialist climate transition, objectives, framework and implication training.

Minimum standards for companies to determine if divestment is required are as follows:

- Assessment of absolute potential emissions in CO_2 equivalent, a reserves-based measure that focuses on emissions that could be generated if the proven and probable fossil fuel reserves owned by the companies in the portfolio were burned.
- Assessment of the carbon intensity of companies as measured by Weighted Average Carbon Intensity, an indicator of current climate-related risks facilitating comparison across asset classes and industry sectors.

Since 2016, Islington’s policies have resulted in a 55% reduction in fossil fuel exposure, **69% reduction in absolute potential emissions** and a 33% reduction in current carbon intensity.

On financial performance, Islington is in the top quartile of performance in the local government scheme, and in the three years since its divestment policy has taken effect, has outperformed the scheme average.

More fossil free pensions

For comparison, we have collated the details of a selected list of pension funds who are divesting from fossil fuels:

Fund	AUM £ billion	Fund members	Fossil fuel divestment status	Further information
New York (New York State Common Retirement Fund), USA	198	1,000,000	Fossil fuel divestment commitment (2020) to be completed by 2024	See case study above and sources in end notes.
New York City funds, USA	140	At least 480,000	Fossil fuel divestment commitment (2018)	See case study above and sources in end notes.
Islington local government pension fund (LGPF), UK	1.4	21,000	Fossil fuel divestment commitment (2018)	See case study above and sources in end notes.
Cardiff LGPF, UK	2.0	43,000	Fossil fuel divestment commitment (2019) to be completed by 2024	https://foe.cymru/cardiff-council-makes-historic-decision-ditch-fossil-fuels https://www.futuregenerations.wales/news/cardiff-council-vote-to-divest-pensions-from-fossil-fuels-is-part-of-a-growing-movement-in-wales/
Lambeth LGPF, UK	1.4	21,900	Fossil fuel divestment began in 2019	https://love.lambeth.gov.uk/lambeth-fossil-fuel-divestment/
AP1 state pension fund, Sweden	35.9	n/a	Fossil fuel divestment commitment (2020), anticipated completion in 2021	https://www.reuters.com/article/climatechange-investments-sweden-idUSL8N2B97HA
Welsh Parliament pension fund, UK	Not disclosed	Not disclosed	Fossil fuel divestment commitment (2020)	https://foe.scot/press-release/welsh-assembly-divest-pension-fund-fossil-fuels/
MP's pension fund, Denmark	Not disclosed	Not disclosed	Fossil fuel divestment began in 2018	https://translate.google.com/translate?sl=auto&tl=en&u=https://akademikerpension.dk/ansvarlighed/vi-ekskluderer/vi-frasaelger-fossile-selskaber/
Washington D.C. (District of Columbia Retirement Board), USA	6.53	20,700	Fossil fuel divestment commitment (2013), completed (2016)	https://lims.dccouncil.us/downloads/LIMS/32802/Introduction/PR20-1118-Introduction.pdf https://dcist.com/story/16/06/06/dc-retirement-board-divests-from-fo/
State of Maine (Maine Public Employees Retirement System), USA	11.2	156,000	Divestment legislation passed in 2021 applies to State pension fund	https://legislature.maine.gov/bills/getPDF.asp?paper=HP0065&item=4&snum=130 https://www.reuters.com/ https://electrek.co/2021/06/

Commentary and Recommendations

The example of those pension funds that are going fossil free, such as New York and Islington, prove that investors can abide by their legal duties and cut climate emissions in their portfolios.

The potentially huge level of fossil fuel investment in the UK pensions sector represents a bet placed on a failing industry. But it also represents an opportunity: divesting from fossil fuels could free up hundreds of millions of pounds to be placed in sustainable and socially responsible investments such as renewable energy and social housing. Although not detailed in this study, some of the largest pension funds do have significant investments in onshore wind and micro-hydro, and social housing.[30] Such efforts could be increased if pension funds shed polluting investments in favour of innovative green investments.

Fossil fuel divestment can also reinforce efforts to cut climate emissions across investment portfolios, including by strengthening investors' hands when engaging with companies which *do* have the potential to adapt their business model. By divesting from the worst climate polluters, pension funds would show other firms that they are serious about climate action and will enforce minimum standards. This will not convince an oil company to stop drilling oil, but it could convince a transportation company to specialise in green clients or cut its use of fossil fuels.

Divestment from fossil fuels enables funds to shed the material risks associated with the industry and by publicly ostracising companies with an especially poor record on compliance with climate goals, can also show the wider industry that investors are serious about climate action. Such actions also support civic, governmental and public efforts to cut climate pollution.

Seeing these benefits, pension holders and the public have been challenging pension funds to act on their fossil fuel investments, with some success. As early as 2015 a "global day of divestment" took place calling on pension funds to divest across the UK.[31] Today, over 40 local, grassroots groups continue to advocate for pension funds to divest from fossil fuels.[32] The global divestment campaign has already shifted billions away from fossil fuels and into more sustainable investments.

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[30] For example, the Strathclyde Pension Fund owns the Commonwealth Games village, Glasgow (https://foe.scot/wp-content/uploads/2017/08/Divest-and-Reinvest-Scotland-2017-Printable-1.pdf) and the BT Pension Scheme owns Fallago Rig wind farm (https://www.btps.co.uk/HowWeInvest).

[31] UNFCC, 2015. '13-14 February is Global Divestment Day': https://unfccc.int/news/13-14-february-is-global-divestment-day

[32] UK Divest, 2021. 'Find your local campaign group': https://www.divest.org.uk/local/

Recommendations for pension funds and schemes:

1. Develop and publish a policy of fossil fuel divestment, as part of a wider effort to urgently address the climate crisis through your investments.

2. Increase transparency by regularly publishing comprehensive and specific investment data.

3. Employ fund managers and consultants that recognise the need for divestment and are willing to implement strong minimum standards on climate.

Recommendations for government:

1. Change reporting rules to require large funds to regularly publish specific information about their investments online, including their investments in fossil fuels.

2. Encourage pension funds to divest from fossil fuels and enable financiers to invest at the scale and pace required in the economy's transition away from fossil fuels.

Recommendations for the public:

1. Get in touch with your own pension fund to ask them what they are doing to divest from fossil fuels and cut climate emissions.

2. Join a divestment group or get in touch with the authors to start one in your pension fund or local area.

3. Raise fossil fuel divestment and climate justice in your trade union branch.

Sources

A data sheet accompanying this report can be found at:
https://docs.google.com/spreadsheets/d/1i9IaPBuKkZWWYiBFuTtw2l_tecBww3-j/edit?usp=sharing&ouid=115941089293459260348&rtpof=true&sd=true

Sources for the text are detailed in footnotes on the preceding pages, except for the New York and Islington case studies, where sources follow.

Data analysis methods

Collection and selection of examples

The pension fund holdings of the 25 largest UK pension funds by value and membership, plus the three largest auto-enrolment funds, were reviewed using publicly available data and resources. Data for Lloyds and HBOS was merged as they are managed together, creating a list of 27.

We chose the Strathclyde Pension Fund out of the local government funds due it being administered by Glasgow City Council, the host local council of COP26. Similarly, we prioritised Natwest of the banks as a lead sponsor of COP26. As the bank pension fund data was limited, a second example was required, and HSBC was chosen due to the higher quality of data over Lloyds. Of the former nationalised industries, British Airways published the highest quality data, so was chosen, and out of public sector funds, the USS published the highest quality data and is the largest, so was chosen. Finally, the People's Pension was chosen to represent the auto-enrolment funds as it had the highest quality data.

Data for the following pension funds and schemes was therefore collated for inclusion in this study:

Scheme	Data	Published Assets (£ billion)[33]
People's Pension	Top 100 equities	1.9
British Airways	Top 100 equities and corporate bonds	2.5
HSBC	Top 10 holdings for 9 pension pots	0.3
NatWest	Top 10 holdings for 9 pension pots	0.5
Universities Superannuation Scheme	Top 100 equities	10.3
Strathclyde Pension Fund	Full holdings in most cases	322.2

Data analysis

Direct assets
Direct assets were manually screened by researching each asset and assessing whether it was a Carbon Underground 200 company. The Carbon Underground 200 identifies the top 100 coal and the top 100 oil and gas publicly-traded reserve holders globally, ranked by the potential carbon emissions of their reserves. See https://fossilfreefunds.org/carbon-underground-200 for more information.

Indirect assets
Indirect assets which could not be broken down into their constituents were estimated using indexes for which the fossil fuel holdings could be calculated. For example, as the HSBC pension pots only provided the top 10 holdings we used a proxy which best matched the pot description (e.g. UK equities). The indexes used in this study are shown in the table below. All were collected from the State Street Global Adviser's website on 10 April 2021: https://www.ssga.com/uk/en_gb/institutional/etfs.

Proxy	Objective	Coal (%)	Oil & Gas (%)
MSCI WORLD ETF	Tracks performance of large and mid-sized equities in developed markets globally.	1.13	2.3

[33] Value refers to the value of the assets screened in this study, not the actual fund total.

MSCI ALL COUNTRY WORLD INDEX ETF	Tracks the equity market performance of developed and emerging markets.	1.45	2.42
MSCI EMERGING MARKETS ETF	Tracks the equity market performance of emerging markets.	3.21	2.81
FTSE UK ALL SHARE ETF	Tracks the performance of the broad UK equity market.	3.85	8.05
S&P 500 ETF	Tracks the U.S. equity market performance of large cap equity securities.	0.05	1.98
MSCI EUROPE ETF	Tracks the performance of European large and mid-sized companies.	1.57	3.56
MSCI EM ASIA ETF	Tracks the equity market performance of emerging markets in Asia.	2.13	0.85
BLOOMBERG STERLING CORP BOND ETF	Tracks the performance of the fixed-rate, investment-grade Sterling-denominated corporate bond market.	1	1.75
MSCI JAPAN ETF	Tracks the performance of the Japanese equity market.	7.77	1.79
DIVERSIFIED BONDS	Assumes 50% holdings in Gilts and 50% holdings in Bloomberg Barclays Sterling Corporate bond.	0.5	0.88

Controls

Availability of data is somewhat weighted towards equities and away from other kinds of investments. This may mean that fossil fuels are over-represented in our sample. To counter this possible effect, our headline figures only include investments in the 200 largest fossil fuel companies, and we have discounted investments in smaller firms. Furthermore, fossil fuel firms were relatively worse affected by the Covid pandemic when some of the data was reported in March 2020. These factors combined are likely to make our figure an underestimate.

Additional analysis

The accompanying data tables include extra information not discussed in this report, including a more comprehensive analysis of fossil fuel investments beyond the top 200 companies. For more information download the accompanying data tables or contact the authors.

New York sources

New York State:

- 'New York State Pension Fund Sets 2040 Net Zero Carbon Emissions Target', December 2020 https://www.osc.state.ny.us/press/releases/2020/12/new-york-state-pension-fund-sets-2040-net-zero-carbon-emissions-target

- 'DiNapoli Moves State Pension Fund Toward Net Zero Target, Restricts Investments in Oil Sands Companies', April 2021 https://www.osc.state.ny.us/press/releases/2021/04/dinapoli-moves-state-pension-fund-toward-net-zero-target-restricts-investments-oil-sands-companies

- 'Progress Report on the Climate Action Plan', April 2021 https://www.osc.state.ny.us/files/reports/special-topics/pdf/progress-report-climate-action.pdf

- 'DiNapoli Announces More Climate Actions; NYS Pension Fund Launches Evaluation of Shale Oil and Gas Companies,' August 2021 https://www.osc.state.ny.us/press/releases/2021/08/dinapoli-announces-more-climate-actions-nys-pension-fund-launches-evaluation-shale-oil-and-gas

- Full list of shale oil and gas companies earmarked for divestment https://www.stand.earth/latest/climate-finance/climate-safe-pensions/new-york-state-pension-fund-divests-more-coal-and

- 'New York State Common Retirement Fund Climate and Divestment Plan Background', 2021 https://gofossilfree.org/ny/wp-content/uploads/sites/53/2020/12/Backgrounder_EmbargoedDec9_8amEDT.pdf?_ga=2.259624014.538306626.1623352264-1700290530.1613593540

- 'Leading the Way on Climate Investment' (Comptrollers Office Face Sheet) https://www.osc.state.ny.us/common-retirement-fund/leading-way-climate-investment

New York City:

- ‘Mayor de Blasio, Comptroller Stringer, and Trustees Announce Estimated $4 Billion Divestment from Fossil Fuels’, January 2021 https://www1.nyc.gov/office-of-the-mayor/news/053-21/mayor-de-blasio-comptroller-stringer-trustees-estimated-4-billion-divestment-from

- ‘Mayor de Blasio, Comptroller Stringer, and Trustees Announce Pension Funds More Than Double Climate Change Solutions Investments to Over $6 Billion’, March 2021 https://www1.nyc.gov/office-of-the-mayor/news/210-21/mayor-de-blasio-comptroller-stringer-trustees-pension-funds-more-double-climate

Islington case study sources

- ‘Islington Council’s Pension Fund is coming out of carbon.’ September 2018. https://www.islington.media/news/islington-council-s-pension-fund-is-coming-out-of-carbon

- ‘London Borough of Islington: Impact Investing Case Study’, Pensions for Purpose. August 2019. https://www.pensionsforpurpose.com/london-borough-of-islington-case-study.pdf

- ‘Investment Strategy Statement.’ December 2020. https://democracy.islington.gov.uk/documents/s23482/LBI%20Pension%20Fund%20-DRAFT%20Investment%20Strategy%20Statement%20DEC20%20tracked%20-%20revJULY19.pdf

- ‘Decarbonisation Policy: Update Net Zero Carbon Transition.’ June 2021. https://democracy.islington.gov.uk/documents/b11170/Pensions%20Sub-Committee%20-%2026%20November%202018%2026th-Nov-2018%2019.30%20Pensions%20Sub-Committee.pdf?T=9

- ‘London Borough of Islington review,’ M J Hudson. December 2020. https://democracy.islington.gov.uk/documents/s24420/Appendix%201-%20MJ%20Hudson%20-%20LBIDec%202020%20Rept%20Final.pdf

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