DIVESTING THE HACKNEY PENSION FUND: THE FINANCIAL CASE

1st December 2015, Hackney Council

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EXECUTIVE SUMMARY

- Fossil fuels are a risky investment in the long-run, which runs contradictory to the purpose and fiduciary duty of Hackney's pension fund performance

- Divesting from fossil fuels is part of a growing global movement, supported by a range of highly credible financial actors

- According to the FOI request submitted by Divest Hackney, we know the Pension Fund is directly invested in **at least** £42 million in fossil fuel equities, with a strong likelihood of even more exposure through exotic investments and multi-asset funds

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DIVESTED SINCE 2012

= Made their money through fossil fuels

Rockefeller Brothers Fund
Philanthropy for an Interdependent World

NORGES BANK INVESTMENT MANAGEMENT

Environment Agency

BMA

University of Glasgow

theguardian

THE JOSEPH ROWNTREE CHARITABLE TRUST

UNIVERSITY OF OXFORD

SOAS University of London

Until 1st Dec '15: $2.6 trillion divested, globally
2nd Dec '15: Another $0.8 trillion announced at COP21

TOTAL: $3.4 TRILLION

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www.GoFossilFree.org

DEFINITIONS

TERM	DEFINITION
Fossil Fuels	Direct equities in the top 200 oil, coal and gas companies globally, by market cap
Divestment	Divesting from said direct equities in full within a certain time frame (e.g. 5 yrs)

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"We began to see financial analysis that indicated, over time, that fossil fuel assets were going to be less and less valuable, because we will be unable to burn them"

- Stephen Heintz, President, Rockefeller Brothers Fund

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AlJazeera Earthrise, November 2015

(from 16 mins 40 seconds)

ENGAGEMENT- WHY IT HAS NOT WORKED

The divestment “ask” is for fossil fuel companies to become integrated energy companies and move away from fossil fuels. Despite huge pressure and engagement from some of the most salient stakeholders in the world, no fossil fuel company has done this to date. On the contrary, the majority have sold off their renewable energy divisions to focus on their “core businesses”.

"In regards to fossil fuel companies directly engaged in extractive activities, it is unrealistic to imagine them being swayed by shareholder arguments to get out of their core business of exploring for, extracting and selling carbon-emitting fuel. “- Bevis Longstreth, Former SEC Commissioner

"We came to the conclusion that it was impossible for today’s oil and gas majors to adapt in a timely and intelligent way to the imperative of radical decarbonisation. We felt we had no option but to end our long-standing partnerships with [them].” - Jonathan Porritt, Founder of Forum for the Future

"We tried engagement, and frankly got nowhere"- Stephen Heintz, President, Rockefeller Brothers Fund

This example is particularly poignant as the Rockefeller Brothers laid the foundations for ExxonMobil, and had the influence over the company and Board that comes with this. In addition, at the time of divesting in June 2014, they had $45 million invested in fossil fuel companies, and still they got nowhere.

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ESG COMPANIES OUTPERFORM THE MARKET

Of the studies Deutsche Bank examined, 89 percent showed that companies with a high rating for ESG factors also exhibit market-based outperformance.

ESG Academic Studies and Meta Studies Disaggregated & Aggregated	Correlation to Higher Market-Based Performance (Returns)	Correlation to Higher Accounting-Based Performance	No. of Studies	Date Range of Studies	Date Range of Samples
Governance	Positive	-----	7[101]	2003-2011	1990-2008
Governance	Neutral	-----	1[102]	2008	1997-2004
Governance	-----	Positive	6	2006-2010	1990-2007
Governance	-----	Negative	1[103]	2003	1997-2002
Environmental	Positive	-----	3[104]	2003-2008	1994-2006
Environmental	Neutral	-----	1	2010	1996-2007
Environmental	-----	Positive	2[105]	2001-2010	1989-2007
Environmental	-----	Mixed	1[106]	2008	2003-2004
Social (Meta-Study)	Positive		1[107]	2011	1991-2009
Social	Positive	-----	4[108]	1995-2010	1984-2009
Social	Mixed	-----	1	2011	1992-2008
Social	-----	Positive	2[109]	1995-2006	N.A
Aggregate	Positive	-----	1	2009	1999-2009

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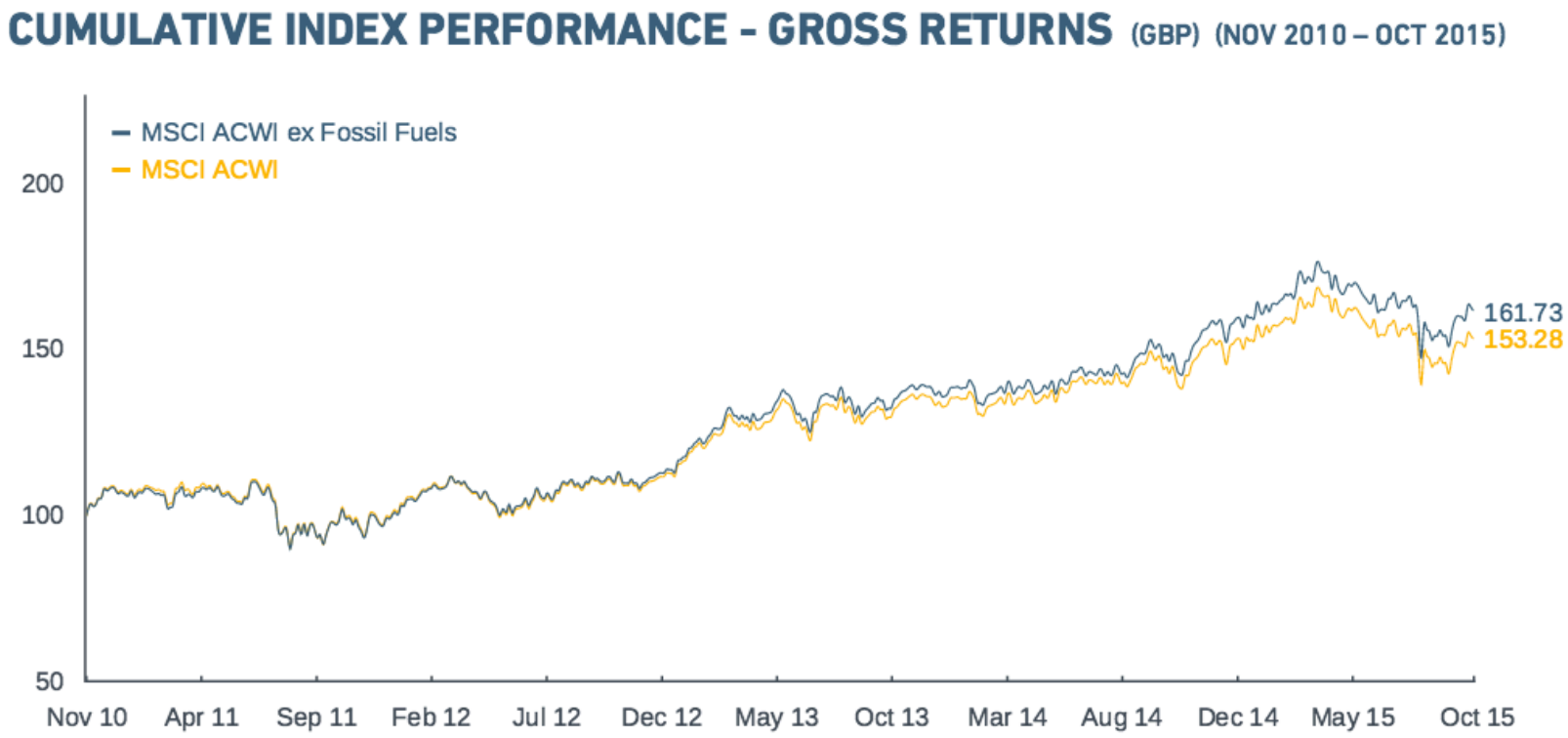
Deutsche Bank (2012)

INDEX PERFORMANCES- WITHOUT FF

MSCI are one of the world's leading financial analysis companies looking at issues of ESG (Environmental, Social & Governance) risk. Their index without fossil fuels performs significantly better than their standard one.



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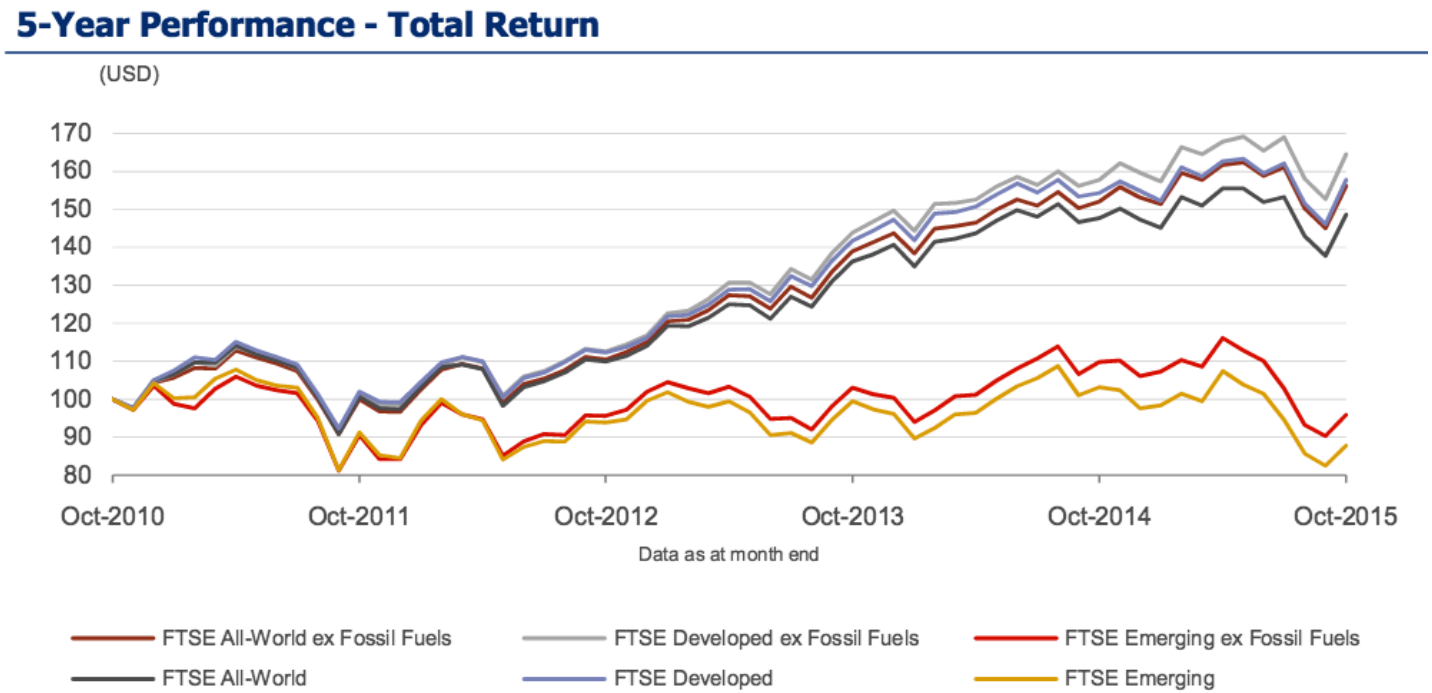
MSCI ACWI ex-Fossil Fuels (Oct '15)

INDEX PERFORMANCES- WITHOUT FF

Out of the six major FTSE indices, the best and third best performing indices respectively over the past five years are the ones that do not contain direct equities in fossil fuel companies.



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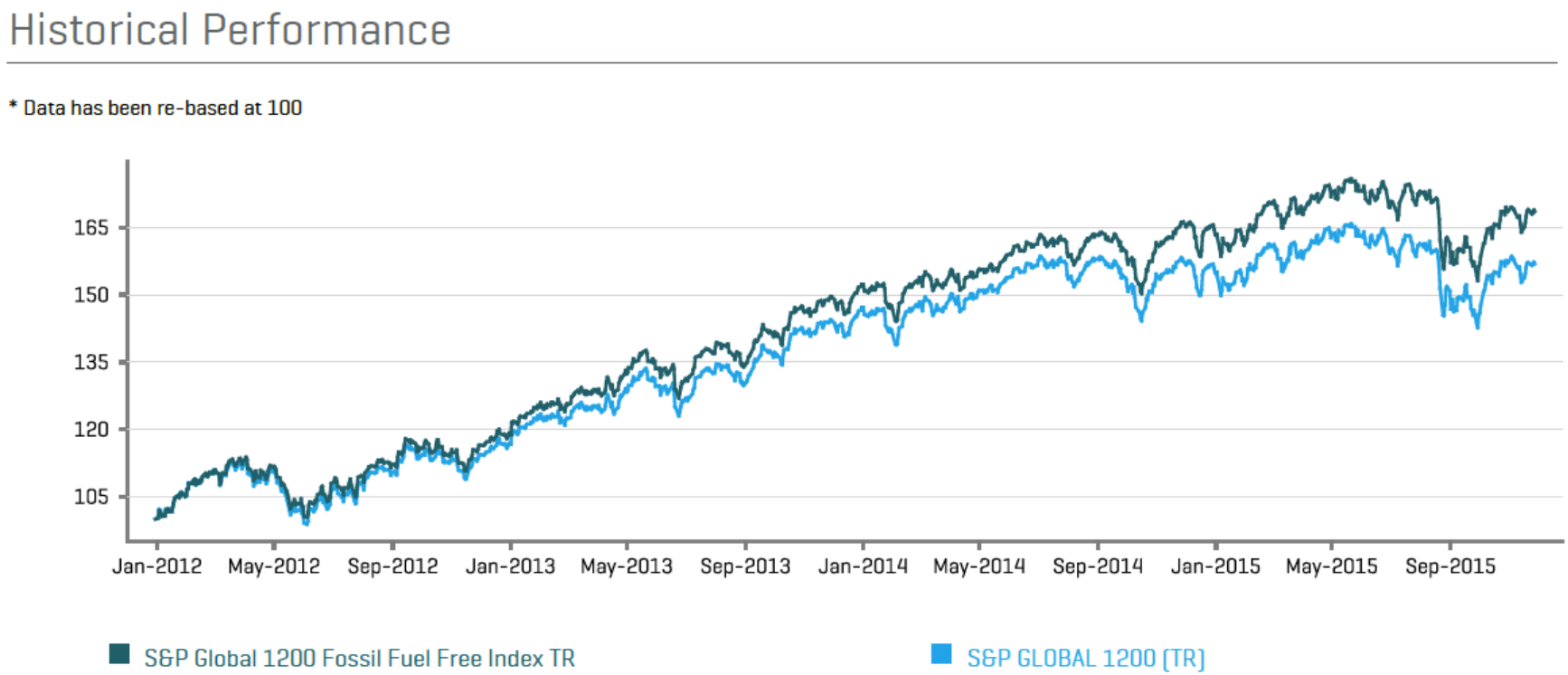
FTSE (Oct '15)

INDEX PERFORMANCES- WITHOUT FF

Similarly, the S&P 1200 index performs significantly better once you detract and remove fossil fuel companies.



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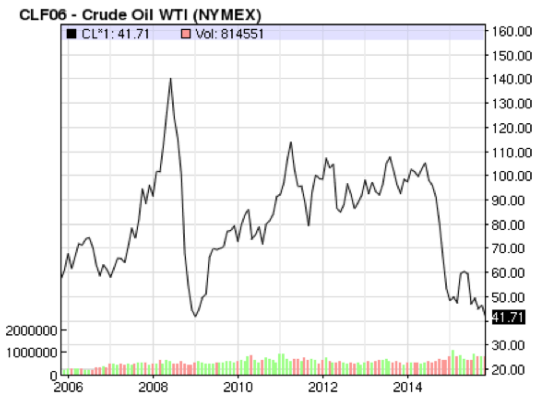
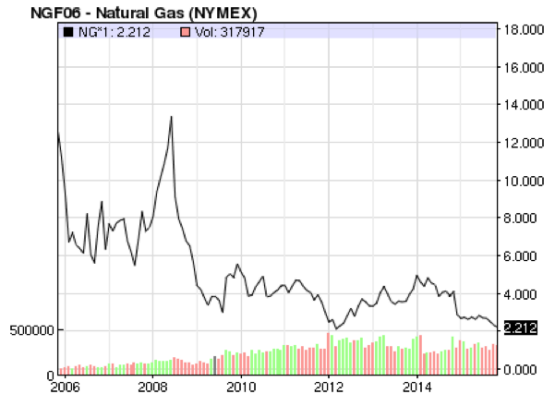
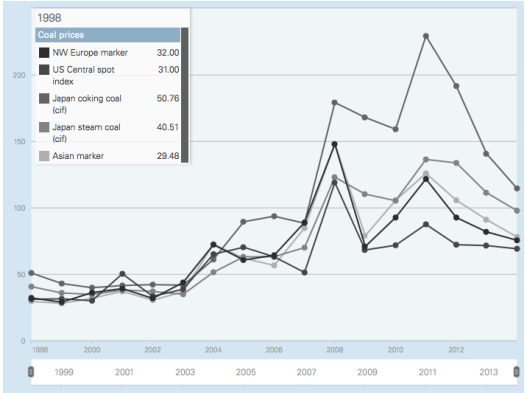
S&P (Oct '15)

LONG TERM RISK & VOLATILITY OF FOSSIL FUELS

Because of their inherently volatile nature, fossil fuels are not a sound investment for a pension fund that has to perform well decades, not just weeks, down the line. Especially as we move towards a low carbon future.







OIL

GAS

COAL

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NASDAQ (Nov '15)
BP (Nov '15)

FOSSIL FREE INVESTMENT TRENDS GOING FORWARD

BLACKROCK

- Blackrock, one of world's largest asset management firms, bringing out fossil-free fund in 2016 in response to client demand (May '14, Forbes)

Allianz

- Allianz, the biggest insurance company in Europe, has chosen to dump $4 billion of coal-related investments (Nov '15, Telegraph)

PIMCO

- "It is in our interests to analyse ESG risk, it is no longer just for the do-gooders of the world"- Douglas Hodge, CEO, Pimco (Sept '15, UN Principles for Responsible Investment)

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MACROECONOMIC TRENDS GOING FORWARD

There is an urgent need to fight climate change, and the window of opportunity is closing rapidly. To stay within 2 degrees Celsius of warming, scientists agree we can only burn 565 gigatons of Co2. Fossil fuel companies currently have 2795 gigatons in their proven reserves that they are legally bound to extract- blowing the carbon budget by a factor of 5 and getting us well above 3-4 degrees of warming, causing global climate catastrophe. The fossil fuel companies have known about this for decades, and spent millions denying it.

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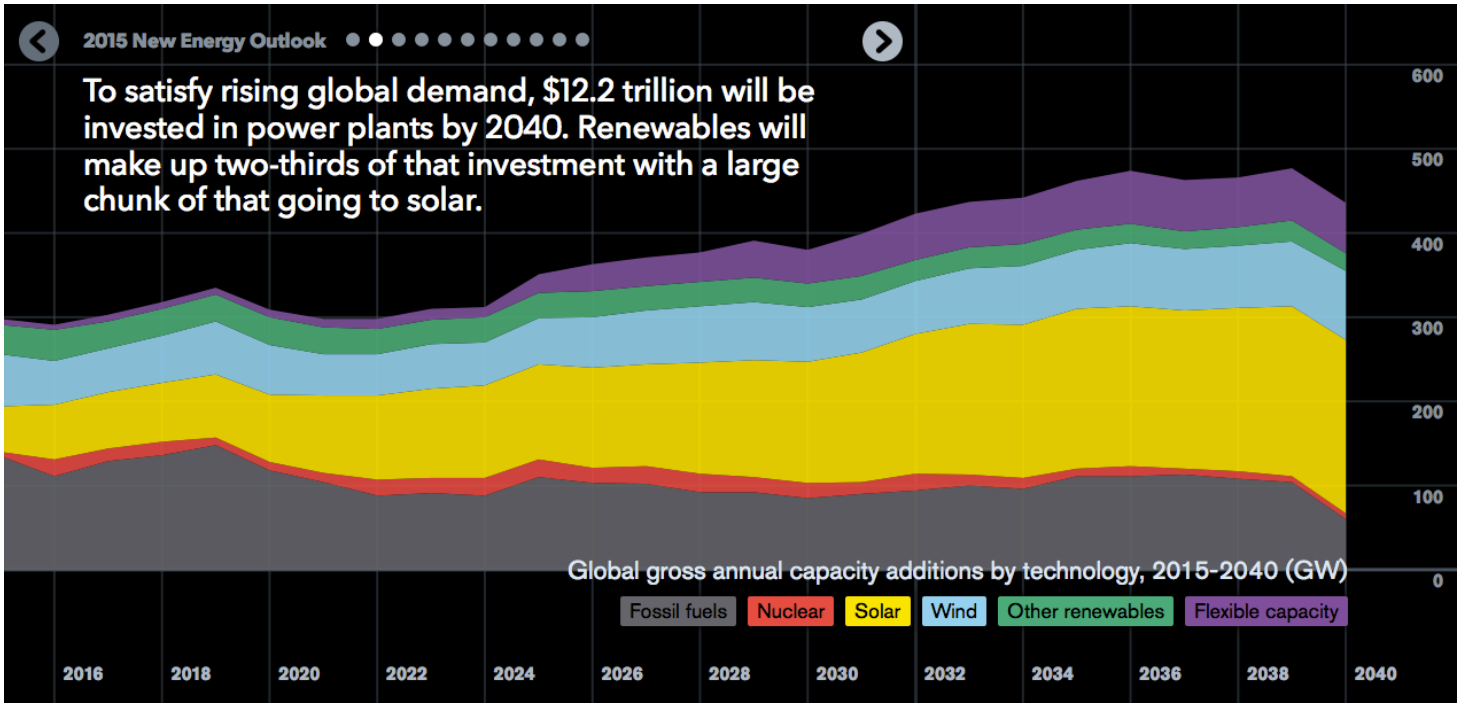
Rolling Stone & 350.org (May 2012)

MACROECONOMIC TRENDS GOING FORWARD

The future is renewable- many spot prices for electricity are on par or cheaper than conventional fossil fuels, and nearly all future investment will go into renewables.



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Bloomberg, “New Energy Outlook”, Nov’ 15

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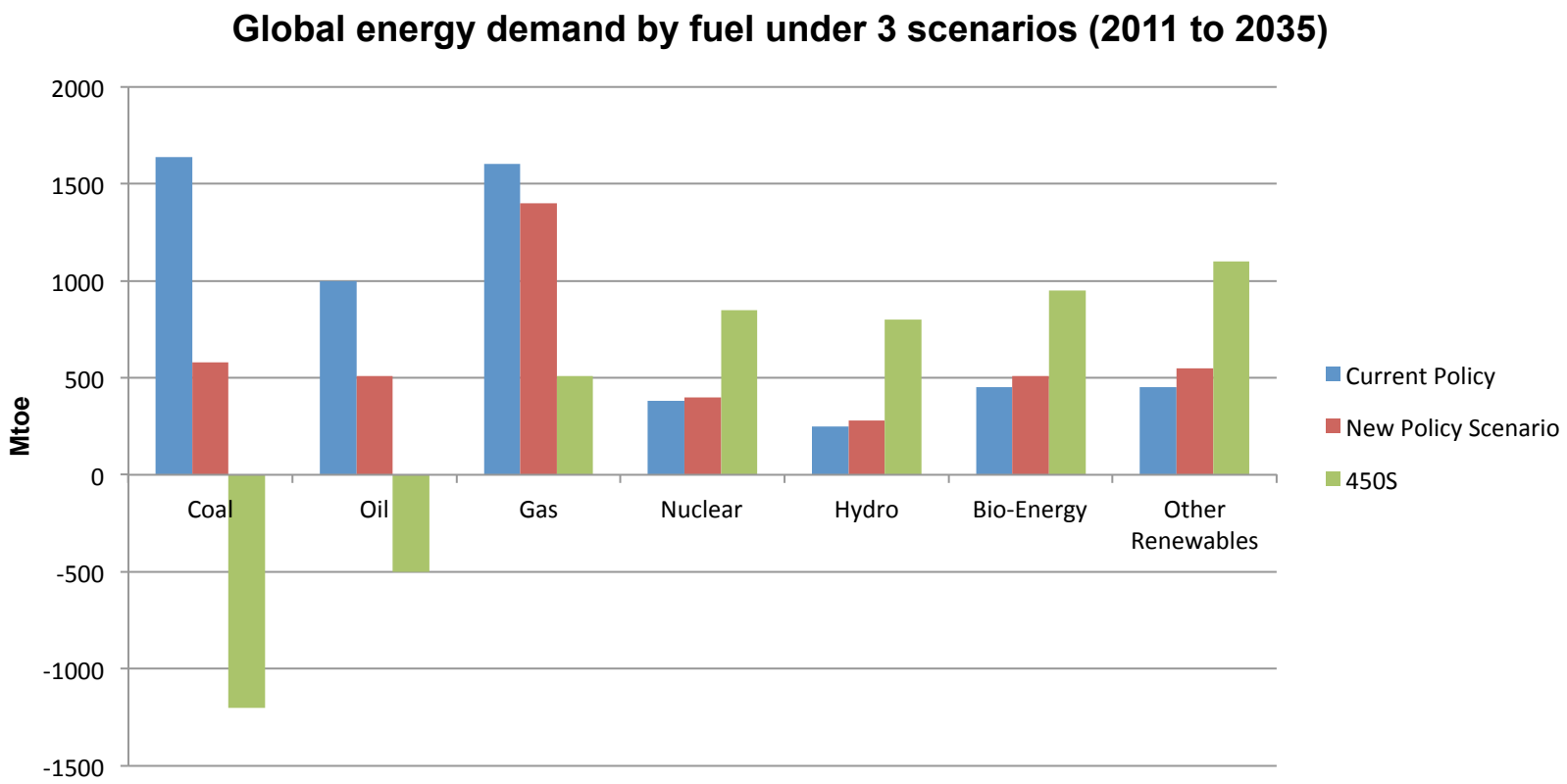

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International Energy Agency, 2013

MACROECONOMIC TRENDS GOING FORWARD

"Conventional" fossil fuel sources are running out; meaning fossil fuel companies are spending billions attempting to extract increasingly expensive, dirty and difficult alternatives:

- Fracking
- Tar sands
- Highly challenging geographies (Arctic & deepwater)

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QUESTIONS

1. Who will undertake the review, how will we be kept informed of its progress, and what date will it be held? (e.g. will it be Hymans Robertson, someone internal at Hackney? How can we feed into the process? etc.)
2. What quantitative and qualitative methods will be used to assess the risks associated with Hackney's Pension Fund being invested in fossil fuels?
3. How will the Council ensure that the current funds (like Lazard) fulfil their compliance and due diligence obligations by being invested in fossil fuels?
4. Who are the expert witnesses being called for the January meeting, and/ or how will they be chosen? How may Divest Hackney feed into this process?
5. How will you engage existing members of the pension fund in the divestment review process?
6. Is Hackney looking at "best practice" models to follow on fossil fuel divestment, such as the Environment Agency Pension Fund?

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KEY RECOMMENDATIONS

To be in line with its fiduciary and legal duties, Divest Hackney would like to see the Hackney Pension Fund committing to:

- Divesting the £42 million, in full, currently invested through direct equities in the world's top 200 oil, coal and gas companies
- Committing to a time frame for doing so (e.g. over the next 5 years)
- Making a commitment to reinvest a proportion of this in low carbon solutions (e.g. the way the Environment Agency Pension Fund have done)

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THANK YOU

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