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# Local Government Pension Funds - Divest From Carbon Campaign: A UNISON Guide

This is a resource to help UNISON members understand the risk climate change poses to their savings. It outlines campaign actions that members can take to protect their pensions following UNISON's new policy on investing to address climate change. | January 2018

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# Introduction

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This guide was written collaboratively between UNISON and ShareAction to help members understand what climate change means for their savings and their pensions. It explains what actions we can take using the power of the investments our pension funds make because ultimately, our investment funds represent a large amount of money and when we as owners of the investment assets speak, companies and politicians listen. By the end, members should feel able to use the power of their savings to take action on climate change and see that their pension funds are invested responsibly for the long-term.

We have tried to make this guide jargon free, but there may be terms you're still unfamiliar with at first. To help you with this we have a glossary of terms commonly used in the pension and investment world. Turn to this section if you find a term or word that you would like an explanation for.

## Summary of what this guide is for

This guide has been produced to help you implement UNISON conference policy on reducing the impact of climate change.

It will help you to understand what climate change is and how it will affect people and the economy.

It will guide you through, and simplify how the Local Government Pension Scheme (LGPS) works.

It will explain how the LGPS investment funds work, what they invest in and how the costs of investing (the buying and selling of assets), may have an impact on the Divest from Carbon campaign.

It will take you through some simple steps to ensure you understand where you sit in relation to your LGPS fund and how UNISON works to support the campaign.

You will be able to find out what other pension funds, including some LGPS investment funds, have done to combat climate change.

This guide will help you step by step, to ensure you and other UNISON members, activists and branches can make a real difference to the world through your pension fund.

It is important to remember that in order to change something we need to understand how the system works. And that is what this guide will help you to do.

# Foreword



I am very pleased to endorse this UNISON guide and my hope is it prompts our members to become more involved in the decisions their pension funds make. After all, a pension fund is your deferred wages that you are saving to ensure you have a future income in retirement.

Climate change, if not addressed, will make it more problematic for your pension fund to meet its benefit obligations. We need to remember that while climate change presents real risks to our pension funds, it also presents new business opportunities in the form of developing alternative energy supplies, for example.

Mark Carney, the governor of the Bank of England, issued a blunt warning in 2015 that investors, like pension funds faced “potentially huge” losses as action on climate change could make vast reserves of oil, coal and gas “literally un-burnable”. So we now know Investments in fossil fuels are not only harmful to the environment, but put the sustainable future of our pensions at risk.

In 2017 our national delegate conference passed a ‘divest from carbon’ motion. It commits the union to support your campaigns to ensure that your pension fund, and of course the companies we all invest in, take climate change seriously.

Across the UK there are nearly 50 divestment campaigns targeting local government pension funds calling on them to pull investments from all fossil fuel companies. In September this year, it was revealed that a total of £16 billion is invested in the fossil fuel industry by Local Government Pension funds.

Campaigners argue that these investments present a serious ethical and financial risk for your pension fund and their ability to pay pensions in the medium and long term.

There are no legal barriers to a pension fund selling its assets held in oil, coal and gas companies. The

duty of the LGPS funds is to ensure there is money to pay benefits for members. As the law stands, a decision to disinvest, taken for financial reasons – such as a view that the assets of BP, Shell, etc. will become “stranded” in the ground and therefore worthless is an acceptable reason for a fund to do so.

The motion ensured that any campaign demand from UNISON had to include alternative investment proposals to replace the assets pension funds will be selling. This is an important step for our campaign to take. We cannot jeopardise our members’ pension payments.

There are of course other issues to contend with in the process of disinvestment, including the jobs of UNISON members working in the energy sector. We must ensure that there is a just transition for them so that they have decent jobs and pensions.

This is the nature of ‘responsible investing’ and of our campaign. We take the issue of climate change very seriously and of course the ability of the LGPS funds to meet their benefit payments with equal obligation.

I know how well UNISON members, branches and activists can campaign. Please use this guide to ensure a healthy planet for our children and grandchildren, with decent jobs and pensions.

Yours sincerely,

Dave Prentis  
UNISON general secretary

# How Will Climate Change Affect Our Pensions?

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At the 2017 National Delegate Conference, UNISON Composite B was passed, starting a campaign for LGPS funds to divest (or sell off) their shares or corporate bonds in fossil fuel companies where it's in the interest of scheme members.

The motion stated –

*“Pensions are for our and our families’ future. But that future is threatened by fossil fuel extraction. Without bold action to keep 80% of fossil fuels in the ground, a changing climate will have devastating consequences for people, societies and ecosystems around the world.”<sup>1</sup>*

The vast majority of scientific evidence confirms that global warming and climate change is happening and that the burning of carbon – in fossil fuels like coal, oil and gas – is a major contributor to this. Many other pension scheme members and pension funds in general are looking at how to reduce the risk that climate change poses. As our pension contributions are savings for the future, this means that we need to consider how issues such as climate change are going to affect them.

Climate change threatens the value of pension funds in three key ways:

1. Politicians are responding to climate change, introducing new regulations that put costs on businesses in fossil fuel and other high polluting industries;
2. Technology is changing – cleaner vehicles, green electricity and various other factors all create new business opportunities;
3. Changes in weather patterns threaten buildings, assets and consumer choices – all with implications for business and for our pensions invested in these businesses.

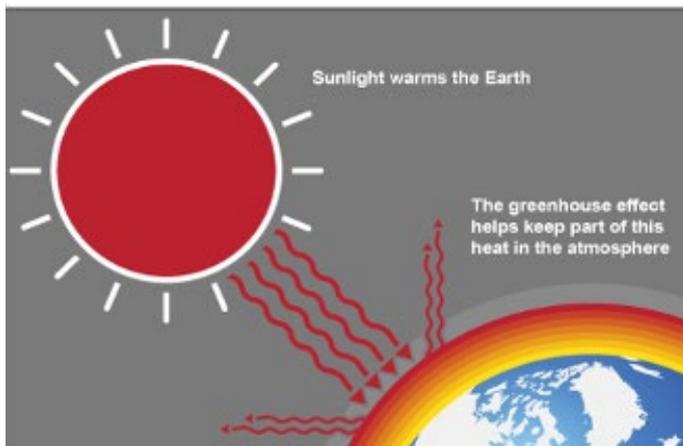
Adding all of these factors into the way our savings are managed means that we are helping to reduce the risks of climate change and it is our way to help ensure we get our pension benefits paid in the future.

# Climate Change: an Overview

The earth has warmed and cooled for hundreds and thousands of years but today, scientific research tells us that it's warming at a rate that's never been seen before. Fossil fuels like coal, oil and gas that we've been using for hundreds of years produce a gas called carbon dioxide. This gas traps the heat from the sun leading to the Greenhouse Effect.

The Greenhouse Effect means that instead of sun rays coming down to the earth and leaving later through our atmosphere they instead get trapped, meaning that the earth keeps getting warmer.

Figure 1: What is the greenhouse effect?<sup>2</sup>



So our use of fuels like oil and coal has changed the natural way the earth warms and cools. This means that we need to change the way that we use fossil fuels in order to limit the warming of the planet. We've already seen the earth warm by more than one degree over the past few hundred years, and while that may sound like a good thing in some parts of the world, it's actually pretty dangerous.

Warming can lead to all kinds of natural disasters including storms, floods, heatwaves and droughts. In fact, even the warming we're already seeing today has led to seas rising across the world. That's why scientists say that we have to keep climate change to well below 2 degrees of warming by the end of this century, in order to have a chance of responding to the consequences of climate change.

Figure 2: Climate change and natural disasters<sup>3</sup>



Source: GAR 2013

**Big Facts**  
ccafs.cgiar.org/bigfacts



So how do we and our pensions fit into all of this? If we can cut the amount fossil fuels that we use and do it quickly, we may just be able to limit or even stop the damage caused by climate change. And one way to do this, is through our pension funds.

It's our money that buys corporate bonds and shares in companies producing fossil fuels like coal and oil even when alternatives like renewable energy are available. And even if we start turning off the lights when we're not at home, or clean energy replaces fossil fuels at an even faster rate, our pension funds may continue to support these companies.

So that's where you the LGPS saver comes in, alongside hundreds of thousands of other members of the LGPS – through the investments our pension funds make with our savings.

# The Local Government Pension Scheme (LGPS)

This section will:

- Help you understand how the LGPS (and Scottish Local Government Pension Scheme [LGPS])<sup>4</sup> works in your region
- Outline everything you need to know about the LGPS investment process
- Set out how a pension fund in the LGPS will invest what it invests in

## How do the Local Government Pension Funds work?

People fill the world of pensions with jargon. Most of the time they do it without thinking. Some of the time they do it to make it harder to understand what is

going on! The LGPS is a pension scheme that uses investments to make money to help towards paying pensions.

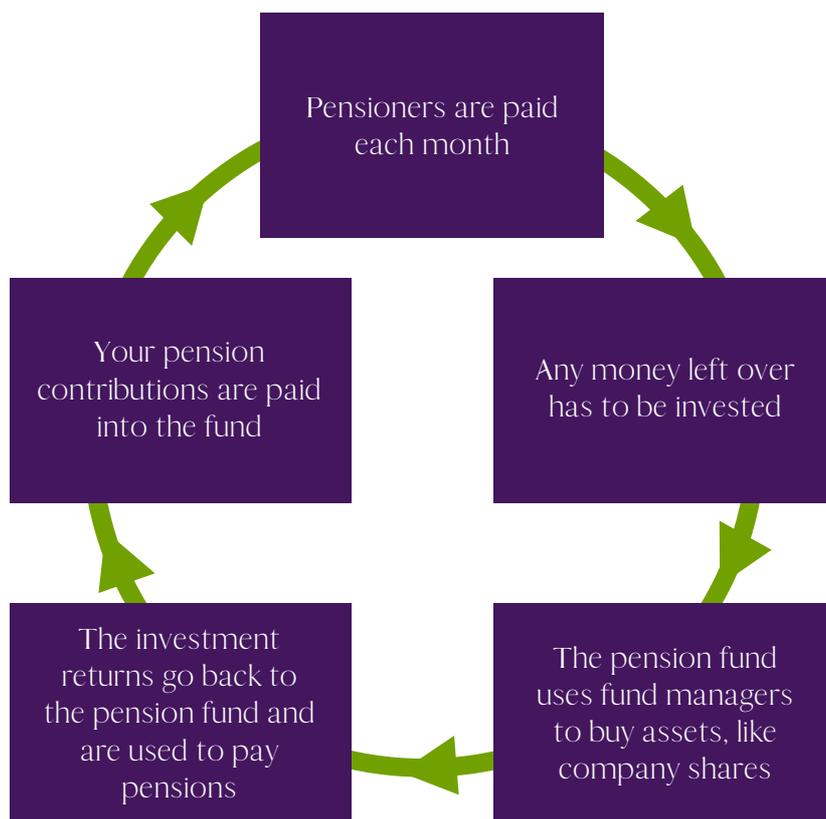
The rest of the public sector pension system, like the NHS, does not. The entire NHS pay and pension budget comes from government spending.

The easiest way to think about how your pension fund works is like this, it must:

1. administer the pension system;
2. collect contributions;
3. pay pensions;
4. hire investment managers;
5. invest surplus cash and buys assets – the returns on these investments go toward paying pensions.

This cycle continues until all of the benefits are finally paid and there is no one left entitled to a payment.

Figure 3: The investment cycle of your pension



## LGPS facts and figures

There are 100 administering authorities including 87 councils, these are the employers that run the pension funds in the UK. There are five million scheme members and pensioners.

Over 13,000 different employers pay into the pension funds including:

- Local authorities and connected bodies – e.g. a county council, district council
- Centrally funded public sector bodies – e.g. an academy, further education corporation, sixth form college or higher education corporation
- Other public sector bodies
- Private sector, voluntary sector and other bodies

Each fund in England, Scotland and Wales has a 'pension board' with UNISON members on them as scheme member representatives.

In England and Wales these pension funds are going to pool their assets into eight proposed "pools" see the table on page 6. The Brunel, Central and Northern pools will all have union representatives on them.

## How LGPS governance works

There are 100 LGPS pension fund administration authorities in the UK including 88 in England and Wales, 11 in Scotland and 1 in Northern Ireland. These are the organisations that make the investments of funds.

Parliament makes laws and regulations for the funds

in England and Wales; the Scottish Parliament for the funds in Scotland; and in Northern Ireland it is the Assembly.

All of the funds in each respective country must follow the rules of investing established by their respective governing bodies.

With the exception of the London Pension Fund Authority, the South Yorkshire Pension Fund Authority, the Environment Agency and the Northern Ireland Local Government Officers' Superannuation Committee (NILGOSC), all of the investment decisions are made by local authorities and the elected councillors who sit on their Pension Committees.

The LGPS is not run by a board of trustees; its decisions are made at the Pension Committee once a quarter and implemented by council officers, or

Table 1: The 8 proposed LGPS investment pools (£bn)<sup>5</sup>

Name of pool	Funds	Assets (£bn)
London CIV	Established for the 33 LGPS funds administered by London's 32 boroughs and the City of London Corporation	25
Northern	West Yorkshire, Greater Manchester and Merseyside	35
Central	Cheshire, Leicestershire, Shropshire, Staffordshire, West Midlands, Derbyshire, Nottinghamshire, Worcestershire and the West Midlands Integrated Transport Authority	24
Brunel	Avon, Cornwall, Devon, Dorset, Gloucester, Somerset and Wiltshire, Oxfordshire, Buckinghamshire and the Environment Agency Pension Fund	23
ACCESS	Northamptonshire, Cambridgeshire, East Sussex, Essex, Norfolk, Isle of Wight, Hampshire, Kent, Hertfordshire, West Sussex and Suffolk	34
Wales	Carmarthenshire, Cardiff, Flintshire, Gwynedd, Powys, Rhondda Cynon Taff, Swansea, and Torfaen	13
Border to Coast	Cumbria, East Riding, Surrey, Warwickshire, Lincolnshire, North Yorkshire, South Yorkshire, South Yorkshire Passenger Transport Pension Fund, Tyne & Wear, Durham, Bedfordshire, Northumberland and Teesside	36
LPP	Lancashire, Berkshire and the London Pension Fund Authority	13

officers of the pension fund authorities, in between the cycle of 4 committee meetings per year.

## LGPS governance flow

The decision to disinvest from carbon can only be taken by the administration authority that your employer pays your contributions to. This structure is shown in the Figure 4 below:

Figure 4: LGPS governance flow



## How are investment decisions made at the level of the pension fund?

- All of the pension funds have a decision making process
- There will be a cycle of committee meetings where investment decisions are discussed – normally 4 times a year
- For the rest of the time officers of the council are in charge
- Every council that runs the LGPS will have all of the details about the fund on their website
- Each fund has to produce an Investment Strategy Statement in England and Wales, or a Statement of Investment Principles in Scotland and Northern Ireland
- This document will inform you how it is dealing with the issue of climate change

## Everything you need to know about LGPS investments

### How does the LGPS work?

Imagine your pension fund is a bucket – it must be filled to the top with investment assets and cash. The bucket holds all of the resources to pay out pensions; the job of the pension fund is to keep the bucket full to the top at all times.

But the level of money and assets in the bucket falls – it does this because it has to pay pensions and it has the costs of running the administration and paying the fund managers and others. Not only that, but the economy is also causing the value of the assets to rise and fall constantly.

A pension fund must decide its investment strategy, what assets it is going to invest in and how much return it thinks this will make for them. A pension fund can employ its own in-house fund managers, but most LGPS funds use external fund managers, mainly from the City of London and Wall Street.

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As your pension fund will already own assets, it has to decide how it is going to invest the surplus cash it has once it has collected all of the contributions, paid out all pensions and all the other costs.

Your pension fund administration authority is compelled by the investment regulations to invest the surplus cash, after contributions have been collected and pensions have been paid. It will seek to get the best return or set a 'benchmark return' overall and for each asset class.

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Your pension fund is very likely to hold both shares and corporate bonds in coal, gas and oil companies.

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It will invest to pay pensions now, in the medium and the long term. It will also be required to fill any hole in the funding level. LGPS funds must ensure that they have enough in the fund to pay all the liabilities. That is, they must have a 100% funding level, or enough assets and cash to match all of the pension benefits. Ultimately, it is this authority which will make the decision to disinvest from high-carbon assets.

What the LGPS invests in - different asset classes

Your pension fund will also invest in a range of investments. Across all the LGPS funds, the current 'average' assets are:

- 60% in equities or shares – in companies registered on UK and other stock markets
- 15% in 'gilts' (government bonds – IOUs with interest)
- 10% in property – commercial real estate – you buy real estate and get rental income
- 5% in corporate bonds – IOUs issued by companies

- 5% in Alternatives – Infrastructure (PFI), Private Equity, Hedge Funds
- 5% in cash

There are various different investment styles. Two of the main ways to invest pension funds are active and passive management (See glossary). One of the key differences is the cost to the saver of each style, with passive funds having lower fees.

How is it regulated?

The investment regulations are the rules set by government on how your pension fund must invest your money.

These regulations guide decisions made by pension committees (councillors are the equivalent of trustees in the LGPS) who are in charge of overseeing our savings. The appendix includes all of the internet links to the investment regulations.

Investment Strategy statement

The LGPS funds in England and Wales must produce an "investment strategy statement". In Scotland and Northern Ireland they must produce a "Statement of Investment Principles". You will find the investment strategy statements and statement of investment principles on your LGPS fund website.

Moreover, in Scotland all local authorities including the SLGPS have a statutory duty to reduce emissions in accordance with the Climate Change (Scotland) Act. For further information on the legal requirements in Scotland and for related data, please consult the UNISON Scotland pages: <http://reinvest.scot> and <http://www.pensionsscotland.org>.

In England and Wales the LGPS funds have to follow the instructions from the 2016 Investment Regulations. These provide guidance on preparing and maintaining an Investment Strategy Statement.

In this guidance, Investment Regulation 7(2) (e) provides specific instruction about how

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social, environmental or corporate governance considerations (non-financial factors) are taken into account in the selection and disposal of investments. It states “an administering authority will now have to:

- Take proper advice;
- Explain the extent to which the views of their local pension board and other interested parties who they consider may have an interest will be taken into account when making an investment decision based on non-financial factors;
- Explain the extent to which non-financial factors will be taken into account in the selection, retention and realisation of investments.”

## The LGPS and Fiduciary Duty

Pension fund committees are also guided by the principle of ‘fiduciary duty’, the responsibility to look out for our, and the fund’s financial best interests. Often this is interpreted as a reason not to include environmental factors like climate change in their investment decisions.<sup>6</sup>

Many well respected organisations such as the United Nations have stated that ‘fiduciary duty’ (or the responsibility of investors to look out for our financial best interest) shouldn’t get in the way of action on environmental and other factors.<sup>7</sup> UK Law also supports this view. The Law Commission was set up by the UK Government to explain and clarify complicated sections of the law. In 2014 it made a clear judgement. You can read it in the next column.

The law is clear, as are the England and Wales investment regulations, that pension funds should consider any factors that have a financial impact on the performance of their investments, including social, environmental and corporate governance factors, whatever the time horizon over which their benefit payments arise. Such time horizons could be as long as 60 to 100 years and this means that climate change will have a significant impact on the ability of these funds to pay out pensions.

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The law in this area is complex and this “may lead trustees to be overly narrow in their approach to investment factors and to their beneficiaries’ concerns”.

The Law Commission confirmed that there is no legal barrier to trustees taking account of environmental and social factors. Trustees should take account of these factors where they are financially material. It also found that trustees can take account of non-financial factors where they have good reason to think that scheme members share their view, and there is no risk of major financial harm to the fund.

- LAW COMMISSION 2014

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# Influencing Your Pension Fund: Starting to Campaign

This section will:

- This section will help members start a campaign by describing a couple of steps members can take in the local region.

At its heart, the pension system is relatively simple. As is shown in the following picture, it's underpinned by saving a small portion of our money, which is invested on our behalf by asset managers that our pension fund selects in investments such as companies. These investments can have an impact in the way the companies operate and behave.

Typically, a large proportion of our pension savings (60% as we learned above), will be invested in shares. This is where it gets interesting – by holding

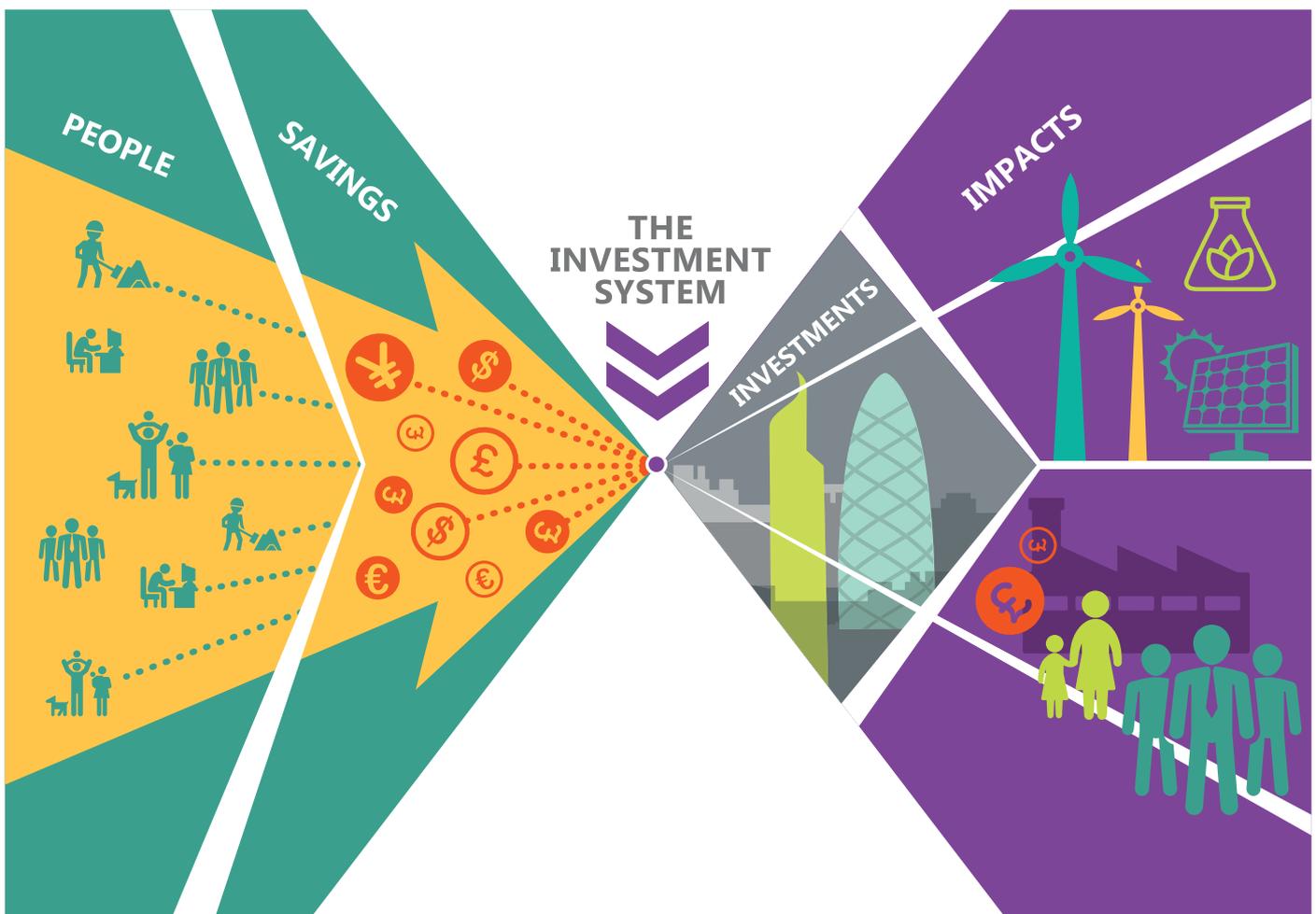
shares in these companies, your pension funds are the major owners of the world's largest businesses. The LGPS funds also buy corporate bonds, these are issued by companies when they want to borrow money from investors. Given that it's your money being invested, you should have a say in where it's invested and what effect this is likely to have on the world!

We recommend the following actions to start your campaign:

## 1. Starting out - information gathering

- Find out what pension fund you are a member of – your employer pays your pension

Figure 5: Why campaigning in the investment system matters<sup>8</sup>



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contributions to one of the 100 pension funds across the LGPS.

- Find out what other employers and UNISON branches are linked to this fund.
- You will get help from your region to do this and they should put you in touch with these branches and UNISON representatives on the pension fund board.
- Please remember the LGPS is not just for local government workers, it has Police civilians, Further Education, Higher Education, and Transport workers as well.
- They all have regional service groups, sector committees and an LGPS forum for UNISON board members.

2. Next find out about your pension fund's investment strategy and their position on carbon divestment (selling out of shares and bonds in high carbon companies)

Every single LGPS administration authority has a website – here you will find all of the details you need to gather:

- The investment strategy statement or the statement of investment principles;
- It will tell you who the Chair of the pension committee is;
- You will find all of the minutes of relevant meetings;
- You can find out who sits on the pension fund board and read the minutes of meetings;
- If your pension fund has agreed to disinvest from high-carbon companies, then all you need to do is monitor the progress;
- You should also ask how the fund is replacing the shares and bonds they are going to sell in order to maintain the fund's ability to pay pensions.

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3. If your fund does not have a position on divestment from carbon - you'll need to campaign for one

- You will need to ask your branch for some resources to hold meetings with members to raise UNISON policy and get action to back it;
- You will need to contact other branches who have members in your fund to start to activate them;
- This will involve a written request to the Chair of your fund pension committee, asking them to consider divestment from companies who have a heavy carbon foot print. There is a model letter at the back of this guide you can use;
- You will need to use this guide to offer alternative investments that are low carbon – this document will give you some of those chosen by other pension funds;
- You need to ask the pension fund what consultation they have had with scheme members over their investment strategy statement or their statement of investment principles;
- Your aim is get a carbon disinvestment commitment over the next five years from your fund – this should include ideas and proposals to replace the investment income with low carbon assets;
- This policy should be subject to consultation with scheme members – the fund's investment strategy statement should be reviewed and subject to consultation;
- You need to ensure a majority of the scheme members in your fund support this proposal if it is meeting resistance from the councillors and officers.

# But What Will it Cost to Sell our Assets in High-Carbon Companies and Then Buy New Assets?

This section will:

- Help members understand the key cost and performance implications of a pension fund.

## Cost implications

Investment costs and charges are one of the biggest issues facing LGPS pension funds. In any divestment proposal or campaign it is important to understand the cost implications.

There are four groups of costs a pension fund incurs:

- Administration charges – managing and reporting on the pension fund
- Custody Bank charges – for safekeeping of the pension fund and some other administration charges
- Investment Management charges – for making investment decisions – this is sometimes linked to how well the fund is doing
- Trading charges (known as transaction costs) – charges of buying and selling pension fund investments

Controlling these costs is essential if pension funds are to be able to pay the pension benefits promised to members.

Pension funds should be run with a constant eye on reducing costs so that the scheme employers (i.e. local authorities etc.) can maintain their financial commitment. Every penny increase in the employers' contributions means a penny less going out on jobs, pay and services. Well planned divestments (sales) of investments happen as a regular process for pension funds and there is no reason why well planned divestment should not be a normal part of this process.

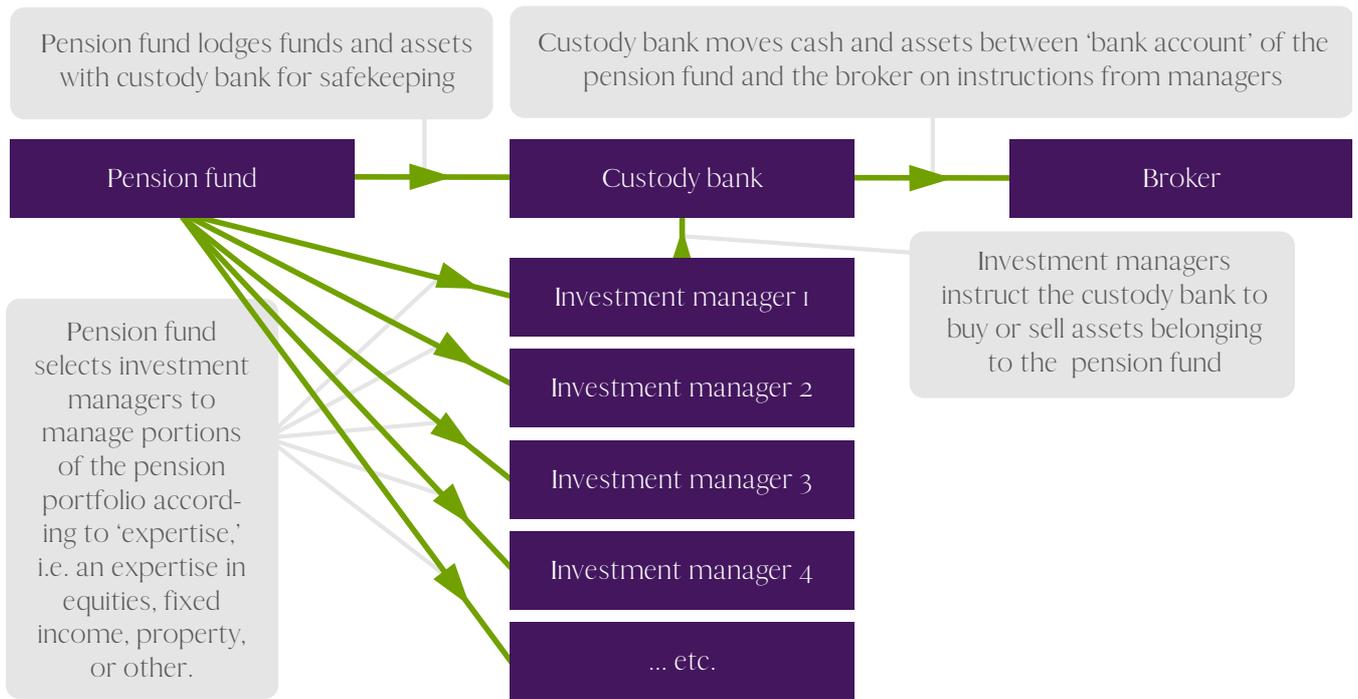
The LGPS Scheme Advisory Boards have committed to ensuring a cost transparent pension system. Please ensure that your pension fund is on top of this issue when discussing divestment.

## Performance implications

Another response that members might get from people on responsible investment is that including environmental and social factors into investment decisions results in poor returns. Decisions to divest might affect pension fund returns.

There is more and more evidence increasing over time that this is not the case.<sup>9</sup> It makes sense that businesses that are better at dealing with green consumers and new environmental laws will be more successful and indeed, this is what a growing field of research suggests.<sup>10,11</sup>

Figure 6: The pension fund value chain<sup>12</sup>



- Pension fund levies an Administration Charge for managing and reporting on investments
- Custody bank levies:
  - a Custody Fee for safekeeping of assets owned by pension funds;
  - Charges for FX Transactions carried out;
  - and derives Revenues from Stocklending on pension fund assets and Interest Income on pension fund cash held
- Investment managers levy Investment Management Charges (composed of a management and performance element) and derive Revenues from Stocklending on pension fund assets
- Brokers levy Trading Charges on transactions carried out under instruction from investment managers on behalf of pension funds

# UNISON Structures to Use for Campaigning

This section will:

- Outline how campaigners should look to the UNISON structure for guidance on how best the union can support their work on divestment of their pension fund.

## How UNISON's regional structures for LGPS governance work

Each UNISON region must establish an LGPS forum to support board members, and each region will have a lead officer and lay member to assist that process.

Regions should ensure that the board members can report to the service groups with LGPS members in the region. Regional representatives will attend and report to the SGLC/LGPS forum.

To achieve this we need to understand that there will be multiple UNISON branches that have members in the fund so that they may all be consulted.

An example of how the structure works:

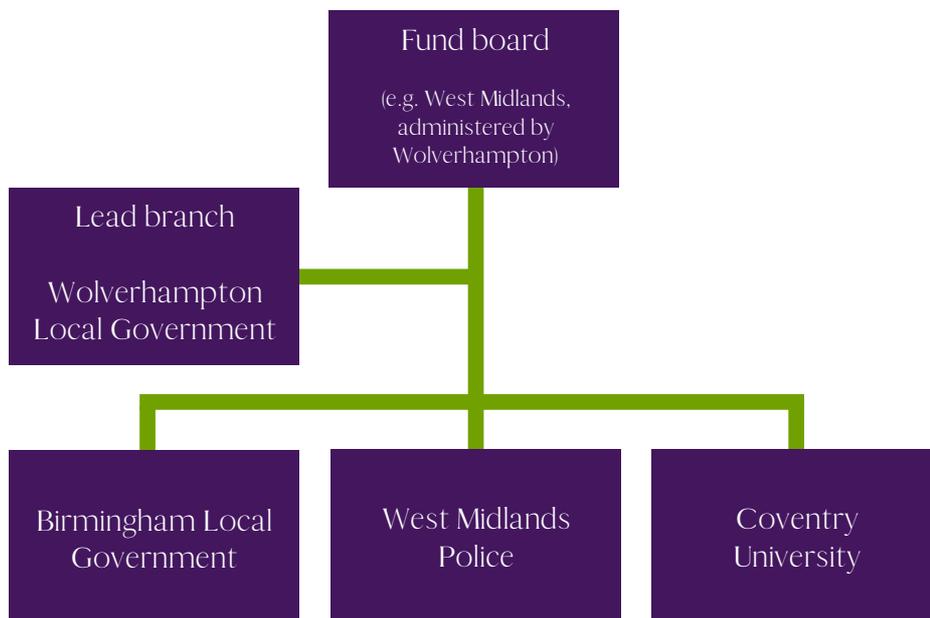
1. West Midlands Fund Board is administered by Wolverhampton Council
  2. UNISON branch for this council is Wolverhampton local government
  3. Birmingham local government branch has members in the same fund
  4. West Midlands Police branch has members in the same fund (see 6)
  5. Coventry University branch
- The UNISON branch closest to the establishment of the board is Wolverhampton.
  - All the other branches with LGPS membership should be consulted and networked.

You can find out who your UNISON board member

is by contacting your lead regional officer, whose details are available in the appendix. Additionally, officers at UNISON centre will offer their support and answer your questions.

Each of the listed regional contacts are responsible for co-ordinating the response to the establishment of the new local boards and supporting board members. All of the negotiations will be done at the regional/fund level and so campaigners should get in touch with their regional contact if they want more information about how their campaign is going.

Figure 7: Example of multiple members in local government pension fund



# Case Studies: What Some Funds are Doing Already

This section will:

- Describe four case studies. It provides an outline of how other funds have taken the initiative.

UNISON members have already expressed their desire to see their pension savings invested responsibly for the long-term and this guide is to inform members on how to engage and start a campaign with the LGPS. For many pension funds, this transition has already started.

In meeting with your fund, you'll want to point to some of the excellent work being done by some of the leading pension funds across the U.K. Below are just a few examples of funds leading the way on low-carbon investment that you can ask your pension chair to investigate:

## Case Study #1: LGPS - Environment Agency Pension Fund<sup>13</sup>

The Environment Agency Pension Fund published its policy on climate change which sets out three pillars; "to invest, decarbonise and engage". The fund intends to:

1. Invest 15% of its funds by 2020 in low carbon, energy efficient and other climate positive opportunities;
2. Decarbonise its portfolio by reducing its exposure to "future emissions" by 90% in the coal sector, and 50% for the oil and gas sector;
3. Engage with companies, voting against them where it feels they are making inadequate progress towards decarbonisation. This is a clear example of implementing leading practices on responsible investment

For campaigners and savers looking to make sure their money is invested responsibly for the long-term, this is exactly the kind of solution that can be taken to the pension fund trustee, so that they can

see what responsible low-carbon investment looks like.

## Case Study #2: Fund manager - Legal and General Future World Fund<sup>14</sup>

Like Case Study #1, the Legal & General Future World Fund is aimed at producing a low-carbon, low risk option for savers. That's why it's been "designed for pension funds and investors looking for an alternative to a traditional index strategy, while also addressing the long-term financial risks of climate change".

This means that it:

1. Weights shares according to their climate risk, rather than using traditional measures like market capitalisation
2. Uses a "climate tilt" to limit the amount that it invests in risky, high polluting industries
3. Engages with companies in order to help make them transparent and well governed
4. Excludes any companies involved in prohibited weapons

Back-tested results show just how impressive this kind of strategy can be, with financial returns for the low-carbon option having averaged 9.59% between 2001 and 2016 (compared with 7.05% for standard index investments such as the FTSE All-World index).

HSBC has selected this fund as their default equity fund for one of the largest corporate pensions in the United Kingdom – a sign of just how popular low-carbon pension funds are becoming, even among major global financial institutions.

## Case Study #3: LGPS - West Yorkshire Pension Fund

Like the EAPF and LGIM above, the West Yorkshire

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Pension Fund uses a number of different tools to make sure that its pension fund is responsibly invested and returns are safeguarded against risks from climate change. It uses:

1. An Investment Strategy Statement which clearly describes its investment decision making process and criteria for stock selection to its members
2. Invests significantly (over £120million currently) in low-carbon sources, and has committed an additional £50 million
3. Engages actively with fossil fuel companies to encourage “real change” in the industry
4. Participates in investor engagement groups like the Local Authority Pension Fund Forum and the Institutional Investors Group on Climate Change
5. Uses shareholder engagement to engage companies not only on climate change but also on employment and labour issues, bringing shareholder resolutions at companies including Shell, BP, Rio Tinto, Anglo American and Glencore

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Transition’ campaign to ensure that decarbonising the economy benefits workers as well as consumers and the environment.

While not a pension fund, the Just Transition campaign provides a blueprint for workers transitioning to a low-carbon economy. Campaigners interested in further information should consult the webpage provided in the resources section of this guide.

## Case Study #4: The ‘Just Transition’<sup>15</sup>

The International Trade Union Confederation (ITUC) formed the “Just Transition” campaign in order to target “a zero-carbon, zero-poverty world” that looks out for the interests of all workers.

The ‘Just Transition’ aims to:

- Unite unions, businesses, communities and investors in dialogue and planning, to ensure that measures on climate change generate jobs and community renewal
- Consider the social impacts of investment decisions and policies because “effective action on climate change requires massive industrial transformation”

As such a transformation will undoubtedly pose challenges for workers in the fossil fuel sector. In response, the union movement developed the ‘Just

# Conclusion

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We hope that this guide helps members to gain the knowledge and know-how to launch a good campaign.

Pension committees are actively deciding their future investment strategies so it is important that local members are informed, get involved and have their say in how their pension savings are invested.

What's most important is that we take action now, in order to make sure that the transition to a cleaner economy gets underway as soon as possible, and that it happens with our savings and our financial interests at its heart.

# Appendix: Campaigning Resources - Template Campaign Letter

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To the Chair of (name of the pension fund) Pension Committee

Dear NAME,

I am concerned about the real threat posed by climate change, and believe it is morally and financially misguided to invest in companies dedicated to finding and burning more oil, gas and coal.

Mark Carney, the governor of the Bank of England, issued a blunt warning in 2015 that investors, like pension funds faced “potentially huge” losses as action on climate change could make vast reserves of oil, coal and gas “literally un-burnable”.

So we now know investments in fossil fuels are not only harmful to the environment but put the sustainable future of our pensions at risk.

As the Chair of my pension fund, I would appreciate it if you could provide some answers and guidance on this issue.

- How much of the pension fund is invested in companies involved in the extraction of fossil fuels?
- What options do you have to ensure my pension fund money is not invested in fossil fuel companies?
- Will the pension fund commit to moving our investments out of fossil fuels?
- What measures have you taken to ensure that scheme members have been consulted over your investment strategy statement and/or statement of investment principles?

I am concerned about the financial risks of investing in fossil fuel companies which are likely to be forced to leave their existing reserves in the ground.

Indeed, I see that in recent years pension funds that have divested from fossil fuels have financially outperformed those that remain invested in fossil fuels. Are there any plans to increase investment by the pension fund to help facilitate a low carbon economy?

I look forward to hearing from you.

# Appendix: Campaigning Resources - List of UNISON Contacts & Resources

UNISON Centre / Region	National Officer / Regional Lead Officers	Email
UNISON Centre	Colin Meech	c.meech@unison.co.uk
East Midlands	Catherine Mellor	c.mellor@unison.co.uk
Eastern	Phil Gooden	p.gooden@unison.co.uk
Greater London	Helen Reynolds	h.reynolds@unison.co.uk
North West	Michael Booth	m.booth@unison.co.uk
Northern	Karen Loughlin	k.loughlin@unison.co.uk
Northern Ireland	No officer	unisonnorthernireland@unison.co.uk
Scotland	Dave Watson	d.watson@unison.co.uk
South East	Steve Brazier	s.brazier@unison.co.uk
South West	Lisa Youlton	l.youlton@unison.co.uk
Wales	Dominic Macaskill	d.macaskill@unison.co.uk
West Midlands	Mark New	m.new@unison.co.uk
Yorkshire and Humberside	Ashley Harper	a.harper@unison.co.uk

## Local Government Scheme Advisory Board - England/Wales

<http://www.lgpsboard.org/index.php/schemedata/local-boards> (this section provides a list of LGPS funds and their pension boards)

The purpose of the Board is to be both reactive and proactive. It will seek to encourage best practice, increase transparency and coordinate technical and standards issues for the LGPS. There are six employer representatives and six trade union representatives, UNISON holds the vice-chair position.

## Local Government Scheme Advisory Board - Scotland

<http://lgpsab.scot/>

The purpose of the Local Government Pension Scheme (Scotland) Advisory Board is to provide advice to the Scottish Government on the desirability of changes to scheme design and the implication of other policy issues. UNISON are the staff side secretary to the board.

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## Local Government Pension Scheme for Northern Ireland

<https://www.nilgosc.org.uk/>

The NILGOSC is the corporate body responsible for the administration of the Scheme and is a non-departmental public body, sponsored by the Department for Communities.

## Local Authority Pension Fund Forum (LAPFF)

<http://www.lapfforum.org/>

A group of 72 LGPS funds combining £200bn of assets, no scheme member representation. LAPFF develops responsible investment policies and engages with companies. It has developed resources on climate change.

## The Local Government Pension Scheme

<https://www.lgpsmember.org/contactfund.php>

The web site for LGPS scheme members in England and Wales. It has a very useful contact your pension fund section.

## Climate Action

<http://www.climateactionprogramme.org/>

Established in 2007 and headquartered in London, UK, Climate Action works in a unique, contractual partnership with the United Nations Environment Programme (UNEP) – the world’s foremost body on environmental protection and stewardship.

## ShareAction

<https://shareaction.org>

ShareAction exist to make investment a force for good. Our vision is of an investment system that truly serves savers and communities, and protects our environment for the long term.

- ShareAction “Mission: Pension Power” toolkit:  
<https://shareaction.org/wp-content/uploads/2016/09/MissionPensionPower.pdf>
- ShareAction case study of shareholder resolutions:  
<http://shareaction.org/wp-content/uploads/2016/02/CaseStudy-Shareholder-Resolutions.pdf>

## Friends of the Earth Scotland

<https://foe.scot/campaign/divestment/>

FoE Scotland have worked with UNISON Scotland to promote divestment from fossil fuels and support a number of local campaign groups.

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## Client Earth

<https://www.clientearth.org/>

Work to protect the environment through advocacy, litigation and science. Using the best research and policy analysis when choosing their strategic direction.

## The Campaign against Climate Change Trade Union Group

<https://www.cacctu.org.uk/node/1799>

It is part of the Campaign against Climate Change. The One Million Climate Jobs campaign was set up by trade unionists within the Campaign against Climate Change.

## 350.org

[350.org](https://350.org/)

Uses online campaigns, grassroots organizing, and mass public actions to oppose new coal, oil and gas projects <https://350.org/>

## Platform

<http://platformlondon.org/about-us/>

Platform's current campaigns focus on the social, economic and environmental impacts of the global oil industry.

## ITUC just transition centre

<https://www.ituc-csi.org/just-transition-centre>

A just transition brings together workers, communities, employers and government in social dialogue to drive the concrete plans, policies and investments needed for a fast and fair transformation.

# Appendix: Campaigning Resources - Glossary of Pension & Investment Terms

## Active management

An active investment manager will typically seek to out-perform an investment benchmark such as the FTSE100. Fees charged by fund managers are high and complex to the untrained eye.

## Actuary

A professional who specialises in statistics and risk who gives advice on a pension scheme's assets and liabilities.

## Asset manager

See "investment manager".

## Association of British Insurers (ABI)

A trade association representing the majority of UK insurers.

## Automatic enrolment

A new legislative requirement introduced by the Pensions Act 2008 which requires all employers (beginning with the largest) to automatically enrol their qualifying employees into a qualifying pension scheme.

## Broker

An individual or organisation that acts as an intermediary between a buyer and seller, usually in return for the payment of a commission.

## Contributions

The money paid by members and employers into the pension fund.

## Custodian Bank

An institution that is responsible for the safekeeping and administration of assets belonging to another organisation such as a pension fund.

## Defined benefit (DB) schemes

A type of pension where the amount an employee receives on retirement is pre-determined, and is often calculated on the basis of the employee's final salary/average salary and length of service.

## Defined contribution (DC) schemes

An investment fund where all of the investment risk is with the member. The employer pays a fixed amount of salary as does the scheme member. The fund is meant to grow and provide cash when the member retires. There is no benefit payment.

## Department for Work and Pensions (DWP)

The government department responsible for pension policy.

## Environmental, social and governance (ESG) factors

A term used to describe non-financial performance indicators across the fields of sustainability, social responsibility, ethics and corporate governance. Examples of ESG factors include the carbon footprint of a company, the wages it pays its workers and issues related to corruption and transparency.

## Fiduciary duty

A fiduciary is a legal relationship of trust between two or more parties. Typically, a fiduciary prudently takes care of the assets and money for another person or persons. The most common circumstance where a fiduciary duty will arise is between a "trustee" and a beneficiary of a pension scheme. The "trustee" to whom property is legally committed is the legal—i.e., common law—owner of all such property. The beneficiary, at law, has no legal title to the trust; however, the trustee is bound by law to suppress their own interests and administer the property only for the benefit of the beneficiaries.

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## Financial Conduct Authority (FCA)

The regulator of the financial services sector. The FCA is responsible both for regulating the infrastructure of financial markets and standards of conduct. It regulates defined contribution (contract-based) schemes and individual personal pensions.

## Financial Reporting Council (FRC)

The regulator responsible for corporate governance standards and financial reporting. It publishes the UK Stewardship Code, which sets out a number of areas of good practice to which the FRC believes institutional investors should aspire.

## FX (Foreign Exchange)

Pension funds need to exchange currency in order to buy assets located in other countries. That exchange is normally carried out by a pension fund's custodian bank, and the fund will incur charges for the exchange.

## Governance

The process and structure for decision making of a pension fund.

## Investment consultant

An individual (or organisation) that gives strategic advice on the making of investments and/or the selection of an investment manager.

## Investment manager

Also known as a “fund manager” (for example, in pensions legislation) and an “asset manager”. An individual (or organisation) to whom the responsibility for the day-to-day management of the scheme's assets is delegated. The investment manager will act on the basis of instructions given to them in the investment mandate.

## Investment mandate

The agreement between an investment manager and their client outlining how the assets of the pension scheme are to be managed. The mandate may contain performance targets by reference to a benchmark, or may contain restrictions on which investments the investment manager can make.

## Investment regulations

The LGPS has a set of investment regulations made through Parliament. These instruct the LGPS funds on what they must do before, during and after the investing process.

## Investment strategy statement

The LGPS authorities in England and Wales must produce one of these documents and post it on their website. They should consult on it and this is the document that you must read first. It should have a section on climate related matters.

## Member

An individual who contributes or has contributed to a pension scheme.

## Negative screening

The use of ethical, social and governance (ESG) factors to exclude investment in particular companies or sectors, such as tobacco companies or pesticide manufacturers.

## Passive management

This approach to investment typically involves tracking the investment performance of a specific market index. A passively managed fund is also known as an “index fund”. There is often less trading involved, which means the fees are low.

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## Platform

Also known as an “investment platform”. May refer both to a “platform” as a piece of technology or to an intermediary who facilitates the purchase of investments.

## Portfolio-churning

The excessive buying and selling of investments in a portfolio. It is characterised by very short holding periods for stocks.

## Positive screening

The use of ethical, social and governance (ESG) factors to select firms (in which to invest) engaged in what are considered to be desirable sectors, such as renewable energy supply, or practices such as good governance.

## Proxy agent

Advise on how votes should be cast and cast votes at company meetings on behalf of others.

## Public Service Pension Scheme

A pension scheme for public sector and associated workers, designed by statute, i.e. Parliamentary law, such as the LGPS.

## Shareholder engagement

An approach to investment which emphasises the importance of effective dialogue between investors and investee companies. Engagement may involve an exchange of views on issues such as strategy, performance, board membership and quality of management.

## Stewardship

A philosophy which aims to promote the long term success of companies in such a way that protects and enhances the value that accrues to the ultimate beneficiary of an investment. Stewardship activities include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration.

## Trust-based scheme

A pension scheme that is established using a trust. The trustees are responsible for managing the scheme and for reviewing and monitoring investments. The LGPS funds do not have trustees, the equivalent is the councillor but there are no scheme member representatives.

# Appendix: Campaigning Resources - Pensions and Climate Change Motion

## Composite B PENSIONS AND CLIMATE CHANGE

Conference acknowledges the importance of well-sourced pension schemes that provide reasonable returns so that members can live with dignity after retirement. Conference acknowledges the value of legislative changes that allow trade union representation on pension boards as a positive step. Conference recognises that the threat of global warming to our environment and to the well-being of the world's population has been neglected by the UK government and that immediate actions are required to limit the damage that is already taking place. Conference recognises the Scottish Government's ambitious targets to reduce carbon emissions but notes that the UK Government has failed to adopt similar targets.

As continued investments in fossil fuels pose material financial risks to portfolios, funds have fiduciary duties to consider the benefits of decarbonising as part of their investment strategies. Furthermore, trustees may consider non-financial factors if members share the concern and there is no risk of significant financial detriment to the fund – which is increasingly the case for divestment. By divesting the £14 billion currently invested in fossil fuels, local councils can take an important step forwards in challenging climate change. Reinvesting this money into renewables, housing and public transport is a feasible and sensible strategy for providing a long term return and building safe pensions for public sector workers.

### Conference notes:

1. The Paris 2015 Agreement, committing our governments to keep the global temperature increase to under 2 degrees and aim for 1.5 degrees. Carbon budgets produced by the Intergovernmental Panel on Climate Change, United Nations and the International Energy Agency show that preventing two degrees of warming relies on not burning 60-80% of all proven fossil fuels;
2. Pension funds have a legal duty to treat members “fairly as between them”. That means taking seriously the longer-term interests of younger members who may well be affected more by the climate transition;
3. UNISON is the largest staff union in the UK gas industry and the work of the UNISON energy service group executive in investigating hydrogen with carbon capture storage (CCS) as an alternative to gas in the UK's supply and distribution pipe network to UK households.
4. The importance of a just transition for workers in the fossil fuel-related sectors such as offshore oil, power generation and the automobile industry, so that they can benefit from a transition to decent and unionised jobs in the low carbon economy;
5. Fiduciary duty is defined by the Law Commission as ‘ensuring that pensions can be paid, ensuring that this is undertaken at the best possible value’.

### Conference agrees to:

1. Campaign for divestment from fossil fuel extraction for all pension funds where we have members and we can argue it is in the fiduciary interests of scheme members ensuring that there is no short term economic damage to each pension fund and that an economic strategy for re-investment of the disinvested assets is identified to ensure no long term damage to each fund and the ability to pay pensions.
2. Seek alliances amongst other trade unions who share our objective and work cooperatively with them to achieve divestment;
3. Engage with UNISON members with an aim of improving their knowledge base around climate threats created by fossil fuel extraction;

- 
4. Produce literature on fossil fuel divestment that will enable branches to engage with the employers where they are members of a LGPF;
  5. Call upon our local LGPS to invest safely for pension holders' wellbeing, by divesting fossil fuels over five years and reinvesting into the just transition, giving due regard to fiduciary duty and if necessary call for the fund administrators to consult members of each pension fund;
  6. Seek divestment of LGPS from fossil fuels over five years giving due regard to fiduciary duty.

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UNISON is one of the UK's largest trade unions, serving around 1.3 million members, and Europe's largest public service union. It represents full-time and part-time staff who provide public services employed in both the public and private sectors.

## About ShareAction

ShareAction (Fairshare Educational Foundation) is a registered charity that promotes responsible investment practices by pension providers and fund managers. ShareAction believes that responsible investment helps to safeguard investments as well as securing environmental and social benefits.

[shareaction.org](http://shareaction.org)

[info@shareaction.org](mailto:info@shareaction.org)

+44 (0)20 7403 7800

16 Crucifix Lane

London, United Kingdom

SE1 3JW

*The opinions expressed in this publication are based on the documents specified. We encourage readers to read those documents. Online links accessed 19 December 2017.*

*Fairshare Educational Foundation is a company limited by guarantee registered in England and Wales number 05013662 (registered address 16 Crucifix Lane, London, SE1 3JW) and a registered charity number 1117244, VAT registration number GB 211 1469 53.*

## Contact

Colin Meech

UNISON national officer

UNISON

[c.meech@unison.co.uk](mailto:c.meech@unison.co.uk)



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