

Pensions Authority Meeting – 8th December 2022

Public Questions –

Question 1 – Divestment from Shell

Question from Mr Sean Ashton

One of the main points stated by South Yorkshire Pension Authority (SYPA) for not divesting from fossil fuels is that selling fossil fuel investments will not affect change in the real world and that the world needs the money tied up in fossil fuel companies to transition to a world fuelled by green energy. Surely, selling those shares and investing in renewables would affect change on 2 fronts: investment in renewable energy projects would cause more renewables to be manufactured and installed; and removing the social licence of fossil fuel companies by divesting would hasten their transition to renewables if that is genuinely needed. Removing the massive subsidies paid by the government to these companies would release enough capital to transition to a green economy anyway, without bringing these companies along. When will the authority stop pretending that Shell is going to change its spots, and take a lead in acting to prevent climate change by persuading BCPP to remove Shell from its portfolio?

Response

This question goes to the heart of the debate between campaigners and the Authority and most other LGPS funds and the various pools over the effectiveness, or otherwise, of seeking to change the behaviour of companies to deliver real reductions in the level of carbon emissions into the atmosphere rather than a benefit to carbon metrics simply through the disposal of shares.

If it were possible for the Authority to dispose of the holding in Shell, which it cannot do because the stock is held in a pooled fund and the decision to buy or sell individual stocks is one for the investment manager (Border to Coast), then it might not be possible to reinvest the funds in renewable energy. This is because we have already tilted our portfolio significantly towards renewable energy and it might not be sensible in terms of concentrating our investments in a particular type of asset to increase exposure to renewables beyond what is already planned. Equally it might not be appropriate because of the need for the fund to maintain a balance between liquid and illiquid investments to move from a liquid investment (shares in Shell) to an illiquid investment (renewable energy) which tends to be invested in through closed end fund structures which are not liquid.

All of that said the Authority recognises that there is a need to up the pressure on companies to make more rapid progress with the climate transition and to this end the next revision of our Responsible Investment policies in March will look to set out a stronger position on this which we will seek to have adopted by the Border to Coast partnership. While the work on these revised policies has not been completed this is likely to include clearer definition of the point at which the process of engagement is deemed to have become exhausted, together with stricter positions on the circumstances where we will expect fund managers to use shareholder votes to oppose Director appointments and other resolutions where insufficiently robust transition plans are in place or where plans are failing to be delivered.

The key issue here is that the Authority cannot act alone and must seek to influence others. While this process is, inevitably, more time-consuming than were we able to act alone the impact will be commensurately greater through more weight of investment acting together.