Pensions Authority Meeting 7th December 2023

Public Questions and Answers

Question 1 – Mr Sean Ashton

At the recent SYPA AGM it was clear that communication with pension fund members is an issue and that some members no longer receive communication from the Authority. We suggest a survey of members including questions to gather their views on where their money is invested and whether the Authority should continue to hold shares in fossil fuel companies given the climate and biodiversity emergencies we are facing. Will the committee consider such a survey and, if so, could we be part of the consultation process in developing the questions?

Response

The Authority makes significant efforts to maintain contact with all 177,000 members and with all scheme employers, but it is accepted that more can always be done in this area. The Law Commission's statements in relation to the way in which Environmental Social and Governance issues should be taken into account by Pension Funds when making investments makes clear that the views of scheme members should be taken into account. The statements do not though make clear how this should be done acknowledging the practical difficulties in discerning representative views.

That said the next review of the investment strategy which will take place in 2025/26 is likely to pose some challenges for the Authority in terms of the interaction of its various objectives and understanding the views of scheme members is likely to be helpful to members of the Authority in addressing these challenges. The way in which this might be done has not been decided. However, any work in this space will need to be carried out in a way that provides a representative result across the whole body of scheme members and does not attach undue weight to the views of particular interest groups.

Question 2 – Ms Kate Stott

One of the early statements made by SYPA about its policy of tilting away from carbon intensive industries was a commitment back in 2015 to not invest in companies whose business model was 'pure' coal or tar sands, the dirtiest fossil fuel industries.

However, included in BCPP's Listed Alternatives Fund is Enbridge, the Canadian company heavily invested in tar sands infrastructure. Enbridge have invested billions of Canadian dollars in capital projects designed to transport hundreds of thousands of barrels of oil a day from the tar sands in Canada's Alberta province (https://gogel.org/line-3-pipeline). SYPA have a significant investment in the Listed Alternatives Fund. Is the committee happy with holding Enbridge stock within the SYPF portfolio and, if not, what steps will be taken to remove it?

Response

Before turning to the specific of Enbridge it should be emphasised that the exclusion of pure coal and tar sands companies is based on a threshold related to the revenues raised from these sources rather than being an absolute exclusion. The revised Border to Coast policies elsewhere on the agenda for today's meeting tighten that threshold.

Turning to the specific question. Enbridge is one of the largest and most diversified energy infrastructure companies in the world. While the Company has some exposure to the transportation of fossil fuels from tar sands in Canada, this is a minority of its business, accounting for less than 25% of revenues and around a third of profits. We have spoken to Enbridge about their tar sands exposure and their future decarbonisation strategy and believe there to be a comprehensive and credible commitment in place to further reductions. The Company has already demonstrated meaningful progress in their environmental commitments, with over half of profits now arising from renewable energy and natural gas distribution, twice the level of 8 years ago. Consequently, Enbridge is recognised as a sustainability leader amongst its peers by third-party institutions such as MSCI (AA Rating). Its decarbonisation strategy will see the firm gradually transform into an integrated energy business with a renewable energy focus over time. Enbridge has already reduced its emissions intensity by over 27% since 2018 and has industry-leading initiatives on community engagement and indigenous rights. We believe that such clean energy transitions have the dual benefit of materially positive environmental impacts as well as the potential to drive investment performance through reduced risk and increased investor appetite. Consequently, we believe that the potential environmental risk is limited compared to peers in the sector and Border to Coast's investment is helping to drive the transition in a major part of the North American energy sector.