



SOUTH YORKSHIRE
PENSIONS AUTHORITY

Subject	Responsible Investment Update	Status	For Publication
Report to	Authority	Date	13 June 2019
Report of	Head of Investment Strategy		
Equality Impact Assessment	Not Required	Attached	No
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1. **Purpose of the Report**

- 1.1 To provide an update for members on responsible investment activity undertaken over the last quarter of the 2018/19 financial year.

2 **Recommendations**

2.1 **Members are recommended to:**

- a. **Note the responsible investment activity undertaken during the last quarter of 2018/19**
- b. **Endorse Border to Coast's decision to participate in the Investor Coalition in relation to Tailings Dams.**
- c. **Endorse the proposed addition of climate risk to the corporate risk register.**

3. **Link to Corporate Objectives**

- 3.1 This report links to the delivery of the following corporate objectives:

Responsible Investment

To develop our investment options within the context of a sustainable and responsible investment strategy.

This report is one of a regular series providing members with the opportunity to monitor the delivery of the Authority's strategies in relation to Responsible Investment.

4. **Implications for the Corporate Risk Register**

- 4.1 The actions outlined in this report address the risks identified within the corporate risk register in relation to effective oversight of Border to Coast and their investment activities. In addition the proposed addition of Climate Risk to the Corporate Risk

Register causes attention to be paid to one of the major issues which will influence both the performance of the investment portfolio and the Fund's liabilities in future.

5. Background and Options

5.1 The Authority's approach to responsible investment is delivered through four streams of activity, largely in collaboration with the other 11 funds involved in the Border to Coast pool.

- Voting – Using the voting rights attached to shareholdings to influence the behaviour of companies to move in line with best practice.
- Engagement through Partnerships – Working with others to engage in dialogue with companies in order to influence their behaviour and also to understand their position on key issues.
- Shareholder Litigation – Joining in legal actions which seek to punish companies for corporate “misbehaviour” and thus protect the financial interests of the members of the pension fund.
- Active Investing – Making positive choices about which companies to invest in having considered the full range of responsible investment issues based on the premise stated above that well governed companies will produce sustainable and superior returns. This is part of the Authority's overall investment philosophy and is not covered in this report.

Voting

5.2 Detailed voting reports for the period January to March 2019 have been provided to members in the on line reading room and summary information is provided in the Border to Coast Quarterly Newsletter which is attached as Appendix A. The headlines in relation to voting in the quarter were:

- 1,409 votes were cast at 122 meetings globally.
- For the first time 43% of the meetings where votes were cast were in emerging markets reflecting the more comprehensive voting arrangements which Border to Coast have put in place.
- There was at least 1 vote against management at 77% of meetings.

5.3 Looking at the reasons for voting against management:

- In the UK the largest single causes of votes against were in relation to Board appointments and auditor appointments. In the latter case the voting guidelines agreed by all 12 Border to Coast funds look to secure a change of audit firm after 9 years (in the same way as for Non-Executive Directors) in order to ensure genuine independence, which has boosted the number of votes against management in this area.

- In the Developed Overseas Markets 48% of votes against were concerned with the composition of the Board. The issues within this ranged from length of tenure and whether Non Executives are genuinely independent to separation of the Chair and CEO roles and the overall diversity of the Board.
- In the emerging markets the largest numbers of votes against were also concerned with issues to do with the composition of the Board and Audit appointments, although capital management (including share buy backs and the scale of cash holdings) and pay policies were not far behind.
- The proportion of votes against was significantly higher in the Overseas Developed and Emerging Markets than in the UK which reflects the way in which some of the expectations and standards set out in the voting guidelines are now regarded as mainstream in the UK but have yet to gain universal acceptance in the rest of the world.
- Notable votes against included a vote against the proposed executive pay policy at Apple and Accenture and also against the reappointment of the Board and the Mexican company Cemex as 40% of the Board represent the interests of two families. A vote was also made against the reappointment of PricewaterhouseCoopers at the AGM of Imperial Brands on the grounds that they had been the company's auditor since 1996 with no tender process. Since the AGM the company has carried out a tender and will be appointing EY from its 2020 AGM.

5.4 This last example shows that the pressure exerted by significant shareholder votes against management together with engagement by shareholders with management can bring about change.

5.5 More recently it is notable that the Board of BP and over 99% of shareholders supported a resolution which commits the company to develop its business strategy in line with the Paris Agreement on Climate Change. This is a significant step and matches similar moves by Shell.

Engagement

5.6 The Authority supports engagement with companies through two main routes. By Robeco working on behalf of all 12 Border to Coast Funds and through the Local Authority Pension Fund Forum (LAPFF) on behalf of its members which includes all 12 funds in Border to Coast. In addition the internal fund managers at Border to Coast also engage directly with a small number of companies. During the quarter

- Robeco engaged across a wide range of themes in addition to corporate governance prioritising climate and environmental issues including palm oil and single use plastics. More detail is provided in the active ownership report which is available in the on line reading room and on the Border to Coast website here.
- LAPFF engaged with over 100 companies in the quarter, with a particular focus on human rights, environment and carbon risk, employment standards and board composition. The forum also undertook work on tax transparency. More details are included in the Quarterly Engagement report which is available in the on line reading room and on the Forum's website. LAPFF also held their most recent business meeting in Leeds (a briefing on which is available in the on line reading room) where the work plan for the coming year was agreed and also discussed the approach to the defence industries and human rights in the context of the war in Yemen which have previously been discussed by the Authority's Investment Board (see below). The meeting also discussed the results of research into employee

representation on company boards and received a presentation on the Just Transition which is a process that aims to ensure that the transition to a low carbon economy is undertaken without repeating the mistakes of the past, such as were made during the decline of the coal industry.

- 5.7 At the last meeting of the Investment Board the Fund Director was asked to write to the Government in relation to the sale of arms to Saudi Arabia by UK companies, in light of concerns raised by scheme members and others about the use of arms supplied by British Aerospace in the war in Yemen. The concern raised with Government was that while firms might be acting legally and in accord with their licences to sell arms the licensing regime does not keep up with events and consider evidence from a wider range of sources about the behaviour of those to whom arms are sold. A reply was received from the relevant minister in the Department for International Trade indicating that the assessment of licences is an ongoing process. This correspondence has been placed in the on line reading room for new members of the Authority.
- 5.8 Members will be aware of the disaster at a mine in Brazil resulting from the collapse of a “tailings dam” owned by the Brazilian mining company Vale. This was one of the worst such disasters in South America with a tragic loss of life and enormous social impact. As a result of this Border to Coast has worked as part of a global coalition of investors to call for a new independent mine safety system, which it is hoped will improve outcomes for communities by providing greater transparency and accountability. In addition the coalition has asked the 683 listed companies to make specific disclosures in relation to their ownership of tailings facilities. The industry has responded positively but cautiously and dialogue is continuing. Given that mining companies of various sorts make up such a large proportion of the equity indices, particularly in emerging markets, the financial impact of events of this sort poses a significant risk for investors.

Climate Change

- 5.9 Members will have noted the increasing focus of engagement and voting activity on climate change and associated environmental issues. This reflects the degree to which failure to address these issues is likely to impact both on the performance of the investment portfolio and potentially also on the Authority’s liabilities as the degree to which the planet “warms” will ultimately impact changes in life expectancy. While the Responsible Investment Policy and the Climate Change policy both highlight the significance of climate as an issue to date it has not appeared on the corporate risk register. Given the significance of the issue to the future performance of the Fund in both the negative sense of a potentially negative impact on the value of some companies but also in a positive sense in terms of the availability of new investment opportunities in areas such as renewables and battery storage, it seems sensible to now add climate change to the corporate risk register.
- 5.10 Border to Coast are running a Climate Change Working Party made up of officers from a number of the partner funds. The aim of this group is to develop specific proposals for how the Partnership will address climate change within both its investment offerings and in terms of reporting and accountability. The Working Party’s proposals will be incorporated into the annual review of the Border to Coast Responsible Investment Policy.

Shareholder Litigation

- 5.11 The Authority uses an external agent to assess whether there are shareholder actions which it should be joining. At present no new actions have been identified. Over time this is an issue that will wholly pass over to Border to Coast, however, at present any new actions will relate to historic holdings by the Authority and this arrangement will need to be in place for a number of years before these issues can be wholly handed over to the pool.

6. Implications

- 6.1 The proposals outlined in this report have the following implications

Financial	There are no immediate financial implications arising from this report.
Human Resources	None
ICT	None
Legal	The Authority has powers under the local government acts to participate in LAPFF and other coalitions of investors focussed on specific issues.
Procurement	None

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Background Papers	
Document	Place of Inspection
Border to Coast Quarterly Reports	https://www.bordertocoast.org.uk/sustainability/
LAPFF Quarterly Reports	http://www.lapfforum.org/