

Subject	Responsible Investment Update	Status	For Publication
Report to	Authority	Date	23 January 2020
Report of	Fund Director and Head of Investment Strategy		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	George Graham Fund Director	Phone	01226 772887
E Mail	ggraham@sypa.org.uk		

1 Purpose of the Report

- 1.1 To update members of the Authority on Responsible Investment Activity being undertaken by the Authority and by Border to Coast and to note the revised partnership Responsible Investment Policy and Voting Guidelines which were approved under the Urgent Business Procedure before Christmas.

2 Recommendations

- 2.1 Members are recommended to:
- a. **Note the activity undertaken in relation to Responsible Investment issues since the last meeting of the Authority.**
 - b. **Note the Border to Coast Partnership Responsible Investment Policy and Voting Guidelines which were approved under the Urgent Business Procedure**
 - c. **Endorse the approach proposed to addressing the requirements of the new UK Stewardship Code which places additional reporting obligations on the Authority as an asset owner**
 - d. **Note the response to the Scheme Advisory Board's Draft Guidance on Responsible Investment.**

3 Link to Corporate Objectives

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

To maintain an investment strategy which delivers the best financial return, commensurate with appropriate levels of risk, to ensure that the Fund can meet both its immediate and long term liabilities.

Companies which are well managed and appropriately address the Environmental, Social and Governance risks which they face are more likely to deliver strong returns making the achievement of the goals set out in the Investment Strategy more likely.

Responsible Investment

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

Responsible investment is a fundamental part of the Authority's investment beliefs and are central to how the Authority invests. A central part of a responsible investment approach is transparency about the activity undertaken both by and on behalf of the Authority.

Effective and Transparent Governance

To uphold effective governance showing prudence and propriety at all times.

It is an important aspect of the Authority's accountability to stakeholders that the actions which it takes in relation to responsible investment are publicly reported so that there is proper transparency in relation to the Authority's activities.

4 Implications for the Corporate Risk Register

- 4.1 The actions outlined in this report raise no specific issues in relation to the Corporate Risk Register.

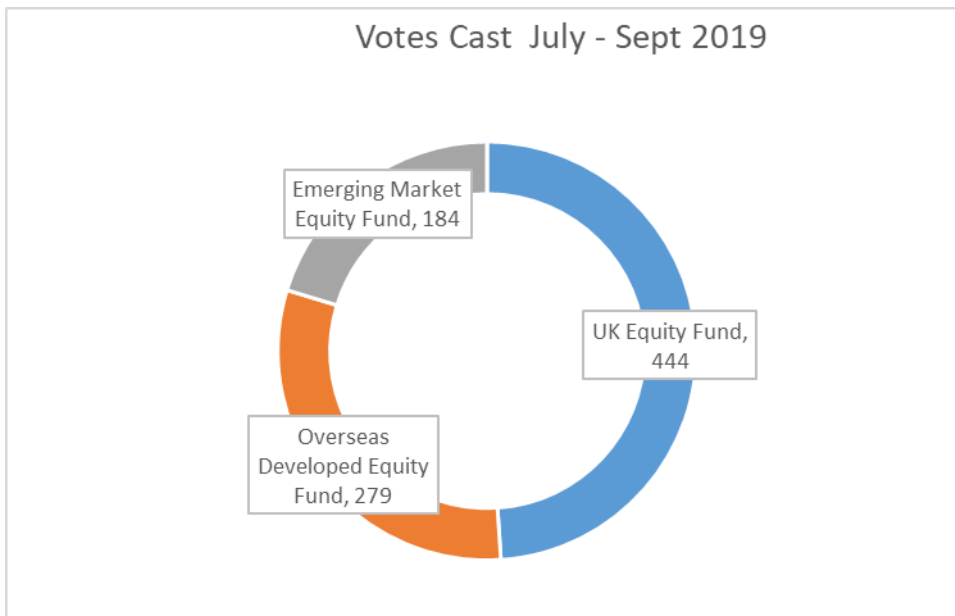
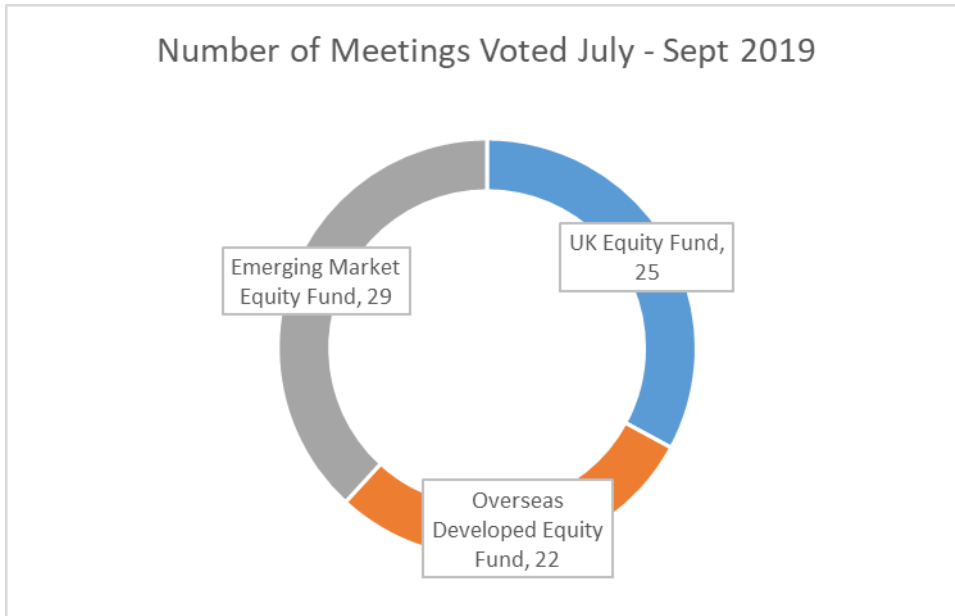
5 Background and Options

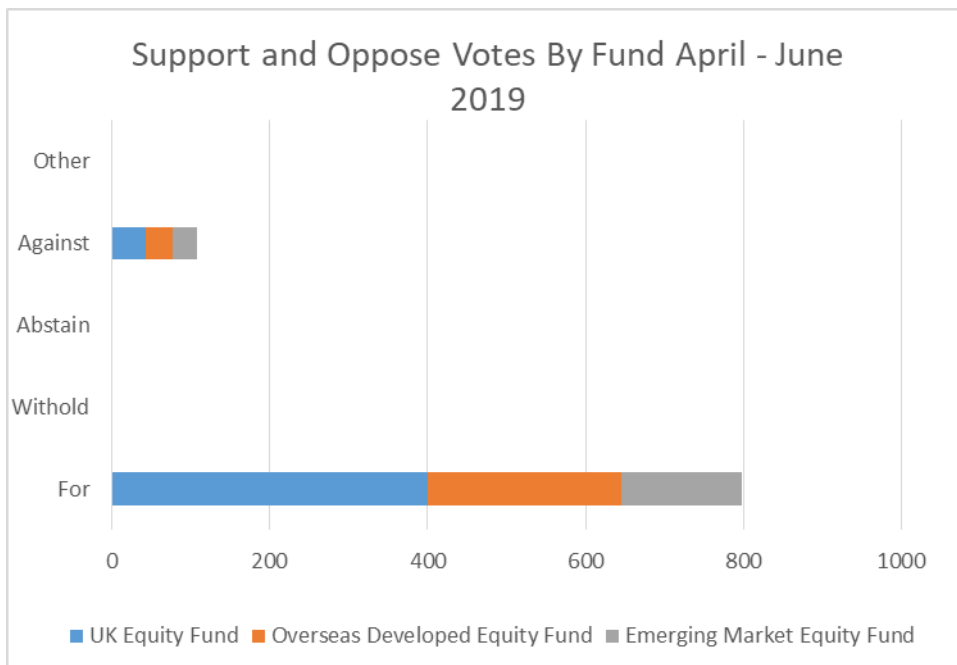
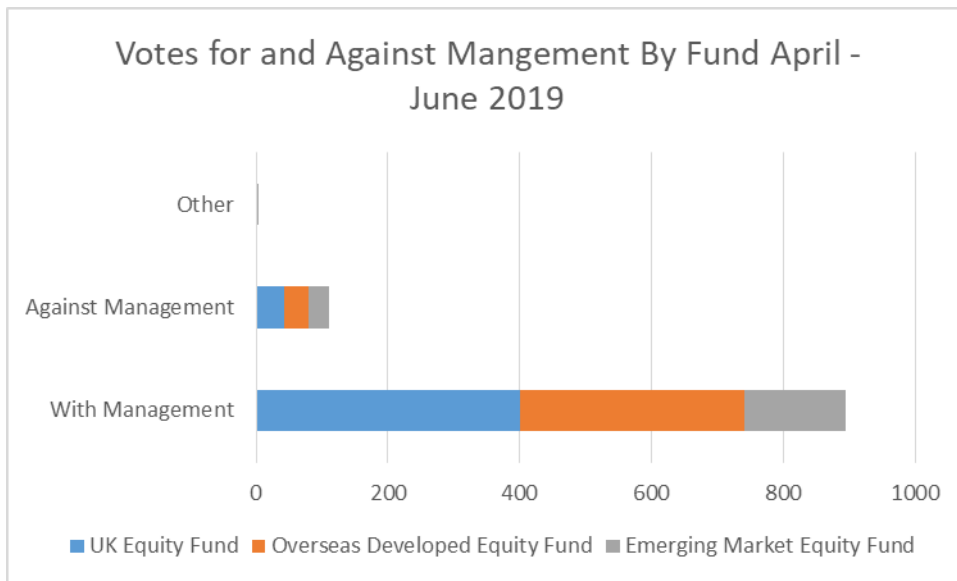
- 5.1 The Authority's approach to responsible investment is delivered through four streams of activity, largely in collaboration with the other 11 funds involved in the Border to Coast pool.
- Voting – Using the voting rights attached to shareholdings to influence the behaviour of companies to move in 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 The charts below illustrate at a high level how the Authority's holdings in listed equities were voted in the period to the end of September 2019. Detailed reports setting out each vote are available on the Border to Coast website and in the member's on line reading room.

5.3 Reflecting the lower number of company AGM's in the quarter shares were voted on 907 resolutions at 76 meetings across all markets, with meetings being fairly evenly distributed between the three portfolios although with significantly more votes being cast in the UK. In line with the last quarter votes have generally been in favour of resolutions and supportive of management.





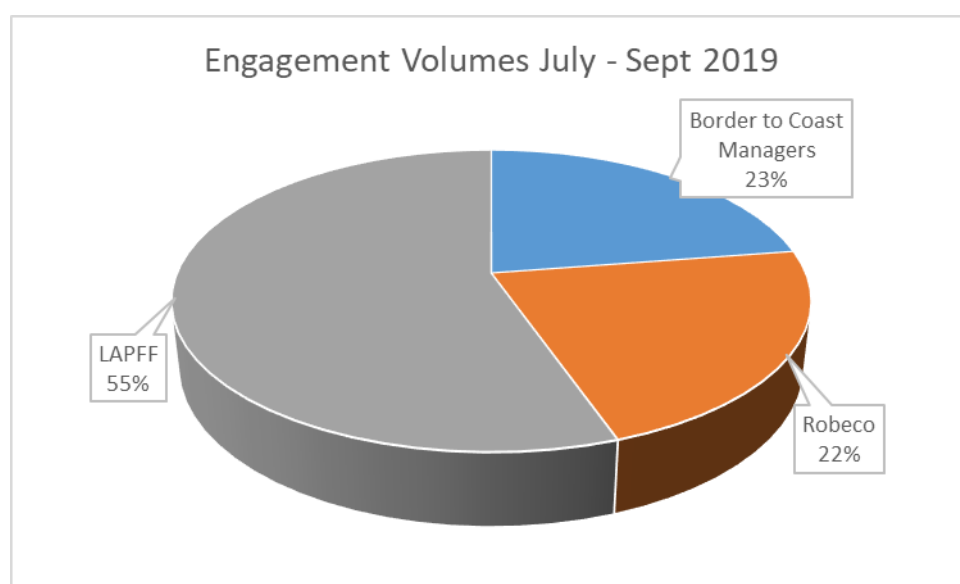
- 5.4 In the UK most votes against related to auditor appointments and board appointments, where the Voting Guidelines are (appropriately) quite stringent in relation to term limits and measures to ensure independence. In particular in relation to auditor independence and appointments recent scandals such as Carillion have raised this up the agenda. In the Overseas Developed markets the majority of oppose votes were related to executive pay followed by issues surrounding the composition of Boards. The pattern was similar in the Emerging Markets, although in this case issues of board composition predominated reflecting the distance that practice in these markets has to travel in order to reach what would be regarded as best practice.
- 5.5 The 2019 AGM season saw an increasing focus on issues of cybersecurity where shareholders have been looking for Board's to include members with expertise in this area. In addition shareholders have been looking to tie elements of executive remuneration to measurable indicators around data privacy and cybersecurity. A shareholder resolution to this effect at Verizon a large US Telecoms Company received 12% of total votes cast. This is clearly an area which will become increasingly important

over time and as an investor we would wish to see companies attaching appropriate priority to it which is only likely if the executive are incentivised to do so.

- 5.6 Another more traditional area which has received significant attention during this AGM season has been succession planning. Where handled well this can protect and even enhance shareholder value at a point of significant risk. Where things go less well there is significant potential for value to be destroyed. The effectiveness of remuneration and nomination committees has been a focus within these discussions.

Engagement

- 5.7 The bulk of engagement activity carried out in relation to the Authority's holdings is undertaken either by Border to Coast using Robeco as their agent or the Local Authority Pension Fund Forum (LAPFF) who use PIRC as their agent.
- 5.8 In terms of the volume of activity 195 companies were engaged with through all routes during the quarter as summarised in the graph below. In considering this it is worth noting that Robeco's activity is more concentrated and focussed than that undertaken by LAPFF, hence while they are engaging with a smaller number of companies this is a longer term multi-stage process and hence these figures while giving an impression of the volume of activity do not necessarily compare like with like.
- 5.9 While the activity undertaken by Border to Coast's own managers was predominantly focussed on the UK both Robeco and LAPFF have a wider focus with 70% of LAPFF's engagements being focussed in the USA, and Robeco having more of a balance with 31% in the USA, 28% in Europe and 19% in the Pacific.
- 5.10 Climate and environmental issues remain major themes of engagement activity governance issues such as auditor appointments and board composition also featuring heavily given their prominence on AGM agendas. There is also a growing focus on engaging with businesses around the way in which they consider the UN Sustainable Development Goals in carrying out their business.



- 5.11 In terms of specific developments arising from engagement in the quarter the following are of note:
- Centrica announced plans to exit oil and gas production including disposal of its stake in Cuadrilla the largest company involved in fracking in the UK.

- National Grid announced that it is joining the Powering Past Coal Alliance a group promoting the move away from coal in the power generation market. This had been a specific ask from shareholders.
- The Investor Initiative on Tailings Dams has succeeded in 52% of the mining industry by market capitalisation fully and publicly disclosing the potential risks both to their business and to communities from the existence of these dams.

5.12 More specific details are available in the relevant quarterly reports cited as background papers and which are available in the members' on line reading room.

Policy Development

5.13 Responsible Investment is an increasingly important and prominent policy area and there have been a number of significant developments since the last report to the Authority.

5.14 Border to Coast have conducted the annual review of the Partnership's Responsible Investment Policy and Voting Guidelines. The updated policies are attached at Appendices A and B. These policies were circulated to members in November 2019 for comment and approved by the Chair under the Urgent Business procedure to ensure that approval was given before the end of 2019 to allow the new policies to be implemented in time for "peak voting season". The changes made to these documents are a result of:

- The addition of clarifications and additional detail, in particular in relation to the role of Robeco in voting in order to ensure compliance with the Shareholder Rights Directive.
- Additional detail around the engagement process and the process of escalation within the engagement process. This ensures compliance with the UN Principles of Responsible Investment and anticipates the new UK Stewardship Code.
- Changes to the voting guidelines to reflect best practice and also to address the different starting points of the wider range of markets to which they now apply. The wording of these changes was a matter of some debate amongst partner fund officers in order to ensure that a position accommodating different market practices does not allow firms who have already reached the best practice position to move backwards. This has been achieved.

5.15 Border to Coast have been developing their approach to adopting the six Principles of Responsible Investment which as a signatory to the UN Principles of Responsible Investment (UNPRI) they are obliged to adhere. The Company is looking both at its actions over the coming years in implementing these principles and the contribution and role of partner funds as set out in the table below:

Principle	2022 target – Border to Coast	Partner Fund Role
1. Integrating ESG	ESG-related tools and analysis well embedded and used by internal PMs External managers held to account	Long-term ESG factors are taken into account when setting strategy Border to Coast, and managers of any legacy positions, are held to account

Principle	2022 target – Border to Coast	Partner Fund Role
2. Active ownership	Holistic approach to engagement across portfolios and asset classes Clear voting indications for companies and public	RI policy and voting guidelines clear Support shareholder initiatives LAPFF
3. Require disclosure	Well-researched standard approach to requiring disclosures to support our investment process	Work with all managers to engage with companies on disclosure Become signatories to (and supporters of) various initiatives
4. Promote PRI	Principles embedded throughout our procurement processes and ongoing monitoring of contracts	Work with all managers (and other suppliers) to require work in line with PRI / become a signatory
5. Collaboration	Seen as a strong junior partner on collaborations with a strong network of collaborators	Support industry-wide collaborations
6. Reporting	Border to Coast and Partner Funds are well known for strong disclosures that set a benchmark for others	Transparency of approach to RI shared publicly (website, annual report & accounts, public statements)

5.16 The Company's Board is seeking to prioritise work in relation to principle 1 (integration), principle 2 (active ownership), and principle 6 (reporting). This would coincide with the view of officers in terms of achieving the most significant progress towards achieving a common platform for all of the 12 partner funds, and aligned with SYPA's aspirations in this area.

5.17 Following from this the Company has identified areas for development against each of the 6 principles in addition to "business as usual activity" which are set out in the table below together with the support that will be required from partner funds in order to ensure these developments both happen and have the desired impact.

Principle	Border to Coast strategic development	Partner Fund support
1. Integrating ESG	Embed investment process and enhance ESG tools including Robeco portal Training programme for PMs on thematic issues External manager monitoring framework Develop frameworks for new asset classes (bonds, property, private markets)	Current: education (e.g. climate working party); transparency of reporting; oversight of (pooled) managers
2. Active ownership	Create holistic engagement framework to enable tracking of milestones across portfolios Clear process for setting engagement themes	Current: common policy agreed and implemented for all Border to Coast holdings; education; LAPFF - representation at business meetings Future: training
3. Require disclosure	Review of industry initiatives to prioritise Gap analysis of portfolios and remedial plan Review Border to Coast disclosure	Current: engagement in respect of Border to Coast portfolio holdings and support for wider initiatives Future: Share review of wider disclosure developments
4. Promote PRI	External manager engagement framework Review wider procurement framework for ESG	Current: training for officers and committees Future: materials for websites
5. Collaboration	Develop collaboration capability by working with Robeco on an engagement Continue to build network and external profile	Current: collaborate in respect of Border to Coast engagement themes and portfolio holdings
6. Reporting	Enhance reporting on engagement and themes Standardise reporting across external managers Improve transparency	Current: disclosure on our website of voting and engagement activity, RI policy and voting guidelines Future: review of Partner Fund websites and development of checklist / materials for sharing

5.18 Commitment to this programme of activity within Border to Coast's Strategic Plan represents a significant step and supports the Authority's aspiration that the Partnership as a whole should make responsible investment central to its approach to investing.

5.19 The Financial Reporting Council has published the new UK Stewardship Code 2020. This Code represents a fundamental departure from the previous 2012 version of the Code and looks to set more exacting standards for all types of asset owner, in particular in relation to the openness and transparency with which they conduct and report upon their stewardship activities. As a tier 1 signatory to the current code SYPA will be expected to achieve the highest standards in terms of its compliance with the new Code. Clearly in order to achieve this we will be heavily reliant on the arrangements we have in place with Border to Coast and we will need to ensure that both they and we have the resources available to support the enhanced reporting that will be required of all funds. There is a process of transition to the new Code which will require the Authority to produce a report meeting the requirements of the new code by March 2021, which will therefore impact on the production of the next annual report, although many of the elements of reporting seem to be covered in the current report.

- 5.20 The LGPS Scheme Advisory Board is developing guidance for Funds in relation to their duties in the Responsible Investment space. The guidance will be in two parts the first will cover the parameters involved in operating within the regulations, fiduciary duty and general public law, and the scope for integrating ESG policies as part of the Investment Strategy Statement. The second part will cover case studies where ESG policies have been successfully implemented as well as relevant reading matter. Consultation on Part 1 took place over December and a copy of the draft document is available for members in the on line reading room. Officers provided a response to this document which is attached at Appendix C to this report.
- 5.21 While the Authority's responsible investment aspirations are in practical terms implemented through the collective Border to Coast policies we are required to maintain our own Responsible Investment Policies and these will be reviewed in the light of the revised Border to Coast policies and presented to the Authority for consideration at its next meeting.

6 **Implications**

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

Financial	There are no specific financial implications arising from this report. However, the revised Stewardship Code may have implications in due course as a result of the need to provide additional reporting.
Human Resources	None
ICT	None
Legal	Participating in these activities is within the statutory powers of the Authority and is positively encouraged by the LGPS Investment Regulations.
Procurement	None

George Graham

Fund Director

Background Papers	
Document	Place of Inspection
Local Authority Pension Fund Forum Quarterly Engagement Report	www.lapfforum.org
Border to Coast Voting Reports	https://www.bordertocoast.org.uk/?d1m_download_category=voting-activity
Border to Coast Quarterly Engagement Report	https://www.bordertocoast.org.uk/?d1m_download_category=engagement
Robeco Quarterly Engagement Report	https://www.bordertocoast.org.uk/?d1m_download_category=engagement
UK Stewardship Code 2020	https://www.frc.org.uk/investors/uk-stewardship-code