Climate Change Policy

South Yorkshire Pensions Authority's primary responsibility is to deliver the returns needed to pay scheme members' pensions, whilst maintaining stable and sustainable contribution rates. The Authority is a long-term investor and as such has to ensure that its investments are sustainable. In doing so it actively considers how environmental, social and governance (ESG) issues can be taken into account when managing investment portfolios. The Authority has a fiduciary duty to consider ESG issues where it is considered that they could have a material financial impact on the Fund's performance. This is supported by the 2014 Law Commission's review which concluded that ESG factors should be taken into account where Trustees think that issues are financially material to the performance of an investment. The Pensions Regulator also issued guidance in 2017 for Defined Benefit schemes, stating that ESG factors need to be taken into account if they are deemed to be financially significant and the regulations for trust based pension schemes have been updated to require trustees to set out their approach to ESG issues. The Local Government Pension Scheme Regulations also require the Authority to set out its position in relation to the consideration of ESG issues as part of its Investment Strategy Statement.

The greatest potential environmental risk to the Authority's investments is climate change, where the associated risks and opportunities may have a material financial impact across all asset classes. Thesystemic nature of climate change risk has the potential to reduce returns across all asset classes and will have a macro-economic impact that could affect the entire Fund. Equally, however, the need to transition to a low carbon economy and the innovation that will require presents a number of potential investment opportunities. Risks and opportunities can be presented in a number of ways and include:

- physical impacts,
- technological changes,
- regulatory and policy impacts,
- transitional risk and
- litigation risk.

The Authority will therefore consider climate change issues across the Fund in order to minimise financial risk and maximise long-term opportunities.

In December 2015 the G20 finance ministers and Central Bank governors asked the Financial Stability Board (FSB) to review how the financial sector can take account of climate related issues. Such information is needed by investors, lenders and insurance underwriters in order to be able to assess climate related risks and opportunities. This led to the Task Force on Climate-related Financial Disclosures (TCFD) being established. Its remit was to develop a set of voluntary climate-related disclosures, which would assist in understanding the associated material risks of climate change. The final report with recommendation was published in June 2017, and can be accessed through the TCFD website here:
https://www.fsb-tcfd.org/

Supplemental guidance has been developed for financial and non-financial organisations which includes guidance for asset owners. The recommendations were based around four pillars;

- governance,
- strategy,
- risk management and
- metrics and targets.

The TCFD framework is widely recognised as the best practice guide against which investors' actions will be assessed. This Climate Change Policy will therefore be structured around these four themes.

Governance
The Climate Change Policy is owned and approved by the Authority with implementation and oversight of the Policy being by the Fund Director; it will be reviewed as necessary.

The Authority is required by the LGPS Investment Regulations to invest its assets through one of the LGPS investment pools, in this case the Border to Coast Pensions Partnership BCPP), however, the responsibility for responsible investment and ensuring the appropriate consideration of ESG issues remains with the Authority. The Authority expects Border to Coastto implement this policy on its behalf across all its investments; it will monitor implementation and require reports from the Company at least annually in order to fulfill its obligations under the LGPS Investment Regulations

Strategy
Climate change is an issue of greater significance than other ESG issues. It has the potential to impact returns across all asset classes (not just individual companies or sectors), and therefore has very material financial implications. The Authority will therefore expect Border to Coast to: be aware of the investment risks and opportunities associated with climate change; to incorporate climate considerations into the investment decision making practices and processes; and to monitor and review fund managers in relation to their climate change approach and policies. It will expect Border to Coast to engage with companies in relation to business sustainability and climate risk disclosure and to encourage companies to adapt their business strategies to support the transition to a low carbon economy. Whilst recognising that active shareholder engagement should be the first option, the Authority will encourage Border to Coast to consider reducing exposure to high-carbon intensity companies that fail to respond to engagement by not demonstrating a decrease in carbon intensity or carbon risk.

It will also expect Border to Coast to support climate related resolutions at company meetings when
deemed appropriate, and consider co-filing shareholder resolutions at Annual General Meetings (AGMs) on climate risk disclosure and related issues, such as trade association lobbying after engagement with its Partner Funds.

The Authority will engage with Border to Coast to ensure this approach is taken both with internallymanaged assets and appointed external managers.

The Authority will look to consider climate change when reviewing investment strategy with its investment consultants and how this will impact future asset allocation decisions. It will not actively divest from companies solely or principally because of social, ethical or environmental reasons. However, in light of the significant potential financial impacts of climate change, carbon risk and stranded assets, it has made the decision not to invest in pure coal and tar sand companies. The Authority will encourage BCPP to consider how it manages carbon risk and exposure across its various portfolios, and as stated above will consider seeking the agreement of partner funds to reduceexposure to high carbon intensity companies that fail to respond to engagement on climate change related issues.

There are limited low-carbon related investments in quoted markets, with more opportunities existing within the private equity and alternative investment asset classes. The current investment strategy which is being put in place to provide further diversification and reduce volatility of expected future returns, has resulted in a reduction in equities and a move into alternatives. This has therefore increased SYPA's exposure to assets that may be less sensitive to climate change risks.

The Authority's property allocation is mostly through direct property; and a standalone statement relating to responsible commercial property investing, details the approach taken. It takes into account current best practice regarding social and environmental considerations when managing its property portfolios and determining the selection, retention and realisation of investments. The Authority's aim is to reduce its impact on the environment and maintain a positive relationship with its customers, tenants and suppliers.

Risk Management

The Authority will look to measure and manage the risk of climate change, carbon exposure and stranded assets to the Fund. It will measure and manage climate risk across portfolios by monitoring carbon intensity (where possible) and commission a carbon audit of its investments on at least a biennial basis. It will take appropriate action to identify such risks by increasing internal knowledge and understanding of scenario and risk analysis tools available, and being aware of ongoing climate change policy discourse. The Authority's preferred approach is to endeavour to manage a tilt within portfolios in favour of lower carbon assets with a view towards progressively decreasing the Fund's carbon exposure. It will, therefore, work with Border to Coast to encourage carbon reduction across portfolios.

The Authority believes that collaboration with other like-minded investors leads to greater shareholder power to influence company change and behaviour. It will therefore, look to work in partnership with Border to Coast and other groups such as LAPFF, the Institutional Investors Group on Climate Change (IIGCC) and Climate Action 100+ to ensure there is appropriate engagement with companies on climate related issues, including business sustainability and disclosure of climate risk, in line with TCFD recommendations.

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Governments' climate change policies are unpredictable leading to public policy uncertainty. Investors are lobbying policymakers to accelerate the development of a realistic carbon price. Carbon pricing is vital for businesses and investors to properly incorporate climate related risk into investment decision-making. The Authority will, therefore, actively engage with policy makers through its membership of IIGCC.

Metrics and Goals

The Authority will, where possible, report progress in line with TCFD recommendations; this Climate Change Policy has been structured around the TCFD's reporting themes. The TCFD believes that asset managers and asset owners, including public- sector pension funds, should implement its recommendations with disclosures made in annual public financial reports.

The Authority will measure its portfolios' exposure to carbon-intensive companies, where able, by conducting an at least biennial carbon audit expressed in tons CO_2e/$M Revenue. This is the metric recommended by the Task Force. However, the Task Force recognises the challenges and limitations of current carbon footprinting metrics, but sees it as a move towards developing investment decision-useful, climate-related risk metrics. This information will be used to highlight specific risks and inform company and fund manager engagement.

It will also report on additional metrics which will include company engagement meetings, both direct and collaborative. It will request that Border to Coast integrates climate risk and opportunities into the investment decision making process for both internal and external mandates.

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