

## RESPONSIBLE INVESTMENT POLICY

This Policy details the SYPA's approach to fulfilling its responsibilities with regard to responsible investment and stewardship.

### Context

This policy is set in the context of the implementation of the Government's agenda for the pooling of the investment assets of the Local Government Pension Scheme in England and Wales. SYPA has chosen to participate in the Border to Coast Pensions Partnership. While SYPA retains responsibility for setting a policy stance in relation to responsible investment issues this will be implemented by Border to Coast, who have developed a collective policy on responsible investment and associated voting guidelines in conjunction with the 12 partner funds.

While endorsing the collective policy adopted by Border to Coast SYPA would like to move further in some areas and this policy sets out where the Authority will seek to influence partners and other organisations, such as the Local Authority Pension Fund Forum, to go further. In this way there will ultimately be greater collective weight behind the achievement of the Authority's responsible investment objectives. However, the Authority, given that it retains responsibility in this area, reserves the right to act alone where the collective view does not coincide with its own in material respects.

Responsible Investment as a concept is fundamental to the Authority's statement of investment beliefs. Thus it is a key part of "how we do investment" (and how we expect those who manage money on our behalf to do it) rather than an add on or overlay.

### Stewardship, Responsibility and ESG

The primary objective of any pension fund is to ensure that its assets are able to meet its liabilities when they fall due. In order to achieve this, funds have to produce the required levels of financial return without taking on undue levels of risk whilst also operating within the relevant regulatory framework.

Evidence shows that pension funds which consider how the companies they are invested in behave in relation to environmental social and governance issues, tend to achieve better returns. In other words companies that are well managed and have strong governance are more likely to be successful long term investments. Consequently SYPA's aim as an investor is to be a "good owner of good companies, and to encourage the good to get better". This reflects our overall attitude to the stewardship of the Fund. As an active investor working to a long time horizon, we are aware that businesses that operate to high standards of corporate governance along with environmental and social best practice, have the potential to protect and enhance investment returns.

The Authority, though must also consider the views of stakeholders, principally scheme members, in coming to its views in this area. While it is difficult to establish member views with precision this is an area where a great deal of research is ongoing and it is possible to distil a generic member view from this research as wanting to "do no harm" with the funds being invested on their behalf. This provides a broad principle that should provide an

overarching theme to the Authority’s approach to doing business.

Our awareness of ESG issues when making investments means that we have adopted what is known as a responsible investment (RI) approach; incorporating ESG issues into the investment decision making process allows us to better manage risk and to generate sustainable long-term value.

**Governance and Implementation**

Under the LGPS (Management and Investment of Funds) Regulations 2016, the Authority is responsible for stewardship, which includes shareholder voting. The implementation of policy is delegated to Border to Coast with the Authority undertaking monitoring, scrutiny and challenge to ensure that the objectives of SYPA policy are delivered. Regular reports to the Authority will aid the process of monitoring the effectiveness of the policy with a review at least annually to feed into the review of Border to Coast’s various policies.

**Skills and competency**

Officers at the Authority together with the staff at Border to Coast will maintain appropriate skills in responsible investment and stewardship through continuing professional development, and where necessary take expert advice from suitable RI specialists to fulfil obligations and responsibilities. In addition relevant training will be offered to members of the Authority as part of their learning and development programme.

**Integrating RI into investment decisions**

The Authority considers, and asks its service providers such as Border to Coast to consider environmental, social and corporate governance (ESG) issues when carrying out financial analysis and investment decision making and encourages companies to improve their practices in these areas. The factors considered are those which can cause financial and reputational risk, ultimately resulting in a reduction in shareholder value.

ESG issues will be considered and monitored in relation to both internally and externally managed assets. Border to Coast is accountable for the integration and implementation of ESG considerations. Issues considered include, but are not limited to:

<b>Environmental</b>	<b>Social</b>	<b>Governance</b>	<b>Other</b>
Climate Change Resource & energy management Water stress	Human rights Child labour Supply chain Human capital Employment standards	Board independence/diversity Executive pay Tax transparency Auditor rotation Succession planning Shareholder rights Business strategy Risk management	Business strategy Risk management Cyber security Data privacy Bribery & corruption Single use plastics Political lobbying

Border to Coast directly manages the majority of the Authority's assets (including all its listed assets) and the steps it takes in order to ensure proper stewardship and consideration of ESG issues are set out in the policy endorsed by all 12 partner funds, which is available on the Border to Coast website and is reviewed annually.

## **Stewardship**

The Fund, as a shareholder, has responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers and will practice active ownership through voting, monitoring companies, engagement and litigation to promote and support good ESG practices. In the pooled environment these activities will be exercised through Border to Coast in line with policies and guidelines agreed by the partner funds. The Authority, as an asset owner, is a signatory to the UK Stewardship Code, which aims to enhance the quality of engagement between investors and companies to help improve long-term risk adjusted returns to shareholders. The Authority requires Border to Coast to be a signatory to both the UK Stewardship Code and the UN Principles of Responsible Investment.

## **Voting**

Voting rights are an asset to the fund, and the Authority, in partnership with Border to Coast, will use them carefully to promote and support good corporate governance principles with the aim of voting in every market it invests in.

A specialist proxy voting advisor, Robeco has been appointed by Border to Coast to provide analysis of voting and governance issues and to ensure that votes are executed in accordance with its policies. The proxy voting advisor will implement a set of detailed voting guidelines provided by Border to Coast and agreed by the partner funds, which are available on the Border to Coast website, to ensure that votes are executed in accordance with policies. The voting guidelines are administered and assessed on a case by case basis. A degree of flexibility will be required to reflect specific company and meeting circumstances. A process is available to allow the Authority to vote its proportion of any shareholding in a different way to the other Border to Coast partner funds should there be a difference in interpretation of the voting guidelines between the Authority and Border to Coast and Robeco. While this facility is only likely to be used rarely the Authority will consider its use in the case of shareholder resolutions where the common stance proposed by the operating company fails to meet the Authority's policy objectives, and will only do so if the Chair in consultation with the s41 members agrees.

The funds managed by Border to Coast and the small and declining number of remaining internally managed listed holdings form part of stock lending programmes. Where stock lending is permissible, lenders of stock do not generally retain any voting rights on lent stock. Procedures are in place to enable stock to be recalled prior to a shareholder vote. Stock will be recalled ahead of meetings when:

- There is a contentious resolution on the agenda
- The holding is of a size which could potentially influence the voting outcome
- Border to Coast needs to register its full voting interest
- Border to Coast has co-filed a shareholder resolution

- A company is seeking approval for a merger or acquisition
- Border to Coast deems it appropriate

Lending can also be restricted in these circumstances.

Where appropriate Border to Coast will consider co-filing shareholder resolutions which support the long term economic interests of shareholders and will notify the Authority in advance of doing so. Equally the Authority may encourage Border to Coast to co-file resolutions which support its objectives.

### **Engagement**

The best way to influence companies is through engagement. As a responsible investor, the approach taken will be to influence companies' governance standards, environmental, human rights and other policies by constructive shareholder engagement and the use of voting rights. The services of specialist providers may be used when necessary to identify issues of concern. Meeting and engaging with companies is an integral part of the investment process. The Authority expects all those managing its assets, of whatever type, to engage with companies across all markets and to report back on the outcomes of such engagement.

Border to Coast's contract with Robeco provides the principal (but not only) means of engagement with companies across the world, covering environmental, social and governance issues as well as UN Global Compact breaches. The UN Global Compact is a shared framework covering ten principles, recognized worldwide and applicable to all industry sectors, based on the international conventions in the areas of human rights, labour standards, environmental stewardship and anti-corruption.

The Authority is an active member and supporter of the Local Authority Pension Fund Forum (LAPFF) and encourages LAPFF in its campaigns and initiatives. The Authority will also engage with regulators, public policy makers, and other financial market participants as and when required. It will encourage companies to improve disclosure in relation to ESG and to report and disclose in line with the Task force on Climate related Financial Disclosures (TCFD) recommendations and other developing initiatives, such as the Workforce Disclosure Initiative (WDI).

While the Authority recognises the importance of engagement in changing the behaviour of companies, engagement cannot be a never-ending process and the Authority will seek to agree with all those managing money on its behalf processes which identify when engagement has run its course and other options should be considered.

### **Litigation**

Where assets held by the Authority are subject to individual or class action securities litigation, it will, where appropriate participate in such litigation.

There are various litigation routes available dependent upon where the company is registered. The Authority will use a case-by-case approach to determine whether or not to participate after having considered the risks and potential benefits. The Authority uses

industry professionals to facilitate this. Border to Coast follow a similar model to the Authority on the assets it holds on SYPA's behalf.

### **Communicating and reporting**

The Authority will report on its RI activities periodically and will keep beneficiaries and stakeholders informed. This will be done by making publicly available RI and voting policies, publishing voting activity on the Authority's website quarterly, reporting on engagement and RI activities to the Authority and in the annual report.

The Authority will engage assistance to develop means of reporting on the impact of its investments across the full range of ESG issues and across all asset classes to supplement the information provided by Border to Coast in relation to the assets which they directly manage on the Authority's behalf. This process will support enhanced reporting under the new UK Stewardship code.

### **Training and assistance**

Training on RI and ESG issues will be offered by Border to Coast. Where requested assistance will be given on identifying risks and opportunities in order to help develop individual fund policies and investment principles for inclusion in the Investment Strategy Statements.

### **Conflicts of interest**

In an event of any potential conflict of interests, a suite of policies have been drawn up between the Authority and Border to Coast.

### **Climate Change**

The Authority recognizes the global issues and risks arising from climate change and the material impact it can have on the performance of the Fund and has adopted a goal of making its investment portfolio "net zero" in terms of carbon emissions by 2050. As a long term investor the Authority acknowledges its responsibilities and is fully committed to looking at ways in which it can address this situation, by participating with similar-minded investors and partners in initiatives such as Institutional Investors Group on Climate Change (IIGCC), the Taskforce on Climate Related Financial Disclosure (TCFD) and Climate Action 100+. The Authority will also expect Border to Coast to be aware of the investment risks associated with Climate Change and to take appropriate action to identify them and to mitigate their impact, including involvement in appropriate collaborative groups. The Authority's climate change policy will aim, where possible, to:

- Assess portfolios in relation to climate change risk where feasible.
- Ensure that those managing money on the Authority's behalf incorporate climate considerations into the investment decision making process.
- Ensure that Border to Coast support climate related resolutions at company meetings which are aligned with the collective RI Policy.
- Seek to establish its exposure to climate change and carbon risk through the commissioning by Border to Coast of a carbon audit of the portfolios managed on behalf of the Fund. Results will be reviewed and used to focus engagement and strategy going forward.

- Seek to agree an approach with other members of the Border to Coast Partnership which actively manages down the carbon emissions from investments within the various pooled vehicles in which the Authority is invested.
- Develop with Border to Coast and other investment managers means of measuring the climate impact of its property and private market portfolios.
- Encourage companies to develop and implement strategies to deal with various scenarios in an energy transition (e.g. a 2°C policy outcome) and to establish science based targets to support their transition.
- Ensure that Border to Coast uses voting rights in line with the agreed policy.
- Support Border to Coast on co-filing shareholder resolutions at AGMs to request deeper disclosure on climate risk issues.
- Whilst recognising that active shareholder engagement should be the Fund's first option, consideration will be given to reducing exposure to high-carbon intensity companies that fail to respond to engagement by not demonstrating a decrease in carbon intensity or carbon risk and/or implementing a business strategy which supports the transition to a low carbon economy.
- Continue to collaborate with other investors through groups such as LAPFF.
- Actively engage with policy makers through its membership of IIGCC.

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