

Subject	Responsible Investment – Quarter 1 Update	Status	For Publication
Report to	Authority	Date	30 th September 2020
Report of	Fund Director		
Equality Impact Assessment	Not Required	Attached	No
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1 **Purpose of the Report**

- 1.1 To provide an update on responsible investment activity carried out during the April – June quarter.

2 **Recommendations**

- 2.1 Members are recommended to:
- a. **Note the voting and engagement activity carried out on behalf of the Authority during the first quarter of the financial year.**
 - b. **Note the Authority’s commitment to Make My Money Matter.**
 - c. **Endorse the development of more effective reporting of the impact of the Authority’s investments as set out in para 5.15**

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

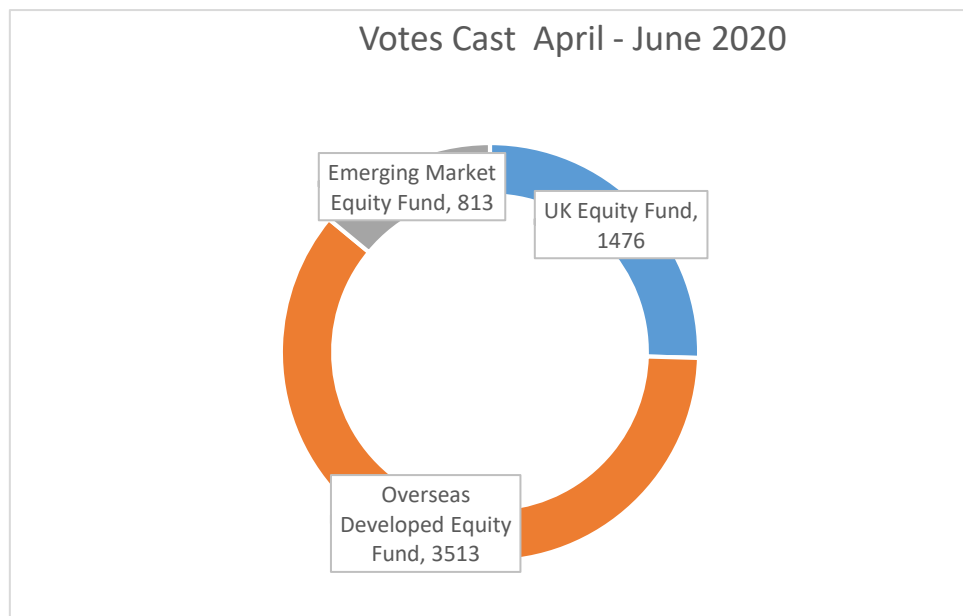
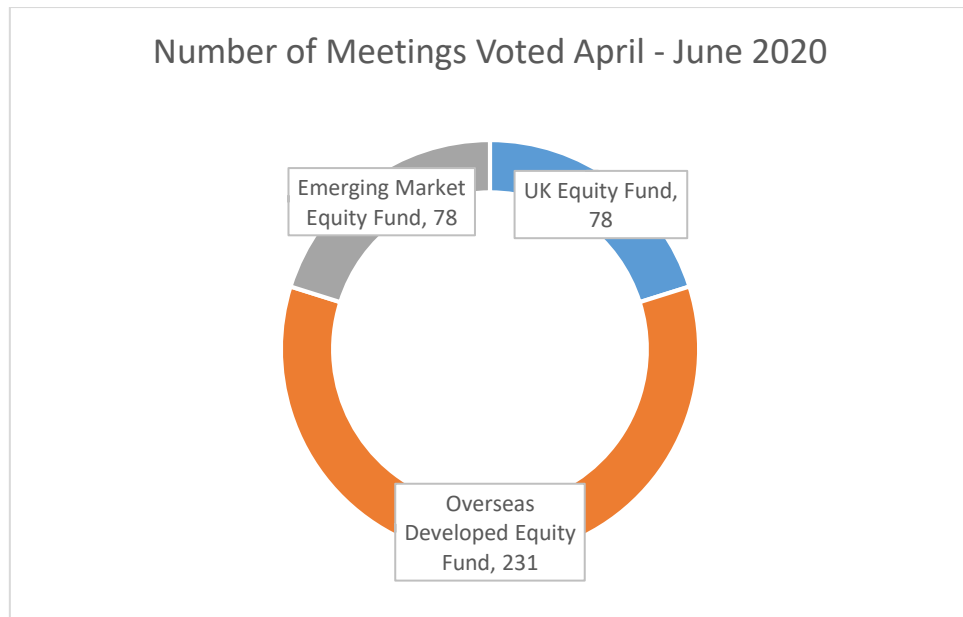
- 4.1 The actions outlined in this report are related to the various investment related risks included in the Corporate Risk Register and in particular the risk around climate change.

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.

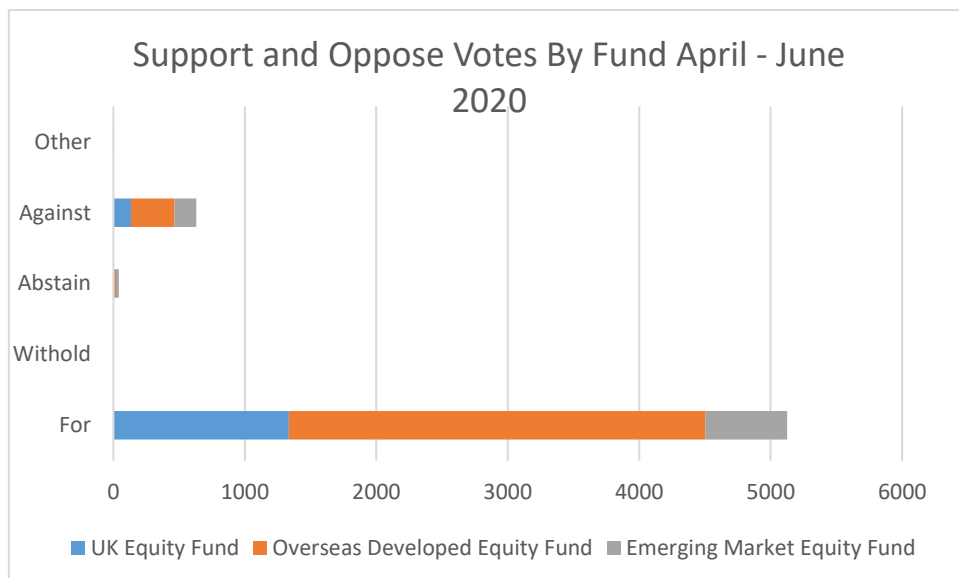
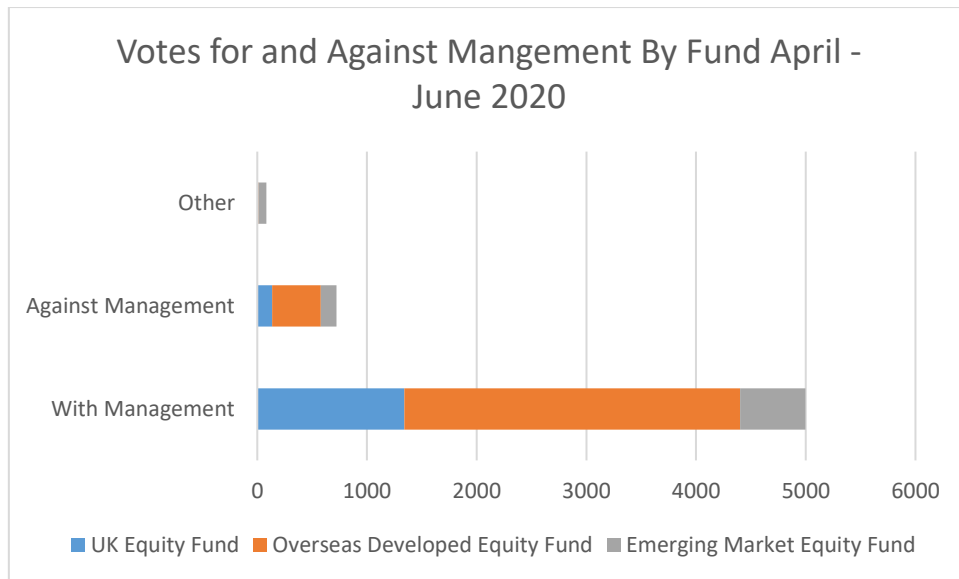
Voting

- 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 March 2020. Detailed reports setting out each vote are available on the Border to Coast website.
- 5.3 The first quarter of the financial year generally represents “peak voting season” so despite the impact of Covid 19 on the ability to hold meetings in person the quarter has seen an increase in both the number of meetings and the number of votes particularly in the overseas developed markets fund.



5.4 The following two graphs indicate the degree to which votes were cast either with or against management in the various meetings. The notable areas where votes were cast against management were:

- In all markets in relation to issues concerned with Board composition including diversity, length of tenure and degree of independence.
- In the Overseas Developed Markets fund a very significant number of cases where Executive pay policies were felt to be not in line with the voting guidelines.
- In the UK Fund a very significant number of cases where Audit tenure was regarded as having been too long for genuine independence to be maintained.
- In the Emerging Markets fund a noticeable number of cases where changes to capital structures (such as share buy backs, changes to voting rights and the issue of new shares) were opposed.



5.5 Notable votes in the quarter are shown in the graphic below. As ever these votes show a mixed picture in terms of the success of the positions driven by the Authority's beliefs and the collective voting guidelines operated by Border to Coast on behalf of partner funds. In terms of longer term significance Barclays and Woodside Petroleum are probably worth highlighting (the latter in terms of it being a tipping point in the Australian market) while the issues at Alphabet highlight what is likely to be a developing issue in relation to tech companies following the previous resolution at Apple's AGM.

5.6 In terms of the resolution at the Barclays AGM this was the first such resolution filed at a bank. Barclays Board engaged constructively with a wide range of stakeholders in the run up to the AGM and as indicated two resolutions were put to the AGM. Border to Coast consulted partner funds during the run up to the AGM. The final decision to support the Board resolution and abstain on the other resolution reflected a desire to give the Barclays Board some time to review their options and set out a proper plan to progress the issue and some concern that the shareholder resolution whatever its intent could be seen as

straying into micro-management. Further resolutions of this sort are likely at Barclays and other financial institutions and the position and progress by Boards will be kept under review.



Barclays plc

At the 2020 AGM both management and shareholders put forth separate climate proposals, an unprecedented occurrence. Having engaged with Barclays' Chairman and the shareholder resolution's proponent, we supported the management resolution regarding the bank's climate change strategy (99.93% support) and abstained on the shareholder proposal (24% support).



Chevron Corp.

At the 2020 AGM we voted against a shareholder resolution on lobbying activities that was filed in order to undermine a genuine shareholder resolution on the issue. Under SEC rules organisations are allowed to exclude resolutions with similar wording, unfortunately the genuine resolution filed by a shareholder advocacy organisation was rejected. The proposal failed to pass, only gaining 29% support from shareholders



Exxon Mobil

In May 2020 we voted against the Lead Director and the CEO as we see the company's failure to address climate change as a structural issue. Exxon has been a laggard on climate issues, exemplified last year when the company blocked a shareholder proposal calling for the company to report on the alignment between its strategy and the Paris Agreement. At the AGM on average, 93.6% of the votes were cast for the directors nominated.



Woodside Petroleum

We supported two resolutions put to the April AGM by the Australian Centre for Corporate Responsibility related to climate change practices. The resolutions requested disclosure of how the company's strategy is aligned with the Paris Agreement, and a review of the company's lobbying activities on climate change. The resolutions received 51% and 43% support respectively. Neither vote is binding but this is seen as a breakthrough moment for climate change action in Australia.



Tesco PLC

The June AGM saw Tesco receive a significant vote against its advisory vote on pay with 67% of shareholders voting against the resolution. The defeat of the advisory vote is one of the largest shareholder revolts in UK corporate history. The main concern was amendments made by the Remuneration Committee and the exclusion of online grocer Ocado from peer benchmarking, which boosted the long term incentive payout for both the CEO and Finance Director. The vote is advisory, meaning that executives will still receive the payout, although a defeat marks an embarrassing failure for Tesco.

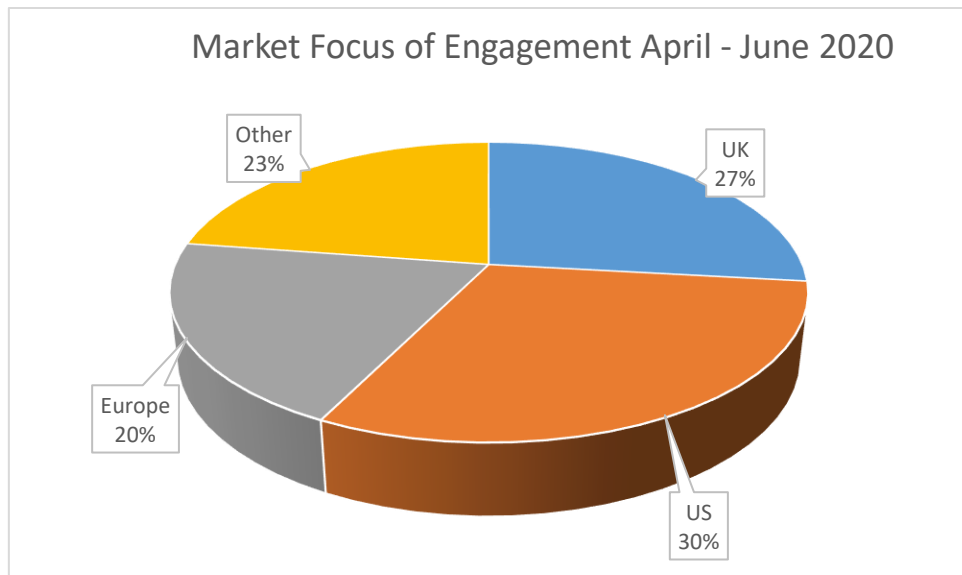
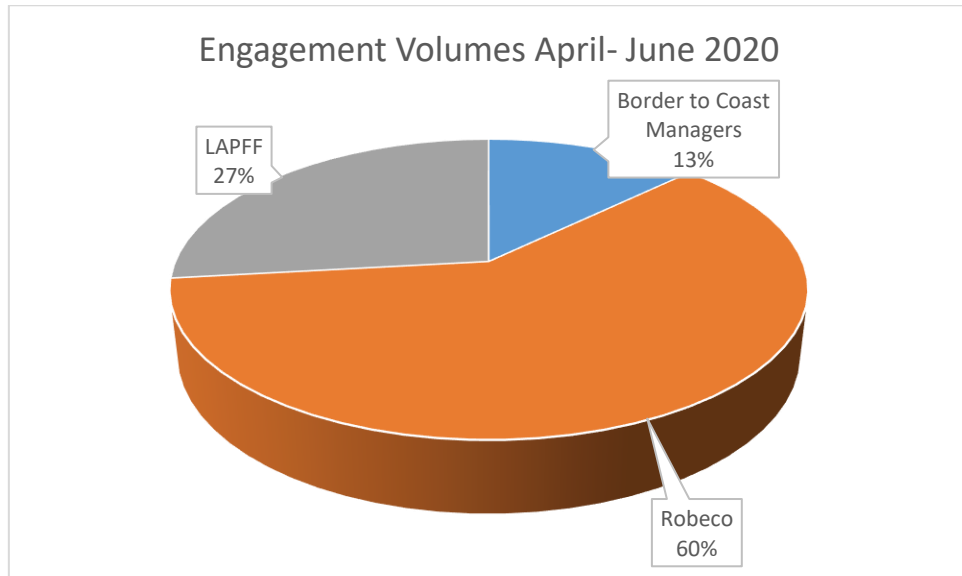


Alphabet Inc

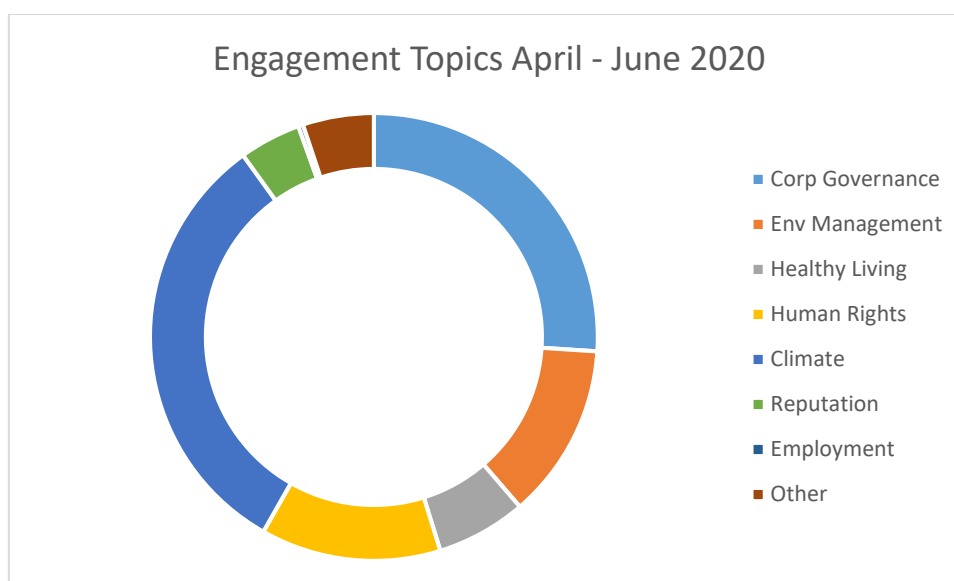
Alphabet (Google's parent company) has been at the centre of debate on digital human rights with shareholders registering concerns over the company's human rights policies. A coalition of investors filed a resolution which was put to the June AGM calling the company to set up an independent committee at board level tasked with monitoring human rights risks in its products and value chain. Other shareholder resolutions files covered a range of issues including gender and racial pay equity and sustainability. We supported all the shareholder resolutions. None of the shareholder resolutions were approved.

Engagement

- 5.7 Given the fact that the first quarter is peak voting season there has also been a pick-up in engagement activity through all routes, often related to AGM resolutions of various sorts (such as the Barclays resolutions discussed above). The graph below shows the degree to which direct company engagement activity is now being delivered by Robeco on behalf of the collective of Border to Coast funds, while the second chart indicates the degree to which engagement with companies is now possible beyond the traditional developed markets.



- 5.8 Given that this quarter was “peak voting season” an emphasis on corporate governance as shown in the graph below is not unexpected while a continuing emphasis on climate and environmental issues is also to be expected.



- 5.9 During the quarter Robeco undertook engagement work around living wages in the garment industry, an issue highlighted as among the issues at play in the local lockdown in Leicester as a result of the Covid-19 pandemic. This work is particularly focussed on global brands and is encouraging greater thought by companies on conditions within their supply chain, reflecting a greater post-Covid concentration on the S in ESG.
- 5.10 Robeco has also begun to actively engage with mining companies on the lifecycle management of mines. This work has been directly influenced by the tailings dam initiative led by the Church of England Pension Board and is looking to companies to ensure that areas affected by mining can be fully remediated when mining is completed. It is also looking to companies to give consideration to remediation at the beginning of the mining process in order to reduce the longer term costs of remediation.
- 5.11 Following the shareholder resolution on climate issues at the Barclays AGM the LAPFF has been engaging with 11 other financial institutions including insurers to seek to influence the way in which they consider and address climate risk. LAPFF has also led a collaborative engagement with Arcelor Mittal on behalf of Climate Action 100+. The company has now published the road map for its European operations to become carbon neutral by 2050.

Collaboration

- 5.12 The Authority continues to participate in the work of the Local Authority Pension Fund Forum (LAPFF) and officers attended the latest business meeting during July where the following topics were on the agenda, further detail is available in the on line reading room:

- An updating of LAPFF’s climate change policy

- Detail on the way in which asset managers had voted compared to LAPFF policy positions.

5.13 As previously reported the Authority and Border to Coast continue to support the work of the Workforce Disclosure Initiative which is now increasing its activity to engage with 750 companies to promote better disclosure on workforce matters. Similarly the Transition Pathway Initiative has now published an assessment of the carbon performance of the 10 largest mining companies. Given the weight of such companies in both the UK and emerging market indices this is significant information for investment managers, as is the TPI’s analysis of European oil and gas companies’ commitments to decarbonisation.

5.14 Following consultation with the Chair the Authority has signed up to support the Make My Money Matter campaign (see link under background papers). This is a campaign aimed at all those involved in the pensions industry from scheme members to regulators. From the Authority’s point of view we are being asked to ensure that the way we invest reflects our values as an organisation, while clearly still conforming to the requirements of the fiduciary duty to ensure that funds are available to pay pensions when they are due. Clearly this is something that the Authority would wish to do and some of the actions agreed at the last meeting flowing from the Annual Review of Border to Coast and the revised policies on responsible investment and climate change which are elsewhere on the agenda for this meeting of the Authority perhaps provide an opportunity to articulate this more clearly than has been the case previously.

5.15 An important part of the Make My Money Matter approach is around educating and informing scheme members. This is an important part of the Authority’s responsibilities and one that SYPA has always treated seriously. However, currently our ability to tell the story of our investment portfolio is limited by a lack of information and data across a range of areas. In particular while we are able to report in line with the TCFD requirements on our listed assets our investments in private market assets have significant positives from a climate transition point of view which currently we are not able to identify in any coherent way. Increasingly asset managers are bringing issues such as carbon emissions and employment generation together in what are termed “impact reports” often framed around the UN Sustainable Development Goals. While there are limitations to these they do provide a more balanced view of the whole portfolio (as opposed to the single climate lens of TCFD reporting) and are a positive tool in generating member engagement with the investments made on their behalf. The Authority does not have the resources internally to produce such a report but it is proposed that doing so for the 2020/21 is included as an action in the next corporate strategy refresh in January and that the relevant resources are included in the budget for 2021/22.

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. Provision exists within the relevant budgets to support the Authority’s involvement in collaborative initiatives and its share of the costs of work undertaken by Border to Coast. The resources required to produce an Impact Report will be included in the budget for the next financial year, although
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	procurement of the provider will need to be undertaken in the current year.
Human Resources	None
ICT	None
Legal	Participation in these activities is within the statutory powers of the Authority and is positively encouraged by the LGPS Investment Regulations.
Procurement	None

George Graham

Director

Background Papers	
Document	Place of Inspection
Border to Coast Voting Reports	https://www.bordertocoast.org.uk/?dln_download_category=voting-activity
Border to Coast Quarterly Engagement Report	https://www.bordertocoast.org.uk/?dln_download_category=engagement
LAPFF Quarterly Engagement Report	https://lapfforum.org/publications/category/quarterly-engagement-reports/
Make My Money Matter	https://makemymoneymatter.co.uk/