

<b>Subject</b>	<b>SYPA Responsible Investment Policies – Annual Review</b>	<b>Status</b>	For Publication
<b>Report to</b>	Authority	<b>Date</b>	30 <sup>th</sup> September 2019
<b>Report of</b>	Fund Director and Head of Investment Strategy		
<b>Equality Impact Assessment</b>	Not Required	Attached	No
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## **1 Purpose of the Report**

- 1.1 To present to members for approval the annual review of the Authority's own policies in relation to responsible investment.

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## **2 Recommendations**

- 2.1 Members are recommended to:
- a. **Approve the following updated policy documents:**
    - i. **The Authority's Responsible Investment Policy (Appendix A)**
    - ii. **The Authority's Climate Change Policy (Appendix B)**
    - iii. **The Authority's Policy on Responsible Investment for Commercial Property (Appendix C)**

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## **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.

While much operational responsibility in relation to Responsible Investment is now exercised by Border to Coast on the Authority's behalf in line with policies agreed collectively by the 11 Partner Funds the Authority remains responsible for the overall policy framework in this important area, as well as remaining responsible for RI activity in relation to investments which have yet to be pooled. It is important that this

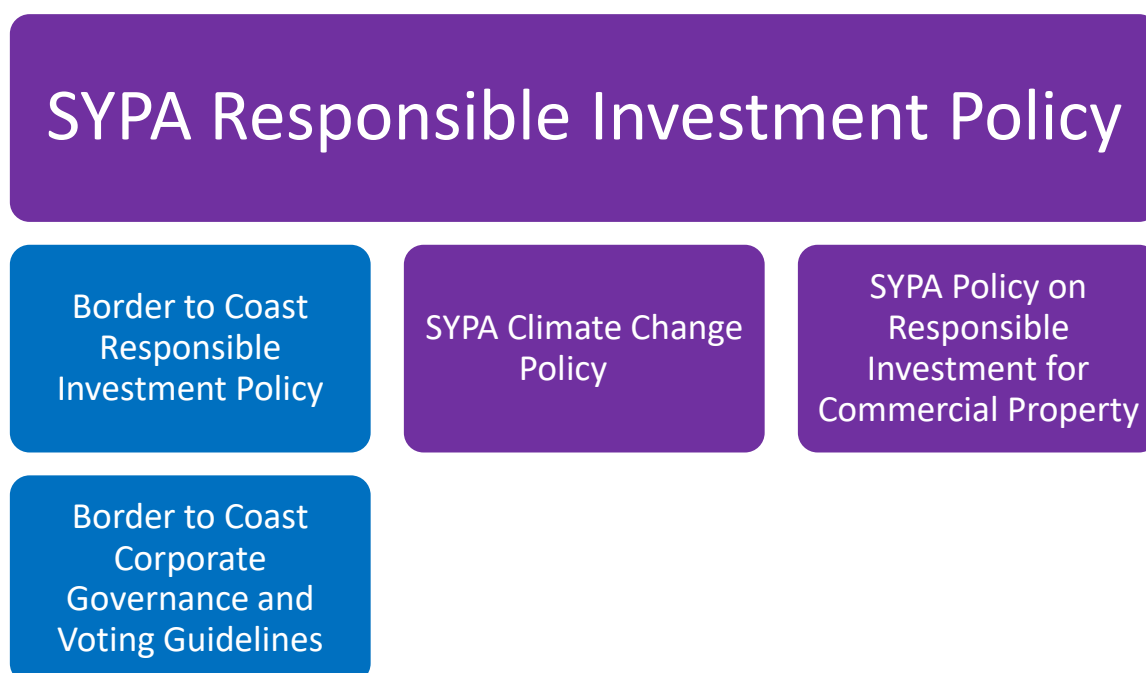
policy framework is kept up to date and sets a clear direction for officers in their work to influence the development of Border to Coast's collective framework.

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

- 4.1 Maintaining an up to date policy framework in relation to Responsible Investment which sits above the collective framework agreed through Border to Coast ensures that the Authority is addressing the risk of not meeting its regulatory obligations. In addition Climate Change is highlighted on the Authority's corporate risk register as a very significant risk and as such maintaining an up to date policy framework in this area supported by an annual action plan is one of a number of actions which allow the Authority to demonstrate that it is seeking to address this risk.

#### **5 Background and Options**

- 5.1 Responsible Investment as an approach is central to the Authority's investment beliefs and how it wants to see its money invested. It is therefore important that the policy framework in this area fully reflects members' intentions and is kept up to date. This report presents the annual review of key aspects of this framework for approval and has been updated following deferral of a decision on these policies at the March meeting.
- 5.2 While pooling, through Border to Coast, changes the way in which the Authority makes investments the Authority retains responsibility for setting out its approach and intentions in relation to responsible investment matters, although now these may well be implemented in different ways. Border to Coast has taken a strongly collaborative approach to the development and implementation of its Responsible Investment approach very much building on its inheritance from its partner funds in particular SYPA. This approach results in an RI policy framework as illustrated below with the colours illustrating ownership of the various aspects of the framework:



- 5.3 SYPA's own policies are reflected in the Border to Coast policies, but also apply to assets which have not yet transferred into the pool. In addition SYPA's policies set out the direction in which the Authority will seek to influence the other partner funds within Border to Coast to move over the coming years.
- 5.4 The Climate Change Policy (2018) and Commercial Property Policy (2016) have not been reviewed for some time and it is therefore appropriate to review all the SYPA policies together in order to ensure consistency and place them on a common review cycle. A general theme throughout, reflecting both the views previously expressed by members and the conclusions of the annual review of Border to Coast is to make all of the policies a bit "harder edged" being much clearer about what the Authority will and will not accept and looking to identify areas where we would wish to see progress made more rapidly than has perhaps been possible up to now.

#### *SYPA Responsible Investment Policy*

- 5.5 The latest iteration of the Authority's overarching Responsible Investment Policy is set out at Appendix A. The policy has not been fundamentally changed but has been tidied up in some areas to ensure it reflects how the relationship with the collective policies agreed through Border to Coast works in practice and to reflect changes agreed to the part of the Investment Strategy Statement dealing with Responsible Investment issues when it was considered in March. In particular the changes to the Policy aim to make clear that the Authority will be prepared to exercise its independence where it feels that the collective policy agreed through Border to Coast does not fully reflect its views and will wish to see clear limits set on the process of engagement with companies. The revised policy also includes a commitment to report on the ESG impact of the full range of the Authority's investments. This is a much wider task than the carbon footprinting that has been undertaken to date and is something for which we will need to seek external assistance (as recommended in the Quarterly RI update elsewhere on the agenda for this meeting). However, it will enable the Authority to provide a much more comprehensive (and understandable) narrative for scheme members with regard to the way in which their pension savings are invested, and will support the enhanced reporting required under the new UK Stewardship Code.

#### *SYPA Climate Change Policy*

- 5.6 The proposed revised Climate Change Policy is at Appendix B. This update seeks to secure through working with Border to Coast the active decarbonisation of portfolios and accepts the concept of targets for doing so. The policy sets out a goal of achieving a net zero carbon position within the portfolio by 2050 in line with the Paris agreement. At this stage it does not set intermediate targets or outline a route map to achieve net zero. These will need to be co-designed with Border to Coast and the other partner funds and this process will begin in the next policy review cycle, which is about to commence.
- 5.7 While the four district councils have more ambitious timescales for achieving net zero given the global nature of the fund's investments and the very wide range of sectors to which it is exposed to sign up to a more ambitious target without much more work to define how it could be achieved would simply be setting the organisation up to fail and would likely be something that it would be more difficult to get partners to agree to.

#### *SYPA Policy on Responsible Investment for Commercial Property*

5.8 The proposed revised policy on the application of responsible investment principles to the management of the Commercial Property portfolio is set out in Appendix C. The main changes proposed are:

- Setting out the policy in terms of matters that apply to properties already owned, to properties being considered for purchase, and consideration of development proposals.
- Making explicit reference to the expected environmental quality of purchases and developments using the BREEAM standards. It should though be noted that in terms of purchases not all buildings have a BREEAM certification and therefore to avoid unduly reducing the investment universe for purchases the Authority will look to acquire buildings that are either certified as BREEAM Good or meet that standard but are not certified.
- An intention to produce travel plans for multi-let properties is also set out. This is particularly relevant for the various retail park properties and multi-let offices where some wider benefits may be achieved through working with relevant local authorities and tenants to promote the use of public transport and active travel modes (walking and cycling).

5.8 SYPA is the only one of the four Border to Coast funds with a directly held property portfolio to have a policy of this sort and it is therefore likely that this will provide a platform for the development of the specific policy that will be required for any pooled vehicle(s) developed for property. It is therefore important that it is kept up to date and relevant to both the portfolio and developments across the industry.

#### *Conclusion*

5.9 The policy framework set out in the appendices does set out SYPA's stall in this area somewhat more clearly than has, perhaps been the case previously, however, it is important to recognise that SYPA is only one of 12 parties that need to agree to a course of action in order to do anything collectively in this space (the 11 partner funds and the Border to Coast operating company). While it is possible for the Authority to act independently in general this is undesirable and should be something that is retained for situations or issues where a fundamental principle would be breached by going along with the alternative course of action. However, if the Authority believes, as it does, that it should invest in line with its values then retaining this ability to act independently where necessary and setting out clearly where its values lead is an extremely important part of setting out the overall policy framework.

## **6 Implications**

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

Financial	With one exception approval of these reviewed policies in itself does not have any financial implications. The commitment to reporting on ESG impacts across the whole portfolio will require the commissioning of external assistance and specific resources will be identified for this in next year's budget, although the work will begin this year financed within the overall budget in order to deliver some additional information within next year's Annual Report. Any implications arising from the policy in relation to the commercial property portfolio will be dealt with as now on the
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	basis of an investment case either calling for some capital investment from the Authority or funded by tenants through service charges.
Human Resources	None
ICT	None
Legal	The LGPS Investment Regulations require the Authority to clearly state its position in relation to Environmental, Social and Governance issues. The maintenance and review of this policy framework fulfils that requirement.
Procurement	If possible the external assistance required will be commissioned using one of the LGPS National Frameworks. If this is not possible some form of tender process will be required.

**George Graham**

**Fund Director**

**Sharon Smith**

**Head of Investment Strategy**

<b>Background Papers</b>	
<b>Document</b>	<b>Place of Inspection</b>