

Subject	Quarter 2 Responsible Investment Update	Status	For Publication
Report to	Authority	Date	10 th December 2020
Report of	Director		
Equality Impact Assessment	Required	Attached	No
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1 **Purpose of the Report**

- 1.1 To provide an update on Responsible Investment activity during the July – September 2020 quarter.

2 **Recommendations**

- 2.1 Members are recommended to:
- a. **Note and comment on the Responsible Investment activity undertaken during the quarter.**

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.

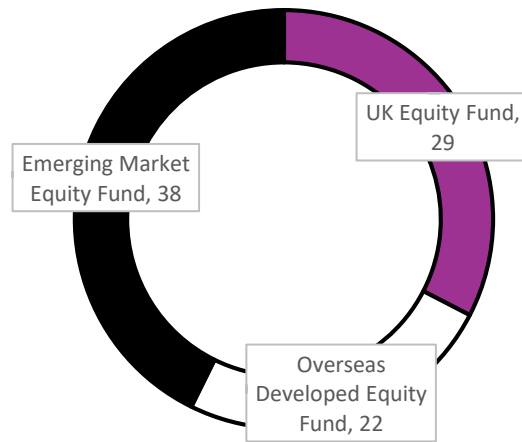
5 Background and Options

- 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.

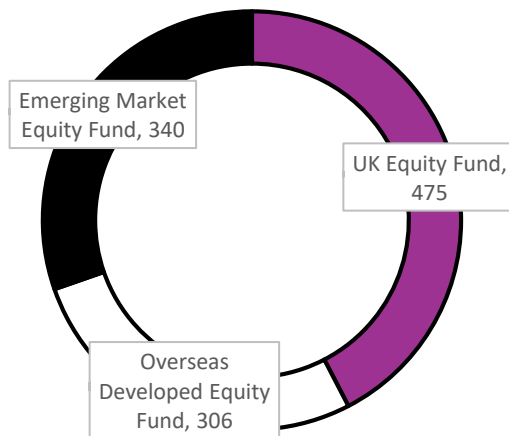
Voting

- 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 September 2020. Detailed reports setting out each vote are available on the Border to Coast website.
- 5.3 The July – September Quarter is generally a quieter period in terms of voting, reflected in a significant reduction in the number of company meetings. This year many companies held their AGM's virtually as a result of the pandemic. The way in which companies hold virtual meetings and the degree to which they permit genuine shareholder interaction varies widely and both Robeco (on behalf of Border to Coast) and the Local Authority Pension Fund Forum (LAPFF) have taken this up with specific companies as the pandemic should not be used as an excuse for the dilution of shareholder rights.

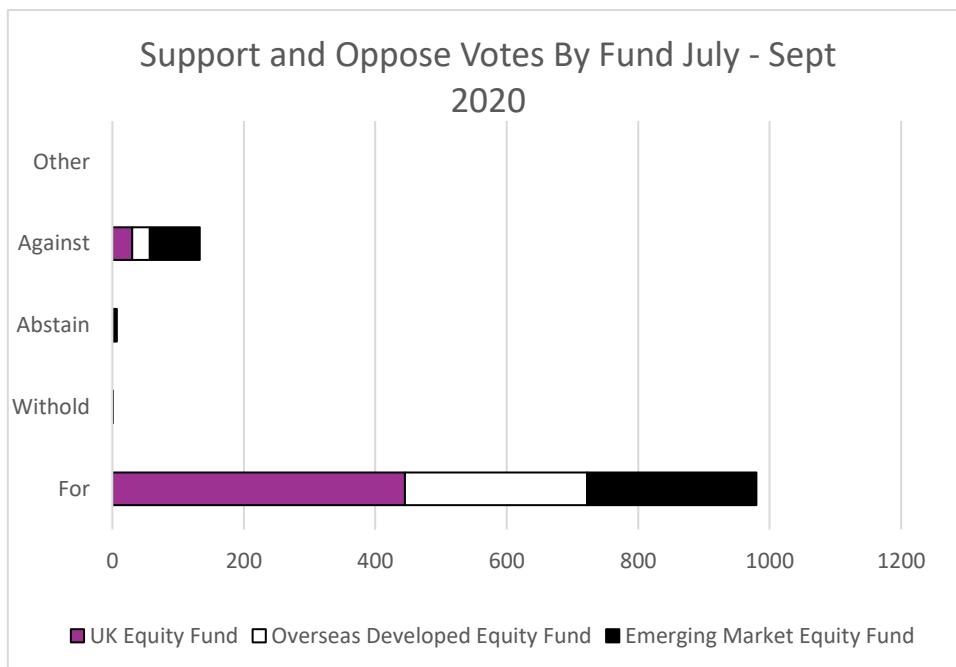
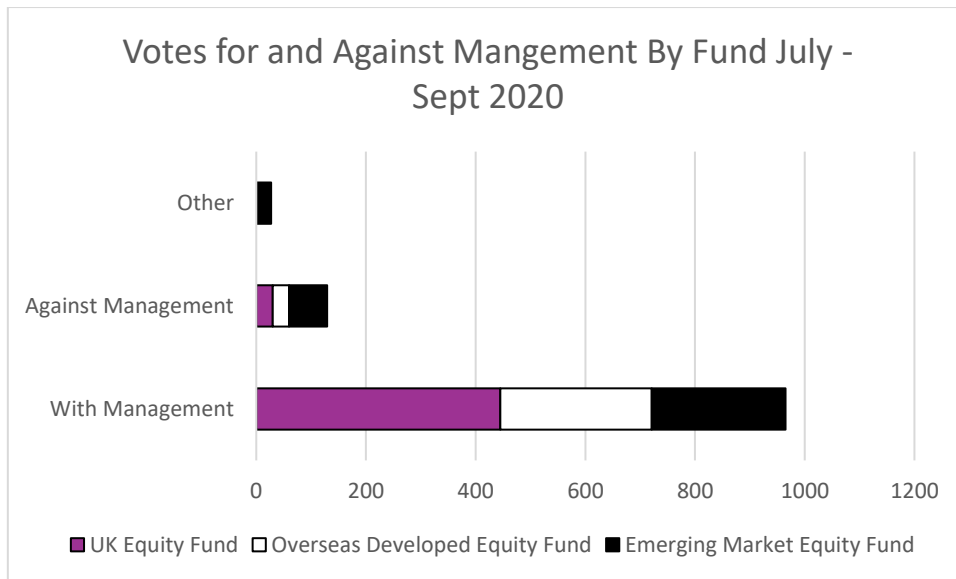
Number of Meetings Voted July - Sept 2020



Votes Cast July - Sept 2020



5.4 There has in recent quarters been a marked increase in voting activity in emerging markets reflecting the increase in shareholder activism in these markets. The charts below show the degree to which votes cast this quarter were either against resolutions or against the management recommendation.



5.5 The main areas where votes were cast against management or where resolutions were opposed were:

- In the UK a number of votes against the authorisation of political donations in line with the Border to Coast voting guidelines which identify significant reputational risks and democratic implications from companies becoming involved in political processes.
- Again in the UK a significant number of votes against the re-appointment of auditors on the ground that the auditor had been in place too long and therefore there are concerns over independence.
- In all markets votes against executive pay proposals deemed excessive and against the reappointment as directors of Chairs of nomination committees on the grounds of lack of board diversity.

- In the emerging markets a number of votes against the appointment of specific directors on the ground of lack of independence. This is a particular factor in the emerging markets sometimes reflecting local culture but also the stage of development which companies have reached. Regardless of this only a suitably independent board can provide effective protection for shareholder interests.

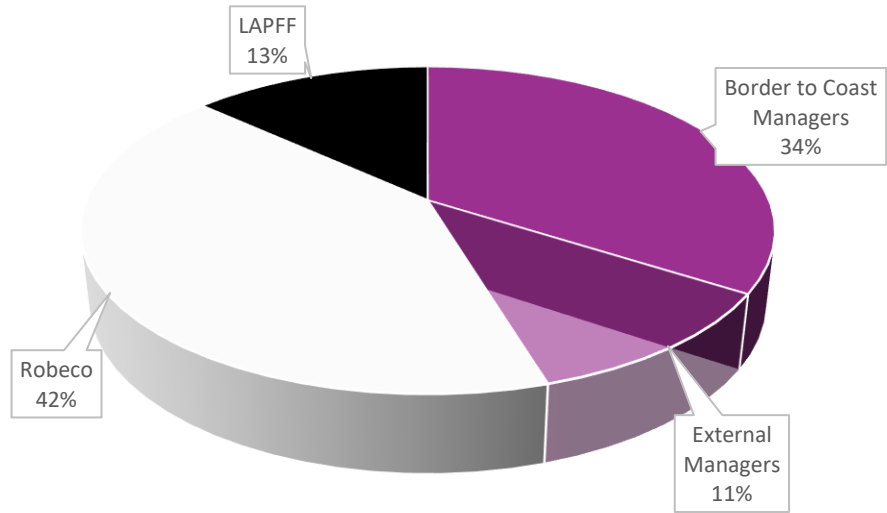
5.6 Notable votes in the quarter are illustrated in the graphic below:



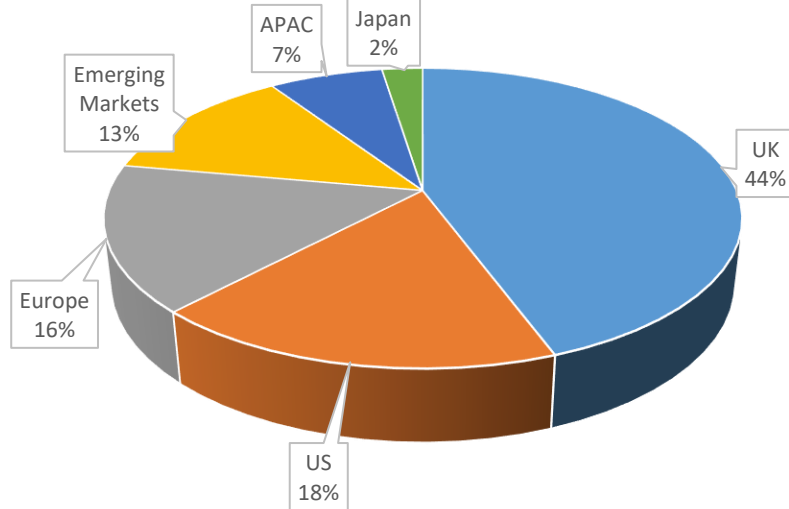
Engagement

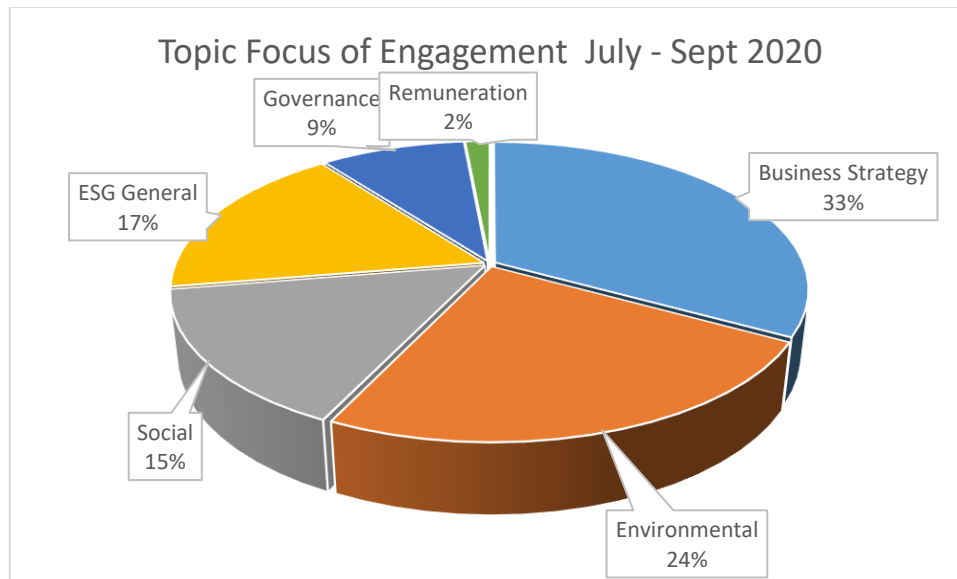
5.7 The volume and depth of engagement activity continues to increase as pooling becomes more established and as companies wake up to the scale of the pools as shareholders and begin to see them as key stakeholders and are more prepared to enter into discussions with them on key policies such as executive remuneration before putting them to the vote. The graphs below illustrate the volume, geographical and topic distribution of engagement activity undertaken in the quarter by Border to Coast's internal team, Robeco, acting for Border to Coast and LAPFF acting for all its member funds, with a total this quarter of 203 pieces of investment activity, slightly down from the previous quarter as we move out of peak AGM season.

Engagement Volumes July - Sept 2020



Market Focus of Engagement July - Sept 2020





- 5.8 The above data include for the first time data on the activity undertaken by the three external managers responsible for the Investment Grade Credit mandate. This reflects the efforts by Border to Coast to ensure that responsible investment and stewardship activities are undertaken in all asset classes. The data are also presented in a more standardised manner reflecting further improvements in reporting. IN terms of geography the UK focus has increased as a result of the adding of the fixed income managers as their investments are largely in the UK, the distribution of activity in the equity portfolios is much more even reflecting their global nature. In terms of the subjects for engagement environmental issues continue to be prominent in engagements with an increasing emphasis on social issues such as minimum wage compliance following the pandemic, while business strategy issues which will include issues around adapting the business to a low carbon economy are the most significant category of engagements.
- 5.9 The Covid-19 pandemic and the development of the Black Lives Matter movement in the US have resulted in shareholders shining lights in a number of areas that have previously received less attention, including labour practices in the garment industry and broader issues of racial justice. This very rapidly increased emphasis on the S in ESG is a focus that will need to be maintained in order to ensure that companies' rhetoric is turned in to lasting change.
- 5.10 Significant engagement activity in the quarter included:
- In May Rio Tinto destroyed a 46,000 year old Aboriginal cave system in the Juukan Gorge region of Western Australia. The caves are of cultural significance to local indigenous populations who claim Rio Tinto did not adequately engage with them prior to the destruction. While Rio Tinto has apologised to the Aboriginal communities shareholders have raised serious concerns with the company about how the company's governance arrangements could have allowed such a disaster to occur. Following an internal investigation led by a non-executive director a number of managers' short term bonuses were removed and the CEO and two other senior executives resigned. Shareholders continue to engage with Rio Tinto and other mining companies about the way in which they engage with local communities and in particular how they balance cultural sensitivity with the development of their mining operations.

- An investor coalition representing over \$4.6tn in assets is engaging with the Government of Brazil over the issue of deforestation, which is a recognised contributor to climate change and the release of carbon into the atmosphere, while also threatening the way of life of indigenous communities. While the initial response has been encouraging this is only the beginning of what is intended initially to be a two year piece of work.
- Engagement with banks and insurance companies around climate finance issues has continued. In particular this has revealed a lack of recognition of the impact of climate change on the insurance business. This work is ongoing and specific objectives will be developed after the remainder of the first round of discussions have been completed.
- Following the scandal over the wages paid by some of Boohoo's suppliers in Leicester and the introduction of further parts of the Modern Slavery Act investors face challenges over company supply chains. This is leading to these issues being raised as part of ongoing conversations with companies.
- The collaborative efforts of the investor initiative on tailings dam safety reached a milestone in the quarter with the launch of the Global Tailings Standard which was launched in August at a webinar with 1,200 participants. This is work that will continue to develop but the production of the standard gives investors a benchmark against which to measure the actions of companies.
- Initial engagement through letter writing is underway in relation to cybersecurity with a range of companies and with pharmaceutical companies over the potential for unfair distribution and pricing policies in relation to a Covid-19 vaccine. The latter received a particularly positive response from AstraZeneca.

Collaborations

- 5.11 LAPFF held its latest business meeting and AGM during October, and a briefing note has been provided in the Members' on line reading room. The AGM saw elections for the Forum's Executive and Cllr Doug M^cMurdo the Chair of the Bedfordshire Fund was re-elected as Chair and Cllr Wilf Flynn a member of the Tyne and Wear Pension Committee was elected to the Executive giving a reasonable representation from the Border to Coast Funds. Key items discussed at the business meeting included:
- Consideration of a paper setting out the basis on which LAPFF determines topics on which to engage. Clarity on this is important for LAPFF members who will be required to provide more transparency on these issues under the FRC's new Stewardship Code.
 - A paper considering the potential downsides of some "new" energy sources such as hydrogen which may not be as climate positive as it would first appear, and proposing engagement with a number of companies around these issues.
 - Agreement to support work by the All Party Parliamentary Group on Local Government Pensions on a Just Transition.
 - A review of the 2020 AGM season and the impact of the move to virtual meetings, which highlighted many of the same issues as are highlighted in the section on voting above and agreed a position to adopt on these issues with companies.
 - Agreed to support the Sustainable Forests Initiative.
- 5.12 The meeting also considered the Quarterly Engagement Report a link to which is provided under background papers.

5.13 There have also been a number of wider collaborative policy developments over the quarter, all of which are relevant to the Authority’s ongoing development of its policy position.

- Following the success of the Task Force on Climate Related Financial Disclosure (TCFD) a two year project supported by financial institutions, governments and financial regulators is creating the Task Force on Nature-related Financial Disclosure (TNFD). This focuses on biodiversity loss, which like climate change is a systemic risk to society, as reflected in the engagement activity around deforestation highlighted above. The aim of the TNFD project is to develop a reporting framework in 2021 which will be tested in 2022 before being rolled out globally.
- The Institutional Investors Group on Climate Change (IIGCC) has published a draft framework to support investors in delivering net zero commitments, which officers will be using to assist in developing the Authority’s own plans.
- Climate Action 100+ (CA100+) is producing a net zero benchmark which will allow members to assess a company’s alignment to net zero goals.
- The Impact Investing Institute has been consulting on Good Governance Principles for Pension Trustees which seek to provide a clear framework to assist trustees (and in the case of LGPS councillors) in taking non-financial risks such as climate change into account when making investment decisions.

Regulatory Developments

5.13 The UK Government as part of its work to develop a “post-Brexit” approach to the financial services industry has announced a number of initiatives including the launch (subject to market conditions) of the Government’s first green bond. This announcement also included the publication of a road map to universal adoption of the Task Force on Climate Related Financial Disclosure reporting standards. For the Local Government Pension Scheme consultation on adoption is expected during 2021 with adoption from 2023, although SYPA already follows these requirements.

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.
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 & Robeco Engagement Reports	https://www.bordertocoast.org.uk/?dln_download_category=engagement
LAPFF Quarterly Engagement Reports	https://lapfforum.org/publications/category/quarterly-engagement-reports/