

Subject	Responsible Investment – Quarter 3 Update	Status	For Publication
Report to	Authority	Date	18 th March 2021
Report of	Director, and Head of Investment Strategy		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	George Graham Director	Phone	01226 772887
E Mail	ggraham@sypa.org.uk		

1 Purpose of the Report

- 1.1 To provide an update on the responsible investment activities undertaken by and on behalf of the Authority.

2 Recommendations

- 2.1 Members are recommended to:
- a. **Note the Responsible Investment Activity undertaken by and on behalf of the Authority.**
 - b. **Approve the proposed submission to the inquiry into a Just Transitions being undertaken by the All Party Parliamentary Group on Local Government Pensions at Appendix A.**
 - c. **Approve the Authority's commitment to support the Paris Aligned Investment Initiative.**
 - d. **Approve the Authority adopting the Impact Investing Principles.**

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 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.

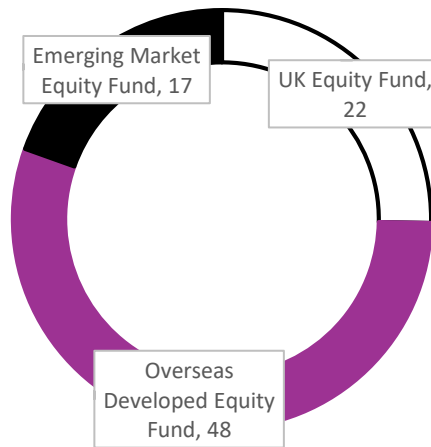
5 Background and Options

- 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.

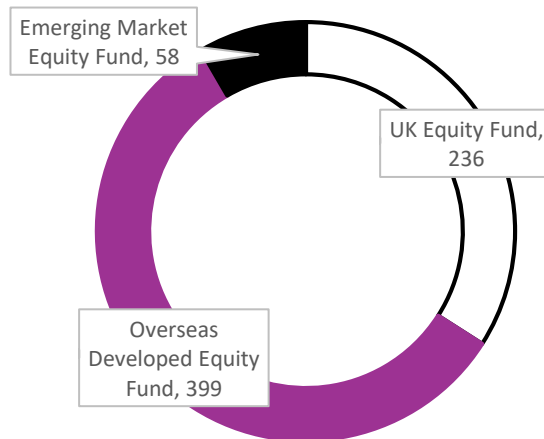
Voting

- 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 December 2020. Detailed reports setting out each vote are available on the Border to Coast website (link under background papers).
- 5.3 While this is a relatively quiet quarter for voting there was still a reasonable amount of activity although more concentrated in the developed markets than in the previous quarters of the year.

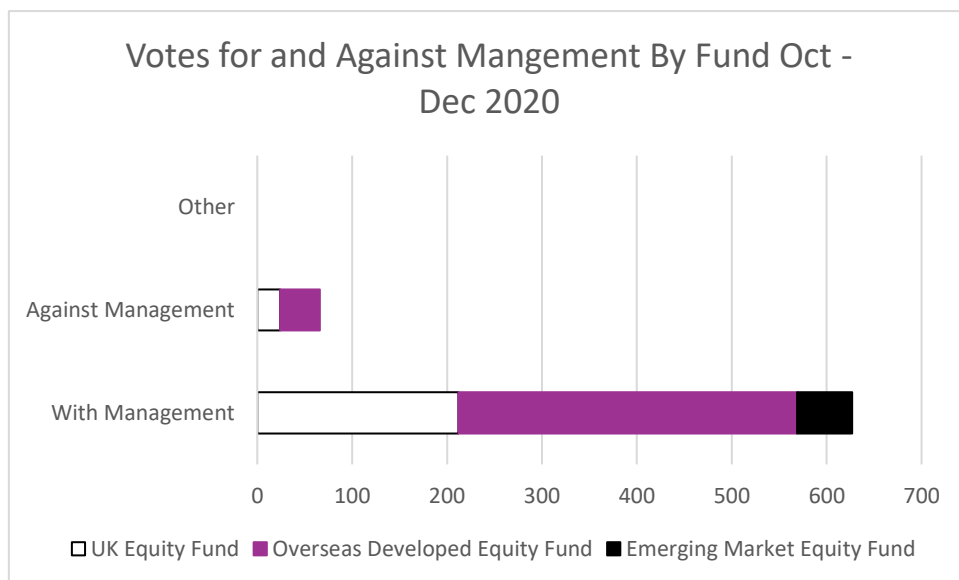
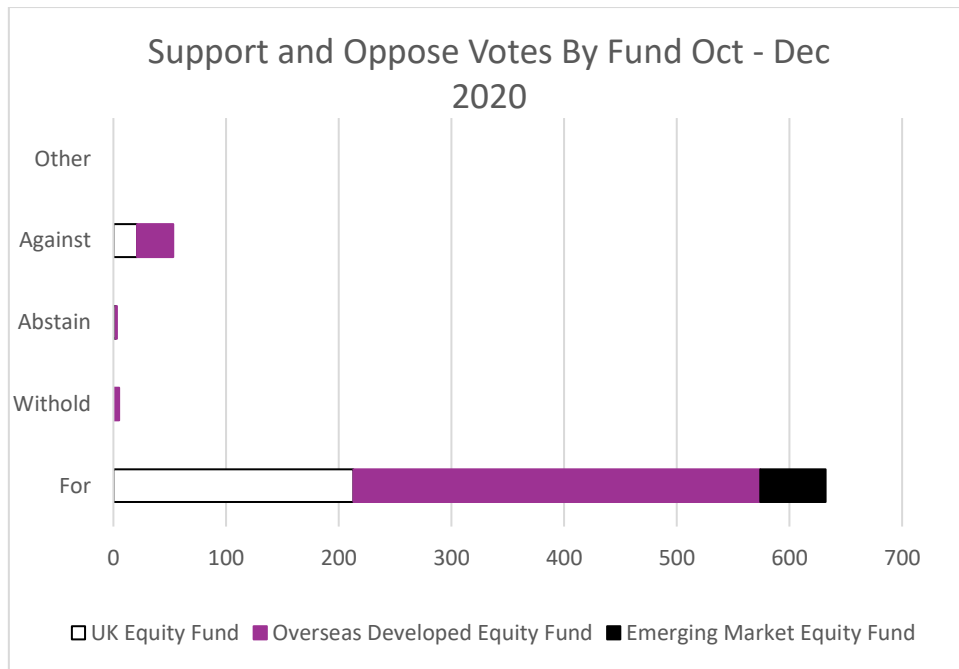
Number of Meetings Voted Oct - Dec 2020



Votes Cast Oct -Dec 2020



- 5.4 The pattern of support and oppose votes and votes for or against management is consistent with previous quarters and analysis of the voting reports indicates continuing adherence to the Border to Coast voting policy and also the continuation of some of the previously observed trends around, remuneration, board independence and representation. In the Overseas fund nearly half of votes against related to Board composition while around a quarter related to executive pay, while in the UK around a third related to audit appointments and a fifth to executive pay.



5.5 In addition to the more routine resolutions concerning board membership remuneration and audit appointments there have been the usual crop of shareholder proposals linked to specific issues with some of the more significant highlighted in the graphic below.



At Procter & Gamble we supported proposals for the Company to report on its efforts to eliminate deforestation in the supply chain (supported by 67% of shareholders) and to report annually on its efforts in diversity and inclusion



At ANZ Bank we supported a proposal for the company to report on its progress in reducing exposure to fossil fuel assets in line with the Paris agreement and on targets for future reductions. This was supported by 28.9% of shareholders doubling the level of support compared to a similar resolution last year



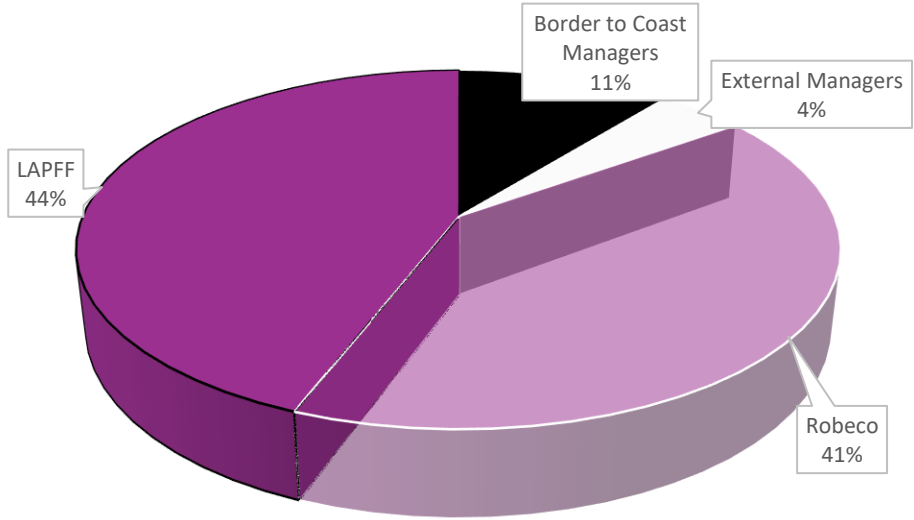
We supported a resolution related to indigenous cultural heritage sites following the destruction of the Juukan Gorge which resulted in the Company making significant moves in this area. Given that BHP far exceeds its peers in relation to disclosure of lobbying activities we did not support a resolution on this.

- 5.6 During the quarter new rules were also introduced by the US Department of Labor relating to the consideration by fiduciaries (fund managers or trustees) of ESG factors in relation to plans regulated under US pension legislation. These regulations were opposed by the vast majority of the several thousand individuals and organisations that responded to a consultation exercise (including Border to Coast). The rules require investment decisions to be made solely on the basis of pecuniary (direct financial) factors. The rules accept that some ESG factors may be compatible with a purely financial analysis. The Department has strongly opposed investor comments which suggest that investors might focus on economy wide issues such as diversity in seeking to improve company performance. These regulations represent something of a backward step in terms of ESG and Responsible investing in the United States, certainly when compared to the UK, although there remains the possibility that they may be repealed by the incoming administration.

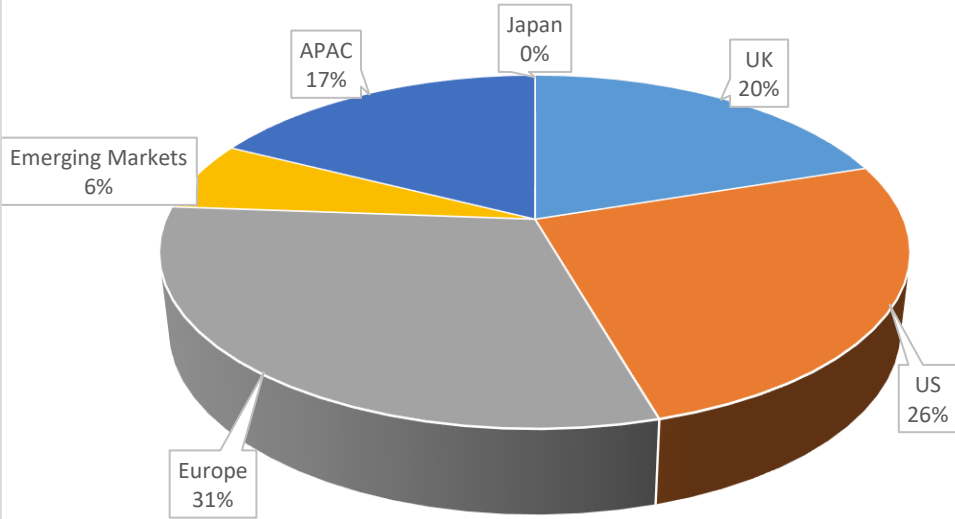
Engagement

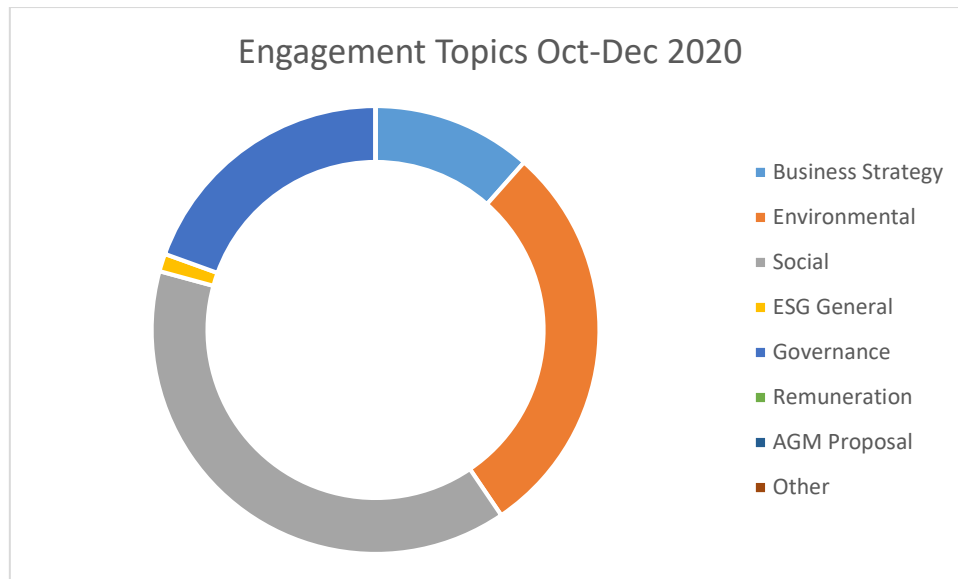
- 5.7 The graphs below illustrate the scale and nature of engagement activity undertaken over the quarter.

Engagement Volumes Oct - Dec 2020

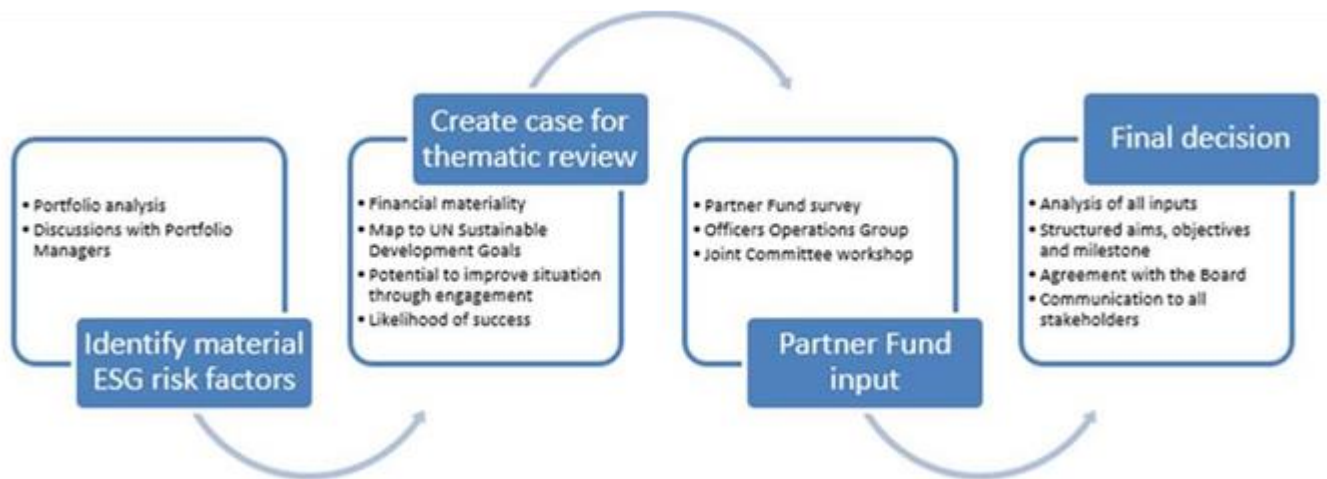


Market Focus of Engagement Oct-Dec 2020





- 5.8 While the level of engagement on environmental and climate issues remains high the increasing emphasis on social issues partly sparked by the pandemic continues to be seen. However, this is not restricted to what might seem the more obvious areas such as labour standards and health and safety but also human rights and issues such as privacy and fake news (a particular focus in discussions with the big technology companies).
- 5.9 In the climate arena the focus continues to be on persuading companies to be transparent about setting science based targets which support the transition to net zero in line with the goals of the Paris agreement. Progress continues to be made in this area, particularly through the Climate Action 100+ initiative where Robeco are the lead organisation in relation to a number of companies. Notably in the last few weeks Shell have made further commitments to the energy transition as well as indicating that they have passed what is known as “peak oil” (in 2019). More details on engagement activity are contained in the various quarterly reports linked under background papers.
- 5.10 Border to Coast are developing their approach to identifying engagement themes in order to ensure focus on the most financially material issues and will be discussing the development of their approach with Partner Funds in the coming months. This reflects the fact that after three years it is appropriate to review the themes initially identified (transparency and disclosure, governance and diversity, with a focus on climate being added later given its financial significance). The proposed process is set out in the graphic below.



5.11 This proposal represents a more evidence based and collaborative approach which is welcome and will also support the requirements of the Stewardship Code which emphasise the need for evidence based and structured approaches, as well as the setting of clear outcome focussed objectives for engagement. In addition the mapping of proposed activity to the Sustainable Development Goals will be helpful to the Authority in its own reporting as it moves to using the SDG's as a framework for analysing impact.

Collaborations

5.11 Effective collaboration is at the heart of the Authority's approach to responsible investment and over the quarter there have been a number of significant developments which support the Authority's overall direction of travel and which are reported on here.

5.12 The Local Authority Pension Fund Forum (LAPFF) has continued to hold its business meetings and webinars during the quarter culminating in a series of webinars which replaced the in person annual conference. The Authority has continued to be represented at the Forum's business meetings and a briefing note following the latest business meeting has been placed in the on line reading room. The Forum has consulted its members on the proposed work plan for 2021/22. Officers have consulted with colleagues within the Border to Coast Partnership and responded directly. In general the proposed work plan continues the themes of previous years with a continuing emphasis on climate and areas where LAPFF has some form of unique insight or added value. This is the approach which the Authority has previously supported seeking greater focus from the Forum. However, there remains some work to do to ensure that the objectives set for each element of the work plan are truly outcome focussed and this issue formed the core of the response, which because LAPFF ask that the draft work plan be treated as confidential has been made available in the on line reading room.

5.13 LAPFF is also supporting an inquiry by the All Party Parliamentary Group (APPG) on Local Government Pensions on the transition to a low carbon economy. The APPG has asked for written submissions addressing a number of specific questions before the end of April. Given the Authority's commitment to Net Zero and the impact of previous energy transitions in South Yorkshire this is an issue where SYPA has a particular perspective which may be of use to the inquiry and a proposed response is set out in Appendix A for approval.

- 5.14 The Authority is a long term supporter of the Institutional Investors Group on Climate Change (IIGCC) which represents 275 investors with EUR35tn of assets under management. IIGCC is the major investor coalition on climate issues and has been a prime mover in other initiatives such as Climate Action 100+ and the wider adoption of TCFD reporting. The Group has now written to all members asking them to sign up to its Paris Aligned Investment Initiative. This requires a commitment, as a minimum to achieving net zero portfolios by 2050 in line with the Paris agreement, with at least a 50% reduction by 2030. Given the Authority's position of a 2030 net zero goal it would be appropriate for SYPA to sign up to this commitment, and a recommendation to this effect is included at the head of this report.
- 5.15 The Authority in considering the structure of the property portfolio last September accepted a place for investments targeting specific impacts, in addition to financial return within the overall investment strategy and through the work being developed on impact reporting accepts that all its investments have an impact. Impact investing and the understanding of impacts is a growing field within the overall responsible investment space and one which provides significant opportunities to improve the degree of engagement with scheme members around investment issues. The Authority has been invited to support the *"Impact Investing Principles for Pensions"* which have been developed by Pensions for Purpose and the Impact Investing Institute. This requires the Authority to commit to:
1. Seek investment advice on an impact investing approach for our pension fund;
 2. Review environmental, social and governance impacts across our investment portfolio; and
 3. Consider available impact investment strategies.
- 5.16 As these commitments reflect what the Authority is already doing it is proposed that SYPA sign up to these principles in order to provide some leadership in this area within the Border to Coast Partnership.
- 5.17 The LGPS Scheme Advisory Board is working to develop a framework of guidance and support for Funds in relation the Responsible Investment, and is establishing a practitioner steering group to support this, which the Director has been asked to join.

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

Sharon Smith
Head of Investment Strategy

Background Papers	
Document	Place of Inspection
Border to Coast Voting Reports	https://www.bordertocoast.org.uk/?d1m_download_category=voting-activity
Border to Coast & Robeco Engagement Reports	https://www.bordertocoast.org.uk/?d1m_download_category=engagement
LAPFF Quarterly Engagement Reports	https://lapfforum.org/publications/category/quarterly-engagement-reports/