

Responsible
Investment
Update
Quarter 4 2020/21
May 2021

Contents

Highlights and Recommendations	3
Background	4
Voting Activity	5
Collaborative Activity	11
Litigation	13
Policy Development	14

Highlights and Recommendations

Highlights over the quarter include:

- The casting of over 1,000 votes at over 100 different company meetings.
- A continued voting focus on Board independence and diversity and the need for companies to effectively adapt to climate change.
- A more balanced focus to engagement in the quarter as between social and environmental issues, although with social issues retaining greater prominence than previously.
- The recovery of a net £373k through shareholder litigation.
- Continuing progress on the development of SYPA's first impact report and a contribution to work on Place Based Impact Investing being recognised in a case study.
- Agreement to work to progress improvements in ESG reporting for the commercial property portfolio.

The Authority are recommended to note the activity undertaken in the quarter.

Background

The Authority has developed a statement which sets out what it believes Responsible Investment is and how it will go about implementing it within its overall approach to investment. This statement can be found here:

[Item 12 RI Beliefs.pdf \(southyorks.gov.uk\)](#)

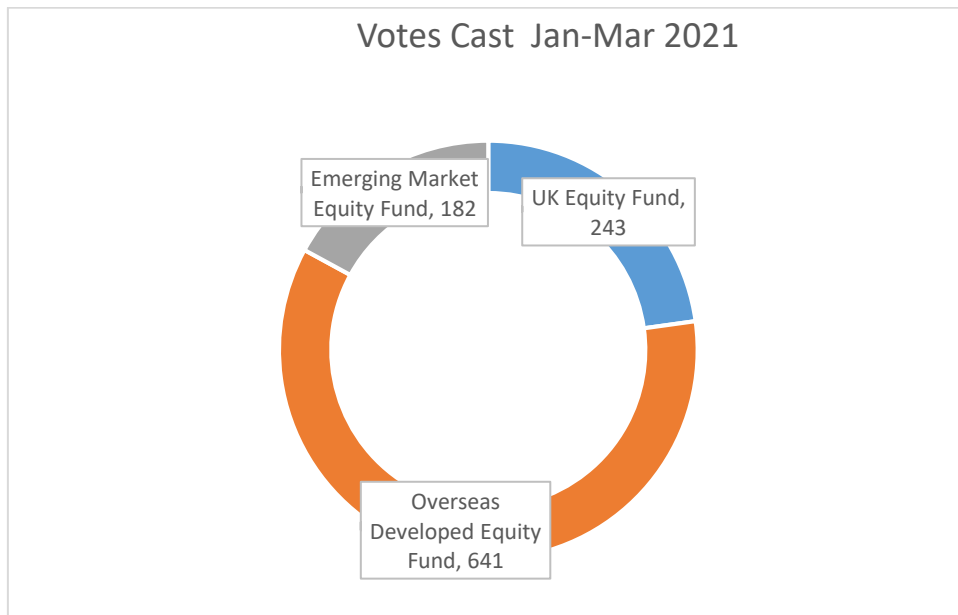
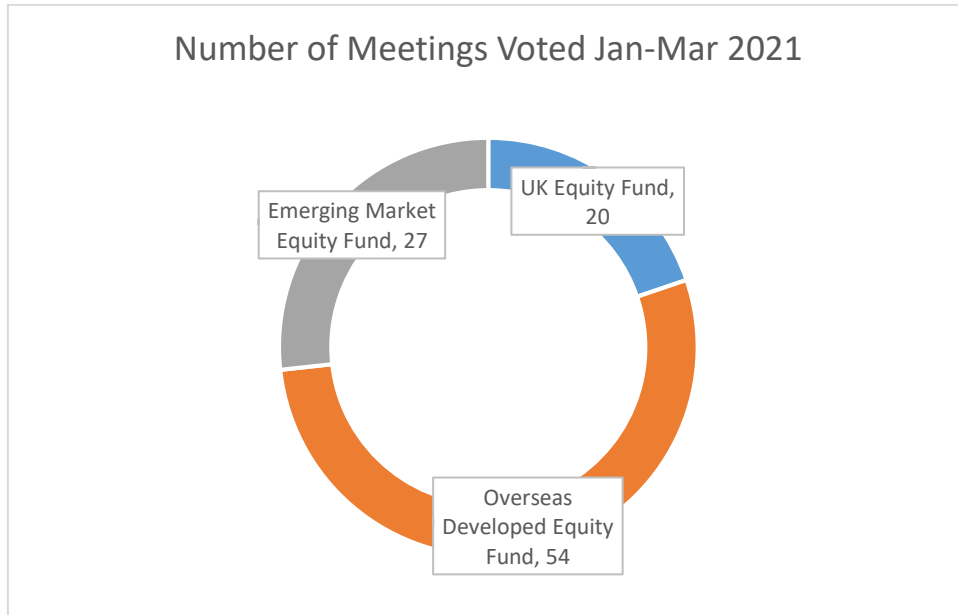
Our approach is delivered through four streams of activity, largely in collaboration with the other 11 funds involved in the Border to Coast pool.

- 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. As the Authority does not now hold shares directly this is not something that will generally be a focus of attention.
- 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.

This report, which is in a new format intended to make it more accessible for stakeholders provides a quarterly update on the activity which has been undertaken in the main work streams above together with information on the development of collaborations and policy development work being undertaken in the area of Responsible Investment.

Voting Activity

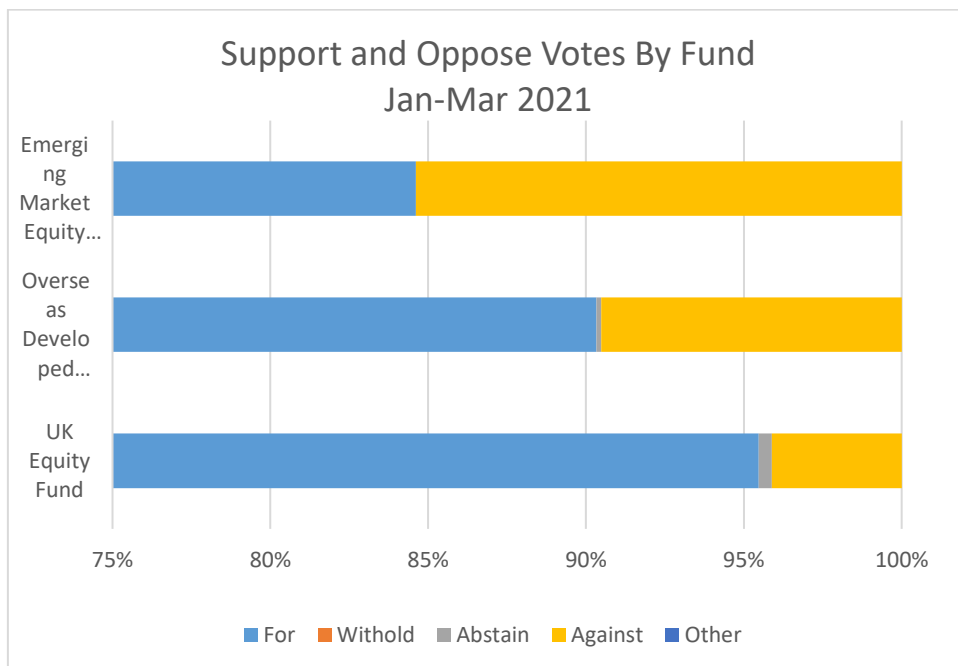
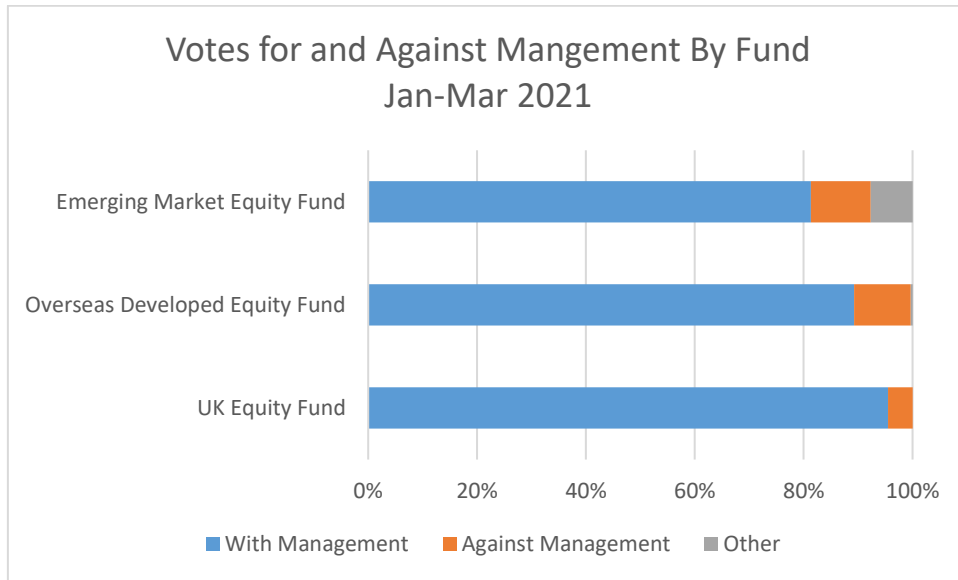
The January to March quarter is the start of the period of “peak voting” when a significant proportion of companies hold their annual meetings. The charts below show how the Authority’s holdings in listed equities were voted in the period to the end of March 2021. Detailed reports setting out each vote are available on the Border to Coast website here [Border to Coast Pensions Partnership](#)



This represents a very significant increase in activity when compared to the previous quarter, with an increase of nearly 400 individual votes.

The pattern of support and oppose votes and votes for or against management is broadly consistent with previous quarters and a continuation of the previously observed trends of votes against in relation to remuneration, board and auditor independence and diversity. In general within the bounds of the agreed voting guidelines there is a preference to support management that is acting in the interests of shareholders.

The broad pattern is shown in the charts below



The 2021 voting season has seen expanding expectations from shareholders, regulators and other stakeholders for board action in the wake of the pandemic. Boards are being prompted to address financial and social pressures, a reimagined workplace, evolving regulatory demands and increased scrutiny on environmental, social and governance (ESG) issues.

A new climate-focussed shareholder proposal which is gaining significant traction this voting season is the “Say on Climate” advisory vote which demands that companies provide shareholders with the opportunity to approve of their climate policies and strategies on a consultative basis, in the same way as “Say on Pay” votes for executive remuneration. Sepcifically the proposal asks companies to report annually on emissions data and reduction strategies in a manner consistent with the Task Force on Climate Related Financial Disclosure (TCFD), a requirement that will shortly be written into UK law for larger companies.

The pandemic has led to an increased focus on board oversight of Human Capital Management (HCM) and corporate culture, as part of the renewed focus on the S in ESG. There have been demands in many regions for the disclosure of more HCM data such as gender pay gaps, safety incidiedn and employee turnover. These are all things of which the Authority is supportive through its and Border to Coast’s support for the Workforce Disclosure Initiative. In addition boards, particularly at companies with significant numbers of at risk or furloughed employees, are increasingly being expected to disclose how the pandemic’s impact across their workforce was considered in reconfiguring pay for senior executives.

With the continuation of the pandemic many companies are expected to continue to hold virtual-only meetings, at least for the first half of 2021. Given the concerns expressed at this time last year about the inability to ask questions or to vote at virtual meetings companies are likely to come under greater scrutiny for their handling of virtual meetings, particularly if they use technology to limit the opportunity for shareholders’ questions and dialogue.

The graphic below highlights some of the more notable votes in the quarter



Apple Inc - We decided to support a shareholder proposal regarding improvements in the Executive Compensation Program. In particular given the very high levels of remuneration of top management we wished to see greater transparency on the factors influencing reward and in particular how sustainability is integrated into the design of the pay policy



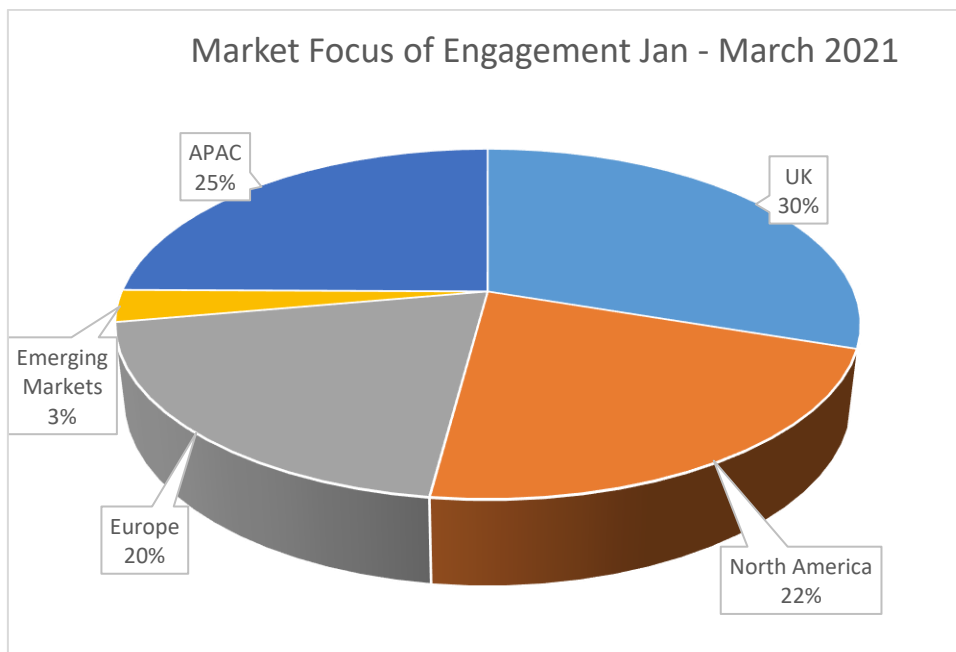
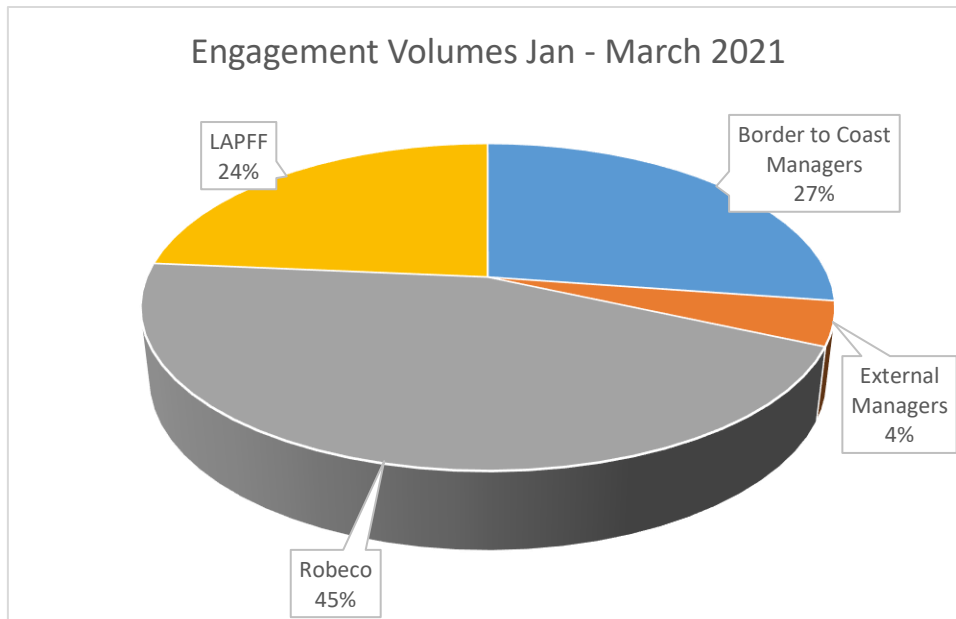
Kone Corp - This is a Finland based global manufacturer of elevators and escalators. We voted against the remuneration report for the second year running and against the reappointment of directors. The company's remuneration policy does not meet the standards we set for transparency in these matters while by not having an independent Chair and an independent lead director the company is lagging international best practice in Board composition.

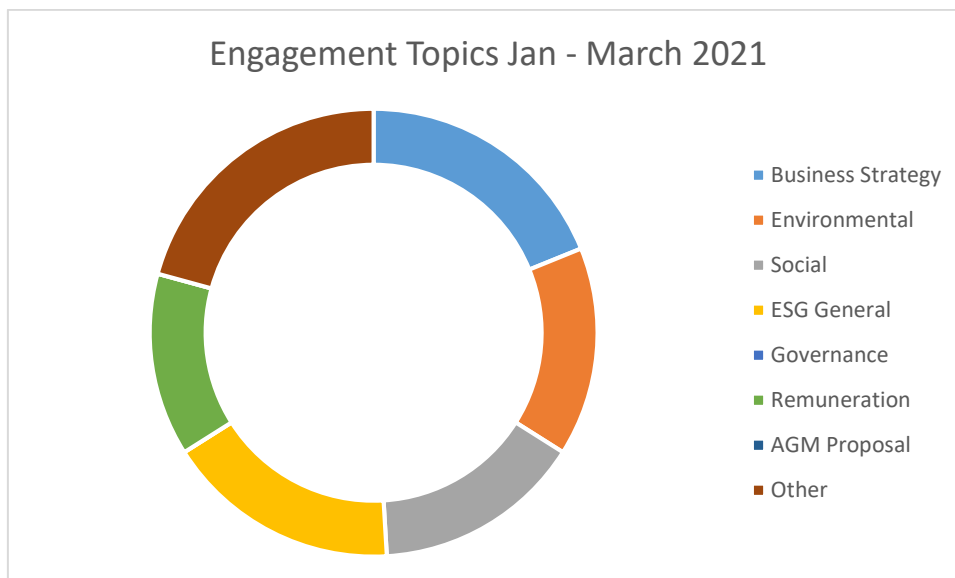


Hyundai Mobis - This is a Korean motor manufacturer where we voted against the election of directors due to concern about the level of independence of the Board's Compensation Committee which we see as a key governance control. While Board independence has improved the fact it has not done on this key committee leads to a risk of payments being misaligned with performance which needs to be addressed.

Engagement Activity

Engagement is the process by which the Authority working together with other like-minded investors seeks to influence the behaviour of companies on key issues. Engagement (in distinction to voting) is an ongoing process and is undertaken by those directly managing money for the Authority such as the investment team at Border to Coast and the external managers in the Investment Grade Credit fund together with Robeco who act on behalf of Border to Coast and the Local Authority Pension Fund Forum which acts on behalf of all its member funds. The graphs below illustrate the scale and focus of engagement activity undertaken in the quarter.





Activity this quarter has become more balanced between the various issues being engaged on, when compared to the significant emphasis on social and environmental issues in the last quarter. In part this reflects the AGM season which brings broader governance and remuneration to the fore as these are key issues on AGM agendas, but beyond this it reflects the fact that last quarter LAPFF undertook a very significant amount of work around social issues associated with the pandemic which has now largely dropped out of the figures.

During the quarter Robeco launched a new engagement them on the climate transition of financial companies. This engagement aims to use the TCFD standards to improve disclosure around banks climate transition strategies. This is significant because banks provide much of the capital that can be used either to maintain investment in climate negative industries or support investment in the opportunities presented by the transition to a low carbon economy. This engagement process is intended to run over the next three years with periodic updates over the period.

More details of the engagement activity undertaken by Border to Coast and Robeco in the quarter is available [here](#)

[Border to Coast Pensions Partnership](#)

LAPFF has continued to be active in engaging with companies on climate issues and in particular in engaging with HSBC around a shareholder resolution seeking a strategy for reducing emissions including specific targets aligned with the Paris agreement. Following discussion with investors the Company has acknowledge that “expansion of coal-fired power is incompatible with the goals of the Paris agreement” and has committed to phasing out investment in coal-fired power and thermal colas by 2030 in the EU and OECD countries and 2040 in other regions. The company has also committed to a strategy and targets to reduce emissions using a 1.5° pathway that is not overly reliant on negative emissions technologies. The Board put a resolution to this effect to the AGM and hence the shareholder resolution was withdrawn.

LAPFF has continued to take a specific role in engaging with mining companies around the community impacts of tailings dam collapses, in particular those at Samarco and Brumadinho in Brazil. The particular focus this quarter has been on the delays in the making of reparations to the affected communities whether in the form of replacement housing or the restoration of water quality. While dialogue with the companies is ongoing LAPFF is seeking to put more public pressure on the companies by publishing data on the completion of replacement housing. As at

15th April 2021 7 of up to 537 replacement dwellings have been constructed some 51/2 years after the initial dam collapse.

Following concern about the quality of holiday food being provided to recipients of free school meals by subsidiaries of Compass Group LAPFF has begun a dialogue with the company about its overall governance during the pandemic. While the company have acted to address the immediate issue the fact that it occurred in the first place points to issues around governance and management control which pose a risk to shareholder value, which LAPFF have sought to address with the Company.

More details of the activity undertaken by LAPFF in the quarter is available here [LAPFF_QER1_2021.pdf \(lapfforum.org\)](#)

Collaborative Activity

This section focuses on the activity undertaken in the quarter through the various collaborations in which the Authority is either directly involved or indirectly involved through Border to Coast.



LAPFF has been consulting on its work plan for the financial year which has just started and as previously reported both the Authority and Border to Coast responded with detailed comments on this and in particular the need to set clearer objectives for each piece of engagement activity. The final work plan was agreed at the most recent LAPFF business meeting which took place in April and hence is not covered in detail in this report. The final work plan does include some changes to reflect the comments made by the Authority and others and a meeting is being arranged at the request of the Chair of LAPFF to discuss the suggestions made by the Authority further.



During the quarter Climate Action 100+ which is the world's largest investor led engagement initiative on climate change has released its first ever benchmark which evaluates the corporate ambition and action of the world's largest greenhouse gas emitters. This provides an assessment of individual company's performance against the initiative's three high level goals: reducing greenhouse gas emissions, improving governance and strengthening climate-related financial disclosures.



This quarter the Institutional Investors Group on Climate Change (IIGCC) launched the Net Zero Investment Framework. This provides a comprehensive set of recommended actions, metrics and methodologies to enable investors to monitor how well aligned their portfolios are with the goals of the Paris Agreement. The Authority is using this framework to assist in its work towards Net Zero.



The Transition Pathway Initiative (TPI) is used by Border to Coast to assess the progress of companies in addressing the issues of transition to a low carbon economy. In February TPI released their latest assessment of the industrials and materials sector covering 169 companies in high emitting industries such as cement. The report found that only 14% of the companies covered are aligned with the goals of the Paris Agreement. This report provides a basis for further engagement focussed on areas such as improving management quality, carbon performance and disclosure.

The report also notes that structural changes will be needed driven by policymakers and industry bodies to define how these sectors might transition over time. This is particularly necessary in areas where there are currently no obvious replacements for carbon in specific industrial processes.

Litigation

As the Authority does not hold shares directly following the transition of equity holdings to Border to Coast the issue of participation in shareholder litigation and of any receipts from such litigation is not one that arises directly.

However, in the last quarter a class action claim in the US, relating to a period when the Authority held shares directly, and in which, unusually, the Authority was a lead plaintiff has been settled. As a result, the Authority has received a gross settlement of £488,600 reduced to £373,092 after legal fees. For legal reasons no further details can be provided in a public report.

This is the last such opportunity for the Authority to directly recover a significant sum through this route, although Border to Coast do have arrangements in place which ensure that they participate in relevant claims.

Policy Development

Impact Reporting

Over the quarter work continued with Minerva to put the groundwork in place for the Authority's first impact report. This has involved data gathering from fund managers, particularly across the alternatives portfolio. It had been intended to complete the report in June alongside the annual report, however, it is clear that it will take somewhat longer to get the required information from a sufficient proportion of the alternatives managers. It will be possible to include some highlights in the annual report but it makes sense to delay publication of the full impact report. This does not impact the statutory reporting processes, but it will put a delay in to our ability to assess the required "distance to travel" in terms of net zero.

Place Based Impact Investing

The Director has contributed to research sponsored by the Impact Investing Institute on Place Based Impact Investing. This work will be published in a "White Paper" on 26th May and the Authority is quoted as a case study. A copy of the report has been placed in the on line reading room or is available through the Impact Investing Institute website.

DWP Consultation on Social Impact

The DWP has launched a consultation aimed at private sector pension funds on the consideration of social impact. This follows on from the recent consultation on the recognition of climate risk by private sector funds. While an interesting development this does not seem to raise any specific issues for action by the Authority.

Introduction of TCFD Reporting to the Local Government Pension Scheme

MHCLG have indicated an intention to consult on regulations which will require LGPS funds to report in line with the requirements of the Task Force on Climate Related Financial Disclosure (TCFD). SYPA has done this for a number of years and the work that is being undertaken with Minerva is intended to improve the level of disclosure we can provide. It is likely that we will need to commission external resources to undertake further scenario analysis to address gaps in what we are currently able to produce, however, this is more a consequence of SYPA improving its reporting as part of our pursuit of net zero than a consequence of the new regulations.

Improvements to the Responsible Investment Approach for the Commercial Property Portfolio

Discussions have been held with ASI the Authority's commercial property manager to secure improvements in the reporting of ESG metrics in relation to the property portfolio. Previously the ability to report on these metrics was limited by the arrangements with the managing agent. These have been addressed in the new contract, which is now operational, although it will take some time to complete the initial data gathering. This work is intended to support an improvement in the portfolio's score on GRESB (the Global Real Estate Sustainability Benchmark), although because of the timescales for data gathering it is expected that the full impact of the work will only come through in the 2022 exercise.

National Framework for Stewardship Services

The current national LGPS procurement framework for stewardship services which covers voting and engagement services as well as projects such as the Impact Reporting project being carried out by Minerva, which was procured under the current framework, is due for renewal. The Director has agreed that the Authority should act as a founder for the new framework and is participating in the steering group which is overseeing the procurement process.