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SOUTH YORKSHIRE PENSIONS AUTHORITY

12 SEPTEMBER 2024

PRESENT: Councillor Jayne Dunn (Chair)

Councillors: John Mounsey, James Church, Roy Bowser, Alexi Dimond, David Fisher, David Nevett, Andrew Sangar, Craig Gamble Pugh and Neil Wright

Trade Unions: Nicola Doolan-Hamer (Unison), Garry Warwick (GMB) and Phil Boyes (UNITE)

Officers: George Graham (Director), Debbie Sharp (Assistant Director - Pensions), Jo Stone (Head of Governance and Corporate Services), Sharon Smith (Assistant Director - Investments), Gillian Taberner (Assistant Director - Resources), WIlliam Goddard (Head of Finance and Performance), Euan Hill (Service Manager – Programmes and Performance) and Gina Mulderrig (Governance Officer)

Rachel Elwell and Sharmila Sikdar (Border to Coast Pensions Partnership Ltd)

Local Pension Board Members: Martin Badger and David Webster

Apologies for absence were received from Councillor Donna Sutton and Councillor Simon Clement-Jones

1 APOLOGIES

The Chair welcomed everyone to the meeting.

Applogies were noted as above.

2 ANNOUNCEMENTS

The Director announced the Government Pensions Review Call for Evidence which invited input, data and information from interested parties to inform the first phase of the Pensions Investment Review. It was explained that colleagues across the Border to Coast Partnership were working on a core response to allow each partner fund to submit its own response with its own emphasis while maintaining a common core message. The deadline for submissions was 25 September 2024 and the Director explained that the response from South Yorkshire Pensions Authority would be circulated to Section 41 members ahead of submission and then shared with all members when submitted.

The response can be viewed here: [News & information (sypensions.org.uk)]

3 URGENT ITEMS

None.

4 ITEMS TO BE CONSIDERED IN THE ABSENCE OF THE PUBLIC AND PRESS

RESOLVED: Item 17 was considered in the absence of Public and Press by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

5 DECLARATIONS OF INTEREST

None.

6 SECTION 41 FEEDBACK FROM DISTRICT COUNCILS

None.

7 MINUTES OF THE MEETING HELD ON 06.06.2024

RESOLVED: That the minutes as presented for the Authority Meeting held on 6th June 2024 are a true and accurate record.

8 QUESTIONS FROM THE PUBLIC

Questions were received from Ruth Hobson, Sue Owen, Mohammed Yaqoob Ashraf, Wendy Cooksey, Caroline Poland and Finn Cross. The Director replied on behalf of the Authority.

Written copies of the questions and responses were given to the questioners.

The written replies are attached as appendices to these minutes.

9 QUARTER 1 CORPORATE PERFORMANCE REPORT 2024/25

The Assistant Director – Resources presented the Q1 Corporate Performance Report which gave a summary view of overall performance of the Authority against its objectives, information on progress against the corporate strategy, key performance measures, financial monitoring, and an assessment of the risks to the delivery of the Corporate Strategy.

The Head of Finance and Performance highlighted the key issues regarding the budget at the end of Quarter 1 drawing attention to the overall underspend of £88k and breaking down how this had been achieved. It was explained that this trend of underspending was expected to continue into the next quarter allowing reserves to build for future capital projects subject to any unexpected expenditure.

Members asked for further information on the risk identified on the dependency on the software provider to deliver system upgrades to enable the team to implement the McCloud Remedy.

The Assistant Director – Pensions explained that delays to the provision of the software needed posed a significant reputational risk. It was explained that the software was critical to clearing the backlog of work and, that although all cases would be dealt with, delay put the Authority at risk of not being able to rectify cases in line

with statutory time expectations. The Assistant Director – Pensions explained that SYPA was not the only authority dependent on the software and that pressure was being put on the software company, Civica, to avoid further delay in provision.
Members queried the Authority's Investment Strategy to progress the Authority's Net Zero Ambition noting that the report stated that achieving the overall goal was unlikely. It was asked whether, given the 156% funding level, now could be the time to look at this particular strategy to achieve the net zero goal including divesting from companies involved with fossil fuel and whether the 'stable' status of the strategy on the Strategic Risk Register in the report was appropriate or should be increasing and whether stranded assets should be on the register.

The Director responded that it was the highest rated risk on the Strategic Risk Register and that the score is based on reports from the actuaries and the broader impacts to the Authority's assets and liabilities and, as part of corporate planning, there will be in depth risk assessment to reassess scores on the register. The Director explained that risks regarding stranded assets were contained within the broader climate change risk and fed into the investment decision making process by managers in individual funds.

Members questioned the status of the 'Maintain the Authority's cyber defences' project when cyber security remained an ongoing and serious risk.

The Assistant Director – Resources explained that the status the project had was of being 'on track for timescale' rather than being completed. It was explained that this meant the Authority was keeping up to date with testing, accreditation, monitoring and training but that the Authority was aware that cyber security is a significant and ongoing risk and were keeping the protection level as high as possible.

RESOLVED: Members noted the report.

10 <u>PERFORMANCE MANAGEMENT FRAMEWORK</u>

The Service Manager – Programmes and Performance introduced himself and the purpose and aims of his role then presented the report to secure approval of the Authority's Performance Management Framework which will support the next iteration of the Corporate Strategy.

Members praised the scope of the report and asked how they would be kept up to date with updates or changes to the framework.

The Service Manager – Programmes and Performance explained that they were using Power BI software to produce dashboards for internal use at first but with the ambition they be accessible to members in the future to allow them to be able to view updates and insights.

RESOLVED: Members approved the Performance Management Framework set out in Appendix A

11 <u>QUARTER 1 INVESTMENT PERFORMANCE REPORT 2024/25</u>

The Assistant Director – Investment Strategy presented the Q1 Investment Performance Report for members to consider.

Members reflected on the Renewable Energy and Climate Opportunities funds and asked when they were expected to show more positive performance and why Renewable Energy showed a net reduction.

The Assistant Director – Investment Strategy explained that as both were relatively new investments, current performance as set out in the report was expected due to fees requiring payment on the whole committed investment but that as the investment period progressed, the performance was expected to improve within 2 to 5 years. It was explained that the net reduction in the Renewable Energy fund was due to old investments maturing and that new investment was being made but not yet showing on the report.

Members questioned again whether, given the high level of the fund, it was now the time to look at addressing climate risk in portfolios in different ways to achieve the net zero goal.

The Director explained that the Authority was obliged to pool investments so would need the cooperation of Border to Coast Pensions Partnership. It was explained that should the funding level remain high once a valuation of the Fund is complete, then it could be expected to look at taking less risk, however, as the Fund continues to need to provide benefits for current and future members as an open scheme, continued growth is required from investment to meet demand meaning scope for taking less risk was limited.

The Chief Executive Officer of Border to Coast Pensions Partnership added that there was more to mitigating climate risk than the carbon footprint of hard-to-abate industries. It was explained that the increased use of Scope 3 as a metric to measure indirect emissions would change understanding of how society can use less energy rather than focussing on direct emissions. It was expressed that it was a very complex situation and that any changes needed to be made in a safe and informed way.

The Assistant Director – Investment Strategy explained that the expectation was that interest rates would fall and this would lower the funding level so a long term strategy was appropriate. It was stated that investment was moving to avoid having stranded assets and to invest in new technology particularly with the Border to Coast Climate Opportunities fund but this was a long term and complex strategy.

Members recognised the complexities of the issue but asked for clarification on the potential impact of continuing to invest in hard to abate industries and whether there was any modelling on the potential impact of removing investment.

The Chief Executive Officer of Border to Coast Pensions Partnership explained that there had been extensive modelling on the impact of divestment versus engagement and that the results were complex and nuanced. It was explained that some companies were rejected due to Responsible Investment policy but the whole sector could not be excluded completely and that engagement causing change from within could be more effective that divestment. Members were referred to the Border to Coast Report: Assessing the Real Impact of Fossil Fuel Divestment

Members asked whether responsible investment policies could skew investment away from UK equities to international investment given that UK has a proportionally high number of hard to abate industry and asked how SYPA would focus on local climate related investing within the UK to improve and enhance greener living in South Yorkshire.

The Chief Executive Officer of Border to Coast Pensions Partnership explained that it was important for UK companies to gain capital to enable them to remain listed in the UK and that there was policy encouraging this which should see results in the near future. It was stated that the UK needs this better growth strategy to encourage investment for long term improvement and better returns. The Assistant Director – Investment Strategy explained that investment was currently done at a nationwide level but that management to look at new economy sectors and climate opportunities local to the region was being developed but there would always remain the need to achieve the required returns. The Chief Executive Officer of Border to Coast Pensions Partnership added that if local investment opportunities that met criteria were there, they would be utilised but that investment managers who can recognise these opportunities needed to be in place and there needed to be collective focus on improving UK opportunities to allow safe investment with the required returns. It was stated it could take up to ten years of focus on improving UK opportunities before returns would be seen.

Members asked for a time frame of when the Private Equity current asset allocation was expected to return to an agreed range. The Assistant Director – Investments estimated that it would take 2 to 3 years to return to range as many of the related funds were in their final years of investment.

RESOLVED: Members noted the report.

12 QUARTER 1 RESPONSIBLE INVESTMENT UPDATE 2024/25

The Director presented the Q1 Responsible Investment Update for members to consider drawing attention to the highlights and recommendations at the start of the report.

Members stated that they had been informed it was not possible for the Authority to be an ethical investor but that it did have a Responsible Investment Policy and it was queried whether this was a legal definition.

The Director explained that it was a judgement and legal opinion on fiduciary duty of the LGPS as advised by the Scheme Advisory Board and circulated the following links to members following the meeting:

Duties of Administering Authorities Under the Local Government Pension Scheme
Summary of legal opinions and judgements on the role of non-financial considerations in investment decision making

Members queried whether the Authority was subject to international law in relation to investments made. The Director explained that SYPA was subject to UK law under the UK Government.

Referencing Climate Action 100+ and the legal action ongoing in the US as detailed in the report, members asked whether this activity was a risk to UK investors. The Director stated that there was a possibility activity of Climate Action 100+ could be curtailed in the US but was unlikely to be abandoned due to its scale and momentum. SYPA and Border to Coast Pensions Partnership will continue to support Climate Action 100+ as a valuable means of aggregating the impact of investors on companies.

Members asked for clarification on the position of Rio Tinto and their engagement with Robeco over mitigation of their footprint and emissions and asked whether the engagement was effective. The Director and the Chief Executive Officer of Border to Coast Pensions Partnership explained that Rio Tinto had made progress by committing to providing important details on plans to reduce emissions but that the report noted that Robeco required Rio Tinto to disclose further information to allow them to assess efforts being made. Rio Tinto had subsequently made further pledges with Robeco welcoming this positive engagement outcome. The Chief Executive Officer of Border to Coast Pensions Partnership detailed the value of this adaptable approach to engagement and explained that Robeco had extensive experience with engagement including knowing the point at which to stop if it was not working.

Members asked what percentage of organisations beyond UK equities provided the clear figures needed on emissions to enable responsible investment. The Director and the Chief Executive Officer of Border to Coast Pensions Partnership explained that there was not always adequate information but that the industry was improving over time with the Data Convergence Programme and it was important to focus on the organisations that do provide the information and give required returns. The Director recommended the below article on this issue:

Long read: How carbon counting could hamper LGPS's climate goals | Local Government Chronicle (LGC)

RESOLVED: Members noted the report.

13 UPDATE ON PENSIONS IMPROVEMENT PLAN

The Assistant Director – Pensions presented the report to update the Authority on the Pensions Administration Improvement Plan.

Members asked if peer organisations within the LGPS were also facing challenges relating to the ability of the software supplier to deliver the updates required to give effect to the McCloud rectification in line with the relevant regulatory timescales.

The Assistant Director – Pensions explained that while some used different software or had 'cleaner' data to start with enabling a faster turnaround, many funds were in the same situation as SYPA regarding the software delay.

It was asked whether there would be any penalty if SYPA were unable to deliver McCloud rectification in line with the relevant regulatory timescales.

The Assistant Director – Pensions stated that should it seem SYPA will be unable to meet the statutory guidance deadline for implementation of 1 August 2025 then The Pensions Regulator would look at actions taken so far and recognise that the delay was not the fault of the Authority. It was explained that there are currently no in house resources to begin the implementation; the Authority is dependent on the software supplier and constant effort is being made to push the supplier for progress.

Members queried when it was expected that SYPA would successfully link to the Pensions Dashboards.

The Assistant Director – Pensions explained that October 2025 was the aim for the dashboards to connect but that this date depended on the progress of the infrastructure provided by the Government and the performance of the contractors and suppliers selected by SYPA to prepare. It was explained that connection to the dashboards would not make them live for use by scheme members; this would take longer but members of the Authority would be kept updated with the progress of the dashboard project.

Resolved: Members

a) **Noted and commented on the 2024/2025 plans for Administration improvement that are in place.**
b) **Agreed to add a new risk related to the McCloud project to the Corporate Risk Register.**

14 <u>GOVERNANCE, REGULATORY AND POLICY UPDATE</u>

The Head of Governance and Corporate Services presented the report to provide Authority members with an update on current governance related activity and regulatory matters.

RESOLVED: Members noted the report.

15 <u>UPDATE TO CONTRACT STANDING ORDERS - PROCUREMENT ACT 2023</u>

The Assistant Director – Resources presented the report to obtain Authority approval for amendments to the Contract Standing Orders (Part 4d to the Constitution) as required for compliance with the provisions of the Procurement Act 2023 which come into force on 28 October 2024.

RESOVLED: Members approved the amended Part 4d to the Constitution – Contract Standing Orders to take effect from 28 October 2024.

16 <u>DECISIONS TAKEN BETWEEN MEETINGS</u>

The Head of Governance and Corporate Resources presented the report on decisions taken as a matter of urgency between meetings of the Authority.

RESOLVED: Members noted the decisions taken between meetings of the Authority using the appropriate urgency procedures.

Exclusion of the Public and Press RESOLVED – That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the

following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act and the public interest not to disclose information outweighs the public interest in disclosing it.

17 BORDER TO COAST ANNUAL REVIEW 2023/24

The report was presented to secure approval for the conclusions and recommendations of the Annual Review of the Border to Coast Pensions Partnership conducted by the Investment Advisory Panel and set out at Appendix A.

Members asked about the recruitment of new independent investment advisers given the vacancies noted in the report. The Director explained that one vacancy had been filled already with Authority approval and that recruitment was underway for one further independent adviser who will work alongside the Authority and the Investment Advisory Panel and closely with the Border to Coast Joint Committee to provide independent advice. It was explained that close collaboration between the Authority and the Border to Coast Pensions Partnership was encouraged and members were advised to attend the Border to Coast Pensions Partnership Annual Conference in 2025 to foster the relationship.

Members requested officers look closely at succession planning and how Authority membership changes caused by elections and rotations affected SYPA's representation on the Joint Committee.

Members asked for clarification regarding benchmarks as opposed to performance targets and the Director explained that more appropriate benchmarks as detailed in the report would enable peer group comparisons to measure whether the Authority is gaining value for money from the Border to Coast Pensions Partnership.

Members asked for more detail around the Responsible Investment findings and the Director explained that this area represents a positive in the report but that further work and analysis is ongoing and will by shared with members when possible.

RESOLVED: Members:

a) **Noted the conclusions of the Annual Review of the Border to Coast Pensions Partnership set out in Appendix A.**
b) **Endorsed the recommendations for action set out in Appendix A.**

CHAIR

SOUTH YORKSHIRE PENSIONS AUTHORITY

Public Questions for the Authority Meeting 12th September 2024

Question 1 – Ms. R Hobson

In light of the July 2024 ruling by the International Court of Justice that Israel must end its illegal occupation of the Palestinian territory (Gaza and the West Bank, including East Jerusalem) as rapidly as possible, and that all states are under an obligation not to render aid or assistance towards maintaining Israel's presence in the occupied Palestinian territory, should the South Yorkshire Pension Authority now withdraw its estimated £200 million investment from companies helping to sustain the illegal occupation, such as: Barclays which invests over £2 billion in companies supplying arms to Israel and provides financial services worth over £6 billion to these companies; HSBC which has huge investments in Caterpillar, whose bulldozers destroy Palestinian homes to make way for illegal settlements; and Sony which provides surveillance cameras used by the Israelis to police the illegally occupied territories?

Response

The Authority's responsibility is to ensure that funds are available to pay scheme members' pensions when they fall due. Under UK (United Kingdom) law we can take non-financial factors into account in investment decision making. However, there are clear limits to this.

The most significant limitation which applies in this case is financial materiality. In other words, is the issue financially material in the context of the investment being considered? In the case of the three companies quoted in the question their financial exposure to Israel and the Palestinian territories is not financially material. Therefore, whole SYPA (South Yorkshire Pensions Authority) through those who manage money on its behalf will always seek to ensure that companies are meeting their obligations under the UN Global compact, it will consider whether issues should be escalated based on whether they represent a material risk to shareholder value.

It should also be pointed out that SYPA is not able to unilaterally exclude companies from the investment universe of a fund, as changes would need to be agreed by the Fund Manager and all investors.

Question 2 – Ms. S Owen

The Israeli economy is said to be experiencing an economic doom loop because of the continuing war on Gaza.

A July 2024 report by an Israeli credit risk management firm (CofaceBDi), quoted in the Israeli newspaper *Maariv,* claims that 46,000 businesses have gone bankrupt, a figure likely to rise to 60,000 by the end of 2024.

In the final months of 2023, the Israeli economy contracted by nearly 20%. Israel's credit rating has been cut and foreign investment has dropped precipitously, for example AXA has divested from all major Israeli banks.

Tourism has virtually stalled. The agricultural sector has been hit hard, with both the north and the south of the country now being active combat zones.

There are labour shortages in the tech sector because of workers serving in the army, and in the construction sector because of the exclusion of Palestinian workers.

The actions of the Yemeni Houthis in the Red Sea have meant that the revenue of major Israeli ports has dropped considerably, with the port of Eilat declaring bankruptcy.

According to a piece by Dr Shir Hever in *Mondoweiss*, power shortages are causing international tech companies to close branches in Israel.

Israelis are moving their investments abroad because they are worried about their pensions and insurance funds being tied to the performance of the Israeli economy. A number of international pension funds have removed their investment in Israel due to concerns about human rights; Pension Denmark has withdrawn all of its investments from Israeli banks and Norway's sovereign wealth fund has completely divested from Israeli bonds.

Does it make financial sense to invest substantial amounts of members' contributions in companies operating in Israel and the illegal settlements, given the current economic climate and the clear risk it presents, and can SYPA confirm that they are complying fully with their fiduciary duty to act in the best interest of scheme members in this regard? The same questions need to be asked of Border to Coast, so will you be taking these important issues of concern to the next Border to Coast meeting for discussion?

Response

As noted in the response to the previous question for large multi-national companies' revenue from operation in the Palestinian territories is likely to be marginal and therefore such companies are likely to remain a reasonable investment from a financial point of view.

The Authority's fiduciary duty is to act in the best interests of the Pension Fund beneficiaries. Best interests are usually defined in financial terms, although there are, as indicated in the previous answer, circumstances in which non-financial factors can be considered in decision making. The Authority is content that it is meeting these requirements and can demonstrate it is doing so through the fact that long-term investment returns have exceeded the actuarial target.

The Authority consistently raises issues concerned with responsible investment with Border to Coast and in meetings with the other partner funds. We have continued to seek to give greater prominence to compliance wiht the UN Global Compact within the Responsible Investment policy, but this is a matter where agreement across the Partnership is required

Question 3 – Mr. Mohammed Yaqoob Ashraf

From my observations at my last visit the current investment strategy is unfortunate. I hope you can for the sake of your scheme members learn from the previous financial crisises and start investing in more law abiding, sustainable and green companies.
For example there is a dire need for housing and investment in local industries.

At the last meeting that I attended a short young, wisp of a lady was goose-stepped out of the building until I had to point out to the monitoring officer she was going the wrong way. [1]

Anyway, this lady had tried to the best of her abilities to follow your rules and procedures.
She had filled in your online enquiry form without receiving a reply, was ignored when she tried to ring on your phone line and when she supplied her email address for details on how to ask questions she received nothing.[2] [3]

Are these the actions of an open and accountable democratic institution?

I was told at the last meeting a series of rules needed to be followed. [4]
To give the analogie of a race, while some people are trying to run their best others simply draw the finishing line behind themselves and expect everyone else to abide by that outcome.
That is dishonourable behaviour and is simply not cricket.

Ladies and gentlemen whether I am here amongst yourselves or opposite the edl supporters that were about to batter the police, continosly riot for hours on end, and try to burn down a building full of people. [5][6]
I only expect equality before the law and equal law for all.
Nothing more, nothing less.

Those of you who are politicians I think will understand the political and media implications of what I am about to say better than most.

Investing in a state that has numerous financial and arms links with multiple terrorist groups proscribed by the UK government should not be morally conscienable. [7] [8] [9] [10] [11] [12]
The personal and business legal implications are not to be sniffed at either. [13][14]

isis that was found guilty of the Manchester Arena bombing is not an organisation that you would want to be associated with even if there is only a couple of degrees of separation. [15]

As I have on the 29th of August provided SYPA clear and fair notice.
What concrete actions have been taken that show SYPA as behaving with integrity, demonstrating a strong commitment to ethical values, and respecting the rule of law?
And could you provide a copy of your legal advice following my detailed revelations please?

As you all know. Your fiduciary responsibilities should have been enacted with due diligence before making such investments.

I have faced more due diligence from someone selling me chickens for the allotment than SYPA, that handles a multi-billion pound fund, appears to have undertaken while investing in a nation that the leaders of which the International Criminal Court Prosecuter has war crimes and crimes against humanity arrest warrants for. [16]

And the International Court of Justice has, ruled that the israeli occupation of Gaza, West Bank and East Jerusalem and all settlements, is entirely unlawful and declares israel is commiting racial segregation and Apartheid in the Occupied Palestinian Terrotries.
And it rules that israel must evacuate all settlers, dismantle settlements and the wall, provide full reparations to the Palestinian victims, and allow all Palestinians that were ethnically cleansed to return. [17]

Could SYPA provide details on what has been done over the previous 11 months especially following the ICC and ICJ actions and rulings?

Ladies and gentlemen the information I have provided is sourced, evidenced and referenced in detail via the United Nations, International Criminal Court, International Court of Justice, and in conjuction with multiple israeli and other media sources.

As self-serving and myopic as the israeli media is, in conjuction with the Secretary Generals UNDOF report to the UN Security Council it is unbelievably damming. [7]

Even in peacetime israel has a military censor regime that has to preapprove before allowing publication. Thereby even the israeli military admits to the veracity of the facts I have highlighted to yourselves. [18] [19] [20]

Ladies and gentlemen they are so open about such heinous terrorist associations because they expect craven acquiescence.
Please do not continue to acquiesce to such vile, odious and extremely repugnant associations.

Ladies and gentlemen I have barely scratched the surface and could bring further honest questions.

Instead could you provide a timeline of when you will be expediting SYPA's divestment from all primary, secondary and all other investments from isis funding israel and company's that further aid and abet the Occupation, Apartheid, Ethnic Cleansings and multiple Genocides?

Ladies and gentlemen.
It is the decent thing to do.
It is the human thing to do.
Please do so.
Thank you.

References

1. 6th of June SYPA, Oakwell House, 2 Beevor Ct, Pontefract Rd, Barnsley S71 1HG
2. https://www.sypensions.org.uk/Contact/General-Enquiry
3. 6th of June SYPA, Oakwell House, 2 Beevor Ct, Pontefract Rd, Barnsley S71 1HG
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5. 4th August Holiday Inn Express Rotherham - North. Express Park, Manvers Way, Wath upon Dearne, Rotherham S63 7EQ
6. https://www.bbc.co.uk/news/articles/c4gv2v1g006o
7. https://reliefweb.int/report/syrian-arab-republic/report-secretary-general-united-nations-disengagement-observer-force-3 79.71kb Pdf
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20. https://www.indexoncensorship.org/2024/05/israeli-military-censor-bans-highest-number-of-articles-in-over-a-decade/

Response

There are several questions set out here, but in essence the question asks the Authority to divest all holdings in Israeli companies and companies which operate in Israel and the Palestinian territories.

The Authority's investments are made in funds and the Authority cannot unilaterally change the investment mandate for such funds. To do so would require the agreement of the other 10 Border to Coast partners, the operating company, and in some cases external fund managers.

In addition, the Authority's fiduciary duty is to act in the best interests of scheme members, which is primarily defined in financial terms. Disinvesting from large multi-national companies with marginal exposure to Israel which provide strong capital growth and dividend flows is unlikely to be seen as acting in line with scheme members best interests.

Question 4 – Ms. W Cooksey

Following the January 2024 ICJ ruling that there is plausible evidence that Israel is committing genocidal acts against the Palestinian people in Gaza, UN experts have warned that investors who fail to end their financial ties to arms companies supplying Israel "could move from being directly linked to human rights abuses to contributing to them, with repercussions for complicity in potential atrocity crimes." (UN Human Rights Office of the High Commissioner Press Release 20/6/24). It must surely be possible to find alternative investment opportunities that do not breach international law without damaging the health of the fund. Can the SYPA, and by extension Border to Coast, in respect of its pooled funds, reassure scheme members that the SYPA will not risk becoming complicit in breaches of international law in their investment strategies?

Response

Companies which supply arms to states other than their home country do so in line with licensing regimes put in place by the relevant government. Such companies would therefore argue that they were acting legally in selling arms to a specific country. Investors invest in such companies on the basis that their governance arrangements ensure that they are complying with relevant laws. The argument put forward in the question is a new one which would tend towards advocating that the Fund exclude arms companies from the investment universe. This is problematic as in many cases arms companies are involved in the production of other things such as commercial aircraft or civilian satellites which would be seen as good investments.

The case implicit in the question is an ethical one. However, the Authority is not, nor can it be an ethical investor. Ethical investment flows from faith and a set of ethical beliefs although it is possible for individuals and institutions such as the Church of England to reflect such beliefs in the way in which they invest. The Authority seeks to be a responsible investor which means that we take non-financial issues into account in investment decisions to the extent that they might materially impact on the financial returns that the Fund can achieve.

As indicated in the responses to other questions we raise these issues with our partners and Border to Coast on a regular basis and seek to ensure that the Responsible Investment policy framework continues to evolve.

Question 5 Ms. C Poland

Norway's largest pension fund, KLP, is divesting from 16 companies involved with illegal settlements in the West Bank because of the "unacceptable risks that the companies are contributing to the abuse of human rights …through their links with the settlements". The Universities Superannuation Scheme has just announced it will sell £80 million of Israeli assets in response to the "financial risks that have become apparent". Islington Council is severing its ties with Barclays, after it failed to provide a satisfactory answer about its "complicity in human rights abuses in the Occupied Palestinian Territory". Waltham Forest Council has recently announced that it is divesting its pension fund from companies exporting arms to Israel after reviewing the ethical terms of its investment strategy. Kings College London is halting its investments in arms companies supplying Israel. AXA is selling its investments in major Israeli banks and the Israeli arms company, Elbit Systems.

In light of these developments, should the SYPA, and by extension Border to Coast in respect of its pooled funds, now urgently re-assess their substantial investment in companies helping to sustain Israel's illegal occupation?

Response

As indicated in the response to previous questions at this meeting those managing money need to consider whether non-financial risks such as those described in the question are financially material in the context of the company being considered. This is a judgement that is made in isolation from ethical or political considerations. Different fund managers will come to different conclusions on this issue. It is also the case that, as with investment in other types of company such as oil and gas companies, simply selling shares in a company will have no impact on the matters of concern. It is simply the case that an investor less concerned than SYPA or Border to Coast about these issues will buy the shares.

As indicated in answer to a previous question disinvesting from large multi-national companies with marginal exposure to Israel which provide strong capital growth and dividend flows is unlikely to be seen as acting in line with scheme members best interests.

Question 6 Mr. F Cross

On page 19 of the Responsible Investment Update for Quarter 4 2023/24, you state that the only fund that is below the interim targets to meet net zero by 2030 is the 'Investment Grade Credit Fund', with all other funds needing to reduce their emissions more rapidly to meet the 2030 target.

What actions are you going to take to ensure the reduction of financed emissions are at a pace necessary to meet the target of net zero 2030?

Response

The Authority continues to work within the Border to Coast partnership to develop policy to focus more on the delivery of effective and more rapid decarbonisation by investee companies. In addition, as also reflected in the Responsible Investment Update the tightening of policy already agreed has resulted in an increased volume of votes against management and pressure on companies.

It is also important to realise that it is unlikely that each of the individual funds will reach a zero emissions position, and the overall goal is for all the fund's investments to achieve Net Zero. This implies that some investments, such as those in natural capital, will in time generate negative emissions, negating the impact of the remaining positive emissions.