SOUTH YORKSHIRE PENSIONS AUTHORITY

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| **Subject** | **Annual Review and Update of the Border to Coast Responsible Investment Policies** | **Status** | For Publication |
| **Report to** | Authority | **Date** | 9th December 2021 |
| **Report of** | Director | | |
| **Equality Impact Assessment** | Not Required | Attached | No |
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## 1 Purpose of the Report

1.1 To secure the Authority's endorsement for the various Border to Coast Responsible Investment policies following their annual review.

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## 2 Recommendations

2.1 Members are recommended to:

a. **Endorse the various Border to Coast policies at Appendices A to C**

b. **Welcome the company's adoption of a climate change policy and its adoption of a Net Zero commitment.**

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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.

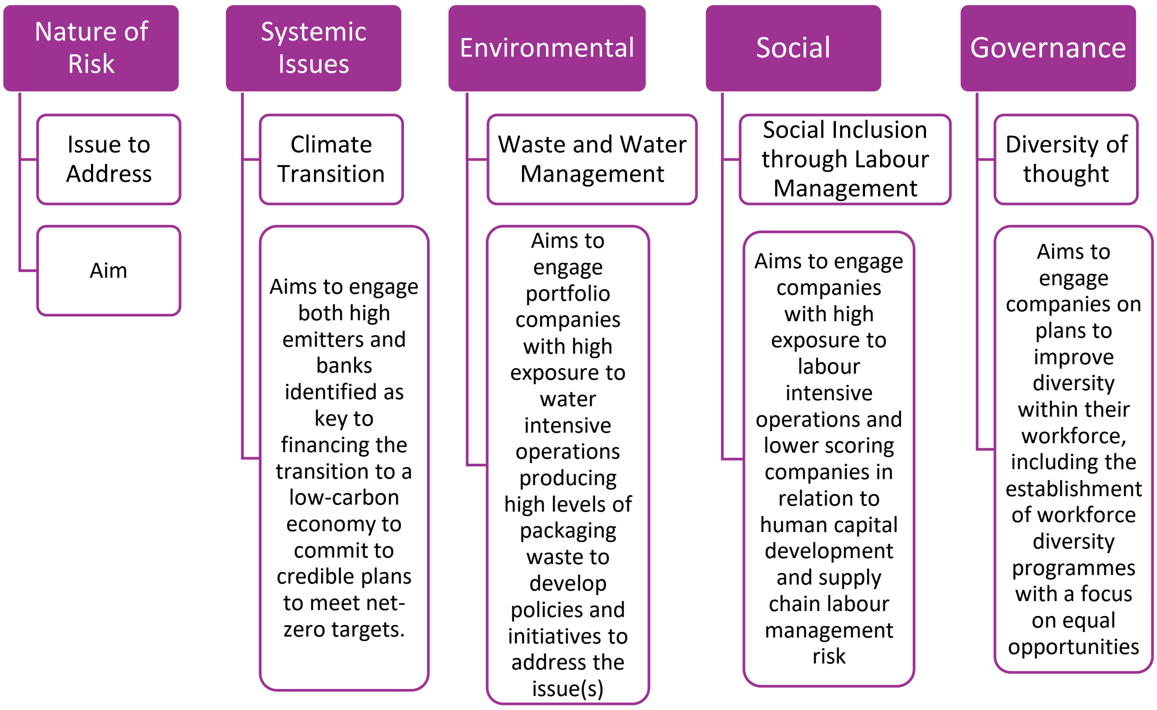
## 4 Implications for the Corporate Risk Register

4.1 The actions outlined in this report will directly impact on the Authority's ability to achieve the necessary mitigations of the identified corporate risk relating to the impact of climate change on the value of investment assets, as well as the more general investment related risks that are mitigated by ensuring that effective stewardship arrangements are in place.

## 5 Background and Options

5.1 Each year Border to Coast conducts a review of its Responsible Investment Policy and Voting Guidelines so that they can be updated for the following voting season. In addition, this year responding to work undertaken with partner funds and overall developments in the industry the Company has also developed a stand-alone climate change policy. It is important to recognise that these are all collective documents which represent the company's position based on the consensus position of the partner funds. As such there is, inevitably, a degree of compromise in relation to the positions of the individual partner funds. The documents themselves are attached as Appendices A to C.

5.2 The Responsible Investment Policy has been updated to reflect the creation of the separate climate change policy and includes two specific exclusions from the investment universe, i.e. types of company that will not be invested in because the nature of the business presents significant negative risks for shareholders. The specific exclusions are pure coal and tar sands companies (that is companies generating substantially all of their revenues from these sources). These specific exclusions are very common across the industry and will not result in any specific sales of stocks in the current equity portfolios as the relevant managers have been operating them in practice anyway for the good investment reasons that these factors negatively impact potential shareholder returns. In all other respects the thrust of the policy remains as before, and as has long been the case for SYPA, a focus on engaging with and addressing issues with individual companies rather than acting in relation to whole classes of company. The policy does also now make clearer the process to be followed where a process of engagement has not achieved its aims. The policy also identifies, following discussion with Partner Funds, the focus areas for engagement over the next three years as shown below



5.3 Two of the four themes identified directly reflect priorities identified within the Authority's Responsible Investment Beliefs Statement, while the climate theme also relates to the priority around affordable and clean energy. The other two themes reflect on the behaviours identified within the Beliefs Statement which characterise well governed assets. Thus, there is a very significant degree of alignment between the priorities identified by Border to Coast following discussion and engagement with Partner Funds and the Authority's Beliefs Statement. Border to Coast will be providing briefing materials for members on the reasons why each of these issues is an important target for engagement.

5.4 The main changes to the Voting Guidelines are:

- A strengthening of the position in relation to Board Diversity with a commitment to vote against the Chairs of FTSE 100 nomination committees where the Board does not include at least one person from an ethnic minority background. This mirrors a similar ratcheting up approach previously taken in relation to gender diversity.
- A clearer position on the alignment of executive pension arrangements with those of the majority of the workforce.
- A clearer expectation that companies should ensure that any trade associations to which they belong should be putting forward positions on climate change aligned with those of the company.
- Further definition of the position in relation to the criteria for voting against the Chair where the company's progress in relation to the climate transition is deemed insufficient.

5.4 These are all changes which would support the Authority's general position and reflect an ongoing ratcheting up of expectations with clear consequences in terms of the way in which votes are cast. This is an approach which is consistent with the long-standing approach that the Authority has taken and it would therefore be appropriate for the Authority to endorse these guidelines.

5.5 The Climate Change policy is an entirely new policy and has been developed through a process which has examined wider international best practice and is utilising similar tools to those adopted by SYPA such as the IIGCC framework in order to create an action plan and measure progress. The key statement within the policy is a commitment to Net Zero by 2050 or sooner. While it might be regarded as disappointing that SYPA has not been able to persuade others of the merits of a target more in line with its own 2030 goal the achievement of a consensus around a target of any sort, given the varied starting points of partners, is, in itself, a significant achievement. As has previously been explained the Authority does retain a number of asset allocation levers which could make the earlier goal achievable regardless of the wider partnership, and movement by the wider partnership towards Net Zero (even if on a slower trajectory) will still assist the Authority in achieving its goal.

## 6 <u>Implications</u>

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

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| Financial | None directly |
| Human Resources | None |
| ICT | None |
| Legal | The policies properly address the wider range of risks which can impact shareholder value while ensuring that decisions are made on appropriate investment grounds. |
| Procurement | None |

**George Graham**

**Director**

| **Background Papers** | |
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| **Document** | **Place of Inspection** |
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