

Subject	SYPA Responsible Investment Policies – Annual Review	Status	For Publication
Report to	Authority	Date	17 th March 2022
Report of	Director and Head of Investment Strategy		
Equality Impact Assessment	Not Required	Attached	No
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1 Purpose of the Report

- 1.1 To present to members for approval the annual review of the Authority's own policies in relation to responsible investment.

2 Recommendations

- 2.1 Members are recommended to:
- a. **Approve the following updated policy documents:**
 - i. **The Authority's Responsible Investment Policy (Appendix A)**
 - ii. **The Authority's Climate Change Policy (Appendix B)**

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.

While much operational responsibility in relation to Responsible Investment is now exercised by Border to Coast on the Authority's behalf in line with policies agreed collectively by the 11 Partner Funds the Authority remains responsible for the overall policy framework in this important area, as well as remaining responsible for RI activity in relation to investments which have yet to be pooled. It is important that this policy framework is kept up to date and sets a clear direction for officers in their work to influence the development of Border to Coast's collective framework.

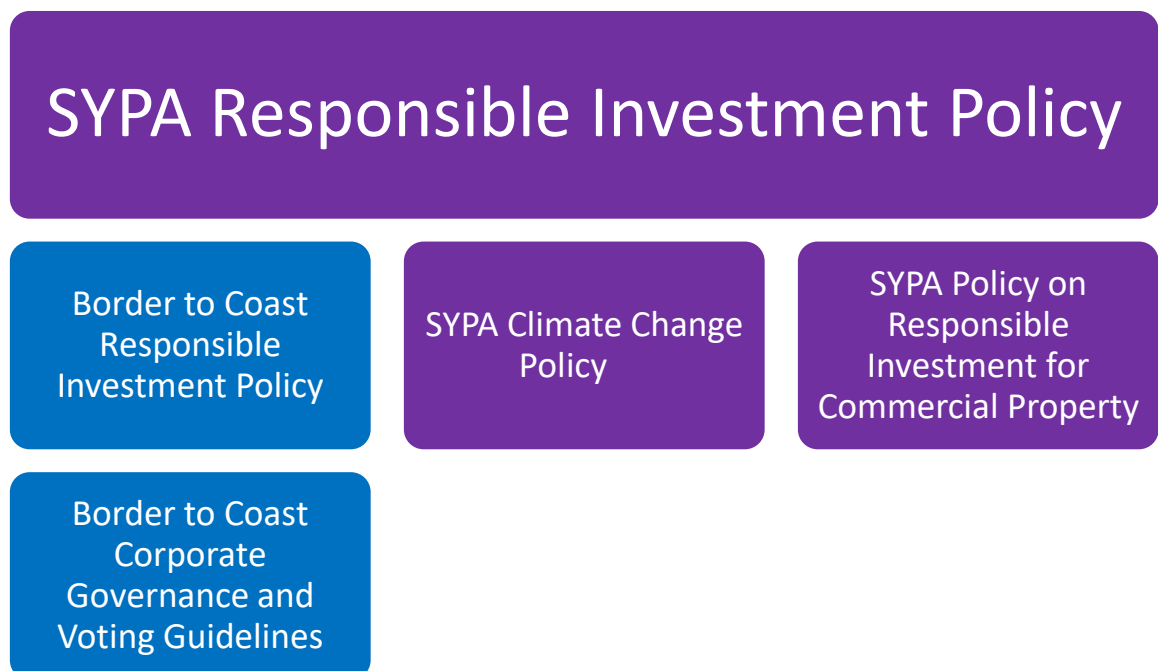
4 Implications for the Corporate Risk Register

- 4.1 Maintaining an up to date policy framework in relation to Responsible Investment which sits above the collective framework agreed through Border to Coast ensures that the

Authority is addressing the risk of not meeting its regulatory obligations. In addition Climate Change is highlighted on the Authority's corporate risk register as a very significant risk and as such maintaining an up to date policy framework in this area supported by an annual action plan is one of a number of actions which allow the Authority to demonstrate that it is seeking to address this risk.

5 **Background and Options**

- 5.1 Responsible Investment as an approach is central to the Authority's investment beliefs and how it wants to see its money invested. It is therefore important that the policy framework in this area fully reflects members' intentions and is kept up to date. This report presents the annual review of key aspects of this framework for approval, reverting to the previous cycle of a review each March following some disruption due to the pandemic and the additional debate required in the last review cycle around the Net Zero target.
- 5.2 While pooling, through Border to Coast, changes the way in which the Authority makes investments the Authority retains responsibility for setting out its approach and intentions in relation to responsible investment matters, although now these may well be implemented in different ways. Border to Coast has taken a strongly collaborative approach to the development and implementation of its Responsible Investment approach very much building on its inheritance from its partner funds in particular SYPA. This approach results in an RI policy framework as illustrated below with the colours illustrating ownership of the various aspects of the framework:



- 5.3 SYPA's own policies are reflected in the Border to Coast policies, but also apply to assets which have not yet transferred into the pool. In addition SYPA's policies set out the direction in which the Authority will seek to influence the other partner funds within Border to Coast to move over the coming years.
- 5.4 The Climate Change Policy was reviewed in the last review cycle but this is a rapidly developing area and further updating is required to reflect the evolution of the Border

to Coast position and to fully reflect the adoption of the Net Zero target. The Commercial Property Policy was reviewed in the last cycle for the first time in some years, and given the timescales involved in making change on the ground in this area further changes at this stage are not considered necessary.

SYPA Responsible Investment Policy

- 5.5 The latest iteration of the Authority's overarching Responsible Investment Policy is set out at Appendix A. While the general tenor of the policy remains unchanged there has been some development of its presentation, firstly to include the Authority's beliefs in relation to Responsible Investment agreed last year from which all activity in this area should flow and secondly to ensure that some of the emphasis from the Stewardship Code on priority setting and focus is properly reflected within the policy. In this latter area it can be seen that the Authority's priorities for engagement activity are well matched with those of the Border to Coast Partnership and the Local Authority Pension Fund Forum.
- 5.6 At this stage the Policy does not identify any further priorities for development work or areas on which to influence developments within Border to Coast. This is a recognition of capacity constraints internally given the additional reporting and other requirements in this area and also of the fact that it is in the Authority's wider interest if Border to Coast are allowed to focus on making progress in delivering the commitments set out in their action plan particularly those supporting a the move to Net Zero and the provision of more and better data for partner funds.

SYPA Climate Change Policy

- 5.7 The proposed revised Climate Change Policy is at Appendix B. This update is very much focussed on bringing the Policy in line with the Net Zero Goal and Action Plan (elsewhere on the agenda for this meeting). The Policy also reflects the intention of the Government to make regulations to mandate reporting in line with the requirements of the Task Force on Climate Related Financial Disclosure (TCFD). The Authority adopted this approach some years ago. However, it is understood that the regulations when they are eventually made will define specific metrics to be used. These will include alignment metrics (e.g., the portfolio is aligned with a 2°C warming scenario) which the Authority does not currently collect and which we will require external assistance to produce. In addition we will need further external support to ensure that we can gather data on areas that are not currently covered and turn data at the level of individual portfolios into data at Fund level which is, unfortunately, not as simple as adding the various metrics together.
- 5.8 The more specific actions which were previously included in the policy are now, more appropriately include in the Net Zero Action Plan thus making this document more focussed on the broader policy landscape.

Conclusion

- 5.9 The direction of travel set out in the two policy documents has not changed. However, the content and presentation of the policies has evolved to reflect changes in the external environment, in particular within the Border to Coast Partnership.

6 **Implications**

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

Financial	The adoption of these policies in themselves has no financial implications. However, the increasing scope and depth of reporting requirements in this area, particularly in relation to climate matters will, as a minimum require additional expenditure on external advice in order to secure the necessary data. This position will be kept under review and reflected in future planning cycles.
Human Resources	None
ICT	None
Legal	The LGPS Investment Regulations require the Authority to clearly state its position in relation to Environmental, Social and Governance issues. The maintenance and review of this policy framework fulfils that requirement.
Procurement	If possible any external assistance required will be commissioned using one of the LGPS National Frameworks. If this is not possible some form of tender process will be required.

George Graham

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Head of Investment Strategy

Background Papers	
Document	Place of Inspection