SOUTH YORKSHIRE PENSIONS AUTHORITY

Responsible Investment Update Quarter 3 2021/22

March 2022

Contents

Highlights and Recommendations

Highlights over the quarter to the end of December include:

- The casting of more than votes at different company meetings.
- A continued high level of engagement activity
- The agreement of the annual update to Border to Coast's voting guidelines which will be implemented from the next quarter.
- Equity portfolios continuing to demonstrate strong ESG performance relative to benchmark.
- Property
- progress towards Net Zero of the equity portfolios
- A continuing high level of collaborative and policy development activity,

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

Background

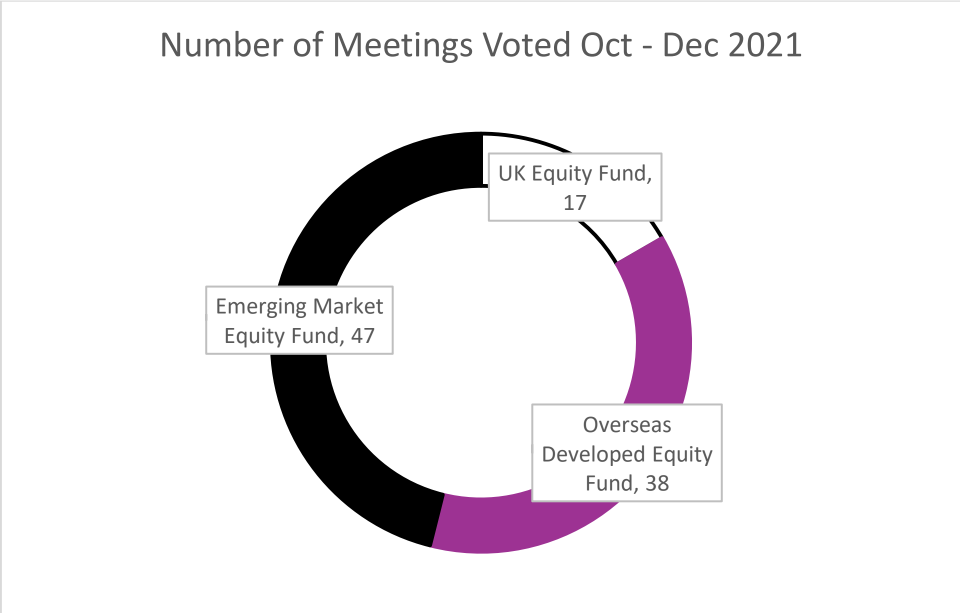
The Authority has developed a statement which sets out what it believes Responsible Investment is and how it will go about implementing it within its overall approach to investment. This statement is set out in the Responsible Investment Policy an updated version of which appears elsewhere on the Authority's agenda.

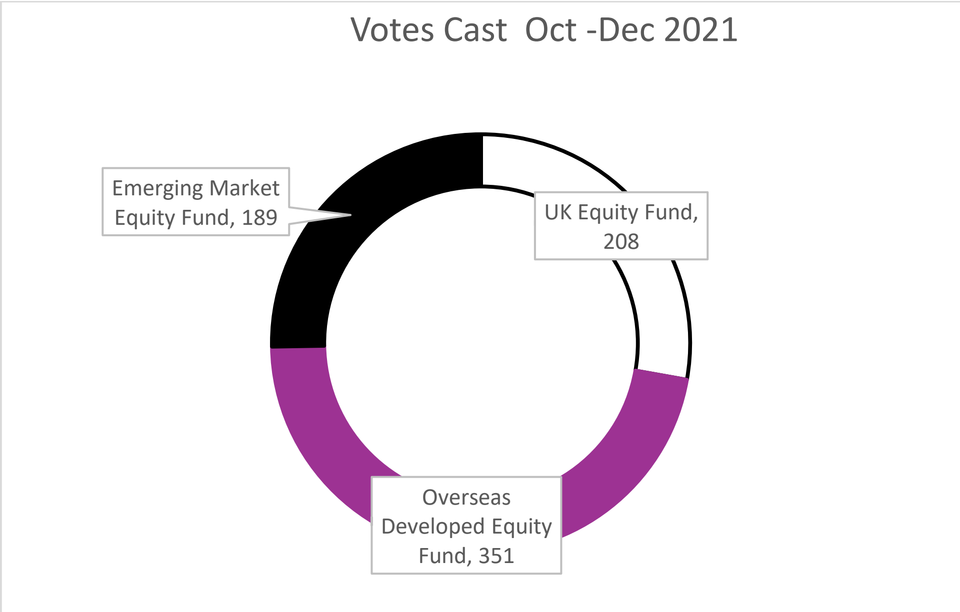
Our approach is largely delivered in collaboration with the other 11 funds involved in the Border to Coast pool. This report provides an update on activity in the last quarter covering:

- Voting – Information on how the voting rights attached to shareholdings have been used over the period to influence the behaviour of companies to move in line with best practice.
- Engagement – Information on the volume and nature of work undertaken on the Authority's behalf to engage in dialogue with companies in order to influence their behaviour and also to understand their position on key issues.
- Portfolio ESG Performance – Monitoring the overall ESG performance of the various products in which the Authority is invested, and on the commercial property portfolio.
- Progress to Net Zero – Monitoring the carbon emissions of the various portfolios where data is available in order to identify further actions required to support progress to Net Zero.
- Collaboration – Working with others to influence the behaviour of companies and improve stewardship more generally.
- Policy Development – An update on broader policy developments in the Responsible Investment space some of which directly involve the Authority and others which are of more general interest.

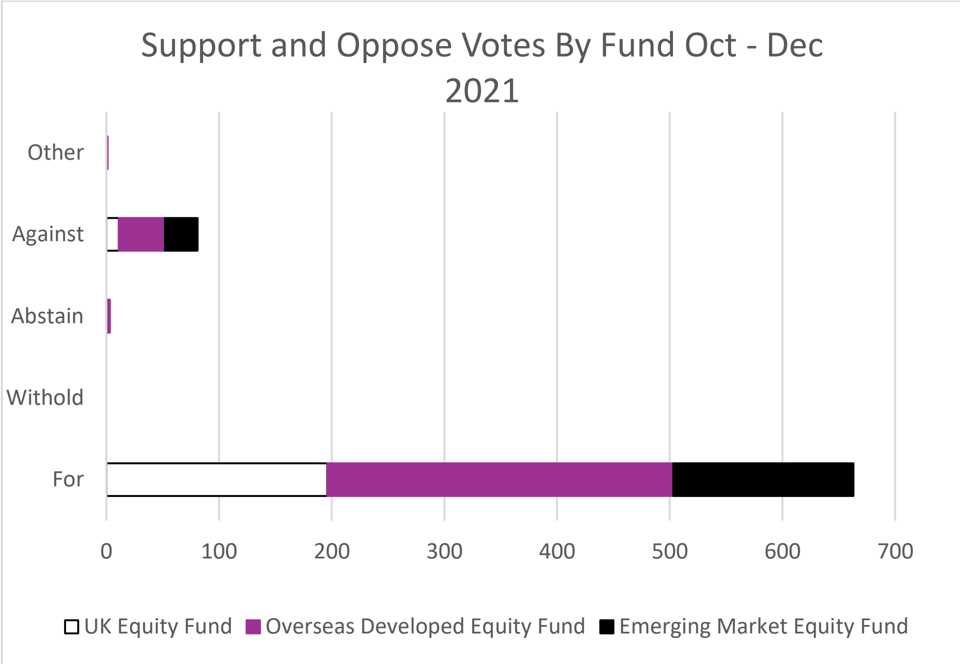
Voting Activity

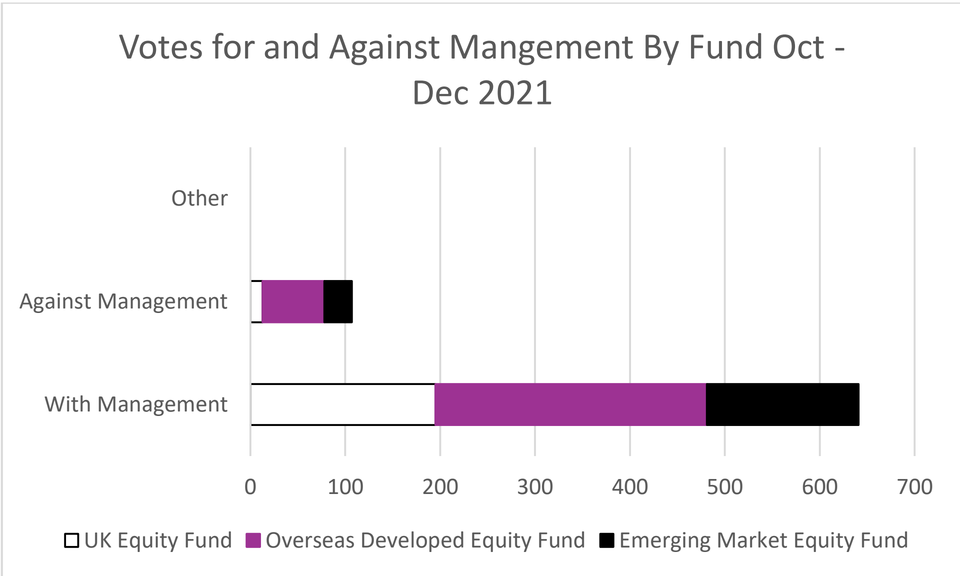
The level of activity this quarter, as would be expected was significantly lower than in the previous period with just over votes cast at meetings compared to over at over meetings last quarter. The charts below show how the Authority's holdings in listed equities were voted in the period to the end of December 2021. Detailed reports setting out each vote are available on the Border to Coast website here .





The pattern of support and oppose votes and votes for or against management, shown in the charts below shows





This quarter was the peak voting season in Asia Paccific and Oceania, hence a greater number of meetings were voted within the Emerging Markets fund than previously. Most votes against management were related to individual nominations and remuneration followed by ESG related shareholder resolutions.

In relation to remuneration there is a welcome trend to rewards the achievement of ESG goals within remuneration policies. However, we believe companies should clearly define those metrics that have a meaningful impact in their business strategy, by conducting a materiality assessment. The outcome of this assessment should be transparently disclosed, and the metrics used in the compensation scheme should have a measurable impact on stakeholders and a financial materiality for shareholders. Our expectation around this is a principle in our Corporate

Governance & Voting Guidelines and informs our decision when voting on company remuneration policies.
Notable votes in the quarter are illustrated in the graphic below.

BHP -This is a mining company held in bothe the Overseas and UK funds. In this case we voted against the Climate Transition Action Plan as despite positive aspects to the plan we had concerns about the level of ambition of emissions reduction targets and the lack of clarity about the proposed use of offsets. The plan received 85% support which is substantially lower than comparable plans. The company has been and remains open to constructive engagement on the issue

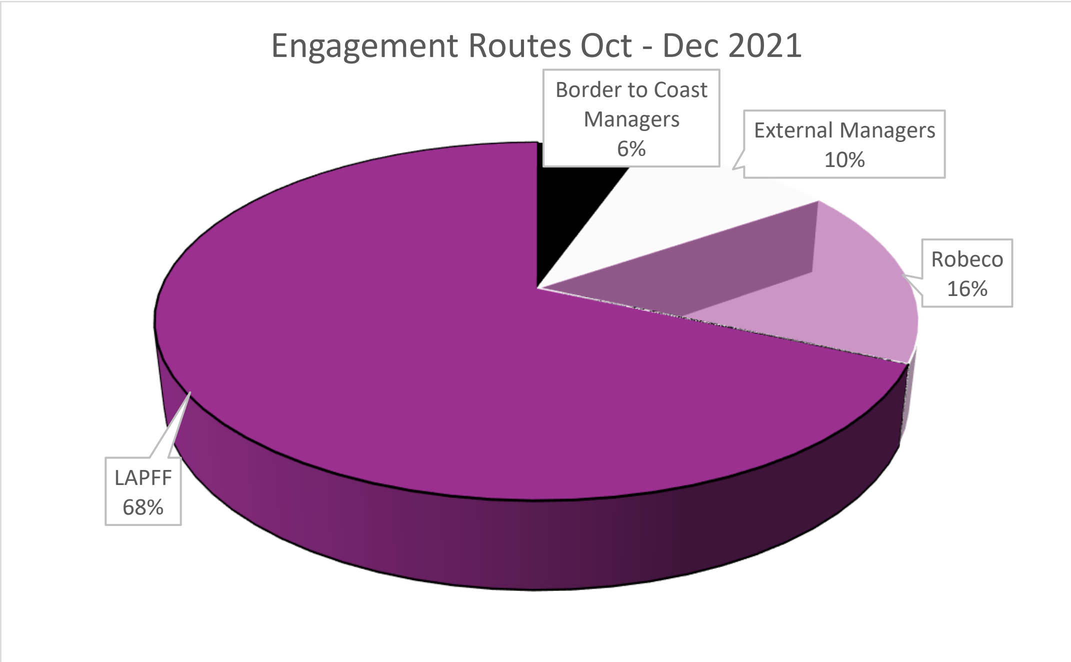
Microsoft - This stock is held in the Overseas Fund. We supported a resolution supporting the reporting of median pay gaps across gender and race. While the company is disclosing the steps it is taking to promote pay equality without measurement there is no clarity on their success. This proposal recieved 40% support. A further proposal aksing for trnasparency reporting on the effectiveness of workplace sexual harrassment policies recieved 78%. In both cases we will continue to monitor progress.

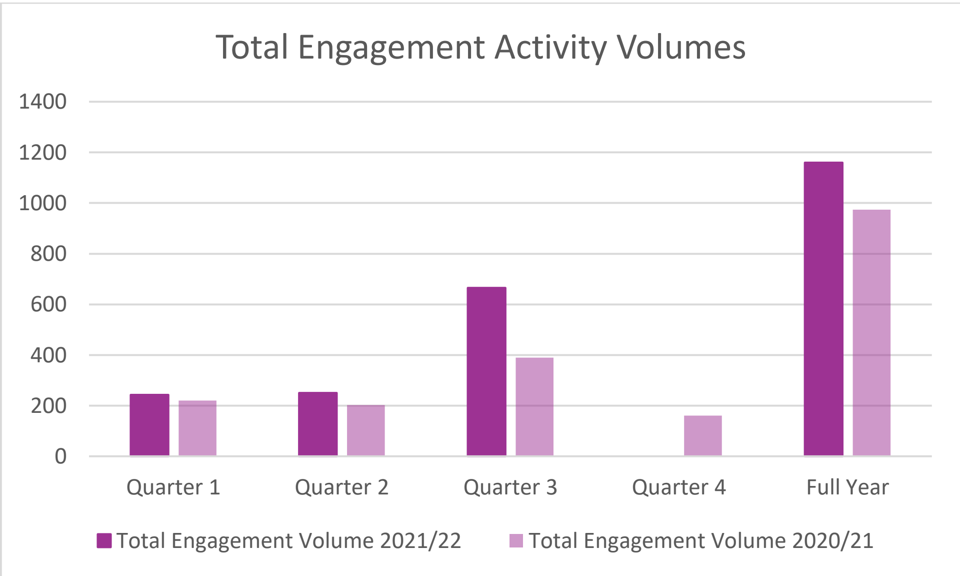
HCL Technologies - This is an ICT and business process outsourcing company held in the Emerging Markets Fund. We voted against a share option plan which because it focussed on one year targets did not align incentives with the interests of long-term shareholders. In addition the plan did not give clear descriptions of the performance hurdles in relation to share awards. Ultimately the plan was approved

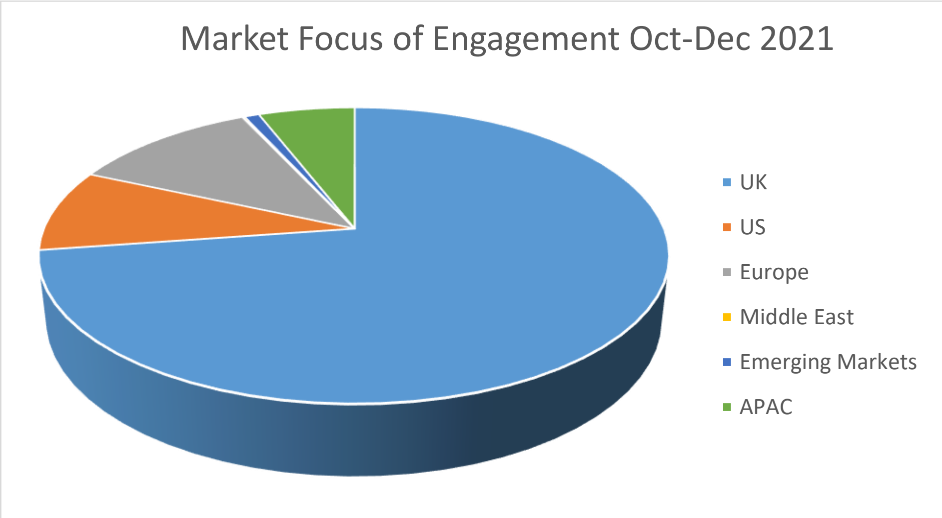
As is evident from the above examples and the following information on engagement the welcome trend for companies to publicly disclose their climate transition plans has continued. While in a number of cases we have voted against these plans on the grounds that they lack ambition or are insufficiently robust we also recognise the significant movement from companies both to produce and publish such plans.

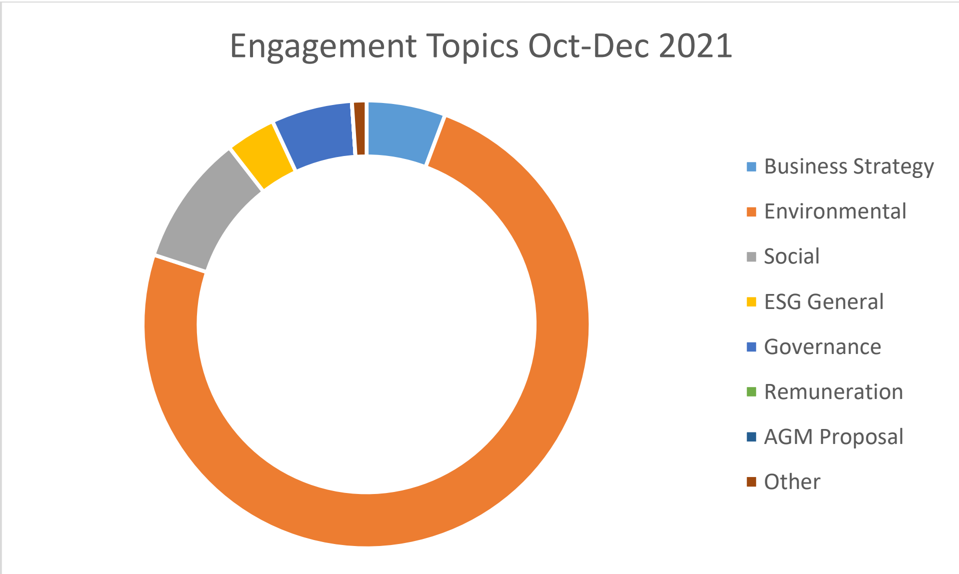
Engagement Activity

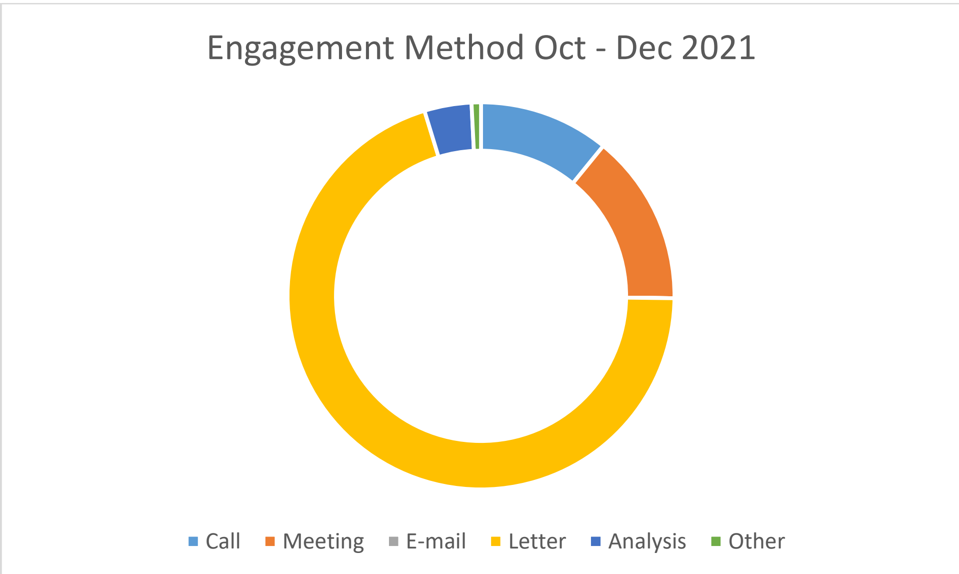
Engagement is the process by which the Authority working together with other like-minded investors seeks to influence the behaviour of companies on key issues. Engagement (in distinction to voting) is an ongoing process and is undertaken by those directly managing money for the Authority such as the 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 (in terms of the total number of pieces of engagement activity), the route for and the focus of engagement activity undertaken in the quarter, as well as the method of engagement undertaken.






Market Focus of Engagement Oct-Dec 2021
UK
US
Europe
Middle East
Emerging Markets
APAC


Engagement Topics Oct-Dec 2021
Business Strategy
Environmental
Social
ESG General
Governance
Remuneration
AGM Proposal
Other


Engagement Method Oct - Dec 2021
Call
Meeting
E-mail
Letter
Analysis
Other

Activity this year does appear to be materially ahead of the previous year, which is likely to have been driven between work around CoP26 although it is important not to read too much into short term figures. Overall, however, since the transition of assets to Border to Coast the volume and depth of engagement activity has increased very significantly.

More details of the engagement activity undertaken by Border to Coast and Robeco in the quarter is available here. Significant aspects of this work in the quarter include:

- The closing out of a three-year engagement around living wages in the garment industry. Five companies were engaged focussing on how companies uphold the payment of living wages across the business and how this is supported by responsible purchasing practices. Significant progress was achieved by companies in a number of areas including transparency around supplier lists and on risk assessment processes, the introduction of independent complaints processes with disclosure of results and a strengthening of social dialogue and collective bargaining agreements.
- The commencement of a new engagement theme around Acceleration to Paris. This focuses on triggering climate action at companies with a large carbon footprint and which are assessed as lagging in their efforts to transition to a low carbon business model. Initial contact was made with 170 companies during the quarter and targets will be narrowed down in successive quarters.
- Work continued on a collaborative project being led by Royal London Asset Management which is seeking to engage companies around the growing risks in relation to cybersecurity. In the initial phase of the work 65% of target companies have been formally engaged with as part of a process of gaining a fuller understanding of the issues and identifying best practice. The next phase will target companies where cybersecurity is seen as a material risk factor for investor portfolios and where there have been known breaches and/or a low level of disclosure. The process will involve articulating investor expectations and best practice. This phase is expected to conclude and report within one year of formal commencement.

More details of the activity undertaken by LAPFF in the quarter is available here. The Forum has continued its engagement activity across a wide range of areas with specific updates around the activities of mining companies which have been a long running issue for the Forum across a number of streams of work, but particularly environmental and human rights issues and the fallout from the various tailings dam disasters. A number of engagements were undertaken to further the work of Climate Action 100+ seeking to encourage companies to take action to address gaps identified in their climate stances by the CA100+ assessment process. LAPFF has also continued to support a range of collaborative activities and while many of these focus on climate issues of particular note in this quarter were activity around human rights due diligence, conflict minerals and the opioid and pharmaceutical crisis in the US. LAPFF have also now begun to use the UN Sustainable Development Goals as a framework for analysing the focus of their engagement work which provides and interesting perspective and emphasises the focus of the Forum on climate risk.

Portfolio ESG Performance

Equity Portfolios

Each of the equity portfolios is monitored by Border to Coast in terms of its overall ESG performance with data reported quarterly. This section of the report provides a summary of performance and of changes over time. The full reports are available for members in the on-line reading room, but this summary provides a high-level indication of the position.

Overseas Developed

- Weighted ESG Score above benchmark (6.9 v 6.7)
- 39.4% of portfolio ESG leaders above benchmark
- 2.6% of portfolio ESG laggards below banchmark.
- 6.3 % of portfolio not covered mainly pooled funds
- Worst scoring companies 1.8% of portfolio
- Emissions below benchmark on all metrics.
- Greater weight of fossil fuel holdings than in benchmark
- All 5 top emitters rated on the Transition Pathway with one scoring 4*, with the largest emitter reducing carbon intensity by c30% in the quarter

United Kingdom

- Weighted ESG Score above benchmark (7.8 v 7.7)
- 68.3% of portfolio ESG leaders above benchmark
- 0% of portfolio ESG laggards below benchmark
- 7.8% of portfolio not covered mainly pooled vehicles
- Worst scoring companies 4.9% of portfolio but all ESG Average companies
- Emissions below benchmark on all metrics
- Lower weight of fossil fuel holdings than in benchmark.
- Top 5 emitters all rated 4 or 4* (highest ratings) on the Transition Pathway but represent <50% of total portfolio emissions

Emerging Markets

- Weighted ESG score above benchmark (5.5 v 5.3)
- 20.9% of portfolio ESG leaders above benchmark
- 14.6% of portfolio ESG laggards above benchmark
- 5.2% of portfolio not covered mainly pooled vehicles
- Worst scoring companies 5.2% of portfolio.
- Emissions significantly below benchmark on all metrics
- Marginally greater weight of fossil fuel holdings than in benchmark.
- 3 of the top 5 emitters engaged with the Transition Pathway with one scoring 4.

In general, this shows a broadly positive picture, with an ongoing trend of improvement.

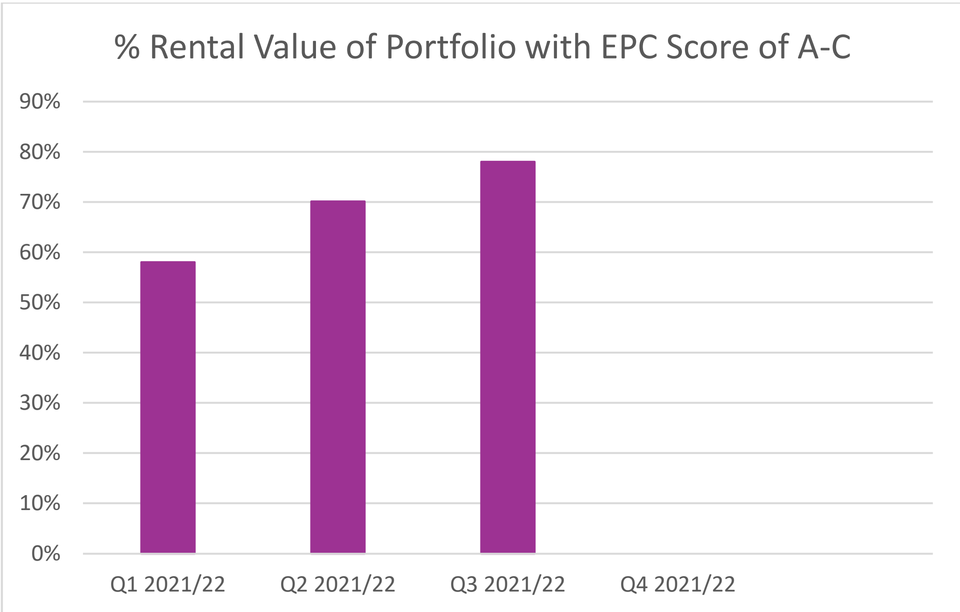
The most significant movements in the quarter were:

- Hyundai Mobis was downgraded to a laggard within the overseas fund as a result of its ownership structure which was described in the context of votes against the Board in the last RI update.
- A significant improvement in the weighted ESG score for the UK fund due to a large number of upgrades including four of the previously lowest graded companies.
- An upgrade in the overall MSCI score for the Emerging Market fund to A as a result of the better than benchmark position in terms of ESG Leaders and Laggards.

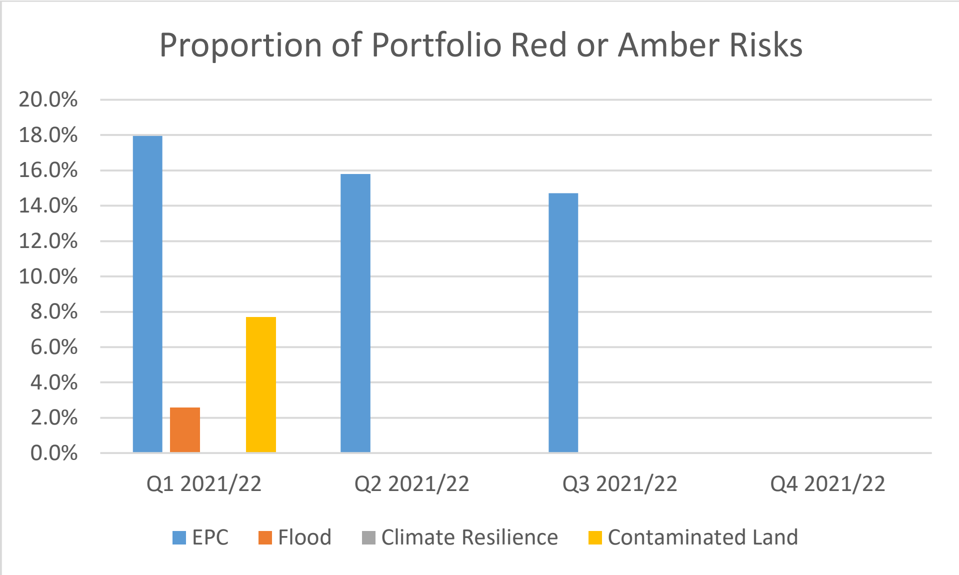
The carbon metrics are addressed later in this report.

Commercial Property Portfolio

The work being done by Aberdeen Standard to improve the ESG performance of the Commercial property portfolio is now leading to the availability of additional data for this portfolio, although full emissions data will not be available until the end of the financial year. The restructuring of the portfolio to remove smaller units and units with less long term potential has also had an impact on the overall energy performance of the portfolio as shown below:



The portfolio restructuring process has also reduced the proportion of assets where specific environmental risks have been identified as shown below. Action plans are being developed for each property where such risks are identified to ensure they are addressed within a reasonable timescale.



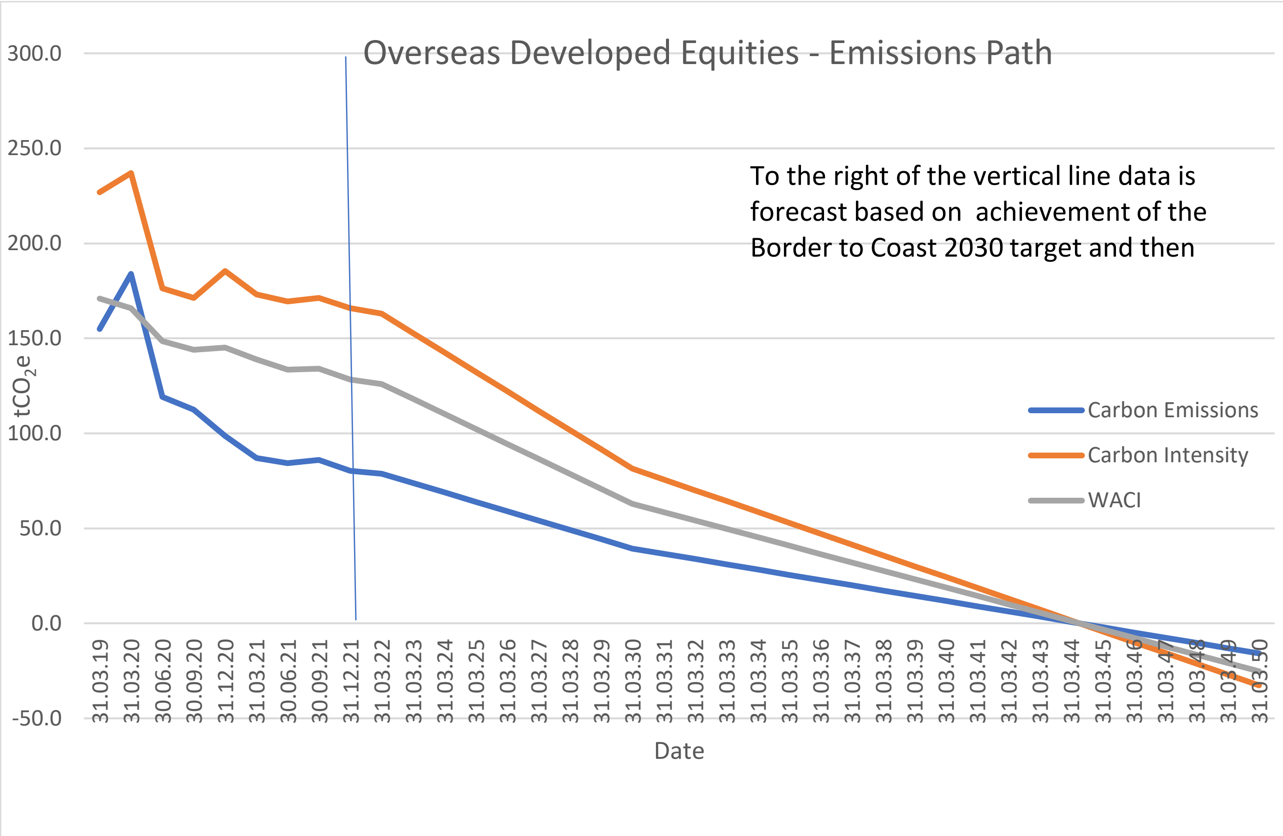
Progress continues to be made at individual properties with the installation of solar PV

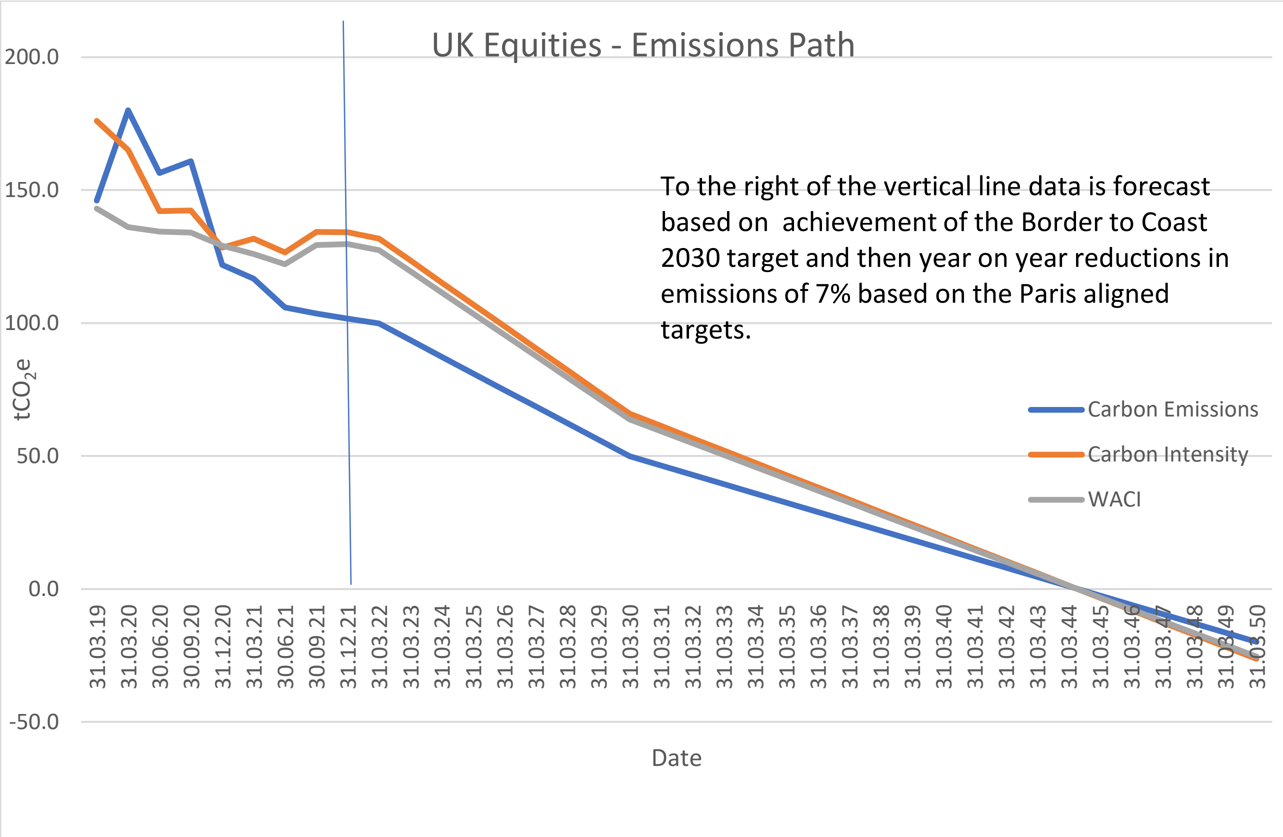
Another measure of the overall sustainability of the portfolio comes through sustainability certification. The most common type of certification is BREEAM and the Authority aspires through its agreed policy for its portfolio to achieve an overall level of Very Good or if built without certification which is often the case to be of an equivalent standard. Currently two properties representing 10% of the value of the portfolio are certified as BREEAM Very Good. This is likely to increase over time as further certified properties are added to the portfolio. There will remain a judgement for the Authority to make about whether it wishes to achieve "in use" certification for other buildings in the portfolio, but this is not currently a priority and would need to be cost justified.

Broadly progress is being made in this area in relation to the commercial property portfolio and these issues are taking a higher priority in terms of both ongoing asset management and the review of potential new investments.

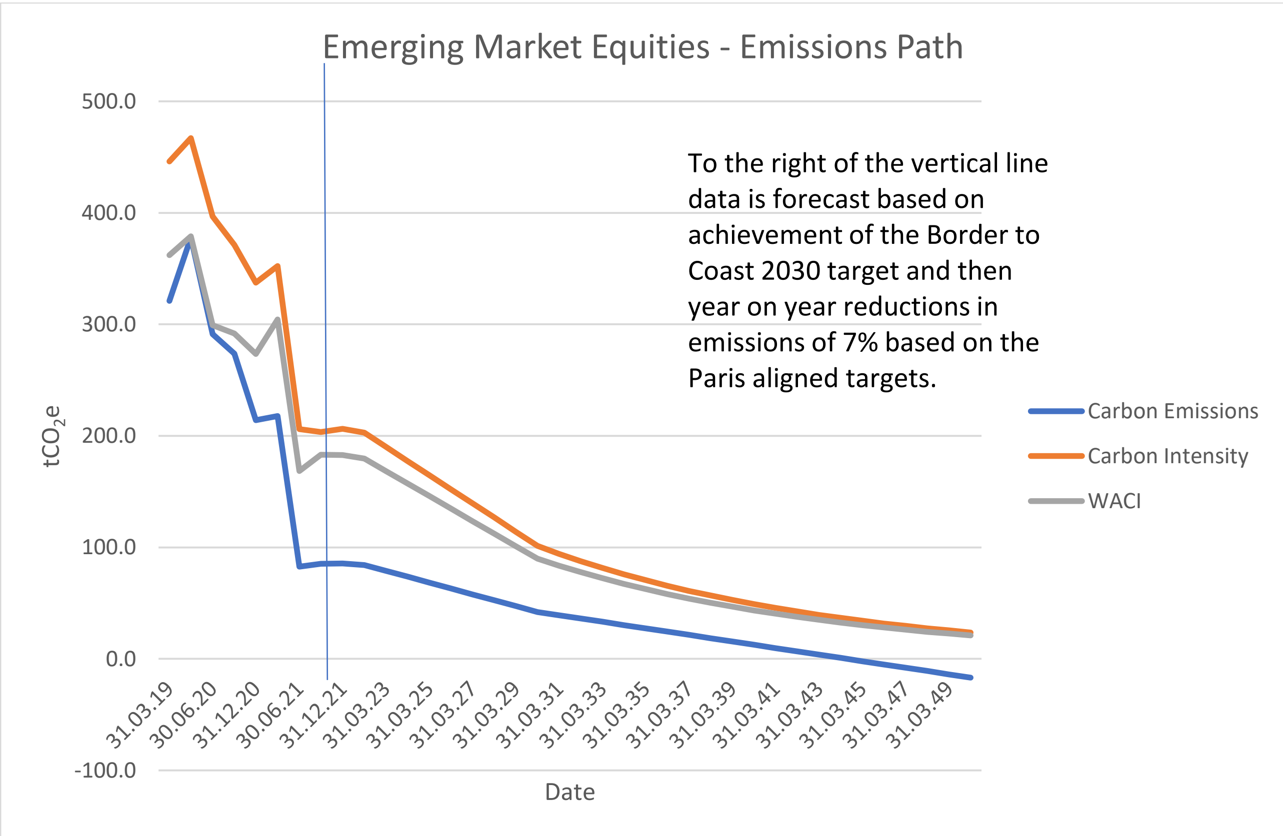
Progress to Net Zero

This section of the report considers the progress of the three equity portfolios towards Net Zero using the emissions data provided on a quarterly basis by Border to Coast and projects progress forward. The projection incorporates Border to Coast's interim (2030) emissions reduction target set out in their climate policy followed by a 7%pa year on year reduction required for Paris alignment. This is not scientific and as can be seen from the earlier parts of the graphs progress is unlikely to be linear, however, it does give a sense of the scale of the challenge we face in achieving Net Zero across this significant element of the portfolio.





UK Equities - Emissions Path
To the right of the vertical line data is forecast based on achievement of the Border to Coast 2030 target and then year on year reductions in emissions of 7% based on the Paris aligned targets.
200.0
150.0
100.0
50.0
0.0
-50.0
tCO_2e
Date
Carbon Emissions
Carbon Intensity
WACI



Emerging Market Equities - Emissions Path
To the right of the vertical line data is forecast based on achievement of the Border to Coast 2030 target and then year on year reductions in emissions of 7% based on the Paris aligned targets.
500.0
400.0
300.0
200.0
100.0
0.0
-100.0
tCO_2e
Date
Carbon Emissions
Carbon Intensity
WACI

While the broad trajectory remains positive, and the increases seen last quarter have stabilised it is clear that despite the achievement of very substantial reductions in the level of emissions from these portfolios that achieving a 2030 Net Zero Goal for these portfolio may not be achievable unless there is some other change in approach in relation to these portfolios. These issues are addressed in the update to the Net Zero Action Plan which is on the Pensions Authority agenda.

As previously reported work is being one on understanding the rest of the portfolio and the scale of possible offsets within these other areas and these data will be incorporated when possible.

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.

Local Authority Pension Fund Forum

LAPFF recently held its regular business meeting with an agenda that included the final conclusions of the work undertaken on mining and human rights, an examination of the use of joint ventures by some companies to potentially reduce their liability in key areas, an examination of water companies and sewage, a look at the differences between engagement in relation to bonds (an increasing focus for investors) and equities, and the proposed work plan for the coming year.

LAPFF continues to grow with the Isle of Wight Fund being the latest to join meaning that 85 of the 98 LGPS funds across the UK are members, and work is continuing to bring the remaining funds into membership.

100+

Climate Action 100+ was initiated in 2017 to engage some of the world's highest corporate emitters. The initiative recently shared their timeline for the March 2022 assessments, noting limited changes to the Benchmark assessment criteria. Preliminary analysis began in September, with companies invited to provide additional disclosure by 31 December. Company assessments will be finalised during January and February 2022 and publicly released in March.

Transition Pathway Initiative

TPI published its analysis of major energy companies' transition plans, the first using the TPI's 1.5°C benchmark. This found that only 10% of companies were aligned with a pathway to keep global warming to 1.5°C. As shown elsewhere in this report TPI provides a key input into the assessment of companies' progress against their goals for reducing carbon emissions and in particular in relation to the credibility of their plans.

WDi
Workforce Disclosure Initiative

The Workforce Disclosure Initiative recently published details of the level of response to the 2021 survey. This was completed by 173 companies globally including 50% of the FTSE 100 companies. This is 23% increase on the previous year and has been accompanied by and increase from 52 to 62 in the number of investors supporting the initiative. The information provided in responses to this survey allows investors to engage with companies based on specific evidence. A number of large firms which have been identified from media reports as having some specific labour issues such as Boohoo and Amazon have yet to sign up. While this is disappointing the increased response by peers leaves companies such as this looking like laggards and creates a pressure to respond and provide appropriate levels of transparency.

Policy Development

This section of the report highlights a number of the key pieces of policy related activity which have taken place during the quarter.

Levelling Up White Paper
The Government's White Paper on Levelling Up which was published on 2nd February includes a statement that
"The UK Government will….work with Local Government Pension Funds to publish plans for increasing local investment, including setting an ambition of up to 5% of assets invested in projects which support local areas."

Whether this directly reflects a response from Government to the work on Place Based Impact Investing to which the Authority contributed is unclear. However, further information from the Government indicates that in this case local is the UK rather than in a fund's own local area. This will form part of a consultation later in the year that will encompass this area, the delayed climate reporting regulations and the much-delayed pooling guidance and regulations. The Authority will need to build the development of a plan of this sort into the process involved in the investment strategy review, which will be undertaken over the next year. Any plan will need to be rooted in the Authority's investment beliefs and policy driven.

Disinvestment Boycotts and Sanctions
The Government intend to introduce a bill preventing LGPS funds and other public sector institutions with investment portfolios from using investment decisions in a way that is counter to UK foreign policy. For example, this might have caught institutions which disinvested from Barclays Bank during the 1970's and 1980's due to their engagement with the apartheid regime in South Africa.

The proposed legislation has not yet been introduced. However, the Government accepted an amendment to the Bill implementing the McCloud remedy that requires the Secretary of State to issue guidance on this issue. At this stage it is not clear how such guidance would be framed or how it will interact with other aspects of the consideration of ESG issues when making investment decisions.

UK Government Roadmap to Sustainable Investing
The UK Government released a document setting out its roadmap for aligning the financial system with its net zero commitment. The roadmap outlines three phases to achieving this:

- Informing: Focusing on the provision of sustainability-related information.
- Acting: Ensuring this information is being used in business and financial decision making.
- Shifting: Encouraging financial flows to align with a net zero economy.

The document focuses on the first phase, to be delivered through the new Sustainability Disclosure Requirements, which will require enhanced sustainability-related disclosures from market participants including corporate entities, investment product providers, asset managers and asset owners.

Impact Reporting
The final report from Minerva has now been received and is included on the Authority's agenda. This report is very much a starting point helping us to understand broadly where our impacts are. Over time the information we can provide in this type of whole portfolio reporting will become more granular and specific. However, it is likely that we will only ever be able to provide comprehensive impact information on a small portion of the portfolio.

Place Based Impact Investment Reporting
Following on from the work in this area to which the Authority contributed last year work is being undertaken to develop a granular reporting framework for investments of this sort. The Authority will be piloting this in relation to its local development loans which are managed by CBRE. If all goes well some output from this will be available to contribute to the Annual Report.

Scheme Member Correspondence and Campaigns
The Authority continues to receive correspondence from scheme members in relation to specific issues. In the last quarter this has included:

- Further correspondence about investments in the Occupied Palestinian Territories. The Scheme Advisory Board and Local Authority Pension Fund Forum have now met with the UN Special Rapporteur and begun a process of dialogue over the issues raised in relation to the list of 112 companies operating in the territories. The Authority's investments covered by the UN list are in bonds issued by 4 of the companies valued at c£4.2m, which is not material in the context of the Fund as a whole. The Director has held a meeting with a group of scheme members concerned about this issue.
- Correspondence (and a question in Council at Sheffield CC) related to investments in "big agriculture" which can make a significant contribution to carbon emissions through the generation of methane. This follows the publication of research by a lobbying group. The level of investment by SYPA identified in the research by a lobbying group on this is around £9m probably in the equity portfolios, which is not material in the context of the Fund as a whole. Given that we have not previously engaged on this issue with the relevant companies to immediately move to considering disinvestment would not be appropriate in terms of our policy approach. A template response has been provided for councillors through the District Council Democratic Services Teams.
- Ongoing questions related to investment in fossil fuel emitters such as oil and gas companies.
- Correspondence about resolutions at Apple's AGM, where stakeholders were supporting resolutions which promote greater transparency and support for international human rights standards. Border to Coast's analysis and voting policy support both the resolutions concerned.

While at the time of writing we have not received member correspondence with regard to the war in Ukraine and investments in Russian companies we do expect correspondence of this sort and are in discussion with Border to Coast about the position, although the overall level of holdings in Russian companies appears significantly less than would be implied by the benchmark weight.

As the data provided by Border to Coast in relation to ESG scores and carbon emissions is provided by an external third party the following legal wording is required to be included within this report.