SOUTH YORKSHIRE PENSIONS AUTHORITY

Responsible Investment Update Quarter 1 2022/23

August 2022

Contents

Highlights and Recommendations

Highlights over the quarter to the end of June include:

- The casting of nearly 6,500 votes at close to 450 company meetings.
- A continued high level of engagement activity running at almost twice the level of the same quarter last year.
- Maintenance of high ESG ratings for those portfolios where they are available.
- The setting of the first round of targets towards Net Zero.
- A significant level of stakeholder engagement around various issues but particularly around human rights issues and this update highlights a range of engagement activities associated with human rights.

The Authority are recommended to note the activity undertaken in the quarter and endorse the initial targets for reducing carbon emissions from the listed asset portfolios.

Background

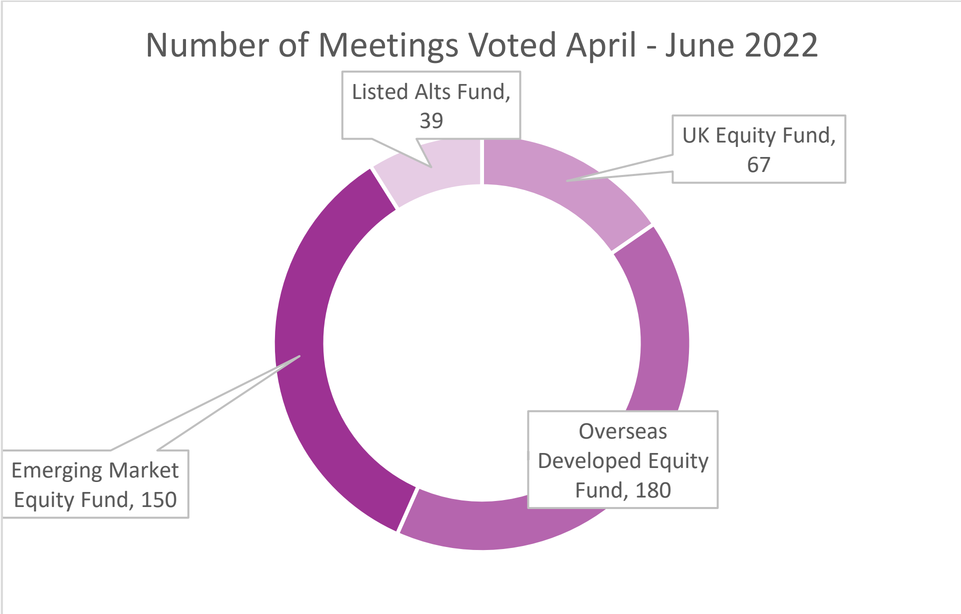
The Authority has developed a statement which sets out what it believes Responsible Investment is and how it will go about implementing it within its overall approach to investment. This statement is set out in the Responsible Investment Policy which is available on the website here.

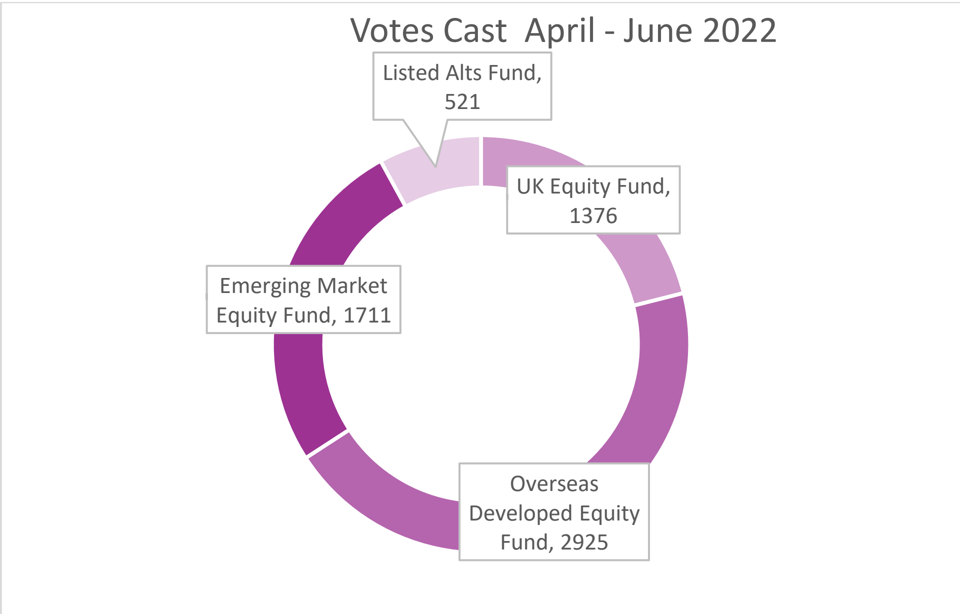
Our approach is largely delivered in collaboration with the other 10 funds involved in the Border to Coast pool. This report provides an update on activity in the last quarter covering:

- 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.
- Stakeholder Interaction – There is considerable interaction between the Authority and stakeholders around responsible investment issues which is summarised for wider accountability purposes.
- 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

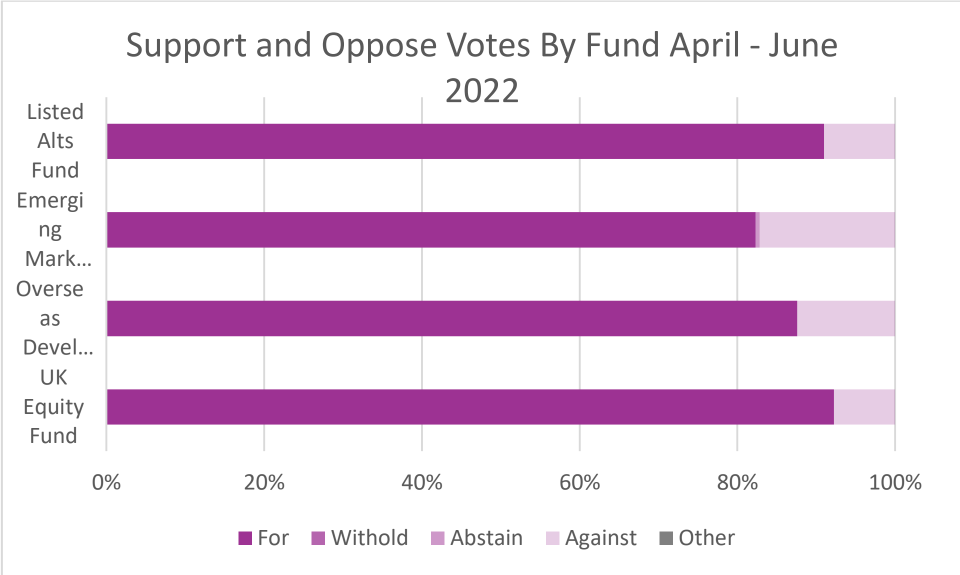
This quarter continued the higher level of activity seen last quarter with the continuation of the second part of peak voting season with nearly 450 company meetings and over 6,500 votes cast as shown in the charts below. Detailed reports setting out each vote are available on the Border to Coast website here.

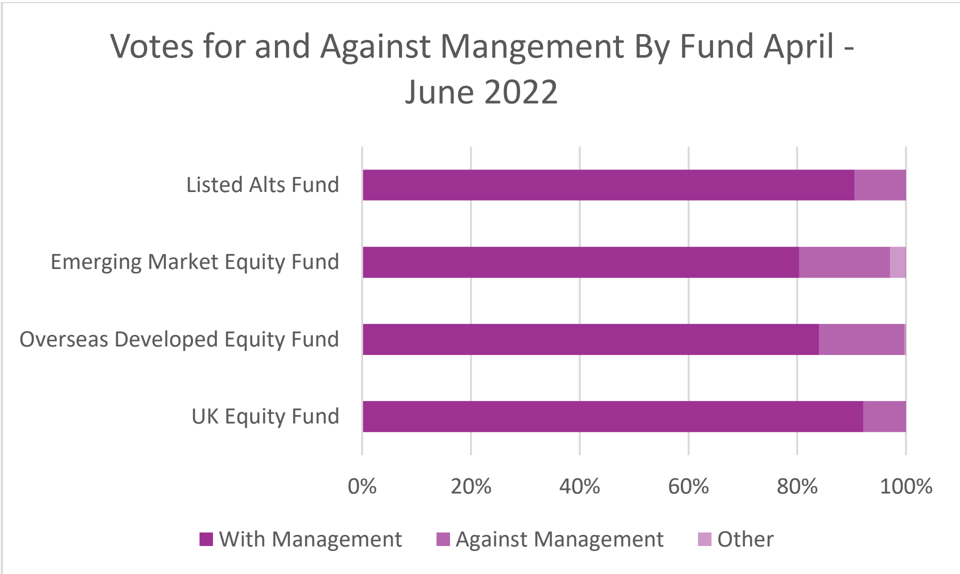




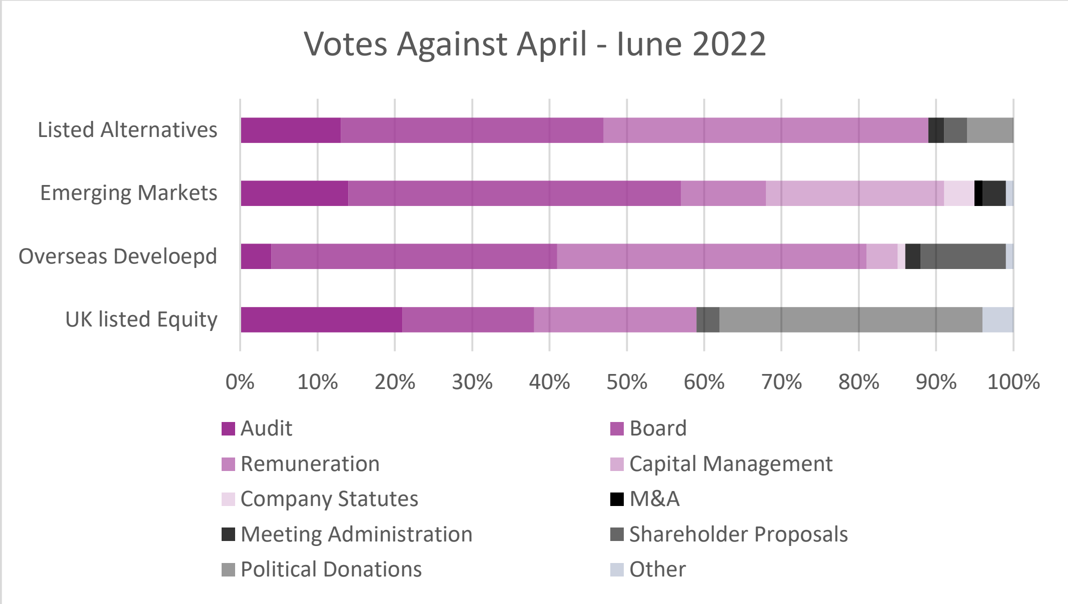
The increasing concentration of the UK equity portfolio is evident in the somewhat smaller proportion of UK meetings while the listed alternatives fund features significantly for the first time.

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





This shows a continuation of the trend of an increasing proportion of votes both against specific resolutions and against management as a result of the tightening of the voting policy both in terms of securing board diversity and in relation to companies progressing towards Net Zero. The topics of votes against are analysed in more detail in the chart below:



This indicates that votes against Board composition are the largest proportion of votes against reflecting the fact that these are the most common types of vote and also the policy of using these votes to try to encourage progress in other areas such as diversity. Remuneration is the second largest area for votes against and this is particularly high in the Overseas and Listed Alternatives funds perhaps reflecting differences between the expectations of a UK shareholder versus other markets. The high level of votes against political donations in the UK reflects tha fact that in the UK this issue has to be put to a shareholder vote and the voting guidelines oppose any donations of this sort.

Robeco have produced the following summary of activity during this voting season.

The 2022 proxy season saw shareholders continue pushing to expand their rights and enact change at companies deemed to lag their expectations. Meeting agendas were packed with proposals seeking amendments to provisions governing proxy access, special meetings, and action by written consent, as well as resolutions calling for companies to adopt the "one share, one vote" principle. Particularly noteworthy were the many "fix -it" shareholder proposals seeking amendments to existing proxy access bylaws. These called for changes to aggregation limits or holding period requirements, indicating that shareholders have a thorough understanding of the technicalities surrounding their participation tools, and clear expectations regarding what rights they should hold. In all instances, we judged the merits of these shareholder proposals on a case -by -case basis. We supported proposals deemed to protect minority shareholder rights and strengthen director accountability while safeguarding long -term shareholder interests.

In some cases, shareholder initiatives to enact change translated into large -scale proxy contests. A notable development in this sense was the proxy fight launched by Carl Icahn at McDonald's over animal welfare. Although the campaign failed, many viewed this attempt as a signal that ESG -driven proxy contests may become commonplace. This speculation is spurred by recent proxy rules amendments passed in the US by the Securities and Exchange Commission, which will mandate the use of universal proxy cards in election contests as of August 2022. These require that all proxy cards distributed in contested elections include all nominees up for election, enabling shareholders voting by proxy to mix and match nominees from distinct slates. In the case of proxy contests, we base our voting decisions on several factors, including, among other things, the validity of the dissident's case for change at the company and whether the proposed plan is in line with the shareholders' long -term interests.

The 2022 proxy season, as it was expected, was an active one. It is challenging to decide where the focus was this season. There was certainly a lot of interest in numerous post -pandemic Say - On -Pay proposals and some corporate governance agenda items covering board elections. Additionally, there was also a lot of enthusiasm for some notorious Say -On -Climate resolutions. There is no doubt that this season was busier due to the high volume of ESG shareholder resolutions making it to proxy ballots.

The increase in shareholder proposal filings was prompted by the priorities shift at the US Securities and Exchange Commission (SEC) over the last year. In November 2021, the SEC issued new guidance on how they would interpret the rules used by companies to exclude ESG shareholder proposals, making it more difficult for companies to remove environmental and social proposals from their proxies. This guidance gave investors significant power to raise their concerns by submitting resolutions on essential matters and voting on them.

Investors' attention in this proxy season was on environmental matters. The most prominent shareholder resolutions requested companies for greater disclosure of their impact on climate and the risks this entails, the adoption of concrete emissions reduction targets in all scopes, and reporting on board oversight on the company's climate initiatives. We also saw investors asking companies to disclose their lobbying activities on climate issues, as well as to report on how they would shift their business to using recycled plastic, and to communicate their efforts to decrease deforestation.

Say -On -Climate has been a dominant issue since the 2021 proxy season, and the debate also continued this year. We also noticed a strong increase in shareholder proposals asking for the adoption of Say -On -Climate proposals in future AGMs. Investors' views in this respect though have been diverse. Some have been more decisive in supporting the facilitation of these proposals, while others have been more skeptical. One thing is sure - many investors are adopting a more detailed and case -by -case approach when assessing their votes on Say -On -Climate proposals, pushing companies to provide clear and comprehensive climate -related information.

Social shareholder resolutions focusing on diversity, equity, and inclusion were also high on the agenda for investors. There has been increasing support for resolutions focusing on disclosing data on gender and racial pay gaps. High support was also received by resolutions asking companies to conduct racial equity audits to detect how their business activities might have 'adverse impacts on non -white stakeholders and communities of color.' This year we also saw shareholders asking companies to explain the use of concealment clauses in employment contracts, which limit the ability of an employee to discuss grievances or concerns about employment practices. Lastly, abortion rights have moved up on responsible investors' agenda, pushing companies to support employees' rights in those US states where lawmakers have passed or proposed legislation that would severely restrict women's ability to access legal terminations of pregnancies.

This proxy season, we also saw an increase in anti -ESG shareholder resolutions. A prominent example was the 'civil rights and non -discrimination' proposal, which asked the companies to conduct audits of their impact on civil rights. The resolution initially seemed supportable. Nevertheless, after carefully reviewing the proponent's supporting statement, it showed that the proposals also argued that "anti -racist" programs are discriminatory "against employees deemed non - diverse". This argument revealed filler's intentions to frustrate companies' efforts to promote civil rights and social justice.

Last but not least, on Governance, the shareholder proposals that attract investors' interest remain those focusing on supermajority vote requirements, the ability to call special shareholder meetings,

and action by written consent. A high support rate was seen in the case of shareholder proposals asking the company to separate the roles of CEO and Chair of the Board. This development is welcomed by most investors since an independent chair can better oversee a company's executives and set a pro -shareholder agenda.
Robeco Voting Report

Notable votes in the quarter, all drawn from the Overseas Developed Fund on this occasion are illustrated in the graphic below.

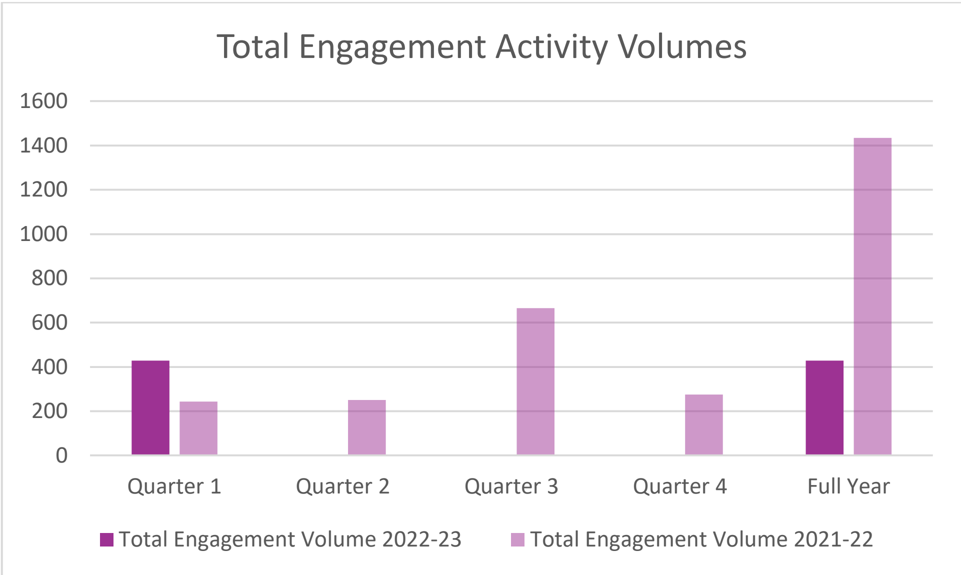
Activision - This a global developer and publisher of interactive entertainment content and services. There were a number of resolutions at a special meeting to consider a takeover by Microsoft. 63% of shareholders while endorsing the takeover voted in favours of a resolution asking for reports about efforts to combat "abuse, harassment and discrimination" following allegations of a "fratboy" culture.

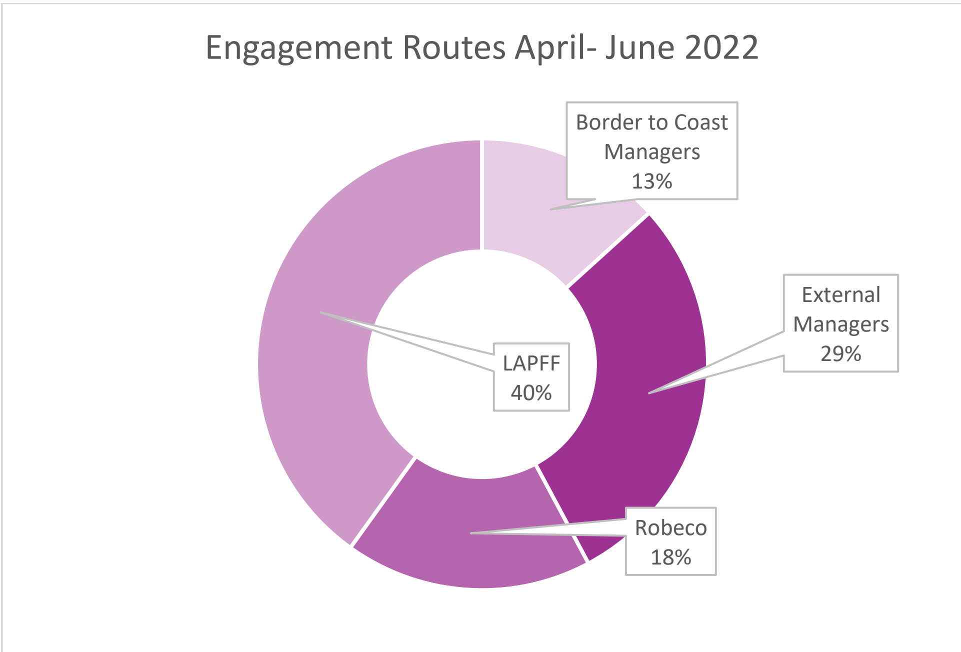
Meta - This is the parent company of Facebook. There were 13 resolutions at the annual meeting covering a range of ESG issues. Of particular note was a resolution which secured 24% support asking the company to report on the potential human rights impacts of its targeted advertising policies and practices.

Pfizer- This is a major global pharmaceutical company where a proposal made at the annual meetings of a number of similar companies was considered. This asked the company to commission a third party report assessing the feasability of transferriing intellectual property to facilitate Covid-19 vaccine production. This received 27% support.

Engagement Activity

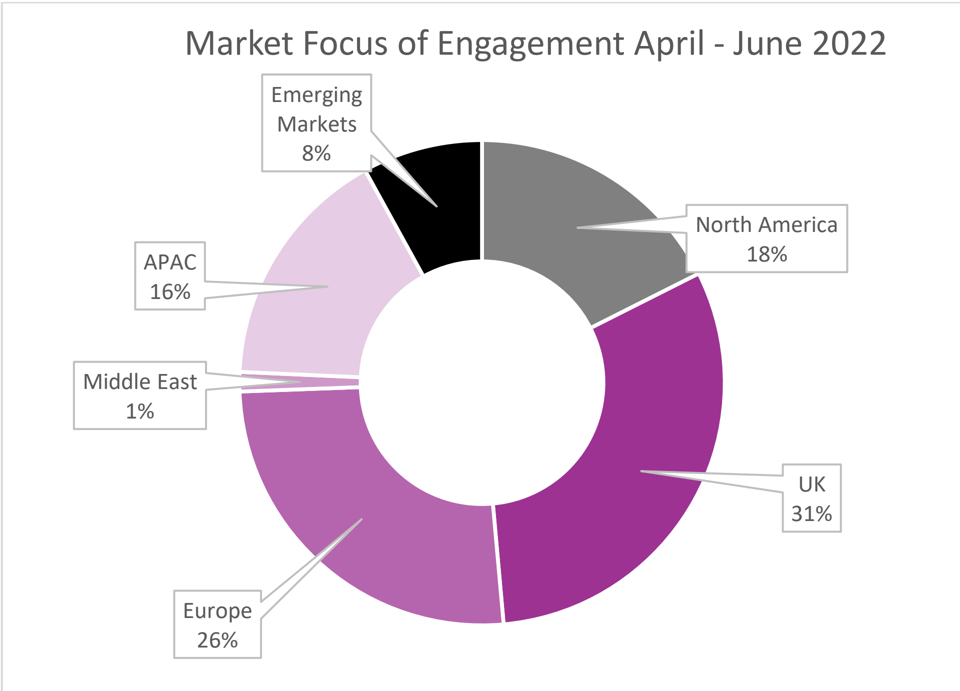
Engagement is the process by which the Authority working together with other like-minded investors seeks to influence the behaviour of companies on key issues. Engagement (in distinction to voting) is an ongoing process and is undertaken by those directly managing money for the Authority such as the 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.



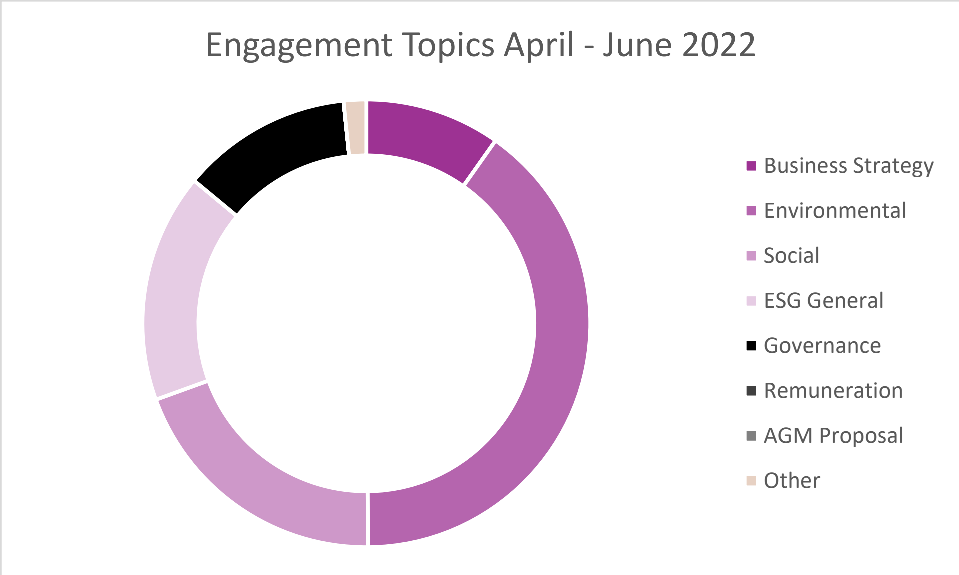


As can be seen the level of engagement activity in the quarter is significantly greater than in the same quarter last year. This appears to be due to an increase in activity by the external managers within the Investment Grade Credit Fund as well as a continuing relatively high level of activity by LAPFF. This is reflected in the almost doubling of the proportion of engagement by the external managers this quarter compared to last year with their total activity in the quarter being more than half the total for last year.

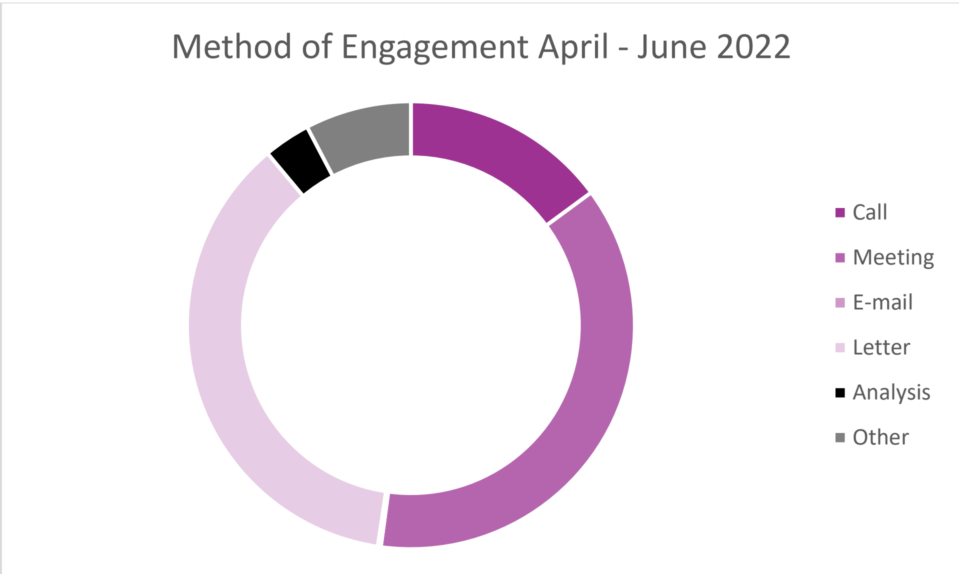
While a significant focus has remained on engaging with UK companies this has reduced somewhat compared to last year, although the high level of activity by both the credit managers and LAPFF has resulted in this remaining higher than what might be judged a neutral level. To some degree this reflects the focus of some engagement activity. For example, many of the large mining companies on which LAPFF has focussed considerable activity are UK based, although many of the issues being engaged are actually in other countries, particularly in emerging markets such as Latin America and Africa.



The range of topics covered (set out below) remains much the same as previously with engagement on social issues at much the same level as last year but with environment down somewhat post COP 26 but with more focus on Governance and the range of issues covered under ESG General which includes issues such as cybersecurity.



The method by which companies are engaged is important. Letters and e mails are much more easily ignored or likely to generate a stock response from companies whereas calls or meetings allow for genuine interaction with the company. Encouragingly over 50% of interactions this quarter were in this form. This is broadly similar to the last quarter although an improvement over the full year picture for last year.



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 number of company engagements around plastic use. It was found that most companies were able to show good progress in innovation management, plastic recycling and industry collaboration and partnerships. However, they showed less progress towards responsible lobbying for regulatory change and plastic harmonization. It was concluded that despite considerable general progress only a few companies have demonstrated concrete efforts to adopt a circular model, although it was acknowledged that there were some technical obstacles to this.

- The closure of an engagement on Digital Innovation in Healthcare which had been running since 2019. Progress was seen for all companies under engagement. Most companies under engagement had defined a comprehensive digital strategy and supported it by integrating newer digital technologies within their innovation process. More limited progress was seen in the area of cybersecurity, where despite having robust policies in place, companies remain reluctant to share detailed information on external attacks and internal policy adherence failure. While this particular theme has now closed engagement on cyber security matters through the collaborative initiative led by Royal London Asset Management continues.
- The launch of Robeco's updated Net Zero Carbon Emissions engagement theme which is working with companies towards Net Zero by 2050. This engagement focuses on expanding engagement with companies deemed to have a material impact on the climate, with the aim to focus on engagement with companies with the highest carbon footprint that need to transition towards net zero emissions. Equally importantly, that transition plans ensure reduction in real-world emissions over the next decade. The engagement objectives for companies are based on, but not limited to the Climate Action 100+ Net Zero Benchmark, including to set long term net zero targets, substantiated by credible short- and medium-term emissions reduction strategies. The theme is expected to run to 2025 and includes 16 companies in which Border to Coast invest

More details of the activity undertaken by LAPFF in the quarter is available here. Key issues being worked on include:

- A major initiative around "Say on Climate" where LAPFF plans to issue up to 50 voting alerts on company climate plans over the next 12 months. The goal is to emphasise the importance of investors having a meaningful input on corporate climate strategies and initiatives. The Forum has recommended support of shareholder resolutions at a number of companies focussing on disclosure of emissions and plans to keep emissions in line with a 1.5^{o}C pathway. A specific theme has also been developed around mining companies' climate plans.
- The publication of a major report on mining and human rights building on the ongoing work being conducted by the Forum with community groups affected by tailings dam collapses in Brazil. Specific engagement has taken place with both Vale and Rio Tinto in particular focussing on the companies approach to assessing the impact of their operations. The Human Rights report also focussed more widely on the necessity for companies to carry out Human Rights impact assessments an issue also relevant to operations in the Occupied Palestinian Territories, which as reported elsewhere has been the subject of particular stakeholder interest.
- The production of voting alerts for a number of technology companies including Amazon, Meta and Alphabet, where there were a significant number of shareholder resolutions broadly focussed on human rights and labour standards.
- Meetings with a number of banks in relation to progress with their climate plans with ongoing engagement focussing on new financing of the oil and gas sector.
- The beginning of an engagement process with water utilities around environmental performance (including the discharge of raw sewage).

LAPFF continues to deliver a significant amount of activity on behalf of member funds and it is evident that while this ranges over a large number of companies the topics of engagement are becoming increasingly focussed around climate and human rights issues, the latter being an area where the Forum through engagement with affected communities can add a unique focus to the debate with companies.

Engagement Spotlight – Human Rights

As evidenced by the degree of interaction with stakeholders around companies operating in the Palestinian Territories human rights is an area of increasing focus for engagement with companies and is a specific focus in the Authority's responsible investment beliefs statement. It is therefore worth highlighting some of the work being undertaken in this area by Border to Coast and Robeco on our behalf.

Border to Coast has six engagement themes which have links to human rights issues covering 41 companies that the Authority are invested in within Border to Coast Funds. Five of these themes are being conducted by Robeco and one is a collaborative engagement facilitated by the Principles for Responsible Investment (PRI). The engagement themes are:

- Human Rights Due Diligence for Conflict-Affected and High-Risk Areas (Robeco)
- Labour Practices in a Post Covid-19 World (Robeco)
- Living Wage in the Garment Industry (Robeco)
- Social Impact of Artificial Intelligence (Robeco)
- Sound Social Management (Robeco)
- PRI-led Initiative for human rights and social issues (PRI / Border to Coast)

Each of the themes covered have a connection to human rights. Some themes have a specific focus on human rights (i.e. Human Rights Due Diligence for Conflict-Affected and High-Risk Areas), whereas for other themes human rights features as a specific engagement objective (i.e. Social Impact of Artificial Intelligence).

Robeco systematically analyses engagement themes that cover human rights issues by mapping them against the following codes of conduct:

- UN Global Compact Principles 1 – 4
- OECD Guidelines for Multinationals IV, V
- UN Guiding Principles on Business and Human Rights
- SDG 8: Decent Work and Economic Growth
- SDG 16: Peace, Justice and Strong Institutions

As Robeco engagement themes run for a three-year period, each of these themes are at slightly different stages, with many starting in 2021 or 2022 and are therefore due to conclude over the next three years. As with all engagement activity to protect the integrity of the engagement and to ensure no reputational damage to the company under engagement, only high-level information on each particular theme is made public. Robeco are including more engagement 'case studies' in their Active Ownership reports and we have provided a public case study below. It is likely that examples of this sort will increase as more of the engagements conclude.

Human Rights Due Diligence for Conflict-Affected and High-Risk Areas (Robeco)

In 2021, Robeco's Active Ownership team conducted a research project focused on human rights due diligence for conflict-affected and high-risk areas (CAHRAs) which informed this engagement theme. The three areas that were chosen were Myanmar, the Occupied Palestinian Territories (OPT) and the Chinese region of Xinjiang.

Robeco identified five engagement priorities related to corporate human rights practices, including a policy commitment, enhanced human rights due diligence, remediation, reporting and performance measurement.

The engagement focuses on strengthening the proactive measures of companies to help them mitigate risks that people face through the company's products and services, business model, and partners. Robeco have developed a proprietary framework to assess the different companies in the engagement program. The framework assesses the policies, procedures, guidelines, and disclosures companies are expected to have in place as reflected in the engagement objectives set for this theme. This framework will be used to track progress over the engagement period and to inform potential areas for improvement.

Of the ten selected companies for engagement, SYPA hold two within Border to Coast Funds.

Company Covered	Fund	Start Date	Close Date
1 Company	Overseas Developed	2021	2024
1 Company	Emerging Markets	2021	2024

Labour Practices in a Post Covid-19 World (Robeco)
The relevance of addressing labour practices and human capital management from the systemic perspective is mainly driven by rising social inequality. Inequality can have an adverse impact on productivity, undermine economic growth, and has the potential to cause macroeconomic and financial disruption. From a business perspective, having sustainable labour practices and robust human capital management strategies, enables companies to seize growth opportunities. This can be driven by increasing workers' productivity and reducing costs, as well as minimising reputational, operational and litigation risks.

This engagement was launched in Q2 2021. The engagement objectives are focused on protecting practices post-COVID in labour-intensive sectors. Robeco has targeted sectors that have experienced massive disruption in their operations due to the pandemic, bringing the working conditions of their employees to the fore. Border to Coast holds four of the eight target companies in funds held by South Yorkshire Pensions Authority.

Coverage	Fund	Start Date	Close Date
1 Company	Emerging Markets	2021	2024
1 Company	UK Listed Equity	2021	2024
2 Companies	Overseas Developed	2021	2022*

*In 2022, one of these companies was transferred to the SDG Engagement program due to the overlap of the engagement objectives linked to labour practices.

Living Wage in the Garment Industry (Robeco)
*I*n 2019, Robeco launched an engagement program focused on advancing the payment of living wages in the global supply chain of the apparel industry. This was conducted through the Platform Living Wage Financials (PLWF), a coalition of 18 financial institutions, using their influence and leverage to engage with their investee companies on this topic.

Robeco engaged with five companies in the industry held by Border to Coast, ranging from fast fashion retailers to luxury brands. The program focused on how companies uphold the payment of living wages across their strategy; how this is supported by responsible purchasing practices and meaningful industry collaborations; and whether they offered remedies when incidents were identified.

After three years of engagement, there was positive progress in the sector and the engagement was closed successfully in December 2021.

Coverage	Fund	Start Date	Close Date
1 Company	UK Listed Equity	2019	2021
4 Companies	Overseas Developed	2019	2021

Case Study
Adidas has integrated living wages into its purchasing practices by using a standard minute value costing system. This enables the sportswear apparel company to monitor wages paid by suppliers, along with the material, labour, and overhead costs necessary to produce Adidas's products. Moreover, the company actively engages with its suppliers to improve social dialogue. Factories representing 85% of the company's sourcing volume are unionized and 56% of them have specific collective bargaining agreements in place. When it comes to providing remedy to workers, the company's human rights grievance channel, which is accessible to stakeholders across the supply chain, has set a precedent in the industry. On an annual basis the company publicly reports the status of complaints on the Adidas Human Rights webpage, indicating the region and the types of organisations that have reported complaints.

Social Impact of Artificial Intelligence (Robeco)
In 2019 Robeco's Active Ownership Team conducted research on the implications of the increasing use and development of artificial intelligence (AI) by a variety of listed companies. The chief concern is that the technological development and application of AI outpaces the development of principles (soft law, company principles, sector principles) and hard legislation to use the technology responsibly. Issues around machine learning are increasingly surfacing that show a heightened focus on safety, privacy and human rights.

The objective of the engagement program was to promote strong governance and human rights practices to mitigate undesirable social impact from artificial intelligence, this also supports our investment in companies with exposure to AI. We believe that companies prepared for the social and governance risks associated with machine learning will be better positioned to capitalise on any further technological applications of AI. Companies that have clear policies, risk management systems and strong governance structures are less likely to be adversely impacted by incoming regulations, than companies that lack such policies and systems.

Since 2019, eight companies held in Border to Coast Funds, in which SYPA invest, have been under engagement.

Coverage	Fund	Start Date	Close Date
3 Companies	Overseas Developed	2019	2022
5 Companies	Overseas Developed	2019	2021*

*In 2021, these five engagements were transferred to the SDG Engagement program due to the overlap in the objectives of the engagement.

Sound Social Management (Robeco)
The "Sound Social Management" theme is an ongoing theme which covers several areas of engagement with companies including Human Rights Practices, Stakeholder Management, Labour Practices, Human Capital Management and Supply Chain Management. Engagements are aligned to the OECD Guidelines and the UN Global Compact. Engagements with individual companies are run for three-years, and clear objectives and success thresholds are set for each company.

Company Covered	Fund	Start Date	Close Date
1 Company	Overseas Developed	2021	2024
2 Companies	UK Listed Equity	2021	2023
3 Companies	Overseas Developed	2020	2023
1 Company	UK Listed Equity	2019	2022

PRI-led Initiative for human rights and social issues – Advance
Border to Coast has recently joined a new stewardship initiative launched by PRI. Institutional investors will work together to take action on human rights and social issues, using their collective influence with companies and other decision makers to drive positive outcomes for workers, communities and society.

The following three expectations will be set for target companies:
- Fully implement the UNGPs – the guardrail of corporate conduct on human rights
- Align their political engagement with their responsibility to respect human rights
- Deepen progress on the most severe human rights issues in their operations and across their value

Progress will be monitored through a combination of tracking company performance over time against company benchmarks (such as the World Benchmarking Alliance's Corporate Human Rights Benchmark (CHRB)) and from information received from lead and Collaborating Investors. The first sectors to be covered are the Metals and Mining and Renewables sectors. Of the initial 40 target companies South Yorkshire Pensions Authority hold 17 within Border to Coast Funds. These engagements have a longer time frame than those set by Robeco, running for a five-year period.

Coverage	Fund	Start Date	Close Date
4 Companies	UK Listed Equity	2022	2027
6 Companies	Overseas Developed	2022	2027
1 Company	Overseas Developed / UK Listed Equity	2022	2027
4 Companies	Emerging Markets	2022	2027
2 Companies	Overseas Developed / Listed Alternatives	2022	2027

LAPFF undertakes a significant amount of engagement activity around human rights with a particular focus on the mining industry and its interaction with indigenous communities. The key issues and risks to investors in this area are summarised in a comprehensive report produced by the Forum which is available here.

LAPFF has ongoing engagement with all the largest mining companies unusually including Vale which is domiciled in Brazil and therefore more difficult to engage with. The focus of this ongoing activity includes progress (or lack of) with reparations following the various tailings dam collapses, companies process for undertaking assessments of the impact of their activities on the communities within which they operate and the responsibility companies bear for the negative impacts on communities of Joint Ventures in which they participate.

In the last quarter LAPFF engaged with 19 companies on human rights issues (not all of which are held in the Border to Coast products in which SYPA is invested). This included major IT companies where there are concerns about human rights and free speech aspects of operation in China and companies included on the UN list of companies operating in the Palestinian territories.

In summary, the broad thematic engagement on human rights issues being conducted through Border to Coast and Robeco as well as through LAPFF are consistent with our policies and beliefs statement and have scope to introduce real world change and preserve or create shareholder value.

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 Authority members in the on-line reading room, but this summary provides a high-level indication of the position.

Overseas Developed

- Weighted ESG Score 7.0 v 6.9 for banchmark and AAA rated
- 41.5% of portfolio ESG leaders slightly below benchmark.
- 2% of portfolio ESG laggards below banchmark.
- 5.5% of portfolio not covered all of which are investment trusts etc higher than benchmark
- Worst scoring companies 1.5% of portfolio
- Emissions below benchmark on all metrics.
- Weight of fossil fuel holdings greater than benchmark
- All 5 top emitters rated on the Transition Pathway with three scoring 4, and all are being engaged by Climate Action 100+.

United Kingdom

- Weighted ESG Score 7.8 v 7.7 for benchmark and AAA rated
- 70.8% of portfolio ESG leaders above benchmark
- 0% of portfolio ESG laggards better than benchmark
- 7.7% of portfolio not covered mainly investment trusts etc higher than benchmark
- Worst scoring companies 6.4% of portfolio
- Emissions belpw benchmark on all measures
- Less weight of fossil fuel holdings than in benchmark.
- Top 5 emitters all rated 4 or 4* (highest ratings) on the Transition Pathway and all engaged through Climate Action 100+

Emerging Markets

- Weighted ESG score 5.4 v 5.2 for benchmark and rate BBB
- 22.8% of portfolio ESG leaders above benchmark
- 16.5% of portfolio ESG laggards more than benchmark
- 5.0% of portfolio not covered largely investment trusts etc
- Worst scoring companies 6.0% of portfolio.
- Emissions materially below benchmark on all metrics
- Greater weight of fossil fuel holdings than in benchmark.
- 3 of the top 5 emitters engaged with the Transition Pathway with one scoring 4 and two engaged through Climate Action 100+.

In general, this shows a broadly positive picture, although there have been some less positive movements in the quarter albeit from a high base. It is also the case that focus in this area should be on the longer-term trends rather than quarterly movements.

The most significant movements in the quarter were:

- In the Overseas Developed Fund the overall rating for the Fund increased to AAA. There is only one CCC holding, Jardine Matheson a diversified holding company operating in the Far East. There are a number of governance concerns about cross holdings and a controlling shareholder which are beginning to be addressed alongside the company making a number of commitments in relation to environmental issues. All of these should lead to some improvement in the rating going forward.
- In the UK Fund there were no significant movements in the quarter with the Fund continuing to be underweight the lowest ESG rated companies.
- In the Emerging Market Fund one CCC stock was exited in the period and there were no downgrades.

The carbon metrics are addressed later in this report.

Investment Grade Credit Portfolio

Similar information is now available for the Investment Grade Credit portfolio as is available for the equity portfolios. It is important to note that while the availability and quality of ESG data has been improving in recent years, there can still be material gaps across the fixed income market. This is particularly prevalent where a debt-issuing entity does not also issue publicly listed equity, which, in most cases, the fixed income issuer maps to. The highlights from this report are set out below:

Weighted ESG score less than benchmark 7.0 v 7.4 - largely due to proportion of the portfolio not ESG rated, but AA rated overall

37.9% of portfolio ESG leaders compared to 54.5% in the benchmark

1.2% of portfolio ESG laggards compared to 1.7% In the benchmark

23.6% of portfolio not covered of which 18.5% is companies not covered and 5.1% collective vehicles

Lowest rated issuers represent 1.4% of the portfolio

Emissions below benchmark on two of the three metrics but somewhat above on carbon intensity

Materially below benchmark weight of companies with fossil fuel reserves.

2 of top 5 emitters being engaged by Climate Action 100+ and both rated 4 on the Transition Pathway

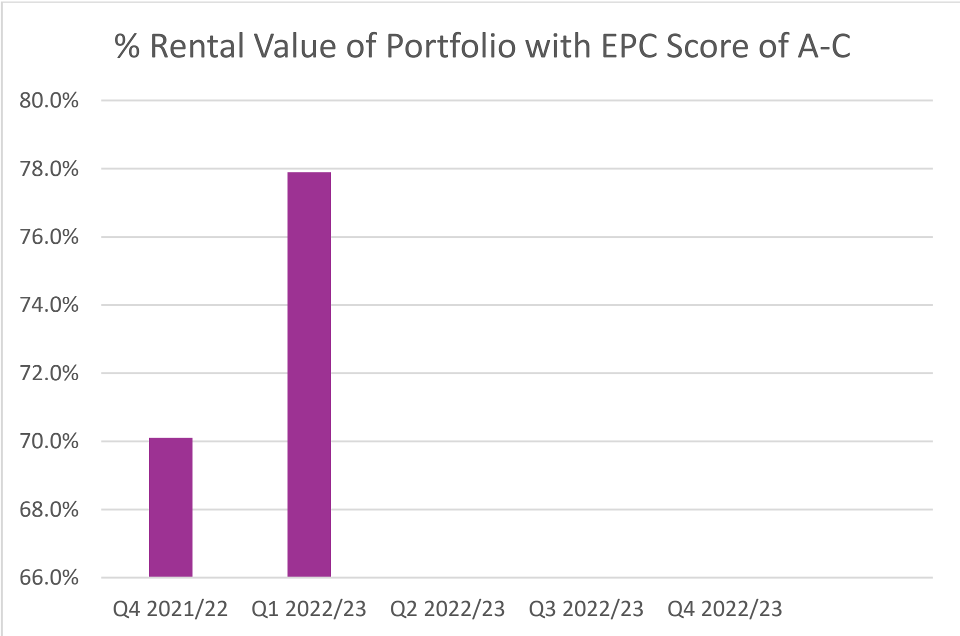
The ESG score was stable over the quarter and the below benchmark score is driven by the active positioning of the Fund holding “leader” stocks. Despite this the Fund is rated AA which is classed as Leader.

No one holding dominates emissions within the portfolio. The largest emitter is London Power Networks (a subsidiary of UK Power Networks) which transmits, generates and distributes electricity. Making it part of one of the core sectors in the transition to low carbon energy. The Company has had a “Green Action Plan” in place since 2019 focussing on waste, water usage and air and noise pollution and increasing biodiversity as well as carbon emissions. The company has become the first UK electricity network operator to achieve the Carbon Trust Standard for Carbon.

Exposure to companies owning fossil fuel reserves is lower than benchmark with the largest contributors including BP (via their financing vehicle), Equinor and Centrica.

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. 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:



This shows that the restructuring of the portfolio away from smaller units has resulted in a significant overachievement of the target of 70% of the rental value of the portfolio being rated A to C. Work is continuing to address the performance of the remaining assets to ensure that they are brought up to the same standard.

Progress continues to be made at individual properties with the installation of solar PV and EV charging. One solar PV installation is now complete as part of a refurbishment of a unit prior to occupation by a new tenant and 3 other schemes are under consideration with tenants while 2 EV charging schemes are being considered with tenants.

It is also the intention to introduce standard “green clauses” into new leases with these as a minimum requiring the provision of data by tenants to ensure that emissions can be comprehensively measured.

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 10.5% 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.

The Authority is also, as previously reported, progressing the development of a significant addition to its holding in Edinburgh. This is aiming for BREEAM Excellent certification, which would make it a best-in-class industrial development and possibly the best example of such a development in Scotland. Negotiations of heads of terms and agreements for lease with 3 potential high-quality tenants are at an advanced stage and these tenants will all be signing up to “green leases” which place certain environmental requirements on tenants including the reporting of data to support the monitoring of emissions. Key environmentally positive aspects of the construction of the buildings is likely to include:

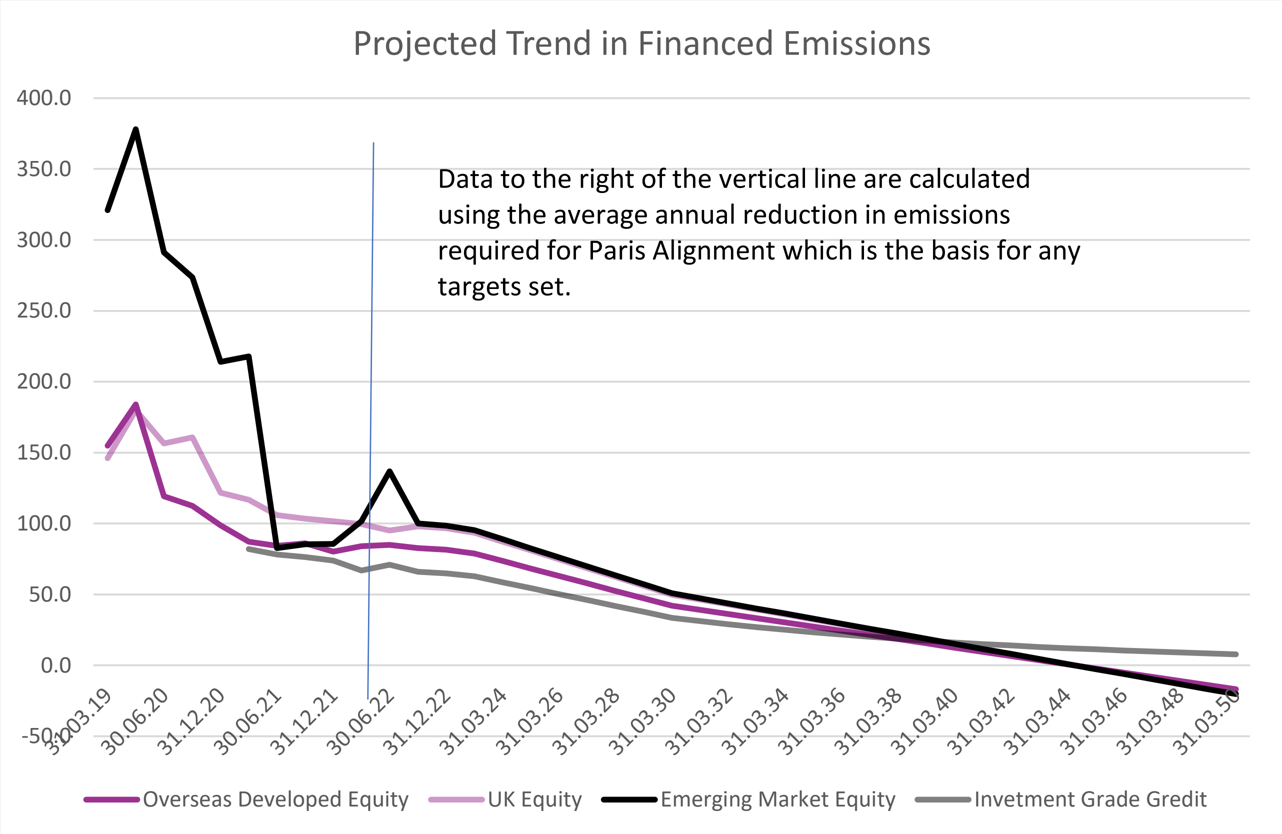
- Reducing embodied carbon through use of recycled content such as blast furnace slag in concrete, use of timber frame construction (as opposed to steel), use of suppliers with responsible sourcing certification, recycling of waste construction materials.
- Operational energy efficiency through a fossil free development with no gas supply, high efficiency building envelopes and lighting, roof mounted solar PV etc.
- Other measures including cycle storage and provision of EV charging. The site is in a highly sustainable location with access within 200 meters to high frequency bus routes including to a nearby suburban railway station.

This is a very significant development for the Authority and should set a benchmark for future developments by Border to Coast when their property fund launches.

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 progress towards Net Zero using the emissions data provided on a quarterly basis by Border to Coast. The graph below shows the trend for what is now termed financed emissions (i.e. absolute carbon emissions) which is the main indicator for which targets have to be set. This covers the four portfolios for which emissions data are available.



In terms of broad progress towards the Net Zero Goal the trajectory implied here which conforms to the annual level of emissions reduction required by Paris alignment achieves zero emissions for the equity portfolios around 2045 with the Investment Grade Credit portfolio remaining marginally above zero in 2050. It should be emphasised that this is simply an arithmetic projection and not a real-world scenario.

In terms of the metrics for the individual portfolios there have been some adverse movements in the quarter particularly on the Overseas Developed and Emerging Market Funds. In part this is caused by the availability of more and more recent data and the impact of Covid-19 lockdowns gradually dropping out of the figures as economic activity has recovered.

This remains broadly positive in terms of the overall trend, As has been stated previously there is a high risk of non-achievement of the 2030 Net Zero Goal without other changes in the investment approach, which will be examined as part of the review of the investment strategy which will be undertaken over the course of 2022-23.

As part of SYPA's commitment to the Paris Aligned Asset Owner Initiative we need to set targets for emission reduction for those portfolios for which we have emissions data 12 months after signing up to the initiative. Due to reporting cycles we have agreed a deferment with the IIGCC who run the initiative and the targets are included in the draft annual report. Given that these targets are for portfolios which are managed by Border to Coast who are aiming for a 2050 Net Zero Goal they reflect a trajectory which is achievable for the specific product given this. Further targets will be generated through the work on the investment strategy.

The targets are for the equity portfolios in aggregate and the Investment Grade Credit portfolio to deliver a reduction in financed emissions of **52% on 2019 levels by 2025**. This is significantly greater than implied in the International Energy Agency's Net Zero Emissions 2050 pathway. Given the reductions achieved to date this will require around a 2% p.a. year on year reduction for the remainder of the period to 2025. Thus, given previous performance there is a strong possibility of overachieving this goal.

While the Authority would wish to see these portfolios achieve Net Zero by 2030 this is, as explained above, not something that is entirely within our gift. Therefore, based on current information available these portfolios could achieve a **65% reduction in emissions by 2030** compared to 2019 compared to the 41% reduction implied in the pathway to 2050. This would require reductions of approximately 6% p.a., which is close to the reduction required by Paris aligned equity benchmarks.

For Real Estate the setting of targets is complicated by the likely transition of assets into a Border to Coast product during 2023. At this point SYPA's assets will become part of a much larger pool of assets, most of which we have no knowledge of, making the setting of targets difficult. It would therefore not be sensible to set a formal target for this portfolio at this stage. However, it is acknowledged that emissions will need to be reduced **by at least 50% on 2020 levels by 2025** to be aligned with the Authority's Net Zero goal. This implies ongoing reductions in emissions of at least 10% p.a.

The Paris Aligned Asset Owners Framework to which the Authority subscribes also requires the Authority to set targets for the proportion of emissions by:

- Companies which are achieving Net Zero
- Companies which are already aligned to Net Zero
- Companies which are in the process of aligning to Net Zero, and
- Companies which are being engaged with to encourage them to align to Net Zero.

Based on progress to date with the public market portfolios (both equity and fixed income) we would expect:

55% of financed emissions to be aligned to Net Zero **by 2025**, and **70% by 2030,** and
80% of financed emissions to be subject to engagement **by 2025** and **90% by 2030.**

All of these targets will be refined as part of the review of the Investment Strategy which will include an examination of the balance between the different types of investment held by the Fund, which can also have an impact on overall emissions.

Stakeholder Interaction

Over the quarter there has been a range of stakeholder interaction some funnelled through Authority members and some directly with officers. This has focussed on two issues.

1. **Investment in the Palestinian Territories** – As has been previously discussed by members this is an area where the Authority has a very limited exposure to companies appearing on the UN's list of 112 companies operating in the territories meaning that in simple terms this is not a financially material issue in terms of prioritising our resources in relation to engagement with companies. However, as indicated elsewhere both Robeco and LAPFF are undertaking work in this area. A petition has been received by Sheffield City Council asking the Council to seek divestment by the Authority of companies operating in the Territories. This has been referred to the Council's Strategy and Resources Committee and officers will, of course, co-operate with any requests for information or other input from the Council. As has been previously reported this is a particularly difficult area given the Government's proposals to legislate in relation to Disclosure, Boycotts and Sanctions and powers already in place within the Public Service Pensions and Judicial Offices Act. It should be emphasised that immediate divestment without any form of engagement with a company would not be in line either with the Authority's policy or best practice, and secondly that any holdings are within products provided by Border to Coast and therefore it is not directly in the Authority's gift to divest.

2. **Climate Issues** – There has been a range of correspondence to members and a question at Sheffield City Council's Full Council meeting focussing on "encouraging" the Authority to invest in some form of fossil free equity product either through Border to Coast or using an external provider if the Partnership is unable to launch such a product. The nature of the equity products in which we invest and their potential contribution to the achievement of the Net Zero Goal are properly matters for consideration within the review of the investment strategy and will be considered as part of that. However, it is important to emphasise that the primary goal of the investment strategy must be to arrive at a strategic asset allocation that gives a greater than 67% probability of achieving the returns necessary to meet the Fund's liabilities. This correspondence also referred to investment in local "green" businesses. As has been discussed by the Authority previously we do not have the resources or capability to make such investments directly. Whether such investments made through appropriate fund managers should form part of our response to the call for us to provide a "levelling up plan" will be something discussed by the Impact Investing Working Group and will need to reflect the Authority's overall appetite for risk.

3. **Local Investment –** A question was asked at the June meeting of the South Yorkshire Combined Authority on engagement between the Mayor and the Authority in this area. Officers have had an initial discussion with officers of the Combined Authority about local investment in the context of the need to produce a "levelling up plan" and a Combined Authority Officer will be asked to present to the Impact Investment Working Group as part of the process of developing agreed priorities within that plan. Further contact from the Mayor is expected in the coming months.

Continued campaigning by stakeholders on the first two issues is going on across the LGPS and is likely to continue locally. The Authority has always sought to maintain a positive relationship with local campaign groups involving our scheme members addressing these and other issues. However, the tenor of the debate is subtly changing and while continuing to be open to dialogue we may need to become slightly firmer in our responses as time goes on. In addition, the volume of activity of this sort is continuing to increase placing an increasing call on officer time, a factor which is being considered in work being carried out on future resource levels.

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 again held a business meeting during the quarter which included discussion of items on the approach taken by companies to Joint Ventures where there is some evidence that companies are not fully exercising the responsibilities resulting from ownership with potentially significant negative impacts on people and planet. The meeting also discussed a report on Electric Vehicle Charging infrastructure and how investors might influence companies in this area. Unfortunately, a meeting of the All-Party Parliamentary Group on Local Government Pensions covering the Levelling Up Agenda had to be postponed until October.

The Taskforce on Nature -related Financial Disclosures (‘TNFD’) is a global initiative, with the aim of developing a risk management and disclosure framework for reporting and acting on nature - related risks and opportunities . June saw the release of the second beta version of its framework . This builds on the first iteration, released in March, and features additional guidance for pilot testing . Ongoing market feedback will support the further design and development of the TNFD recommendations due in September 2023 . Border to Coast has supported this initiative and will continue to monitor progress throughout the testing period .

The Institutional Investors Group on Climate Change (IIGCC) has now a Net Zero Investment Framework for the Infrastructure Asset Class which forms part of the supporting framework for the Paris Aligned Asset Owner Initiative to which the Authority subscribes. Given the importance of investment in this asset class to transition ambitions this is an important development which will support the Authority both in its strategy within the asset class and in setting emissions targets for infrastructure when the time comes.

During the quarter IIGCC also announced that the number of asset managers signing up to the Net Zero Asset Manager Initiative has reached 273 managing $61.3tn of assets. This is a significant step in terms of achieving a critical mass of assets targeting Net Zero and will mean that it is much easier for Border to Coast to identify external managers aligned with their objectives in this area than might otherwise have been the case.

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.

Paris alignment reporting in occupational pension schemes

The Department for Work and Pensions published its response to its October 2021 consultation in June. The consultation sought views on proposals to require trustees of large occupational pension schemes to measure and report on the degree of alignment of their investment portfolios with the goals of the Paris agreement, in addition to the other TCFD reporting requirements already included in the regulations for private sector schemes.

The result of the consultation is that the Government will make regulations so that with effect from October 2022, trustees of occupational pension schemes with assets in excess of £1bn will be required to calculate and report metrics setting out the extent to which their investments are aligned with the goals. While not directly relevant to LGPS it is expected that the regulations in relation to carbon reporting for LGPS when they are eventually made will closely follow those for private sector schemes. Consequently, the Authority will need to make preparations, including contracting with relevant specialist advisers, to be able to meet these requirements.

UK Transition Plan Taskforce

An increasing number of companies are making commitments to decarbonise their operations and reach net zero emissions . The detail provided in transition plans can vary significantly making it challenging for stakeholders to assess them . In April, HM Treasury formally launched a new UK Transition Plan Taskforce, to develop a standard for climate transition plans in the UK . The aim is for UK financial institutions and listed companies to develop and publish science -based transition plans that are credible, robust and "investable", providing detail on how they will adapt and decarbonise as the UK moves towards net zero .

Science -based targets in financials

Recognising that financial institutions are key to enabling the systematic change needed to reach net zero, the Science Based Targets initiative ('SBTi') recently published a paper outlining a variety of new concepts for setting net zero targets for banks, asset owners, asset managers and other financial institutions on a science -based basis.

The paper looks to address a number of key issues, including defining net zero, the use of offsets, and fossil fuel phase -out approaches . It also paves the way for the SBTi's Net -Zero Standard for Financial Institutions, due to be launched in early 2023. Given the importance of financial institutions to the transition process the availability of a standard against which to assess their transition plans is an important development.

Embedding stewardship in the asset manager and asset owner relationship

The steering group combining the Investment Association (IA) and Pensions and Lifetime Savings Association (PLSA) recently published a report on strengthening the relationship between pension funds and investment managers. The report seeks to address issues including a lack of clarity on stewardship expectations, and an overemphasis on short -term performance by setting out several recommendations for each stage of the relationship, from the appointment process, through to the ongoing monitoring of established relationships. Given SYPA's position within Border to Coast this is of indirect relevance, but it provides a benchmark for assessing Border to Coast's relationship with external managers.