SOUTH YORKSHIRE
PENSIONS AUTHORITY

Responsible Investment Update Quarter 3 2022/23

February 2023

Contents

Highlights and Recommendations

Highlights over the quarter to the end of December include:

- A reduction in the overall number of votes with the passing of peak voting season
- Continued focus in both voting and engagement on moving companies to providing clearer plans for the transition to Net Zero.
- The overall ESG performance of the listed asset portfolios has continued to be strong.
- Changes in market values and some updated data have retarded the rate of emissions reduction from the listed asset portfolios.

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 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 saw a significant reduction in both the number of meetings and votes cast as we move past peak voting season, with the number of votes cast being around 16% of the level seen in the last quarter. Detailed reports setting out each vote are available on the Border to Coast website [here.](#)
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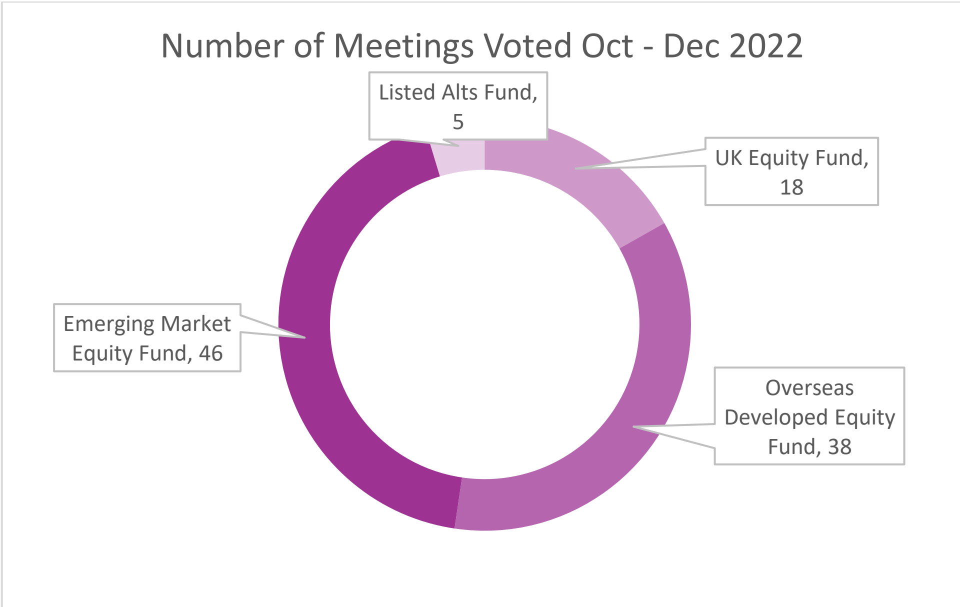
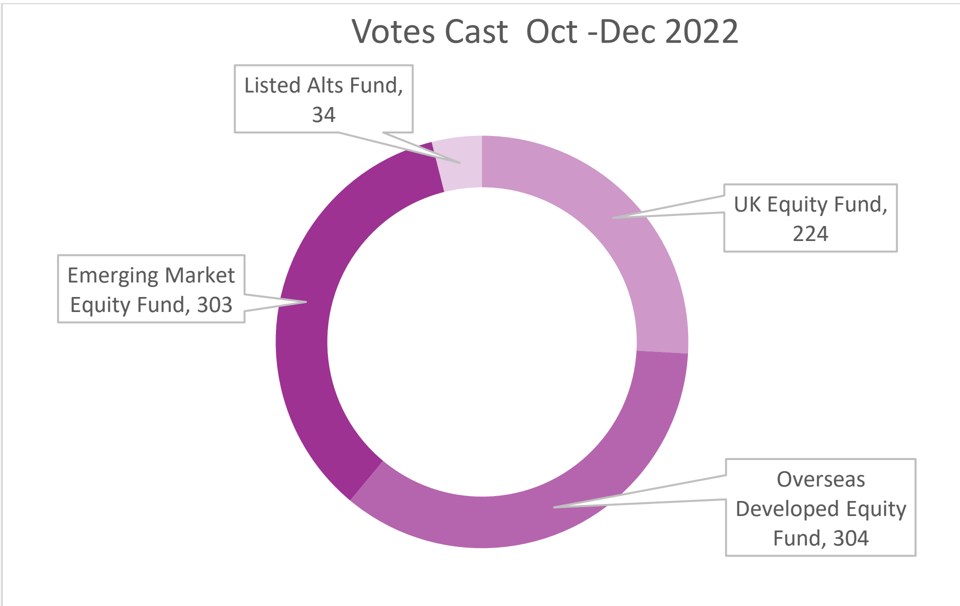




One of the emerging trends in the US voting environment highlighted by Robeco in the latest round of voting analysis is the growth of Anti-ESG shareholder proposals. Robeco's analysis addressing how these proposals are dealt with is provided in the box below:

Anti-ESG shareholder proposals

Investors and issuers were faced with a transformed US AGM landscape in 2022. The growing national debate around sustainable investing prompted a dramatic increase in the number of shareholder proposals filed by conservative activists seeking to halt companies' ESG efforts and to combat "woke capitalism". These proposals, now widely referred to as "anti-ESG", entail new challenges for investors seeking to push US companies to step up their ESG efforts.

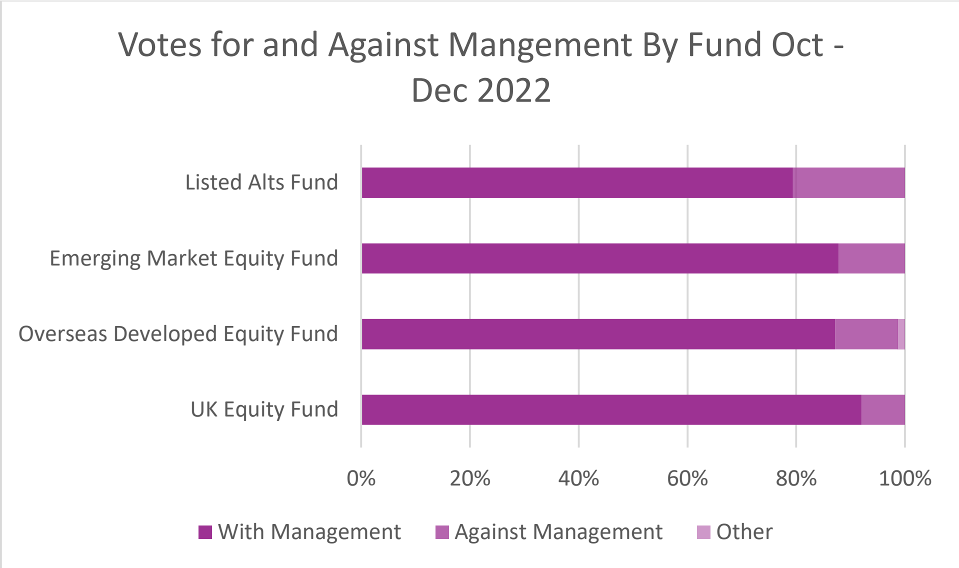
On the one hand, there are concerns that anti-ESG proponents may seek to take advantage of certain features of the US proxy machinery to block pro-ESG shareholder proposals from reaching ballots. The tactics that may be employed to achieve this are diverse yet have a common denominator – they concern shareholder proposal excludability under US rules. A shareholder proposal becomes eligible for a vote if it reaches a company's proxy statement, but companies can exclude the proposal if it fails to meet certain procedural and substantive requirements.

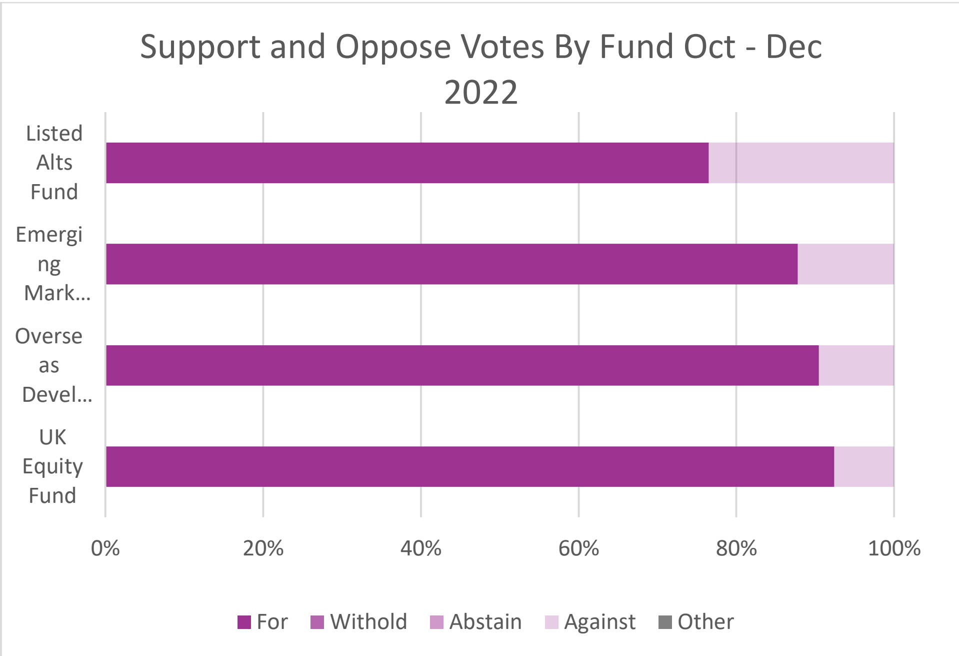
Particularly relevant in this sense is that the US Securities and Exchange Commission (SEC) allows companies to leave out substantially duplicative shareholder proposals from its proxy statement, as well as to exclude a shareholder proposal which addresses the same subject matter as a proposal that received low levels of support in any previous meeting. The 2022 proxy season has shown that anti-ESG shareholder proposals often take advantage of these provisions by duplicating the wording of pro-ESG shareholder proposals, which can lead to a number of consequences. First, if the anti-ESG shareholder proposal is submitted first, it will be the one that makes it to the ballot. Second, if an anti-ESG shareholder proposal receives less than 5% support at a meeting, as often is the case, pro-ESG proposals covering the same topic can be excluded from the proxy materials for the next three years.

In addition, anti-ESG shareholder proposals are often verbatim copies of pro-ESG shareholder proposals; they tackle the same topics ranging from lobbying to racial equity, and often appear to be fuelled by a desire to advance rather than hinder a company's ESG goals. Discerning the true objective of the proposal in many cases requires an in-depth analysis that spans well beyond the proxy materials made available by companies. This analysis covers aspects such as the proponent, the views expressed by the proponent, and any public statements made by the proponent regarding the shareholder proposal in question, thereby placing a burden on proxy analyses. Robeco assesses each shareholder proposal on a case by-case basis and supports resolutions which aim to increase transparency on material ESG issues, enhance long-term shareholder value creation, address material ESG risks and enforce appropriate conduct.

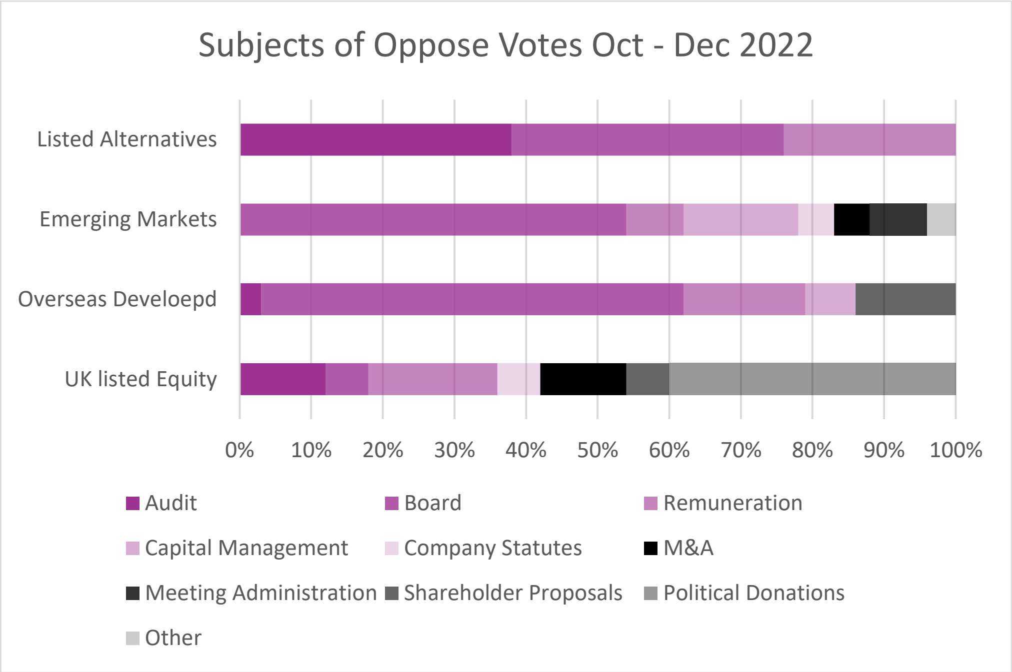
Robeco Voting Report February 2023

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





This shows a continuing slight increase in the number of votes cast both against resolutions and against the line taken by company management. As has been previously reported this reflects the “ratcheting up” of the voting guidelines in a number of areas, as can be seen from the analysis below of the subjects of oppose votes.



This indicates that votes against are more evenly distributed across topics in the developed markets than in the emerging markets as listed alternatives funds. In some cases this will be because shareholder proposals are not allowed in some markets. The three largest areas where we have opposed management relate to Board composition, Auditor appointments and remuneration, and it is worth rehearsing the reasons why this is the case.

- In the case of Board composition there are a number of things which under the voting guidelines automatically trigger an oppose vote. These include insufficient independence, insufficient diversity within the Board, and insufficient progress in terms of adapting the business to the risks posed by climate change.
- Auditor appointments are automatically opposed if reappointment would result in an unduly long term which is viewed as compromising the auditor's independence.
- In the case of remuneration votes against are triggered by executive pay packages which are either excessive in absolute terms and/or where incentive packages are not aligned with shareholder interests and/or the performance targets are poorly defined or too easily achieved.

Shareholder resolutions as can be seen from the information on notable votes in these reports can cover a whole range of issues but in the last year the focus other than on climate issues has tended to be on diversity and human rights issues particularly for US companies. The voting policy does not automatically support such resolutions and analysis is undertaken of both the company's and proponents positions before votes are decided by Border to Coast on the advice of Robeco.

Notable votes in the quarter are set out in the box below.

Ferguson PLC - Ferguson distributes plumbing and heating products in North America. The Company proposed a range of changes to its articles in a single resolution as a result of moving its listing from London to New York. This included limiting the range of courts where certain issues could be litigated which we felt was not in shareholder interests. We voted against the single resolution as bundling proposals in this way is not good practice. The resolution had 93% support. We also voted against appointment of a director who is the CEO of a company with significant related party transactions with Ferguson on the grounds they were not independent. The individual received 97% support.

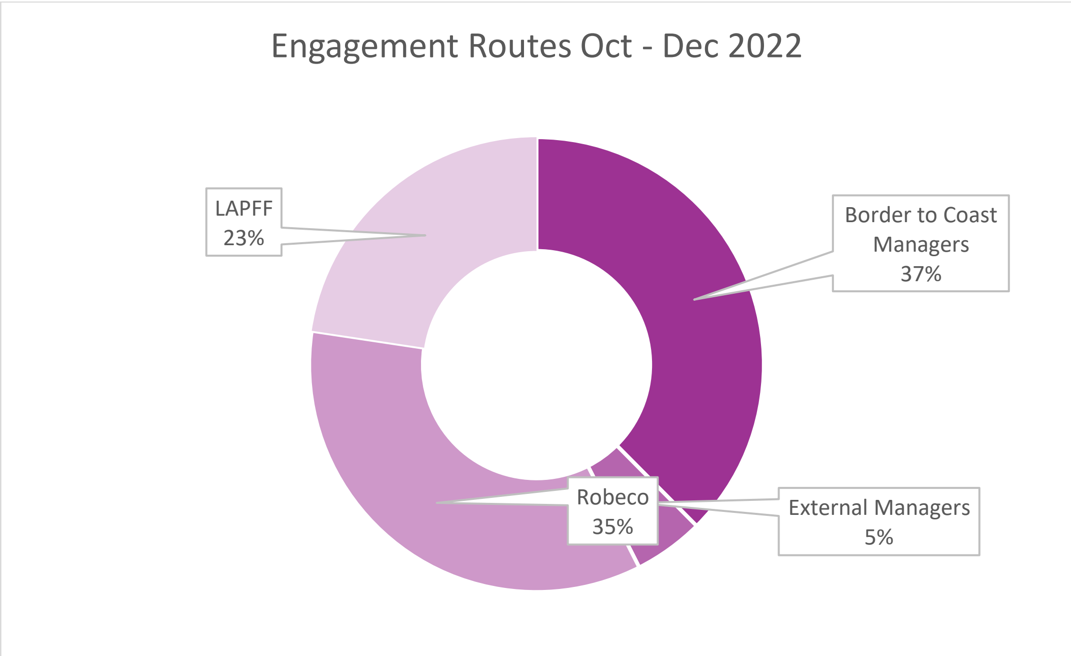
Oracle Corp - Oracle is a multinational software company. The AGM saw continued scrutiny of the company's pay practices. We once again voted against the "Say on Pay" proposal for three main reasons - modification of the 2018 stock option performance criteria, pay and performance misalignment and lack of meaningful response to shareholder dissent. We also voted agains the reappointment of all Remuneration Committee members. There was around a 33% vote against Say on Pay and between 27% and 30% against the individual reelection proposals.

National Australia Bank - NAB's AGM saw two noteworthy shareholder proposals as part of a broader campaign to hold large Austriailian banks to account for their climate commitments. The first was a constitutional change to make shareholder resolutions easier to submit which we supported because we believe this is an enhancement of shareholder rights.

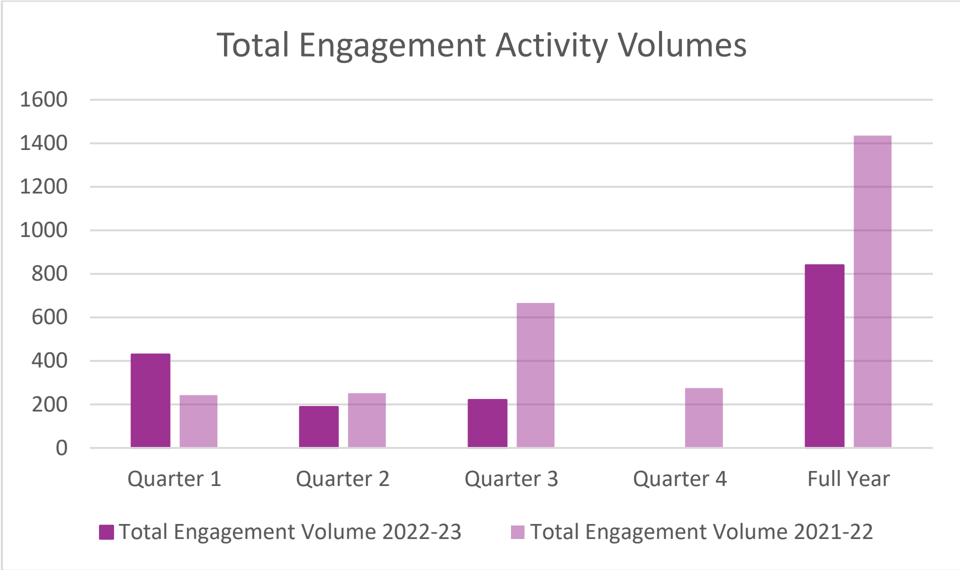
The second resolution which we also supported asked the Company to report annually on how its financing will be used for new or expanded fossil fuel projects. This is in line with our general approach of supporting disclosure and transparency in these areas.

Engagement Activity

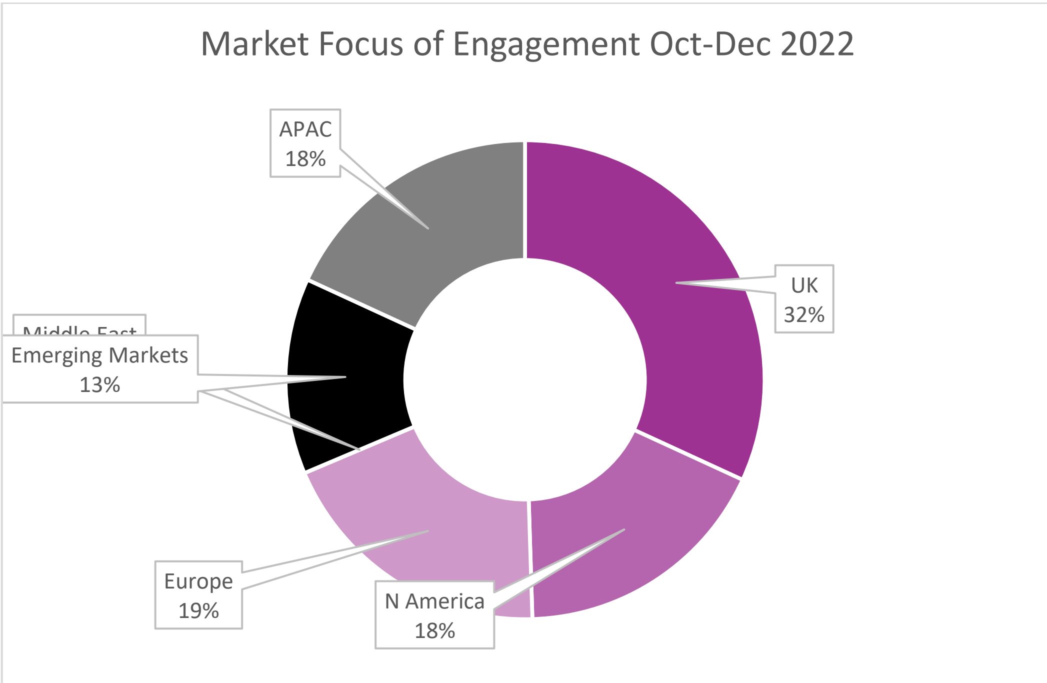
Engagement is the process by which the Authority working together with other like-minded investors seeks to influence the behaviour of companies on key issues. Engagement (in distinction to voting) is an ongoing process and is undertaken by those directly managing money for the Authority such as the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



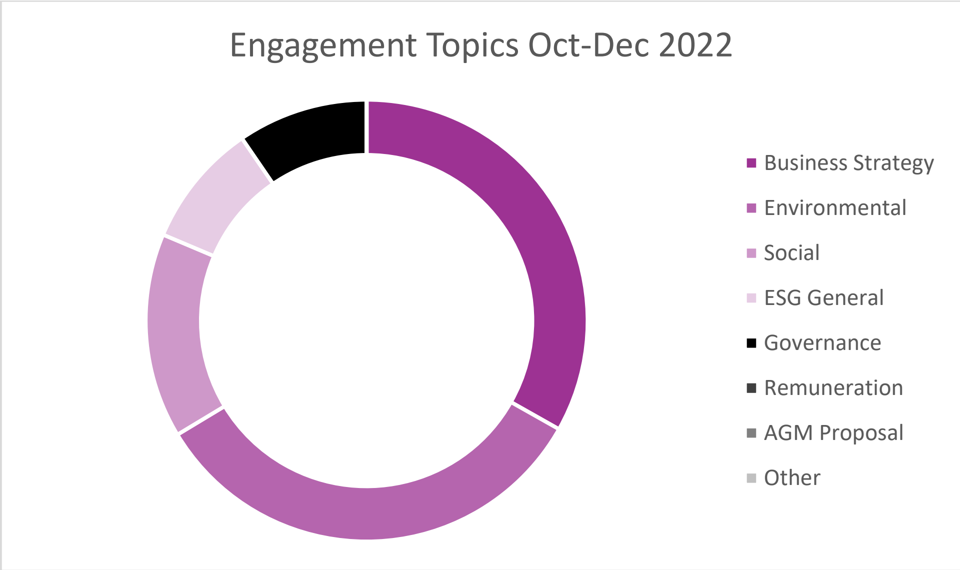
As can be seen the level of engagement activity in the quarter has reduced compared to the previous quarter with the passing of peak voting season, while there has been an increase compared to last year in the proportion of activity being carried out by Border to Coast, Robeco and the external managers with the proportion of activity being carried out by LAPFF reducing following the peak associated with CoP 26 in Glasgow.



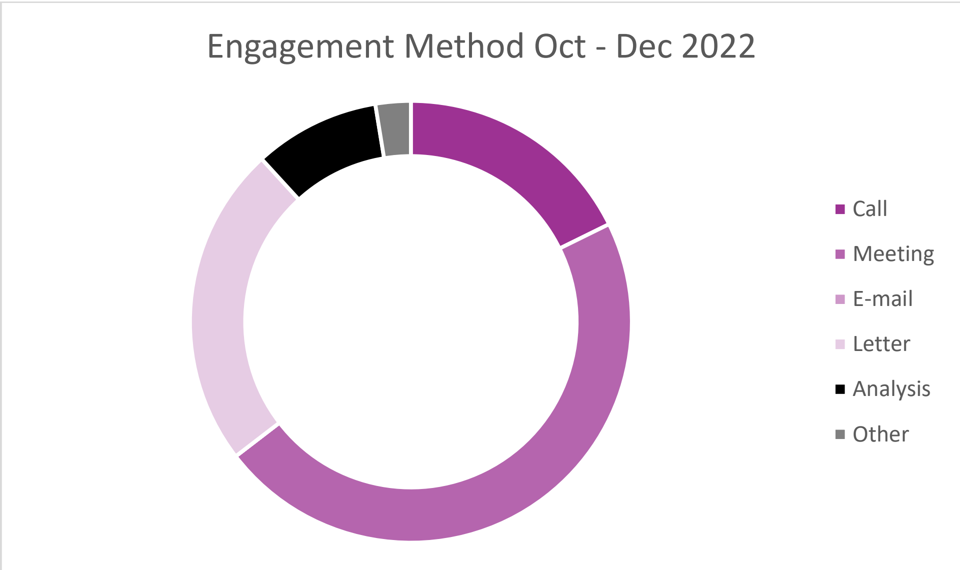
The market focus of engagement continues to normalise following last year's disproportionate focus on the UK in the lead up to CoP 26 with the distribution now better reflecting the geographic distribution of holdings, although the UK continues to be overrepresented as our home market where it is easier to engage with companies.



The range of topics covered through engagement is set out in the chart below with a continuing strong focus on environmental and climate issues although social issues continue to receive a significant degree of focus. Again, following the CoP 26 peak there is a more even spread of focus across issues although given the passing of peak voting season remuneration was not a topic of any engagement this quarter.



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.



This shows the continuation of the positive trend of the previous quarter towards forms of engagement which allow genuine interaction with the Company.

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 Robeco's engagement theme around the Social Impact of Artificial Intelligence. In 40% of the companies engaged the engagement was successfully closed. Companies are gradually aligning their practices to principles for the responsible use of AI, and increasingly doing so collaboratively in initiatives that play a decisive role in guaranteeing trustworthy AI. However, the adoption of these principles needs to be supported by strong governance and transparency. In general results are highly correlated with a company's willingness to set up a constructive dialogue. Engagement activity will continue with a selection of ICT companies under the Sustainable Development Goals theme, where the dialogues have a strong focus on human rights and societal impact highlighting topics such as misinformation and content moderation. The focus will be on how companies contribute to SDG 10 (Reduced Inequalities) and SDG 16 (Peace, justice and strong institutions) by safeguarding human rights in the development and use of AI and promoting social economic and political inclusion.

- Robeco has been engaging with a number of computer games manufacturers since the beginning of 2021. There are two dimensions to the concerns here "in front of the screen" where there are concerns about player behaviour and harassment and where is the possibility of using available technologies within games for harassment prevention. There has been progress here with at least half of companies taking some action on age restrictions and wider regulatory activity by governments. "Behind the screen" concerns focus on issues of diversity and in particular allegations of toxic workplace cultures at some companies. Western companies have tended to take a wide ranging approach to dealing with these issues including providing additional training for staff, while at the same time remaining defensive about whether this is a systemic issue. Companies in other regions have taken a more specifically gender perspective and have been less responsive overall. There has been uniform attention to wider workplace conditions and in particular improvements to work-life balance. Across the board companies have improved their reporting with all companies engaged now producing annual ESG reports. This engagement is continuing with a particular focus on addressing the "in front of screen" risks that exist for umbrella companies in an industry which tends to operate through large numbers of subsidiaries.
- Robeco have also taken some significant steps in moving forward their engagement around bio-diversity issues and more detail is available in their quarterly report.

During the quarter Border to Coast signed up to a new collaborative engagement initiative led by the Principles of Responsible Investment (PRI). Advance is aligned with and will support delivery of the key Social engagement themes, with a particular focus on human rights. Currently the initiative is supported by 220 investors with over $30 trillion in assets under management.

Why is this important?
Human rights are an area receiving increased focus from investors as human rights have become increasingly at risk around the world. Companies are facing increasing scrutiny on how they address human rights issues, highlighting the importance of the 'S' in ESG. Human rights issues can expose companies to legal, regulatory, operational and reputational risks with the potential to impact shareholder value.

How will companies be assessed for engagement?
The target sectors and initial list of companies were identified and developed in consultation with the Initiative's Signatory Advisory Committee and Technical Advisory Group. A framework was developed for selecting sectors and companies as targets for engagement. This identified high-risk sectors, incorporating issues across supply chains, and evaluated the practicalities of engaging with these sectors. This resulted in two priority sectors: the Metals and Mining sector, and the Renewables sector.

When considering potential companies, four criteria were assessed: performance on human rights, ownership structure, regional diversity, and the systemic importance. The first phase of the initiative will be with 40 target companies in the Metals and Mining and Renewables sectors. Border to Coast hold 19 of the target companies.

What are the objectives?
The overall objective of the initiative is to 'advance human rights and positive outcomes for people through investor stewardship'. The following three expectations will be set for target companies:

• Fully implement the United Nations Guiding Principles on Business and Human Rights (UNGP) – 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 chains.

Annual progress reports will be published by the PRI to provide investors and other stakeholders with a regular update on the progress of the initiative against its stated objectives. An assessment framework will be published during 2023 which will be used to measure the progress of the target companies against the objectives.

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

- LAPFF has continued to engage with a number of mining companies about the way in which they engage with their workforces and local communities. While there has been some progress with a number of companies and leading board members do seem to be more receptive to engagement on these issues fundamental changes which go to making change in the underlying issues identified over many years does not yet seem to have been achieved.
- Engagement with Chipotle around water stewardship which has achieved some success with the Company undertaking an assessment of the materiality of its risks in relation to water supply and quality in relation to ingredients, the supply chain and its restaurants, which have provided a better understanding of the water related risks facing the business. Engagement will continue around the next phases of this work which will develop context based targets related to areas of the operation under high water stress. This activity is directly related to one of the Authority's priority Sustainable Development Goals.
- Engagement with electric vehicle manufacturers to gain a better understanding of how they are responsibly sourcing the minerals required for battery production. Engagement with Renault, Mercedes and General Motors indicated awareness of the issues and risks involved the development of risk assessments and audit processes as well as greater dialogue with suppliers. This work will continue as this issue is a significant element of the Just Transition to a low carbon economy.
- LAPFF has continued to work on collaborative engagement initiatives including Climate Action 100+ where it is the lead engager for a number of companies; Paris aligned accounts where a process of engagement with the Audit Committee chairs of a number of large companies which might be particularly affected by the potential impairments which would result from the revaluation of carbon related assets in a 1.5^{o}C scenario. LAPFF has also led one engagement for the Investor Alliance for Human Rights focussed on the issue of Uyghur forced labour in supply chains.

LAPFF has also continued responding to wider developments for example proposals to amend the Climate Action 100+ benchmark and examination by the Government of social risks and opportunities facing occupational pension schemes.

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 7.3
- 47.1% of portfolio ESG leaders v 46.3% in the benchmark.
- 1.0% of portfolio ESG laggards v 1.8% in the banchmark.
- 4.6% of portfolio not covered all of which are investment trusts etc higher than benchmark
- Worst scoring companies 0.8% 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 2 scoring 4 and 4 of 5 engaged through Climate Action 100+

United Kingdom

- Weighted ESG Score 7.9
- 72.3% of portfolio ESG leaders v 70.3% in the benchmark
- 0% of portfolio ESG laggards
- 6.9% of portfolio not covered mainly investment trusts marginally less than benchmark
- Worst scoring companies 7.1% of portfolio but all Average companies
- Emissions belpw benchmark on 2 of 3 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 5.6
- 22% of portfolio ESG leaders v 17.6% in the benchmark
- 15.8% of portfolio ESG laggards v 15.2% in the benchmark
- 4.9% of portfolio not covered largely investment trusts etc
- Worst scoring companies 5.6% of portfolio.
- Emissions materially below benchmark on all metrics
- Greater weight of fossil fuel holdings than in benchmark.
- 3of the top 5 emitters engaged with the Transition Pathway with one scoring at levels 2 nd 3

In general, this shows a broadly positive picture, with all funds continuing to score better than the benchmark overall. There were however a number of movements at more detailed level which are of note.

Within the Overseas Developed Fund Meta Platforms (Facebook) was downgraded to CCC. The Fund has an underweight position in this stock due to its reliance for 99% of group income on digital advertising which is likely to be hit in a slowing economy as well as being challenges by Apple's tightened privacy settings. The Company's ESG track record and in particular its poor ranking in governance, privacy and data security leave it exposed to drawing the attention of increasingly hawkish regulators. The immediate reasoning for MSCI's downgrade to its lowest ESG rating is that recently announced job cuts will weigh heavily on staff morale, which has merit from a human capital standpoint. Near term, however, Meta shares have rallied strongly on the back of the cost saving announcements as investors take reassurance from the Company's willingness to act to mitigate a weakening revenue position.

Within the UK fund there were several stock upgrades in the quarter with Unilever and Derwent London both moving to AAA. Haleon which is a new position as a result of the Company being spun out of GSK is the lowest rated company held in the Fund at BB which is still within the average category. The company is the former consumer products division of GSK with a number of key brands like Aquafresh and Sensodyne. MSCI recognises that the Company leads its peers on corporate governance but sees a range of opportunities to improve the carbon footprint through raw material sourcing and lower use of single use packaging. Product Safety and Quality is scored below peers reflecting indemnities provided at the time of separation from GSK (the scope of which are disputed by Haleon). The risk in this area appears to be fully reflected in the valuation of the stock, however a recent US court ruling dismissing claims in one case would appear to reduce any potential financial liability for either GSK or Haleon.

Within the Emerging Markets Fund five companies (Vale, Formosa Plastics, Sun Pharmaceutical Group, Zijin Mining Group and Will Semi Conductor were upgraded from CCC.

In addition to the above a pilot ESG report for the Listed Alternatives Fund has been made available to officers this quarter and will be available publicly from Quarter 4. This report has been piloted, among other reasons, because it is less possible for this product to rely on MSCI data for the reporting of carbon emissions and therefore other methodologies have had to be developed.

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 7.2 which is less than benchmark of 7.5	40.7% of portfolio ESG leaders compared to 56.7% in the benchmark	0.4% of portfolio ESG laggards compared to 0.9% In the benchmark
23.8% of portfolio not covered compared to 9.1% in the benchmark	Lowest rated issuers represent 2.4% of the portfolio	Emissions below benchmark on all three metrics.
Materially below benchmark weight of companies with fossil fuel reserves.	2of 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 remaining below the benchmark driven primarily by an overweight position in UK government bonds (rated A) against an underweight position in European Investment Bank bonds (rated AAA). Despite this the Fund has an overall rating of AAA.

Beneath this stability, however, there has been significant change largely driven by an increase in the coverage of issuers by MSCI which is significantly improving the data available for assessing the ESG score, although coverage continues to be far less than for the equity portfolios.

No one holding dominates emissions within the portfolio.

Commercial Property Portfolio

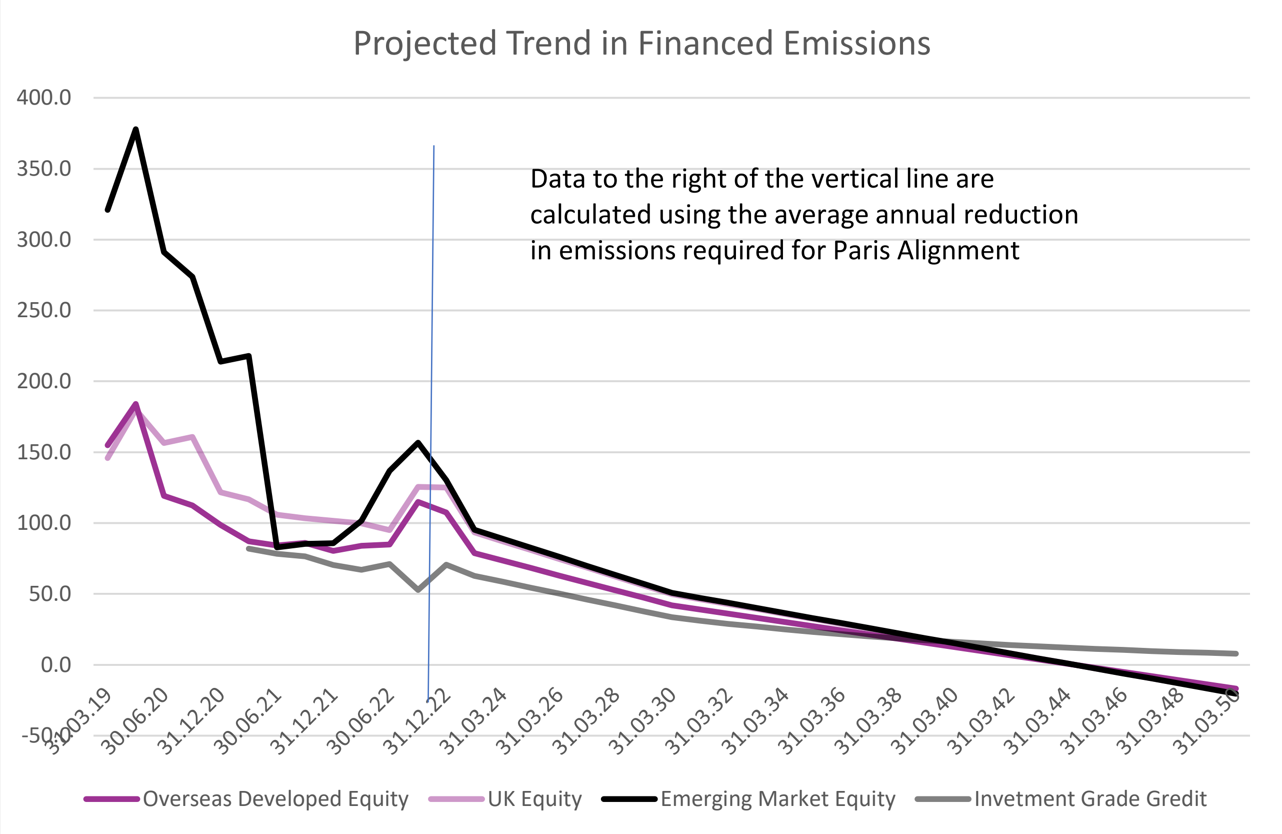
As reported in the last quarter the overall ESG performance of the commercial property portfolio as measured by the GRESB (Global Real Estate Sustainability Benchmark) has improved over the last year with the portfolio now achieving a 3 star score with an increase in the percentage score from 66% to 74%. In comparative terms the portfolio’s ranking has moved to 22 out of 80 from 54 of 79, reflecting the increased effort being paid to these issues by abrdn.

In terms of the more routinely measured metrics movements in the overall rental values of the portfolio have marginally reduced the proportion of the portfolio with EPC ratings A-C by 0.2% to 78.4%.

Asset disposals and the concentration on retaining the best performing assets in both financial and sustainability terms means that the proportion of the portfolio AUM with sustainability certification of either Very Good or Excellent has now increased from 10% to 37%. As previously reported given the costs of in use certification this measure is only likely to be increased as new acquisitions take place, although there may be some merit in seeking to get Border to Coast to get certification of all properties as part of the creation of their UK fund.

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.



This quarter has seen a significant amount of updating of data as well as a very significant increase in coverage for the Investment Grade Credit Fund. The updated data seems to reflect (particularly in the Emerging Market Fund) some continuing increase in economic activity following the pandemic which in terms of the metric interacts with market values which continue to be subdued.

Looking at each of the Funds in turn. Within the Overseas Developed Fund emissions increased slightly due to small increases in the weight of holdings in RWE, Holcim and ArcelorMittal. These are routine investment movements reflecting the Fund manager's belief in these companies as a source of return with the credibility of their plans for decarbonisation forming part of this judgement.

Within the UK Fund all metrics remained level compared to the previous quarter.

In the Emerging Market Fund all three metrics are significantly below the benchmark and there was some positive impact in the quarter on financed emissions and weighted average carbon intensity from exiting positions in China Resources Power Holdings and Anhui Conch Cement, the latter having previously been a major contributor to portfolio emissions. These exits were routine investments movements driven by assessment of the companies potential to contribute to future returns.

The Investment Grade Credit portfolio has as mentioned previously seen a significant improvement in data availability with the overall position being below the benchmark on all metrics and with no one holding dominating portfolio emissions. The largest contributors to emissions include BP, Equinor and Centrica and this supports the revised position proposed in the Authority's annual policy review of using debt denial as a means of encouraging companies to actively decarbonise their operations through the use of science based targets.

Each quarter Border to Coast's reporting on carbon emissions features particular stocks and their plans for decarbonisation. In order to increase the level of transparency on the engagement undertaken with companies and the assessment of their decarbonisation plans in future one of these case studies will be included in this report each quarter.

Air Liquide

French gas supplier, Air Liquide, announced its new strategic plan for 2025 earlier this year named ADVANCE, which sets out its carbon strategy. The 2025 target to start reducing its absolute CO2 emissions will be followed by a goal of achieving a 33% reduction in its Scope 1 and Scope 2 CO2 emissions by 2035, using 2020 as its comparative starting point. Air Liquide will be looking to be carbon neutral by 2050 aligning the Group with international efforts to reduce global warming, as outlined in the Paris Agreement. To decarbonise its assets, Air Liquide will leverage on capturing CO2, accelerating low-carbon hydrogen production through electrolysis or by using renewable feedstock such as biomethane. With regards to indirect emissions, Air Liquide will focus on increasing energy efficiency and low carbon electricity consumption. Air Liquide will also deploy a broad range of low-carbon solutions for its clients to help them decrease their CO2 footprint.

Air Liquide sees business opportunities in the emerging hydrogen sector linked to reducing carbon emissions from the industrial sector, heavyduty trucking, and elsewhere. The Company has said it will invest approximately 8 billion euros in the hydrogen supply chain as part of its carbon-neutrality goals and aim to accelerate its hydrogen developments to "at least triple" its annual revenue from hydrogen activities to more than 6 billion euros by 2035. Air Liquide will also develop competitive CO2 abatement solutions, leveraging its ongoing carbon capture and storage initiatives in Northern Europe and its proprietary technology Cryocap which is able to capture up to 95% of CO2 emissions from industrial facilities. Finally, management has stated that by 2030, Air Liquide aims at bringing its total electrolysis capacity to 3 GW.

As has been made clear previously the forecast reduction in emissions shown is dependant upon Border to Coast delivering the targets set out in their own Net Zero Strategy which depend on changes within the investment process as well as on the actions of individual companies. Officers continue to engage with Border to Coast to further understand both the nature of the changes being made to the investment process and their likely impact. In addition the review of the Authority's own responsible investment policies elsewhere on the agenda for this meeting look for a further ratcheting up of pressure on companies to adapt their behaviour.

Beyond this the investment strategy review which is elsewhere on the agenda will result in changes to the mix of assets that reduce the level of emissions from the portfolio but this process is at too early a stage to determine the scale of any reduction. However, as has previously been reported there remains a very strong probability that the Net Zero Goal will be missed although there is a possibility should all portfolios achieve the reductions targeted by fund managers that a date earlier than 2050 could be achieved.

It should also be borne in mind that while there is, rightly, a significant focus on emissions there is no credit in the calculations for the emissions avoided by the significant investment by the Authority in renewable energy and other climate solutions and this is something that we will look to begin reporting on in future.

Stakeholder Interaction

Over the quarter there has been a range of stakeholder interaction, although at a lower level than in the previous quarter. The interaction covered two areas, climate and the issues of companies operating in the Palestinian territories. In the second case significant information is required from Border to Coast and a holding reply has been sent.

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's most recent business meeting considered a draft workplan for the coming year which includes a focus on the following areas, each of which covers a range of specific engagement themes:

- Climate and Strategic Resilience, Environmental Protection and a Fair and Just Transition.
- Human Rights and Employment Practices
- Promoting Good Governance
- Reliable Accounts, Capital Market Regulatory Reform

The priorities within these areas are broadly supportive of the areas which the Authority wishes to prioritise for engagement.

Beyond this the Forum considered an update on work in relation to companies operating in the Palestinian Territories and investment risks in the Brazilian mining sector.

The Forum is operating in line with its budget and membership now stands at 86 Funds and 6 pools (Brunel having withdrawn).

As previously reported the Authority was shortlisted for two Pensions for Purpose awards. While unfortunately we were not successful we were highly commended in both categories, for adoption of the impact investment principles and place based impact investing. Items elsewhere on the agenda update the position on both these areas.

A Just Transition in Emerging Markets

Border to Coast is a founding member of the Emerging Markets Just Transition Investor Initiative which has published draft guidance to support investment decision making and future allocations to emerging markets. The initiative is supported by 12 large UK investors including a number of local government pools with £400bn of assets under management.

Collectively the Group is exploring how it can have a greater impact and help drive real world change by understanding the opportunities and mechanisms available to direct investments that support the low carbon transition whilst supporting economic growth in developing regions.

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.

UN Biodiversity Conference (CoP15)

COP15 took place in Montreal in December, with the primary aim of global governments agreeing to a new set of goals to protect biodiversity and restore ecosystems.

The conference ended with governments reaching a non-binding agreement on the Kunming-Montreal Global Biodiversity Framework (GBF) with the aim of addressing biodiversity loss, restoring ecosystems, and protecting indigenous rights. It consists of four overarching goals, including:

- Reducing the rate of species extinction by tenfold by 2050.
- Sustainable use and management of biodiversity to ensure that nature's contributions to people are valued, maintained and enhanced.
- Fair sharing of the benefits from the utilisation of genetic resources.
- Adequate means of implementing the GBF are accessible to all Parties, particularly developing nations.

The Framework includes targets to conserve 30% of land and oceans and restore 30% of degraded ecosystems by 2030. Although not perfect, the Framework is seen as a powerful signal to the finance sector to facilitate greater investment into nature protection and has been welcomed by investors.

COP15 also saw investors announce a new global engagement initiative focused on nature-related risks – Nature Action 100.

Responsible Investment Reporting Requirements

The framework around investing responsibly is becoming more formal. This is a move the Authority and Border to Coast broadly support, and will help drive more consistent climate reporting, and manage the risks of 'greenwashing'.

Late last year the Government consulted on LGPS reporting on climate change risks. Working with Partner Funds, Border to Coast submitted a response which welcomed the direction of travel alongside highlighting the risks. For example, the potential amalgamation of data produced using different methodologies.

Border to Coast have also responded to the Financial Conduct Authority's consultation on Sustainability Disclosure Requirements (SDR) and investment labels. In their response, Border to Coast expressed support for efforts to tackle 'greenwashing', while also highlighting potential unintended consequences from the proposed new regulations.