

Questions from Members of the Public

Palestine

Question from Ms C Poland

The new far right government in Israel includes ministers who have openly declared themselves to be fascists. This government has caused increased violence towards and oppression of the Palestinian population. Many international financial organisations are moving funds out of Israel due to the ongoing instability.

In the light of this situation has the South Yorkshire Pension Authority and/or Border to Coast discussed taking investments out of Israel, especially any that are operating in the illegal settlements, such as Bank Hapoalim and Bank Leumi?

Response

The position is much more complex than the question implies and the consideration of the issues raised in the question is not one of politics but of investment risk. The nature of this risk varies both between investee companies and the assets in which investments are made (risks may be different between bonds and equities, and the investments referred to here are in bonds and not equities). SYPA as the question acknowledges works through Border to Coast in this area and subscribes to the shared policy framework agreed by the 11 partner funds and the company. The following information provided by Border to Coast sets out the various issues and considerations which are involved in dealing with issues of this sort.

Overview

We fully recognise the importance and sensitivity of any human rights issues in the Occupied Palestinian Territories (OPT). Border to Coast considers material ESG factors, including human rights violations, when analysing potential investments. The factors considered are those which could cause financial and reputational risk, ultimately resulting in a reduction in shareholder value.

Border to Coast's Responsible Investment (RI) policy, which has been developed in conjunction with Partner Funds, does not operate any exclusions related to human rights violations. We take a holistic approach to identify all the risks a company faces and understand the materiality of these issues. We monitor portfolios using ESG data providers across a wide range of environmental, social and governance (ESG) issues including the MSCI Global Compact Assessment, Plenitude Compass Country Risk List and RepRisk ESG incident feeds. We also monitor information from a number of other sources, including the UN Human Rights Office of the High Commissioner and NGOs. Our voting and engagement partner monitors client portfolios to pick up UN Global Compact and OECD Guidelines breaches, which includes human rights violations.

We prioritise engagement activity based on investment risk, the materiality of the issue and the probability of being able to make a successful intervention. One of our current engagement themes "Human Rights Due Diligence for Conflict Affected and High-Risk Areas" being conducted by Robeco specifically covers companies operating in Israel, Palestine and the OPT. Companies were selected for the engagement using the UN database which classifies the involvement of 112 companies in the OPT. In addition to this, the Local Authority Pension Fund Forum (LAPFF) on behalf of Border to Coast and our Partner Funds, engaged with 17 companies in 2021 who were identified as having

“potentially problematic operations in or related to the OPT”. LAPFF continues to ask a number of companies to undertake human rights impact assessments on their operations in the OPT.

Border to Coast: Process for Screening against UN Global Compact

The UN do not keep a list of companies who breach the UN Global Compact – it is up to people/data providers interpretations. As such our approach is doing this is:

- *We screen all of our companies, internal and external, for UN Global Compact compliance using MSCI. We also use other data sources to complement this.*
- *Our approach is to screen on a quarterly basis. However, if a company was deemed to have breached UNGC we receive an update from MSCI in real time. The RI team use MSCI review of all holdings. MSCI will flag companies as red/orange/green in terms of controversies (including suspected UNGC breaches)*
- *We also use RepRisk – although this is more on a case-by-case basis (we do get alerts to incidents but not UNGC breaches): This monitors if any breaches are within operations or in supply-chain*
- *More broadly the investment team uses Plenitude which gives a risk by country*
- *Robeco have a proprietary human rights Framework that also factors into our voting decisions, as noted in the above section.*

For internally managed funds, this feeds into a quarterly dashboard of companies who have potentially breached UNGC, are ‘CCC’ rated by MSCI and/or are our top 5 emitters. This goes to the Head of Investment and the Portfolio Managers.

None of the companies on the list provided have been flagged by MSCI or RepRisk as potentially breaching UNGC. Some have commentary from MSCI that acknowledge human rights concerns related to their business activities on the West Bank. We would note that the assertion that the names stocks are violating the UN Global Compact is data provider specific – so for example MSCI may not categorise a company as in breach but Sustainalytics may do.

SYPA continues to regard the issues concerned with companies operating in the Occupied Palestinian territories extremely seriously and will continue to work with Border to Coast and with the Local Authority Pensions Fund Forum to ensure that companies are made aware of these concerns and act in ways which ensure that they are not in breach of the UN Global Compact. However, the judgement on the level of risk related to individual stocks has to be a judgement for the individual fund manager who is better able to make a judgement on the circumstances of and investment risk associated with the individual company than SYPA.