SOUTH YORKSHIRE PENSIONS AUTHORITY

Responsible Investment Update Quarter 4 2022/23

June 2023

Contents

Highlights and Recommendations

Highlights over the quarter to the end of March include:

- An increase in voting activity as we move into peak voting season.
- Evidence that the tightening of voting criteria in relation to climate and other issues is resulting in votes against management.
- Continuing positive ESG characteristics for the individual portfolios.
- A continuing high level of engagement activity across a wide range of topics.

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

Background

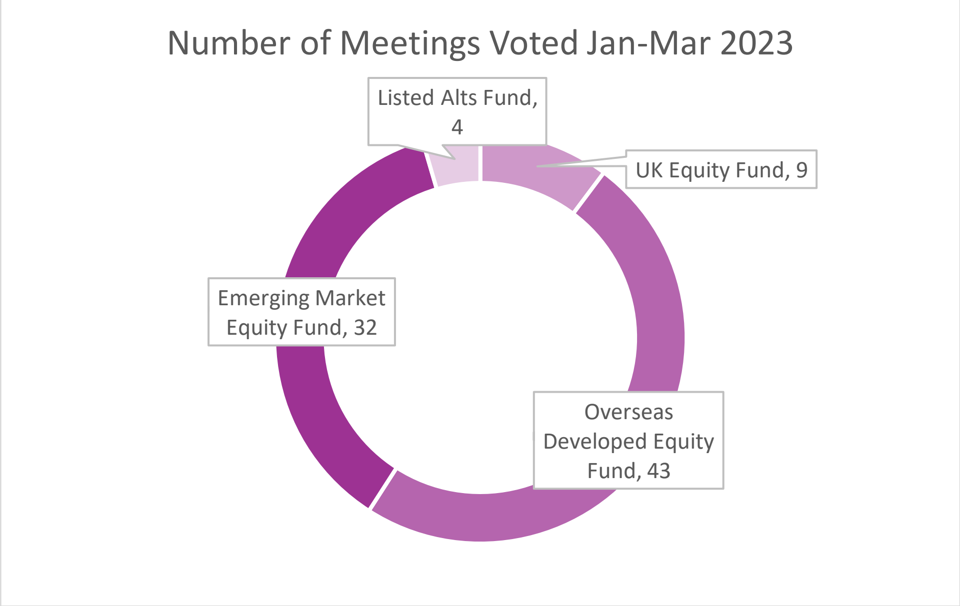
The Authority has developed a statement which sets out what it believes Responsible Investment is and how it will go about implementing it within its overall approach to investment. This statement is set out in the Responsible Investment Policy which is available on the website here.

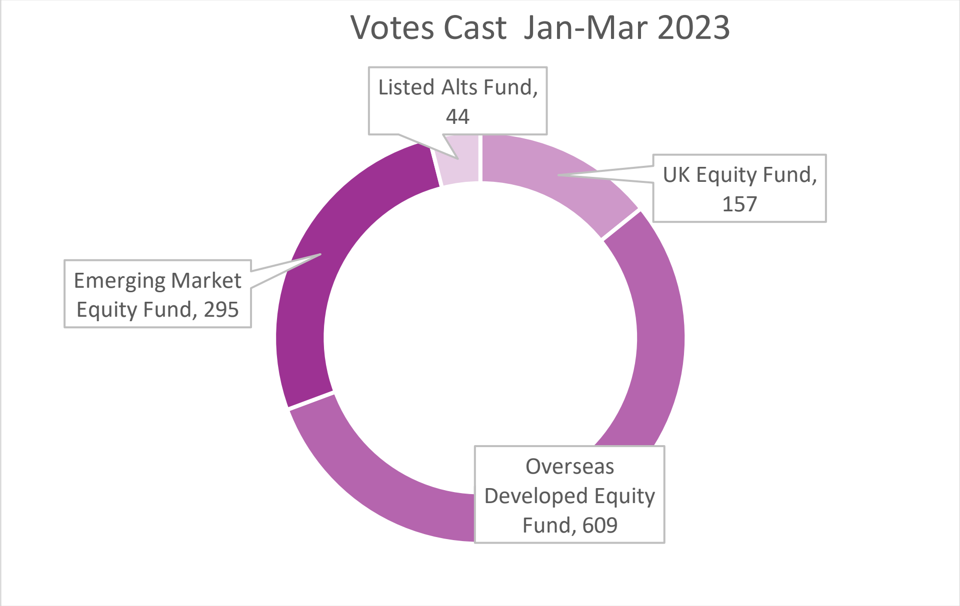
Our approach is largely delivered in collaboration with the other 10 funds involved in the Border to Coast pool. This report provides an update on activity in the last quarter covering:

- 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 a marked increase in both the number of meetings attended and votes cast as we move into peak voting season. Detailed reports setting out each vote are available on the Border to Coast website here. The charts below analyse the number of meetings and votes between the different funds in which SYPA is invested.





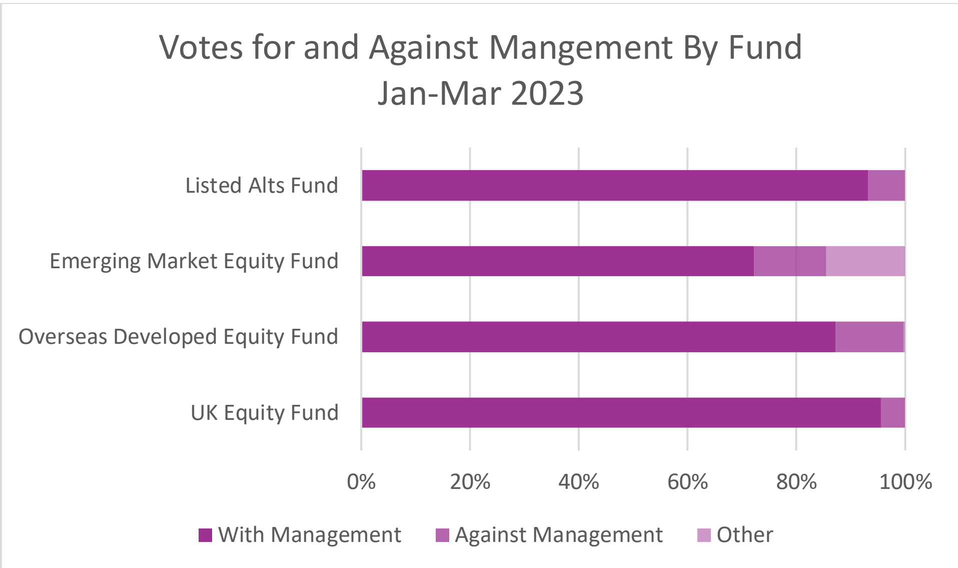
Border to Coast's overview of the voting environment for the quarter which is shown in the box below highlights the fact that despite some well publicised headwinds, particularly in the US, the regulatory environment is in many areas moving in a direction supportive of the policy positions and standards which SYPA and other responsible investors have promoted for many years.

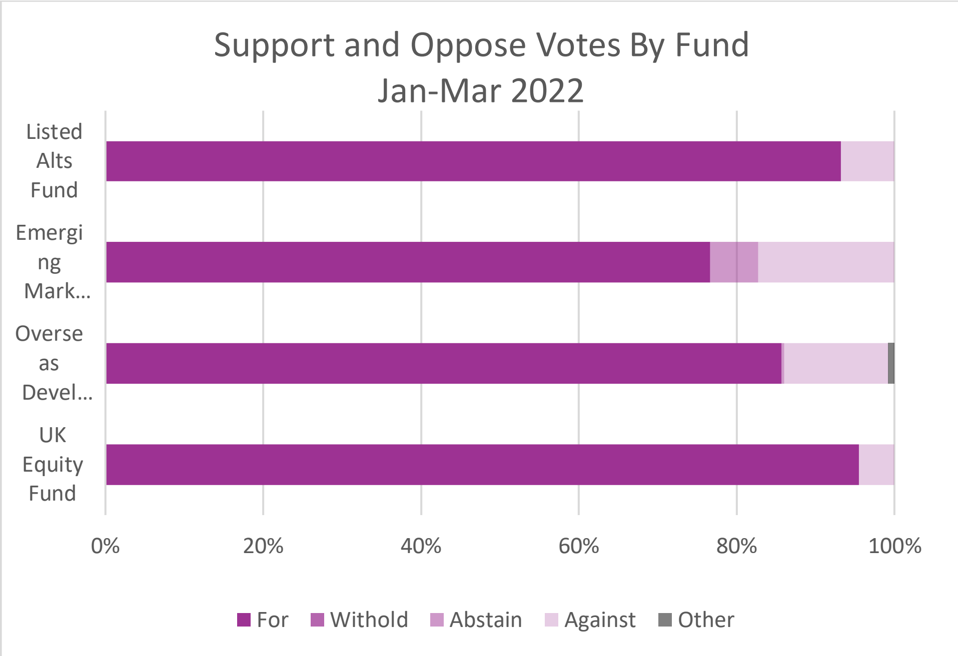
The corporate governance landscape has undergone significant changes in recent years with public company directors facing a variety of unique challenges, such as the Covid-19 pandemic, Russia's invasion of Ukraine, and rising energy prices. To address these challenges, regulators worldwide have implemented initiatives aimed at enhancing board composition and director accountability, which is aligned with how we view corporate governance best practice at Border to Coast.

In the US, the Securities and Exchange Commission has introduced universal proxy cards, enabling shareholders to vote remotely, and similar initiatives have been taken in other parts of the world. Germany's adoption of the Act on Strengthening the Financial Market Integrity has set stricter governance requirements for listed firms, including the need for audit committees to comprise two financial experts. The Financial Conduct Authority in the UK has released new rules aimed at boosting diversity on listed company boards, while in Singapore, the Monetary Authority amended the country's corporate governance code to limit the tenure of independent directors, promoting board renewal and progress on board diversity.

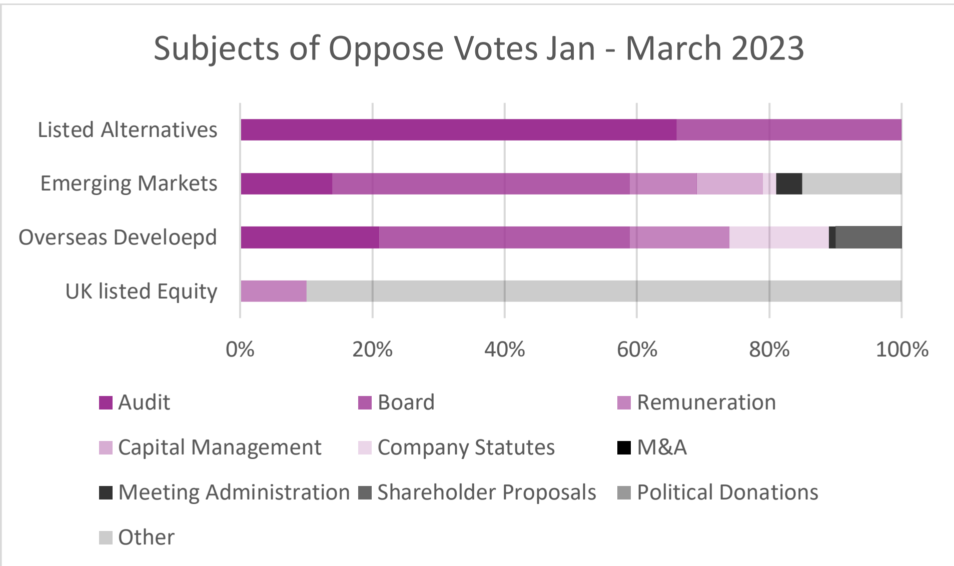
Border to Coast Quarterly Stewardship Report

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





This cpmtinues to show the effect pf 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 trend is lkely to continue in the next financial year with the further tightening of voting guidelines particularly in relation to companies' progress on climate goals.



This marked skew in the topics concerned in the UK fund reflects a much smaller number of meetings and votes this quarter and is likely to be company specific. A more even distribution would be expected in the next quarter.

For the Emerging Market Fund the significant focus on board composition is a result of challenging some entrenched market practices which result in company Board's which are regarded as insufficiently independent and able to protect shareholder interests. This is a longstanding issue and one where limited progress has been made, although in some markets there is now evidence that local shareholder groups are beginning to adopt similar policies to those seen in developed markets.

The nature of the investments in listed alternatives where investments tend to be through vehicles such as investment trusts and other similar products rather than directly into companies makes a focus on issues of Board independence and auditor tenure more likely than other types of vote.

All of these contrast with the more even distribution of votes against in the overseas developed portfolio, where in particular remuneration policies in US firms tend to generate votes against. In addition a number of companies have sought changes in their rules which would make it more difficult for shareholders to influence the direction of the company and these have been opposed.

Notable votes in the quarter are set out in the box below. Given the distribution of meetings this quarter all of these are taken from the Overseas Developed Fund.

Visa - This worldwide payments technology firm is held in the Overseas Developed Fund. As in orevious years we were unable to support the proposals on remuneration wher we felt the total package for the CEO was excessive and the incentive package was unduly short term.

Unusually we opposed a vote to separate the roles of CEO and Chair on the grounds that this was specifically intended to diminish the CEO's decision making power because of their advocacy of a range of ESG initiatives by the Company.

SK Hynix Inc - This is a semi-conductor company based in South Korea held in the Overseas Developed Fund. We voted against a bundled resolution covering approval of th eaccount and payment of dividends on the grounds that shareholders had insufficient time to assess the accounts, indeed Robeco we only provided with information about the accounts in an engagement call a few days prior to the meeting.This approach does not meet the standards of transparency that we expect and we called for the Company to publish accounts at least 21 days before the AGM to allow shareholders sufficinet time to assess them.

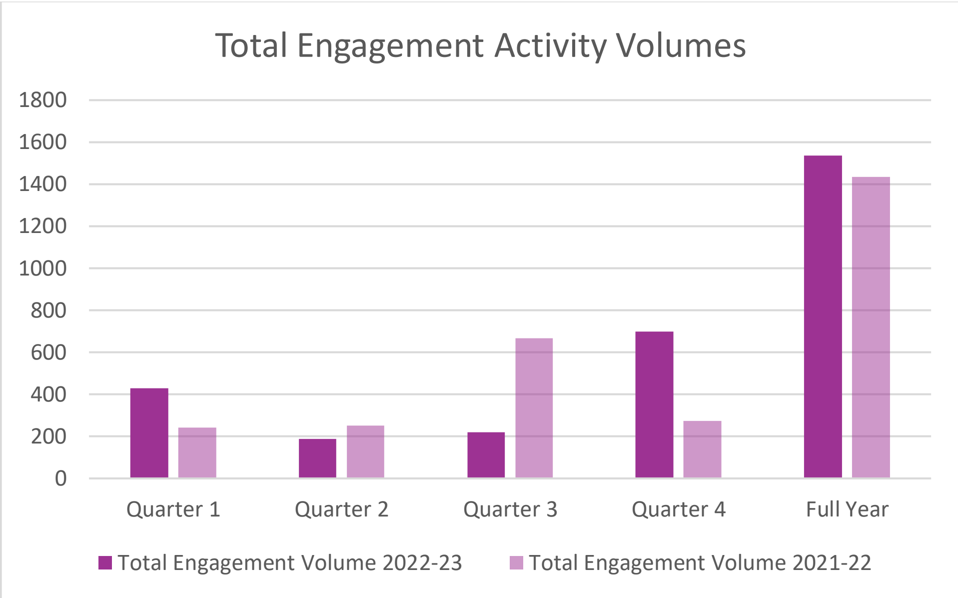
Apple Inc = This technology copmany is held in the Overseas Developed Fund. We voted against the excecutive remuneration report because we felt the overall level of remuneration was too high and the long term incentive plan is overly reliant on one metric, meaning that poor performance could result in significant rewards.

We also voted against two anti-ESG shareholder resolutions which aimed to restrict the company's actions in relation to civil rights and non-discrimination and operations in China. Each of these resolutions received less than 5% support. At the same time we supported a resolution asking the company to report on median pay gaps which received 34% support.

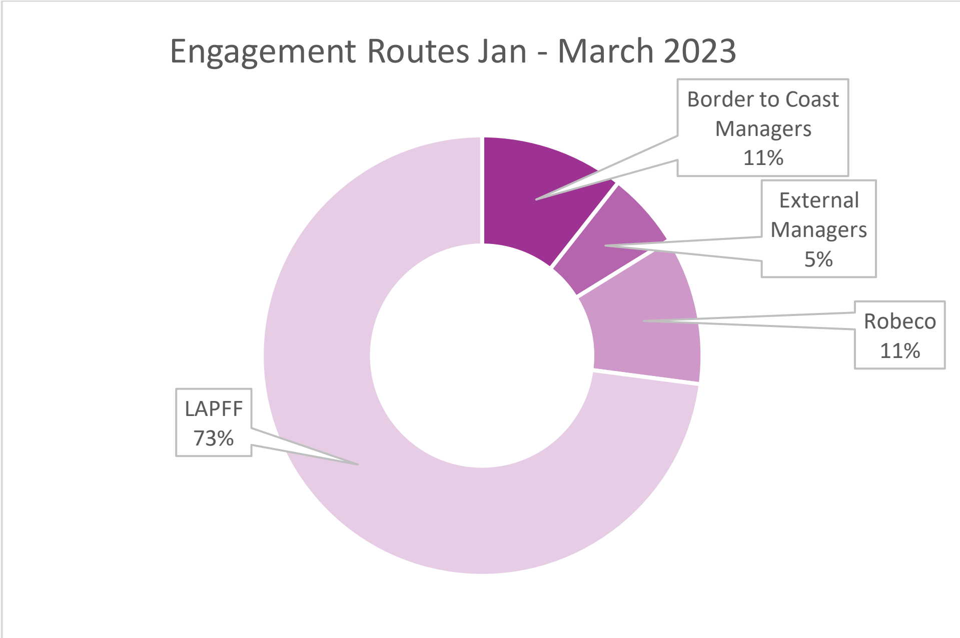
Engagement Activity

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.

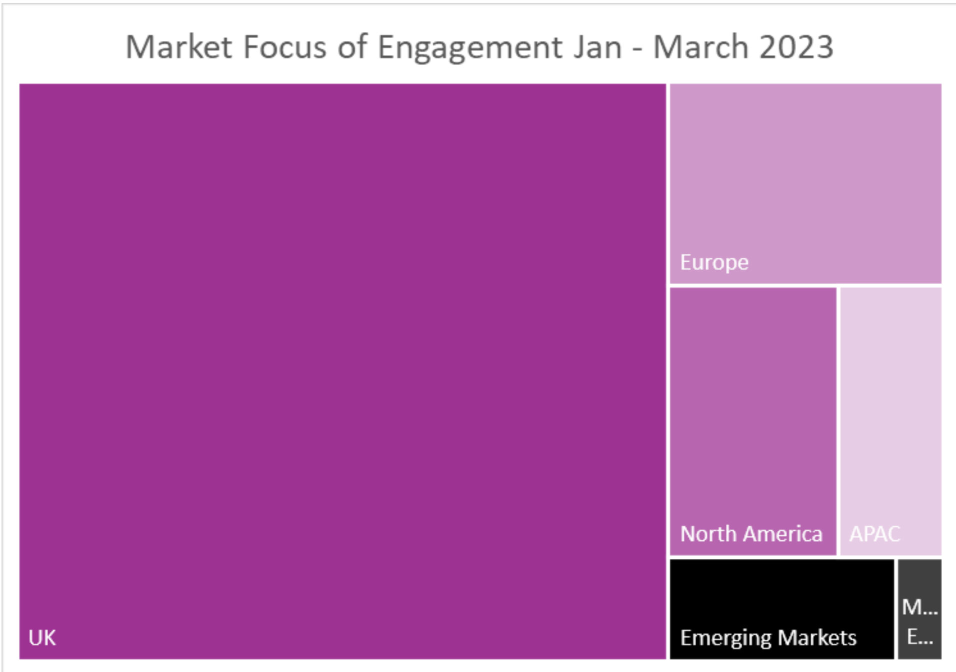
As can be seen the level of engagement activity this quarter has increased in the lead up to peak voting season. Notably the overall level of activity for the year is greater than for last year largely due to LAPFF continuing a more blanket approach to seeking to engage with companies around climate issues following CoP 26 in Glasgow.



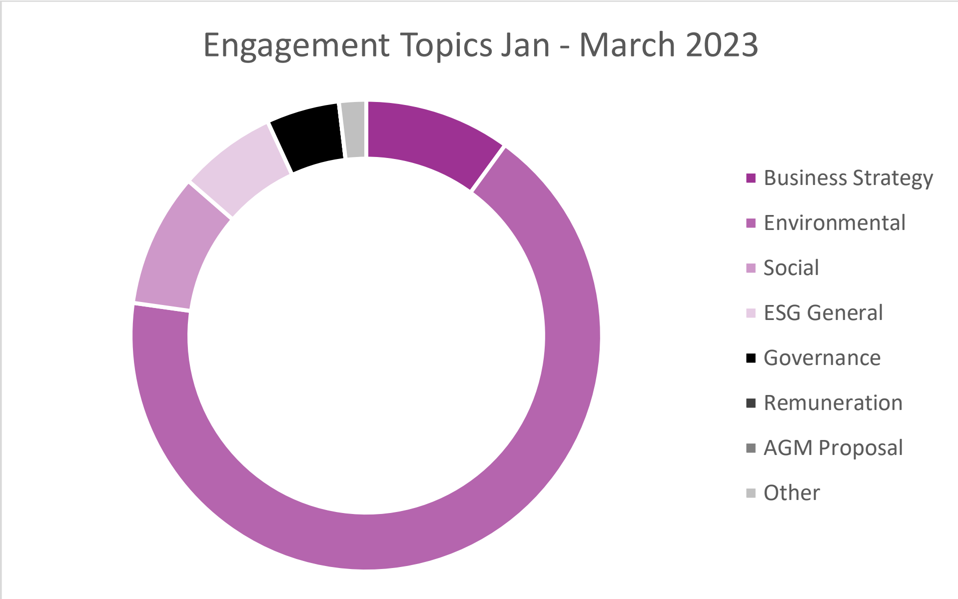
The balance between the different routes for engagement has remained much the same as shown in the chart below. LAPFF continues to provide most of the engagement, although arguably at less depth, although specific engagement with companies on climate and other governance issues in the run up to the AGM season is valuable in ensuring that boards are aware of shareholders concerns.



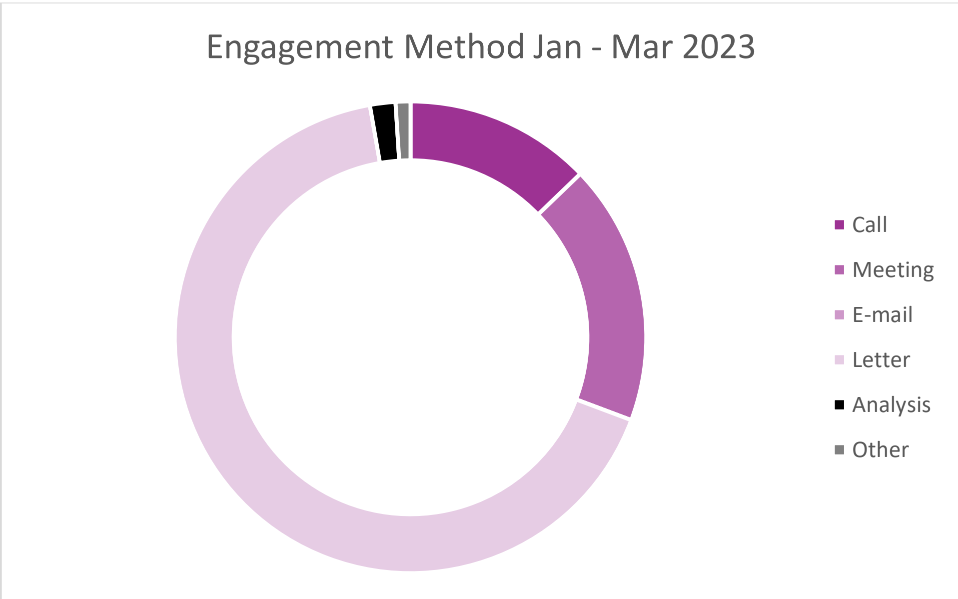
The chart below shows the market focus of engagement over the last quarter. The major focus remains in the UK largely as a result LAPFF's focus on UK companies in the lead up to the AGM season. Over the whole year there has been somewhat less focus on the UK and more on Europe and North America demonstrating the improved reach being achieved by Border to Coast. The number of companies held in other markets is much smaller and, particularly in emerging markets, companies in these markets are harder to engage with.



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.



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. LAPFF's work is more based on letters than that delivered through the other engagement routes although this does allow more companies to be covered, particularly in the run up to the AGM season as in this quarter.



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 joining by Border to Coast of the "Votes Against Slavery" initiative led by Rathbone which aims to improve supply chain transparency around modern slavery issues and promote compliance with the UK Modern Slavery Act which lacks enforcement powers . So far engagement has focussed on 12 investee companies of which 8 are now compliant. This engagement is continuing but continued non-compliance will result in votes against the report and accounts during the 2023 voting season.
- Engagement with water utilities around sewage discharge into water courses. As part of a collaborative engagement led by Royal London Border to Coast are leading engagement with Yorkshire Wateraiming to accelerate change in this area.
- Robeco closed out their engagement on life cycle management in mining which aimed to encourage minig companies to mitigate their impact on the environment and in particular to have regard to what is left behind when mining operations cease. 10 companies were engaged with of which 9 were successfully closed. The engagement focussed on wate, tailings and asset retirement (closing mines). In the area of water 90% of companies now have adequate water management policies and 80% are disclosing their performance on water related metrics. So far only 60% of companies have set targets for improving water use efficiency while two others are planning to do so. Tailing safety has been a significant issue for investors since the collapse of two dams in Brazil in 2015 and 2019. Following investor calls for action and greater transparency the industry has responded positively. Eight companies engaged with have now disclosed all their tailings facilities in the global database and 9 have committed to implement the Global Industry Standard on Tailings Management. The objective to phase out high risk tailings storage structures has seen less traction with only two companies committing to using dry storage for future facilities and 5 considering safety mitigations for high-risk dams. We expect companies to set targets for the decommissioning or phasing out of high-risk structures. Engagement around asset retirement was less successful. We expected companies to integrate plans for closure and remediation into the overall business plan for a mine. The results were mixed with only one company scoring well on the three underlying metrics used for assessment. While progress has been made there is clearly more that needs ot be done and this work will be continued through an initiative started by Robeco called Mining 2023.
- Robeco have reported back on progress with their engagement around labour practices in a posrt Covid-19 world. O f 7 companies engaged 3 are showing positive progress in relation to wages and benefits with companies addressing low hourly rates and the structuring of bonus payments. This engagement is only in the first phase and there is more to do but it works in parallel with initiatives such as that by ShareAction in filing shareholder resolutions calling on supermarkets to commit to paying a living wage to all workers.

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

- Say on climate where LAPFF wrote to all companies in the FT All Share index requesting that shareholders be given the opportunity to support companies' emission reduction strategy by putting an appropriate resolution on the AGM agenda. This is reflected in the engagement data reported above. Most companies responded that they would not be holding such votes. This process will continue as the greater transparency about emissions reduction targets provides valuable information for shareholders in assessing climate risk.
- LAPFF has been engaging with McDonald's to ensure that they publicly disclose the findings of a water risk assessment so that investors can full understand the water risks facing the company. So far the requests for disclosure have not been agreed to but McDonalds remains a target for engagement through the Valuing Water Finance Initiative.

- LAPFF has contacted a number of larger UK companies in advance of the AGM season where the company had provided above inflation salary increases for their lowest paid workers. This aimed to better understand the considerations around these increases as well as to discuss executive remuneration in the light of the cost of living crisis. One of the companies (Kingfisher) has responded and a dialogue will take place during the second quarter.
- LAPFF has contacted 4 Israeli companies (all banks) about voting considerations at their AGM's given the Forum's position that companies operating in the Occupied Palestinian Territories should commission independent human rights impact assessments given that operating in a conflict zone carries heightened human rights and consequently business risks. One company (Bank Leumi) responded positively and a dialogue has commenced.

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

- eighted ESG Score 7.3
- 48.8% of portfolio ESG leaders v 47.5% in the benchmark.
- 1.0% of portfolio ESG laggards v 2.1% in the banchmark.
- 4.7% of portfolio not covered all of which are investment trusts etc higher than benchmark
- Worst scoring companies 1.0% of portfolio
- Emissions below benchmark on 2 metrics and very marginally above on WACI.
- Weight of fossil fuel holdings greater than benchmark
- All 5 top emitters rated on the Transition Pathway with 4 scoring 4 and all 5 engaged through Climate Action 100+

United Kingdom

- Weighted ESG Score 7.9
- 73.8% of portfolio ESG leaders v 72.1% in the benchmark
- 0% of portfolio ESG laggards
- 6.6% of portfolio not covered mainly investment trusts marginally less than benchmark
- Worst scoring companies 6.1% of portfolio but all Average companies
- Emissions belpw benchmark on all 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 5.8
- 24.8% of portfolio ESG leaders v 18.9% in the benchmark
- 13.0% of portfolio ESG laggards v 15.3% in the benchmark
- 7.5% of portfolio not covered largely investment trusts etc
- Worst scoring companies 5.4% of portfolio.
- Emissions materially below benchmark on all metrics
- Greater weight of fossil fuel holdings than in benchmark.
- 4 of the top 5 emitters engaged with the Transition Pathway with one scoring at level 3 and one at level 4.

In general, this shows a broadly positive picture and stable , 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 were upgraded in the quarter including Zimmer Biomet which had a triple upgrade to AA which represent substantial progress for the company.

Within the UK fund there were several stock upgrades in the quarter including Dr Martens and DWF Group and it is worth emphasising that no company in this portfolio scores less than BBB which is at the midpoint of the "average" score band.

Within the Emerging Markets Fund two companies were downgraded (one to BB and one to B) which was offset by two upgrades (one to AA and the other to BBB).

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 7.3 which is less than benchmark of 7.5

40.7% of portfolio ESG leaders compared to 56.7% in the benchmark

0% of portfolio ESG laggards compared to 0.9% In the benchmark

23.8% of portfolio not covered compared to 9.2% in the benchmark

Lowest rated issuers represent 2.2% of the portfolio

Emissions below benchmark on all three metrics.

Materially below benchmark weight of companies with fossil fuel reserves.

All of the top 5 emitters being engaged by Climate Action 100+ and all 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.

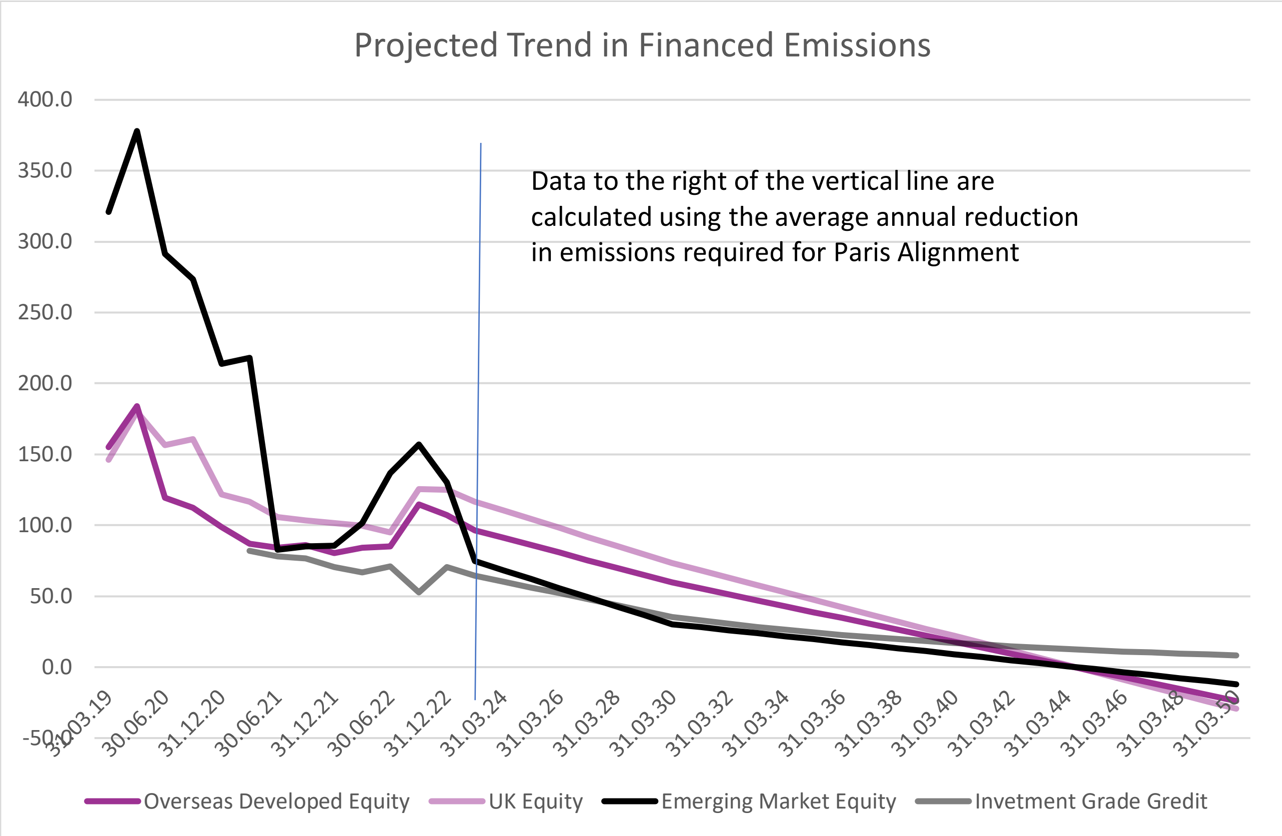
No one holding dominates emissions within the portfolio.

Commercial Property Portfolio

Data in relation to commercial property were not available in time for the the dispatch deadline for this meeting of the Authority and will be reflected in the Annual Report.

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.



Further updates in data this quarter result in some reduction in emissions within the Emerging Markets portfolio, While there has been some improvement in the position on the two developed market portfolios (UK and Overseas) this has been affected by the change in market values which impact on the calculation of these metrics which are based on emissions / $m invested. Thus if market values fall but emissions remain constant the metric will increase and vice versa.

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.

ArcelorMittal (Overseas Developed Equity Fund)

ArcelorMittal is the world's biggest steel producer producing almost 10% of global steel. The Company has steel manufacturing operations in 18 countries and serves customers in 160 countries around the world and it operates in many jurisdictions. Over the last several years, ArcelorMittal has ensured well-invested cost competitive assets in its core markets and has started to return more cash to shareholders through its reinstated dividend.

The Company has signed up to being net zero by 2050 and is looking to change its steel making process by moving away from primary steelmaking in a blast furnace (which uses coke) to primary steelmaking using direct reduced iron (DRI) as a feed for an electric arc furnace (EAF). This uses natural gas but can then transition to green hydrogen when available. The Company has an interim target of a 25% reduction in CO_2 emissions intensity across its global steel and mining operations by 2030 from 2018 levels, with an increased European target of 35% (up from 30%). To achieve the targets the Company will be looking for funding from governments to help with transition.

Border to Coast Quarterly ESG Report

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 and this will form part

Beyond this the changes to the investment strategy previously agreed should have a positive impact on emissions. 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.

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 was required from Border to Coast and a following some delay a response was sent.

In addition prior to this meeting the Director will be meeting a group of scheme members concerned with the Palestinian issue.

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 approved the workplan for the coming year and agreed the budget and subscription levels allowing an inflationary increase.

The Workforce Disclosure Initiative Survey Results

In March 2023, the Workforce Disclosure Initiative (WDI) published its findings report based on the 2022 survey results. 167 companies responded, slightly down from the previous year. However, 24 countries were represented and companies from all 11 Global Industry Classification Standard (GICS) sectors reported. Six thematic findings were identified covering job quality, human rights, emerging markets, marginalised workers, the cost -of -living crisis, and supply chain data. High level findings showed that responding companies are leading the way on supply chain data; disclosure varies significantly across sectors; companies are making more data public then ever; many industries are failing to collect enough data on human rights; and emerging market companies are leading the way in some crucial areas of disclosure, despite being perceived as riskier.

In March, the Institutional Investors Group on Climate Change (IIGCC) launched a new initiative aimed at scaling and accelerating climate -related corporate engagement. By increasing the number of companies engaged, the new initiative aims to support investors to align more of their investment portfolio with the goals of the Paris Agreement.

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.

IPCC Assessment Report
The Intergovernmental Panel on Climate Change (IPCC), comprised of some of the world's leading climate scientists, published its sixth assessment report during the period. The report highlights the risks of rising temperatures and the measures that must be taken to mitigate and adapt to future impacts, including, but not limited to, a rapid shift away from the burning of fossil fuels

Climate Considerations in Sovereign Bonds
As the scrutiny of national approaches to climate change increases, so too does the requirement for a consistent framework with which to assess them against. Assessing Sovereign Climate - Related Opportunities and Risks (ASCOR) is a collaboration of institutional investors which aims to develop such a framework. During the period, Border to Coast responded to the first ASCOR consultation report, which sought feedback on the initial draft framework.