SOUTH YORKSHIRE
PENSIONS AUTHORITY

Responsible Investment Update Quarter 1 2023/24

August 2023

Contents

Highlights and Recommendations

Highlights over the quarter to the end of June include:

- The casting of over 6,400 votes at over 400 company meetings.
- A continued high level of engagement activity as the quarter covered peak voting and AGM season.
- High ESG ratings have been maintained for those portfolios where they are available.
- Continued focus on both voting and engagement on moving companies to providing clearer plans for the transition to Net Zero.
- A significant level of stakeholder engagement around various issues but particularly around biodiversity human rights issues and this update highlights a range of engagement activities associated with both issues.
- Continued focus on both voting and engagement on moving companies to providing clearer plans for the transition to Net Zero and their business strategies to achieve these plans.
- The overall ESG performance of the listed asset portfolios has continued to be strong.
- Overall financed emissions of the Border to Coast equity portfolio has continued to fall driven by the Overseas Developed Market Equity Fund and Emerging Market Equity Fund.

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

Background

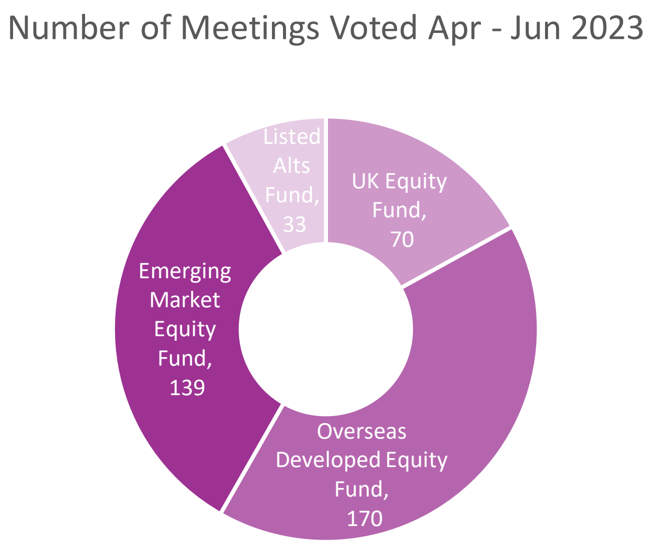
The Authority has developed a statement which sets out what it believes Responsible Investment is and how it will go about implementing it within its overall approach to investment. This statement is set out in the Responsible Investment Policy which is available on the website here.

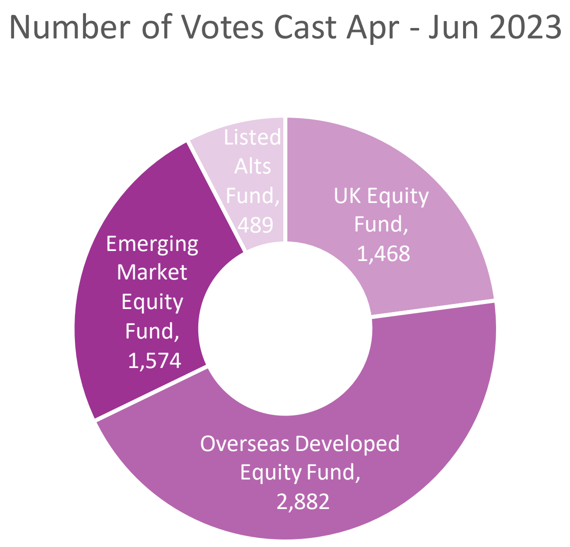
Our approach is largely delivered in collaboration with the other 10 funds involved in the Border to Coast pool. This report provides an update on activity in the last quarter covering:

- 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 quarter on quarter increase in both the number of meetings and votes cast as we moved into peak voting season, with the number of votes cast being close to 6x higher than the previous quarter. Detailed reports setting out each vote are available on the Border to Coast website here. The charts below show a breakdown of the meetings and votes cast by Border to Coast on behalf of SYPA investments.





Robeco highlighted the below in the their Q2 2023 voting report how a growing number of civil society organisations have found their way into companies' annual general meetings to voice their concerns and the impact this may have.

Is this the end of the AGM as we know it?

The AGM season generally creates an opportunity for shareholders to engage investee companies on a range of governance topics. As most companies want to prevent the unwanted surprise of failed resolutions, they engage with larger shareholders or representative organizations well before the meeting to make sure that any contentious issues are laid out in advance. Since most large institutional shareholders vote their shares via proxy (at a distance), the actual meeting doesn't tend to see much debate, and instead is more of a 'rubber-stamping' formality. Institutional investors may still join a meeting to make a public statement, but that seems to be the exception rather than the rule.

However, AGMs at many larger listed companies are getting livelier, particularly due to the participation of shareholders that are not part of that pre-AGM engagement. It is not uncommon for stakeholders of companies including employees, local communities and sustainability focused NGOs to join shareholder meetings and raise concerns. This is especially true at larger international companies entangled in complex societal issues, such as their extraction or use of fossil fuels.

At the AGMs of oil and gas companies, these groups usually ask a higher number of questions than institutional or retail shareholders. During periods of takeovers or restructurings, employees and labor unions also find their way to the AGM to make their voices heard. If nonshareholder stakeholders don't have another channel to effectively to raise their concerns, the AGM can become an annual meeting of stakeholders rather than shareholders.

We saw this happen a lot during the current AGM season. We attended the AGM of Ahold Delhaize in Amsterdam and asked for more substance on tax reporting, a more complete set of sustainability related KPIs for the Dutch retailer's remuneration policy, and clarification around the nomination process for the board.

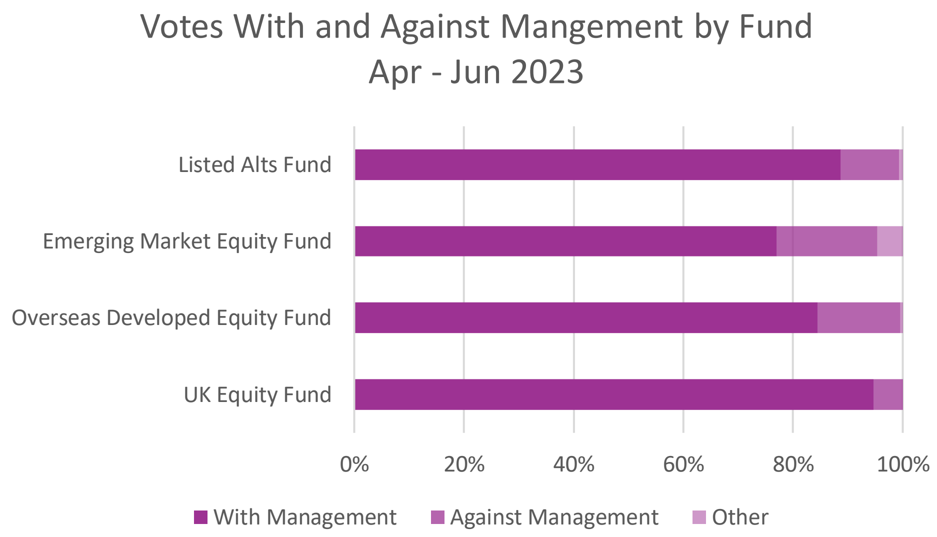
At Unilever's AGM, we asked about the priorities of the company after the upcoming change in CEO, and whether we can expect reasonable external assurance around the key sustainability metrics in its remuneration policy. We also asked about the company's ambitions to limit its biodiversity impact to neutral or even positive, and what measurement systems the company has for this.

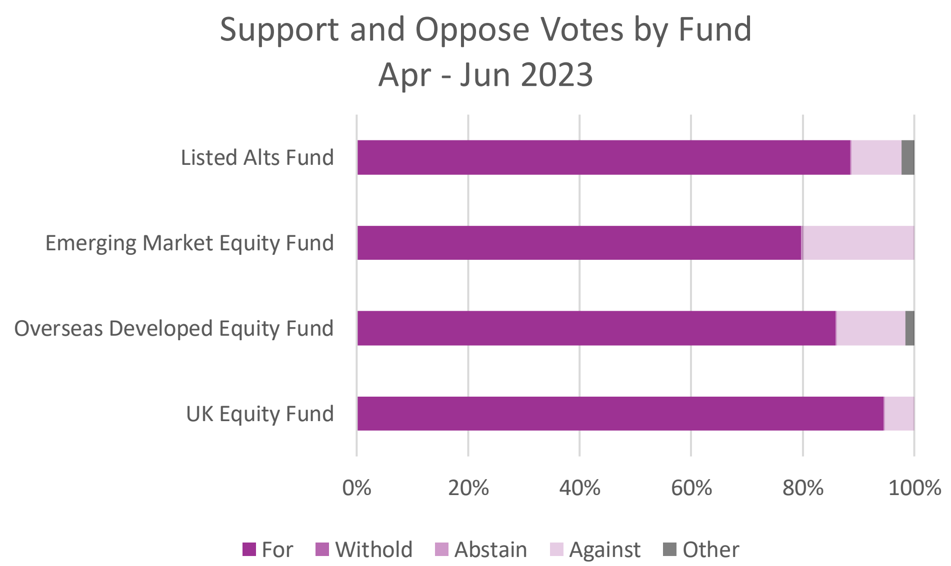
The events of the 2023 season might lead to a change in the participation of both company managements and institutional shareholders. Managements might increasingly decide to hold virtual-only AGMs, which we already see at many different US tech companies. We are not in favor of virtual-only AGMs as it provides managements with the opportunity to prioritize questions they are comfortable with, and to limit the opportunity for shareholders to raise concerns.

What changes are necessary is difficult to say, but pre-AGM engagements (or other forms of effective communication) with a larger set of stakeholders than just institutional investors seems a good way forward. There is also a role for the board as the conductor of the meeting beyond just opening the room for questions and sitting through until all questions are answered.

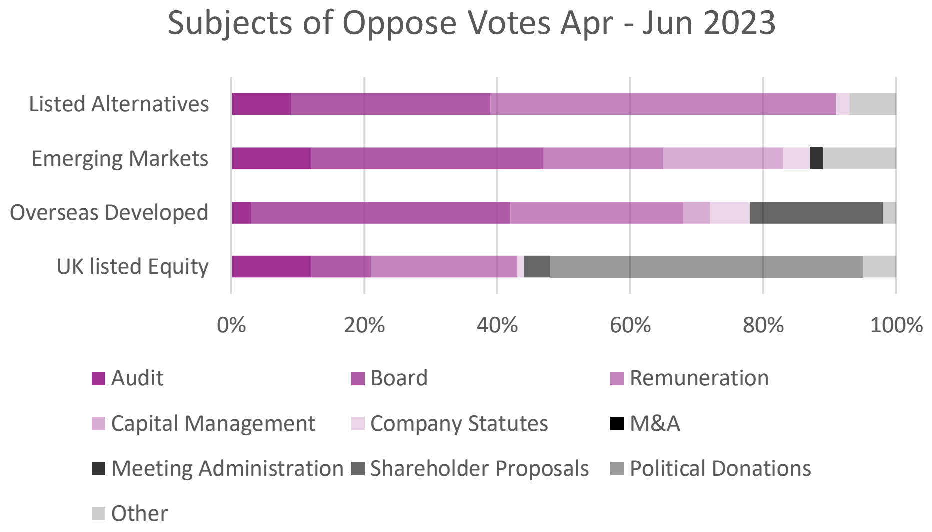
Robeco Voting Report July 2023

The breakdown of support and oppose votes along with those votes for or against management is shown in the charts below.





The above graph shows a similar breakdown of votes cast against resolutions compared to last quarter, with the proportion of votes against the line taken by company management also broadly in line with last quarter. 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.



The above graph indicates that votes against are more evenly distributed across topics in all funds than has been the case in previous quarters. The three largest areas where we have opposed management relate to Board composition, remuneration, and in the case of the UK funds, political donations. It is worth reviewing 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.
- 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.
- In the case of votes against political donations in the UK, this reflects the fact that in the UK donations must be put to a shareholder vote and the voting guidelines oppose any donations of this kind.

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 on a case-by-case basis covering both the company's and proponent's 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.

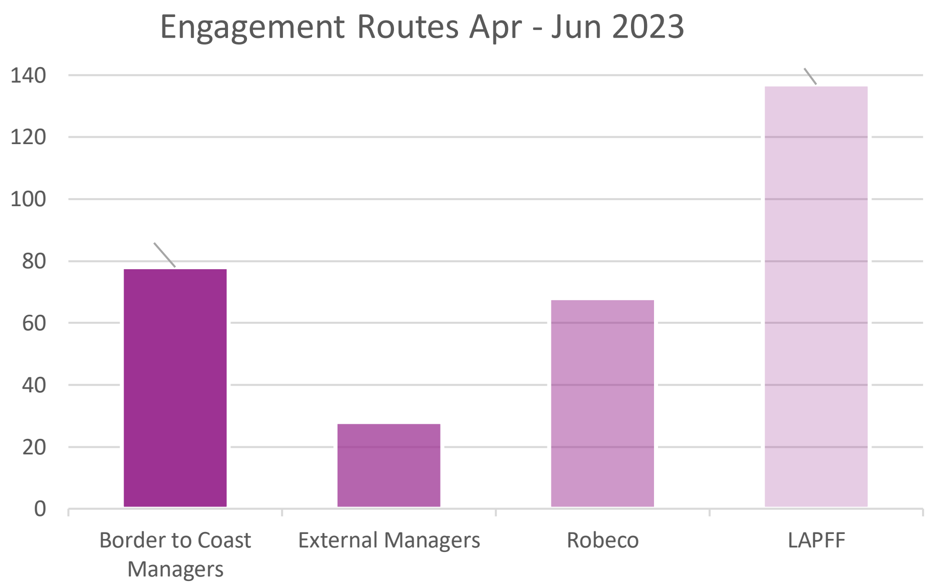
Shell Plc - Shell's 2023 AGM agenda included a series of routine items as well as a proposal concerning the approval of the company's energy transition progress and a shareholder proposal concerning scope 3 emissions reduction targets. The company's climate strategy was assessed by Border to Coast using their propietary Say-on-Climate framework. Following assessment, Shell's strategy did not pass the framework and as a result we voted Against the proposal which was opposed by c.20% of votes. An additional proposal was filed by shareholder group Follow This, which requested the company align its existing 2030 Scope 3 emissions reduction aims with thos of the Paris Climate Agreement. We supported this proposal along with c20% of votes.

Alphabet Inc - Alphabet offers products and platforms globally through Google Services, Google Cloud and other segments. The Annual General Meeting (AGM) featured 13 shareholder proposals focussing on a wide range of Environmental, Social and Governance (ESG) issues. As with previous years none of these resolutions passed due to the company's multi-class share structure which allows insiders to hold the majority of voting power. This is not in the interest ofs of shareholders and is a deviation from best governance practice which, together with the fact that the composition of the Board did not reach the minimum requirement 30% gender diversity, informed our vote Against the election of the Chair of the Board, who also chairs the Governance and Nomination Committees.

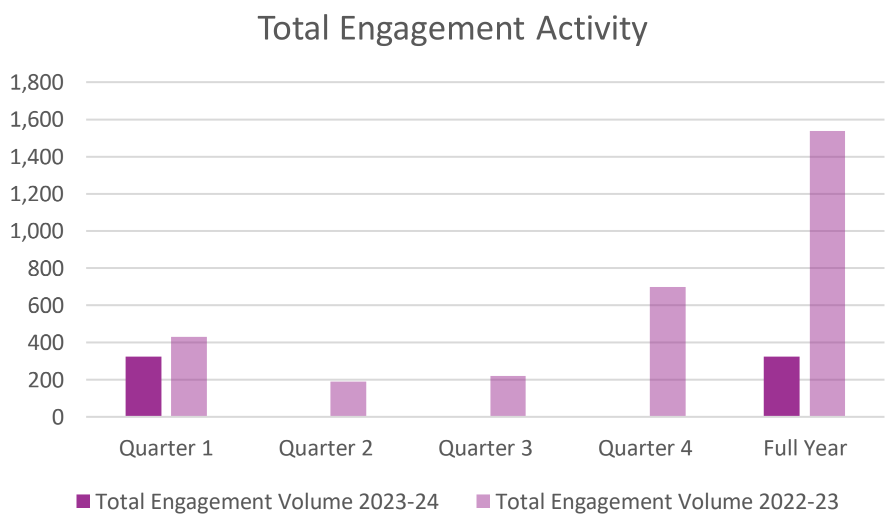
Hon Hal Precision Industry - Hon Hal are a Taiwanese company that provide technology solutions to firms globally. The Annual General Meeting (AGM) took place amid scruitiny over the company's operations and management of environmental impact. It was identified that there were concerns around labour practices in the supply chain and the lack of evidence of adequate human rights due diligence processes. We expect all companies to have in place a robust human rights strategy in line with the UN Guiding Principles on Business and Human Rights. However, our assessment determined that the company does not satisfy these criteria. As a result we voted against the company's 2022 Business Report and Financial Statements proposal.

Engagement Activity

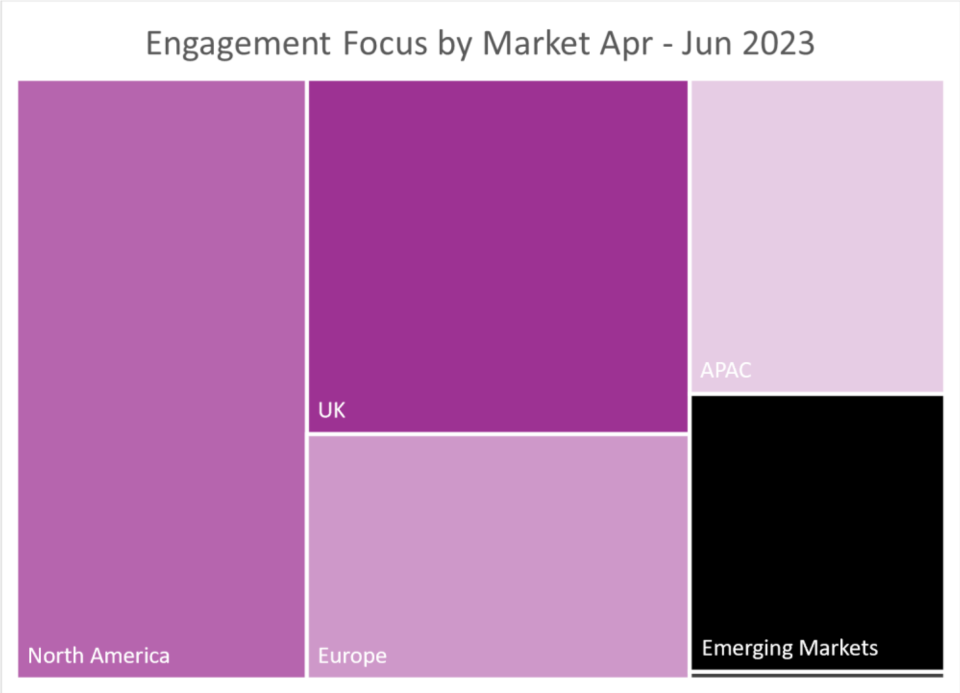
Engagement is the process by which the Authority working together with other like-minded investors seeks to influence the behaviour of companies on key issues. Engagement (in distinction to voting) is an ongoing process and is undertaken by those directly managing money for the Authority such as the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



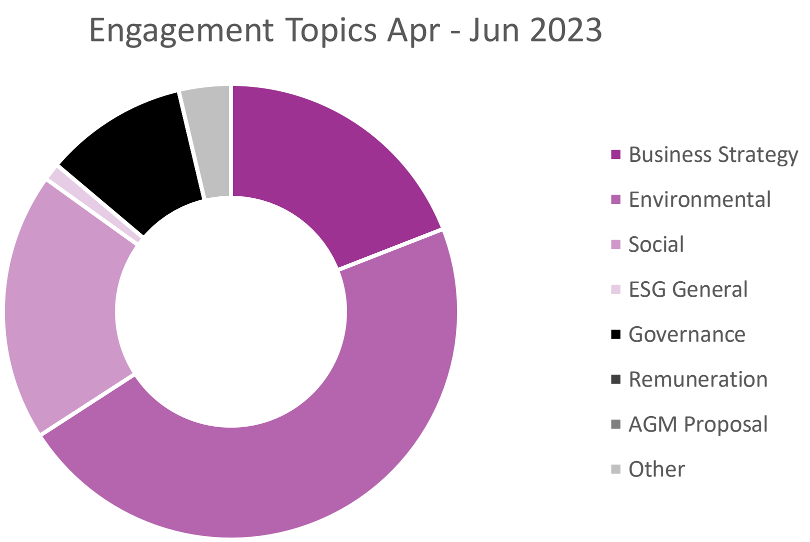
The graph below shows the level of engagement activity in the quarter has reduced compared to the same quarter last year, as well as the previous quarter (Q4 2022-23). Engagement dropped quarter-on-quarter with the passing of voting season build up and fell compared to the same quarter last year following a more targeted approach in LAPFF engagement.



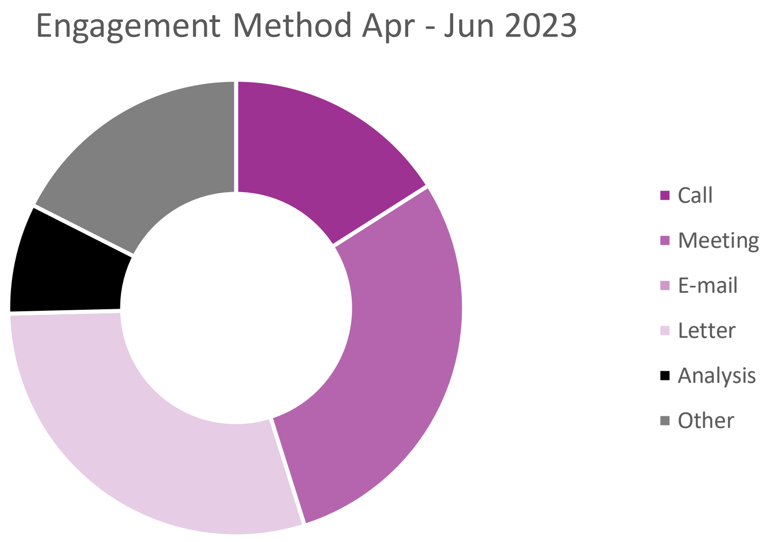
The chart below shows a breakdown of the market focus in engagement over the last quarter. The focus of engagement reflects the geographic distribution of holdings with the improved reach achieved by Border to Coast shown by the increase in engagement with North American companies. As the build up to peak voting and AGM season has passed in the UK, LAPFF's focus has increased on North American and Emerging Market geographies.



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 business strategy, governance and social issues received an increasing degree of focus.



The method by which companies are engaged is important. Letters and emails 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. Positively, the proportion of communication with companies via letter declined compared to last quarter with c45% of interactions taking the form of a call or meeting.



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

- Robeco continued their engagement on biodiversity during the quarter and closed out the first cases opened back in 2020.

    - The focus, so far, has been on eliminating one of the key biodiversity loss divers – deforestation across agricultural supply chains and restoring destroyed ecosystems. For the past three years Robeco have focussed on engaging companies operating in the material and consumer stables sectors who source some of the highest-risk soft commodities, namely cocoa pulp and paper, natural rubber, beef and soy.
    - In line with the Global Biodiversity Framework agreed at COP 15, the expectation on companies is that they have set credible zero deforestation and conversion commitments, conduct robust biodiversity impact assessments and address the social challenges in their supply chains. Robeco have encouraged companies to set time-bound commitments to end deforestation and native vegetation conversion in their supply chains no later than 2025.
    - Key successes include the accelerating and setting of ‘no deforestation’ targets to as early as 2025 along with the establishment of first socially and environmentally inclusive agricultural development models. Following engagement, companies have strengthened their monitoring systems to map how their suppliers are exposed to deforestation risk. However, challenges remain around the scope of some of these policies, along with the depth and credibility of monitoring efforts.
    - One way for companies to manage their negative impact on land use is through ecosystem conservation efforts. In their engagement, Robeco asked companies to implement adequate land restoration efforts and improve their disclosures on sourcing locations in high carbon stock areas.

  - Most companies have restoration and conservation projects in place. However, these tended to be on an ad-hoc basis. As a result of engagement, Robeco have seen companies issue their first restoration or conservation-linked green bonds or make the initial payments for ecosystem service pilot schemes.
  - Through engagement, it was noted that few companies are trying to calculate their impact on nature with tools such as the Integrated Biodiversity Assessment tool (IBAT). It is hoped that the integration of the new Taskforce for Nature-related Financial Disclosures (TNFD) framework will help in improving how companies carry out their biodiversity impact assessment.
  - Mondelez International who are one of the world's largest US snack companies, with many products based on chocolate and therefore a large importer of cocoa, was engaged by Robeco. In particular, dialogue has been on the company integrating its forest restoration efforts within its operating model.
  - As a result, in 2023, under the company's new sustainable cocoa sourcing models, Mondelez for the first time included clear off- and on-farm restoration targets. While affected areas continue to be insignificant compared to the company's sourcing footprint, we see this as a first step to a more ambitious biodiversity approach.

- Robeco's three-year engagement programme with companies operating in conflict-affected and high-risk areas (CAHRA), where human rights issues are a key risk, reached its midway point. Under the UN Guiding Principles on Business and Human Rights (UNGPs, 'soft law') corporates – including investors – have a shared responsibility to respect human rights. The engagement necessitates that companies conduct enhanced due diligence to understand and mitigate the potential harm their operations may cause to human rights.

  - The progress of the engagement has varied between companies. Overall companies have been open to Robeco's engagement, with just one company failing to respond to multiple contact attempts.
  - Positive progress has been made with two companies in developing management processes allowing them to exercise effective human rights due diligence in line with the UNGPs. Once company hired two dedicated human rights experts to further implement these commitments.
  - Robeco's engagement also revealed regional trends with less progress observed in Myanmar and Xinjiang compared to Palestinian territories. Going forward, Robeco's engagement will focus on the human rights implications of withdrawing versus staying, as this has to be carefully weighed to ensure a responsible exit.

- Good corporate governance is another theme that Robeco identified as a focus for investors during the recent annual general meeting (AGM) season. During the quarter, Robeco commented that within the focus on environmental, social and governance factors in recent years the 'E' and 'S' have arguably drawn the most attention. This has been due to a focus on combating climate change however there is now awareness that effective governance is imperative to long term success and that poor corporate governance can have far-reaching consequences for the economy as a whole.

  - The issues that poor corporate governance can enable was highlighted earlier this year with the shock collapse of three US banks; Silicon Valley Bank (SVB), Signature Bank and First Republic. The Federal Reserve's report examining the SVB collapse concluded that the bank failed because of a "textbook case of mismanagement", which points to a failure in governance.

- While the report into the Credit Suisse collapse is yet to be released, a 2021 report into the bank's losses on highly risky financial swaps revealed a lack of risk oversight along with a wide range of corporate governance failures.
- Looking back, many of the enhancements in corporate governance regulations have come about as a result of corporate failures and it can be expected that the recent banking crisis will again trigger regulatory reform.
- In reality there are a myriad of factors that contribute to good corporate governance which includes ensuring that shareholders have the proper tools available to hold the board and management accountable. As shareholders, we are co-owners of many companies with votes at shareholder meetings, with the aim of positively influencing a company's corporate governance. This ensures we can hold companies accountable for poor corporate governance across all three dimensions of ESG.

The last quarter saw peak voting season begin and end in most markets. During this period Border to Coast implemented their strengthened voting policy on climate change by voting against a significant number of board Chairs across our oil and gas, mining and materials holdings. Border to Coast also publicly pre-declared their decisions to vote against the Chairs of Shell and BP and to vote against Glencore's climate report to signal intent to other investors.

Border to Coast also supported a range of shareholder proposals during the quarter. The number of shareholder proposals filed in markets such as the US and Japan reached new highs and individual companies have seen record numbers of proposals on their agendas (18 in Amazon's case). A significant portion of these continue to be climate focussed and despite opposition from some institutions following the U.S. anti-ESG backlash, the proposals we supported received significant backing. The anti ESG movement has been evident in the increasing number of 'anti-social' shareholder proposals, which often aim to block genuine proposals and confuse investors. These have, however, consistently received low levels of support.

Border to Coast joined the 'Financing a Just Transition Alliance' coordinated by the London School of Economics Grantham Institute and joined Royal London Asset Management (RLAM) to collaboratively engage UK banks on a just transition.

During the quarter Border to cost also joined the Institutional Investors Group on Climate Change (IIGCC) Net Zero Engagement Initiative and will be co-leading engagement with EasyJet. The IIGCC also published new net zero standards for oil and gas companies and for banks and are intended to support constructive engagement with companies to aid ongoing implementation of climate commitments.

More details of the activity undertaken by LAPFF in the quarter is available here. The key issues worked on during the quarter include:

- LAPFF attended six AGMs this quarter and drafted a record number of voting alerts including over 50 dedicated climate related shareholder resolutions with half receiving backing from 20 percent or more shareholders. LAPFF will follow up with companies where there were significant votes in favour of shareholder resolutions to understand how the board intends to respond.
- LAPFF has continued to engage with a number of mining companies including Rio Tinto, Anglo American, Glencore and Value with the aim of highlighting the significant work still required on both human rights and decarbonisation.
- Further engagement with miner Anglo American was made following a LAPFF report in relation to concerns voiced by local communities surrounding the Anglo American owned

Minas Rio dam in Brazil. This report was written on the back of a LAPFF visit to Brazil to visit communities devastated by the collapse of two dams owned by other companies. LAPFF sought the view of Anglo American on the report and as a result Anglo American engaged significantly with LAPFF. This engagement resulted in a commitment at the AGM from the Anglo American Chair stating that the board would commit to visiting the various project sites to engage with local communities affected by Anglo American projects.

- After seeking a meeting with the new Shell CEO, LAPFF was offered a meeting with the Chair, Sir Andrew Mackenzie, to discuss the company's climate transition.
- Further engagement with oil and gas majors BP and Shell was made at the company AGM's with LAPFF providing support for the Follow This resolutions which received 15 percent and 20 percent support respectively.
- LAPFF issued voting alerts largely supporting ESG shareholder resolutions filed at technology companies. LAPFF continues to have concerns about corporate governance and social practices at large US technology companies and will continue to seek ways to engage these companies meaningfully in relation to these ESG issues.
- LAPFF has continued to support the 30% Club Investor Group, a collaboration of investors pushing for women to represent at least 30% of boardroom and senior management positions at FTSE-listed companies. The Group has extended its remit globally with LAPFF set to lead on engagements through the Group's Global subgroup.
- Work continued on collaborative engagement initiatives including Climate Action 100+ where LAPFF is the lead engager for a number of companies including National Grid and Toyota where the focus of engagement is on future energy transition and future EV production plan respectively.
- There was a focus this quarter on engaging companies where supply chain concerns were present, particularly ensuring the human rights of workers are met. Both Next and Adidas were engaged by LAPFF to discuss their positions on continuing manufacturing operations in Myanmar following guidance posted in 2022 by the Ethical Trading Initiative which led to many companies exiting the country having exhausted efforts to leverage positive human rights outcomes. LAPFF requested increased disclosure of child labour concerns and remediation practices and will continue to monitor labour rights issues.

LAPFF has also continued responding to wider developments for example the UN Working Group on Business and Human Rights consultation and will continue to respond to consultation opportunities where it believes it can contribute helpfully.

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
- 50.1% of portfolio ESG leaders v 49.6% in the benchmark.
- 1.2% of portfolio ESG laggards v 2.2% in the banchmark.
- 5.5% of portfolio not covered all of which are investment trusts etc higher than benchmark
- Lowest rated 5 companies 1.2% 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 3 scoring 4 and 4 of 5 engaged through Climate Action 100+

United Kingdom

- Weighted ESG Score 8.0
- 73.9% of portfolio ESG leaders v 72.9% in the benchmark
- 0% of portfolio ESG laggards
- 7.6% of portfolio not covered mainly investment trusts marginally less than benchmark
- Lowest rated 5 companies 5.9% of portfolio but all Average companies
- Emissions below or equal to benchmark on 2 of 3 measures
- Lower 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
- 24.6% of portfolio ESG leaders v 19.4% in the benchmark
- 10.6% of portfolio ESG laggards v 14.1% in the benchmark
- 5.9% of portfolio not covered largely investment trusts etc
- Lowest rated 5 companies 4.2% 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 two scoring 3 or 4 and 4 of 5 engaged through Climate Action 100+

Listed Alternatives

- Weighted ESG score 7.2
- 35.5% of portfolio ESG leaders v 43.6% in the benchmark
- 0.5% of portfolio ESG laggards v 2.7% in the benchmark
- 42.6% of portfolio not covered largely investment trusts etc
- Lowest rated 5 companies 7.8% of portfolio.
- Emissions below benchmark on 2 of 3 measures
- Materially lower weight of fossil fuel holdings than in benchmark.
- 4 of the top 5 emitters engaged with the Transition Pathway with two scoring 4 and 2 of 5 engaged through Climate Action 100+

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.

Overseas Developed Fund

Within the Overseas Developed Fund Jardine Matheson Holdings ('JM'), is a diversified holding company operating in China, Southeast Asia and the UK. JM has interests in property, hotels, strategic investments, dairy, construction, transport services and sales and service of motor vehicles.

MSCI raised several concerns relating to JM in terms of ESG, rating the Company as "CCC". These are primarily linked to historical governance risks associated with board practices, the presence of a controlling shareholder, and cross-shareholding ties. JM began to address the corporate ownership structure / cross-shareholding concerns with a simplified structure through the privatisation of Jardine Strategic Holdings in April 2021. As of July 2023, MSCI have recognised these improvements and significantly increased the Governance Pillar score related to "Ownership & Control".

JM has made several commitments; to invest in renewable energy, to diversify into non-coal mineral mining, and to make no investments in new coal mines and new thermal coal-fired power plants. The Company is also looking at opportunities in clean technology given its exposure to the auto industry and the transition towards electric vehicles. In 2022, JM published its inaugural Sustainability Report formulating a strategy for Net Zero aligned with the TCFD Framework and committed to the Science Based Targets Initiative (SBTi), aligned to a 1.5°C scenario.

UK Listed Equity Fund

The weighted ESG score remained consistent over the quarter and remains above the benchmark. This is due to the Fund holding a higher weighting of companies considered to be 'Leaders'.

The Fund's overall ESG rating fell during the period from AAA to AA. This is due to a change in methodology at MSCI, whereby the weighted ESG score was adjusted based on several factors including momentum of recent ratings changes and exposure to laggards. This adjustment has now been abolished; therefore, Funds with a high proportion of recent upgrades and/or low exposure to laggards no longer see an upward adjustment resulting in the rating being adjusted downward.

Featured Stock: Glencore PLC

Glencore is an international mining and commodity marketing company headquartered in Switzerland. Commodities mined include copper, zinc, coal, cobalt and nickel. The balance is accounted for by the marketing division. The exposure to cobalt, copper and nickel in particular face favourable demand characteristics through the energy transition as product is utilised in batteries and electricity transmission products and infrastructure. The Company is also reasonably well placed on the cost curve enabling good profitability in periods of strong demand and protection against demand weakness. The Company has a particularly strong market share of cobalt production. Glencore has very strong cashflows and a balance sheet from which it can expand the reserve base organically and through acquisition. It has exposure to coal albeit demerger plans are underway, and it has proposed a value creative merger with Teck Resources to scale the metals business and improve the coal division prior to demerger.

Having transformed the management of the business by replacing many executives and changing the business culture Glencore has made significant improvements to its ESG credentials. The MSCI BBB rating notes the material improvements in governance, health and safety and carbon emissions. However, it recognises that given the sizeable workforce there is the potential for labour management issues. Tensions in this area can periodically escalate into industrial action for Glencore, and also for the sector as a whole.

The Company was rated Level 4 by the Transition Pathway Initiative (TPI) in its last assessment in April 2022, which indicates it is making a "Strategic Assessment of the management of its greenhouse gas emissions and of risks and opportunities related to the low-carbon transition". Since then, the Company has provided additional disclosure and made changes that are likely to improve the Company against the TPI assessment criteria.

Emerging Markets Equity Fund

The ESG weighted score remained flat over the quarter and above the benchmark. This is due to the Fund holding a higher weighting of companies considered to be 'Leaders'.

Carbon emissions decreased in the quarter due, in part, to exiting the position in Tenaga Nasional, a Malaysian multinational electricity company.

Featured Stock: Gree Electric Appliances

During the quarter Gree Electric Appliances, rated CCC by MSCI, was added to the Fund.

Gree Electric Appliances is a leading manufacturer of air conditioners in China, holding approximately 30% share of the market at the end of 2022. Its other products include water heat pumps, home appliances and industrial products.

Chinese residential real estate has faced significant challenges recently, however with the potential of an economic recovery, demand for home appliances should also increase. This cyclical uplift would benefit the Company given it is trading at depressed valuations.

It is acknowledged that the ESG quality of the Company is suboptimal, which is partially reflected in the lower valuation compared to peers. A key issue relevant to the investment case is capital allocation going forward, particularly with respect to acquisitions and related party transactions. In 2021, the Company acquired a majority stake in electric vehicle battery maker Yinglong motors, in which the Company's Chair held a stake. There is therefore some minority shareholder apprehension regarding capital allocation or related party transactions. The Company is rolling out an employee share ownership scheme mandating a 50% dividend payout which should see it more aligned with minority shareholders' interests.

Sterling Investment Grade Credit Fund

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 7.6

41.2% of portfolio ESG leaders compared to 57.7% in the benchmark

0.4% of portfolio ESG laggards compared to 0.9% In the benchmark

22.9% of portfolio not covered compared to 9.4% in the benchmark

Lowest rated issuers represent 2.5% of the portfolio

Emissions below benchmark on all three metrics.

Materially below benchmark weight of companies with fossil fuel reserves.

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

The ESG score was stable over the quarter remaining below the benchmark however The Fund's overall ESG rating fell during the period from AAA to AA. This is due to a change in methodology at MSCI, whereby the weighted ESG score was adjusted based on several factors including momentum of recent ratings changes and exposure to laggards. This adjustment has now been abolished; therefore, Funds with a high proportion of recent upgrades and/or low exposure to laggards no longer see an upward adjustment resulting in the rating being adjusted downward. The benchmark similarly was also revised down to AA from AAA.

The Investment Grade Credit portfolio has as mentioned previously seen a significant improvement in data availability with the overall position remaining below the benchmark on all metrics.

Commercial Property Portfolio

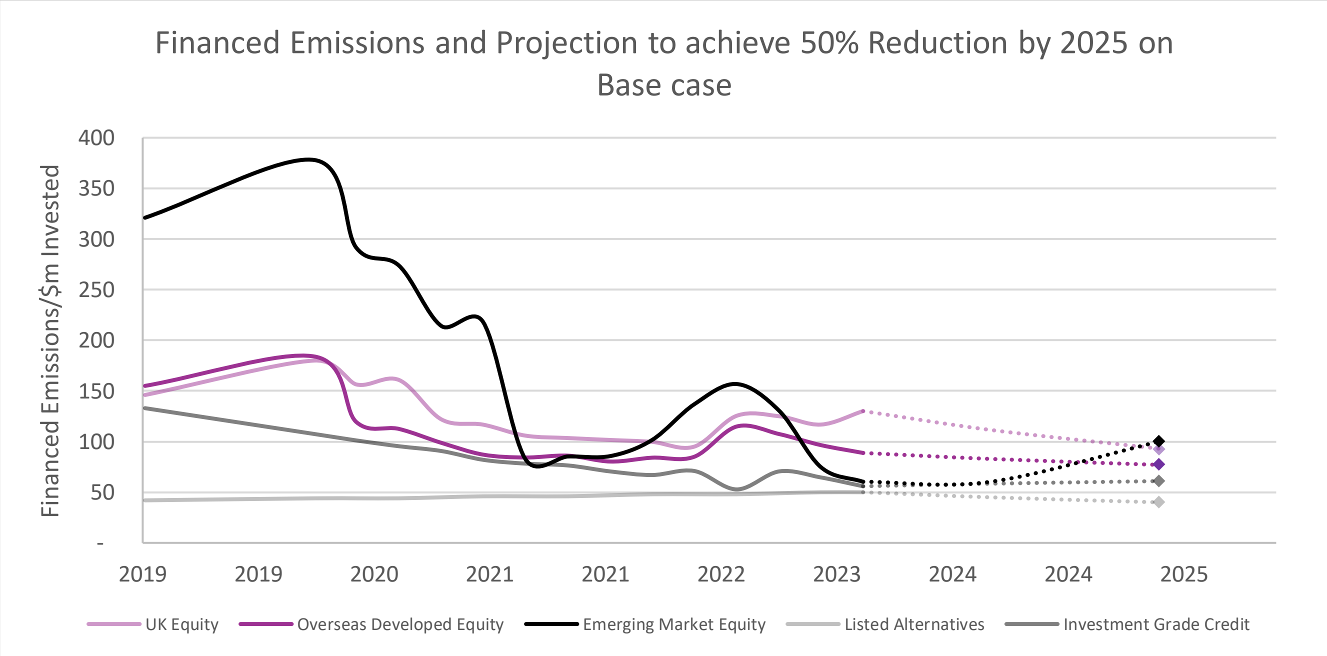
As reported previously, the overall ESG performance of the commercial property portfolio as measured by the GRESB (Global Real Estate Sustainability Benchmark) has improved over the last year with the portfolio now achieving a 3 star score with an increase in the percentage score from 66% to 74%. In comparative terms the portfolio's ranking, over the year, moved up to 22 out of 80 from 54 of 79, reflecting the increased focus on 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 down on the previous year 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 increased year-on-year from 10% to 37%. As noted in previous reports, given the costs of in use certification, this measure is expected to increase as new acquisitions take place. In addition, there may also be some merit in encouraging Border to Coast to get certification of all properties as part of the creation of their UK property 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 now includes emissions data for the Listed Alternatives fund therefore covers five publicly traded funds held with Border to Coast for which carbon emissions data is available.



Only the Emerging Markets Equity Fund and Investment Grade Credit Fund are currently tracking below target in order to meet the overall portfolio carbon emissions interim target of a 50% reduction, by 2025, against the base case. The reductions required are most significant for the UK Equity Fund where financed carbon emissions have increased since Q2 2022. Following an increase in financed emissions in 2022, the Overseas Developed Equity Fund continued on a positive trajectory, with emissions reducing. Due to the weighting of assets in the portfolio, the most significant changes to the overall portfolio emissions comes from the Overseas Equity and UK Equity funds. Both funds, along with the Listed Alternative Fund will need to reduce financed emission if the 2025 interim target is to be met.

Overseas Developed Markets Equity

All carbon metrics saw reductions during the quarter. The reduction in financed emissions came from smaller contributions from RWE, Holcim and ArcelorMittal as their plans for decarbonisation are implemented.

UK Equity

Financed emissions increased slightly during the quarter but remains below that of the benchmark, This overall increase was primarily due to higher emissions from the five largest contributors: Shell, BP, CRH, Rio Tino and Glencore. The continued investment reflects 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.

Emerging Markets Equity

The fund is significantly below the benchmark for carbon emissions and saw a further reduction during the quarter due, in part, to exiting the position in Tenaga Nasional. All three measures of carbon emissions and intensity 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.

Listed Alternatives

The Listed Alternatives portfolio has seen a continued increase in the availability of Carbon Emissions Data. During the quarter, the overall financed emissions of the fund increased during the quarter following investment in Cheniere Energy which has been a significant contributor to emissions.

Investment Grade Credit

As mentioned previously, the Investment Grade Credit portfolio has 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 power European producers Enel, EDF, Engie and Eon. 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.

Coverage

The proportion of companies covered is an important metric when assessing the progress made to Net Zero. Without a high level of coverage, the picture will not be complete or accurate. The table below outlines the level of coverage in the funds held with Border to Coast. Over time the % of the funds covered has increased with further improvements to be made, particularly on the Sterling Investment Grade Credit Fund.

Fund	ESG (%)	Carbon (%)
Overseas Developed Markets Equity	94.5%	94.5%
UK Listed Equity	92.4%	92.8%
Emerging Markets Equity	94.1%	94.4%
Listed Alternatives	57.4%	89.0%
Sterling Investment Grade Credit	77.1%	73.5%

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.

Kansai Electric Power
power with heart

The Kansai Electric Power Company (KEPCO) is one of ten major electricity utility companies in Japan generating and distributing electricity. Its service area is located in the central part of the main island of Japan, Honshu, serving around 20 million inhabitants or 16% of the Japanese population, making it Japan's third largest power supplier.

KEPCO has a higher exposure to Nuclear (operational and near-term restarts) than competitors. It is held as a tactical play on the projected restarts of 2 mothballed reactors this summer, as Japan focuses on Nuclear as part of its short to medium term energy solution. As Utilities are currently less than 1.4% of the Fund's benchmark (FTSE Japan), we may hold them from time to time as investment opportunities present or to position the portfolio more defensively. KEPCO is not seen as a core long-term holding.

KEPCO has a net-zero target of 2050 with an interim target of reducing CO_2 emissions by 50% by 2026 (vs 2014 baseline). Targets are absolute and cover Scope 1-3 emissions, and they are on track with all metrics. MSCI reports strong management practices to address carbon emissions relative to peers, including evidence of investments in carbon capture and storage projects.

Rated as Level 3 ("integrated into Operational Decision Making") by TPI, it is short-term and long-term aligned to below two degrees.

As has been made clear previously the forecast reduction in emissions shown is dependent 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 stakeholder interaction covering the issues of companies operating in the Palestinian territories. Responses were made by the director, in line with policy, addressing these issues.

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 held a business meeting during the quarter which included the approval of the workplan for the coming year and agreed the budget and subscription levels, allowing for an inflationary increase.

The Forum is operating in line with its budget and membership now stands at 87 Funds and 7 pools after welcoming its newest member, the ACCESS pool.

With a membership that in aggregate holds over £350 billion in assets under management, LAPFF's financial clout is already equivalent to that of one of the top ten largest global pension funds. However, any additional clout can only help.

During the quarter, Climate Action 100+, the world's largest investor engagement initiative on climate change, produced a consultation draft of the Net Zero Standard for Diversified Mining. The new Standard will help investors assess the progress of diversified mining companies as they move towards net zero.

The Standard will provide a transparent, systematic, and evidence-backed tool, so Climate Action 100+ signatories have metrics that are specific to this important, but complex, sector. The Standard is designed to complement the sector-neutral Climate Action 100+ Company Benchmark. The reflects the outcome of extensive consultation with investors and mining companies themselves.

At the start of the quarter, the Institutional Investors Group on Climate Change (IIGCC) released further support investors and to help companies understand and respond to this request, we have also published new guidance as part of its Net Zero Initiative, "Investor expectations of corporate transition plans: From A to Zero." This publicly available resource offers information investors should be asking for when assessing transition plans, the rationale for those requests, and how companies can meet them.

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.

Border to Coast Responsible Investment Policy Review 2023

Border to Coast requested responses as part of their annual RI policy review. We highlighted our expectations of a tighter revenue reduction threshold relating to pure coal and tar sands as well as around a zero-tolerance exclusion on cluster munitions. We also requested that Border to Coast greater transparency around how the Human Rights Policy will be applied, for example defining what type of breach would render a company 'uninvestable'.

FCA Primary Markets Effectiveness Review

The FCA is consulting on reforms to the UK listing regime. We support the objective to maintain the UK as an attractive place to list as part of the broader discussion around the functioning of UK capital markets. Border to Coast responded to the consultation and supported the Investment Association's response, whilst highlighting our key concerns on the potential rolling back of investor protections. This includes changes related to significant and related party transactions votes and changes to dual class share structures.

IIGCC Standards and Guidance

During the quarter, the IIGCC published new net zero standards for oil and gas companies and for banks. The standards, developed with input from a range of industry practitioners, are intended to support constructive engagement with companies to aid ongoing implementation of climate commitments. The Group also made further enhancements to the Net Zero Investment Framework, publishing guidance for bondholder climate stewardship and net zero in private equity.

ISSB Standards

In June, the International Sustainability Standards Board (ISSB) issued its inaugural standards. The standards aim to create a common language for disclosing the effect of climate-related risks and opportunities on a company's future prospects. Following launch, the ISSB will work with jurisdictions and companies to support adoption. The first step involves the creation of a Transition Implementation Group to support companies in applying the standards and launching capacity-building initiatives for implementation.

ECB Climate Disclosures Review

The European Central Bank (ECB) released its third review on banks' climate-related risk disclosures practices and trends during May. The Bank acknowledged progress but found financial institutions remain below expectations. They urged banks to improve disclosures and provide more specific information. This review strengthens the case for engaging banks in our Low Carbon Transition theme. Our dialogue on financing and disclosures with banks continues.

Climate Action 100+ Launches Phase 2

Climate Action 100+, the largest investor-led climate change initiative, has entered its next phase to drive increased corporate climate action over the next decade. The new phase emphasises the execution of corporate climate transition plans to foster lasting shareholder value.