SOUTH YORKSHIRE PENSIONS AUTHORITY

7 SEPTEMBER 2023

PRESENT: Councillor J Dunn (Chair) Councillor M Havard (Vice-Chair) Councillors: R Bowser, S Clement-Jones, S Cox, , J Mounsey, C. Gamble-Pugh, A Sangar and M Stowe

Non-voting Coopetes: N Doolan-Hamer (Unison) and G Warwick (GMB)

Investment Advisors: T Castledine and A. Devitt

Officers: G Graham (Director), J Stone (Head of Governance & Monitoring Officer), S Smith (Assistant Director - Investments Strategy), G Taberner (Assistant Director - Resources & Chief Finance Officer), W Goddard (Head of Finance

Chris Hitchen and Jessica Wilson from Border to Coast.

Apologies for absence were received from Councillors D Nevett, A Dimond and D Fisher

1 APOLOGIES

The Chair welcomed everyone to the meeting.

Apologies were noted as above.

2 ANNOUNCEMENTS

None

3 URGENT ITEMS

None

4 ITEMS TO BE CONSIDERED IN THE ABSENCE OF THE PUBLIC AND PRESS

Resolved: Items 21 and 22 shall be considered in the absence of Public and Press by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972

5 DECLARATIONS OF INTEREST

None

6 SECTION 41 FEEDBACK FROM DISTRICT COUNCILS

None

7 MINUTES OF THE MEETING HELD ON 08/06/2023

RESOLVED: That the minutes of the meeting held on 8 June 2023 be agreed as a true record.

8 QUESTIONS FROM THE PUBLIC

Questions were received from Mr Ashton, Mrs Smith and Ms Cattell.

The Director replied on behalf of the Authority.

Electronic versions of the questions and responses will be e-mailed to the relevant members of the public. The written replies are attached as appendices at the end of this pack.

9 Q1 PERFORMANCE REPORT

The Assistant Director – Resources and Head of Finance presented the Q1 Corporate Performance Report for members to consider and approve.

Key areas for consideration were highlighted to members who raised a number of questions.

Members queried the new risk added to the strategic risk register in relation to the pensions administration backlog and asked what the root cause of the issue was.

Assurance was also sought that staff sickness was being monitored with rigour and appropriate measures put in place to manage.

In response the Director explained that this type of backlog is not unusual, with other Administering Authorities having similar issues, however the issue still needs addressing. A detailed analysis of the pensions administration workload has taken place and identified the need for additional staff and also highlighted the imbalance of the workforce with more experienced pensions practitioners required to assess the more complex cases. It was confirmed that these issues will be addressed as part of the report to be presented to the Staffing Committee in October.

The Assistant Director - Resources confirmed that staff sickness levels are still relatively low compared to pre covid levels. Assurance was given that sickness is monitored rigorously in line with the Managing Attendance Policy and that the HR Business Partner works closely with all managers to support this process.

It was explained that staff working from home seems to have reduced the sickness levels along with working creatively with hybrid working and the flexi scheme.

Members also questioned if the Authority is using more agency staff than necessary.

The Director confirmed that this is not the case, the only current agency member of staff is the interim Assistant Director - Pensions, due to the specialist nature of the role and subsequent recruitment process.

RESOLVED: Members noted, commented on and accepted the report.

10 ADVISOR MARKET COMMENTARY

The Independent Advisers presented the Market Commentary Report for members to consider and note.

Members sought the views of the advisers around the stability of the funding level and how this could be affected by the rise or fall in the Stirling along with the balance of liabilities.

The advisors responded that as a global investor a weaker Stirling can be more beneficial as portfolios not denominated in Stirling will rise. Returns will be eroded with a stronger Stirling. Whilst it is not felt that the funding levels will drop as dramatically as they have just risen, they could and need to be managed by controlling the asset number, which currently has a significant buffer. The current exposure is being monitored with a view to modifying our position, if necessary, for example if the dollar weakened. The liability number is also being carefully monitored, recognising that it is the present value of those liabilities and not the liabilities themselves.

Members also sought clarification on page 62 of the report in relation to ESG, around the claim that some environmental resolutions were overly prescriptive and not sufficiently flexible, and what course of correction can be taken.

The advisors confirmed that there is a lot of debate in this area. A key thought is for businesses to aim for a sustainable business plan that is compatible with minimising environmental damage whilst still achieving their goal – trying to couch environmental objectives in a commercial reality.

Members discussed the change in China's position in the global market and how this would develop over the next 10 years, along with the concern over being driven by the US markets.

The advisers commented that a lot of China has already moved into a consumer class with an ageing population, and it could be argued that a lot of the growth is now coming out of the US.

Further discussion took place around pharmaceutical investment "bubbles" which reflected on the importance of diverse portfolios.

RESOLVED: Members thanked the advisers and noted the report

11 Q1 INVESTMENT PERFORMANCE REPORT

The Assistant Director – Investments delivered the Q1 Investment Performance Report highlighting key areas of performance over the last quarter.

RESOLVED: Members noted and accepted the report.

12 Q1 RESPONSIBLE INVESTMENT UPDATE

The Director presented the regular quarterly report on Responsible Investment Activity for Members to note and comment upon.

Members queried the Shell vote and asked at what stage does the voting have a real impact.

The Director advised that companies do pay attention to these votes, a 20% vote against is not insignificant, and could impact at the margin. Continued engagement does chip away and there is the opportunity for petrochemical companies to evolve to become an energy company and engage in other renewable areas

RESOLVED: Members noted and accepted the report.

13 DISCRETIONS POLICY STATEMENT

The Director presented the Discretions Policy Statement, explaining that it is a statement of existing policy and was being presented to ensure that policies had been reviewed and were now presented in a consolidated form.

RESOLVED: Members noted and accepted the current version of the Policy

14 REGULATORY AND POLICY UPDATE

The Director presented the Regulatory and Policy update, highlighting key areas of focus and work taking place in relation to these.

RESOLVED: Members noted the contents of the report and the work underway in relation to various policy and regulatory updates.

15 INVESTMENT CONSULTATION

The Director presented the Investment Consultation Report to allow members to review the Authority’s response to the Government’s consultation “Local Government Pension Scheme (England and Wales): Next steps on investments”.

The Chair of the Border to Coast Board supported the approach taken in the report and commented that B2C and partner funds have already implemented pooling in the way that the government would wish it to have been done. He emphasised that the pooling company can not act on anything that the partner funds or shareholders do not agree with.

The Independent Advisers commented that the consultation response is exceptionally detailed and well thought out. They discussed the need to be mindful of the reporting requirements to make sure resourcing these will not offset any potential efficiencies. It was also highlighted that staffing investment pools can be a challenge, not being too overly ambitious at this stage in terms of consolidation could be a positive step. Common benchmarks were discussed, with a need to push back on this area to protect local control.

The size of pools, in terms of participants, is an important factor. B2C reiterated that no other funds would be joining Border to Coast without the partner funds approval.

Members discussed the response and agreed that the current pooling arrangement did seem to be in line with the government's requirements. It was commented on that other local government pension funds have a different approach and there is a lack of consistency across funds.

Members asked if there was a deadline for further comments on the consultation.

The Director confirmed that the Government require responses by 2 October 2023, it is expected that the Chancellor will make an announcement on the consultation outcomes in November. The LGPS will create the new regulations and guidance which will likely not be available until summer 2024.

Members questioned how other partner funds are engaging with responsible investment. They were advised that B2C have a joint responsible investment policy that is currently under review. The policy generally aligns with the partner funds directions.

Members concluded with the statement that it is key that the local Authority's voice is not lost as part of this process and is still strengthened.

The Director agreed to reflect this in the response.

RESOLVED: Members:

a. Approved the consultation response set out in Appendix A and delegate authority to the Director in consultation with the Chair to finalise the response in the light of any further feedback from advisers and Border to Coast partners.

b. Noted the work identified in the body of this report which will be undertaken in preparation for the introduction of the changes set out in the consultation.

16 <u>DECISIONS TAKEN BETWEEN MEETINGS</u>

The Head of Governance presented the report to inform members of decisions taken between meetings of the Authority due to the time sensitive nature of the matters involved.

RESOLVED: Members noted the decisions taken between meetings of the Authority using the appropriate urgency procedures.

17 APPROVAL OF LPB CONSTITUTION AND TERMS OF REFERENCE

The Head of Governance presented the Annual Review of the Local Pension Board Constitution for Members' consideration and approval.

RESOLVED: Members:

a. Approved the adoption of the revised Constitution of the Local Pension Board attached at Appendix A.

b. Agreed that subject to the conclusion of consultation with the Constituent Authorities to authorise the Head of Governance to amend the Local Pension Board Constitution to increase the term of office of Councillor members to 3 years.

18 POLICY STATEMENT ON REPRESENTATION

The Head of Governance presented the Policy Statement on Representation for members to approve.

RESOLVED: Members approved the Policy Statement on Representation

19 BORDER TO COAST FUNDING MODEL

The Director presented the Border to Coast Funding Model to secure members approval for changes to the legal agreements concerned with the operation of Border to Coast to accommodate a change in the company's funding model.

Members raised concerns around SYPA contributions being higher than other partner funds due to our early transfer of assets into the pool.

The Director confirmed that SYPA will pay a little more but clarified that we are also the largest investor in Border to Coast and their products and therefore this is a logical position.

RESOLVED: Members:

a. Supported the proposed changes to the funding model for the Border to Coast operating company.

b. Authorised the Head of Governance in consultation with the Director and subject to the receipt of appropriate legal advice commissioned by the 11 Partner Funds to execute the relevant legal documents on behalf of the Authority.

20 BORDER TO COAST ANNUAL REVIEW 2022/23 (Exemption Paragraph 3)

The Director presented the Border to Coast Annual Review 2022/23.

RESOLVED: Members:

a. Noted the conclusions of the Annual Review of the Border to Coast Pensions Partnership set out in Appendix A.

b. Endorsed the recommendations for action set out in Appendix A.

21 INDPENDENT ADVISERS APPRAISAL 2022/23 (Exemption Paragraph 3)

The Director presented the Independent Advisers Appraisal report 2022/23.

RESOLVED: Members considered the performance of the arrangements in place for independent investment advice and identified any areas for potential improvement.

22 APPENDIX A – WRITTEN REPLY TO PUBLIC QUESTIONS

Authority Meeting 7th September 2023 – Public Questions

Question 1 – Ms Hilary Smith

The Department of Levelling Up, Housing and Communities is proposing that all Local Government Pension funds should be transferred into less than 8 pools by 2025, with 5% of funds allocated to levelling up.

We see this proposed change as a severe curtailment of local democracy. It will mean that local councils have almost no control over their pension funds, to which the people they represent have contributed their earnings, handing the funds over to companies which could be controlled by government favoured consultants and hedge funds. We have seen the result of handing over public assets to private companies with the water companies.

What will be your response to the consultation, and will South Yorkshire Pension Authority defend local democracy and oppose these proposed changes?

Response

A draft of the Authority's proposed response to the consultation referred to in the question is on the agenda for this meeting of the Authority. While the Authority is supportive of what it prefers to call Place Based Impact Investing as part of its investment strategy the response very clearly makes the point that pension funds exist to pay the pensions of scheme members when they fall due, and they are not an instrument of policy.

The question makes a wider point which is about the nature of control or influence over the activities of those managing money on behalf of the Authority. The largest contributor to the investment performance of the Fund is the decision on the balance between different types of assets (for example shares and bonds). This remains a decision for the Authority to make both now and in the model of pooling envisaged by the Government.

In considering the control or influence that the Authority has over those managing money it is important to remember that the pool (in our case Border to Coast) is owned by the Pension Funds participating in it and therefore the operating company cannot act in ways that partners do not want, although clearly consensus among partners needs to be achieved. Building a strong asset manager (in the case of Border to Coast the largest UK asset manager outside London or Edinburgh) owned by LGPS funds with strong internal capabilities is in fact likely to reduce the dependency of funds on external consultants, not that SYPA has ever used consultants for anything other than very detailed technical modelling.

The process of consolidation referred to in the question has not yet begun, but the Government's preferred model of pooling described in the consultation is an endorsement of the approach taken by the Border to Coast partnership. The Government's driver is for the pools to achieve greater scale which research indicates will drive lower cost and can drive improved performance. How this is achieved seem likely to be left to the partners involved and SYPA and the other partners in Border to Coast will want to ensure that any larger pool continues to operate in line with the principles that have been central to its success so far.

Question 2 – Mr Sean Ashton

On page 3 of the Climate Change policy it states that SYPA "recognise that while active shareholder engagement should be the first option, the Authority encourages Border to Coast (and other fund managers) to consider actively reducing exposure to high-carbon intensity companies that fail to respond to engagement by not demonstrating a decrease in carbon intensity or carbon risk and/or by failing to develop credible plans for the transition to a low/no carbon economy." While we approve of this statement it is, unfortunately, vague in detail. For example BP has recently scaled back on its climate targets (https://www.bbc.co.uk/news/business-64544110) and does not publish its scope 3 emissions, certain proof, if it were needed, that engagement is not working. Similarly, Shell are not increasing their investments in renewables (https://www.theguardian.com/us-news/2023/jul/16/big-oil-climate-pledges-extreme-heat-fossil-fuel). However, SYPA continue to invest in these companies.

Directly related to this, on page 11 of the Action Plan for Delivering the Net Zero Goal, you say that "The Authority will work through the Partnership to seek to define much clearer success criteria for climate engagements and clearer escalation of consequences up to and including divestment in the event of engagement not meeting those criteria." In addition, also on page 11, you state that it is SYPA's intention to vote against the chair of companies that fail the first four indicators of the CA100+ benchmark. The first four indicators are desperately weak and companies like Shell and BP scrape through, just by publishing an ambition to be net zero by 2050 (indicator 1). We believe that the key CA100+ indicators are 3.3, 4.3, 5.1b and 6.1b *which measure alignment or targets towards limiting warming to 1.5°C in the short and medium term, all of which are failed by Shell and BP.*

Based on the above, we would like to ask:

1. At what point will SYPA decide that a company is not responding to engagement?
2. What targets/thresholds will be used and when will they be made public so that the authority can be held accountable?
3. Will SYPA consider the more stringent CA100+ tests (3.3, 4.3, 5.1b and 6.1b) of a company's ambitions as their benchmark?
4. At what point will divestment be considered?

Response

The voting policy agreed by SYPA with Border to Coast partners states that votes will be cast against the Chair of the Board of oil and gas companies which fail to meet one of the first four indicators of the Climate Action 100+ Net Zero Company Benchmark, which includes short, medium, and long-term emission reduction targets. Failing to meet these indicators can be seen as a proxy for not responding to engagement. Votes were therefore cast against the Chairs of both BP and Shell, in line with our climate voting policy, as they failed to fully meet indicators 3 and 4 of the CA100+ Net Zero Company Benchmark (specifically, both companies failed sub-indicators 3.3 and 4.3). The table below set out how votes were cast on behalf of SYPA at the most recent BP and Shell AGM's.

Company	Item	Border to Coast Vote Decision	Rationale
BP	4. Elect Helge Lund	Against	Voted against the chairs of all oil and gas companies that have not fully met the first four CA100+ indicators. BP have only partially met indicators 3 and 4 (medium and short-term net zero targets).
	25. Shareholder Proposal Regarding Reporting and Reducing Greenhouse Gas Emissions	For	Supported this shareholder proposal as it requests that BP aligns its climate targets with the Paris Agreements goals. Specifically, it wants to see the company's 2030 targets match the ambitions of its 2050 targets by fully including scope 3 emissions.
Shell	14. Reappoint Sir Andrew Mackenzie	Against	Voted against the chair at Shell as the company fails to fully meet CA100+ indicators 3 and 4 (medium- and short-term GHG reduction targets).
	25. Approve Shell's energy transition plan	Against	Voted against this item as we believe the company has made insufficient progress towards the energy transition.
	26. Shareholder resolution regarding scope 3 GHG target and alignment with Paris Agreement.	For	Shell's 2030 scope 3 emissions reduction target should be aligned with the Paris Agreement.

Neither BP nor Shell, or indeed any oil and gas holdings, can meet our voting requirements simply by setting a net zero target or partially meeting any of the other CA100+ Net Zero Company Benchmark indicators. Instead, oil and gas companies must fully meet each of the first four indicators by passing all sub-indicators. This means that Oil and Gas companies must have short-(2025), medium-(2035) and long-term (2050) GHG reduction targets that cover 95% of their scope 1+2 emissions as well as their most material scope 3 emission; and these targets must be aligned to limiting global warming to 1.5^{o}C at every stage.

Regarding sub-indicator 6.1, indicator 6 (Capital Alignment) is a focus of planned follow up engagement with Shell. This is considered a highly important issue and, while it does not currently factor into the agreed voting policy, it is a significant consideration in terms of engagement and the attainment of Net Zero more broadly.

Border to Coast held meetings with both BP and Shell in March 2024, ahead of AGM season to discuss several matters relating to climate strategy and continued to push for disclosures around capital alignment and how, in the longer term, this would be aligned to a net zero by 2050 pathway. While positive dialogue with both companies is welcome and will continue, there remain some significant points of difference which were articulated to both companies ahead of the votes being cast. Border to Coast, in line with the agreed policy, therefore triggered its next step in its escalation approach by publicly disclosing its voting intention. Engagement is due to continue in the second half of the year and ahead of the 2024 AGM.

In terms of the scale of holdings as a high-level summary, in absolute terms, exposure has fallen since 2019 which is the year used by Border to Coast as a baseline by:

- Energy sector by 3%
- BP by 0.16%
- Shell by 1.3%

Divestment is a last resort and as has been stated previously (and as reflected in both the Border to Coast and SYPA policies) would only be considered where the overall case for holding a particular company had been undermined to the extent that continuing holding cannot be financially justified. The issues raised in the question particularly around capital alignment are factors that influence that decision, however, they are not, and cannot be the only factors that are taken into account in making such decisions.

Question 3 - Ms J Cattell

I assume that the Economic Activity of Public Bodies (overseas matters) Bill, which represents a significant reduction of the democratic rights of Local Authority Pension Funds and the people they represent, has been discussed by representatives of SYPA . As a member I am keen to know how SYPA view the bill, if you have made representations to the government and discussed how it will impact on your Responsible Investment Policy.

Response

The Regulatory Update on the agenda for this meeting sets out the current assessment of the implications of this legislation and includes some information setting out the potential challenges that might be faced in the event the legislation is passed. Answering the specific question SYPA has not made any representations to the Bill Committee considering the legislation. The Local Government Association and the Scheme Advisory Board have made representations which raise the concerns reflected in the report on the agenda and the Secretary to the Board and Vice Chair gave evidence to the Bill Committee which is available in Hansard on the UK Parliament website at the link below:

Economic Activity of Public Bodies (Overseas Matters) - Hansard - UK Parliament

The full impact of this legislation will only become clear when the relevant statutory guidance is drafted and consulted on which will be some time after the passage of the legislation.

PRESENT: Councillor J Dunn (Chair) Councillor M Havard (Vice-Chair) Councillors: R Bowser, S Clement-Jones, S Cox, , J Mounsey, C. Gamble-Pugh, A Sangar and M Stowe

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Chris Hitchen and Jessica Wilson from Border to Coast.

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2 APOLOGIES

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3 ANNOUNCEMENTS

None

4 URGENT ITEMS

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5 ITEMS TO BE CONSIDERED IN THE ABSENCE OF THE PUBLIC AND PRESS

Resolved: Items 21 and 22 shall be considered in the absence of Public and Press by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972

6 DECLARATIONS OF INTEREST

None

8 SECTION 41 FEEDBACK FROM DISTRICT COUNCILS

None

9 MINUTES OF THE MEETING HELD ON 08/06/2023

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9 QUESTIONS FROM THE PUBLIC

Questions were received from Mr Ashton, Mrs Smith and Ms Cattell.

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RESOLVED: Members noted and accepted the current version of the Policy

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Members concluded with the statement that it is key that the local Authority's voice is not lost as part of this process and is still strengthened.

The Director agreed to reflect this in the response.

RESOLVED: Members:

a. Approved the consultation response set out in Appendix A and delegate authority to the Director in consultation with the Chair to finalise the response in the light of any further feedback from advisers and Border to Coast partners.

b. Noted the work identified in the body of this report which will be undertaken in preparation for the introduction of the changes set out in the consultation.

26 DECISIONS TAKEN BETWEEN MEETINGS

The Head of Governance presented the report to inform members of decisions taken between meetings of the Authority due to the time sensitive nature of the matters involved.

RESOLVED: Members noted the decisions taken between meetings of the Authority using the appropriate urgency procedures.

27 APPROVAL OF LPB CONSTITUTION AND TERMS OF REFERENCE

The Head of Governance presented the Annual Review of the Local Pension Board Constitution for Members' consideration and approval.

RESOLVED: Members:

a. Approved the adoption of the revised Constitution of the Local Pension Board attached at Appendix A.

b. Agreed that subject to the conclusion of consultation with the Constituent Authorities to authorise the Head of Governance to amend the Local Pension Board Constitution to increase the term of office of Councillor members to 3 years.

28 POLICY STATEMENT ON REPRESENTATION

The Head of Governance presented the Policy Statement on Representation for members to approve.

RESOLVED: Members approved the Policy Statement on Representation

29 BORDER TO COAST FUNDING MODEL

The Director presented the Border to Coast Funding Model to secure members approval for changes to the legal agreements concerned with the operation of Border to Coast to accommodate a change in the company's funding model.

Members raised concerns around SYPA contributions being higher than other partner funds due to our early transfer of assets into the pool.

The Director confirmed that SYPA will pay a little more but clarified that we are also the largest investor in Border to Coast and their products and therefore this is a logical position.

RESOLVED: Members:

a. Supported the proposed changes to the funding model for the Border to Coast operating company.

b. Authorised the Head of Governance in consultation with the Director and subject to the receipt of appropriate legal advice commissioned by the 11 Partner Funds to execute the relevant legal documents on behalf of the Authority.

30 BORDER TO COAST ANNUAL REVIEW 2022/23 (Exemption Paragraph 3)

The Director presented the Border to Coast Annual Review 2022/23.

RESOLVED: Members:

a. Noted the conclusions of the Annual Review of the Border to Coast Pensions Partnership set out in Appendix A.

b. Endorsed the recommendations for action set out in Appendix A.

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The Director presented the Independent Advisers Appraisal report 2022/23.

RESOLVED: Members considered the performance of the arrangements in place for independent investment advice and identified any areas for potential improvement.

32 APPENDIX A – WRITTEN REPLY TO PUBLIC QUESTIONS

Authority Meeting 7th September 2023 – Public Questions

Question 1 – Ms Hilary Smith

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What will be your response to the consultation, and will South Yorkshire Pension Authority defend local democracy and oppose these proposed changes?

Response

A draft of the Authority's proposed response to the consultation referred to in the question is on the agenda for this meeting of the Authority. While the Authority is supportive of what it prefers to call Place Based Impact Investing as part of its investment strategy the response very clearly makes the point that pension funds exist to pay the pensions of scheme members when they fall due, and they are not an instrument of policy.

The question makes a wider point which is about the nature of control or influence over the activities of those managing money on behalf of the Authority. The largest contributor to the investment performance of the Fund is the decision on the balance between different types of assets (for example shares and bonds). This remains a decision for the Authority to make both now and in the model of pooling envisaged by the Government.

In considering the control or influence that the Authority has over those managing money it is important to remember that the pool (in our case Border to Coast) is owned by the Pension Funds participating in it and therefore the operating company cannot act in ways that partners do not want, although clearly consensus among partners needs to be achieved. Building a strong asset manager (in the case of Border to Coast the largest UK asset manager outside London or Edinburgh) owned by LGPS funds with strong internal capabilities is in fact likely to reduce the dependency of funds on external consultants, not that SYPA has ever used consultants for anything other than very detailed technical modelling.

The process of consolidation referred to in the question has not yet begun, but the Government's preferred model of pooling described in the consultation is an endorsement of the approach taken by the Border to Coast partnership. The Government's driver is for the pools to achieve greater scale which research indicates will drive lower cost and can drive improved performance. How this is achieved seem likely to be left to the partners involved and SYPA and the other partners in Border to Coast will want to ensure that any larger pool continues to operate in line with the principles that have been central to its success so far.

Question 2 – Mr Sean Ashton

On page 3 of the Climate Change policy it states that SYPA "recognise that while active shareholder engagement should be the first option, the Authority encourages Border to Coast (and other fund managers) to consider actively reducing exposure to high-carbon intensity companies that fail to respond to engagement by not demonstrating a decrease in carbon intensity or carbon risk and/or by failing to develop credible plans for the transition to a low/no carbon economy." While we approve of this statement it is, unfortunately, vague in detail. For example BP has recently scaled back on its climate targets (https://www.bbc.co.uk/news/business-

64544110) and does not publish its scope 3 emissions, certain proof, if it were needed, that engagement is not working. Similarly, Shell are not increasing their investments in renewables (https://www.theguardian.com/us-news/2023/jul/16/big-oil-climate-pledges-extreme-heat-fossil-fuel). However, SYPA continue to invest in these companies.

Directly related to this, on page 11 of the Action Plan for Delivering the Net Zero Goal, you say that "The Authority will work through the Partnership to seek to define much clearer success criteria for climate engagements and clearer escalation of consequences up to and including divestment in the event of engagement not meeting those criteria." In addition, also on page 11, you state that it is SYPA's intention to vote against the chair of companies that fail the first four indicators of the CA100+ benchmark. The first four indicators are desperately weak and companies like Shell and BP scrape through, just by publishing an ambition to be net zero by 2050 (indicator 1). We believe that the key CA100+ indicators are 3.3, 4.3, 5.1b and 6.1b which measure alignment or targets towards limiting warming to 1.5°C in the short and medium term, all of which are failed by Shell and BP.

Based on the above, we would like to ask:

1. At what point will SYPA decide that a company is not responding to engagement?
2. What targets/thresholds will be used and when will they be made public so that the authority can be held accountable?
3. Will SYPA consider the more stringent CA100+ tests (3.3, 4.3, 5.1b and 6.1b) of a company's ambitions as their benchmark?
4. At what point will divestment be considered?

Response

The voting policy agreed by SYPA with Border to Coast partners states that votes will be cast against the Chair of the Board of oil and gas companies which fail to meet one of the first four indicators of the Climate Action 100+ Net Zero Company Benchmark, which includes short, medium, and long-term emission reduction targets. Failing to meet these indicators can be seen as a proxy for not responding to engagement. Votes were therefore cast against the Chairs of both BP and Shell, in line with our climate voting policy, as they failed to fully meet indicators 3 and 4 of the CA100+ Net Zero Company Benchmark (specifically, both companies failed sub-indicators 3.3 and 4.3). The table below set out how votes were cast on behalf of SYPA at the most recent BP and Shell AGM's.

Company	Item	Border to Coast Vote Decision	Rationale
BP	4. Elect Helge Lund	Against	Voted against the chairs of all oil and gas companies that have not fully met the first four CA100+ indicators. BP have only partially met indicators 3 and 4 (medium and short-term net zero targets).
	25. Shareholder Proposal Regarding Reporting and Reducing Greenhouse Gas	For	Supported this shareholder proposal as it requests that BP aligns its climate targets with the Paris Agreements goals. Specifically, it wants to see the company's 2030 targets match the ambitions of its 2050 targets by fully including scope 3

	Emissions		emissions.
Shell	14. Reappoint Sir Andrew Mackenzie	Against	Voted against the chair at Shell as the company fails to fully meet CA100+ indicators 3 and 4 (medium- and short-term GHG reduction targets).
	25. Approve Shell's energy transition plan	Against	Voted against this item as we believe the company has made insufficient progress towards the energy transition.
	26. Shareholder resolution regarding scope 3 GHG target and alignment with Paris Agreement.	For	Shell's 2030 scope 3 emissions reduction target should be aligned with the Paris Agreement.

Neither BP nor Shell, or indeed any oil and gas holdings, can meet our voting requirements simply by setting a net zero target or partially meeting any of the other CA100+ Net Zero Company Benchmark indicators. Instead, oil and gas companies must fully meet each of the first four indicators by passing all sub-indicators. This means that Oil and Gas companies must have short-(2025), medium-(2035) and long-term (2050) GHG reduction targets that cover 95% of their scope 1+2 emissions as well as their most material scope 3 emission; and these targets must be aligned to limiting global warming to 1.5^{o}C at every stage.

Regarding sub-indicator 6.1, indicator 6 (Capital Alignment) is a focus of planned follow up engagement with Shell. This is considered a highly important issue and, while it does not currently factor into the agreed voting policy, it is a significant consideration in terms of engagement and the attainment of Net Zero more broadly.

Border to Coast held meetings with both BP and Shell in March 2024, ahead of AGM season to discuss several matters relating to climate strategy and continued to push for disclosures around capital alignment and how, in the longer term, this would be aligned to a net zero by 2050 pathway. While positive dialogue with both companies is welcome and will continue, there remain some significant points of difference which were articulated to both companies ahead of the votes being cast. Border to Coast, in line with the agreed policy, therefore triggered its next step in its escalation approach by publicly disclosing its voting intention. Engagement is due to continue in the second half of the year and ahead of the 2024 AGM.

In terms of the scale of holdings as a high-level summary, in absolute terms, exposure has fallen since 2019 which is the year used by Border to Coast as a baseline by:

- Energy sector by 3%
- BP by 0.16%
- Shell by 1.3%

Divestment is a last resort and as has been stated previously (and as reflected in both the Border to Coast and SYPA policies) would only be considered where the overall case for holding a particular company had been undermined to the extent that continuing holding cannot be financially justified. The issues raised in the question particularly around capital alignment are factors that influence that decision, however, they are not, and cannot be the only factors that are taken into account in making such decisions.

Question 3 - Ms J Cattell

I assume that the Economic Activity of Public Bodies (overseas matters) Bill, which represents a significant reduction of the democratic rights of Local Authority Pension Funds and the people they represent, has been discussed by representatives of SYPA . As a member I am keen to know how SYPA view the bill, if you have made representations to the government and discussed how it will impact on your Responsible Investment Policy.

Response

The Regulatory Update on the agenda for this meeting sets out the current assessment of the implications of this legislation and includes some information setting out the potential challenges that might be faced in the event the legislation is passed. Answering the specific question SYPA has not made any representations to the Bill Committee considering the legislation. The Local Government Association and the Scheme Advisory Board have made representations which raise the concerns reflected in the report on the agenda and the Secretary to the Board and Vice Chair gave evidence to the Bill Committee which is available in Hansard on the UK Parliament website at the link below:

Economic Activity of Public Bodies (Overseas Matters) - Hansard - UK Parliament

The full impact of this legislation will only become clear when the relevant statutory guidance is drafted and consulted on which will be some time after the passage of the legislation.

CHAIR