SOUTH YORKSHIRE PENSIONS AUTHORITY

Agenda Item

Subject	**Annual Update of the Border to Coast Responsible Investment Policies**	**Status**	For Publication
Report to	Authority	**Date**	7th December 2023
Report of	Director		
Equality Impact Assessment	Not Required	Attached	No
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1 Purpose of the Report

1.1 To secure the Authority's endorsement of the revised Border to Coast Responsible Investment policies prior to the next voting season.

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2 Recommendations

2.1 Members are recommended to:

a. Endorse the various Border to Coast policies as Appendices A to C.

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3 Link to Corporate Objectives

3.1 This report links to the delivery of the following corporate objectives:

Responsible Investment

To develop our investment options within the context of a sustainable and responsible investment strategy.

4 Implications for the Corporate Risk Register

4.1 The actions outlined in this report will directly impact on the Authority's ability to achieve the necessary mitigations identified in the corporate risk register related to climate change on the value of investment assets as well as the more general investment related risks that are mitigated by ensuring that effective stewardship arrangements are in place.

5 Background and Options

5.1 Each year Border to Coast conducts a review of its Responsible Investment Policy and Voting guidelines so that they can be updated for the following voting season. It is important to recognise that these are all collective documents which represent the company's position based on the consensus position of the partner funds. As such there is, inevitably, a degree of compromise in relation to the positions of the individual partner funds. The diagram below sets out the relationship between these documents and the Authority's own policy framework in this area and the documents themselves are attached at appendices B to C while a table setting out the key changes as a result of the review is at appendix A.

5.2 The process of review is undertaken over the summer following peak voting season and involves looking at feedback from service providers such as Robeco (the voting and engagement partner) and input from partner funds as well as a review of general movements in industry practice. SYPA's input into the process this year concentrated on the following areas:

- Ratcheting down the revenue threshold for the exclusion of pure coal and tar sands companies from the investment universe.
- Achieving greater clarity on the exclusion for controversial weapons revenues such as cluster munitions.
- Achieving greater clarity on the escalation process in relation to human rights issues and breaches of the UN Guiding Principles.

5.3 The majority of changes made reflect general industry developments, for example in relation to expectations around transparency and reporting. However, there are some significant changes in some area identified below.

Responsible Investment Policy

5.4 The policy has been updated to reflect the further broadening of the product range including real estate and to present information on the RI approach for different asset classes in a more consistent way and provide more depth to the information provided. More information is also provided on the way in which managers are selected including the way in which support for Net Zero and assessment of the overall RI approach are assessed. More emphasis has also been placed on the Just Transition.

5.5 Significant changes have been made to the approach to exclusion of companies with particular characteristics from the investment universe based on an assessment of the risk that these characteristics present to the long term viability of the company. These have been extended as follows:

- Companies with more than 25% of revenues derived from thermal coal and tar sands will be excluded. This is reduced from 70%. This is intended to send a clearer signal to companies in these spaces that the risk of stranded assets and the significant emissions from these fuels means that they are not regarded as sustainable businesses in the long term. This results in 46 companies being excluded from the total investment universes (the number excluded from funds in which SYPA invests is likely to be smaller as this figure relates to all Border to Coast products).
- Companies with more than 50% of revenues from thermal coal power generation (70% in emerging markets) will be excluded. This is a new exclusion which is intended to send a clear message that such companies need to accelerate their progress towards delivering clean energy. This results in the exclusion of 39 companies from the investment universe. The different position in emerging markets reflects the fact that these countries start from a much higher dependency on coal generation and the principles of the Just Transition mean that consideration needs to be given to the different transition timelines in these markets.
- Further work had been done to make the existing exclusion for controversial weapons clearer. This is to be broadened to exclude companies manufacturing whole cluster munition weapon systems and companies that manufacture components that were developed or are significantly modifies for exclusive use in cluster munitions. This is to be extended to cover companies with any tie to the production of landmines and biological and chemical weapons. The UK is a signatory to international agreements banning the productions and use of chemical and biological weapons and landmines. This results in the exclusion of 14 companies from the investment universe.

5.6 These changes to the exclusion approach have a very limited impact in terms of the need to sell out of stocks at portfolio level because through the investment process portfolio managers are giving due weight to the risks of climate change and stranded assets when constructing portfolios. If a company held in a portfolio breaches the revenue thresholds the expectation would be that the holding would be sold as soon as practicable and within 6 months taking into account market conditions and liquidity.

5.7 The changes made are in line with the positions which SYPA suggested in particular demonstrating a clear ratcheting up of pressure on companies to accelerate their climate transition.

Voting Guidelines

5.8 Expectations around Board diversity have been made more market specific reflecting the differences in legal requirements relating to gender balance between markets. Clearer expectations and voting consequences are also set out in relation to the ethnic diversity of boards in the UK and US.

5.9 Some additional flexibility has been built in in relation to the rotation of auditors at UK companies provided companies have a plan in place to retender the service.

5.10 A statement setting out that shareholder resolutions aligned with the objectives of the Paris agreement will generally be supported is made. This is in effect the current position. Where it is not possible to support such resolutions the rationale for the decision will be publicly disclosed.

5.11 In order to encourage the acceleration of climate transition by companies a tighter policy in relation to voting at company meetings where the company scores at the lower end of the scale on the Transition Pathway or similar relevant benchmarks like the Climate Action 100+ Net Zero Benchmark. The thresholds differ between Oil and Gas companies and other companies with those for Oil and Gas companies being more stretching. Votes will be cast against and “Say on Climate” resolutions that are not following analysis believed to be aligned with the Paris agreement.

Climate Change Policy

5.12 The main revisions to the Climate Change policy focus on bringing it into line with other documents in terms of descriptions of the governance arrangements and responsibilities and processes. This reflects more recent information reflected in the most recent TCFD report. In addition the information on the revised exclusions within the RI policy are included.

5.13 The fact that there have not been significant changes to this policy reflects the fact that this document sets the broad policy framework rather than looking at specific actions which are contained in the Company’s Net Zero road map and other documents rather than in this broad policy.

Conclusion

5.14 The changes and updates made to the various policies are from an SYPA point of view welcomed and very much in line with the direction of travel proposed in SYPA’s input into the consultation process which supported the annual review. While there has not been specific progress in the policies in relation to human rights issues it is acknowledged that this is a particularly difficult area and on a case by case basis the Company does act in the way in which we would expect and also encourages managers to do so.

6 <u>Implications</u>

6.1 The proposals outlined in this report have the following implications:

Financial	None directly
Human Resources	None
ICT	None
Legal	None

Procurement	None

George Graham

Director

Background Papers	
Document	**Place of Inspection**
SYPA Responsible Investment Policy	Policies (sypensions.org.uk)