SOUTH YORKSHIRE PENSIONS AUTHORITY

Responsible Investment Update Quarter 2 2023/24

December 2023

Contents

Highlights and Recommendations

Highlights over the quarter to the end of September include:

- The casting of over 950 votes at close to 100 company meetings.
- Despite the passing of peak voting season the overall level of engagement activity, with invested companies, increased as LAPFF stepped up engagement.
- High ESG ratings have been maintained for those portfolios where ratings are available.
- Continued focus on engaging with companies to provide clearer plans for the transition to Net Zero and their business strategies to achieve these plans.
- The commercial property portfolio achieved an increase in GRESB score to 78% compared to a peer average score of 73% in the latest assessment with a year-on-year fall of 11% in total like-for-like emissions (scope 1, 2 & 3).
- The overall ESG performance of the listed asset portfolios with Border to Coast has continued to be strong.
- Overall financed emissions of the Border to Coast invested assets have remained flat over the quarter however the UK Equity Fund saw a positive reduction the financed emissions.

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

Background

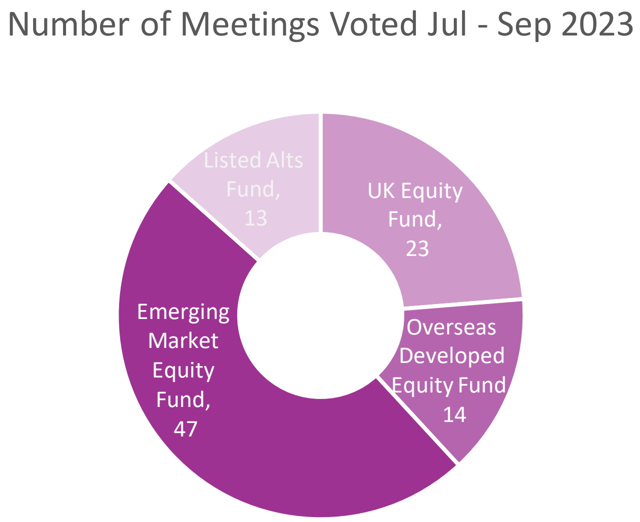
The Authority has developed a statement which sets out what it believes Responsible Investment is and how it will go about implementing it within its overall approach to investment. This statement is set out in the Responsible Investment Policy which is available on the website here.

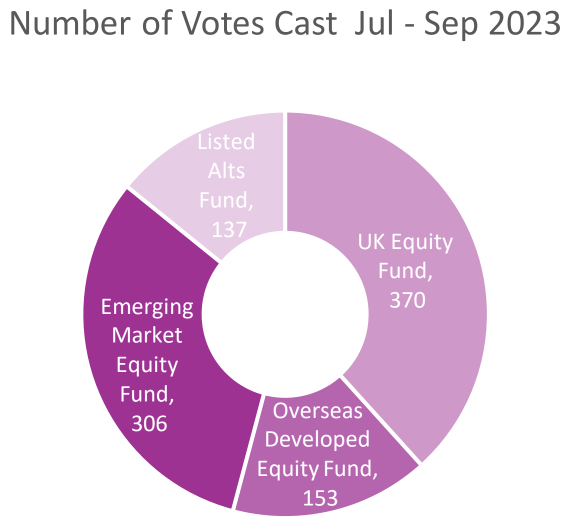
Our approach is largely delivered in collaboration with the other 10 funds involved in the Border to Coast pool. This report provides an update on activity in the last quarter covering:

- 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 fall in both the number of meetings and votes cast as we moved past peak voting season. 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 their Q3 2023 Active Ownership report around how investors have used their shareholder rights to push for more reasonable business practices.

Japan's proxy voting season: Embracing ESG, Diversity and Shareholder Activism

This year's proxy voting season in Japan has emerged as a pivotal time for shareholders to influence corporate governance and advocate for change. Several notable trends have emerged, highlighting a shifting landscape that prioritizes and call for greater transparency and accountability on environmental, social, and governance (ESG) factors, pushes for greater diversity and inclusion, and demands stronger shareholder rights and accountability.
For example, at the recent shareholder meeting of a Japanese ''mega-bank'', shareholders voted on resolutions requesting the company to issue and disclose a transition plan to align its lending and investment with the Paris Agreement.

In addition, Japanese companies' shareholders are asserting their rights and demanding stronger participation in the decision-making process. A record number of shareholder proposals were submitted to companies, urging improvements in governance and calling for higher returns.

Robeco assesses these shareholder proposals on a case by case basis, and are generally supportive of proposals that aim to increase transparency on material ESG issues and enhance long-term shareholder value creation. Nevertheless, when reviewing the merits of these shareholder proposals, Robeco identified numerous instances where the text of the resolution was overly prescriptive, and therefore decided not to support them.

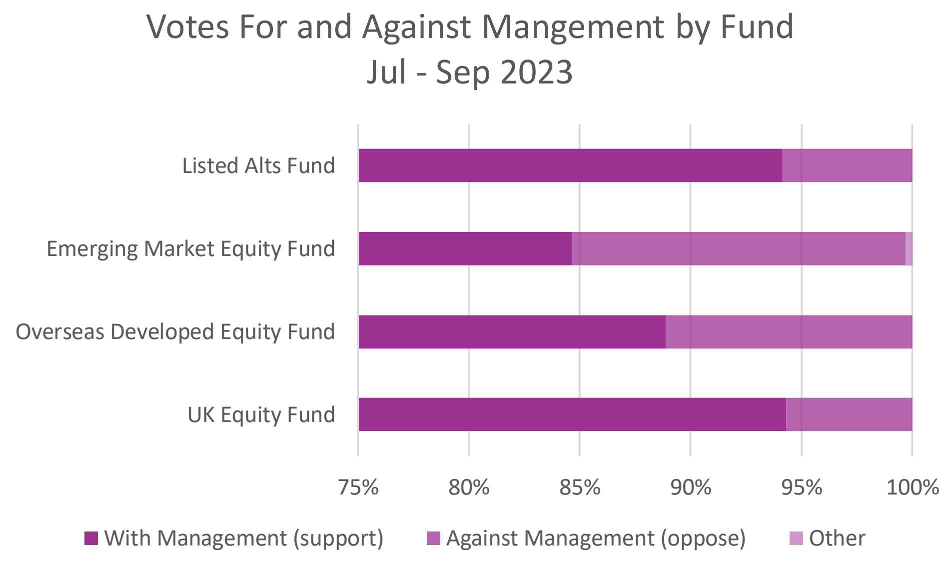
There has been a growing emphasis in Japan on greater gender diversity in corporate boards. Shareholders are increasingly advocating for concrete targets to be integrated into listing rules and the Corporate Governance Code, signalling their commitment to promoting diverse and inclusive leadership.

The Asian Corporate Governance Association (ACGA), of which Robeco is a member, has recommended changes to the Corporate Governance Code over the following years to encourage both prime and non-prime market-listed companies to enhance the role of women on boards and in management.

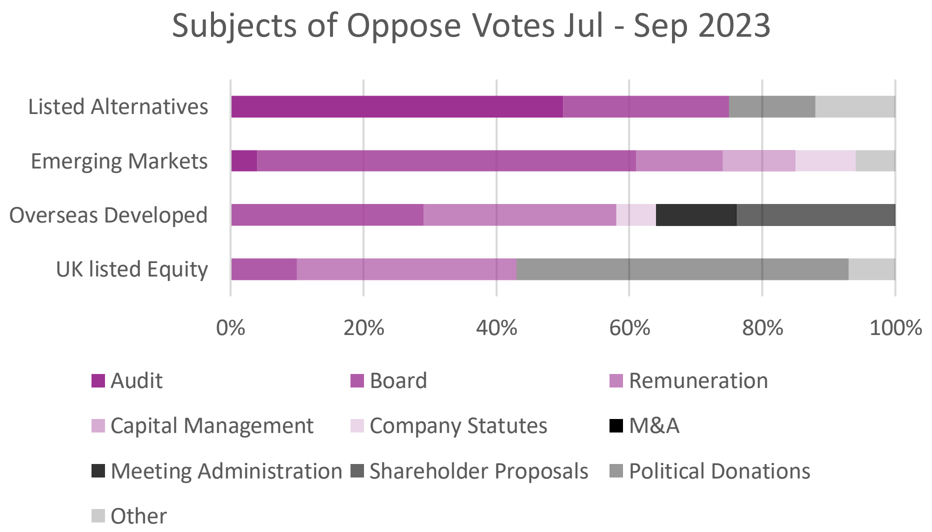
To conclude, this proxy voting season in Japan has witnessed a significant shift in shareholder priorities, with ESG considerations, diversity, shareholder rights, governance reforms and long-term value creation at the forefront. Shareholders continue to leverage their voting power to drive positive change, promote transparency, and hold companies accountable. These trends are reshaping the Japanese corporate landscape as shareholders actively contribute to the evolution of corporate governance practices and pave the way for a more sustainable and inclusive future.

Robeco Active Ownership Report October 2023

The breakdown of support and oppose votes, which align with votes for or against management, is shown in the chart below.



The above graph shows the breakdown of votes cast for (in support of management) and against (in opposition to management) resolutions during the quarter. Compared to last quarter, the proportion of votes against the line taken by company management has increased. 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 slightly more concentrated across topics 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 Listed Alternatives fund, Audit. As in previous quarters, votes against political donations remains close to 50% of the votes made against management of UK listed companies. It is worth reviewing the reasons why it is the case that votes are made against management.

- 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.
- Auditor appointments are automatically opposed if reappointment would result in an unduly long term which is viewed as compromising the independence of the Auditor.

Shareholder resolutions, as can be seen within the information on notable votes in these reports linked below, can cover a whole range of issues. It can be seen that, in the last year the focus, aside from 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, rather 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 summarised below and further details on the voting undertaken can be found here.

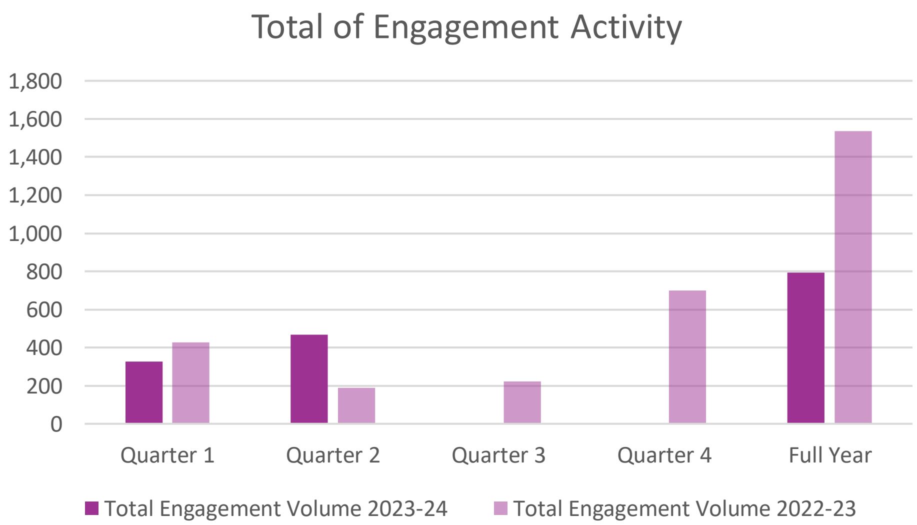
SSE Plc - SSE is a UK-based energy company with exposure to gas and renewables and transmission infrastructure. The AGM featured a vote on its 'Net Zero Transition Report', in which it outlined how it made progress towards its climate ambitions. After assessing the company's climate and decarbonisation strategy, Robecoidentified that there were a series of gaps. Based on these concerns, the company failed Robeco's 'Say on Climate' framework and the Transition Report was voted Against. The report received 2.5% of votes cast Against the resolution and hence the report was approved.

Nike, Inc. At Nikes 2023 AGM, shareholders voted on a number of resolutions routinely encountered on US firm ballots, as well as two management opposed shareholder proposals. The first shareholder proposal on the agenda requested that "Nike report on median pay gaps across race and gender, including associated policy, reputational, competitive, and operational risks, and risks related to recruiting and retaining diverse talent." The second asked that the company "issue a report assessing the effectiveness of its existing supply chain management infrastructure in ensuring alignment with Nike's equity goals and human committments." Robeco supported both proposals after assessing that there was further room for improvement and the disclosures would allow shareholders to better assess the firm's risk profile.

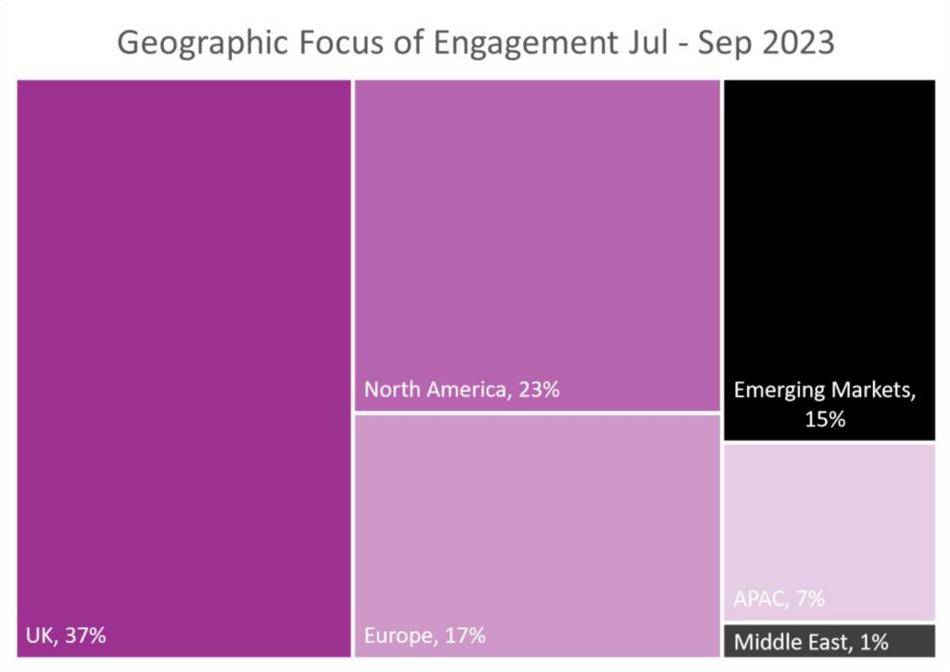
Engagement Activity

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. This includes 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 ("LAPFF") 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.

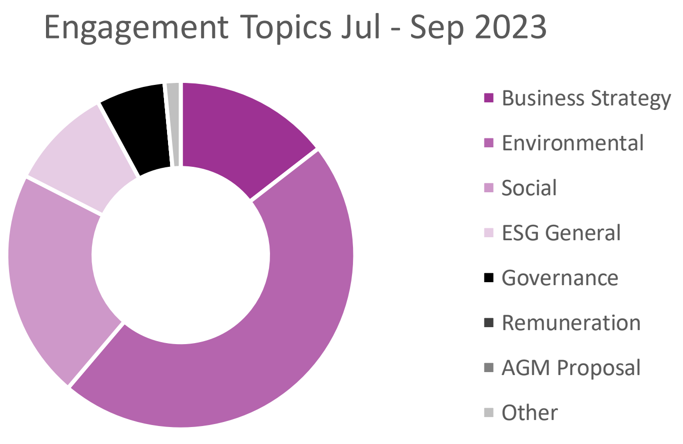
The graph below shows the level of engagement activity in the quarter has increased compared to the same quarter last year, as well as the previous quarter (Q1 2023-24). Total activity increased quarter-on-quarter due to an increase in engagement with companies from both Border to Coast and LAPFF.



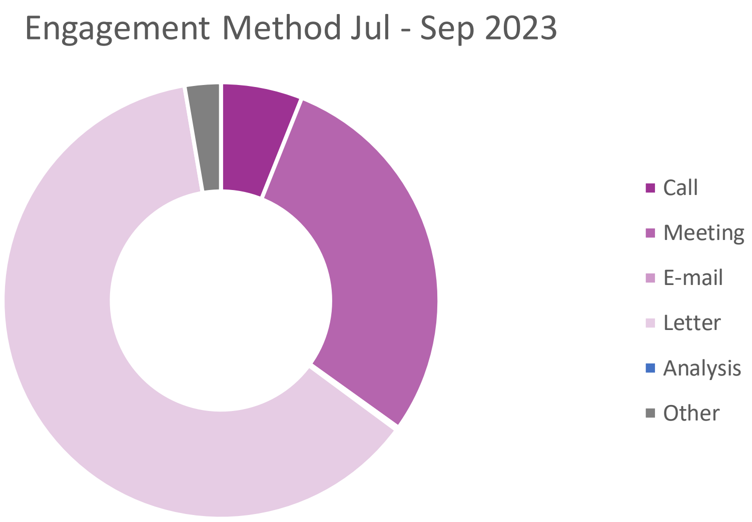
The chart below shows a breakdown of the geographic market focus in engagement over the last quarter. The focus of engagement shifted to a greater proportion being in the UK which is likely reflective of an element of home market bias.



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 also received a high 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 more effective and genuine interaction with the company. During the quarter, there was a fall in engagement taking place via calls or meetings from c45% to c35%.



More details of the engagement activities undertaken by Border to Coast and Robeco in the quarter are available [here.](#) Significant aspects of this work by Robeco in the quarter include:

- Robeco provided updates over the quarter on their engagement covering the following areas: the Just Transition in Emerging Markets; Corporate Governance in Emerging Markets; and Sovereign Engagement. The highlights from Robeco's engagement report are summarised below.

  - **The Just Transition in Emerging Markets**
    - Efforts of companies transitioning from fossil-based and resource-depleting economies to more sustainable practices are ever-growing. In this process, they should not only account for the transition of their own operations, but also the impacts that these transitions will have on their key stakeholders. A Just Transition is crucial for achieving a sustainable and climate-resilient future.
    - The transition to a low-carbon economy is expected to affect nearly 1.5 billion workers globally. The UN Framework Convention on Climate Change identified 1.47 billion jobs in sectors critical to climate stability: agriculture (1 billion); manufacturing (200 million); buildings (110 million); transport (88 million); and energy (30 million).
    - While the Just Transition is a global challenge, it is especially relevant for emerging markets. Emerging markets account for over 95% of the increase in global emissions and are projected to account for 90% of global population growth. Given their strong dependence on high-emitting sectors like coal mining and agriculture, they face a significant risk of unsustainable, inequitable development.
    - Transition-related job losses, exacerbated by weak social protection policies, will affect billions of people. However, there are also huge opportunities for emerging markets. A Just Transition can reshape their economic landscape, create jobs, advance the Sustainable Development Goals (SDGs) and elevate their global standing by showcasing a proactive response to climate change and social equity. By capitalizing on these opportunities, emerging economies and companies place themselves on a sustainable growth trajectory, benefiting their people and the planet.
    - The growing global dialogue on the Just Transition has prompted the establishment of various frameworks and initiatives from diverse stakeholders who seek to facilitate a global Just Transition. These include the International Labour Organization's Just Transition Guidelines, the UN Guiding Principles for Business and Human Rights,

Climate Action 100+ initiative, and the World Benchmark Alliance's Just Transition Methodology. These frameworks and benchmarks offer a foundation for asset managers to set clear objectives when engaging with investee companies on the Just Transition, ensuring credibility while avoiding greenwashing. The frameworks were imperative for us in developing the five engagement objectives that will structure Robeco's Just Transition dialogues.

- The first engagement objective covers a company's Just Transition ambitions and governance. The second objective addresses stakeholder engagement, ensuring that companies identify potentially affected stakeholders and commit to ongoing social dialogues with them. The third objective focuses on the need for a Just Transition Plan, including a defined strategy towards Just Transition-related risks and opportunities. The fourth objective concerns risk identification, assessment and management, with a focus on social risks and impacts. Finally, the fifth objective addresses the company's transparency and disclosures in relation to its Just Transition progress.
- Just Transition-related challenges and opportunities will inevitably vary across regions. To overcome these challenges and capitalize on the opportunities described above, a comprehensive, 'tailor-made' approach is essential. This includes strategic investments in sustainable solutions, tailored policies that balance economic growth, social equity and environmental sustainability, as well as collaborations with governments, corporates and civil society.

- **Corporate Governance in Emerging Markets**
    - As companies transition from fossil-based economies to more sustainable practices, they should not only account for the transition of their own operations, but also the impacts that these transitions will have on their key stakeholders; workers, communities, customers.
    - The main objective of disclosure is to ask companies to improve their provision of 'non-financial' reporting on material issues and setting targets.
    - A further objective of engagement is to improve how companies allocate capital by doing this more transparently and effectively.

- **Sovereign Engagement**
    - Over the last years, countries around the world have repeatedly come together to pledge collective action on topics ranging from poverty and health to climate to biodiversity, but progress is often too slow. For the first time in decades, progress that was being made in meeting the United Nations' Sustainable Development Goals (SDGs), has reversed, with one-third of the 17 SDGs now showing negative progress.
    - A similar story holds true when it comes to biodiversity. While almost 200 countries have agreed to implement the new Kunming-Montreal Global Biodiversity Framework formulated at the end of 2022, including the '30 by 30 target' to protect 30% of the planet's biodiversity by 2030, clear National Biodiversity Strategies and Action Plans (NBSAPs) have yet to be set.
    - So, while national ambitions are there, actions must be accelerated. Investors in sovereign debt hold an important role here, as they can encourage and support sovereign issuers to safeguard and invest in the environmental services that their economies and their citizens' livelihoods depend on.
    - However, investors need to tread carefully as elected government represents the needs of its people, its key responsibility being the country's long term well-being. While this should not discount the materiality of our current environmental crisis, engagements must be in line with a government's key stakeholder needs, and solutions must be appropriate and beneficial to the people they are representing.

- In 2020 Robeco started engagement with the Brazilian government to support the ending of deforestation in the Amazon. Since then engagements have been extended to Indonesia and Australia, including dialogues with a range of stakeholders; from (sub-)national authorities to civil society actors.
- Engagements focus on key nature-related SDGs which are of particular materiality for investors, and where Robeco believe each country would benefit from the international financial sector's support. Talks regarding meeting SDG 15 (Life on land), focusing on ending deforestation, are being conducted with Brazil and Indonesia, while the talks with Australia focus on SDG 13 (Climate action).
- In April 2023, Robeco and other IPDD members travelled to Brazil to discuss deforestation actions under the new government. Robeco met with among other representatives of the Ministry of the Environment, Planning and Indigenous People, as well as with governmental sub-organizations such as IBAMA, the environmental enforcement agency, to understand whether political promises were being upheld.
- From an incentivization angle, Robeco's recent trip to Brazil included numerous discussions focused on unlocking new channels to finance the country's green transition. Robeco engaged with the Brazilian Central Bank and the Bank of Brazil to explore how to strengthen local sustainable credit markets, pushing the development of clearer taxonomies and verification systems. The discussions reflect both the growing local and international demand for green investment vehicles into the real economy.
- Overall, with Brazilian President Lula's environmental promises and a first fall of 34% in deforestation rates having been witnessed during the first half of 2023, a fresh wind seems to be blowing through the Brazilian rainforest.

Border to Coast produced their Proxy Voting AGM Season Report for 2023 which can be viewed here. Overall, the last quarter was quieter for voting as the main season in most markets passed. However, Border to Coast continued to engage with investee companies and was one of 32 supporters of the letter from the CEOs of Institutional Investors Group on Climate Change (IIGCC), the UN-supported Principles for Responsible Investment and the UK Sustainable investment Forum, Border to Coast are urging the UK Prime Minister not to backtrack on vital policy measures that support the UK's transition to net zero. The letter focused on the importance of an 'enabling policy environment' to create the conditions for investors to be able to make long-term investment decisions.

Earlier in 2023 Border to Coast joined the 'Find it, Fix it, Prevent it' (FFP) engagement collaboration, into stopping modern slavery, led by the investment manager CCLA, targeting 30 companies who operate across the high-risk hospitality and construction sectors. Modern slavery is a widespread and criminal activity. Weak law enforcement, complex supply chains, and migration have fuelled the exploitation of people through forced labour.

Border to Coast is leading on the engagement with house builder, Crest Nicholson on behalf of the investor coalition and met with them in August to discuss how they identify and mitigate human trafficking, forced labour, and modern slavery in their supply chain. Border to Coast discussed an assessment of the company's risk management and a forthcoming public benchmarking.

The Just Transition also featured as a key theme of Border to Coast's engagement during the quarter. Just transition is the integration of social risks and opportunities, and a place-based lens, into decarbonisation strategies. It enables investors to address systemic threats to long-term stability and value creation and is a key consideration for Border to Coast in their RI and voting policies.

In September, Border to Coast held their first meeting with CLP Holdings, an energy utility with significant operations in emerging markets, including coal power plants in India. The objective of the engagement was to secure a formal approach to a just transition strategy. This would be a global first for a high emitting company operating in emerging markets.

Border to Coast are also collaborating with Royal London Asset Management to engage four UK banks. Banks have a key role to play in the low carbon transition, both via capital allocation and support for customers to transition and have significant social risks that require management.

In September, Border to Coast met NatWest bank to request greater integration of just transition throughout its climate plan, and to demonstrate Product, Sector, and Regional integration. Engagement with both CLP Holdings and NatWest bank will continue.

Local Authority Pension Fund Forum ("LAPFF") are another relevant organisation that SYPA are members of where LAPFF carry out activity and engagement with invested companies. A detailed report of the work undertaken by LAPFF in the quarter is available here. The key issues worked on during the quarter include:

- LAPFF has continued to engage with a number of financial institutions on climate change, most notably it has issued voting alerts for Barclays, HSBC and Standard Chartered. with the aim of asking how they approached climate change from a strategic perspective.
- In 2020, LAPFF also sent letters to 11 insurers asking how they approached climate change from a strategic perspective. In total, LAPFF has now written to 13 global insurers to engage on their approaches to decarbonisation and natural resources. There have been responses from four companies so far. LAPFF will continue to send letters and set up meetings with these companies over the course of the year.
- Over the past two years, LAPFF has sent letters to the FTSE All-Share companies requesting a vote on climate transition plans. While LAPFF has been encouraged by the substantive responses, in order to continue to encourage companies to provide shareholders with such a vote, LAPFF organised a letter to 35 companies in high-emitting sectors considered to face heightened climate risks, whose actions are essential to the accelerated action required to meet the Paris goals and where the risks investors face are substantial. The letter urged companies to provide such votes to enable shareholders to first express their view on climate strategies through a specific AGM vote rather than immediately voting against the chair or another board member.
- LAPFF will be tracking the responses to the letter and will continue to engage with companies about holding a climate transition plan vote.
- LAPFF continued to engage with Anglo American, BHP, Glencore, Rio Tinto, and Vale on their human rights practices. The main objective of these engagements is to ensure that the companies understand that any failure to respect human rights and environmental impacts could have financial consequences for them and for their shareholders.
- LAPFF was pleased that both the Anglo American and Vale groups in the PRI Advance initiative have recognised the importance of stakeholder engagement and there are plans for both groups to engage with relevant affected stakeholders.

LAPFF has also continued to respond to wider developments and consultations, for example the UN Working Group on Business and Human Rights 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
- 51.5% of portfolio ESG leaders v 50.1% in the benchmark.
- 1.4% of portfolio ESG laggards v 2.3% in the benchmark.
- 4.4% 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 TPI scoring of 4
- 4 of 5 top emitters engaged through Climate Action 100+

United Kingdom

- Weighted ESG Score 7.9
- 74.6% of portfolio ESG leaders v 71.9% in the benchmark
- 0% of portfolio ESG laggards
- 6.9% of portfolio not covered, mainly investment trusts marginally less than benchmark
- Lowest rated 5 companies 7.9% of portfolio, all MSCI rated BBB or above
- Financed emissions and coarbon intensity metrics are below or inline with the benchmarkLowe r weight of fossil fuel holdings than in benchmark.
- Top 5 emitters rated 4 or 4* (highest ratings) on the Transition Pathway and all engaged through Climate Action 100+

Emerging Markets

- Weighted ESG score 5.8
- 24.2% of portfolio ESG leaders v 20.0% in the benchmark
- 10.6% of portfolio ESG laggards v 14.7% in the benchmark
- 4.1% 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 oil and gas holdings than in benchmark.
- 2 of the top 5 emitters engaged with the Transition Pathway with low scores of 3 or 1
- 2 of top 5 emitters engaged through Climate Action 100+

Listed Alternatives

- Weighted ESG score 7.3
- 38.0% of portfolio ESG leaders v 43.3% in the benchmark
- 0.5% of portfolio ESG laggards v 2.9% in the benchmark
- 39.9% of portfolio not covered largely investment trusts etc
- Lowest rated 5 companies 9.2% 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 TPI level 4 and further scores of 3 and 2
- 2 of 5 top emitters engaged through Climate Action 100+

In general, this shows a broadly positive picture, with all funds continuing to score better than, or inline with, the benchmark overall. However, the overall trajectory of improvements within these funds has slowed with progress largely flat during the quarter.

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 future decarbonisation plans, case studies for each listed fund are included below.

Overseas Developed Fund

Featured Stock: POSCO

Within the Overseas Developed Fund POSCO Holdings is one of the largest steel producers in the world, based in Korea. POSCO has committed to reduce greenhouse emissions with a 2050 carbon neutral goal. POSCO has also set interim goals with a short-term carbon reduction target of -20% by 2030 (vs. 2017-2019 levels) and a medium-term target of -50% by 2040; and a long-term carbon neutral ambition by 2050. POSCO is aiming to achieve this through the establishment of a climate-resilient business model with a low carbon impact focusing on a "green" process (improving efficiency and introducing the usage of scraps and carbon capture), products (for a low-carbon industry ecosystem) and partnership (with diverse stakeholders to achieve its target of "Corporate Citizenship: Building a Better Future Together").

The Transition Pathway Initiative (TPI) covers POSCO and gives it a management quality score of 4 ("Strategic Assessment" of climate) which is the highest score and rates POSCO's climate targets as being 1.5°C aligned by 2050. This is supported by Climate Action 100+ where it meets all criteria for the first two indicators of the Net Zero Benchmark (net zero emissions by 2050 and long-term 1.5°C aligned GHG reduction targets). However, as the company does not meet any CA100+ criteria for Short-term GHG Reduction Targets (up to 2026) Border to Coast voted against the Chair at the 2023 AGM and will be following up with management to explain their decision.

Robeco has an ongoing engagement with POSCO under the Acceleration to Paris Theme; with key engagement topics on how the net zero ambition can be substantiated by shorter-term targets, reducing investments in thermal coal and its policy advocacy in Korea. Robeco will continue to monitor this engagement and follow up on the company's progress towards its targets.

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'.

Featured Stock: easyJet

easyJet is a European airline operating mainly from slot-constrained primary airports including Gatwick, Amsterdam, Geneva and Paris CDG, raising barriers to entry and limiting direct route competition with ultra low-cost carriers. Typically, the largest or number two airline at its airports, easyJet combines scale efficiencies with convenience through operating dense route networks, considered important factors for frequent flyers/business travellers in particular, whilst also supportive of premium pricing. easyJet Holidays, launched as recently as 2019, has already established itself as one of the largest holiday operators in the UK, adding a further growth driver.

The aviation industry is one of the most challenging sectors to decarbonise. easyJet has an MSCI ESG rating of AA (no airline has a higher rating) and has set an emissions intensity reduction target of 35% by 2035 compared to 2019, and to achieve net zero by 2050 (representing a 78% intensity reduction), principally through the increased use of sustainable aviation fuels and introduction of more fuel-efficient aircraft, with an accelerated fleet renewal programme recently announced. Border to Coast is co-leading engagement with the Company as part of the IIGCC Net Zero Engagement Initiative

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’.

During the quarter carbon emissions remained flat but remained significantly below that of the benchmark.

Featured Stock: Shanghai Friendess Electronic Technology

During the quarter Shanghai Friendess Electronic Technology (CCC) was added to the Fund. An overview of the Company is provided below. Tal Education (Feature Stock in Q4 2022) was upgraded from ‘CCC’ to ‘B’ in the quarter.

Shanghai Friendess Electronic Technology (Friendess) is a dominant player in low-power, industrial laser cutting control systems with ~70% of market share in China. The laser industry (market size: ~13bn USD in China) is likely to continue to grow above the rate of GDP in the foreseeable future driven by continued laser market penetration (e.g., replacing traditional machine tools), labour substitution and demand for higher quality and precision. The market has underestimated the pace of growth and demand for high-end manufacturing in China and COVID has accelerated this growth even further. Friendess is expected to grow its sales over the next 5 years.

Friendess’s main business of laser cutting tools and associated industrial software, reduces waste and the release of associated by-products by improving the efficiency of commercial cutting. Friendess is rated as ‘CCC’ by MSCI due in large part to its rating on corporate governance. These governance concerns can be somewhat typical of companies based in China, which include board independence, combined CEO and Chair positions and controlling shareholders. MSCI also has concerns relating to non-disclosure or the absence of certain policies and initiatives, which are not common for Chinese companies to disclose. Friendess has a best-in-class customer service provision which results in a price premium of up to 2x versus domestic peers. Friendess has only experienced one full MSCI rating cycle and positively the ESG Score has increased over this period.

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	42.6% of portfolio ESG leaders compared to 57.8% in the benchmark	0.6% of portfolio ESG laggards compared to 0.9% In the benchmark
22.2% of portfolio not covered compared to 9.2% in the benchmark	Lowest rated issuers represent 1.8% of the portfolio	Emissions above benchmark on two out of three carbon emission and intensity 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 and MSCI ESG rating remained stable over the quarter remaining below the benchmark on ESG scoring and inline on the overall MSCI ESG rating.

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

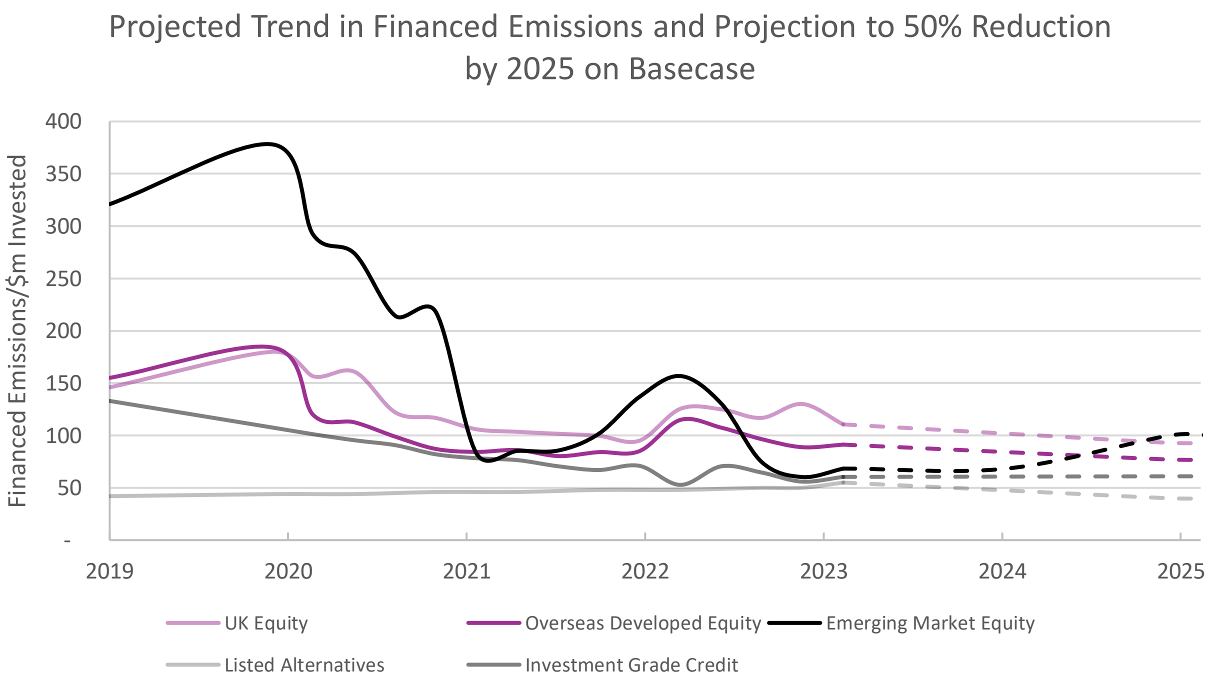
As reported previously, the overall ESG performance of the commercial property portfolio as measured by the GRESB (Global Real Estate Sustainability Benchmark) has improved over the last year with the portfolio now achieving a 3 star score with an increase in the percentage score increasing from 74% to 78% compared to a peer average score of 73%. In comparative terms the portfolio's ranking, over the year, moved up to 22 out of 100 from 22 of 80, reflecting the increased focus on these issues by abrdn. Like-for-like total emissions (scope 1, 2 & 3) also showed positive have fallen year-on-year by 11%.

In terms of the more routinely measured metrics, the proportion of the portfolio with EPC ratings A-C remains at 78%.

Abrdn have concentrated on retaining the best performing assets, and divesting from the worst performing, in both financial and sustainability terms. As a result, the proportion of the portfolio AUM with sustainability green building certification has been on an upward trajectory 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 all new properties have been rated either BREEAM very good or excellent.

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.



It can be seen in the above graph that 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 in portfolio emissions from listed assets, by 2025, against the base case. The reductions required are most significant for the UK Equity Fund however financed carbon emissions did decrease this quarter following an increase between Q2 2022 and Q2 2023. Following an increase in financed emissions in 2022, the Overseas Developed Equity Fund saw its level of financed emissions marginally increase after decreasing during the first half of 2023. 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

Financed emissions increased slightly during the quarter but remain below the benchmark. This was largely driven by strong performance in some of the higher emitting companies such as POSCO and Rio Tinto. POSCO is covered above as this quarter's Feature Stock in the Overseas Developed Markets Equity Fund.

UK Equity

The Fund remains slightly above the benchmark for Weighted Average Carbon Intensity ("WACI"), however both WACI and financed emissions decreased in the quarter. This was largely due to a restatement of Shell's carbon emissions in an annual update and is more aligned to the Q1 2023 figure. Furthermore, CRH was removed from the FTSE All Share following a switch of the main listing to the US and the Fund's position was subsequently reduced in size. CRH previously accounted for ~13% of financed emissions.

Emerging Markets Equity

The fund is significantly below the benchmark for all three measures of carbon emissions and carbon intensity. The Fund saw a further reduction during the quarter due, in part, to exiting the position in PT United Tractors which previously accounted for ~6% of fund financed emissions.

Listed Alternatives

The Listed Alternatives portfolio has seen a continued increase in the availability of Carbon Emissions Data. During the quarter, the overall weighted average carbon intensity (WACI) of the fund decreased following a reduction in portfolio weight of NextEra energy and a lower reported WACI figure for Cheniere Energy.

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, 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	95.6%	95.6%
UK Listed Equity	93.1%	93.4%
Emerging Markets Equity	95.9%	98.1%
Listed Alternatives	60.1%	88.8%
Sterling Investment Grade Credit	77.8%	73.8%

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. This further depends 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.

Beyond this the recently revised investment strategy, that is undergoing implementation, will result in changes to the mix of assets that reduce the level of emissions from the portfolio. However, this process is too early stage to determine the scale of any reduction. 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 as well as on the matter of nuclear power. 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 its most recent business meeting at the beginning of October, alongside its AGM. The AGM considered the usual business including the election of members of the Executive. Members include two Border to Coast colleagues, Cllr Doug McMurdo of Bedfordshire as Chair and Cllr Wilf Flynn from Tyne and Wear as a member of the Executive. Of note is the fact that all elections were unopposed and that there is a lack of diversity with for example only 4 women amongst 16 executive places. The Executive has identified this as an issue and set up a working group to examine options to address the issue.

The meeting also approved the accounts which indicated an underspend during the year and the maintenance of healthy reserves.

The Forum is operating in line with its budget and membership now stands at 87 Funds and 7 pools after welcoming its newest member during 2023, the ACCESS pool.

The business meeting considered the following topics:

- Capital Markets - Threats to Quality of UK Listing Regime
    - A UKLA Consultation has been issued called ‘Primary Markets Effectiveness Review’. LAPFF proposed to respond to the FCA consultation and set up meetings with the FCA to push for investor led changes to the UK Listing Regime.
- Climate Metrics and Executive Pay
    - As the issue of climate and ESG metrics are increasingly integrated into executive pay and become a more prominent feature for engagement, LAPFF produced a report that set out a more explicit policy stance on these pay policies. LAPFF recommended an update to their ‘Responsible Investment Policy Guide’ to include a section on climate metrics and executive remuneration with the aim of improving transparency and disclosure.
- Proposed Shareholder Resolution on Human Rights to Mining Companies
    - Following engagement with mining companies, LAPFF noted that these companies rarely undertake appropriate social, environmental or human rights impact assessments and in particular, water impact assessments due to mining activities was lacking. These concerns can and do create significant operational, reputational, legal and financial risks for companies, and consequently investors.
    - LAPFF took away to better understand the feasibility on a shareholder resolution for the 2024 Rio Tinto AGM asking the company to undergo independent water impact assessments and to publicly report on the findings and steps taken to remediate any problems by the 2025 AGM.

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

The Standard will provide investors with the necessary metrics to help assess diversified mining companies' transition plans to net zero through a transparent, systematic, and evidence-backed tool. The Standard has been designed to complement the sector-neutral Climate Action 100+ Company Benchmark. The reflects the outcome of extensive consultation with investors and mining companies themselves.

The CEOs of IIGCC, PRI and UKSIF, organisations working with a significant number of investors and financial services institutions, have sent a letter to UK Prime Minister Rishi Sunak focused on the importance of an 'enabling policy environment' to create the conditions for investors to be able to make long-term investment and asset allocation decisions.
The letter – supported by 32 investors and financial institutions – argues that delaying key targets and lowering the ambition of existing government policies would be 'misguided'.

The letter acknowledges that while the government announcement included some positive policies, like the commitments to provide greater levels of financial support under the Boiler Upgrade Scheme and plans to speed up and enhance grid connectivity, overall the delay to key targets and lowering of ambition on existing government policies risks the UK missing out on investment to other regions and nations that are taking a more consistent, long-term approach.

During the quarter, The Authority was shortlisted for an award in the Pensions for Purpose Annual Awards. This submission was in the category of the Place Based Impact Investing Award. This submission primarily related to the work we have carried out with CBRE in our local loans portfolio to support local commercial building projects whilst improving local infrastructure and making a difference in the local economy.

Following the end of the quarter the awards ceremony was held and South Yorkshire's submission and work was recognised as a leader in this category and winner of the award.

Policy Development

This section of the report highlights the key pieces of policy related activity which have taken place that will impact SYPA in the future.

Taskforce on Nature-related Financial Disclosures (TNFD)

During the quarter the final recommendations for reporting TNFD disclosures was published It includes a set of general requirements for nature-related disclosures and a set of recommended disclosures structured around the four pillars of governance, strategy, risk and impact management, and metrics and targets. The published recommendation document can be found here.

The TNFD was established to encourage and facilitate a shift in the mindset and behaviour of companies and financial institutions through enterprise and portfolio risk management and mainstream corporate reporting. Building on the market's experience with climate-related reporting over the past decade and the work of the Task Force on Climate-related Financial Disclosures (TCFD), the TNFD recommends 14 disclosures to promote the provision of clear, comparable and consistent information by companies to investors and other providers of capital. The Taskforce provides a set of metrics for measurement and a suite of guidance to help organisations get started on nature-related assessment and disclosure.

By building on existing frameworks and standards, including those of the International Sustainability Standards Board (ISSB) and the GRI, and by using an open innovation approach, market participants and other stakeholders have played a critical role in the development of these recommendations. Of the organisations that are already starting to use these recommendations, many are seeing the advantages of taking an integrated approach to nature and climate assessment.

In future, it is anticipated that, SYPA will be required to align reporting to TNFD recommendations as we have done in accordance with the TCFD reporting framework.