SOUTH YORKSHIRE PENSIONS AUTHORITY

Responsible Investment Update Quarter 4 2023/24

June 2024

Contents

Highlights and Recommendations

Highlights over the quarter to the end of December include:

- A quarter-on-quarter increase in the level of voting activity with over 900 votes cast at close to 85 company meetings.
- An increase, over last quarter, in the overall level of engagement activity, with invested companies, as Border to Coast, LAPFF and Robeco all stepped up engagement as we move towards peak voting season.
- 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 overall ESG performance of the listed asset portfolios with Border to Coast has continued to be strong and better than, or in line with, the respective benchmarks.
- Overall financed emissions of the Border to Coast invested assets fell modestly over the quarter. However, the Emerging Markets Equity Fund was the outlier and saw a marginal increase in the Fund's overall financed emissions.
- Emissions coverage continued with the small incremental improvements seen over the last quarters. However, the Sterling Investment Grade Credit Fund is still lagging other funds.

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

Background

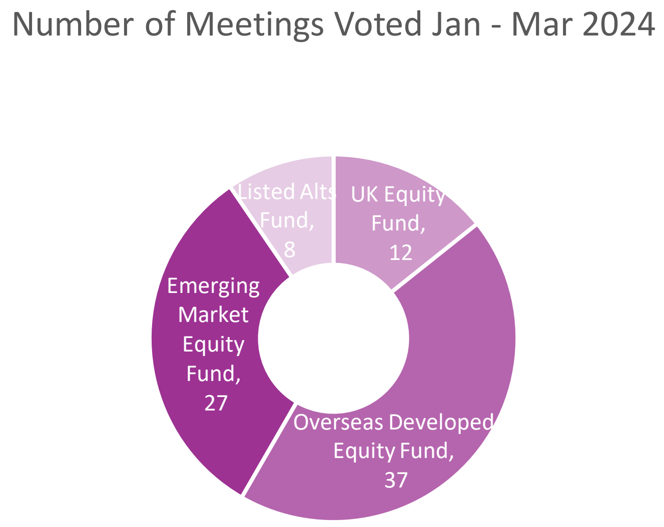
The Authority has developed a statement which sets out what it believes Responsible Investment is and how it will go about implementing it within its overall approach to investment. This statement is set out in the Responsible Investment Policy which is available on the website here.

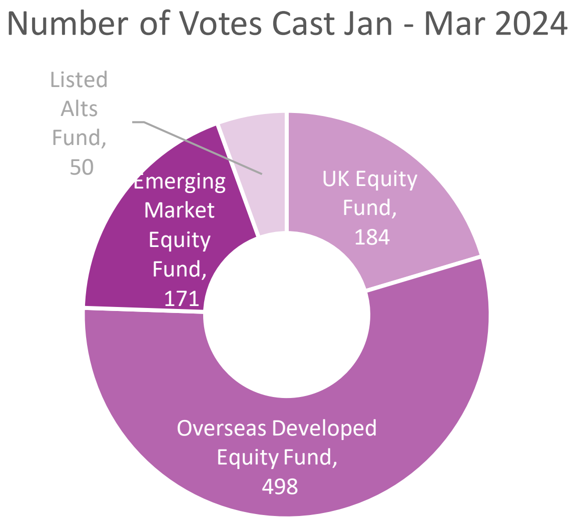
Our approach is largely delivered in collaboration with the other 10 funds involved in the Border to Coast pool. This report provides an update on activity in the last quarter covering:

- 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 an increase in both the number of meetings and votes cast as we approach 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 Q1 2024 Active Ownership report how they have seen continuous encroachment on minority shareholders rights, as investors have been taken to court upon proposing stronger climate commitments and new share classes with higher say are hitting the market. Further detail is provided in the box below:

Shareholder Rights Under Pressure

Over the past decade institutional investors received additional rights and responsibilities in relation to the public companies in which they own shares. For example, Say on Pay votes in the United States (US) and the amendments to the Shareholder Rights Directive in the European Union (EU), have granted shareholders a right to vote on remuneration. This allows shareholders to feedback on the right incentives for management and in the US, shareholders can file resolutions with a relatively low amount of capital.

In the EU, regulators mandated institutional shareholders with a responsibility to be responsibility stewards and to make use of their influence in the long-term interests of their beneficiaries. Investors are making increased use of these rights, reflected in higher AGM attendance in many markets.

In the 2024 AGM season there were several events that indicate signs of pushback towards active stewardship. For example, the US oil giant Exxon Mobil sued its shareholders Follow This and Arjuna Capital to prevent their proposal calling for stronger climate targets from going to a vote. While the shareholders withdrew their proposal, Exxon continued to move ahead with the lawsuit, arguing that “the current process to get proxy proposals excluded is flawed”.

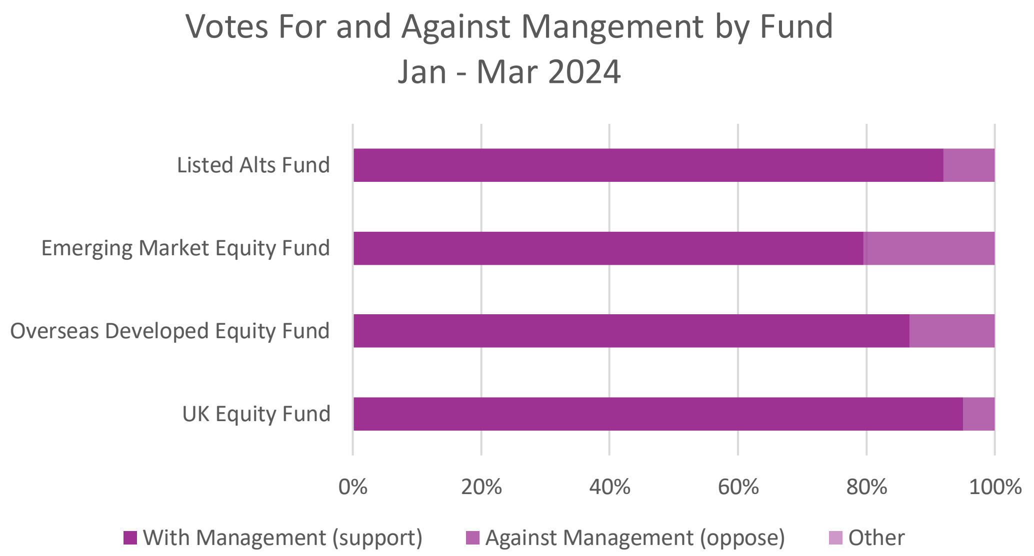
Stewardship responsibilities and shareholder rights are often introduced with the intent that they should be used by investors to address risks and facilitate dialogue with management. Robeco view the shareholder proposal process as a key means of engagement between companies and their shareholders, allowing for a variety of ESG issues to reach the ballot and contribute to governance reform and accountability. Defending a shareholder proposal in court is prohibitively expensive, so it is reasonable to assume that many US investors will start to think twice before submitting one. Besides that, a favourable ruling for Exxon could set a dangerous precedent for future engagement between investors and investees, potentially marking the beginning of a new era where companies sue investors to prevent shareholder proposals from reaching ballots.

In Europe, regulatory changes intended to make the listing environment more attractive for companies could also make it more difficult for investors to make use of their shareholder rights and may be a disadvantage for minority shareholders. In the UK, discussions were triggered on changes proposed by the Financial Conduct Authority to replace premium and standard listing segments into a single segment. These changes would allow for the creation of dual share classes and investors would no longer be granted a vote on significant transactions.

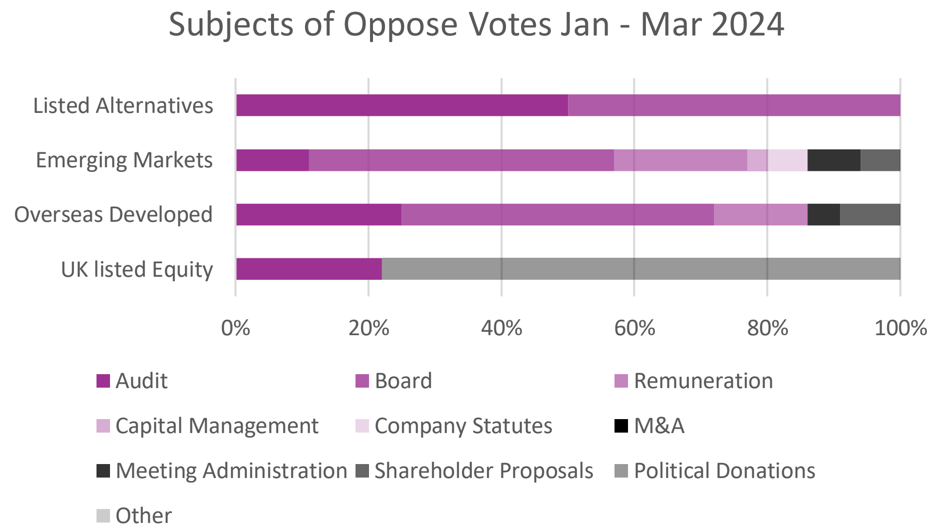
If institutional investors are expected to be stewards of capital and have a positive long term effect on markets, they should have the right tools to hold management to account. Shareholders should carefully review any changes to articles of association during the upcoming AGM season, before approving them. Proxy season is likely to include heated debates around climate change, remuneration and shareholder proposals. Shareholders should not overlook the threat of losing their influence as active stewards like sliding down a slippery slope.

Robeco Active Ownership Report April 2024

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. The proportion of votes against the line taken by company management remained above 10%, with 12.6% of total votes cast against management, albeit slightly down on the 15% against from last quarter. However, as an absolute number, the number of votes against increased from 96 to 114 across all publically listed funds. As has been previously reported, this reflects the continued "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 remain more concentrated across topics. The three largest areas where we continue to oppose management relate to Board composition, remuneration, and in the case of the Overseas Developed and Listed Alternatives fund, Audit. As was the case last quarter, votes against political donations, in the UK Equity Fund, remained over over 70% of the votes made against management of UK listed companies. Further, 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. Over the course of the last year the focus of shareholder resolutions, 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.

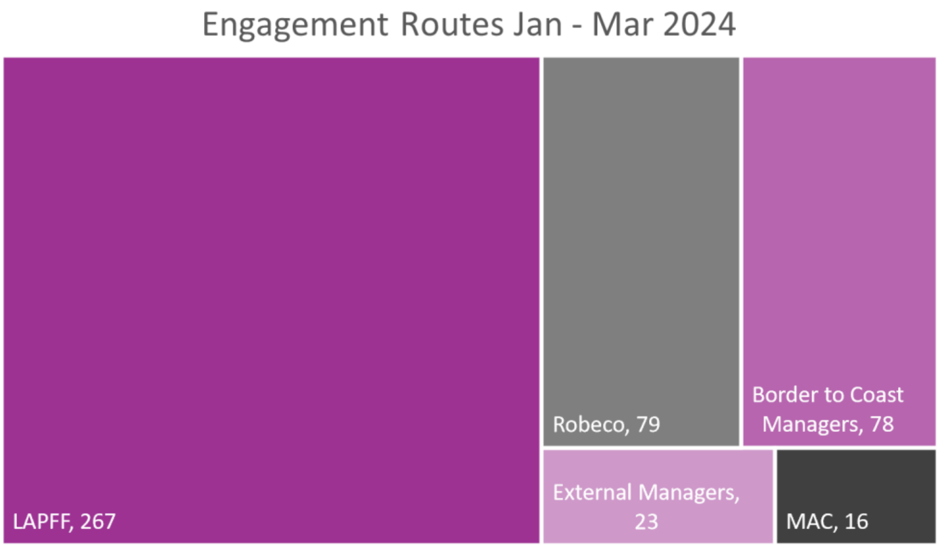
Notable votes in the quarter are summarised below and further details on the voting undertaken can be found here.

Apple Inc, is held in the Overseas Developed Equity Fund and held its AGM during the quarter. Robeco voted against the remuneration proposal as it was not tied to clear and objective ESG metrics and was not aligned with long term investor aims. In addition, there were five shareholder proposals, two of which were particularly noteworthy; Robeco supported the first a proposal around use of AI technology and the disclosures requested in the resolution to ensure Apple is conducting itself in an ethical manner. Robeco also supported the second proposal on median gender and racial pay equity. Robeco determined that it addresses a material topic for the company and that the additional disclosures requested would allow investors to better assess how Apple is performing on this topic.

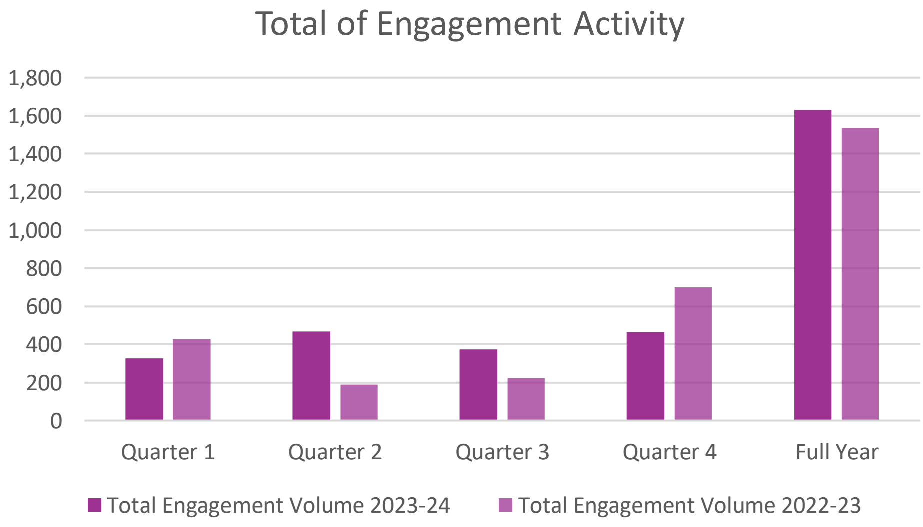
Nordea Bank Abp - Finland, is held in the Overseas Developed Equity Fund and provides commercial and personal banking services. Nordea held its AGM during the quarter which included a shareholder proposals as well as the standard items. The proposal put forward by shareholders focussed on the bank's practices regarding climate financing. Robeco evaluated the expectations set out in the proposal - which amounted to halting all future financing that expand fossil fuel extraction, which lack phase out plans, with the goal of aligning the company with the Paris Agreement. Though Robeco support the spirit of the proposal, they decided to vote Against due to the prescriptive nature of the ask combined with the lack of feasibility and alignment with the end-goal. With no proposed timeline, Robeco deemed the implementation gap to be unfeasible.

Engagement Activity

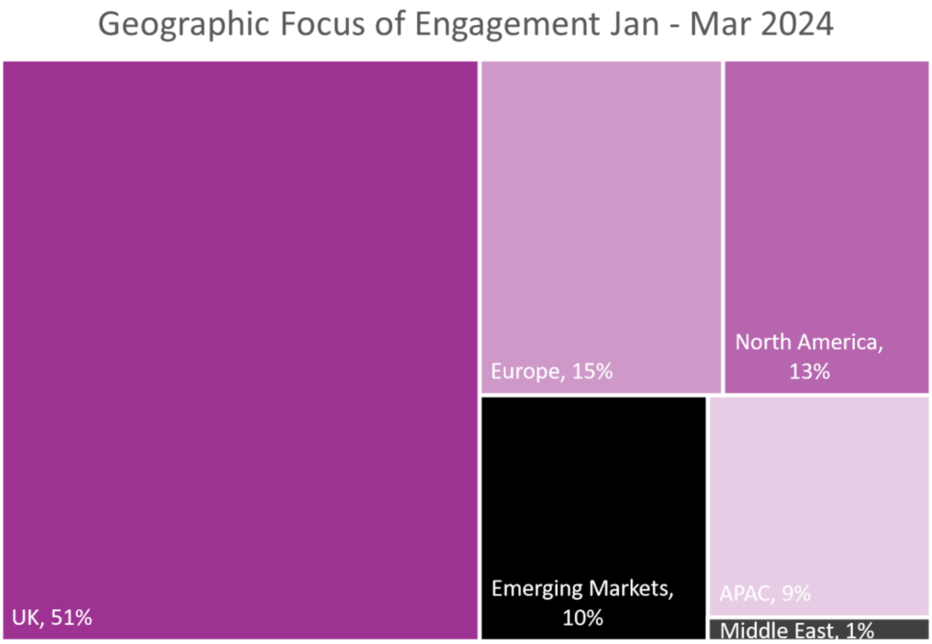
Engagement is the process by which the Authority, working together with other like-minded investors, seeks to influence the behaviour of companies on key issues. Engagement (in distinction to voting) is an ongoing process and is undertaken by those directly managing money for the Authority. This includes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



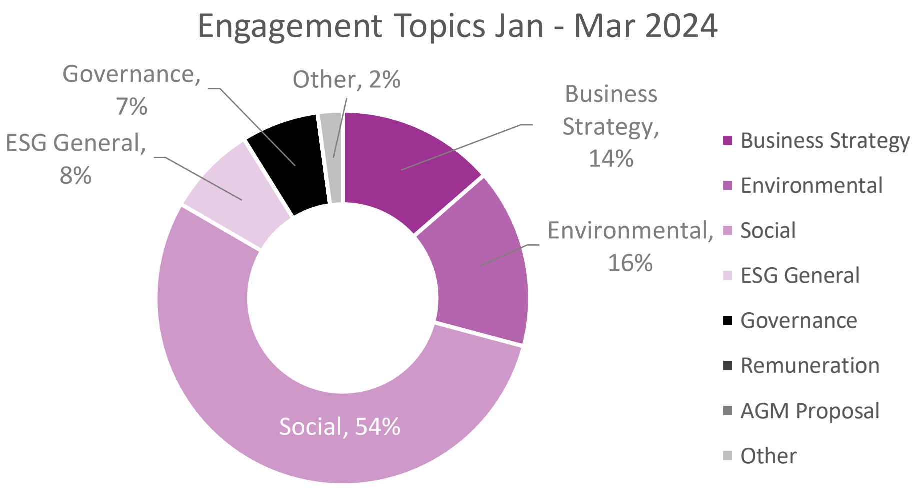
The graph below shows the level of engagement activity in the quarter is below the same quarter last year. The lower level of total engagement was due to LAPFF taking a more targeted approach with less letters sent this quarter compared to Q4 2022-2023. However, year-on-year the total engagement activity for 2023-2024 has increased, predominantly driven greater engagement with companies by LAPFF.



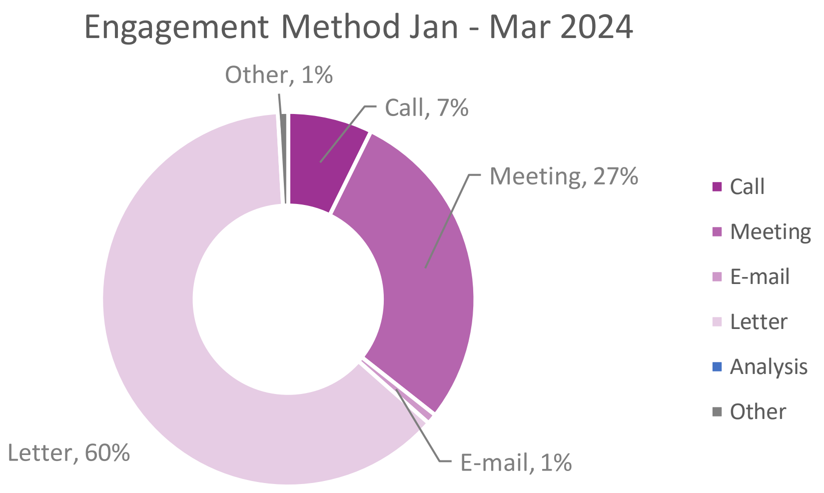
The chart below shows a breakdown of the geographic market focus in engagement over the last quarter. The focus of engagement continues to be weighted towards the UK which is likely reflective of an element of home market bias and LAPFF's focus on UK companies in the lead up to the AGM season. The number of companies held in markets outside of Europe and the US is much smaller and, particularly in emerging markets, companies in these markets tend to be harder to engage with.



The range of topics covered through engagement is set out in the chart below with a continuing strong focus on environmental and climate issues although the proportion of business strategy engagement increased on last quarter and 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 decrease in the proportion of engagement taking place via calls or meetings from c60% to c30%.



More details of the engagement activities undertaken by Border to Coast and Robeco in the quarter are available [here.](#) Robeco provided updates over the quarter on their engagement covering the following areas: Fashion Transition; Tax transparency; and Natural Resource Management. The highlights from Robeco's engagement report are summarised below.

Fashion Transparency

The fashion industry employs over 300 million people globally and produces over 100 billion articles of clothing each year. The industry is expected to grow by 40% by 2030. However, due to business models based mostly on the 'take, make, waste' linear economy, the industry is grappling with grave social and environmental impacts. Fashion's record on water, air and soil pollution is far from flattering, and the industry struggles with worker rights and wages throughout many parts of its opaque supply chains.

Ultimately, the unsustainable and obscure operations of the fashion industry create risks for society, the environment and businesses. There is increasing attention on sustainable consumption, a tightening regulatory landscape and a growing threat from climate change on crops and global infrastructure. This means companies – and therefore investors – are increasingly exposed to transition, physical, regulatory, litigation and reputational risks.

Businesses that pro-actively integrate responsible and transparent supply chain practices, eco-design and circular considerations into their production systems, and adopt appropriate end-of-life management initiatives for their products, are likely to mitigate these risks and identify new cost saving and business opportunities, likely leading to better long-term performance.

Robeco's new Fashion Transition engagement theme aims to accompany companies in this transition, pushing them to rethink traditional production models to reduce their negative footprint and tap into the opportunities hidden behind sustainable business models. It is known that the most effective way to reduce corporates' environmental footprints is reducing absolute volumes, which the three-to-five-year engagements aim to achieve by pushing for more circular and less wasteful production and sales structures. The theme engages with publicly listed companies across the entire global fashion value chain and product lifecycle, from raw material cultivation and sourcing, to preparation, garment production, consumption and end-of-life management.

The fashion industry's reliance on fossil fuels and polluting chemicals makes it one of the most polluting sectors, accounting for 10% of global greenhouse gas emissions. It also directly impacts biodiversity and deforestation through dependency on natural resources such as cotton, leather, and rubber. Robeco believe that there is a need to address the sector's high emitting and polluting sourcing and production practices and ensure compliance with a tightening regulatory landscape. Under their 'Natural resource management' objective, Robeco expect companies to have clear, scientific and timebound climate and biodiversity strategies which are backed by adequate financial resources. The engagement will aim to identify and minimize the unavoidable environmental impacts, with a particular focus on climate, water and waste, biodiversity and animal welfare.

Tax Transparency

Corporate taxation has become a key point of attention for investors, and Robeco have launched a new engagement theme focusing on tax transparency where they aim to promote better disclosures from companies. This below highlights why tax transparency is relevant for investors and wider society, as well as takes the reader through Robeco's expectations towards companies, how they selected the engagement cases, and what challenges they expect.

A company's effective tax rate dictates the level of profit distributions to shareholders, as dividends are distributed on a post-tax basis and affect any modelling of discounted future cash flows. These factors inform the valuation of a company's stock, so the effective tax rate of any portfolio company affects the returns for investors.

The impact of tax-related risks on returns is not the only consideration for institutional investors. Increasingly, investors are expected to apply a double materiality view, which means that they are expected to not only look at how and why tax is a material topic for an investment case (the outside-in perspective), but also how the investment makes an impact on the wider society (the inside-out perspective).

When profits and taxes are shifted away from countries that have insufficient financial resources to invest in basic healthcare, education, and other necessities, tax optimization strategies can be detrimental to many of the UN Sustainable Development Goals that are closely tied to government spending. The actual impact will depend on which countries' profits are shifted away from, and to what degree.

The goal of the Tax Transparency engagement theme is to push for more accountability and meaningful disclosures on corporate tax practices. Robeco have grouped their expectations into three main categories: policy and principles, tax governance and systems, and tax transparency.

Robeco conducted a similar engagement program on corporate taxation from 2016-2019 with the aim of further enhancing disclosures on tax practices by multinationals. Out of the four objectives that were set at the time, the least progress was made on reporting of tax payments, as most companies were reluctant to disclose their country-by-country reporting publicly unless required by law. Additionally, Robeco learned that companies are not the only ones with a disincentive to publish this information, as governments may also have an interest in not providing full disclosure. Robeco expect to face similar challenges throughout this engagement theme.

Natural Resource Management

In 2022, Robeco expanded their environmental engagement theme to include the responsible management of natural resources and the mitigation of significant Principal Adverse Impacts (PAIs) on the environment. PAIs, as defined under the European Sustainable Finance Disclosure Regulation, refer to any consequence arising from investment decisions or guidance that leads to an unfavourable impact on sustainability factors. The theme focuses on companies for whom the management of water and waste is a financially material issue, or where they have a significant actual or potentially negative environmental impact.

The aim is to improve companies' performance by focussing on several environmental indicators related to water and waste. One of them is that companies need to account for the amount of fresh water that is needed to make certain products, particularly where it is drawn from places where water is already scarce. Companies that have operations in locations with high water stress or that generate large amounts of (toxic) waste, are more likely to experience production disruptions, regulatory action, stranded assets, community conflicts and higher comparative operational and fixed costs, reducing their overall rate of return. A recent example of this are the UK water utilities that were faced with news headlines raising concerns around the health of the UK's rivers.

In their engagement with companies, Robeco observed a continuing effort by companies to work across their sites to explore alternative uses for waste to external landfills. Alternative uses for waste found for instance include its use in cement, road base and bricks. Also adding chemicals in water treatment basins are a way of exploring opportunities to extract minerals and metals from waste. This way rare earth materials can be retrieved, turning waste into an opportunity.

In July 2022, Robeco started engaging with the first batch of companies from three high water use or water scarce sectors: Chemicals; Oil & Gas; and Paper & Pulp. Then in November 2022, Robeco nearly doubled the companies under engagement by adding cases from the Breweries sector, because of its high-water consumption rate, and the UK water utilities sector, because of controversies around wastewater management in the UK.

In 2023, Robeco closed the engagement with the first couple of companies; 50% successfully and 50% without success due to them being unresponsive to Robeco's outreaches. At the end of 2023, Robeco transferred some cases to a different theme with an aligned but more holistic engagement focus, such as biodiversity and climate change. Robeco will engage with the remaining companies for another one-and-a-half years.

Border to Coast Engagement

Border to Coast produced their quarterly Stewardship report which outlined a number of their key engagement highlights during the quarter and can be viewed here. Overall, the last quarter was busier for voting and engagement as the main AGM season in most markets approaches for 2024. Border to Coast continued to engage with investee companies, most notably with oil and gas company, TotalEnergies.

Border to Coast met the Company in January to discuss its current medium-term targets and any plans for improvement. Border to Coast explained that Paris-aligned medium-term emissions reduction targets that cover Scope 3 is a priority indicator for them with implications as per Border to Coast's climate voting and engagement escalation policies. The meeting was constructive, open, and honest with areas of improvement since their last meeting in 2023. The Company is performing well on renewables development, methane emissions reduction, and capex disclosure. However, total Scope 3 emissions are only expected to plateau to 2030 as oil production is reduced but gas production increases. The absence of a medium-term absolute emissions reduction target for gas production means TotalEnergies does not currently meet Border to Coasts expectations in this area and engagement with TotalEnergies is continuing.

Additionally, Border to Coast joined a Royal London Asset Management led meeting with National Grid to feedback on its new just transition disclosure.

Just transition is the integration of social risks and opportunities, and a place-based impact, 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 our RI and voting policies.

National Grid presented its 'Fair Transition' report, which signposts to existing commitments and provides a narrative based on just transition principles.

The investor group shared some initial responses and recommended that just transition be measurably connected to achieving net zero. This included via integration into National Grid's Climate Transition Plan with KPIs to measure progress against social-related targets.

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. A selection of key issues worked on during the quarter are summarised below and include:

- LAPFF have coordinated engagement with banking sector with the aim to see banks developing and implementing clear policies to support the energy transition, scales down fossil fuel exposure and commit to assess all client businesses on exposure to climate change. LAPFF have prioritised focussing on two UK banks with significant exposure to the fossil fuel sector, HSBC and Barclays. Following extensive engagement with both firms in 2023, LAPFF met with HSBC and has an upcoming meeting with Barclays. Both banks have made progress with HSBC publishing its latest transition report in January and Barclays publishing in February 2024 an updated Climate Change Statement. LAPFF would like to see further progress from Barclays on the clarity of its climate statement and would like to see strengthened restrictions on oil and gas lending from HSBC. Further, LAPFF will expand engagement in the banking sector to include five Canadian banks.

- LAPFF engaged with Drax this quarter to understand the time scale over which new growth of trees will compensate for the >10MT of CO_2 Drax power station emits each year. Since the last AGM the chair has changed, as expected given tenure, and LAPFF await a meeting with the new chair to discuss the Department of Energy Security and Net Zero consultation. LAPFF responded to the consultation on prolonging the subsidy to Drax. LAPFF's response to the consultation covered the evidence that Drax's supplies of wood are not carbon neutral, nor sustainable as a supply source. LAPFF will follow up to discuss the true sustainability of the wood sources used by Drax in the wood pellets they burn.

- Water stewardship has been a topic that LAPFF have engaged utility companies on over the last two years, particularly on reducing sewage outflows. LAPFF has held meetings with United Utilities to discuss the company's plans to reduce overflows and also fed into Ofwat's price review process to ensure affordability and value for money for customers.

LAPFF has also continued to respond to wider developments and consultations, for example the 30% Club Investor Group which aims to increase gender diversity and will continue to respond to consultation opportunities where it believes it can contribute helpfully with the aim helping investors to understand the link between human rights and financial materiality.

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 of each of the listed funds.

Overseas Developed

- Weighted ESG Score 7.3
- 54.9% of portfolio ESG leaders v 52.5% in the benchmark.
- 1.6% of portfolio ESG laggards v 2.7% in the benchmark.
- 3.8% of portfolio not covered all of which are investment trusts etc higher than benchmark
- Lowest rated 5 companies 1.6% of portfolio
- Emissions below or inline with benchmark on all metrics.
- Weight of fossil fuel holdings greater than benchmark
- All 5 top emitters rated on the Transition Pathway with 4 TPI scoring of 4
- 4 of 5 top emitters engaged through Climate Action 100+

United Kingdom

- Weighted ESG Score 7.8
- 74.1% of portfolio ESG leaders v 71.3% in the benchmark
- 0% of portfolio ESG laggards
- 6.5% of portfolio not covered, mainly investment trusts marginally less than benchmark
- Lowest rated 5 companies 10.6% of portfolio, all MSCI rated BBB or above
- Financed emissions and carbon intensity metrics are below or inline with the benchmark
- Lower weight of fossil fuel holdings than in benchmark.
- 4 of 5 top emitters rated 4 or 4* (highest ratings) on the Transition Pathway, 4 of 5 engaged through Climate Action 100+

Emerging Markets

- Weighted ESG score 6.0
- 25.1% of portfolio ESG leaders v 23.5% in the benchmark
- 9.1% of portfolio ESG laggards v 13.0% in the benchmark
- 4.5% of portfolio not covered largely investment trusts etc
- Lowest rated 5 companies 5.3% of portfolio.
- Emissions materially below benchmark on all metrics
- Lower weight of oil and gas holdings than in benchmark.
- 2 of the top 5 emitters engaged with the Transition Pathway with average scores of 3
- 2 of top 5 emitters engaged through Climate Action 100+

Listed Alternatives

- Weighted ESG score 7.3
- 42.6% of portfolio ESG leaders v 44.4% in the benchmark
- 0.5% of portfolio ESG laggards v 3.4% in the benchmark
- 38.5% of portfolio not covered largely investment trusts etc
- Lowest rated 5 companies 8.6% 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 three scoring TPI level 4 and another score of 3
- 2 of 5 top emitters engaged through Climate Action 100+

Overall, this shows a broadly positive picture, with all funds continuing to score better than, or in line with, the benchmark for the overall Weighted ESG Score. However, the overall trajectory of improvements within these funds has slowed with progress largely flat, or reflective of changes in proportion to the benchmark, during the quarter.

Each quarter Border to Coast's reporting on carbon emissions features particular stocks and their plans for decarbonisation. 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

Financed emissions decreased in line with the benchmark the quarter. This was largely driven by reduced holdings in some of the higher emitting companies such as RWE, POSCO, ArcelorMittal, Rio Tinto and Engie and an 18.5% decrease in POSCO's reported emissions.

Featured Stock: Holcim

Holcim is a global leader in innovative and sustainable building materials, manufacturing and selling cement, aggregates, ready-mix concrete, and asphalt products. Cement manufacturing remains one of the world's top polluting industries and accounts for around a twelfth of global emissions. However, Holcim has innovated and promoted low-carbon products (last year the Company acquired 20 companies) and is selling off some of its more polluting core cement assets, particularly in emerging markets such as Brazil, India and Indonesia.

Holcim's decarbonisation plan has been approved by the Science Based Targets initiative. The Company has been at the forefront in developing lower carbon cement products such as ECOPact (a ready-mix green cement), which uses limestone substitutes. Clay is an alternative to limestone and is seen as a less carbon-intensive cement ingredient. Holcim has launched Europe's first production line of Calcined Clay for use in cement. Metakaolin (calcined clay) is produced by heating sources of kaolin (clay, paper sludge etc.) to between 650°C and 750°C to produce a material that can be added to cement in place of a clinker, which is where most of the cement's carbon footprint comes from.

Hitting net zero emissions by 2050 will also rely on reabsorbing some of the carbon released in the manufacturing of cement, for which Holcim is building carbon capture and utilisation plants supported by EU funding. At the same time the Company is investing globally in less-polluting building materials, including heat-reflective roofing materials.

UK Listed Equity Fund

Financed emissions fell marginally as the benchmark emissions remained unchanged. This was driven by reduced positions in three of the significant contributors in the portfolio; Shell, Glencore and Rio Tinto. However, the weighted average carbon intensity (WACI) for the Fund remains slightly above benchmark. This is largely due to the Fund's relatively larger holdings of higher emitting entities such as Shell, National Grid, easyJet and Intercontinental Hotels

Featured Stock: Shell

Shell has a climate target in line with the Paris Agreement, intending to move its portfolio away from oil to natural gas as a transition fuel for meeting carbon targets. Shell is a leading global producer of liquified natural gas with strong positions in downstream operations (refining, petrochemicals). Shell is a disciplined capital allocator with a strong balance sheet. Shell supports the goal of the Paris Agreement to limit the rise in the average global temperature well below 2° Celsius and has set an ambition to become a net zero emissions energy business by 2050 or earlier. The recently published Energy Transition Strategy 2024 introduced a new absolute emissions reduction target, including Scope 3, for oil of 40% by 2030, albeit there is no equivalent target for gas as Shell intends to expand LNG production to 2030. Shell has also weakened its intensity targets with the expected reduction to 2030 changed from 20% to 15-20% and the 2035 intensity target of 45% has been “retired”. Shell reiterated it will invest $10-15 billion between 2023 and the end of 2025 in low-carbon energy solutions. Shell is well placed to reduce its own carbon footprint and facilitate the infrastructure required to decarbonise other sectors previously reliant on fossil fuels in line with the EU's strategic targets. Though Shell has a Net Zero GHG Emissions ambition for 2050 it only partially meets Climate Action 100+'s short- and medium-term ambition criteria. We continue to actively engage with the Company on its decarbonisation strategy.

Emerging Markets Equity Fund

The Fund remains significantly below the benchmark for carbon emissions. However, the Fund saw an increase in all emissions metrics whilst the benchmark’s financed emissions and carbon intensity decreased by 5%. This was largely driven by the Fund’s increased position in particular high emitting and carbon intensive companies, Grasim Industries, Qatar Gas Transport, PetroChina and Reliance Industries.

Featured Stock: Gruppo Traxion

Traxion provides a full suite of specialist logistics services to large corporates and multinational companies in Mexico. For these customers, safety and reliability of service is more important than price. There is no other player in Mexico with Traxion’s scale, breadth of specialised transport services, or access to capital. Traxion operates a fleet of 2,200 owned and 3,200 third-party cargo trucks, a fleet of 8,000 buses, and manages 9m sq.ft. of third-party logistic warehousing. The key ESG challenges facing the Company are managing carbon emissions and high staff turnover. With regards to staff turnover, which is running at around 50% and is a feature of the trucking industry, Traxion has introduced benefits such as paternity leave for staff and training to improve road safety to improve working conditions and encourage longer service.

Carbon emissions are an ongoing challenge for Traxion as the very nature of its business exclusively relies on internal combustion engines as cost-efficient alternatives are not yet available. What is within Traxion’s power relates to maintenance of a fuel-efficient fleet, integrating natural gas vehicles where possible, optimising routes, reducing empty backhaul, and having advanced telemetry systems in place to monitor fuel consumption of the driving habits of its staff. The fleet has an average age of between 4.6 years and 5.2 years in buses and trucks, respectively, which means the fleet is up-to-date in terms of safety standards as well as fuel-efficiency. Traxion is also installing solar power generation where possible in its warehousing operations. Traxion has calculated that its interventions have achieved emissions savings of 134,900 tCO^2 annually, as compared to total annual emissions of 594,000 tCO^2 (a saving of 23%).

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 worse than benchmark at 7.5
- 40.5% of portfolio ESG leaders compared to 56.6% in the benchmark
- 0.7% of portfolio ESG laggards compared to 0.9% In the benchmark
- 23.4% of portfolio not covered compared to 8.7% in the benchmark
- The 5 lowest rated issuers represent 1.2% of the portfolio
- Emissions below benchmark on all 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 Fund's emissions metrics are all below the benchmark, this is largely driven by the Fund being relatively underweight in high emitting sectors (materials, industrials, energy and utilities). Financed emissions dropped by 8%, falling below the benchmark. This was primarily driven by the Fund's reduced holding in Enel, last quarter's largest contributor to financed emissions.

Commercial Property Portfolio

As reported in the last quarterly update the overall ESG performance of the commercial property portfolio as measured by the GRESB (Global Real Estate Sustainability Benchmark) was improved during 2023. The portfolio achieved a 3-star score with an increase in the percentage score 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.

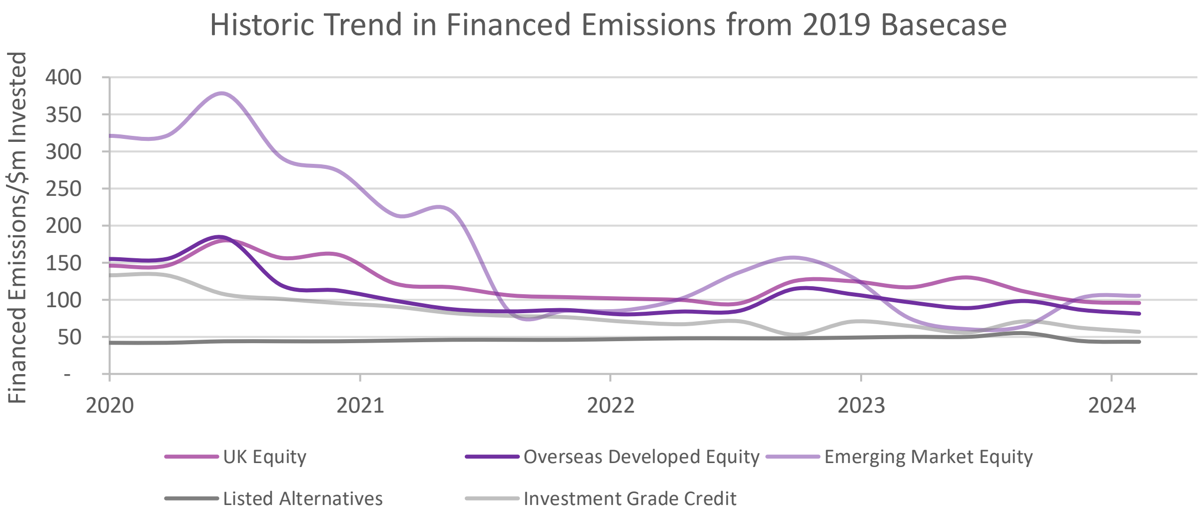
However, total emissions (scope 1 & 2) increased year-on-year by 8% as occupancy levels, particularly in office assets, increased hence increasing energy consumption. As a recap, scope 1 covers emissions from sources that an organisation owns or controls directly – for example from burning fuel in a fleet of vehicles (if they're not electrically-powered) and Scope 2 are emissions that a company causes indirectly and come from where the energy it purchases and uses is produced. For example, the emissions caused when generating the electricity that is used buildings would fall into this category.

Over the year, due to valuation changes, the proportion of the total portfolio by AUM with sustainability green building certification decreased from 37% to 32%. Abrdn remain concentrated on retaining the best performing assets, and divesting from the worst performing, in both financial and sustainability terms and on an individual property basis we expect the sustainability of the portfolio to improve.

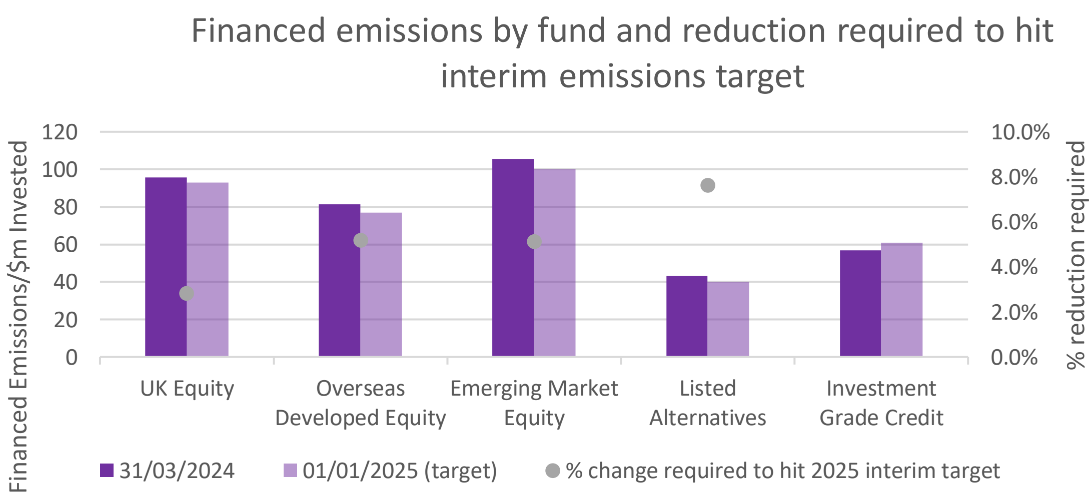
Progress to Net Zero

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 historic 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.

The below graph shows the movement of actual financed emissions of the listed funds held over time. It should be noted that some volatility in financed emissions quarter-on-quarter is to be expected. However, the financed emissions trend has been directionally reducing, albeit at a slowing rate over recent quarters.

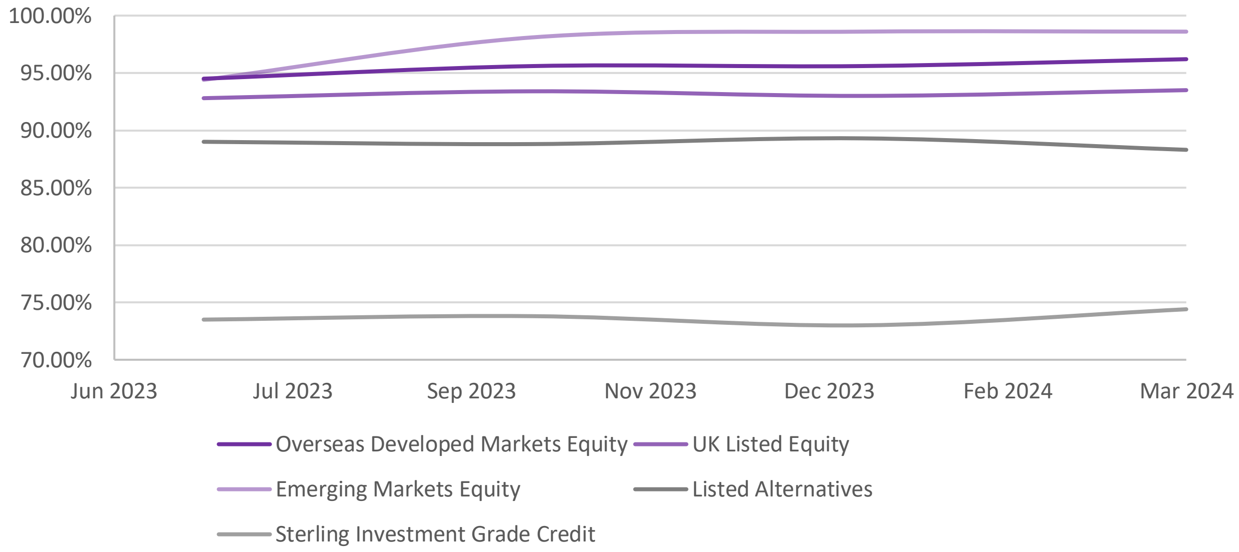


The below chart shows that only the Investment Grade Credit Fund is currently below the interim 2025 financed emissions target to meet the net zero goal by 2030. All other funds require modest reductions in financed emissions of between 7.5% and 2.8% by 2025. When analysed alongside the historic trend graph above, it can be seen that the trend in the reduction of financed emissions will have to speed up if the interim targets are to be met by all listed equity and the listed alts fund.



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 emissions reduction picture will not be complete or accurate. The graph below outlines how the level of coverage in the funds held with Border to Coast has developed over time. It can be seen that over time the % of the individual funds covered has increased, however the progress has largely plateaued within the last year. It should also be noted that there are further improvements to be made, particularly on the Sterling Investment Grade Credit Fund.



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 noted 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, natural capital and other climate solutions and this is something that we will look to begin reporting on in future.

Stakeholder Interaction

In February the Director met with the Climate lobby group to discuss the Authority's plans and actions taken to address climate change, with a particular focus on the engagement process with listed companies. In addition, Responsible Investment related questions have been largely focussed on climate change and submitted at the Annual Fund meeting.

Collaborative Activity

This section focuses on the notable activity and developments during the quarter through the various collaborations in which the Authority is either directly involved or indirectly involved through Border to Coast.

Local Authority Pension Fund Forum

LAPFF's most recent business meeting approved the workplan for the coming year and agreed the budget.

Climate Action 100+

During the quarter, some managers, notably JP Morgan Asset Management, State Street and PIMCO left Climate Action 100+ with BlackRock changing participation from "BlackRock Inc" to "BlackRock International". As one of the founding network partners, the IIGCC responded with the following statement.

"Although we recognise every financial institution operates within a distinct political and social context, the concept of fiduciary duty is recognised across jurisdictions.

The fundamental principle that underpins Climate Action 100+ is that climate risk is a financial risk. Climate Action 100+ is about investors engaging companies on improving climate change governance, cutting emissions and strengthening climate-related financial disclosures, in the interests of long-term shareholder value for those investors' clients and beneficiaries.

The preservation of long-term shareholder value is central to a fiduciary relationship. Across jurisdictions, it is recognised that climate risk and the transition to a low-carbon economy are economic factors, like interest rates and inflation, that may impact the long-term financial returns of portfolios.

As an example, the UK's Financial Markets Law Committee (FMLC) recently published a paper, commissioned by the UK government, which provides assurance on the legal position on pension fund trustees' fiduciary duty when considering sustainability and climate change.

However, it is a foundational principle of how the initiative works that the choice to use guidance and best practice tools provided by Climate Action 100+ is always at the ultimate discretion of individual signatories, based on their own decision making. All participating investors are independent fiduciaries responsible for their own investment and voting decisions, and they agree to always act independently in setting strategies, policies and practices, based on their own understanding of their best interests. It is also a matter for individual signatories to make their own decisions regarding ongoing participation in the initiative."

In summary, Climate Action 100+ is about managing risk and preserving long-term shareholder value, making it fully aligned with its signatories' fiduciary duty.

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.

FRC review of Stewardship Code

This quarter, the FRC launched a review of the 2020 UK Stewardship Code to ensure that the Code's principles are still driving the right outcomes for investors without creating burdens on both issuers and signatories. The revised Code will likely be published in early 2025 following engagement with issuers, asset managers, asset owners and service providers

FRC review of Stewardship Code

In January, the FRC announced revisions to the UK Corporate Governance Code. Boards will now need to disclose in their annual report how they review the effectiveness of the company's risk management and internal control framework and their conclusions. The FRC dropped proposed revisions to the role audit committees hold on ESG issues.

UK March 2024 Budget

In the Spring 2024 UK Budget, the Government stated that it will regulate providers of ESG ratings to UK users, bringing rating providers into the regulatory scope of the FCA. Legislative steps are due to be published later this year. This follows a similar EU ruling in February requiring ESG rating providers to be authorised and supervised by the European Securities and Markets Authority (ESMA) and comply with transparency requirements.

New UN PRI Guidelines

The PRI has published three new guides on responsible investment. The resources provide asset owners and managers with guidance on how to consider biodiversity, corporate governance and human rights in the investment process. This supports the industry's growing need to consider "ESG" factors in addition to climate.