SOUTH YORKSHIRE
PENSIONS AUTHORITY

Responsible Investment Update Quarter 1 2024/25

September 2024

Contents

Highlights and Recommendations

Highlights over the quarter to the end of June include:

- A quarter-on-quarter increase in the level of voting activity with over 6,000 votes cast at over 400 company meetings as peak voting season fell within the quarter.
- The overall level of engagement activity marginally slowed following the peak, last quarter, in the lead up to 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, with Shell a focus for engagement this quarter.
- 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 due to a fall in reported emissions from the Sterling Investment Grade Credit Fund.
- Emissions coverage has plateaued over the last quarter, with the most significant improvement coming in the Sterling Investment Grade Credit Fund but still lags other funds.

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

Background

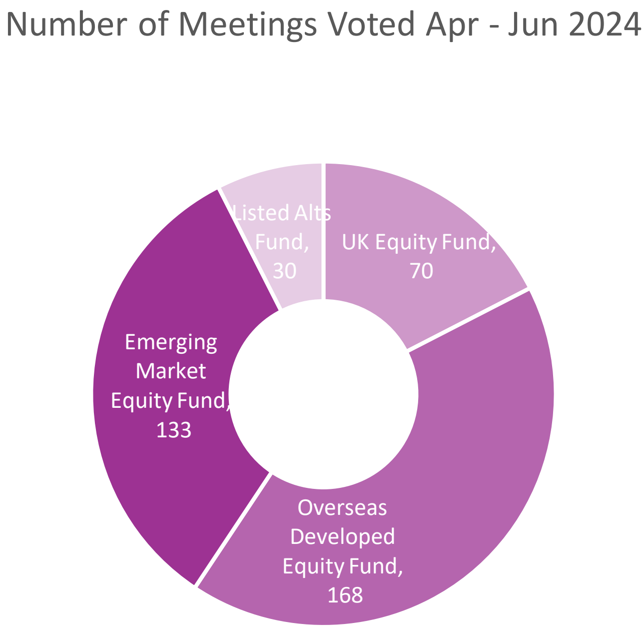
The Authority has developed a statement which sets out what it believes Responsible Investment is and how it will go about implementing it within its overall approach to investment. This statement is set out in the Responsible Investment Policy which is available on the website here.

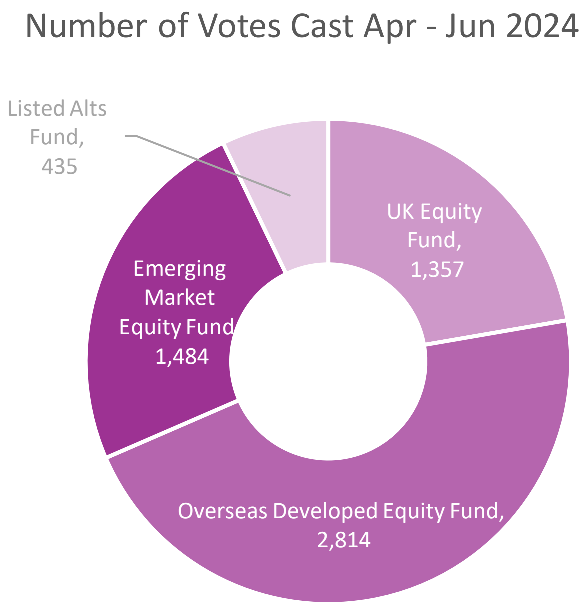
Our approach is largely delivered in collaboration with the other 10 funds involved in the Border to Coast pool. This report provides an update on activity in the last quarter covering:

- 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 2024/25 Active Ownership proxy voting report how recent reforms to include more active stewardship in Japan's equity market has resulted in USD 50 billion of net inflows by foreign investors since April 2023. Further detail is provided in the box below:

Tokyo's new glass structures

In 2023, the Tokyo Stock Exchange ("TSE") launched several initiatives to enhance corporate governance. They aim to align with global standards and improve transparency, accountability, and shareholder value, and further promote a push to best practices that are very similar to Robeco's engagement objectives on corporate governance.

The key measures include a mandate for a higher ratio of independent directors on corporate boards. Companies listed on the Prime Market are required to have at least one-third of their board members as independent directors. Additionally, there is a push for greater gender diversity on boards.

The exchange also revised requirements for better disclosures for financial and non-financial information. This includes detailed reporting on environmental, social, and governance (ESG) factors and risks. Efforts also have been made to protect and enhance shareholder rights, such as by facilitating easier voting processes at shareholder meetings and ensuring that companies engage more actively with their investors.

Additionally the stock exchange is promoting sustainability by encouraging companies to integrate ESG factors into their business strategies. Companies are urged to set long-term sustainability goals and report on their progress towards them.

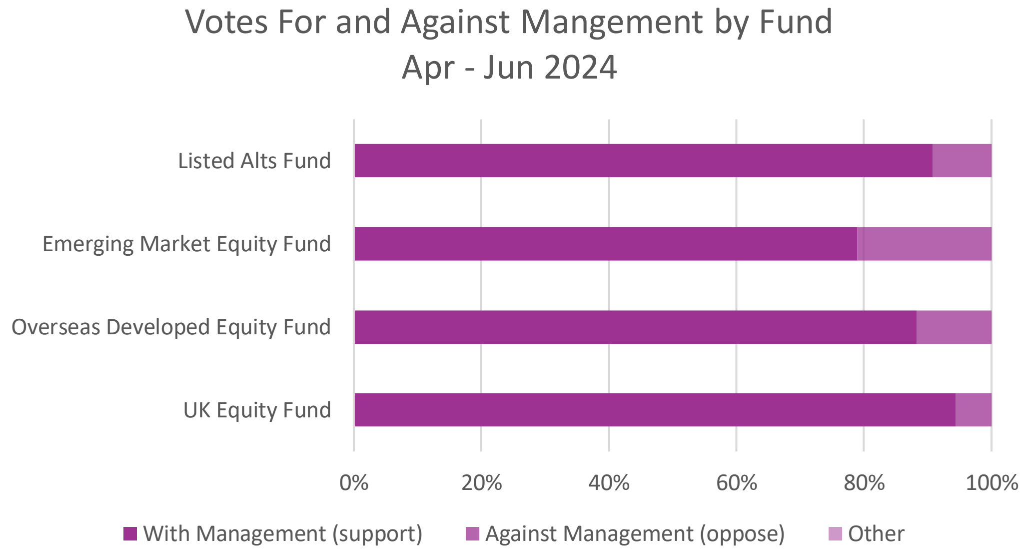
Initial observations of these reforms are encouraging. The initiatives have led to greater transparency and accountability among Japanese companies and aligning with international standards of corporate governance helps Japanese companies become more attractive to global investors. Whilst the emphasis on board diversity and shareholder engagement is fostering a cultural shift within Japanese corporations and has highlighted the importance of shareholder input into corporate governance.

Many companies have strengthened their governance structures by appointing more independent directors and establishing committees focused on capital efficiency and governance practices. Virtually all companies listed on Tokyo's Prime market now have met the new regulations by having at least one-third of members as independents, and they have also adopted nomination and compensation committees.

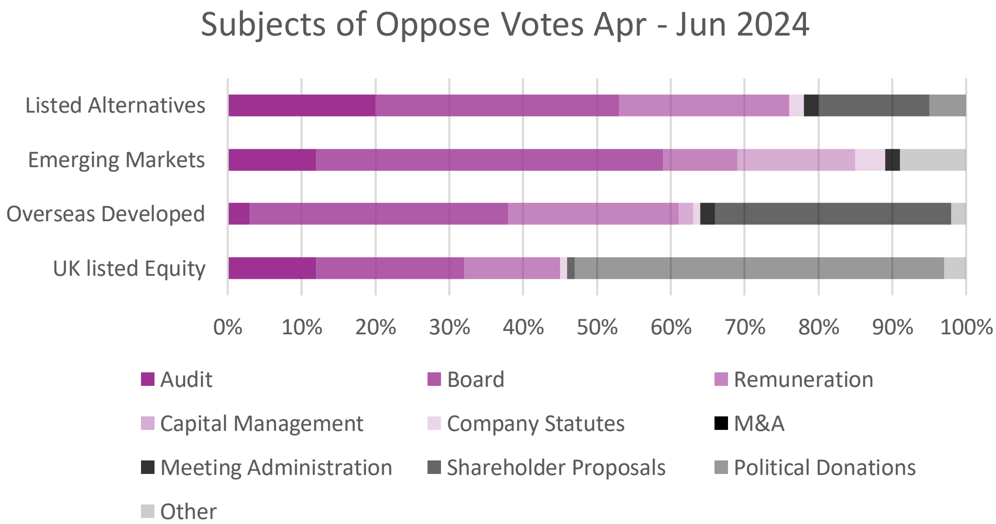
Some companies face challenges in adapting to these new requirements, particularly those with traditionally insular practices. However, the overall trend is positive, with many companies making significant strides in improving their standards.

Robeco Active Ownership Report July 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 12.4% of total votes cast against management, which was inline with the previous quarter. However, as an absolute number, the number of votes against significantly increased from 114 to 757 across all publically listed funds. This increase coincodes with peak voting season and, as has been previously reported, 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 management were much more widely spread across topics this quarter compared to previous quarters. The three largest areas where we continue to oppose management relate to Board composition, remuneration, and most significantly in the case of the Overseas Developed 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.

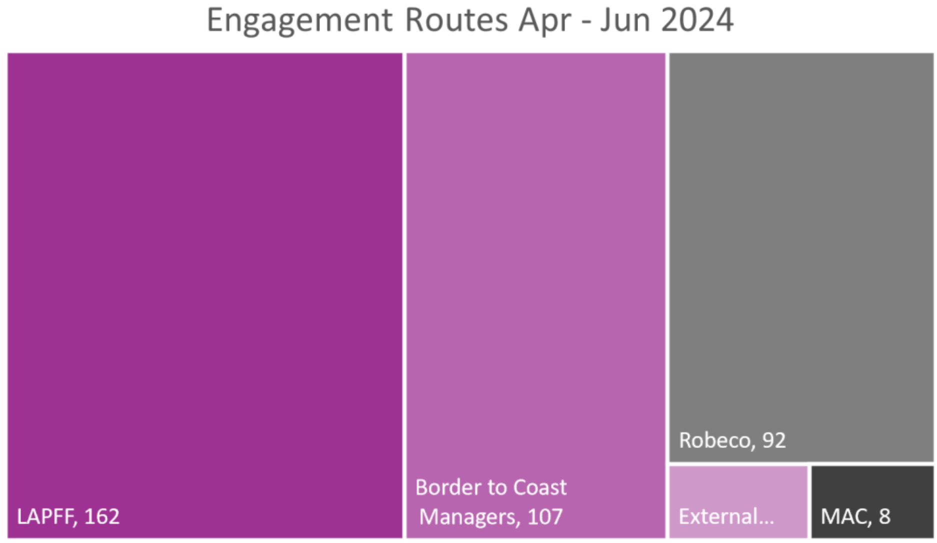
Shell Plc - Shell's 2024 AGM agenda included a series of routine items as well as a shareholder proposal regarding scope 3 GHG targets and alignment with Paris Agreement. The company asked for shareholder approval for its report on progress and the updated 2024 Transition Strategy. Changes to the company's most recent strategy include the removal of a 2035 target to cut scope 1, 2 and 3 net carbon intensity by 45% and weakening its 2030 net carbon intensity target. Robeco analysed the transition plans an concluded the company needs further action to align with the Paris agreement so voted against the proposal whilst supporting the climate shareholder proposal to align medium-term Scope 3 emission targets with the Paris agreement. The Shareholder resolution received 18.6% support.

Amazon.com Inc - The 2024 annual meeting agenda was peppered with topics spanning the breadth of ESG. Environmental issues appeared on the ballot through shareholder proposals asking the company to report and set goals for plastic packaging reduction, to measure and disclose Scope 3 emissions and to prepare a report on its just transition strategy, estimating the impact of its climate ambitions on stakeholders. Robeco supported these resolutions. Other stakeholders proposals addressed two categories of social issues: working conditions and product impact. Robeco supported both proposals given recent allegations around human capital management practices of the company.

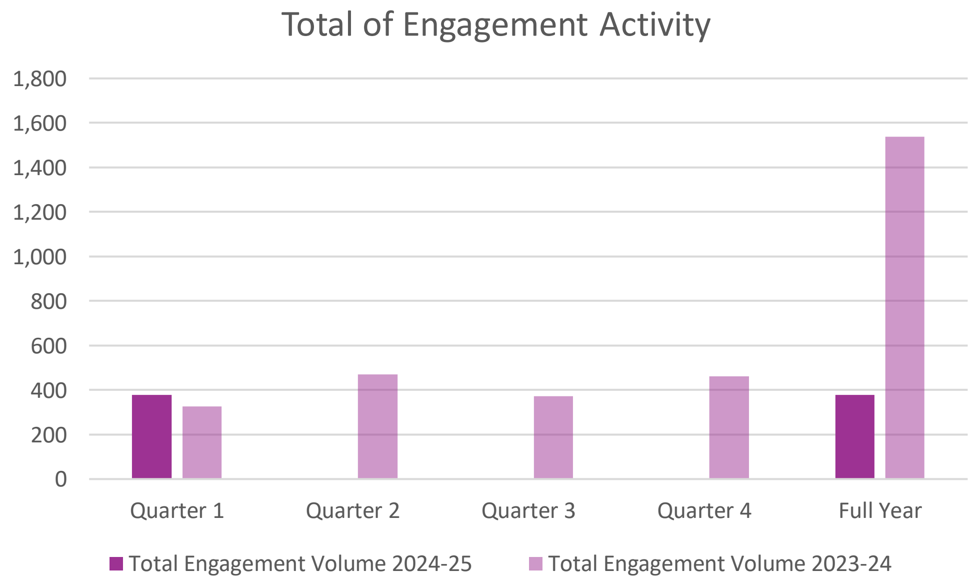
Meta Platforms Inc - at Meta's most recent AGM saw many shareholder proposals re-emerge on the ballot, with most proposals covering three key topics: Artificial Intelligence (AI), human rights, and social impacts. A new proposal requested the company to assess and report on the benefits and drawbacks of prohibiting political advertising on its platforms and restoring the type of enhancement actions put in place during the 2020 election cycle, The context behind the proposal is the key role in Meta's platforms are said to play an amplification of false and divisive information which influence political elections. Robeco agree this exposes the company to risks, so supported the proposal.

Engagement Activity

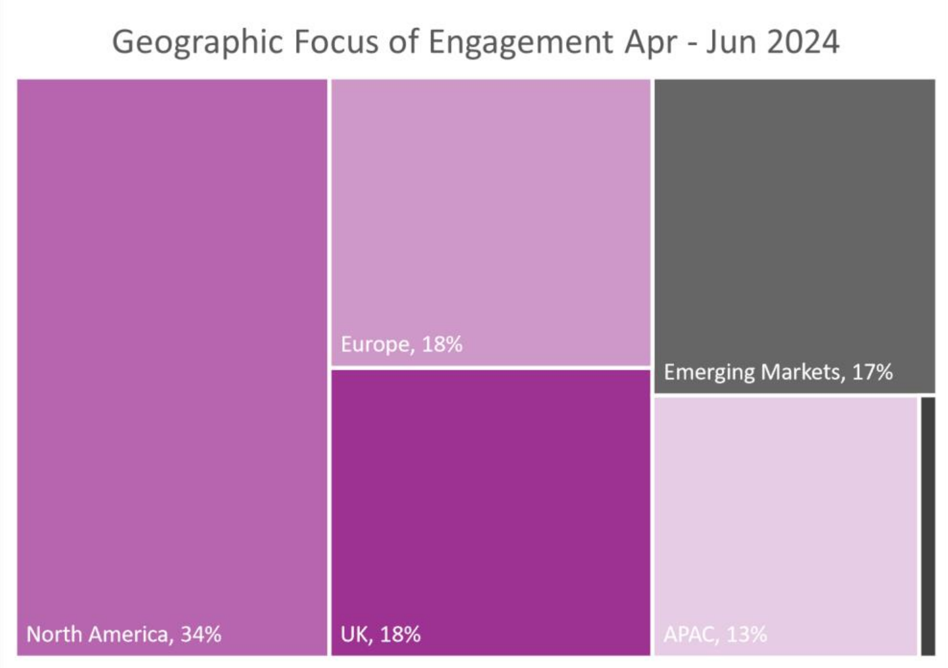
Engagement is the process by which the Authority, working together with other like-minded investors, seeks to influence the behaviour of companies on key issues. Engagement (in distinction to voting) is an ongoing process and is undertaken by those directly managing money for the Authority. This includes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



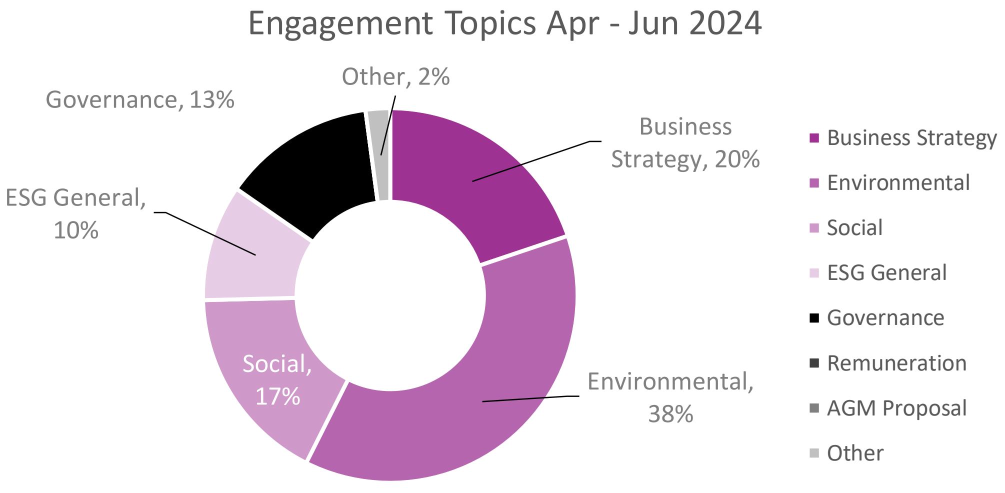
The graph below shows the level of engagement activity in the quarter is above the same quarter last year. The greater level of total engagement was due a higher number of meetings held with companies this quarter compared to Q1 2023-2024. This is a positive outcome, given that meetings hold the potential for the highest level of impact from different engagement methods.



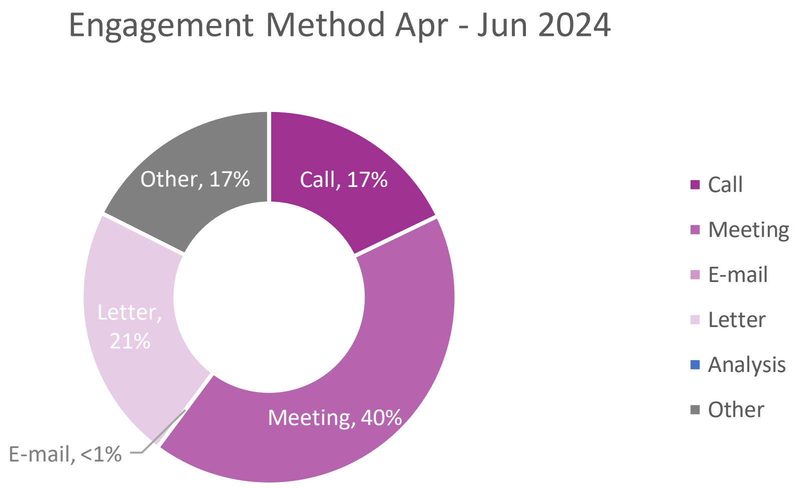
The chart below shows a breakdown of the geographic market focus in engagement over the last quarter. The weighting of engagement has shifted this quarter from a focus on the UK, towards a more even spread across regions. Following peak voting and AGM season in developed markets, the North American weighting is the largest proportion of engagement due to the large equity exposure to the region through the Overseas Developed Markets Fund. The small dark sliver at the bottom right of the graph below represents the minor level of engagement will companies in the middle east region.



The range of topics covered through engagement is set out in the chart below with a continuing strong focus on environmental and climate issues, which increased as a proportion of engagement compared to last quarter, along with the proportion of business strategy engagement which 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 positive increase in the proportion of engagement taking place via calls or meetings from c30% to c57%.



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: Good governance; Labour practices; climate and nature transition of financials and SDG engagement. The highlights from Robeco's engagement report are summarised below.

Good governance – Is shareholder democracy still functional?

Debate this proxy voting season has been dominated by one question: Is shareholder democracy still functional in upholding the best interests of all shareholders? This question was triggered partly when Exxon Mobil decided to take legal action against Arjuna Capital and Follow This, seeking to get a shareholder resolution asking for Paris-aligned carbon reduction targets to be taken off the agenda. Many shareholders were concerned with this; not just because the company continued to pursue the lawsuit after the proponents had withdrawn the resolution, but also because of the precedent it set.

Many shareholders feared that companies taking legal action would create a different dynamic that would make them much more hesitant to make use of their rights to bring forth certain issues to management. Together with several other institutional investors, Robeco signed a petition asking companies to resolve differences with shareholders via a constructive discussion, or if necessary to take their challenges to the SEC, rather than resorting to the courts. In the end, the court declared ExxonMobil's claim redundant, as the shareholder had made an unconditional and irrevocable pledge not to file a similar resolution again.

Labour practices in a post COVID-19 world

While many anticipated that consumer preferences would change during and then after the pandemic, few expected workers' criteria for what was acceptable to switch as well. As the economy started to recover, and as costs of living started to rise, workers were no longer prepared to accept jobs with low pay, bad working conditions, high health risks and limited social benefits. The 'great resignation', as the phenomenon is called, and the resulting labour market tightening, was most pronounced among frontline workers across contact-intensive sectors, according to the OECD.

As companies maneuverer through labour shortages, rising inflation and uncertain regulatory environments, they came to recognize the inherent importance of overcoming labour challenges. However, while companies made significant strides when rethinking or investing in health and safety, social dialogue and human capital development, the key challenges around wages and benefits largely remain unresolved.

Robeco's engagements with hotel groups explored how fair wage standards could be incentivized through their franchising contracts and fees, for example by offering reduced fees for hotels accredited as paying living wages. While this is a challenging area due to legal issues over competition rules and other employer restrictions, we were pleased to see one hotel group updating its franchising policy to mandate a minimum 14-week maternity leave globally. This served as a blueprint to improve labour practices despite complex indirect labour relations.

Banking on a green future – climate and nature transition of financial institutions

In 2021, Robeco launched their engagement theme on the climate transition of financial companies. Robeco selected a group of listed banks, spread across a variety of markets, for engagement. The banks were selected based on their exposure to carbon intensive sectors, their lending practices, and their overall sustainability scores. The climate impact of a bank is based on the magnitude and allocation of its capital and services across carbon-emitting sectors, known as their 'financed emissions'.

From the start of our engagement in 2021, Robeco adopted the framework of the Task Force on Climate-related Financial Disclosure (TCFD), with the aim of helping banks to improve the development and reporting of their climate transition strategies. This framework was established to show whether the management of climate risks was being addressed; if climate targets have been set; that the required data to do so is collected and verified; and that there is sufficient oversight from management and the board on climate matters. Four main objectives formed the centrepiece of Robeco's engagement: governance, strategy, risk management, and targets and metrics.

After three years of engagement, Robeco were able to close the first set successfully. These banks were able to address climate change challenges well and on time. Robeco concluded that climate change was being sufficiently addressed, and that further engagement would not be necessary, not least as the banking sector is being heavily engaged by investors, NGOs and central banks across Europe. However, Robeco were unable to close the engagements with banks from the US and Asia effectively. While almost all the EU banks have progressed well in decreasing their financed emissions, the US banks showed little positive progress, and progress was slow at the Asian banks.

The current engagement objectives in the banking theme are based on the overarching TCFD guidelines. These can be easily used and extended, with the same overarching guidelines of the Taskforce on Nature-related Financial Disclosures (TNFD). They use the same four guidelines targeting governance, strategy, risk management, and targets and metrics. Hence, Robeco developed an engagement framework making use of both climate and nature objectives. Robeco have set overarching four engagement objectives built on the TCFD and TNFD frameworks, and also set specific sub-objectives for climate and nature on each one.

SDG engagement

Robeco are two and a half years into their Sustainable Development Goals (SDG) engagement theme through which they encourage companies to improve their impact on one or more of the 17 UN Sustainable Development Goals.

Robeco have addressed multiple SDGs and topics in each engagement and track companies' progress by evaluating to what extent they have met Robeco's expectations on specific asks. These range from disclosures, policies and stakeholder interactions, to target setting and other forms of corporate action. Over the last year, the majority of the milestones achieved were linked to SDG 12: 'Responsible consumption and production', and SDG 13: 'Climate Action', which align with the distribution of the SDG linkages across the total milestones Robeco have set across engagements.

<u>Results include:</u>

TotalEnergies - Robeco set an ambition for the French oil and gas company TotalEnergies to more clearly outline its decarbonization strategy. Key to this is the inclusion of quantified estimates of emissions reduction per strategy component and the impact of ongoing fossil fuels investments on their overall footprint. The company's 2023 ESG report provides a high-quality narrative of the strategy, including estimates of its future energy production mix leading up to 2030, how it is investing in decarbonization, and the key levers for achieving the targets. The next step towards achieving the underlying milestone is to clearly quantify the emissions impact of these actions to demonstrate how TotalEnergies will achieve these targets.

Neste - Finnish energy company Neste has long been recognized as making progress on its transition to becoming a provider of renewable energy. Robeco's engagement has focused on Neste's renewable feedstock fuel refinery capacity, alongside core components of climate strategies. As with any company materially exposed to climate risk, Neste is expected to align its public policy work with its own climate policies to ensure it is supporting proper policy. The company participated at COP28 in Dubai to promote an enabling policy environment. Furthermore, the company is active in several trade associations and drives their agendas on climate policy. Given that the company's business model will benefit from increased regulation to curb emissions from transport, this satisfies Robeco's expectations set out in the relevant milestone.

Rio Tinto - A leading iron ore producer, Rio Tinto has committed to enhancing its disclosure on plans and progress to reduce Scope 3 emissions from iron ore processing for steel production. These emissions, which form 65% of the company's total footprint, occur during steelmaking processes that currently rely heavily on the use of metallurgical coal in blast furnaces. Robeco had found the company's disclosure on this vital issue to be lacking, hindering Robeco's ability to assess Rio Tinto's efforts to mitigate the largest part of its footprint. Robeco covered the issue through constructive engagement as the co-leading investor in the Climate Action 100+ collaboration.

Rio Tinto has now pledged to provide details on expenditure on steel decarbonization, capital expenditure on steel decarbonization projects, and potential abatement opportunities of announced projects. Robeco welcome this positive engagement outcome and are pleased that it has been highlighted as an official Climate Action 100+ case study with the company. Acknowledging and balancing the necessity of mitigating the risks associated with high Scope 3 emissions, the ongoing need for steel in the energy transition, and Rio Tinto's lack of direct control over its clients' steelmaking processes, has been important in Robeco's engagement.

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 occurred in most markets approaches for 2024. Border to Coast continued to engage with investee companies, most notably with Shell and UK banks.

As part of Border to Coast's engagement escalation with the oil and gas sector, they further strengthened their climate voting policy for the 2024 AGM season and increased the number of companies where they publicly pre-declared their votes against management ahead of their AGMs. This quarter Border to Coast have pre-declared votes against the re-election of the Chair of the Board at Conoco Phillips, Phillips 66, Shell, TotalEnergies, Chevron, and Glencore on climate grounds.

Engagement with Shell:

Border to Coast have engaged with Shell since early 2023 and in April this year attended a small group meeting with Shell's Chair of the Board ahead of its AGM. Border to Coast welcomed a new medium term absolute emissions reduction target for the company's oil production and products but expressed disappointment that a similar target was not forthcoming that covered gas. They also discussed the stranded asset risk of Shell's plans to expand LNG production.

At the AGM, Border to Coast voted against the re-election of the Chair due to inadequate targets and decarbonisation strategy. In line with voting policy, Border to Coast also supported a shareholder proposal calling for a medium-term target that covers Scope 3 emissions and is aligned with the Paris Agreement. As part of engagement escalation, Border to Coast signalled concern by publicly pre-declaring these votes ahead of the AGM. Engagement with Shell is ongoing.

Engagement with UK banks:

Just transition is the integration of social risks and opportunities, and 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 RI and voting policies.

Border to Coast has partnered with Royal London Asset Management (RLAM) to engage Barclays, Lloyds, NatWest, and HSBC to pioneer the integration of just transition into the banking sector's net zero strategies.

To date, two banks have committed to take the requested action, a third has included just transition ambitions in its net zero plan, and the fourth has stated support for just transition principles.

In April, Border to Coast attended the NatWest AGM to ask the Chair to consider a formal just transition plan or integration into existing net zero plans.
In June, Border to Coast and RLAM published our 'Investor expectations on Just Transition for the banking sector'. These will be used in more granular engagement during 2024, and used to assess emerging plans as ambition is turned into action

LAPFF Engagement

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:

- Further to the banking engagement that was outlined last quarter, LAPFF requested meetings with five Canadian banks, three of responded positively: Bank of Nova Scotia, Royal Bank of Canada, and Toronto Dominion. The banks outlined their climate reporting efforts and challenges in finding meaningful metrics for disclosure and reporting. The banks were also receptive to providing more disclosure as well as their approaches to engaging with clients in the energy sector and renewable energy finance. LAPFF's objectives were met during this first round of engagement with further engagement set of the autumn to develop investor expectations from the Forum's point of view.

- LAPFF continued engagement with Shell and BP to test their claims of decarbonisation with the aim of challenging the viability of their current business models. LAPFF attended Shell's AGM on 21 May 2024 virtually, where the Forum assessed substantial threats to the company's business model. LAPFF has previously questioned the extent to which its climate change strategy has been sufficiently integrated into business planning and financing. Despite the Forum's recommendation in favour of re-electing the Shell chair, in a voting alert, LAPFF recommended a series of votes against multiple other directors, the company's annual and remunerations reports, its 'Say on Climate' vote, but recommended voting in favour of the Follow-This resolution. The regard to BP, LAPFF notes some rowing back from their 2023 carbon reduction targets and that there are substantial threats to its business model to fully replace the lost revenues from fossil fuel business. In both the case of Shell and BP, LAPFF support the argument that more cash should be returned to shareholders and will continue to push this message at upcoming meetings with chief executives.

In addition to climate and energy, LAPFF has also continued to engage on other topics such as biodiversity, water stewardship, mining, human rights, diversity, and governance. LAPFF also continues 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
- 57.2% of portfolio ESG leaders v 53.7% in the benchmark.
- 1.6% of portfolio ESG laggards v 2.5% in the benchmark.
- 0.9% 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
- 4 of 5 top emitters rated on the Transition Pathway with 4 TPI scoring of 4 (the second highest score)
- 4 of 5 top emitters engaged through Climate Action 100+

United Kingdom

- Weighted ESG Score 7.8
- 77.7% of portfolio ESG leaders v 73.3% in the benchmark
- 0.3% of portfolio ESG laggards
- 1.3% of portfolio not covered, mainly investment trusts marginally less than benchmark
- Lowest rated 5 companies 10.1% 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 6.1
- 26.9% of portfolio ESG leaders v 25.0% in the benchmark
- 8.2% of portfolio ESG laggards v 12.8% in the benchmark
- 4.0% of portfolio not covered largely investment trusts etc
- Lowest rated 5 companies 4.4% 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
- 1 of top 5 emitters engaged through Climate Action 100+

Listed Alternatives

- Weighted ESG score 7.6
- 49.5% of portfolio ESG leaders v 45.5% in the benchmark
- 1.0% of portfolio ESG laggards v 3.0% in the benchmark
- 29.5% of portfolio not covered largely investment trusts etc
- Lowest rated 5 companies 8.9% 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 on emissions metrics 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 saw no material change over the quarter.

Featured Stock: AncelorMittal

ArcelorMittal operates steel, iron ore manufacturing and coal mining facilities in Europe, North and South America, Asia, and Africa. The company has operations in 18 countries and serves customers in 160 countries. The company is the largest steel maker in the world, producing almost 10% of global steel. ArcelorMittal carries a particularly attractive investment case as the company continues to invest in cost competitive assets in its core markets. This has helped to increase margins meaning that the company has now started to return more cash to shareholders through its reinstated dividend and share buybacks.

The company has committed to Net Zero by 2050 and is looking to change its steel making process by moving away from primary steelmaking in a blast furnace to primarily steelmaking using direct reduced iron as a feed for an electric arc furnace. This uses natural gas but can also transition to green hydrogen when available. The company has an interim 2030 target of a 25% reduction in CO2 emissions intensity across its global steel and mining operations from a 2018 baseline, with an increased target of 35% for European assets. The company's Net Zero targets are 1.5°C aligned by TPI. ArcelorMittal will be looking for funding from governments to help with the transition and achieve its emissions targets.

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: Glencore

Glencore is an international mining and commodity marketing company headquartered in Switzerland. Commodities mined include copper, zinc, coal, cobalt and nickel, which collectively account for 81% of current EBITDA, with the marketing division making up the other 19%. Cobalt, where the company has a particularly strong market share of production, copper and nickel all have favourable demand characteristics through the energy transition. These minerals are utilised in batteries, electricity transmission products and infrastructure. The company is also reasonably well placed on the cost curve enabling good profitability in periods of strong demand and protection against demand weakness. Glencore has robust cashflows and a balance sheet from which it can expand its reserve base organically and through acquisitions. It also has exposure to coal and is in the process of acquiring Elk Valley Resources, the coking coal assets of Teck Resources. Following completion of the transaction Glencore is to consult shareholders on a potential spin-off of the combined coal assets.

Having transformed the management of the business by replacing many executives and changing the business culture, Glencore has made significant improvements to its ESG credentials. MSCI notes material improvements in governance, health and safety and carbon emissions. The company was rated Level 4 (unchanged) by the Transition Pathway Initiative (TPI) in its last assessment in April 2023, which indicates it is making a “strategic assessment of the management of its greenhouse gas emissions and of risks and opportunities related to the low-carbon transition”. Glencore’s 2024-26 Climate Action Transition Plan includes a commitment to Net Zero emissions from its industrial assets by 2050, with interim Scope 1,2 and 3 reduction targets of 15%, 25% and 50% by 2026, 2030 and 2035 respectively against a 2019 baseline.

Emerging Markets Equity Fund

Grasim Industries remains the primary contributor to the Fund’s emissions profile. The Fund saw a 7% increase in WACI due to increased portfolio weights in Grasim, Qatar Gas and Taiwan Semiconductor, the three largest contributors to WACI in Q1. This quarter, Astra International became the Fund’s 4th highest contributor to financed emissions driven by the company’s increased weight in the Fund. Astra International is the Fund’s feature stock this quarter.

Featured Stock: Astra International

Astra International is one of Indonesia’s leading conglomerates with a revenue split of roughly 40% from the auto sector, 10% financial services, 35% heavy equipment (through its 60% ownership of United Tractors) and 15% from other businesses which cover a range of sectors from property, agribusiness, infrastructure and technology. Notably the company is the assembly and distribution partner for Toyota, Daihatsu, Isuzu and Honda in Indonesia with a ~50% market share in four-wheelers and almost 80% in two-wheelers. In heavy industry, they distribute to Komatsu, Caterpillar, Hitachi, Kobelco and Sumitomo. Astra International displays attractive fundamental value alongside interesting growth optionality, namely when Indonesian consumer spending patterns improve, and vehicle/scooter volumes return to growth.

Astra International has a goal of reducing group-wide scope 1 and 2 greenhouse gas emissions by 30% compared to its 2019 baseline by 2030. In part, this will be achieved by sourcing a minimum of 50% of energy needs from renewable sources. As at end 2023, the Company has reduced scope 1 and 2 emissions by 14% and raised the renewables contribution in its energy mix to 45%. The Company has disclosed that it will no longer acquire coal mining assets and plans to expand its marketed electric car brands.

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 7.3 which is worse than benchmark at 7.5

43.9% of portfolio ESG leaders compared to 54.9% in the benchmark

0.8% of portfolio ESG laggards compared to 2.5% in the benchmark

20.6% of portfolio not covered compared to 8.8% in the benchmark

The 5 lowest rated issuers represent 1.0% of the portfolio

Emissions below benchmark on all three carbon emission and intensity metrics.

Materially below benchmark weight of companies with fossil fuel reserves.

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

During the quarter, the Fund's financed emissions decreased by approximately 20%. This was primarily driven by American Airlines Passthrough Trust, previously the Fund's highest emitter accounting for 23% of financed emissions, no longer being linked by MSCI to the carbon figures of its parent company American Airlines. Although American Airlines Passthrough Trust did fall out of coverage, overall, the coverage of the Fund increased by 3.8%. Both changes are a result of moving systems to MSCI One, which provides greater coverage of bonds and relies less on parent entity carbon values.

The Fund sits materially below the benchmark across all emissions metrics. This is largely driven by being relatively underweight in high emitting sectors (materials, industrials, energy and utilities).

Commercial Property Portfolio

As reported last quarter, the overall ESG performance of the commercial property portfolio as measured by the GRESB (Global Real Estate Sustainability Benchmark) improved during 2023. However, like-for-like total emissions (scope 1 & 2) increased year-on-year by 8%. 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 we use in our buildings would fall into this category.

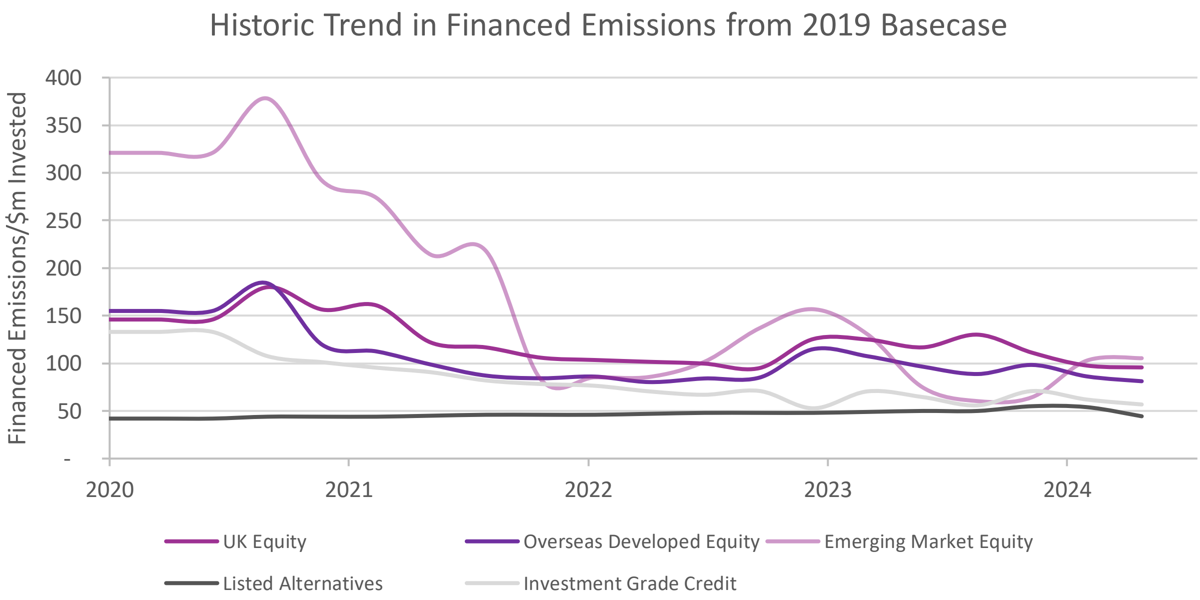
The proportion of the portfolio AUM with sustainability Green Building Certification decreased year-on-year from 37% to 32%.

The year-on-year increase in emissions was driven by office assets. Predominantly from a single asset, Hartwell House in Bristol, where occupancy levels at this asset increased in 2023 as compared to 2022 and therefore contributed to an increase in energy consumption. In addition, changes to underlying asset valuations and estimated rental values (ERVs) also negatively impacted the % weighting of the portfolio covered by Green Building Certification, energy performance certificated A-C properties and Economic Emissions per value metric compared to the previous year.

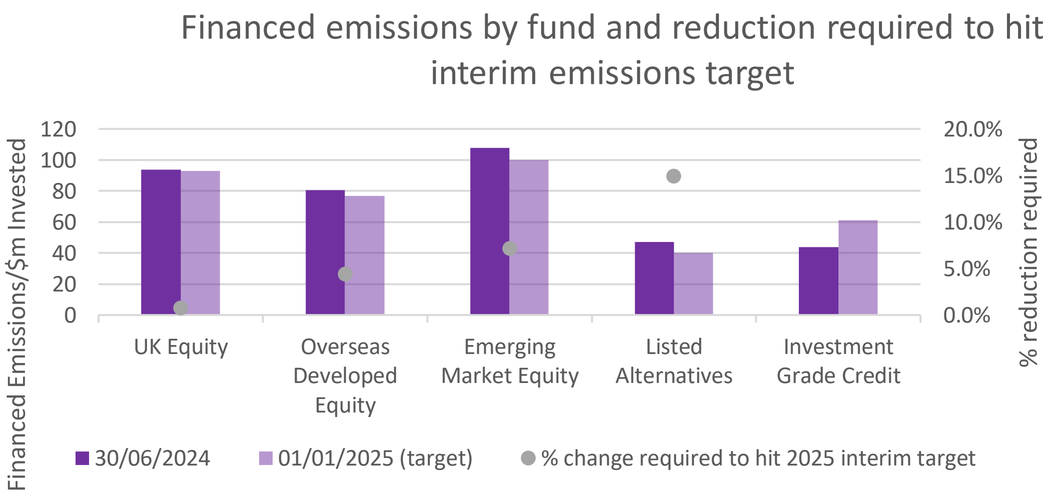
Progress to Net Zero

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.

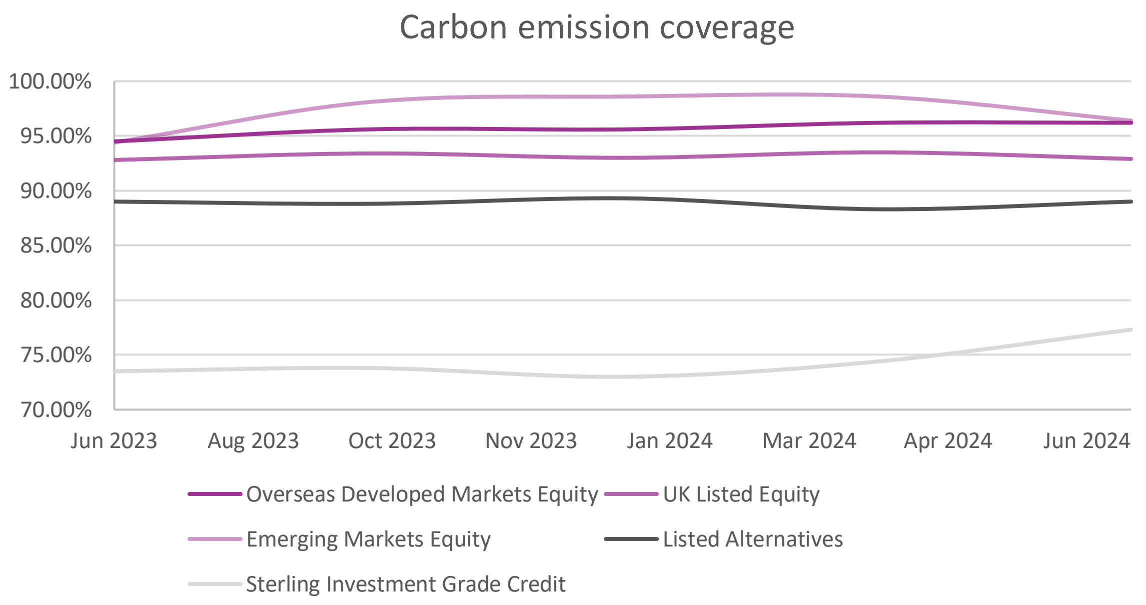


The below chart shows that only the Investment Grade Credit Fund is currently below the interim 2025 financed emissions target to meet the net zero goal by 2030. All equity funds require modest reductions in financed emissions of between 7.1% and <1% by 2025. However, the Listed Alternatives Fund requires a 15% reduction in financed emissions to meet its interim target. 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.



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 be incomplete and inaccurate. 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 in general improved. However the progress has largely plateaued within the last year with a decrease in the coverage of assets in the Emerging Markets Equity Fund. It should also be noted that, despite recent good progress, there are further improvements to be made 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 are working with investment managers on and will look to begin reporting on in future.

Stakeholder Interaction

There have been no significant stakeholder interactions this quarter.

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 held a business meeting during the quarter which included the approval of the workplan for the year 2024/2025 and agreed the budget and subscription levels, allowing for an inflationary increase.

Climate Action 100+

Climate Action 100+, is the world's largest investor engagement initiative on climate change.

Further to the update last quarter, covering the notable withdrawal from Climate Action 100+ of JP Morgan Asset Management, State Street and PIMCO with BlackRock changing participation from "BlackRock Inc" to "BlackRock International":

In the US, the government House Judiciary Committee issued a subpoena asking Ceres to produce documents related to Climate Action 100+ and set up an antitrust hearing which CEO of Ceres, Mindy Lubber, testified at. Ceres are a nonprofit advocacy organization working to accelerate the transition to a cleaner, more just, and sustainable economy. Ceres make the business case for action on the greatest sustainability challenges facing our world today: climate change, water scarcity and pollution, and nature and biodiversity loss.

21 State Attorney Generals (AGs) has written to US based asset managers launching an antitrust investigation. The letter, which focuses primarily on support of net zero initiatives, describes how such support could potentially implicate areas of state and federal law, including antitrust, securities, deceptive trade practices, and fiduciary obligations. This development reflects the evolving legal landscape around ESG matters and suggests that companies, investors, and asset managers must be prepared to justify and defend ESG initiatives, not only against political opposition, but also against potential legal claims.

The AG Letter illustrates that State AGs intend to explore a range of antitrust and competition theories of liability under their respective federal and state antitrust and unfair competition laws to challenge or curtail certain ESG initiatives and commitments. Accordingly, companies or funds, including asset managers, that are signing on to ESG initiatives and/or making ESG-related commitments should take certain actions to minimize the likelihood that their conduct will result in scrutiny. For example:

- Consult with competition counsel before negotiating, diligencing, or signing on to any ESG initiative that commits the entity to a course of conduct that its competitors or peers may likewise be considering.

- Ensure that the company's decision to entertain any ESG initiative is made unilaterally without regard to competitors' or peers' actions.
- Consider avoiding agreements that suggest joint refusals-to-deal or implicit group boycotts.
- Consider avoiding any agreements or the appearance of agreements that will allow a company to infer or affect downstream pricing and/or strategy of a direct competitor.
- Ensure that any initiatives or commitments a company signs on to are narrowly tailored to only that which is necessary to achieve procompetitive benefits.
- Ensure that the company maintains a clear record of the procompetitive rationale for its decisions, and ensure that such rationales align with the company's governance structure and fiduciary duties thereunder.

Finally, companies or funds that have already signed onto ESG initiatives and/or have made ESG-related commitments would be well-advised to review their initiatives or commitments with the above guidance in mind. Similarly, they should be prepared for any potential future scrutiny and/or to be intentional about whether or not to continue or potentially alter these initiatives or commitments.

IIGCC
The Institutional Investors Group on Climate Change

The Institutional Investors Group on Climate Change (IIGCC) published its second Net Zero Investment Framework (NZIF), based on three years of practical implementation experience. There is now new guidance for Sovereign Bonds, Real Estate and Private Debt, in addition to the inclusion of guidance published after the NZIF launched in 2021 for infrastructure and Private Equity. NZIF 2.0 also summarises best practices shared by investors, collected from three years of implementation, converting them into more than 40 potential actions an investor can choose to take.

Policy Development and Industry Highlights

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

Financial reporting standards

In May, the IFRS Foundation stated that over half of the global economy, including China, have announced plans to use or align with the International Sustainability Standards Board (ISSB) Reporting Standards. This is a significant step in ensuring companies across the globe provide investors with consistent and reliable information on sustainability risks and opportunities.

EU greenwashing mitigation

This quarter highlighted how the EU is seeking to address greenwashing risk in finance and industry. In May, the European Securities and Markets Authority (ESMA) released final guidelines for ESG and sustainable investment funds, including investment thresholds for inclusion of the terms ESG and sustainable. Outside of finance, the European Commission launched action in April against 20 airlines over misleading climate claims. Other regions could follow with their own measures as greenwashing risk becomes a global focus.

Sustainable finance market

Q1 2024 saw the largest issuance ($272.7bn) of green, social, sustainability, sustainability-linked and transition (GSS+) bonds on record. The issuance of green bonds increased by 43% over Q4 2023 and green bond issuance is expected to reach $1 trillion in 2024. This contrasts with the markets' appetite for labelled ESG Equity Funds, where it is reported by Barclays that investors have withdrawn $40 billion net so far in 2024.