SOUTH YORKSHIRE
PENSIONS AUTHORITY

Responsible Investment Update Quarter 2 2024/25

December 2024

Contents

Highlights and Recommendations

Highlights over the quarter to the end of September include:

- Following the passing of peak voting season there was a quarter-on-quarter decrease in the level of voting activity with 855 votes cast at 80 company meetings.
- The overall level of engagement activity was down following peak voting season last quarter.
- 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 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 with another positive quarter-on-quarter fall in reported emissions from the Sterling Investment Grade Credit Fund.
- Three of the five listed funds have all reached their interim 2025 financed carbon emission reduction targets.
- Carbon emissions coverage has plateaued over the last quarter, with a fall in the carbon coverage of the Listed Alternatives Fund, due to the change in strategy, the most significant detractor.

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.

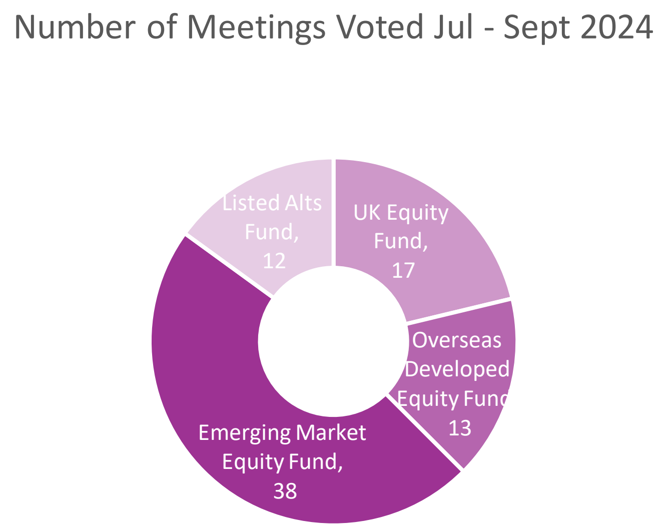
Our approach is largely delivered in collaboration with the other 10 funds involved in the Border to Coast pool. This report provides an update on activity in the last quarter covering:

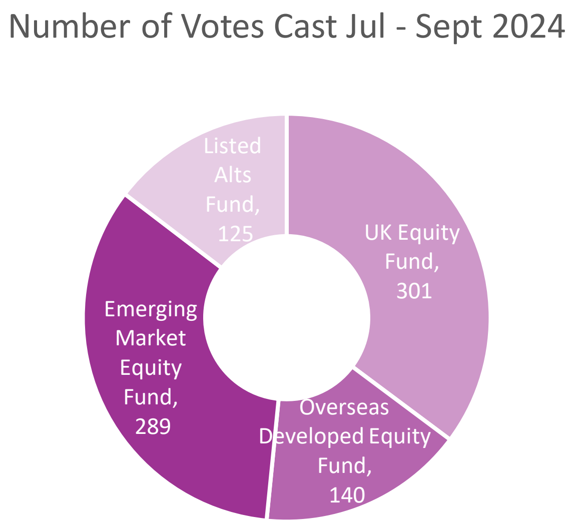
- Voting – Information on how the voting rights attached to shareholdings have been used over the period to influence the behaviour of companies to move in line with best practice.
- Engagement – Information on the volume and nature of work undertaken on the Authority's behalf to engage in dialogue with 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 Q2 2024/25 Active Ownership proxy voting report how the nature of engagement between companies and investors via the Annual General Meeting (AGM) has changed. An increasing part of the dialogue is focussed on sustainability and how well the company manages environmental, social and governance (ESG) risks and opportunities. Further detail is provided in the box below:

Say on Sustainability: Could it be an effective tool?

An increasing part of the AGM – is focused on sustainability performance and how well the company manages material environmental, social and governance (ESG) risks and opportunities. Yet, most AGM agendas seem disconnected from this new reality, as they fail to include a key item – a resolution to approve the company's sustainability reporting.

Investors are facing regulations that increasingly require ESG factors are integrated into investment and stewardship decisions, as well as in their reporting to clients and beneficiaries. Concurrently, other stakeholder groups such as customers, suppliers, nongovernmental organizations and civil society have an increasing interest in non-financial information.

Many jurisdictions have adopted mandatory requirements for companies to report sustainability information. For example, companies subject to the European Union's Corporate Reporting Sustainability Directive (CSRD) will have to soon file information according to European Sustainability reporting Standards (ESRS).

Despite these developments, giving shareholders a vote on the company's ESG reporting remains an exception rather than the rule. This is seen in Spain, where large companies have been required to include proposals to approve their 'non-financial' reporting on the agenda of their AGMs since 2019. More recently, Swiss listed companies were for the first time required to submit their 'non-financial' reporting for shareholder approval in 2024. Looking beyond these exceptions, however, most AGM agendas include no item to approve the company's sustainability report.

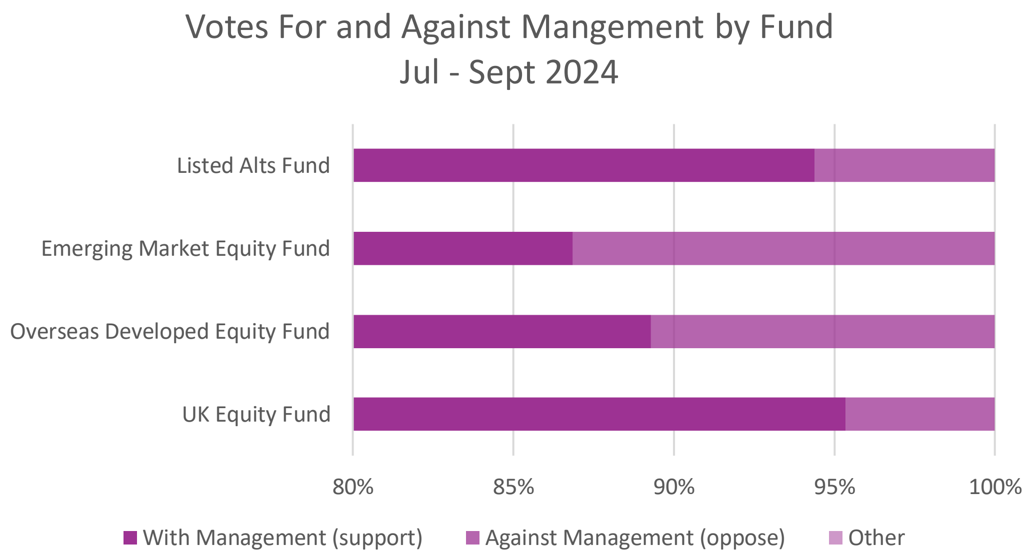
Companies and boards bear responsibility to shareholders for their sustainability performance in the same way as they do for their financial performance. A 'Say on Sustainability' vote would have the same effect as a 'Say on Pay' proposal – it would promote more accountability and greater transparency.

In the absence of a 'Say on Sustainability' proposal, shareholders are left with the option of signaling dissatisfaction with the sustainability strategy and performance by voting against the (re)election of directors or other agenda items deemed appropriate given the nature of the concern. But the 'appropriate' agenda item may differ according to each investor's policies, which often makes vote outcomes more difficult to interpret for companies.

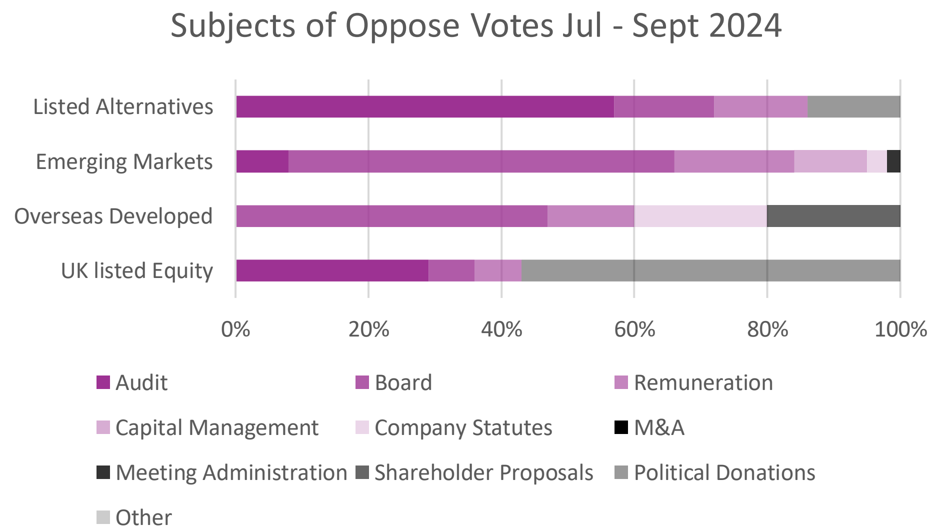
Having a 'Say on Sustainability' proposal would ensure that investors are able to convey their views on the company's sustainability strategy to the board and management through a clear For or Against vote. It would bring more clarity to the oftentimes heated debates that engulf AGMs – something not only shareholders but also companies need.

Robeco Active Ownership Report October 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 dropped below 10%, with 8.7% of total votes cast against management, which was below the previous quarter. As voting season has passed, the absolute number of votes against significantly reduced from 757 to 74 across all publically listed funds.



The above graph indicates, and in part due to the lower absolute number of votes cast, that votes against management were much more condensed across topics this quarter compared to previous quarters. The three largest areas where we continue to oppose management relate to Audit, Board composition and remuneration As was the case last quarter, votes against political donations, in the UK Equity Fund, remained close to 60% 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, these are triggered by executive pay packages which are either excessive in absolute terms, where incentive packages are not aligned with shareholder interests,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 for each of the funds can be found here.

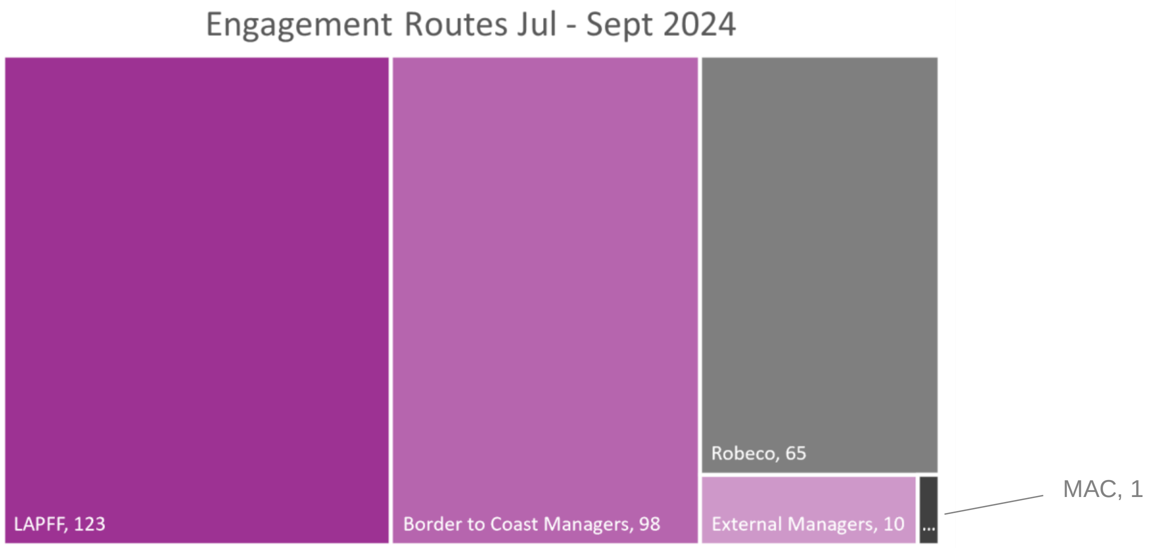
At **Electronic Arts**' 2024 AGM, shareholders discussed the company's executive compensation. Robeco assessed the proposal, finding that while high compensation can be justified, EA's approach did not align with best practices. Concerns included the lack of disclosure on some performance goals in the short-term incentive plan, and the absence of ESG metrics in the variable incentives. Additionally, two-thirds of the long-term incentive plan was based on a short, one-year performance period, while the only three-year metric was based on relative performance. Furthermore, the peer group included companies with much larger market capitalizations than EA. Robeco did not support the executive compensation proposal

McKesson Corp provides US and international healthcare services. At the 2024 AGM shareholders voted on director elections, executive compensation, and two shareholder proposals. Robeco assessed the board composition, which was independent but lacked sufficient gender diversity, an issue that can impact governance. Robeco voted against the re-election of the chair of the nomination committee for not ensuring appropriate board diversity. Additionally, Robeco supported a shareholder proposal to formalize the separation of the CEO and chair roles, believing it enhances management oversight. Although McKesson currently adheres to this practice, formalizing it in governance documents would strengthen the company's commitment to good governance.

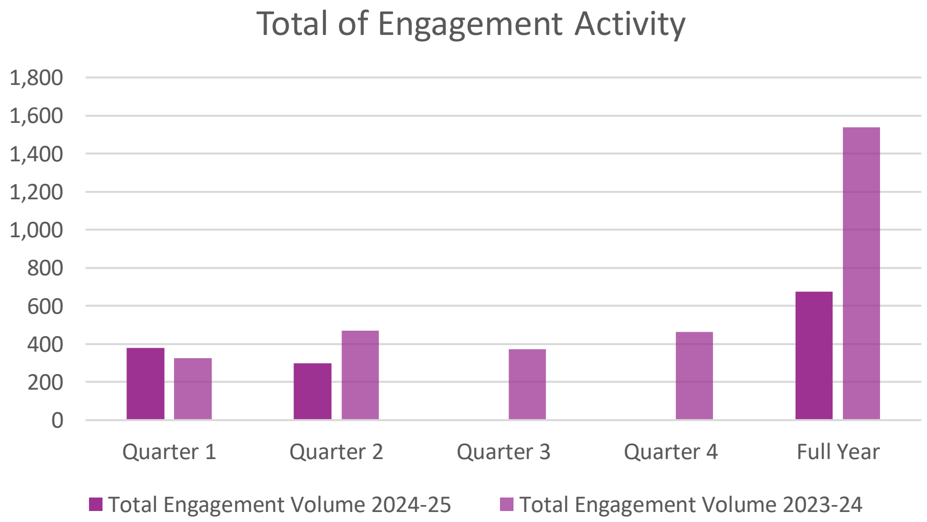
Naspers Ltd operates in the consumer internet industry globally across Africa, Asia, Europe, LATAM and North America. At the 2024 AGM shareholders scrutinized the company's remuneration implementation report and proposed remuneration policy. The report faced criticism for insufficient disclosures, particularly regarding the treatment of awards for the former CEO and questionable Long-Term Incentive (LTI) structures. The proposed policy raised concerns due to a potential $100 million award for the incoming CEO, in addition to ordinary grants up to $54 million. Given inadequate explanations and ongoing issues with incentive structures, Robeco voted against both proposals and against the Chair of the Compensation Committee for failing to implement acceptable practices.

Engagement Activity

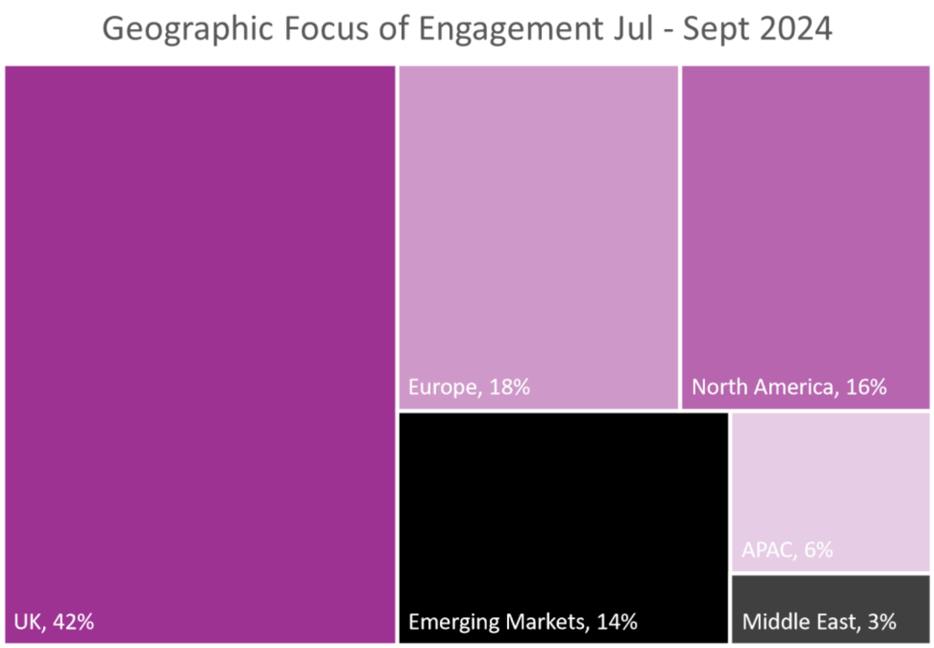
Engagement is the process by which the Authority, working together with other like-minded investors, seeks to influence the behaviour of companies on key issues. Engagement (in distinction to voting) is an ongoing process and is undertaken by those directly managing money for the Authority. This includes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



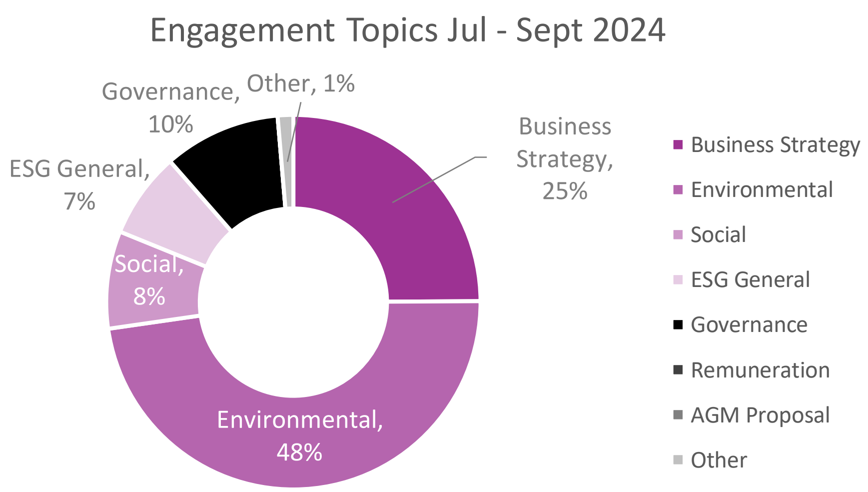
The graph below shows the overall level of engagement activity in the quarter is below the same quarter last year. The lower level of total engagement was due to a more targeted approach to engagement from LAPFF with over 100 less letters sent, whereas over 30 more meetings were held with companies this quarter compared to Q2 2023-2024. This is a positive outcome, given that meetings are not so easily dismissed as a letter and hold the potential for the highest level of impact from different engagement methods.



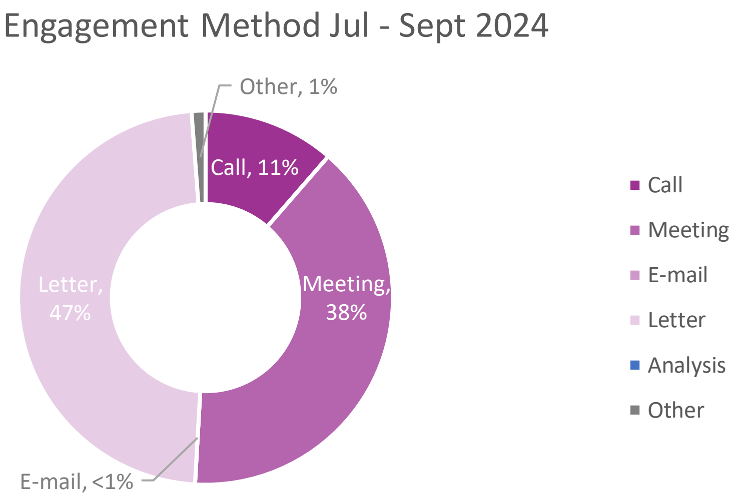
The chart below shows a breakdown of the geographic market focus in engagement over the last quarter. The weighting of engagement has shifted this quarter back to a focus on the UK, from a more even spread across regions last quarter. Following peak voting and AGM season in developed markets, the UK weighting is likely a reflection of a 'home market' bias.



The range of topics covered through engagement is set out in the chart below with a continuing strong focus on environmental and climate issues, which has continued to increase as a proportion of engagement compared to last quarter, along with the proportion of business strategy engagement which further 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. The positive momentum seen over recent quarters in the proportion of engagement taking place via calls or meetings has been maintained (c.50% of all engagement this quarter).



More details of the engagement activities undertaken by Border to Coast and Robeco in the quarter are available here. Robeco provided updates 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.

Global Controversy Engagement – Turning controversies into opportunities for change

As geopolitical tensions and pressures on natural resources grow, Robeco is increasingly active in driving sustainable practices in companies with environmental, social, and governance (ESG) controversies. In 2022, Robeco enhanced its Global Controversy Engagement Program by establishing a Controversial Behavior Committee (CBC), composed of senior members from various departments, to improve governance and streamline decision-making in addressing corporate controversies. With structured escalation processes, Robeco has effectively pushed companies to remediate harm and prevent future issues.

The enhanced approach has led to positive outcomes in environmental cases, where companies adopted rigorous risk management practices validated by third-party reports. However, progress on human rights and labor issues has been slower, given the complexities tied to political and geopolitical factors. Robeco has built trust with these companies, fostering openness about their challenges in implementing human rights due diligence.

Additionally, Robeco developed an internal framework to assess controversies, evaluating over 1,200 companies based on impact severity, remediation, and prevention. This custom scoring system allows Robeco to respond faster to issues and tailor assessments on critical matters like forced labor, enhancing transparency and accountability amid rising global conflicts.

Sovereign Engagement – Engaging the government of Australia on ambitious climate targets

Robeco has actively engaged with the Australian government on climate policy, recognizing that national commitments, like Nationally Determined Contributions (NDCs), guide corporate climate strategies and affect long-term competitiveness. In 2023, Robeco co-led the "Collaborative Sovereign Engagement on Climate Change with Australia," conducting 36 meetings across federal, state, and regulatory levels, and establishing working groups for ongoing dialogue. This engagement builds as Australia prepares for its 2025 emissions targets, aiming for a 65-75% reduction by 2035.

During an August 2024 visit to Canberra, Robeco met with government leaders, including the Treasurer, advocating for ambitious climate targets. While domestic political dynamics may impact these commitments, Robeco emphasized the economic risks of insufficient climate action, noting the potential for a 10-15% GDP reduction by 2050 without substantial emissions cuts. In meetings with independent parliamentarians and other officials, Robeco underscored investor support for a strong NDC target and highlighted how Australia’s comprehensive policy coordination, particularly Treasury-led efforts, signals robust climate governance. Through sustained dialogue, Robeco aims to influence Australia's policy alignment with climate goals critical to mitigating financial and environmental risks.

Hazardous Chemicals

Robeco launched a new engagement theme in Q3 2024 on the topic of ‘Hazardous chemicals’. The engagement will focus on addressing the pollution caused by the production and use of per- and polyfluoroalkyl substances (PFAS) which are extremely hazardous for human health and stay in the biosphere forever.

Chemical production underpins 95% of manufactured goods, growing 50-fold since 1950 and projected to triple by 2050. With its vast economic impact, the industry is key to sustainable development yet poses serious health and environmental risks. The UN has called on the chemical sector to support Sustainable Development Goals, but concerns rise as chemical production has exceeded safe environmental limits. Robeco, committed to sustainable transitions, recognizes industry challenges and aims to mitigate risks, especially regarding PFAS—a persistent, hazardous “forever chemical” used in various products, from cookware to electronics.

PFAS, linked to cancers and infertility, pollutes food, water, and ecosystems. As part of its strategy, Robeco joined the Investor Initiative on Hazardous Chemicals (IIHC) in 2022, fostering a collective investor approach to transition chemical companies towards safer practices. Starting in 2024, Robeco’s three-year engagement with select firms, identified via ChemScore, emphasizes transparency and reduction in PFAS usage. Robeco advocates for action plans to phase out PFAS and develop safer alternatives, aiming to reduce litigation risk and capitalize on regulatory shifts towards sustainable alternatives.

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 quieter for voting and engagement as the main AGM season has passed in most markets for 2024. Border to Coast continued to engage with investee companies, most notably with Shell, Yorkshire and Northumbrian Water, as well as a number of UK banks.

Divestment and engagement report
Border to Coast commissioned a report that examined the academic evidence for both divestment and engagement in the context of climate change. The report found that multiple studies show

engagement can have impact, acknowledging that there are limitations. It found there is little evidence that divestment can trigger significant change at companies.

The paper compared fossil fuel (FF) divestment and engagement, outlining the complexities and trade-offs of each approach. While some argue that FF companies face inevitable asset risks due to the energy transition, the current valuations do not decisively support divestment purely on financial grounds. The academic evidence suggests that divestment alone may lack impact on emissions and could diminish investors' influence over FF companies.

Divestment can serve as a moral stance, aiming to delegitimize FF companies and reduce their political power. However, this approach may not lead to real-world emissions reductions and could impact portfolio diversification, especially in regions with high FF sector exposure. Investors pursuing this path would need to accept the financial implications, including potentially losing out on returns if FF demand remains robust.

Alternatively, engagement allows investors to influence responsible practices within the FF sector. Engagement efforts could focus on reducing methane leakage, transitioning to cleaner fuels, and fostering responsible lobbying. However, such influence may be limited, as companies are unlikely to adopt strategies that undermine long-term profitability. Thus, engagement is more feasible for incremental improvements rather than major shifts.

Ultimately, the choice between divestment and engagement depends on the investor's mandate, beliefs about the effectiveness of systemic change, and the potential financial impacts. A clear, principles-based approach aligned with fiduciary duties can help investors manage the challenges associated with either path and align their strategies with client interests and values.

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:

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.

Shell - In 2023, LAPFF engaged with Shell's new Chair, finding their approach to decarbonization more realistic, especially in reducing reliance on "nature-based solutions" like tree planting, which IPCC recommends for hard-to-abate sectors rather than fossil fuel companies. LAPFF supports recent changes at Shell, where the energy transition strategy now reports to the CFO, signalling better alignment with financial planning. While Shell has stated that renewables currently lack a strong investment case, LAPFF suggests that this could justify higher cash returns to shareholders. LAPFF is sceptical about Carbon Capture and Storage (CCS) as a viable business, noting its high costs and limited potential for actual emissions reduction, particularly when cheaper alternatives exist for sectors like power, heating, and steel production. The organization remains cautious, pointing out how CCS failed to sustain coal demand and sees a similar risk that gas investments may also fall short economically and environmentally.

BP - LAPFF notes that BP is pulling back from some 2023 carbon reduction targets despite commitments to renewable investments and electric vehicle (EV) power supply as growth areas. Concerns exist regarding BP's reliance on high-carbon products and a lack of clear cash return expectations for shareholders. In a meeting with BP's new CEO, Murray Auchincloss, BP outlined its transition strategy, including expanding hydrogen, wind, biofuel, and EV revenue streams, as well as a hydrogen and carbon capture and storage (CCS) hub in Teeside. BP's approach differs from

Shell's, focusing less on CCS and more on biofuels derived from bio-ethanol, fats, and oils, and prioritizing EV charging infrastructure. While BP projects a medium-term shift to low-carbon energy, LAPFF seeks more clarity on the long-term revenue potential and investor impacts as BP transitions from an "oil and gas" company to a broader "energy" company.

Drax - LAPFF has scrutinized Drax's business model due to the environmental and financial issues surrounding its carbon emissions, government subsidies, and wood pellet sourcing. Drax's power station in Yorkshire is the UK's largest carbon emitter and relies on an annual £500 million government subsidy, set to end in 2027. Drax seeks further funding for its BioEnergy Carbon Capture and Storage (BECCS) initiative, which would require long-term subsidies, yet concerns persist over the supply and sustainability of imported wood pellets and claims of carbon neutrality.

LAPFF research, supported by BBC findings, revealed Drax's controversial use of rare old-growth forest wood from Canada, impacting biodiversity and challenging Drax's claims of net-zero carbon emissions. Further scrutiny from Ofgem led to a £25 million fine after Drax misreported biomass data. LAPFF's investigations also questioned Drax's forest growth-offset claims, with findings suggesting reduced biodiversity due to monoculture pine replacements.

Challenges to Drax's BECCS model include wood pellet supply, ecological impacts, water use, and the need for toxic chemicals. High subsidy demands raise issues of nationalization, especially given questions about BECCS's actual emissions reduction capabilities. Meetings with Drax's CFO and other leaders are planned to address these concerns.

In addition to climate and energy, LAPFF continues 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 of 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
- 57.0% of portfolio ESG leaders v 53.2% in the benchmark.
- 1.6% of portfolio ESG laggards v 2.5% in the benchmark.
- 0.4% of portfolio not covered all of which are investment trusts etc higher than benchmark
- Lowest rated 5 companies 1.6% of portfolio
- Emissions below benchmark on all metrics.
- Weight of fossil fuel holdings greater than benchmark
- 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
- 68.8% of portfolio ESG leaders v 66.7% in the benchmark
- 0.2% of portfolio ESG laggards
- 2.3% of portfolio not covered, mainly investment trusts; less than benchmark
- Lowest rated 5 companies 14.9% of portfolio, 4 of 5 A rated by MSCI
- 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
- 28.3% of portfolio ESG leaders v 25.6% in the benchmark
- 11.7% of portfolio ESG laggards v 11.7% in the benchmark
- 0.1% of portfolio not covered largely investment trusts etc
- Lowest rated 5 companies 2.8% of portfolio.
- Emissions materially below benchmark on all metrics
- Weight of oil and gas holdings inline with benchmark.
- 2 of the top 5 emitters engaged with the Transition Pathway with scores of 3
- 1 of top 5 emitters engaged through Climate Action 100+

Listed Alternatives

- Weighted ESG score 7.6
- 47.3% of portfolio ESG leaders v 44.7% in the benchmark
- 1.5% of portfolio ESG laggards v 3.0% in the benchmark
- 31.3% of portfolio not covered largely investment trusts etc
- Lowest rated 5 companies 9.7% of portfolio.
- Emissions below benchmark on 2 of 3 measures
- Materially lower weight of fossil fuel holdings than in benchmark.
- Top 5 emitters engaged with the Transition Pathway with four scoring TPI level 4 and another score of 3
- 3 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 continues to slow 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 a 16% decrease and 12% decrease in carbon intensity over the quarter.

Featured Stock: Kansai Electric Power Company

Japan's third largest power supplier, the Kansai Electric Power Company (KEPCO) generates and distributes electricity in western Honshu (the main island of Japan) to approximately 20 million inhabitants or 16% of the Japanese population. KEPCO has higher exposure to nuclear than competitors. The Fund invested in KEPCO as Japan is positioning nuclear as a core short- to medium-term energy solution.

KEPCO has a net-zero target of 2050 with an interim target of reducing CO_2 emissions by 50% by 2026 (vs 2014 baseline). Targets are absolute and cover Scope 1-3 emissions, and KEPCO are on track with all metrics. MSCI reports strong management practices to address carbon emissions relative to peers, including evidence of investments in carbon capture and storage projects.

UK Listed Equity Fund

The Fund saw marginal changes across all emissions metrics. The Fund remains below benchmark for financed emissions. Larger positions in Rio Tinto and National Grid alongside an increase in Shell's carbon intensity raised the Fund's carbon intensity marginally above benchmark.

Featured Stock: BP

BP continues to transition from an international oil and gas company to an integrated energy company, although recently some alternative energy projects including biofuel refinery, clean hydrogen and carbon capture and storage projects have been dropped. Shareholder returns are being prioritized, with a total distribution yield of over 12% including quarterly share buybacks of $1.75bn, and renewed guidance for a further $14bn of buybacks over 2024-25. Gearing remains higher than peers and the elevated shareholder distributions appear less sustainable should energy prices continue to soften in the face of slowing demand. As such we have recently been reducing our holding in BP and ended the quarter with a larger underweight position relative to our benchmark.

BP continues to be one of the Fund's largest carbon emitters and therefore recent reports that it may be considering reducing its emission reduction ambitions are disappointing . At BP's AGM in 2022 shareholders gave an overwhelming mandate to target emission reductions of 35-40% by 2030. BP subsequently scaled this back to 25-30% in response to evolving global energy markets following Russia's invasion of Ukraine. The recent reports suggest BP may be reviewing its commitment once again, raising concerns the company may not be able to meet its medium-term emission reduction targets. BP is ESG A-rated by MSCI, a rating that has been stable since it was upgraded from BBB 3 years ago, with MSCI noting BP leads global peers on corporate governance.

Emerging Markets Equity Fund

The Fund saw a 7% increase in financed emissions driven by an increased position in Grasim Industries, the Fund's largest contributor to emissions, and a new position in Jindal Steel and Power. Jindal Steel and Power is now the Fund's second highest contributor to emissions.

Featured Stock: Jindal Steel and Power

Jindal Steel and Power (JSP) is the fourth largest crude steel producer in India. JSP achieves a similar EBITDA/tonne as Tata Steel, which is the largest and most profitable steel company in India, by having both a high proportion of value-added products in the sales mix and significant backward integration into coal, energy, and logistics. JSP's movement up the product value chain and backward integration is attractive as it drives further efficiencies, expand margins and return on capital. Steel in India is interesting with high consumption growth expected over the coming years. In turn the government of India has an active industrialisation policy in support of domestic production for domestic need. JSP is an attractive holding based on its' backwards integration, growing consumer demand and government market support.

JSP is targeting both a reduction in carbon emissions by 35% by 2030, via long-term renewable power contracts, and to reach net-zero by 2047. JSP has several capex projects to meet these targets including the development of a coal gasification plant in Angul. This is the largest in the world and provides a synthesis gas that consists of more than 50% hydrogen which reduces the fuel's carbon intensity. JSP are developing two additional gasification plants in addition to a heat recovery system to improve energy efficiency. JSP is exploring options to shift from coalbased power to renewable energy over the coming years.

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	43.7% of portfolio ESG leaders compared to 55.1% in the benchmark	0.7% of portfolio ESG laggards compared to 0.8% in the benchmark
20.6% of portfolio not covered compared to 8.7% in the benchmark	The 5 lowest rated issuers represent 1.6% 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	

The overall ESG rating of the Fund decreased over the quarter, further lagging the benchmark. The Fund continues to hold a large overweight position (5%) in UK Government Bonds, which negatively influences the Fund's ESG score relative to the benchmark.

During the quarter, the Fund's financed emissions decreased by approximately 20%. This was primarily driven by a decrease in emissions from the Fund's highest emitters Enel and Mobico which accounted for 23% and 18.8% of financed emissions respectively.

The Fund's underweight positions in high emitting sectors, materials, industrials, energy and utilities, continues to drive its relative position versus benchmark across all emissions metrics.

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) fell from 3 stars to two stars during 2024. The fall in rating was due to a change in the GRESB methodology with the largest dip in scoring due to building certifications as older certifications were not score so highly.

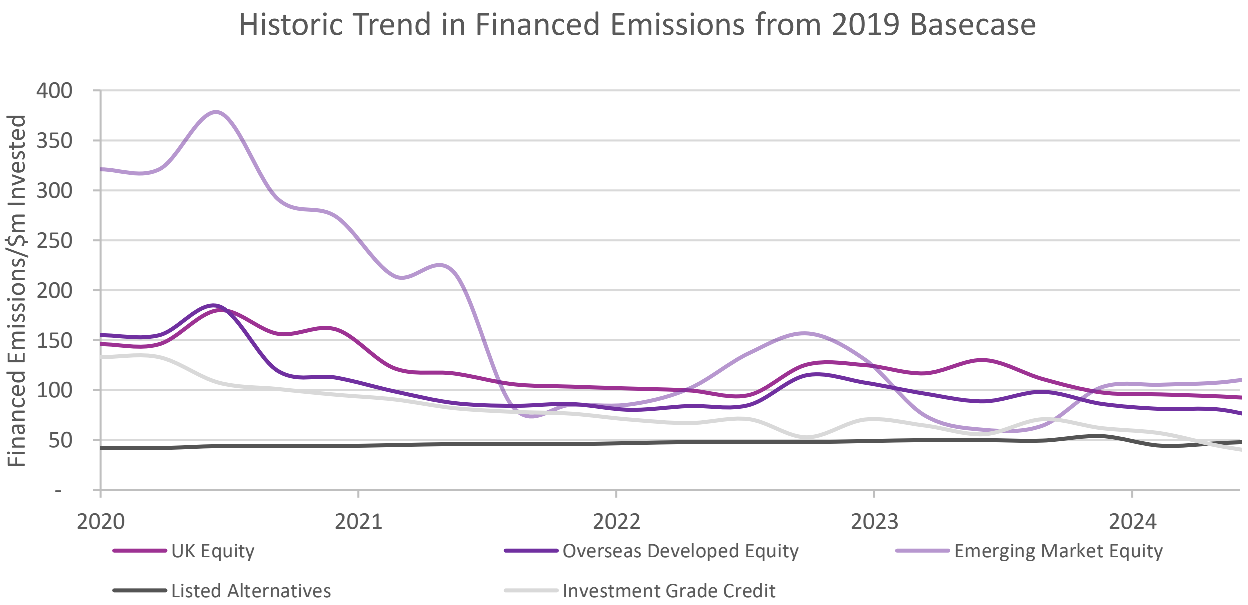
Like-for-like total emissions (scope 1 & 2) increased year-on-year by 8%. Scope 1 covers emissions from sources that an organisation owns or controls directly – for example from burning fuel in a fleet of vehicles (if they're not electrically-powered) and Scope 2 are emissions that a company causes indirectly 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 29% due to changing underlying asset values and estimated rental values (ERVs).

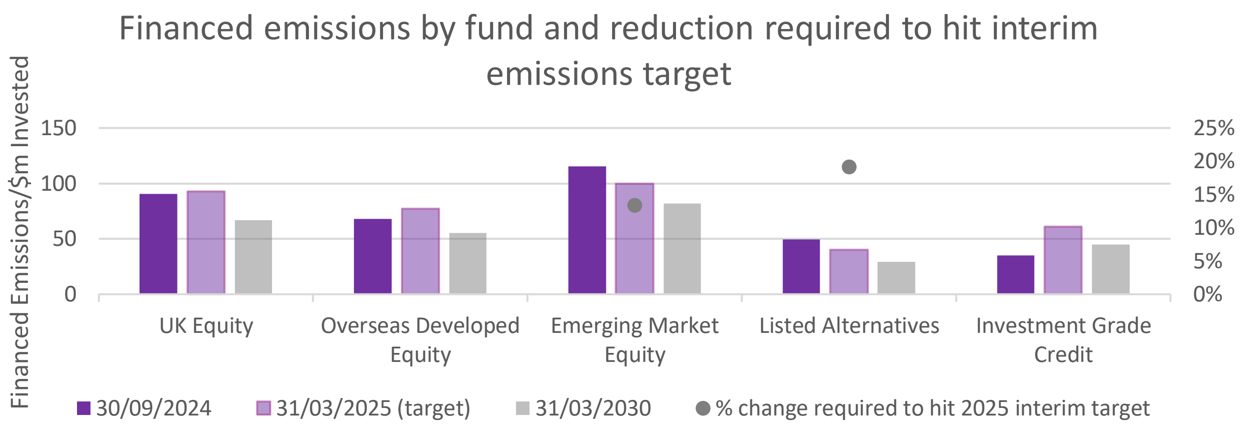
Progress to Net Zero

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 with some volatility and at a slowing rate over recent quarters.

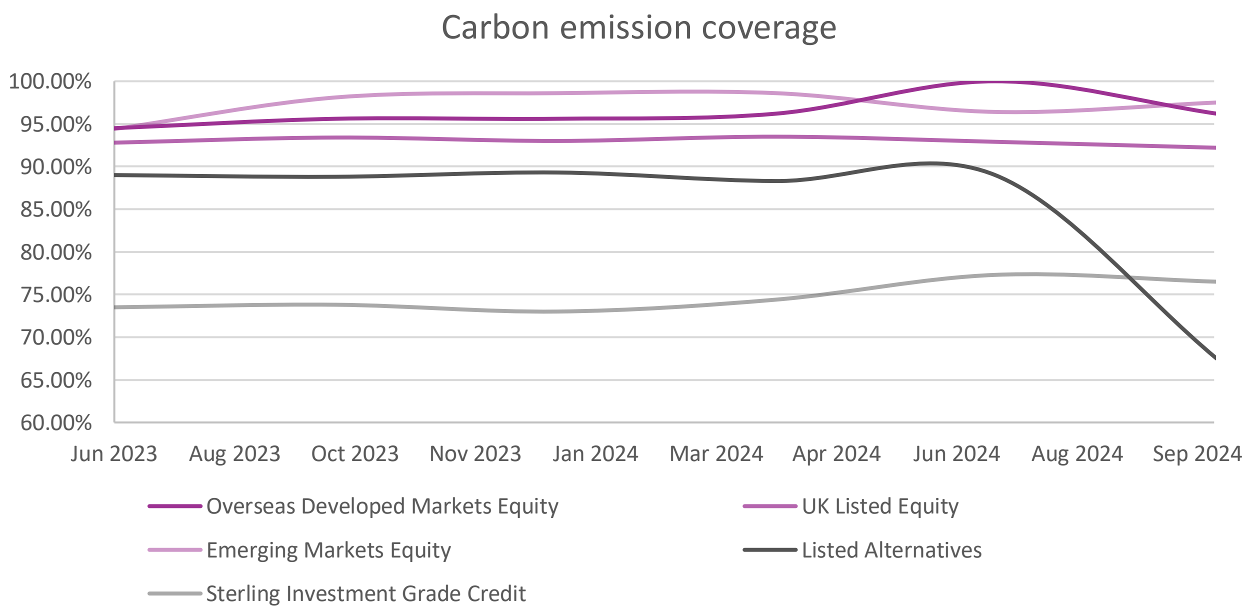


The below chart shows that the Overseas Developed Equity, UK Equity and Investment Grade Credit funds are currently below the interim 2025 financed emissions target to meet the net zero goal by 2030. The Emerging Market Equity and Listed Alternatives funds require reductions in financed emissions of 13.4% and 19.2% respectively by 31 March 2025 to hit their interim targets. When analysed alongside the historic trend graph above, it can be seen that the trend in the reduction of financed emissions in these two funds will have to speed up if the interim targets are to be met. It should also be noted that some level of volatility in financed emissions at a fund level can be expected, as firms report emissions annually and changes in overall market value will impact the reported metrics.



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 Overseas Developed 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 and the coverage of the Listed Alternatives Fund fell following a change in investment strategy to include fixed income assets.



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 current investment strategy, revised in 2023 and 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

The Director has responded to stakeholder questions relating to questions on Palestine from Rotherham's Scrutiny Committee and for Sheffield's full council.

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.

LAPFF held a business meeting during the quarter which included member input into the draft workplan for the year 2024/2025

The business meeting considered the following topics:

- Transition vs Disruptive Replacement: Steel as an Example
    - It was suggested that LAPFF should also look into producing a report on cement and particularly the companies Cemex and Heidelberg which are widely held by LAPFF members.
    - It was also suggested that similarly other high emitting sectors be scrutinised with a view to carrying out similar reporting.
- LAPFF Voting Alerts and Pass-Through Voting (PTV) – recommendations and actions:
    - LAPFF Executive agreed the principle to providing support to members who want to vote in line with LAPFF voting alerts in pooled funds; subject to resource commitments being agreed at 4.8 below.
    - LAPFF's research and engagement partner's remit to provide LAPFF voting alerts includes the operationalisation of PTV, in line with LAPFF's policies.
    - LAPFF produce a short guide for members about PTV and LAPFF voting alerts.

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

Further to the update in previous quarters, 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", and the subpoena requesting Ceres to produce documents related to Climate Action 100+ and set up an antitrust hearing:

- The Republican led House Judiciary Committee in the US sent letters to US-based members of Climate Action 100+ putting increased pressure on asset managers. The House asked for documentation on members' ESG goals and future engagement approach in Phase Two of the Climate Action 100+ strategy.

In the quarter, Goldman Sachs Asset Management became the latest US asset manager to leave Climate Action 100+. Despite recent departures of some US managers, the number of signatories has continued to grow. Since June 2023, 90 new entities joined Climate Action 100+. Fifty-two of the new signatories are European entities with only 5 new joiners from the US. Recent movements have seen the UK overtake the US with the most Climate Action 100+ signatories.

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.

Sustainable Investment Labels

In September the FCA announced a delay to the implementation of the naming and marketing requirements under SDR until April 2025. Whilst in Australia courts fined Mercer $7.4 million and Vanguard a record $12.9 million regarding misleading claims in their sustainable investing products.

UK Regulation

In August the UK government confirmed plans to regulate ESG ratings providers, placing them under the view of the FCA. The aim of the legislation is to improve the transparency of ESG ratings and the legislation is expected to be implemented in 2025.