Question 1 – Ms. J Cattell

In view of the ongoing genocide in Gaza, the ongoing attacks on civilians in the West Bank, and the mass killing of civilians in Yemen and Sudan, and the arrest warrant issued for the Prime Minister of Israel for War Crimes (where many of the weapons you fund are sent),do you not think it is time to raise your opposition to the investments in arms companies with Border to Coast.

It is hard to believe that you are still refusing to acknowledge and condemn publicly the impact of your investments on innocent civilians the majority of whom are women and children.

One of the companies you invest in through Border to Coast is BAE systems. While not suggesting this company is involved in direct human rights abuses, it is clear BAE Systems has had few qualms about selling its products, in the last decade, to the authorities of states that have perpetrated, well-documented human rights violations. BAE Systems, it seems has an indiscriminate approach to business activities related to human rights. Human rights abuses do not seem to be BAE Systems' driving concern.

Action on Armed Violence (AOAV), a global explosive violence monitor, has evidence that BAE Systems' products have ended up in a considerable number of countries with high corruption levels. They have reported that in 13 of the 32 countries identified as human rights priorities by the UK Foreign, Commonwealth & Development Office, BAE Systems has definite relationships with ten and reported relationships with three.

Human Rights Watch also reported and confirmed sales by BAE Systems to states across the world that are known to have repeatedly committed human rights violations. These were evidenced in Human Rights Watch's ***World Report 2023**.*

I am particularly concerned about the use of explosive weapons. Since 2010 Action on Armed Violence found that globally when such weapons were deployed in populated areas, over 90%of those reported killed or injured were civilians, – a pattern consistent across conflict and location.

The five countries with the highest recorded civilian harm (2013-2023) to civilians from explosive weapons and were confirmed armed by BAE Systems were Israel (16,281), the Saudi-led coalition (11,384), the US-led coalition (6,534), Ukraine (2,282) and Turkey (2,217).

As you can see from the figures above the highest recorded civilian harm 2013-2023 to civilians from explosive weapons and sold by BAE systems was in Israel. The use of explosive weapons and the destruction to lives and infrastructure has been evident to us all in pictures from Gaza over the last year.

Action on Armed Violence (AOAV) reported "while the exact role of BAE Systems' equipment in the deployment of explosive munitions is unclear, AOAV findings raise concern surrounding the deployment of indiscriminate explosives from one of BAE's biggest end customers – Israel."

BAE Systems is clearly making massive profits and since October last year when Israel started its bombing campaign against Gaza the share price has risen by 38.09%. Clearly an attractive investment for financial reasons but in the current circumstances I would like to think humanitarian considerations are given the highest priority.

Evidently the due diligence carried out by BAE and other arms companies does not address these issues raised above. Do you therefore agree that it is incumbent on yourselves to carry out enhanced due diligence on the arms companies you invest in such as BAE systems, Raytheon, QinetiQ, to follow the supply chains and be clear about how these weapons that you are funding are used.

Also are you confident that scheme members would be happy with investments in arms companies that are contributing to genocide and so many civilian deaths.

Do you think it is important to have a stronger voice both within South Yorkshire and Border to Coast about human rights and conflict. In not raising your voice to question your investments particularly in arms companies, are you concerned about how history will judge you.

Response

The question focuses on companies which export arms. The export of arms is tightly controlled and licensed by the Government. Companies engaged in this trade are specifically licensed to trade with individual countries and in relation to specific types of arms. Therefore, these companies are undertaking legally sanctioned activity, and it would not be in line with the legal principle known as "Wednesbury reasonableness" for the Authority to disinvest from a company for acting legally. The types of restriction placed on arms sales are rightly a matter for Governments and not investors.

Both South Yorkshire Pensions Authority and our colleagues at Border to Coast invest in line with their agreed Responsible Investment Policy, which excludes the financing of companies involved in the manufacture of controversial weapons that are considered to have an indiscriminate and disproportional impact on civilians during military conflicts. This includes not investing in companies contravening the Anti-Personnel Landmines Treaty (1997), Chemical Weapons Convention (1997), the Biological Weapons Convention (1975), and the Convention on Cluster Munitions (2008).

In terms of the views of scheme members there is no comprehensive evidence on this at present and research is to be undertaken on scheme members' views on a range of responsible investment issues as part of the Investment Strategy Review. The only contact made with the Authority by scheme members in relation to arms sales and the situation in Gaza is from a small number of scheme members who have asked public questions. While the small number does not mean the views expressed might not be supported by a majority of scheme members the reverse is equally likely to be the case, hence the need for the proper research to be undertaken.

The Authority does make its voice heard on issues of human rights and conflict areas within the Border to Coast Partnership and through its support for the work of the Local Authority Pension Fund Forum which has been very active in this area.

Question 2 – Mr. I Pearson

South Yorkshire Pension Authority's Climate Change Policy is clear about the Authority's commitment to stakeholder engagement as a way 'to encourage companies to adapt their business strategies to support the transition to a low carbon economy'. The policy also refers to the possibility of revising this approach and instead to 'consider actively reducing exposure to high-carbon intensity companies that fail to respond to engagement by not demonstrating a decrease in carbon intensity or carbon risk.

The update on Shell plc in the Authority's most recent Responsible Investment Update (Quarter 1 2024/25, p8) demonstrates how ultimately ineffectual this approach has been. Despite active engagement and relevant shareholder resolutions, Shell plc announced earlier this year a drastic scaling back of their transition plan - slashing their target of a 45% reduction in net carbon intensity by 2035 down to 20%. (reference: https://www.carbonbrief.org/shell-abandons-2035-emissions-target-and-weakens-2030-goal/). BP have similarly announced an intention to reduce investment in renewables and expand oil and gas production (https://www.thetimes.com/business-money/energy/article/bp-to-drop-target-of-cutting-oil-production-5lggdqkbk?)

Could the Authority share its thinking on why stakeholder engagement should still be considered an effective strategy in the case of Shell and BP and could you provide some clearer idea of what this company would have to do to be considered as having failed 'to respond to engagement' e.g. what are the red lines the Authority is working to?

Response

SYPA and Border to Coast believe that engagement and constructive dialogue with invested companies is more effective than divestment, and that by remaining engaged we can effect change at those companies. This is a fundamental part of our responsible investment approach and, supported by Border to Coast's recent research work, which 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. Engagement is how we believe we can most effectively drive positive, real-world outcomes and push for alignment with net zero goals in our portfolio companies.

Border to Coast's Responsible Investment Policy, which is available on their website, sets out the escalation process if their engagements do not lead to the desired results. The methods of escalation vary, and depend on the circumstances, but include for example: voting against related agenda items at shareholder meetings, attending shareholder meetings in-person to raise concerns, making public statements, publicly pre-declaring our voting intentions, and filing or co-filing shareholder resolutions.

The case-by-case nature of engagement and the many other investment criteria considered, means that we do not have a singular threshold for disinvestment. If engagement is unsuccessful or unsatisfactory, Border to Coast assess both the feasibility of future engagement steps and the existing investment case. If Border to Coast identify a fundamental weakening of the investment case, a decision may be taken to sell or reduce our holding in the company's shares. Ultimately, any divestment decision is an investment decision should the Environmental, Social and Governance risks become too great, for example due to the risk of stranded assets.

Over the last two years Border to Coast have escalated their engagement with BP and Shell. This has included voting against the re-election of both Chairs of the Board due to climate concerns, supporting independent shareholder resolutions aligned with the objectives of the Paris climate agreement, voting against management resolutions that present inadequate transition plans, and publicly pre-declaring our votes against management ahead of the AGMs to encourage other shareholders to do the same. The table below demonstrates how Border to Coast have strengthened their voting against BP and Shell.

Voting Escalation at BP and Shell:

	2019	2020	2021	2022	2023
BP	Abstained on a climate-related shareholder resolution		Supported a climate-related shareholder resolution	Voted against the company's Climate Transition Plan Supported a climate-related shareholder resolution	Voted against the chair due to climate concerns Supported a climate-related shareholder resolution Publicly pre-declared votes ahead of AGM
Shell	Voted against a climate-related shareholder resolution (as the proponent was attempting to withdraw it)	Abstained on a climate-related shareholder resolution	Voted in support of the company's Energy Transition Strategy Abstained from a climate-related shareholder resolution	Voted against the company's Energy Transition Strategy Supported a climate-related shareholder resolution	Voted against the chair due to climate concerns Voted against the company's Energy Transition Progress Supported a climate-related shareholder resolution Publicly pre-declared votes ahead of AGM

Border to Coast has been told by the Chair of the Board at Shell that recent engagement by Border to Coast's has been instrumental in Shell making a science aligned plan to reduce oil production. It is results such as this that lead Border to Coast to consider options for filling their own resolutions at the Annual General Meetings, on behalf of Partner Funds, to hold the Board to account for the decarbonisation transition plans implemented and to ensure value for long-term shareholders such as SYPA.

SOUTH YORKSHIRE PENSIONS AUTHORITY

Question 3 – Mr. F Cross

The Mansion House speech on 14th November and accompanying report (https://www.gov.uk/government/collections/pensions-investment-review-interim-report-consultations-and-evidence) provided more information on Rachel Reeves' proposed changes to the LGPS. Instead of one mega-fund we understand that there will be eight funds or pools as is the case currently. What, if any, significant changes will this bring for South Yorkshire Pension Authority (SYPA) and Border to Coast Pension Partnership?

Response

The proposals set out in the Mansion House speech and the subsequent consultation issued by the Ministry of Housing, Communities and Local Government, which are discussed on the agenda for today's meeting cover a number of areas in relation to the development of investment pools such as Border to Coast and their relationship with underlying partner funds.

- All pools will have to meet a range of minimum standards, in particular having an FCA regulated entity at their centre with the capacity to manage money internally.
- Pool will become the principal investment adviser to Funds.
- Funds will retain responsibility for Strategic Asset Allocation and the determining of investment beliefs and objectives within a clear definition of the meaning of Strategic Asset Allocation.
- Funds will have to transfer management of remaining illiquid assets to pools by March 2026. Note this does not necessarily mean transfer into new pooled products.
- There will be a new regime for assessing the governance and effectiveness of individual funds which will operate through a peer review mechanism, but which will have considerable teeth.

As can be seen from the initial response to the consultation which appears on today's agenda SYPA and Border to Coast are well positioned in relation to the various new requirements and SYPA already meets the key new standards being proposed in relation to governance.

This does not mean that there will not be change. Clearly the relationship with Border to Coast will need to evolve as the pool becomes a provider of advice as well as being an investment manager and appropriate arrangements will need to be put in place to ensure that appropriate oversight mechanisms are put in place.

Border to Coast will need to develop new capabilities to provide advisory services and to manage local investment allocations on behalf of partner funds.

There are a significant number of more detailed and technical changes that will need to happen, and these will need to be set out in some detail in the implementation plans which each pool needs to submit to the Government by the end of February 2025.

Question 4 – Ms. F Callow

SYPA has investments in Leviathon. Can you tell me what sort of company Leviathon is, what its core business is and whether it is involved in the extraction of gas off the coast of Gaza?
What is the total value of assets that SYPA has in companies that manufacture arms and what is the income from those investments?

Response

Through the Border to Coast Overseas Developed Equity Fund SYPA holds exposure to the company Chevron, which owns a c.40% interest in the Leviathon gas field and serves as its operator. The field is responsible for less than 10% of the company's natural gas production. The holding in Chevron has fallen from around 1.5% of the portfolio at the start of 2024 (1.1% today) through a combination of not actively buying shares, pro-rata, when the fund has experienced inflows and underperformance versus the other holdings. As a result, the US portion of the Overseas Developed Equity Fund is underweight in its holdings of US Oil and Gas versus its benchmark. The exposure to Leviathon is therefore not financially material to the pension fund.

The total value of defence exposure as defined as companies classified as Aerospace and Defence under GICS Industry for Equity and Listed Alts and Aerospace/Defence under Bloomberg Classification Level 4 for Fixed Income is £109.4m as at 30 November 2024. It should be noted that not all revenues from these companies will be through the manufacture of arms, this will be a subset within a large conglomerate, for example Airbus or Rolls Royce.

Unfortunately, Border to Coast have been unable to provide portfolio level income data.