SOUTH YORKSHIRE PENSIONS AUTHORITY

Responsible Investment Update Quarter 3 2024/25

March 2025

Contents

Highlights and Recommendations

Highlights over the quarter to the end of December include:

- Following the passing of peak voting season there was again a quarter-on-quarter decrease in the level of voting activity with 558 votes cast at 77 company meetings.
- The overall level of engagement activity did increase quarter-on-quarter and compared to Q3 2023 as more meetings were held with invested companies.
- The engagement focus was on social topics as well as asking companies to provide clearer plans for the transition to Net Zero and their business strategies to achieve these plans.
- The overall ESG performance of the listed asset portfolios with Border to Coast has continued to be strong relative to the respective benchmarks however due to a change in MSCI methodology the UK Listed Equity Fund dropped below its benchmark but remains AA rated.
- Overall financed emissions of the Border to Coast invested assets increased over the quarter with the most significant increase coming from the Emerging Market Equity Fund taking larger positions in carbon intensive producers.
- Three of the five listed funds have all reached their interim 2025 financed carbon emission reduction targets however progress has stalled.
- Carbon emissions coverage has plateaued over the last quarter, however the carbon coverage of the Listed Alternatives Fund, has improved following a fall last quarter due to a change in strategy.

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.

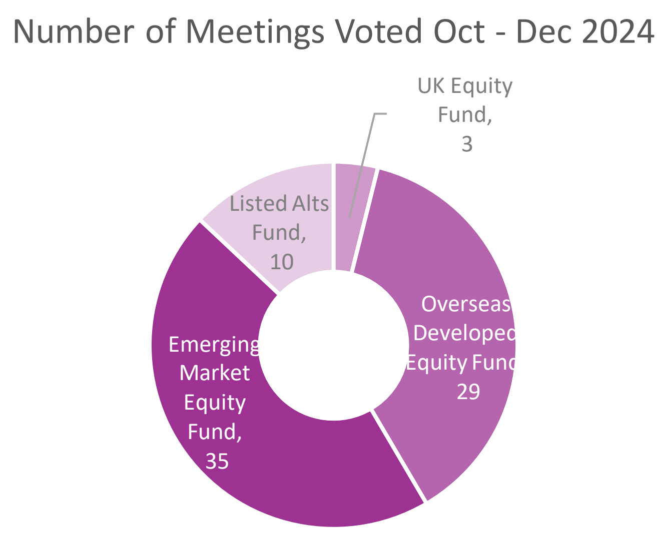
Our approach is largely delivered in collaboration with the other 10 funds involved in the Border to Coast pool. This report provides an update on activity in the last quarter covering:

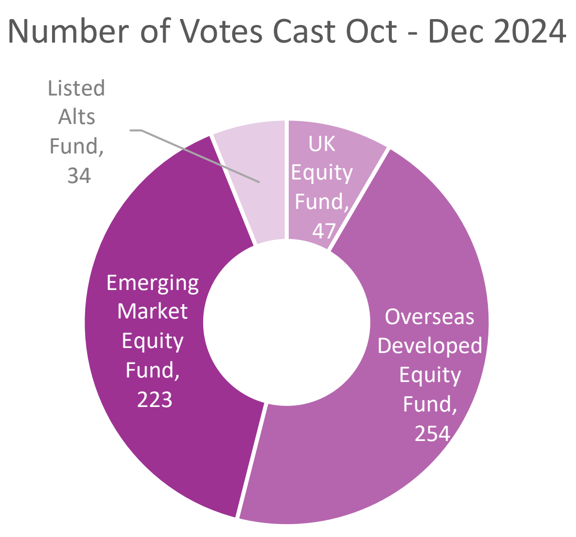
- Voting – Information on how the voting rights attached to shareholdings have been used over the period to influence the behaviour of companies to move in line with best practice.
- Engagement – Information on the volume and nature of work undertaken on the Authority's behalf to engage in dialogue with 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 in their (Oct-Dec 2024) Q3 2024/25 Active Ownership proxy voting report how following a controversial Capital Markets Bill has caused Italy to come under pressure over corporate governance reform. Further detail is provided in the box below:

Italy under pressure over controversial corporate governance reform

In March 2024, Italy enacted the controversial Capital Markets Bill, a sweeping corporate governance reform aimed at boosting the competitiveness of its capital markets and preventing delistings. However, the country is now expected to review the new rules after they attracted major criticism from investors and the broader corporate governance community.

The Capital Markets Bill has drawn criticism for weakening minority shareholder rights and complicating corporate governance in Italy.

The bill increases the voting power of multiple voting shares from three to ten and loyalty shares from two to ten. While intended to encourage long-term investment, these changes disproportionately benefit major shareholders by insulating them from external oversight. Furthermore, only shareholders with registered shares receive additional votes, putting international investors at a disadvantage due to complex registration processes.

Another concern is the provision allowing companies to amend their statutes to hold Annual General Meetings (AGMs) behind closed doors. This format, introduced during the COVID-19 pandemic, excludes direct shareholder participation, limiting their ability to question management or discuss contentious issues. The International Corporate Governance Network (ICGN), representing USD 77 trillion in assets, has expressed concerns over this restriction. Investors generally prefer a hybrid meeting model that allows both in-person and virtual attendance to ensure transparency and engagement.

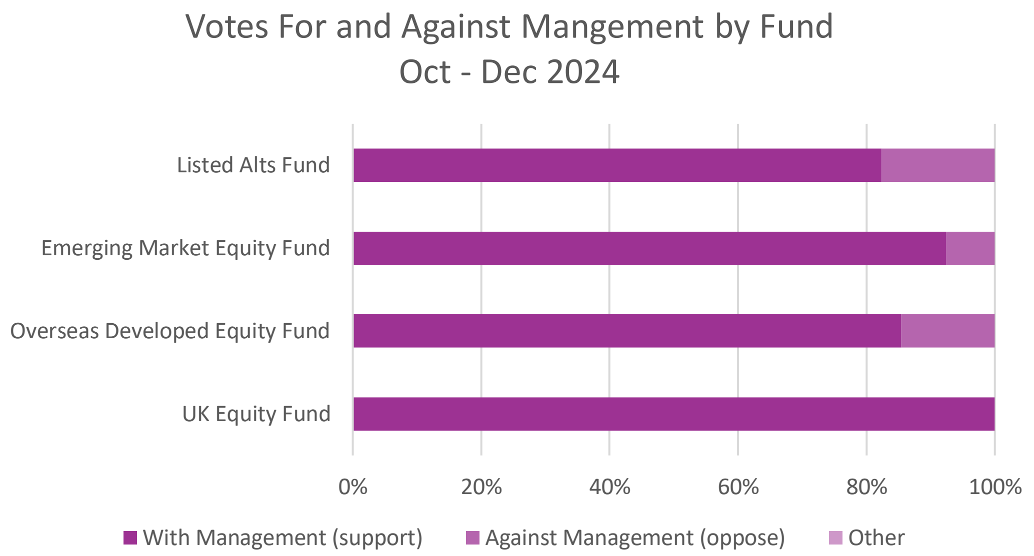
The bill also introduces unclear and complex procedures for board elections. The outgoing board must present a slate with 33% more candidates than available seats, followed by a secondary vote where individual candidates are elected. This process raises concerns about logistics, especially for international investors, and may unintentionally complicate governance rather than improving it.

Italy's reforms reflect a broader global trend where governments weaken investor protections to attract listings. The UK, for instance, has loosened listing rules and shareholder protections. Critics argue that stripping minority shareholder rights will not solve the IPO decline but may lead to negative governance consequences. Institutional investors need proper tools to fulfil their monitoring role, yet these reforms are making oversight more difficult.

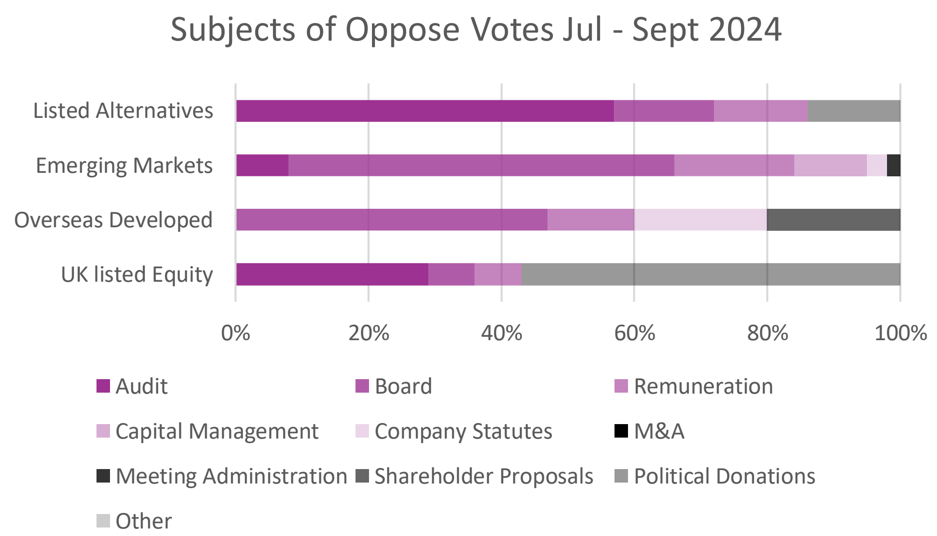
Amid backlash, Italy has indicated openness to revising these controversial measures, which were initially implemented without public consultation. Critics hope the government will amend the bill to protect corporate governance integrity and maintain investor confidence.

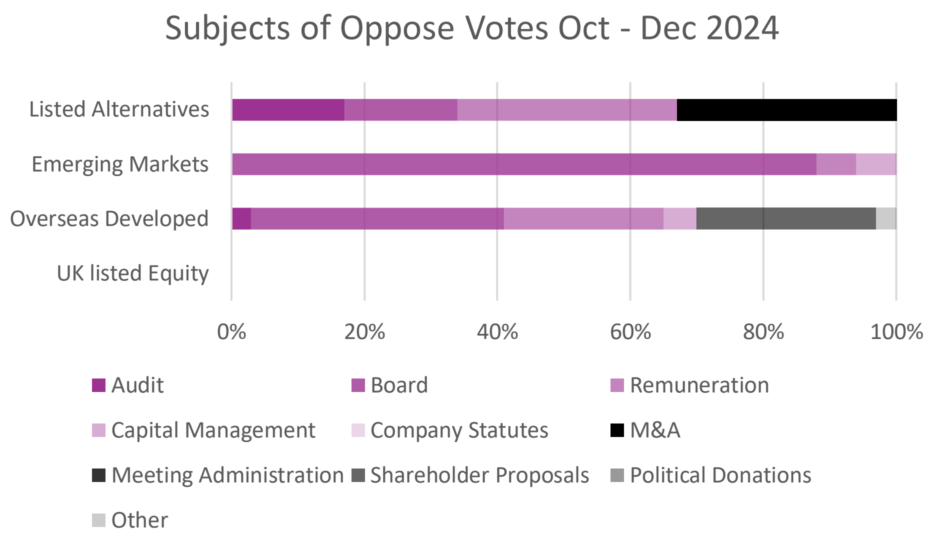
Robeco Active Ownership Report January 2025

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 returned to above 10%, with 10.8% of total votes cast against management, which was above the previous quarter. As voting season has passed, the absolute number of votes against management remained low at 60 in total across all publically listed funds.





The above graph indicates, 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, with votes against merger & acquisition activity arising in the Listed Alternatives Fund. Due in part to the low number of votes cast in the UK Equity Fund, there were no votes against management. 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.
- Mergers and acquisitions that create, rather than destroy, value and make strategic sense will normally be supported. Each individual case is considered on its own merits.

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.

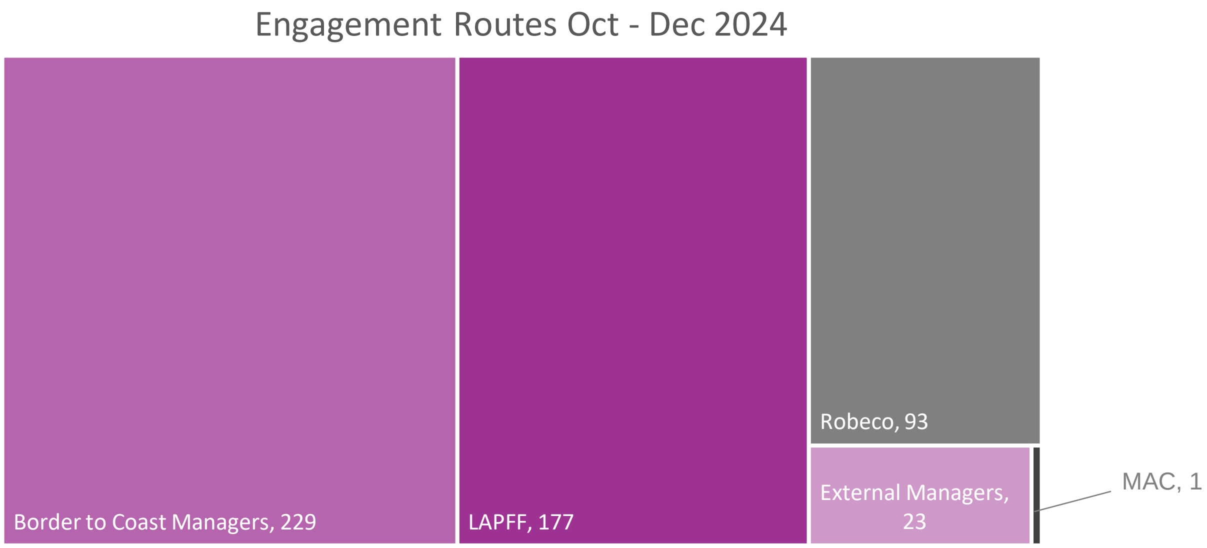
Australia and New Zealand Banking Group held the 2024 AGM in December where shareholders reviewed key proposals, focusing on executive remuneration amid controversies like a bond trading scandal and workplace misconduct allegations. Despite adjustments to CEO pay, they were deemed insufficient, leading to a vote against the remuneration report. A shareholder proposal on transition plan assessments was also opposed, as ANZ is already engaging energy customers to disclose emissions and advance transition plans by 2025. The bank may reduce support for those failing to comply. While acknowledging ANZ's efforts, shareholders remained concerned about executive accountability and the handling of key risks.

Microsoft held their 2024 AGM which included key agenda items included director elections, auditor ratification, and six shareholder proposals, three of which focused on AI. One proposal sought a report on the risks of Microsoft's AI and ML tools aiding fossil fuel development, questioning the company's sustainability commitment. Concerns arose after reports of Microsoft's role in fossil fuel extraction and a whistleblower complaint alleging environmental harm. While Microsoft claims to work only with net-zero-committed energy customers, its safeguards were deemed weak. After review, shareholders supported the proposal for greater transparency, though it received only 9.71% approval.

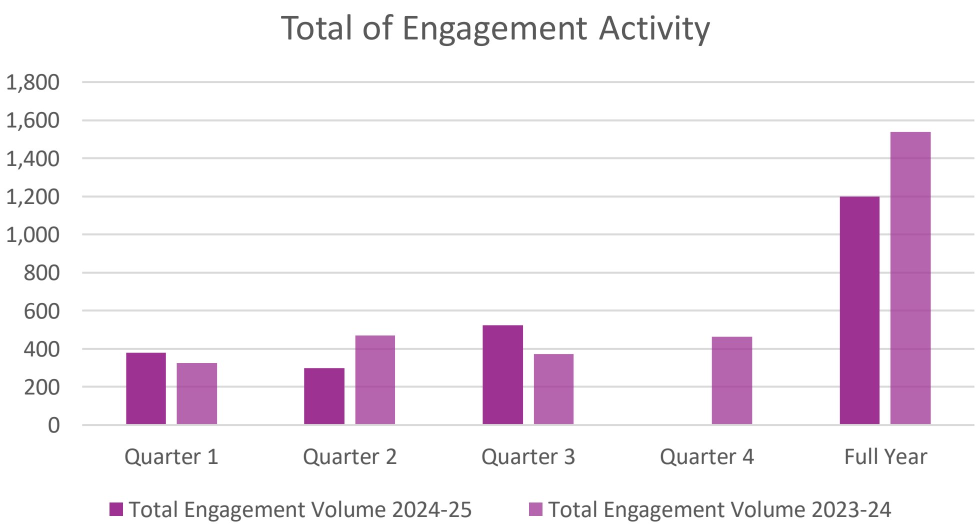
Procter and Gambel's 2024 AGM was held on October 8, shareholders voted on management-backed proposals and a shareholder proposal requesting reports on racial and gender pay gaps. The Say on Pay proposal was closely contested due to concerns over performance disclosure, below-median vesting, and metric overlap. Despite a reasonable structure, the high CEO payout led to a vote Against. The shareholder proposal on pay gap transparency was supported, as addressing such disparities is crucial for mitigating reputational and financial risks. The requested disclosures were seen as beneficial for stakeholders in assessing P&G's pay equity practices

Engagement Activity

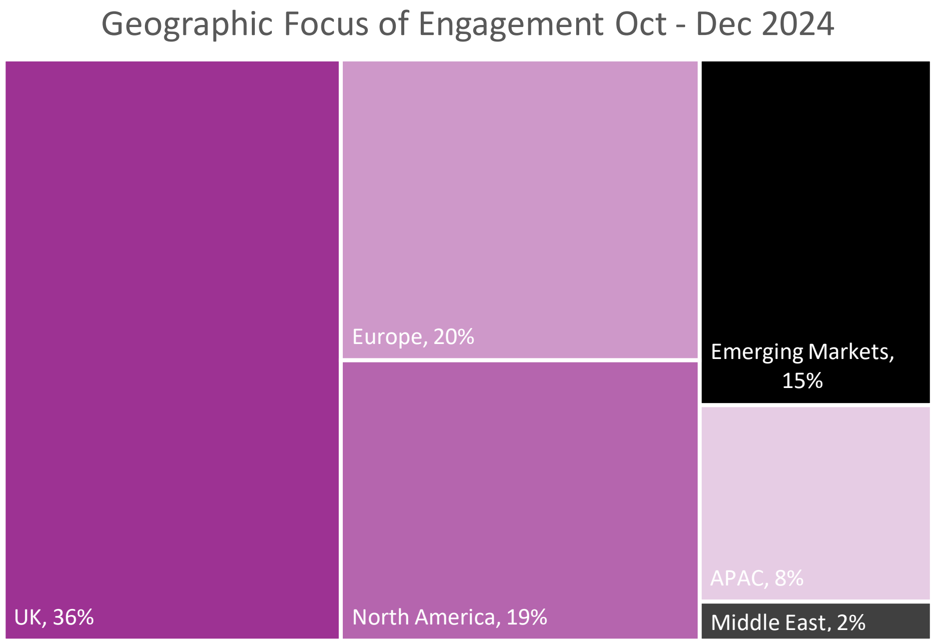
Engagement is the process by which the Authority, working together with other like-minded investors, seeks to influence the behaviour of companies on key issues. Engagement (in distinction to voting) is an ongoing process and is undertaken by those directly managing money for the Authority. This includes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



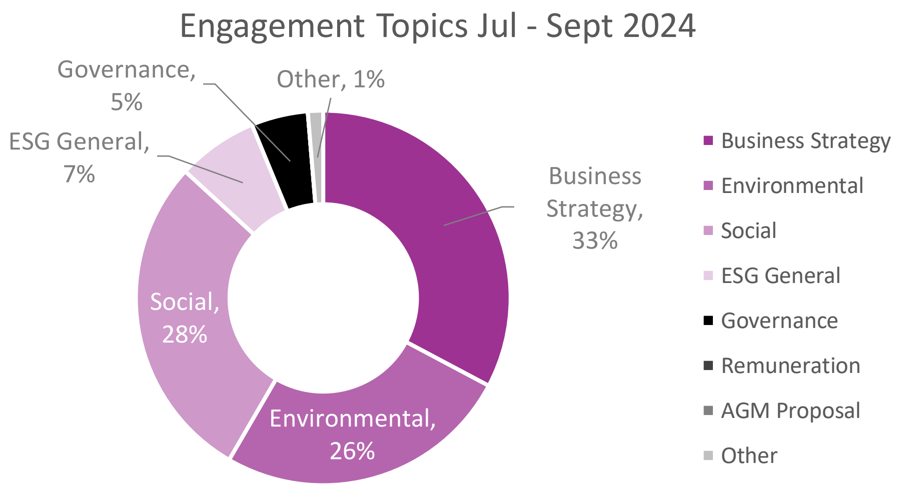
The graph below shows the overall level of engagement activity in the quarter is above the same quarter last year. The higher level of total engagement was due to an increase in engagement from both Border to Coast and LAPFF. Importantly, this increase was partly due to more meetings held with companies this quarter compared to Q3 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.



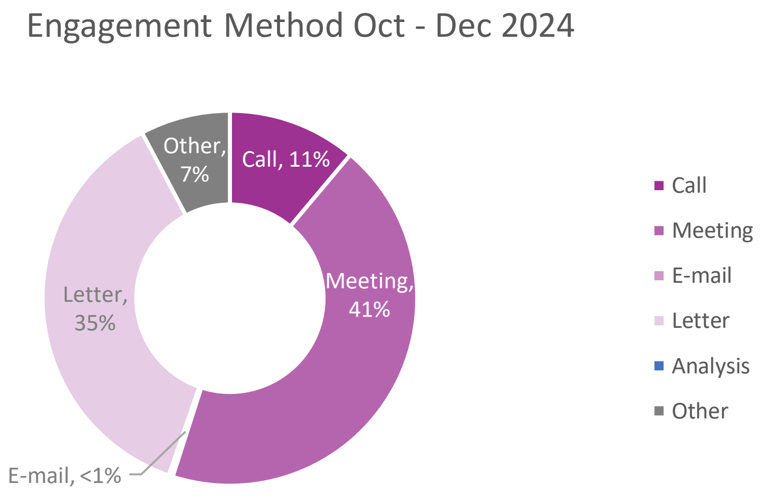
The chart below shows a breakdown of the geographic market focus in engagement over the last quarter. The spread of engagement across geographies seen last quarter has broadly been maintained .



The range of topics covered through engagement is set out in the chart below with a continuing strong focus on environment and climate and an increase in social topics in focus this quarter. The proportion of business strategy engagements 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, making up over 50% of total engagement this quarter.



More details of the engagement activities undertaken by Border to Coast and Robeco during 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 Sustainable Development Goal (SDG) engagement. The highlights from Robeco's engagement report are summarised below.

Ocean Health

The ocean sustains 80% of life on Earth and plays a crucial role in oxygen production, carbon sequestration, and food provision. It supports over three billion people and drives a USD 1.5 trillion economy, expected to double by 2030. However, climate change, pollution, and overfishing threaten marine ecosystems, with 56% of marine vertebrate populations declining since 1970. Industries like shipping and fisheries contribute to these challenges, prompting regulatory responses such as stricter fishing quotas and carbon taxes.

The "Ocean Health" engagement initiative will focus on seafood, shipping, and cruise lines, encouraging companies to reduce their environmental impact and adopt sustainable practices. This three-year initiative will engage key industry players worldwide, from fisheries in Asia to cruise lines in the Bahamas, driving corporate action to protect and restore ocean health. The engagement will encourage companies to understand and mitigate their climate and biodiversity risks by adopting frameworks such as the Taskforce for Nature-Related Financial Disclosures. Companies will be urged to set clear, measurable sustainability goals, such as sourcing seafood responsibly, adopting best practices in fisheries, and investing in climate adaptation. Shipping and cruise companies will be expected to reduce greenhouse gas emissions and pollution. Effective governance structures, supplier incentives, and board oversight will be critical in ensuring sustainable ocean stewardship.

Robeco, alongside its investment partners, has mapped exposure to ocean-dependent industries and identified key companies for engagement. Based on insights from the Ocean 100 list and internal frameworks, a targeted approach has been developed for a three-year initiative launching in early 2025. This effort will span industries and geographies, from smallholder fisheries in Asia to cruise operators in the Bahamas, driving corporate action toward protecting and restoring ocean health.

Acceleration to Paris

Robeco launched its enhanced climate engagement program in 2021, targeting high emitters at risk of divestment due to poor climate performance. In 2024, the program entered a new phase, focusing on coal power expansion, a major contributor to global emissions. Despite global commitments to phase down coal, 578 GW of new coal capacity remains in development, posing financial and environmental risks.

Robeco engages with companies developing new coal plants, urging them to halt expansion, set phase-out targets, and reduce emissions. A new screening process now also targets companies misaligned with the Paris Agreement, requiring them to report emissions and adopt transition plans. With regulatory frameworks evolving, particularly in emerging markets, climate disclosures are expected to improve. The next five years will be critical, as countries update emissions reduction commitments. Robeco aims to drive corporate climate action through engagement and voting, ensuring companies accelerate their transition toward net zero by 2050.

Just Transition in Emerging Markets

A Just Transition ensures that the shift to a low-carbon economy is fair and inclusive, preventing marginalized groups from bearing the brunt of climate action. Governments, companies, civil society, and financial institutions all play key roles in this process. For investors, supporting a Just Transition minimizes financial risks, enhances stakeholder trust, and promotes long-term sustainable growth. Robeco launched a three-year engagement program in 2023, focusing on emerging markets. Key objectives include governance integration, stakeholder engagement, risk management, and transparency. While companies acknowledge the importance of Just Transition, challenges remain in translating commitments into concrete action.

Sector-specific guidance has improved, but a tailored, place-based approach is needed. Robeco urges companies to bridge the gap between commitments and outcomes without delaying climate action. In 2025, the program will expand to the financial sector, ensuring financial institutions actively support equitable transitions worldwide

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, engagement was higher quarter-on-quarter as preparation was made for the main 2025 AGM season. Border to Coast continued to engage with investee companies on climate change, most notably within the Oil and Gas sector with engagement priorities focussing on Border to Coast's highest 40 carbon-emitting investments including:

BP
The engagement escalation within the Oil and Gas sector through a public statement in response to reports that BP is to weaken its climate targets and transition plans. Border to Coast also wrote to BP to raise their concerns, including regarding BP's climate scenarios and expect to meet them to discuss.

SK Inc

SK Inc is a South Korean multinational manufacturing and services conglomerate with the company's main activities in semiconductors, batteries, biopharmaceuticals, energy and technologies such as AI and blockchain. Border to Coast engaged SK Inc as one of their top 40 emitters. Border to Coast requested further disclosure on its transition plan covering technology use and interim targets, and alignment of climate policy and trade association memberships.

Oil and Gas majors

During the quarter, Border to Coast also engaged Chevron, ConocoPhillips, BP, Shell, and Eni regarding high methane emissions and requested information on how the companies are addressing the issue.

LAPFF Engagement

Local Authority Pension Fund Forum ("LAPFF") is another relevant organisation which 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 met with five car manufacturers during the quarter to discuss and press the companies on how they were mitigating and managing human rights risks in supply chains and often associated with conflict-affected and high-risk areas (CAHRAs). All the companies LAPFF met with were able to demonstrate progress in their respective approaches to managing human rights risks in their battery mineral supply chain. A summary of the five engagements is outlined below:

Mercedes: is now providing enhanced disclosures on how it drives effective due diligence, detailing comprehensive breakdowns on individual minerals, as well as stakeholder engagement that it is involved in.

Ford: has developed a supply chain mapping initiative, which includes tracing battery materials to the point of extraction for several high-risk minerals, including cobalt and lithium. Ford have also further demonstrated commitments to addressing potential human rights abuses across its supply chain by integrating Free, Prior, and Informed Consent (FPIC) requirements into its supplier code of conduct to protect indigenous communities impacted by raw material extraction.

Volkswagen: has been facing investor pressure on the issue of human rights due diligence following reports of Uyghur forced labour in vehicle supply chains. LAPFF had previously raised concerns on the ability of the company to undertake meaningful due diligence in the Xinjiang region given the limited visibility. During the engagement Volkswagen announced it had taken the decision to exit its joint venture in Xinjiang.

BMW: outlined that it has shifted its cobalt sourcing exclusively to certified mines in Australia, eliminating higher risk sourcing from the Democratic Republic of Congo (DRC). Reshoring or nearshoring the supply chain for higher risk commodities is considered a meaningful approach to managing human rights risks.

General Motors: has focussed on its supplier education and ethical sourcing programmes, including expanding the number of direct agreements it has with mines. The company now also requires suppliers to cascade the requirements of GM's human rights policy throughout their supply chains. LAPFF has also noted improvements in the approach the company is taking in mapping its supply chain. LAPFF note that progress has been demonstrated in addressing human rights and environmental risks within critical mineral supply chains by the companies LAPFF engaged during Q4. However, challenges remain.

London Stock Exchange Group (LSE): LAPFF also engaged with the London Stock Exchange Group concerning governance standards with a summary of the engagement below:

LAPFF has concerns around weakening listing standards on the LSE, citing major failures like Aston Martin Lagonda, NMC Health, Finablr, and Quindell. In response, LAPFF formed a Capital Markets Working Group to address investor protection issues, particularly regarding the Capital Markets Industry Taskforce, led by the LSE CEO.

LAPFF sent an open letter to the LSE Chair in May 2024, followed by two more letters in August and October, demanding evidence-based responses. These letters gained media coverage. LAPFF also engaged with companies and found no complaints about over-regulation.

At LAPFF's December 2024 conference, asset owners and governance bodies supported their stance. FCA CEO Nikhil Rathi warned of increased risks in relaxed regulation. Ongoing efforts include a pending meeting with LSEG's Senior Non-Executive Director and a planned survey of LAPFF members on these issues.

UK Housebuilders: As the 2025 Future Homes Standard approaches, LAPFF continues to engage with major UK housebuilders on environmental and governance issues. The sector remains a significant emitter, both in construction and home use, and faces scrutiny due to a Competition and Markets Authority (CMA) investigation into alleged information-sharing among eight housebuilders.

LAPFF met with Persimmon's Chair to discuss governance changes, climate strategy, and the CMA inquiry. Persimmon noted improvements in board governance, executive pay concerns, and its upgraded Home Builders Federation rating. The company is integrating sustainable innovations, such as air source heat pumps, while balancing climate goals and profitability.

LAPFF plans further discussions on Persimmon's climate strategy in early 2025 and will monitor the CMA investigation and governance developments. The forum continues to push for industry-wide improvements in sustainability and regulatory compliance.

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 7.2
- 55.5% of portfolio ESG leaders v 52.3% in the benchmark.
- 1.5% of portfolio ESG laggards v 2.3% in the benchmark.
- 0.5% 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)
- All 5 top emitters engaged through Climate Action 100+

United Kingdom

- Weighted ESG Score 7.6
- 65.3% of portfolio ESG leaders v 65.6% in the benchmark
- 0.4% of portfolio ESG laggards
- 1.2% of portfolio not covered, mainly investment trusts; less than benchmark
- Lowest rated 5 companies 6.1% of portfolio, 4 of 5 BBB 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 6.2
- 34.3% of portfolio ESG leaders v 26.3% in the benchmark
- 5.2% of portfolio ESG laggards v 7.3% in the benchmark
- 5.9% of portfolio not covered
- Lowest rated 5 companies 2.9% of portfolio.
- Emissions materially below benchmark on all metrics
- Weight of oil and gas holdings below but thermal coal above benchmark.
- 3 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
- 49.1% of portfolio ESG leaders v 44.0% in the benchmark
- 2.2% of portfolio in ESG laggards v 3.2% in the benchmark
- 26.7% of portfolio not covered largely investment trusts etc
- Lowest rated 5 companies 3.4% 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 three scoring TPI level 4 and with the remaining two scoring a 3
- 3 of 5 top emitters engaged through Climate Action 100+

Overall, this shows a broadly positive picture, however during the quarter the MSCI ESG scores fell modestly for both the Overseas Developed Markets Equity Fund and UK Listed Equity Fund. This was due to a change in the methodology that MSCI uses to measure and rate the underlying securities. Border to Coast noted that they don't necessarily agree with the changes MSCI have made and continue to independently assess the ESG considerations themselves. The Emerging Market Equity Fund and Listed Alternatives Fund continue to score better than 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

The Fund saw small increases in its financed emissions and carbon intensity and a 12% decrease in weighted average carbon intensity (WACI). The Fund remains below the benchmark across all emissions metrics.

Featured Stock: RWE

German power producer RWE, plans to invest €55bn to expand its green energy portfolio to over 65GW by 2030, adding more than 30GW between 2024-30. With 11GW of renewables under construction, it aims for carbon neutrality by 2040, aligning with the 1.5ºC target. Its strategy includes offshore and onshore wind, solar, battery storage, and hydrogen-ready gas plants. RWE plans to phase out coal by 2030 but faces delays due to Germany's energy imports. It is also working on biomass conversion and carbon capture. Despite a valuation discount due to coal exposure, RWE's renewables focus and shareholder returns could improve its market position.

UK Listed Equity Fund

The Fund saw a 13% increase in financed emissions and 8% in carbon intensity quarter on quarter, with a marginal increase in the Fund's weighted average carbon intensity. Following this increase the Fund now sits marginally above benchmark on financed emissions and continues to sit significantly above benchmark on carbon intensity and WACI. This was despite reducing positions in BP and Glencore and the Fund exiting EasyJet. However, increases to positions in top emitters Shell and Rio Tinto and a new carbon intensive position in Carnival drove the increase in the Fund's financed emissions and carbon intensity.

Featured Stock: Carnival

Carnival is one of the world's largest cruise companies, commanding 37% of the global cruise fleet with over 90 ships across 10 brands. It operates in North America, Australia, Europe, and Asia, with 70% of its sales coming from North America. The company serves British and Australian passengers through P&O Cruises, while AIDA and Costa Cruises cater to European travellers.

Carnival is targeting a 20% reduction in carbon intensity by 2030 from its 2019 baseline. Since 2005, its fuel efficiency has improved by 2.4% annually, outperforming airlines. To reduce emissions, it has deployed air quality systems, expanded its liquefied natural gas (LNG) program, and increased "cold ironing," with shore power connections available to 60% of its fleet. The company aims for net-zero emissions from ship operations and 100% shore power by 2050. While challenges remain in cutting absolute emissions, Carnival continues to comply with environmental regulations across its regions of operation.

Emerging Markets Equity Fund

The Fund continues to be significantly below the benchmark across all emissions metrics; carbon emissions, carbon intensity and Weighted Average Carbon Intensity ("WACI"). Changes in the Fund's two largest emitters Grasim and Jindal Steel and Power drove the majority of a 20% quarter-on-quarter increase in financed emissions. The combination of a 13% increase in Grasim's reported emissions, an increased position in Jindal Steel and Power, alongside reductions in each company's market capitalisation accounted for a significant proportion of the Fund's increased footprint.

Featured Stock: Grasim Industries

Grasim is an Indian conglomerate operating in cement, viscose staple fibre (VSF), and financial services. Its cement subsidiary, UltraTech, is India's largest producer, benefiting from rising housing demand, while its VSF unit dominates India's viscose yarn market, driven by apparel spending. Both sectors are growing faster than GDP, providing strong profitability and exposure to India's economic expansion.

Cement production accounts for over 80% of Grasim's carbon emissions. The company targets Net Zero by 2050, with a 30% reduction in cement-related Scope 1 and 2 emissions by FY30. This includes increasing renewable power to 25% by FY25 and investing in waste heat recovery. In VSF, Grasim aims to cut GHG emission intensity by 50% by FY30 and reach Net Zero by FY40. Despite being a major carbon emitter, cement remains essential for infrastructure, making Grasim's transition to sustainability crucial for long-term development.

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 lower than benchmark at 7.4

42.3% of portfolio ESG leaders compared to 55.2% in the benchmark

0.8% of portfolio ESG laggards compared to 0.7% in the benchmark

24.6% of portfolio not covered compared to 8.6% in the benchmark

The 5 lowest rated issuers represent 1.8% of the portfolio

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

Below benchmark weight of companies with fossil fuel reserves.

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

The overall ESG rating of the Fund increased over the quarter, bringing it closer to the benchmark. The Fund more than doubled its position in Engie bonds, the fourth largest contributor to financed emissions last quarter. This, alongside significant increase in the proportion of BP bonds held and a 12% decrease in Enel's market cap, drove more than two-thirds of the increase in financed emissions.

The Fund's underweight position in high emitting sectors such as materials and energy increases the sensitivity to its highest emitters.

Commercial Property Portfolio

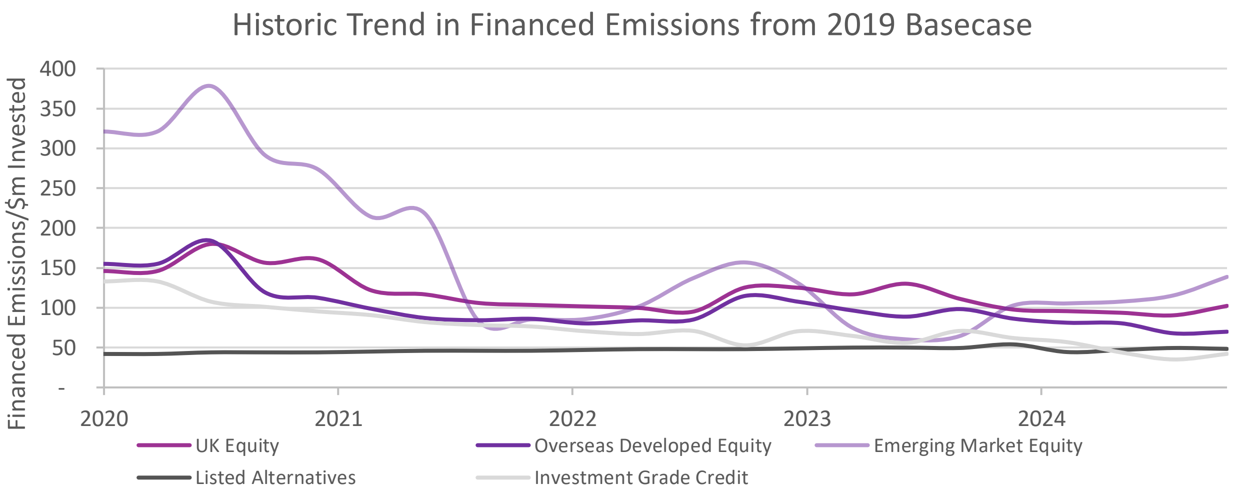
During the last quarter of 2024 the directly held property portfolio transitioned into a pooled investment vehicle managed by Border to Coast and made up of the direct property assets of other Partner Funds.

This transition of assets is in support of the pooling process. However, it limits the direct control that SYPA has over the specific assets to make dedicated decisions to reduce the carbon footprint of these assets. Instead, these investment decisions will now be taken by Border to Coast with the continued support of Abrdn who were the Fund Manager for the SYPA assets when under direct ownership. Border to Coast is targeting net zero for the UK Real Estate Fund of 2050 and we will continue to push for a more ambitious target.

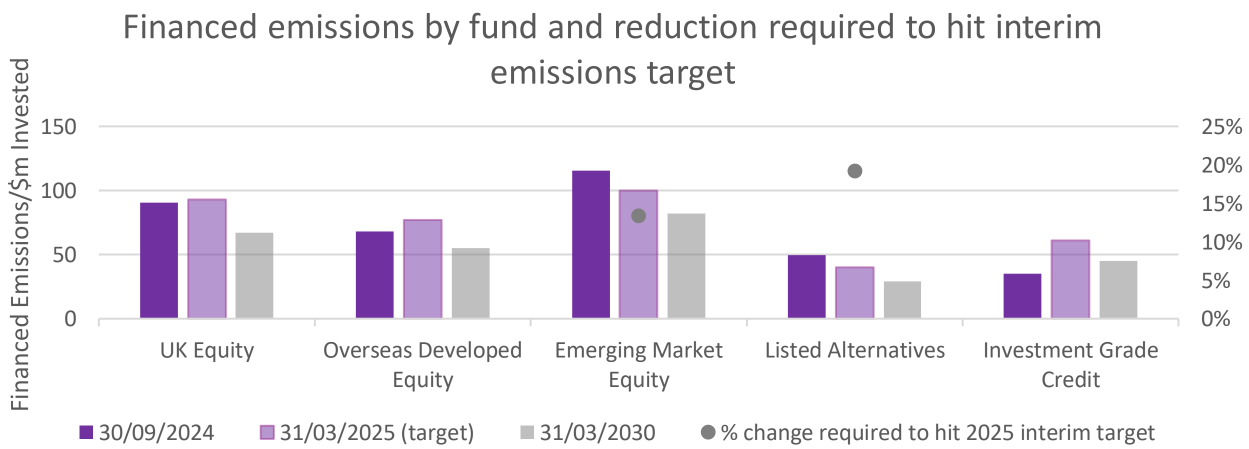
Progress to Net Zero

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 as firms report on emissions annually. However, the financed emissions trend has been directionally reducing, albeit with some volatility and at a slowing rate over recent quarters.

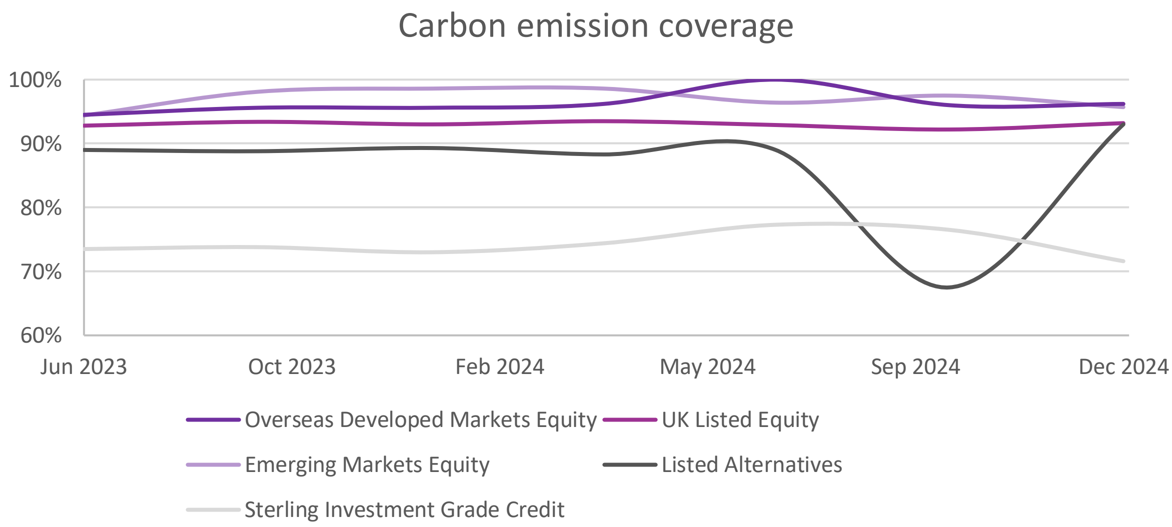


The below chart shows that the Overseas Developed Equity, UK Equity and Investment Grade Credit funds are currently below the interim 2025 financed emissions target to meet the net zero goal by 2030. In order to meet the 31 March 2025 interim target in financed emissions, the reductions required from the Emerging Market Equity and Listed Alternatives funds increased over the quarter to 28% and 17% respectively. 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 and changes in underlying securities 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 but has now plateaued with some volatility in recent quarters. 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 progress, there are further improvements to be made on the Sterling Investment Grade Credit fund, which fell off due to new securities added this quarter, and the coverage of the Listed Alternatives Fund increased following a drop last quarter due to a change in investment strategy.



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

Over the quarter there has been a range of stakeholder interaction that covered the following areas:

- climate and engagement;
- the issues of companies operating in the Palestinian territories, including the sale of arms; and
- proposed changes to the structure of Local Government Pension Schemes.

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 its annual conference and a business meeting during the quarter which included member input into the draft workplan for the year 2024/2025

The conference considered a number of topics including amongst others:

- The future of the LGPS;
  - Views included focussing on appropriate governance and how to ensure that local investment is not disadvantaged as an unintended consequence of the “Megafunds” aspiration.
- Renewable energy and a Fair and Just transition;
  - Real economy needs to price carbon properly.
- Where next for the Stewardship Code;
  - Audience views challenged on whether this was being watered down.
- Supply chains and human rights;
  - Fast fashion's cut price competitiveness creating a race to the bottom which ultimately hurts individuals.

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

Climate Action 100+ assessed the emissions performance of focus companies, revealing that 65% have reduced their emissions intensity over the past year. However, progress is still insufficient to meet the 1.5°C pathway. Certain industries, including airlines, autos, cement, mining, electric utilities, and steel, have shown notable reductions in emissions intensity over three years, with 32 companies aligning with a 1.5°C scenario.

Companies are performing well in climate governance and disclosures, with over 90% demonstrating board-level oversight of climate risks and 88% committing to TCFD or ISSB recommendations. Additionally, 80% have committed to net zero across Scope 1 and 2 emissions. There has been an improvement in companies presenting decarbonization strategies, with 78% setting targets to increase revenue or production from climate solutions, signalling financial commitment. However, only 39% of companies meet at least one metric under the Just Transition Disclosure Framework, though this marks a 9-percentage-point improvement from 2023.

Despite progress in climate-related disclosures, target setting is slowing, particularly for short-term goals. Some companies have allowed targets to expire or removed them, though no companies have rescinded net zero ambitions. Capital allocation alignment remains a challenge, with limited progress in coal phase-out among electric power companies and regression in oil and gas transition strategies.

Additionally, companies are not effectively aligning their climate policies with the Paris Agreement. While there has been a slight improvement in review processes, most companies remain only partially aligned in their direct and indirect climate policy engagements.

Policy Development and Industry Highlights

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

US political environment

Since Donald Trump's inauguration as President, the US has declared a "national energy emergency," placed an indefinite pause on new offshore wind project leases, lifted previous freezes on LNG export permits, and has withdrawn from the Paris Climate agreement. Other executive orders have effectively ended diversity, equality and inclusion (DEI) efforts within the federal government. These changes may fuel further anti-ESG rhetoric in the US.

Texas and other states launched a lawsuit against some of the world's largest asset managers over the belief that ESG investing was being used to manipulate energy markets. Meanwhile, New York announced legislation requiring fossil fuel companies to pay for a share of the investment needed to adapt to climate change. Under this legislation, fossil fuel companies are expected to pay approximately $75 billion by 2050.

Net zero initiatives

More asset managers have left collaborative net zero initiatives, including Citigroup, Goldman Sachs, and Wells Fargo, leaving the Net Zero Banking Alliance, and Blackrock leaving the Net Zero Asset Manager (NZAM) initiative. Baillie Gifford also left both the Climate Action 100+ and NZAM. As a result of these exits, NZAM has suspended all activities and begun an internal review. Border to Coast continue to monitor the situation and are increasing their scrutiny of asset manager partners regarding their direct engagements and engagement standards.

ESG rating providers

In November, the EU announced rules to place ESG Rating Providers under the authority of the European markets regulator to improve the reliability of ESG ratings. November also saw the UK announce draft legislation to place rating providers under the FCA for similar reasons.

UN plastic treaty

Along with 180 institutional investors, Border to Coast signed a public statement coordinated by the PRI to demonstrate support from the financial sector for an ambitious international legally-binding instrument to end plastic pollution. Despite support from almost 100 countries, negotiations on the UN's first treaty on plastic pollution failed to reach agreement in December. New negotiations are expected this year.

Reporting updates

Confidence in achieving consistent global climate disclosures continues to grow with the IFRS announcing that more than 30 jurisdictions have or are taking steps to mandate reporting of ISSB sustainability reporting standards. The jurisdictions represent more than 50 % of global greenhouse gas emissions and 40 % of global market capitalisation.