SOUTH YORKSHIRE
PENSIONS AUTHORITY

# Responsible Investment Update Quarter 4 2024/25

June 2025

# Contents

# Highlights and Recommendations

Highlights over the quarter to the end of March include:

- A quarter-on-quarter increase in the level of voting activity with over 850 votes cast at 83 company meetings.
- The overall level of engagement activity was down quarter-on-quarter compared to Q3 2024 as a more targeted approach has been taken with invested companies.
- The engagement focus remained on environmental topics, including net zero, with social and business strategy topics also remaining as a material proportion of engagement topics.
- The overall ESG performance of the listed asset portfolios with Border to Coast has continued to be strong relative to the respective benchmarks. However, the Emerging Markets Equity Fund and Listed Alternatives Fund both saw a drop in ESG score but remain above their respective benchmarks.
- Overall financed emissions of the Border to Coast invested assets decreased over the quarter with the most significant decrease coming from the Emerging Market Equity Fund due to a reduction in the Fund's holding of its highest emitting company.
  Four of the five listed funds reached their interim 2025 financed carbon emission reduction targets of 50% reduction on 2019 baseline emissions. It should be kept in mind that actual emissions reductions is only one contributor to the carbon footprint of a fund, or a benchmark index. This can actually be outweighed by the impact of changes in market values and index constituents. Hence, it is important that we focus more on the long-term trends than shorter-term changes to these scores (as the latter can be more susceptible to this market "noise").
- Carbon emissions coverage plateaued over recent quarters, as the coverage of securities held in the Sterling Investment Grade Credit Fund reduced, highlighting ongoing challenges in reporting emissions within bond markets.

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

# Background

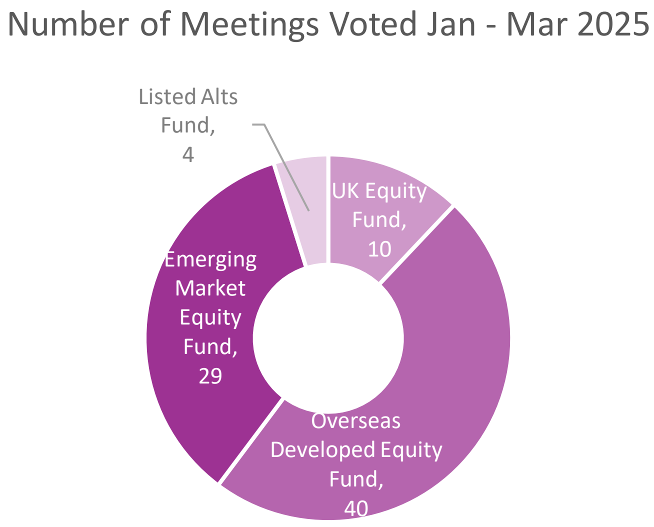
The Authority has developed a statement which sets out what it believes Responsible Investment is and how it will go about implementing it within its overall approach to investment. This statement is set out in the Responsible Investment Policy which is available on the website here.

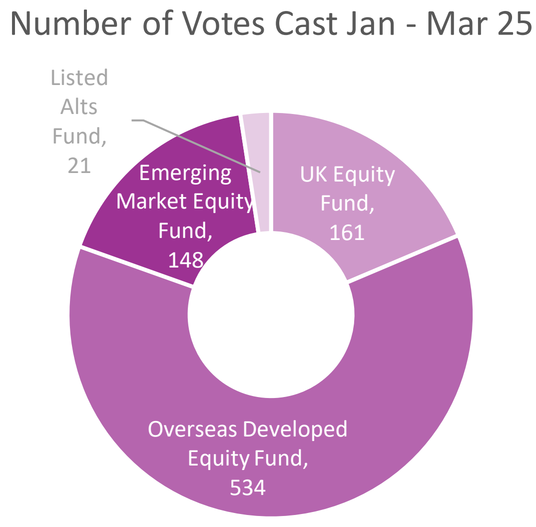
Our approach is largely delivered in collaboration with the other 10 funds involved in the Border to Coast pool. This report provides an update on activity in the last quarter covering:

- 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 (Jan – Mar 25) Q4 2024/25 Active Ownership proxy voting report how the format of the annual general meeting (AGM) has changed significantly since the Covid pandemic with a rising trend for disruptions and protests. Further detail is provided in the box below:

**AGM as a forum**

In recent years, the dynamics of participation in Annual General Meetings (AGMs) have shifted, with institutional shareholders increasingly casting proxy votes in advance and engaging with company boards before the meeting date. This trend often leaves AGMs dominated by retail investors and special interest groups. While this isn't inherently problematic, the rise of AGM disruptions and protests underscores the need for well-run meetings that foster constructive engagement and transparency between boards and shareholders.

One critical factor influencing AGM effectiveness is the meeting format—physical-only, virtual-only, or hybrid. The rise of virtual-only meetings during the Covid-19 pandemic has sparked ongoing debate. Advocates cite benefits like cost savings and higher attendance, while critics argue that such formats restrict shareholder engagement and allow companies to avoid critical questions. Robeco supports a hybrid format, blending virtual accessibility with physical presence, and recommends virtual-only formats be used only in exceptional circumstances, with transparent justification.

Timely and complete disclosure is essential for informed shareholder voting. Given that proxy voting often occurs well before the AGM, companies must ensure early dissemination of key information, including candidate details for director elections. Robeco opposes voting on undisclosed nominees or inadequately explained proposals.

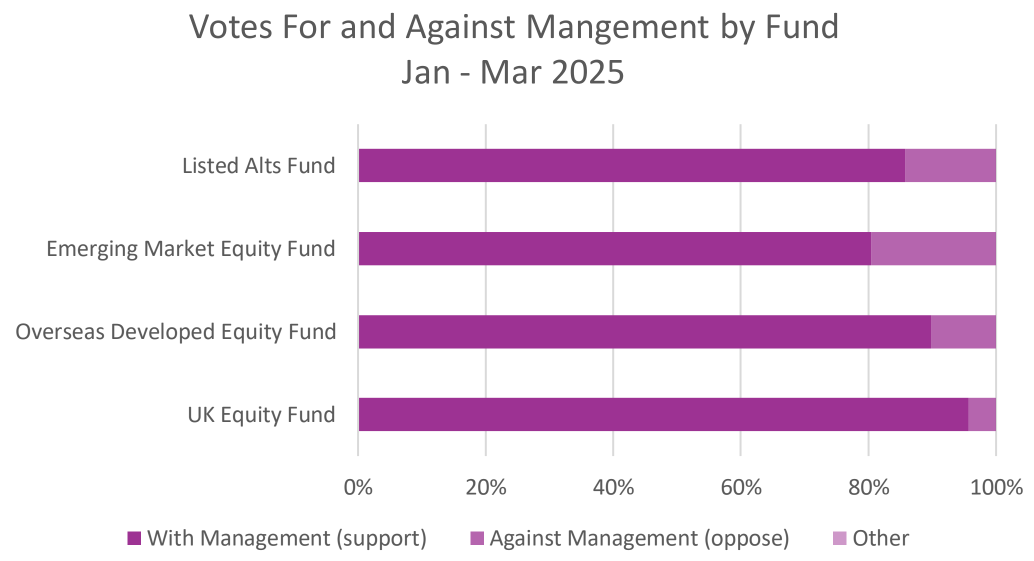
Another concern is the bundling of proposals—combining unrelated or related items into a single resolution—which prevents shareholders from expressing individual views on each matter. Robeco opposes bundled proposals and will vote against any that include problematic elements.

Shareholder proposals are a vital tool for driving corporate governance reform and accountability. These proposals have prompted companies to adopt practices such as proxy access bylaws and declassified boards. However, jurisdictions vary significantly in proposal procedures. Robeco discourages companies from obstructing shareholder proposals and expects constructive engagement, particularly when proposals gain substantial support (typically 25%). In controlled companies, Robeco assesses support levels among unaffiliated shareholders.

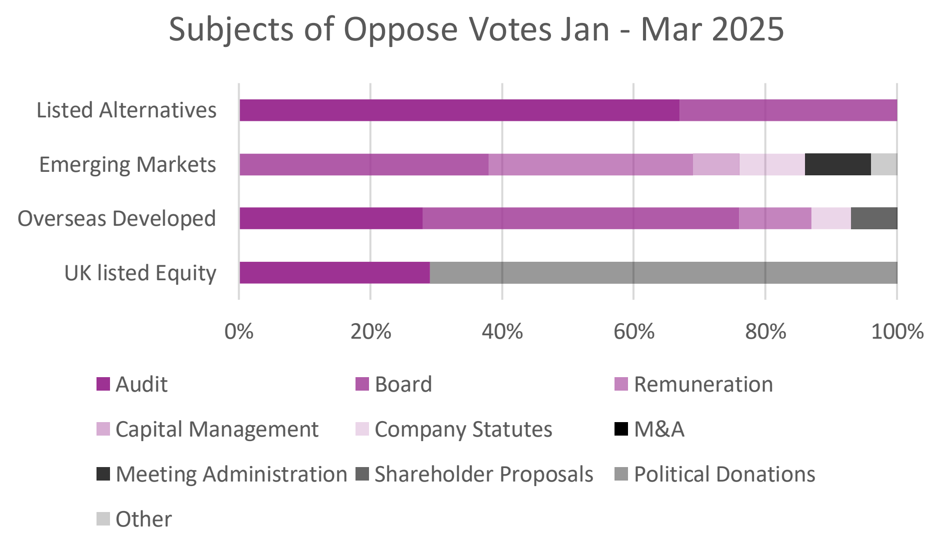
Finally, full disclosure of AGM vote results is crucial for shareholder oversight and effective stewardship. While the U.S. and Europe have regulatory frameworks promoting transparency, some jurisdictions lack detailed reporting requirements. Robeco advocates for complete vote result disclosure, emphasising its importance for minority shareholders, particularly in firms with unequal voting rights.

*Robeco Active Ownership Report April 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 remained above 10% overall, with 10.8% of total votes cast against management, which was in line with the previous quarter. In absolute terms, the number of votes against management increased from 60 to 93, as the number of votes increased in total across all publicly listed funds.




The above graph indicates that votes against management were much more condensed across topics in the Listed Alternatives and UK Listed funds this quarter. The three largest areas where voting continues to oppose management relate to Audit, Board composition and Political donations. The latter made up a significant proportion of votes against in the UK Listed fund. 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 factors 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.

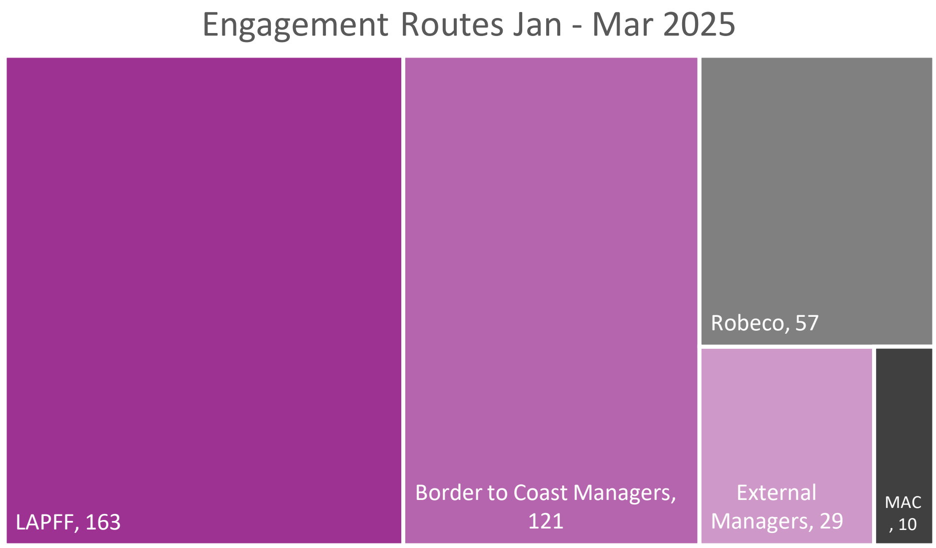
**Apple Inc's A**GM was held on 25 Feb, shareholders reviewed key proposals, including the following shareholder proposals focused on ethics, privacy and governance but ultimately these received low support. The first proposal called for a report on the risks of using external data to train artificial intelligence (AI). After engagement, it was concluded that the company had already addressed these concerns through recent disclosures with the proposal *receiving* 11% support. The second proposal sought to abolish Apple's Inclusion & Diversity program, arguing it could unfairly impact majority groups. However, the program was viewed as essential for fostering innovation and aligning with non-discrimination principles. The proposal was rejected with just 2% support.

**Costco Wholesale Corp** held their AGM which included key agenda items including a shareholder proposal challenging the company's diversity and inclusion (D&I) policies—one of the first such proposals at a major U.S. firm under the current political climate. The board recommended rejecting the proposal, emphasizing D&I's importance to internal culture, customer satisfaction, and financial success. Agreeing with management's view that fostering innovation and inclusivity aligns with best practices and anti-discrimination standards, we voted against the proposal, which was decisively rejected by 97% of shareholders. Robeco also opposed the advisory vote on executive compensation due to large sign-on bonuses lacking performance criteria. Despite concerns, the proposal passed with 94% support.

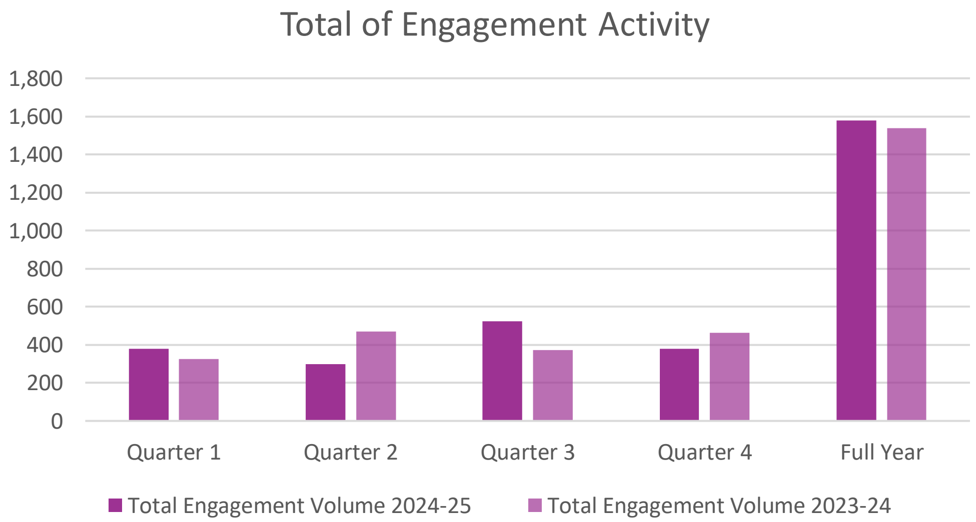
**Visa Inc's** AGM was held on 28 Jan, shareholders voted on several shareholder proposals including: the first which requested a report on healthcare coverage gaps related to disphoria and detransitioning, critiscising Visa's support for gender-affirming care. It was rejected due to lack of demonstrated benefit to the company or shareholders with 99% voting against it. The second proposal sought a governance change requiring directors who fail to win majority support to tender conditional resignations, with stipulations for continued rejection. This was supported for promoting minority shareholder rights, though it received only 17% approval at the AGM. Visa's board supported the second proposal but opposed the first due to reputational and operational concerns.

# Engagement Activity

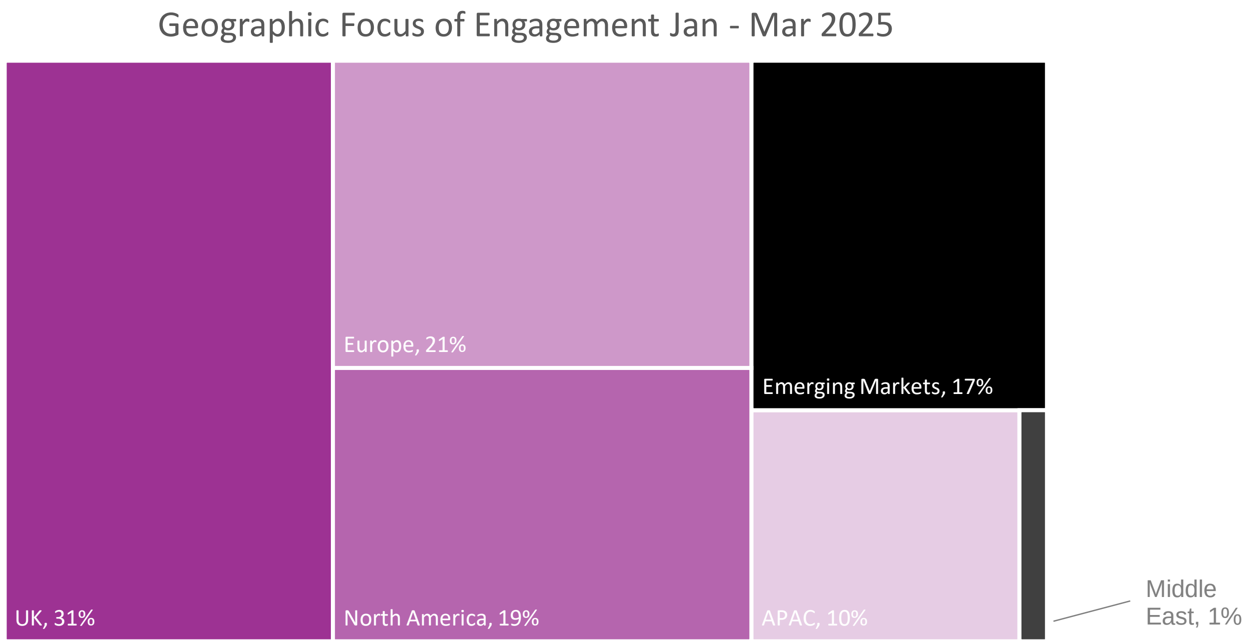
Engagement is the process by which the Authority, working together with other like-minded investors, seeks to influence the behaviour of companies on key issues. Engagement (in distinction to voting) is an ongoing process and is undertaken by those directly managing money for the Authority. This includes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



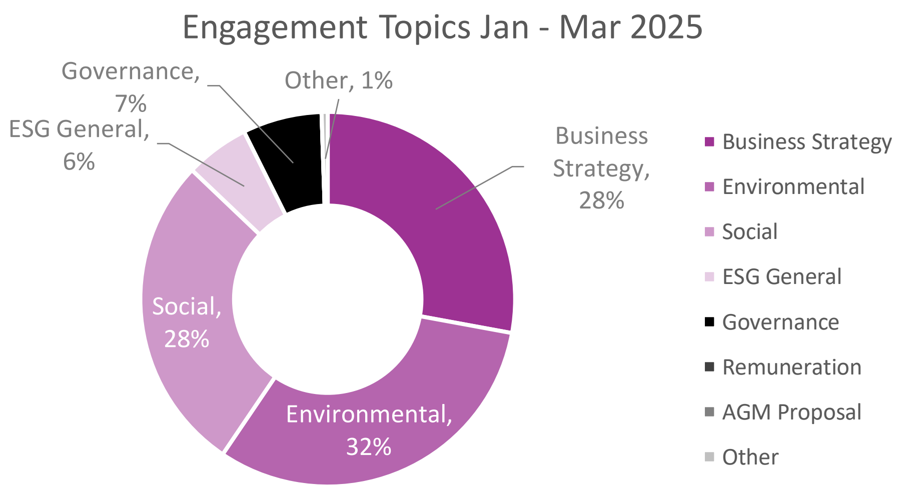

The graph below shows the overall level of engagement activity in the quarter is down compared to the same quarter last year. However, the total engagement across the year 2024/25 is marginally higher than 2023/24 primarily due to an increase in engagement from Border to Coast.



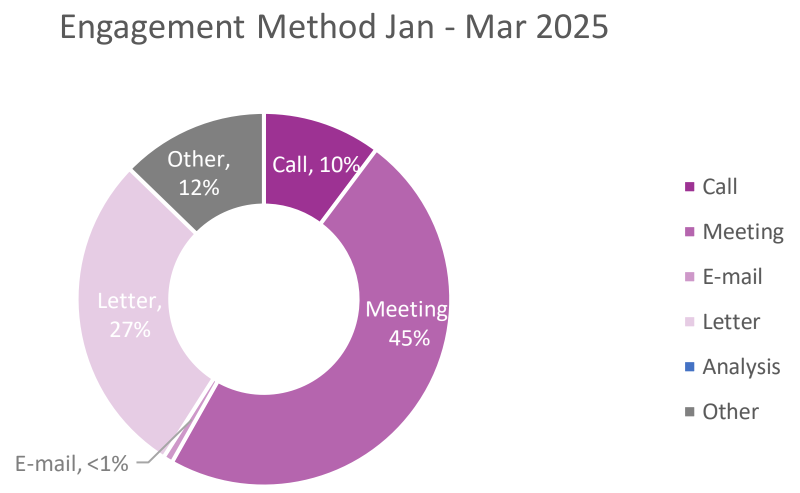
The chart below shows a breakdown of the geographic market focus in engagement over the last quarter. The weighting of engagement is broadly inline with last quarter with a small decrease in the UK focus the most notable change.




The range of topics covered through engagement is set out in the chart below with a continuing strong focus on business strategy and social topics with an increase in the focus on environmental issues this quarter.




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, increasing slightly to make up over 55% of total 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.

**Palm Oil**

Robeco's engagement on deforestation and sustainable palm oil production has focused on mitigating environmental and social risks while preserving investor value. Launched in 2022, its three-year enhanced engagement program targeted palm oil producers in Malaysia and Indonesia with 50–80% of land RSPO-certified, aiming for at least 80% by December 2024. The initiative promoted RSPO certification, deforestation-free supply chains, biodiversity protection, and human rights. Outcomes were largely positive: most companies improved regulatory compliance and aligned with EU Deforestation Regulation (EUDR), TCFD, and TNFD standards. Despite Scope 3 emissions challenges, progress was evident.

Building on this, Robeco expanded its focus in 2025 to other forest-risk commodities—soy, cattle, timber, and pulp and paper—through a new three-year deforestation engagement program. Based on due diligence screening, seven high-risk companies were selected. These companies are expected to adopt zero-deforestation, human rights policies, implement risk monitoring in sourcing, report transparently, and remediate past breaches.

Robeco also reinforced deforestation-related criteria in its proxy voting guidelines, pledging to vote against agenda items for companies lacking adequate policies or involved in controversies. This strategic engagement supports the Kunming-Montreal Global Biodiversity Framework, recognizing deforestation as a systemic risk to biodiversity and long-term portfolio returns. By influencing companies to adopt sustainable practices, Robeco aims to drive industry-wide improvements while contributing to global net-zero and biodiversity goals.

**Navigating conflicts and human rights impact in a complex environment**

Robeco launched a three-year engagement in late 2021 aimed at strengthening corporate responsibility and human rights due diligence (HRDD) in conflict-affected and high-risk areas (CAHRAs). The initiative focused on encouraging companies across various sectors to enhance their understanding of conflict-specific human rights risks and develop appropriate mitigation strategies. While some companies made notable progress by introducing conflict-sensitive HRDD frameworks, including risk assessment models and mitigation strategies, others failed to act despite criticism from civil society and investors.

A consistent challenge across the engagement was the establishment of effective grievance and remediation mechanisms. Although whistleblower channels existed for employees and tier-1 suppliers, access for lower-tier suppliers and communities was limited. Few companies incorporated stakeholder input in designing these systems or disclosed outcomes, undermining trust and effectiveness—particularly in conflict contexts.

Throughout the engagement, Robeco observed candid dialogues with some companies, yielding insights into their internal considerations even if public disclosures were limited. These exchanges highlighted the complexity of working in CAHRAs and the absence of a one-size-fits-all solution.

Key developments during the engagement included the introduction of the UNDP’s Heightened HRDD guidance in 2022 and the EU’s Corporate Sustainability Due Diligence Directive (CSDDD) in 2024, reinforcing global momentum toward stronger corporate accountability. As the engagement concludes, Robeco is developing a new screening methodology to identify companies with links to CAHRAs for future engagements. The aim is to ensure continued improvement in managing human rights impacts in volatile regions amid rising global conflicts.

**Emerging Trends in Human Capital Management: From D&I to Comprehensive Workforce Strategies**

Robeco has evolved its Diversity & Inclusion (D&I) engagement theme into a broader Human Capital Management (HCM) approach to reflect both internal research insights and external societal shifts. Initially focused on diversity disclosures, gender pay gaps, and board representation, the expansion was driven by findings that broader HCM factors—such as employee satisfaction, training, compensation, and retention—strongly correlate with financial performance and long-term value creation.

This evolution also responds to increasing political polarization, especially in the U.S., where D&I programs have faced pushback. To remain effective across diverse regulatory environments, Robeco reframed the engagement to focus on overall workforce strategy, making it more adaptable and constructive.

The HCM approach encourages companies to go beyond diversity metrics and address systemic workforce issues, including fair wages, well-being, career development, and labour practices. Robeco emphasizes transparency and the integration of ethical practices across all workforce levels.

While challenges remain—such as inconsistent data, fragmented regulations, and a disconnect between corporate actions and systemic inequalities—Robeco believes managing human capital is a financial imperative. A holistic, future-ready HCM strategy not only strengthens workforce resilience and innovation but also enhances investor confidence in a company’s long-term success.

## 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.

**BP**

Following confirmation of BP's strategy reset in Q1 2025, which weakened its climate targets and transition plan, Border to Coast met with the company to raise its concerns.

This included that BP's transition plan was approved by a large majority of shareholders in 2022 and had twice been reduced in ambition without renewing that shareholder mandate. A request for a vote at the 2025 AGM was not forthcoming. Border to Coast advised the company of their voting and escalation policies and the implications for BP.

At BP's AGM in April 2025, Border to Coast voted against management on an unprecedented number of agenda items. They voted against the re-election of the Chair of the Board, and three other directors, including the Chair of the Sustainability Committee and members of the Nomination and Remuneration Committees. They also voted against acceptance of the annual report and against approval of the remuneration report. As part of Border to Coast's engagement escalation, they signalled their concern by publicly pre-declaring these votes ahead of the AGM.

An exceptional 24% of shareholders voted against the re-election of the Chair. Engagement with BP is ongoing.

**HDFC Bank**

Border to Coast is the Chair of the new Institutional Investors Group on Climate Change (IIGCC) Working Group on Just Transition, which will support the integration of just transition into the Net Zero Investment Framework (NZIF); the most widely used investor guide to setting targets and producing net zero strategies and transition plans.

The working group has also commenced an engagement pilot with HDFC Bank in India to explore just transition integration in an emerging markets context. HDFC Bank was chosen as a market leader in social integration.

In March 2025, Border to Coast, RLAM, Schroders, Robeco and LGPS Central met with HDFC Bank and were joined by the London School of Economics Just Transition Finance Lab and Asia Investor Group on Climate Change (AIGCC). The purpose of the meeting was to introduce the concept of just transition, discuss the issue in an Indian context, and encourage leadership from HDFC by integrating social inclusion, development, and net zero objectives. The meeting was positive, and various guidance and case studies were provided for HDFC's consideration. Engagement is ongoing.

## LAPFF Engagement

Local Authority Pension Fund Forum ("LAPFF") is another relevant organisation which SYPA is a member 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:

**Homebuilders:** LAPFF continues its active engagement with the UK's largest housebuilders on their climate transition strategies. The sector's emissions stem from both construction processes (including supplier-related emissions like diesel use and cement production) and from homes in use. LAPFF's engagement focuses on ensuring companies have clear, Paris-aligned transition plans and targets, strategies to achieve net-zero homes, collaboration with suppliers to cut emissions, and readiness for new regulations such as the Future Homes Standard. In Q1, LAPFF engaged with Persimmon and Barratt Developments, and re-engaged with Vistry, this time emphasizing governance issues.

**Persimmons:** LAPFF engaged with Persimmon to review its transition plan, focusing on Scope 3 emissions, just transition planning, and decarbonising its value chain. Persimmon is finalising a net-zero plan targeting a 90% emissions reduction by 2045 and integrating local employment and supply chain opportunities. It has reported Scope 3 emissions since 2022, with ongoing efforts to refine carbon data. The company is working with Future Homes Hub, developing a hybrid carbon reporting approach, and preparing for new regulations, while further clarity on supplier commitments is needed.

**Barratt Redrow:** LAPFF engaged Barratt Redrow post-merger to review its decarbonisation strategy and sustainability commitments. Discussions with leadership covered balancing net-zero goals with large-scale housing needs amid regulatory uncertainty and infrastructure challenges. Barratt Redrow reaffirmed its commitment to net-zero homes, embedding climate risks into its strategy and collaborating with suppliers to align industry expectations. The company emphasised electrified housing innovation, highlighting the Zed House and eHome2 projects. Workforce transition and upskilling were also noted as priorities. CEO David Thomas's role on the UK's Net-Zero Council underscores the company's commitment to driving sector-wide decarbonisation aligned with the Future Homes Standard.

**Energy Suppliers - Iberdrola:** LAPFF engaged with Iberdrola to review its decarbonisation strategy. The company is on track to achieve carbon neutrality for Scope 1 and 2 emissions by 2030 and targets Net Zero by 2040. While 81% of its energy production is emission-free, challenges remain, particularly in Spain and the US, where gas distribution plays a key role. Iberdrola's stakeholder engagement on just transition appears robust but cautious in fossil fuel-reliant regions. The company is also advancing nature-based carbon offset programs, though their effectiveness in industrial sectors is yet to be proven.

LAPFF notes that both Iberdrola and SSE are progressing in their decarbonisation plans but face challenges due to ongoing reliance on gas for energy security. SSE's recent leadership changes add uncertainty, highlighting the need to reinforce governance and maintain momentum. SSE is focusing on carbon capture and storage (CCS), while Iberdrola pursues nature-based solutions. LAPFF remains cautious about the long-term viability of CCS and stresses the need for clearer links between these initiatives and tangible cost benefits to ensure alignment with both sustainability and affordability goals,

**Oil & Gas – BP & Shell:** LAPFF continues to engage BP and Shell, scrutinizing their strategic shifts away from renewable energy investments and testing the long-term viability of their fossil fuel-centric business models. LAPFF's stance is grounded in the belief that global demand for hydrocarbons will decrease over time and that only the lowest-cost producers will remain competitive. Moreover, as renewable power—especially solar—can be deployed in a decentralized and scalable way, the need for large oil and gas companies to dominate the energy transition is diminishing.

Shell has faced criticism from LAPFF over its expanded focus on LNG, particularly through its plans for Liquid Synthetic Gas (LSG), which combines hydrogen and captured CO2 to create methane. While Shell claims LSG can utilize existing LNG infrastructure, LAPFF highlights significant concerns over its inefficiency, high energy consumption, and reliance on government subsidies. LAPFF sees this as a risky strategy to prolong the life of fossil infrastructure. Shell's previous credibility issues—such as overpromoting tree-planting as a decarbonization strategy—fuel further scepticism. Although Shell claims it cannot make the investment case for renewables, LAPFF argues that instead of buybacks, more cash should be returned directly to shareholders as the fossil sector contracts.

BP, once viewed as more progressive within the sector, has also reversed course. In early 2025, it announced it would abandon key parts of its integrated energy strategy, cut back on non-fossil investments, and expand oil and gas production, with targets now up to 2.5 million barrels of oil equivalent per day by 2030. This U-turn from earlier pledges to reduce output has drawn LAPFF's attention, particularly as BP has decided not to put its revised climate strategy to a shareholder vote at its upcoming AGM, undermining transparency. LAPFF is also monitoring the influence of Elliott Advisors, which has reportedly pressured BP to refocus on fossil fuels, though no clear shareholder value uplift has yet materialized.

LAPFF maintains that its policy has never required oil majors to become renewable energy leaders but instead to manage a clear and credible decline in fossil fuel reliance. With both BP and Shell backtracking on climate ambitions, LAPFF stresses the urgent need for rigorous capital discipline, transparency, and caution over technologies like CCS and synthetic fuels, which are energy-intensive and offer limited net-zero contributions. The managed decline of the fossil sector, LAPFF asserts, remains the only realistic path to align with Paris Agreement goals.

# 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
- 53.7% of portfolio ESG leaders v 50.1% in the benchmark.
- 1.6% of portfolio ESG laggards v 2.3% in the benchmark.
- 0.8% of portfolio not covered all of which are investment trusts, 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 3 TPI scoring of 5 (the highest score)
- All 5 top emitters engaged through Climate Action 100+

### United Kingdom

- Weighted ESG Score 7.6, v the index at 7.7
- 63.2% of portfolio ESG leaders v 65.2% in the benchmark
- 0.2% of portfolio ESG laggards
- 2.2% of portfolio not covered, mainly investment trusts; less than benchmark
- Lowest rated 5 companies 6.0% of portfolio, 4 of 5 BBB rated by MSCI
- Financed emissions below the benchmark however carbon intensity above
- Lower weight of fossil fuel holdings than in benchmark.
- 4 of 5 top emitters rated 5 (highest ratings) on the Transition Pathway, 4 of 5 engaged through Climate Action 100+

### Emerging Markets

- Weighted ESG score 6.1
- 34.1% of portfolio ESG leaders v 34.1% in the benchmark
- 6.1% of portfolio ESG laggards v 5.7% in the benchmark
- 5.7% of portfolio not covered
- Lowest rated 5 companies 3.5% 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 7.3
- 46.2% of portfolio ESG leaders v 40.8% in the benchmark
- 3.1% of portfolio in ESG laggards v 2.9% in the benchmark
- 23.0% of portfolio not covered largely investment trusts etc
- Lowest rated 5 companies 6.1% of portfolio.
- Financed emissions below benchmark however carbon intensity above
- Materially lower weight of fossil fuel holdings than in benchmark.
- Top 5 emitters engaged with the Transition Pathway with 3 scoring TPI level 4 or above with the remaining two scoring a 3
- 3 of 5 top emitters engaged through Climate Action 100+

Overall, this continues to show a broadly positive picture, however during the quarter the MSCI ESG score fell for the Emerging Markets Equity Fund from 6.2 to 6.1. Increased positions in the Fund's lowest rated entities, including in Shanxi Xinghuacun Fen Wine drove the marginal reduction. Though the Fund and benchmark hold the same proportion of ESG leaders and laggards, the Fund holds significantly more of the "upper average" rated issuers resulting in the differential to the benchmark. The ESG score for the Listed Alternatives Fund also fell from 7.6 to 7.3 however the score remains materially above the benchmark.

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. It should be recognised that these metrics do exhibit volatility quarter-on-quarter as companies report emissions data annually and metrics fluctuate as market capitalisation and reported revenues fluctuate.

## Overseas Developed Fund

The Fund saw an 8% decrease in its financed emissions and a 4% decrease in its carbon intensity however weighted average carbon intensity (WACI) increased by 6%. The Fund remains below the benchmark across all emissions metrics.

**Featured Stock: L'Air Liquide**

L'Air Liquide is a French company that provides industrial and medical gases to global industries. The company has defensive qualities and is attractive for its conservative management team focussed on the implementation of efficiency and cost reduction measures that are expected to yield higher earnings.

In 2022 the company committed to achieving carbon neutrality by 2050, with key milestones set for 2025 and 2035. Notably, Air Liquide's target to reduce Scope 1 & 2 $CO_2$ emissions by 2035 has been validated by the Science Based Targets initiative (SBTi), making it the first in its industry to receive this endorsement. Air Liquide is actively supporting decarbonization efforts with innovative solutions such as $CO_2$ capture, low-carbon hydrogen, and air gases. In 2024, the company increased its low-carbon electricity sourcing, with over 40% of its power derived from renewable or nuclear sources. It also secured a record volume of power purchase agreements (PPAs), totalling 2,500 GWh. In 2024, Air Liquide achieved an 11% reduction in Scope 1 & 2 $CO_2$ emissions compared to 2020, surpassing its 2025 target. The company's carbon intensity has decreased by 41% since 2015, exceeding the 2025 reduction goal of 30%. Air Liquide's first climate transition plan outlines its strategy, and the steps needed to reach carbon neutrality by 2050.

## UK Listed Equity Fund

The Fund saw a 16% decrease in financed emissions dropping below the benchmark. The significant drop is partly explained by the benchmark, which saw financed emissions drop by 12%. The remaining drop is driven by the reduced position in Glencore, previously a top contributor to financed emissions, and a reduction in the Fund's active weight in top emitters, Shell, Carnival and Rio Tinto. The Fund sits below benchmark on financed emissions but continues to sit above benchmark on carbon intensity and WACI. The Fund's active weight in Shell, Rio Tinto, National Grid and Intercontinental Hotels Group drive the differential in WACI versus the benchmark.

**Featured Stock: National Grid**

National Grid is the Fund's largest holding in the utility sector. Following the recent divestment of its UK gas distribution assets, it now owns, develops and operates regulated electricity transmission and distribution networks, whilst in the North-Eastern United States it owns gas distribution networks alongside electricity distribution & transmission facilities. Through its NG Ventures division, it also operates a portfolio of flexible, low-carbon and renewable energy businesses, including electricity interconnectors, LNG, battery storage, wind and solar power. It has recently agreed the sale of its US Renewables business as part of plans to significantly increase grid investments in both the UK and the US over the next 5 years.

National Grid is one of the UK's largest investors in the energy transition including undertaking the most significant overhaul of the UK grid in generations with the company having a key role to play in facilitating the UK government's ambitious Clean Power 2030 target for zero-carbon electricity, whilst also delivering the largest investment in New York's electricity transmission network for over a century. Following a successful rights issue last year it has initiated a new 5-year £60bn capital investment programme through to 2029 with more than half of that investment in the UK, representing a near 50% increase over the previous plan. Of this, £51bn is to be directly invested into the decarbonisation of energy networks with EU Taxonomy alignment. National Grid is committed to achieving net zero for Scope 1,2 & 3 emissions by 2050 with interim objectives for a 60% reduction in Scope 1 & 2 emissions by 2030/31 and a 37.5% reduction in Scope 3 emissions (excluding sold electricity) by 2033/34, both from a 2018/19 baseline, and has maintained MSCI's highest AAA ESG rating over the last 5 years.

## Emerging Markets Equity Fund

Quarter on quarter, the Fund saw a significant decrease in financed emissions (28%), carbon intensity (27%) and weighted average carbon intensity (WACI) (20%). This was primarily driven by Grasim, the Fund's top contributor to financed emissions. Though Grasim remains the Fund's top contributor to financed emissions, the quarter saw a 0.7% drop in portfolio weight which resulted in a 25% reduction in the Fund's financed emissions.

**Featured Stock: Qatar Gas Transport**

Qatar Gas Transport Company, also known by its trading name, Nakilat, is a liquefied natural gas ('LNG') transport operator. The Company was established in 2004 with the strategic aim of becoming Qatar's LNG sector shipping arm. It currently has the world's largest LNG carrier fleet in operation, with a fleet of 74 vessels both wholly and jointly owned, putting them in control of approximately 11% of the global LNG carrier fleet.

The global awareness of climate change has resulted in commitments across the globe to reduce greenhouse gas emissions. These commitments have timeframes that require an energy transition to progressively move to reduce the use of fossil fuels, as well as a rebalancing to cleaner energy sources. Though still a fossil fuel, LNG is perhaps the cleanest and it represents a complementary pathway to reduce greenhouse gas emissions. LNG generates 30% less carbon dioxide than fuel oil and 45% less than coal, with a two-fold reduction in nitrogen dioxide and almost no sulphur dioxide. The invasion of Ukraine by Russia has resulted in even faster growth in demand for LNG as Europe has looked to improve its energy security and diversify its supply away from Russia. Qatar has the world's third largest proven gas reserves and is undergoing rapid expansion and growth in its LNG capacity. The Company provides the shipping infrastructure for this supply to be transported to the customer and as such has attractive long-term growth prospects. The Company has committed to the International Maritime Organisation’s decarbonisation target for 2050 and has set operational targets to decarbonise its fleet to be achieved by that date.

## 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 7.5
- 41.0% of portfolio ESG leaders compared to 56.1% in the benchmark
- 0.9% of portfolio ESG laggards compared to 0.8% in the benchmark
- 26.0% of portfolio not covered compared to 8.8% in the benchmark
- The 5 lowest rated issuers represent 1.1% of the portfolio
- Emissions below benchmark on all three carbon emission and intensity metrics.
- Below benchmark weight of companies with fossil fuel reserves.
- 3 of top 5 emitters engaged by Climate Action 100+ and four rated 4 or higher on the Transition Pathway

The Fund’s weighted ESG Score has remained constant at 7.3. A marginal increase in the benchmark’s ESG score from last quarter has seen the gap to benchmark increase. The Fund maintains a large overweight position in UK government bonds and underweight positions in European Investment Bank and KFW bonds which drives the differential. As UK government bonds have an ESG rating of ‘A’ (which is considered to be an average score, rather than the score of an ESG leader) this downwardly influences the Fund’s ESG scoring relative to benchmark. The Fund’s underweight position in high emitting sectors such as materials and energy increases the sensitivity to its highest emitters.

The Fund's WACI saw a marginal change across the quarter. The Fund’s financed emissions decreased by 10% and carbon intensity 6%. The Fund saw increases in the market capitalization of several issuers including high emitters, Engie, Enel and EON. This change in valuation lead to reduced financed emissions and carbon intensity. WACI is not sensitive to these changes, and so did not see a similar decrease.

## Commercial Property Portfolio

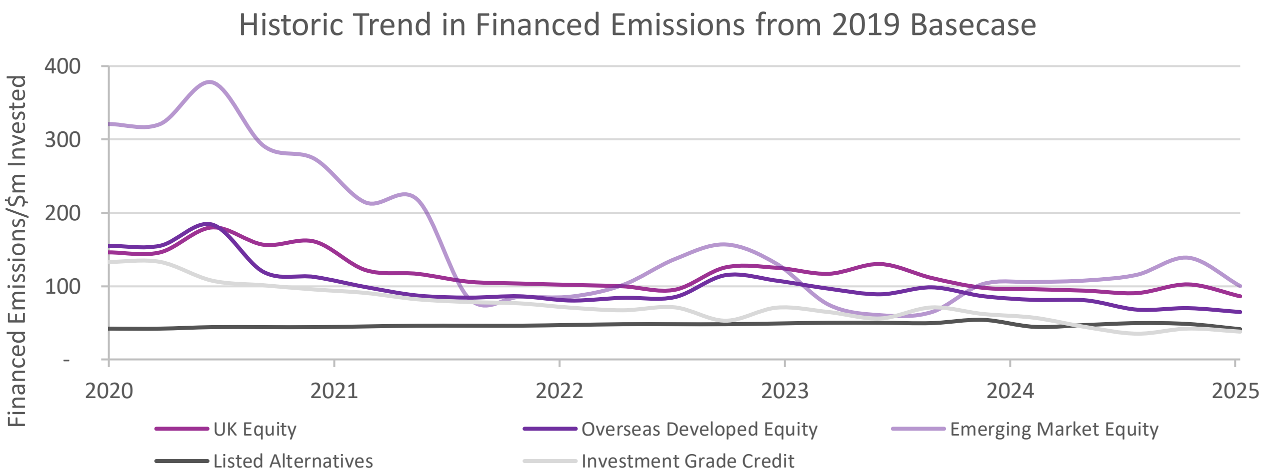
During the last quarter of 2024, part of the directly held property portfolio transitioned into a pooled investment vehicle managed by Border to Coast and made up of the direct property assets of other Partner Funds.

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. Instead, 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.

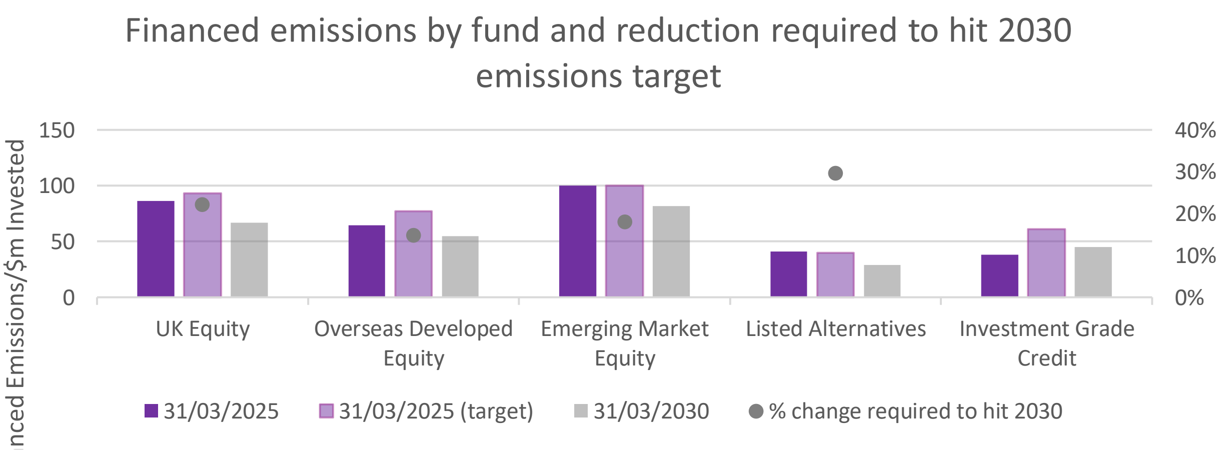
# Progress to Net Zero

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.

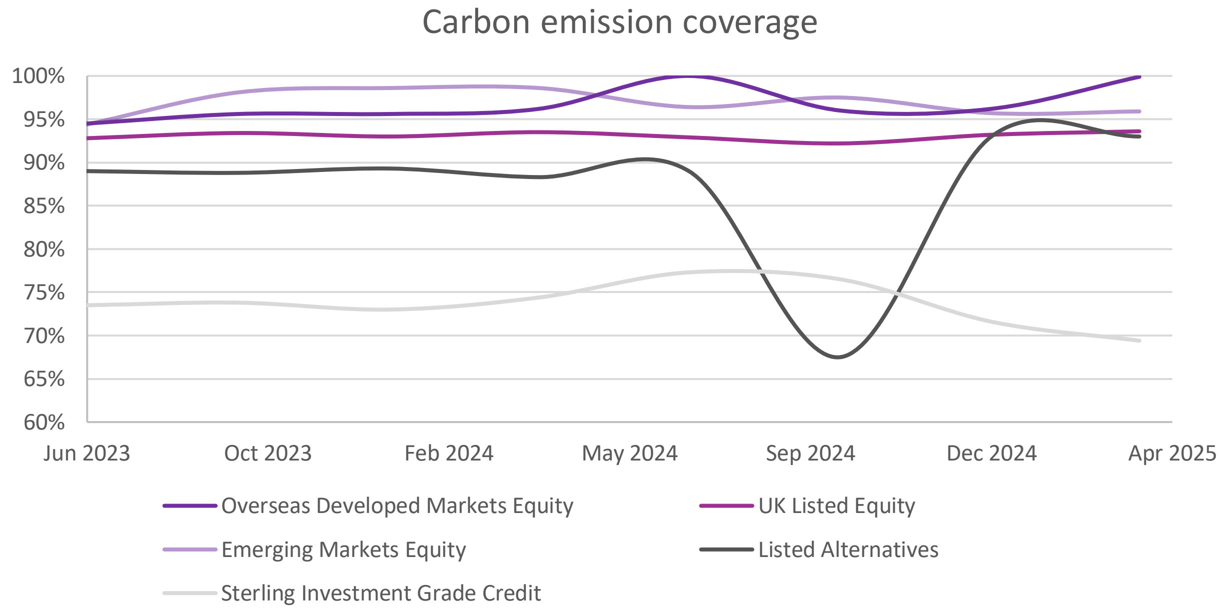



The below chart shows that the Overseas Developed Equity, UK Equity, Emerging Markets Equity and Investment Grade Credit funds have reached the interim 2025 financed emissions target to meet the net zero goal by 2030. The Listed Alternatives Fund missed its interim target by c3%. It should also be noted 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. As previously stated, reaching the net zero goal by 2030 will require a change in the emissions reduction trajectory of the reported Border to Coast funds that is significantly beyond the current Border to Coast targets.



## 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 progress, there are further improvements to be made on the Sterling Investment Grade Credit, which decreased due to new securities added this quarter, and the coverage of the Listed Alternatives Fund maintained its >90% coverage following a previous drop in coverage 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

In January the Director met with members of the South Yorkshire Fossil Free Group to discuss the Pension Authority's plans and progress to a net zero investment portfolio. Additionally, questions have been answered regarding the value of investments in defence companies and Israeli based securities.

# 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 IIGCC published its annual report which outlines its refined strategy to support investors in navigating climate-related challenges, centred on four strategic priorities: Net Zero, Nature, Adaptation and Resilience, and Emerging Markets & Developing Economies.

1. **Net Zero**: IIGCC launched the second iteration of the *Net Zero Investment Framework (NZIF 2.0)*, enhancing guidance across asset classes. This includes resources for infrastructure, private equity, and externally managed assets. Engagement initiatives scaled up, including the *Net Zero Engagement Initiative*, targeting 160 companies, and the *Climate Action 100+*, which added 90 new signatories and introduced enhanced benchmarks.

2. **Nature**: Recognising the financial materiality of nature-related risks, IIGCC co-convened *Nature Action 100* and assumed the Secretariat role for the *Financial Sector Deforestation Action* initiative. New benchmarks were launched at COP16 to assess corporate action on biodiversity, land use, and deforestation.

3. **Adaptation & Resilience**: The *Physical Climate Risk Methodology (PCRAM)* entered phase two, helping investors frame physical risk as a value creation issue. Guidance was also released on methane emissions and scope 3 data, reflecting rising investor interest in comprehensive climate risk management.

4. **Emerging Markets**: IIGCC stressed the importance of investing in developing economies, launching policy engagements and advocating for private sector inclusion in global climate finance frameworks.

With growing membership, expanded events, and enhanced research, IIGCC continues to support long-term investor action on climate, aligning financial objectives with a net zero and resilient future.

# 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.

**Net Zero Asset Managers (NZAM)**

In January, the United Nations-backed Net-Zero Asset Managers (NZAM) initiative suspended all activities, including monitoring its members' climate commitments, following BlackRock's recent exit. The move reflects growing political and regulatory challenges, particularly in the U.S., prompting a full review of the program's structure and purpose. As part of the suspension, NZAM has removed its signatories' list, commitment statements, and case studies from its website.

This operational pause comes after significant turbulence: BlackRock's withdrawal was followed by a wave of U.S. banks leaving the Net-Zero Banking Alliance, amid increasing political scrutiny. The House Judiciary Committee's long-standing investigation into NZAM and similar groups alleges that these alliances collude to enforce ESG policies, potentially violating U.S. antitrust laws. A committee spokesperson welcomed the suspension as validation of these claims, urging other financial institutions to abandon "woke" climate policies.

Critics of NZAM's suspension warn of the risks. ShareAction's Lewis Johnston called it a setback in the fight against climate change, emphasising that climate risks are financial risks. Sierra Club's Ben Cushing noted that many NZAM members were already lagging on their climate goals, and urged that the review should strengthen, not weaken, requirements. Tracey Lewis of Public Citizen criticised the retreat as politically motivated, highlighting that climate risks endanger Americans' financial security.

Despite U.S. political shifts, experts stress that global climate disclosure requirements—such as those in the EU and California—will still compel corporations to act. NZAM maintains that it has supported investors in aligning with fiduciary duties and long-term goals and plans to continue playing a constructive role after the review. The episode underscores tensions between global climate imperatives and evolving U.S. political dynamics over ESG investing.

**Reaction to BlackRock's withdrawal**

Dutch pension fund PME is reconsidering its €5bn mandate with BlackRock due to concerns over the asset manager's retreat from sustainable investing. PME, which manages €60bn in total assets, criticised BlackRock's withdrawal from key climate initiatives, Climate Action 100+ and the Net Zero Asset Managers (NZAM) alliance, stating this undermines its climate strategy and engagement leverage. PME has invited BlackRock's Netherlands branch for discussions and may terminate the partnership in a "cost-neutral" way if concerns aren't addressed. The move aligns with a new campaign by Fossil Free Netherlands urging pension funds to sever ties with BlackRock over its substantial fossil fuel investments, estimated at $400bn. Other pension funds which have fossil-free policies, have expressed disappointment but aren't currently ending their contracts, emphasising they maintain control over climate-related exclusions and voting policies. The situation highlights growing tension between asset managers and investors prioritising sustainability.