

CASE STUDY

South Yorkshire Pensions Authority

The **IMPACT INVESTING**
PRINCIPLES *for* **PENSIONS**



What are The Impact Investing Principles for Pensions?

The Impact Investing Principles are a practical guide to impact investment and provide four concrete steps pension schemes can take to pursue an impact investing strategy – see figure.

Drawn up to meet the growing need for best practice guidelines on how to set, implement, review and measure an impact investment strategy, the Principles were designed by the *Impact Investing Institute* in partnership with *Pensions for Purpose* in consultation with leading practitioners and with input from stakeholders including pension funds, investment consultants and managers as well as member associations.

Increasingly pension schemes want to reduce negative impacts and risks that arise from carbon emissions,

biodiversity loss, poor governance and inequality, which affect their portfolios. Pension funds are interested in investment opportunities that have a positive impact on the environment and society, and also secure a competitive financial return. The Principles make it easier for pension schemes to reach that goal.

The Principles were designed to be dynamic and to reflect the fast-evolving nature of impact investment. Pension schemes already working with the Principles participate in *Pensions for Purpose's* Community, a peer-learning platform that shares relevant resources and hosts events. This group, along with other initiatives and partnerships, provides evidence-based feedback to ensure the Principles remain cutting-edge and responsive.



Impact Investing Principles for Pensions

South Yorkshire Pensions Authority (SYPA)

We spoke to George Graham, Director, *South Yorkshire Pensions Authority (SYPA)* to compile this case study



Fund facts 2022

Assets under management (AUM): **£10.7bn**

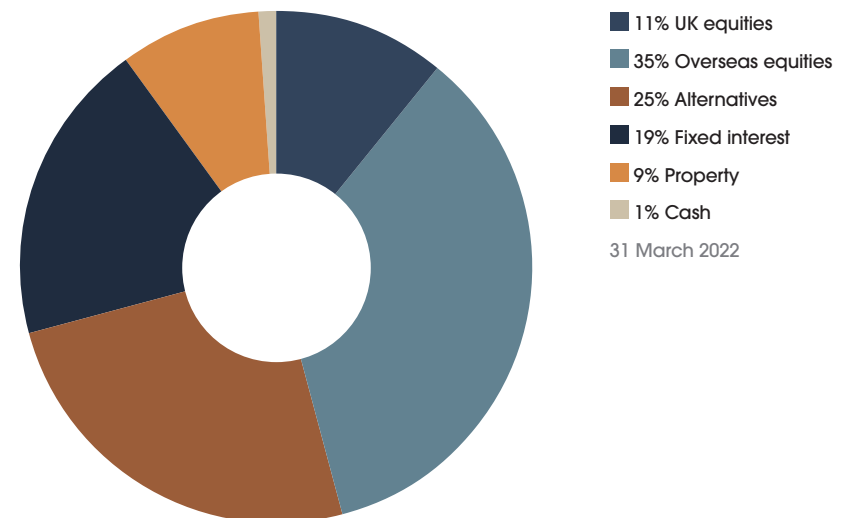
Employers represented: **548**

Number of members: **171,108**

Impact journey facts:

- Existing allocation of 1% of the fund to place-based impact investment (PBII) in South Yorkshire (unchanged since 2021).
- The PBII allocation is intended to reach 5% of the fund's value which would currently imply around £500mn (enhanced focus on place since 2021).
- 677 potential jobs created from their PBI bucket.
- Achieve net zero by 2030.
- SYPA is focused on investing in the opportunities arising from the sustainable development goals (SDGs), particularly goals 6, 7 & 13, but assesses their impact against all the SDGs.
- Top five negative impacts are on SDGs 6, 8, 12, 14 & 15, relating to their engagement priorities. First assessment, by a third-party.

Fund's asset allocation



CASE STUDY | SYPA

How did you choose the Principles?

The Impact Investing Principles for Pensions provide a helpful framework in reviewing our impact through maintaining a focus on outcomes and providing an extra dimension in examining managers' propositions. We have also used them in working with councillors to establish an overall approach to place-based impact investing.



How have you progressed with each Principle?

Set impactful objectives

1

We have sharpened our focus on place as part of our approach to impact and in seeking to pre-empt the Government's views in relation to investment to support levelling-up. Our approach continues to recognise everything has an impact. However, where we intentionally seek to make an impact, we are now more focused on place, using fewer metrics to measure housing supply, commercial floorspace, small and medium enterprises (SMEs) and start-ups focused on the green economy.

Our objectives were outlined in a report by the *Pensions Authority* in 2023. We will include an update in the Investment Strategy Statement when we write it. A measurement framework will be developed over the next two years. We review our broad policy framework across impact and all other aspects of responsible investment annually. Considering the views of stakeholders, we involved councillors and others such as the *Mayoral Combined Authority* and *Border to Coast Pensions Partnership* in progressing this approach. Involving scheme members in this development is challenging, but feedback from annual meetings and interactions with the Authority indicates broad support for investment into our place. The PBI allocation aims to reach 5% of the fund, at around £500mn. The focus has been on local development lending, adding a regeneration focus. We intend to pilot SME/start-up finance and general needs housing potentially targeting affordability or supply diversity. We hope to procure managers in the next year.

Appoint investment consultants and managers with impact integrity

2

Our independent advisers have provided a useful sense check on our work and, as they have become more familiar, they have become more supportive of the opportunities presented by diversifying the sources of return within the fund.

Detailed modelling for our strategy review was commissioned, explicitly stating the recommendations needed to recognise our net-zero commitment and our desire to include a multi-asset class place-based portfolio within the strategy outcomes.

Advisers were consulted to reflect our net-zero goal within the overall strategic asset allocation. Whether there is scope to do this across a wider range of impacts is not clear but can be looked at as the place-based approach develops.

We worked with *The Good Economy* on the pilot of their place-based impact reporting framework and have commissioned them to replicate this work across a wider range of funds and managers for the 2022/23 reporting season. This will then be used in reviewing manager performance with the intention that the reporting framework gradually becomes more robust and involves greater degrees of independent verification. Where managers are falling short there will be dialogue seeking to achieve improvement and ongoing monitoring.

How have you progressed with each Principle? *continued..*

Use your voice to make change

3

Our stewardship policy and impact objectives are aligned within our beliefs statement and have seen a number of our key priorities for engagement adopted by *Border to Coast* who are our investment pool.

We keep up to date with issues related to our impact objectives and stewardship guidelines through collaborative work within the *Border to Coast* partnership and the *Local Authority Pension Fund Forum*, as well as by the team all engaging continuous development.

Our investment managers' stewardship activities are reviewed and we publicly report on all stewardship activity undertaken on our behalf each quarter. 70% of our assets are managed by *Border to Coast* and we cannot directly engage with external managers if they are failing in this area. However, we and the other partner funds meet quarterly to review the Partnership's stewardship activity and performance.

As all our listed assets are in pooled funds, AGM attendance is not an option. We support, either directly or via *Border to Coast*, a range of initiatives such as *Institutional Investors Group on Climate Change*, *Climate Action 100+* and the *Workforce Disclosure Initiative*.

We are somewhat influenced by our members' views, although only a very small minority of scheme members contact us and it is difficult to survey our members.

Manage and review your impact

4

We assess and measure our impact, including metrics such as portfolio's emissions. We also undertook limited scenario analysis as part of the investment strategy review, which needs further development to meet regulatory requirements. The strategy review proposes specific changes to asset allocation to mitigate climate risk.

At a high level, we are aware of the portfolios overall impacts, but the lack of granularity of data in private markets means surprises are always possible.

In terms of net zero, the strategy review reflects the current emissions position. Regarding place-based impact, it's too early for measurement to inform our objective review.

To communicate our impact to members, we use our annual report, annual fund meeting, and limited press and social media. This is critical, as we are accountable for members' savings. Feedback has been limited but positive.

Next steps

We will be filling our place-based quota, including procuring fund managers for two allocations, which is part of the role of a new member of staff. We have also allocated additional resources for areas such as, scenario analysis and place-based reporting. Broadly we will increase the breadth – assets covered – and depth – granularity – of our reporting over the coming years. This is an ongoing process and not a one-off exercise.

“The Principles provide a helpful framework in reviewing our impact through maintaining a focus on outcomes and providing an extra dimension in examining managers’ propositions.”

George Graham

DIRECTOR OF SOUTH YORKSHIRE PENSIONS AUTHORITY



PICTURE CREDIT: LUÍS EUSÉBIO, UNSPLASH

“SYPA continue their impact evolution by building new targets for impact, reviewing their negative impacts and refining their processes to ensure better outcomes. It is great to see such dedication and commitment to understanding the field better and in contributing to solutions.”

Charlotte O’Leary

CEO OF PENSIONS FOR PURPOSE



WEBLINK

Find out more about
the Principles