



BCPP Joint Committee

Date of Meeting: 21st November 2018

Report Title: Responsible Investment Policies Review

Report Sponsor: CEO – Rachel Elwell

1 Executive Summary

- 1.1 As part of the initial pooling submission in July 2016, the Government required each Pool to have an approach to responsible investment (RI) with a commitment that a written RI policy would be in place at Pool level by 1st April 2018. Border to Coast's Responsible Investment Policy and Corporate Governance & Voting Guidelines were developed in 2017 in conjunction with the twelve Partner Funds to satisfy this.
- 1.2 Both policies are due to be reviewed annually or whenever revisions are proposed; policies will then be updated as necessary through the appropriate governance channels. The process for review included the participation of all the Partner Funds; this is to ensure that we continue to have a strong, unified voice.
- 1.3 The proposed revised policies do not contain any changes to underlying principles. They have been updated following feedback from our voting and engagement partner, Robeco, to enable clearer implementation of the policies. They also reflect the changes required to facilitate Border to Coast becoming a signatory to the UNPRI.
- 1.4 The annual review and governance processes need to be completed, with policies approved and ready to be implemented ahead of the 2019 proxy voting season.
- 1.5 Following feedback from a number of Partner Funds, we will be looking to set up a working party with support from Partner Fund Officers, Border to Coast personnel, our external partners (Robeco and the external managers) and potentially some consulting support to consider in depth the implications of climate change on our approach to investment. This is a wide-ranging topic that has the potential to impact all aspects of investment (i.e. it is not purely focussed on the fossil fuel industry or carbon footprint). The aim is for this to be ready for consideration ahead of the 2019 RI policy review.

2 Recommendation

- 2.1 That the Joint Committee reviews and comments on the proposed revisions to the RI Policy (Appendix 1) and Corporate Governance & Voting Guidelines (Appendix 2).
- 2.2 That the Joint Committee supports taking the revised policies to the Partner Funds for comment and for them to consider adoption of the principles in their own RI policies in-line with industry best practice.

3 Background

- 3.1 Border to Coast takes a holistic approach to sustainability; it is therefore at the core of our corporate and investment thinking. We are a strong supporter of Responsible Investment and will hold companies to account on environmental, social and governance (ESG) issues and be active stewards of the assets in which we invest.
- 3.2 We will do this through voting, monitoring companies, engagement and litigation. The Border to Coast Responsible Investment policy sets out our approach to RI and stewardship, and the Corporate Governance & Voting Guidelines sets out the approach and principles to voting. The aim is to manage risk and generate sustainable, long-term returns for our Partner Funds.
- 3.3 The LGPS (Management and Investment of Funds) 2016 regulations state that the responsibility for stewardship, which includes shareholder voting, remains with the Partner Funds. The day-to-day administration and implementation however, will be done by Border to Coast on assets managed by us, with appropriate monitoring and challenge to ensure this continues to be in line with Partner Fund requirements
- 3.4 To leverage scale and for operational purposes, a collaborative RI policy and Corporate Governance & Voting Guidelines have been developed in conjunction with Partner Funds. These policies are to be enacted on behalf of our Partner Funds in relation to assets managed by Border to Coast. This will ensure clarity of approach, give a consistent message and a stronger voice, with the ability to exert greater influence and change by working together.

4 Review process

- 4.1 The RI policy and Corporate Governance & Voting Guidelines were originally reviewed and agreed by the Joint Committee in October 2017; therefore, policies are now due for their first annual review.
- 4.2 The existing policies were evaluated by Robeco, the voting and engagement provider, considering the global context (the previous policies being relatively UK-centric) and best practice. Border to Coast is committed to becoming a signatory to the UN Principles for Responsible Investment (PRI); this will have an impact on both policies resulting in a number of changes (particularly regarding decision making, governance and reporting).
- 4.3 The revised UK Corporate Governance Code was taken into account when reviewing and amending both policies. The policies of best in class asset managers, and asset owners considered to be RI leaders were also consulted to determine how best practice has developed. The revised policies are considered to be in-line with industry best practice.
- 4.4 The review process with Partner Funds began with a RI workshop to walk through the RI strategy and process for review. Following the workshop draft policies were presented to the Officers Operation Group (OOG) for comment.
- 4.5 After considering any comments from the OOG, the policies were put to Border to Coast's Investment Committee, presented to the Board and approved for sharing with the Partner Funds. It was agreed that there are a number of areas where further research would be helpful ahead of the 2019 annual review, but that some prioritisation

of these was required given the resource availability and the number of other developments that were needed to enable Border to Coast to become an UNPRI signatory. Climate change was identified as a key risk topic and a working party will be established to consider this. Other areas for consideration included diversity (and gender pay gap); transparency and disclosures; the UN's sustainable development goals; and tobacco. The recommendation is that the research focus is on climate change during 2019. We will give consideration to how to agree other topics for future years in due course.

- 4.6 The policies are being presented to the Joint Committee for review and comment. The expectation is then for Partner Funds' Committees to begin their own review process with the ultimate objective to align policies where appropriate.

5 Partner Fund comments

- 5.1 Comments were received from Cumbria Pension Fund, South Yorkshire Pensions Authority and Tyne & Wear Pension Fund.

- 5.2 The main points from Cumbria were in relation to the Corporate Governance & Voting Guidelines; it was suggested that lobbying be split out from political donations, and a slight rewording was proposed in relation to director availability.

- 5.3 South Yorkshire raised points for potential inclusion in the Corporate Governance & Voting Guidelines. On auditor rotation, the view was that the independence of the auditor is key; therefore, rotation of the audit partner is not sufficient. Lobbying was also raised with suggestions regarding increased disclosure of lobbying and industry bodies. Comments made on the RI policy were in relation to climate change; expectations for all companies to have a business strategy for a low carbon transition; and commitments by Border to Coast to reduce carbon across portfolios.

- 5.4 Tyne & Wear raised the issue of share blocking and how Border to Coast would consider this in the markets where it is general practice.

- 5.5 The points raised by Cumbria and South Yorkshire were discussed at the OOG meeting. There was agreement on strengthening the wording in relation to auditor independence and inserting a sub-section specific to lobbying. Discussions between those invested in the Border to Coast UK Equity, Overseas Developed and Emerging Market Funds regarding the potential to actively tilt in a low carbon direction will be held. This will be supported by the proposed climate change working party. Officers were otherwise supportive of the policies put to the meeting.

6 Key changes

- 6.1 The Corporate Governance & Voting Guidelines are UK centric and therefore need to be expanded to reflect global corporate governance trends, not just UK best practice. The revised UK Corporate Governance Code was also considered when making revisions. The key changes to this policy are the inclusion of sections referring to board evaluation, stakeholder engagement, virtual shareholder meetings, shareholder proposals and share blocking.

- 6.2 Other amendments to the policy have been made to reflect global variations in best practice and cover board composition, diversity and remuneration.

- 6.3 The RI policy has undergone a substantial rewrite; this however has not changed the underlying principles. The policy has now been written from the perspective of Border to Coast and reflects changes required to be able to satisfy PRI reporting requirements in the future. The governance and implementation section has been expanded; additional detail has been included regarding integrating RI into the investment process per asset class; and the section on engagement includes greater detail on the different approaches taken.

7 Financial implications

- 7.1 Any financial implications are in respect of implementation and fulfilment of the policies. The cost of the external voting and engagement provider and RI initiatives have previously been approved. Additional spend will be in relation to ESG data providers, and ongoing training and development of staff through attendance at conferences and specific training events.

8 Risks

- 8.1 Responsible Investment and sustainability are central to Border to Coast's corporate and investment ethos and a key part of delivering our partner funds' objectives. There may be reputational risk if we are perceived to be failing in our commitment of this objective.
- 8.2 Commitment to RI is becoming increasingly important to the Partner Funds. In order to maintain collective policies and the strong voice this gives us, we need to ensure that all Partner Funds are in agreement. The development of the narrative regarding engagement is key: for example, at the recent Border to Coast Investment Conference, over 60% of delegates voted for engagement as the right way to effect a change with regards to climate change risk. Engagement (including with Governments to effect changes to policy) is not an overnight fix. We need to be able to set clear goals for the impact of our engagement, not just with the companies in which we invest but via the initiatives that we are collectively supporting.

9 Conclusion

- 9.1 The Joint Committee is asked to consider the recommendations made at section 2.

10 Author

Jane Firth, Head of Responsible Investment
13th November 2018

11 Supporting Documentation

Appendix 1: Draft Border to Coast Responsible Investment Policy (tracked changes included)

Appendix 2: Draft Border to Coast Corporate Governance & Voting Guidelines (tracked changes included)