

Border to Coast Pensions Partnership

Quarterly
Stewardship
Newsletter

Q2 2020



What Responsible Investment means to us

Border to Coast operates collective investment vehicles covering a comprehensive set of asset classes in which the eleven Local Government Pension Scheme Funds who are our customers and shareholders ('Partner Funds') can invest to implement their strategic asset allocations.

We aim to make a positive difference to investment outcomes for our Partner Funds by delivering cost effective, innovative and responsible investment, thereby enabling sustainable, risk-adjusted performance over the long-term.

Sustainability

We are a strong advocate of Responsible Investment (RI) and believe that businesses that are governed well and run in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors.

Indeed, integrating environmental, social and governance (ESG) factors into our analysis helps us identify broader risks, which leads to better informed investment decisions and improved risk-adjusted returns.

Active Ownership

As a long-term investor and representative of asset owners, we practice active ownership by holding companies and asset managers to account on environmental, societal and governance (ESG) issues that have the potential to impact corporate value. We also use our shareholder rights by voting at company meetings, monitoring companies, engagement and litigation.

Our approach to RI and stewardship is set out in our [RI Policy](#) and the [Corporate Governance & Voting Guidelines](#), both of which can be viewed [on our website](#).

What we've been doing this quarter

This quarter, we launched our [second Annual RI Report](#) and published our first [Task Force on Climate-related Financial Disclosure \(TCFD\) report](#), which sets out our approach to managing climate-related risks and opportunities within the four thematic areas set out by the TCFD.

In May, Border to Coast launched a search for an external manager for a specialist China equity manager to supplement its existing Emerging Market Equity Fund. The fund, which is currently wholly managed internally, is expected to allocate around a third of its assets to the specialist China manager.

Our CEO, Rachel Elwell, was featured in the [Financial Times](#) in June with an interview on 'protecting the pensions of front line workers'. Rachel has also spoken to Professional Pensions and Room151 on LGPS pooling and the challenges COVID-19 brings.

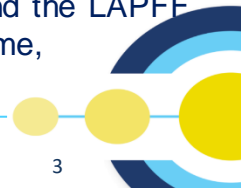
Jane Firth, Head of Responsible Investment, took part in a [discussion on Asset TV](#) where she shared how we are engaging with corporates, the impact on the voting season and why Coronavirus has made the S in ESG more important than ever.

In June we held the regular RI workshop for the Partner Funds' officers, taking the opportunity to update on the impact the pandemic has had on the peak voting season.

A statement was issued by global investors and signed by Border to Coast for consideration at Total's AGM in May. This was supported by 25 investors with over \$10 trillion in assets under management, all signatories are involved in Climate Action 100+. The statement recognised Total's announcement and ambition to achieve net zero by 2050 and also requested that Total provide regular updates on its targets and progress to achieving them.

We see deforestation and the associated impacts on biodiversity and climate change as systemic risks to our portfolios and as long-term investors we need to be using our influence to encourage action at both government and corporate level. We therefore made the decision to sign a letter, along with 28 other investors, asking for the government of Brazil to show clear commitment to eliminating deforestation. This was sent to nine Brazilian embassies and has received media coverage in the Financial Times with meetings arranged with Brazilian Government representatives.

Throughout the quarter Border to Coast representatives attended and participated at a number of webinars and Responsible Investment events virtually. This included the Cross Pool RI Group, the UK RI Roundtable and the LAPFF quarterly Business Meeting which, for the first time, was held via webinar.

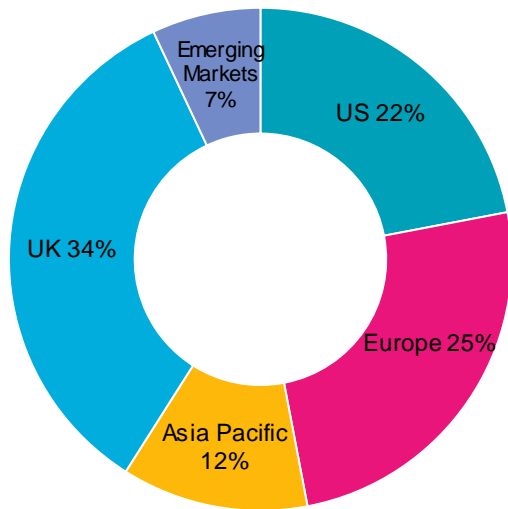


Voting Activity Q2 2020

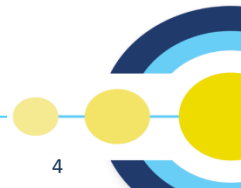
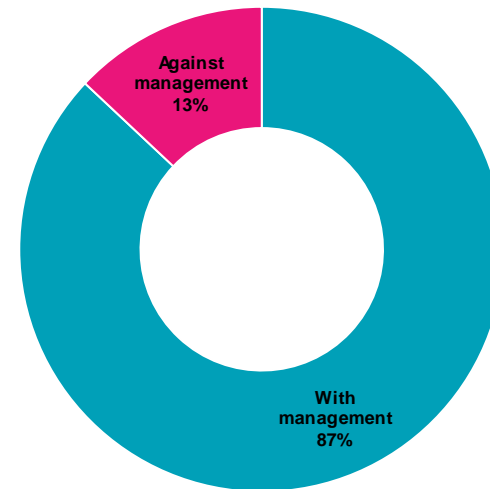
In Q2 2020 we voted at 517 meetings on 7,870 agenda items. We voted against management at 71% of meetings on at least one resolution.

At the beginning of the past quarter, uncertainty around the impact of the Covid-19 pandemic on the 2020 AGM season was still widespread. Fortunately, as we move past the busiest part of the proxy voting year, we see that many of these concerns did not materialise although there were undoubtedly some relatively significant changes. One of these was the backloading of meetings from April and May, into June with over 1,000 meetings being cancelled or postponed resulting in an even busier peak period at the end of the quarter.

Shareholder meetings voted by region



Resolutions voted with/against management



Emerging voting issues in Q2 2020

2020 AGM Season

The Covid-19 crisis has restricted physical attendance at AGMs in almost all markets, and has forced companies to delay their meetings, reorganise them as online events, or stage them behind closed doors, depending on the emergency regulations passed. The total number of AGMs registered to take place in Q2 2020 fell by 7% compared to last year. However, a significant number of meetings were rescheduled from April/May to June, which is already one of the busiest months. This meant that June was exceptionally demanding for investors.

The dialogue at AGMs has also shifted because of the crisis. With markets and economies in distress, many companies have run into significant financial challenges. Some have had to reduce capital expenditure budgets, cut dividends, apply for state aid and/or adjust their financial guidance.

This has led to a debate about the sustainability of dividend policies and whether bonus payouts are acceptable during a financial crisis. Many European financial organisations have been advised to cancel or postpone their dividends, even if they were sufficiently solvent and profitable, to maintain their capital allocation policies.

While we usually expect companies to put their dividend policy to a shareholder vote, due to the extraordinary challenges companies are facing we have taken a more lenient approach where boards have provided convincing rationale for withdrawing dividend proposals.

We note also that many compensation proposals were backward looking over 2019. Investors will only be able to fully judge decisions made in 2020 at next year's AGMs.

This year has seen a record number of environmental and social proposals passed at AGMs with majority support. Although advisory in nature this sends a strong signal to management. There has been a multifaceted approach to climate-related resolutions with calls for Paris Agreement alignment, climate lobbying, and banks' financing of emission-intense industries. Resolutions across markets have received notable support.

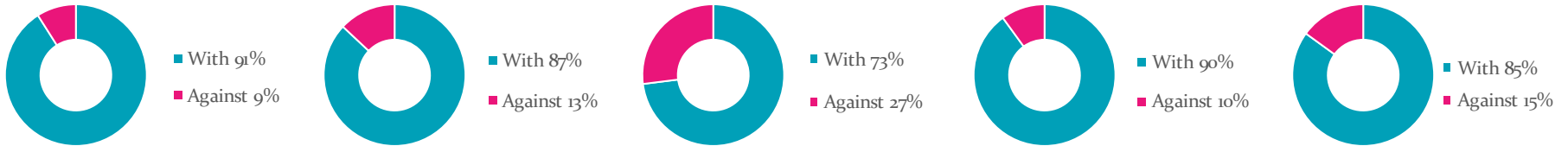
EU Shareholder Rights Directive

The first wave of 'say on pay' proposals in Europe resulting from remuneration votes before the 2020 AGM season saw several companies have their policies voted down. We believe that the new regulation will move companies towards remuneration practices that garner greater shareholder and societal support.

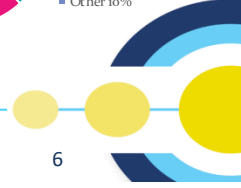
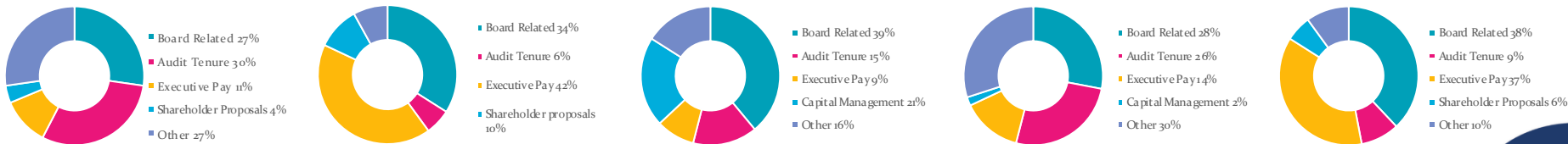
Quarterly Votes by Fund

UK Listed Equity	Overseas Developed	Emerging Markets	UK Equity Alpha	Global Equity Alpha
Meetings: 78	Meetings: 231	Meetings: 78	Meetings: 109	Meetings: 107
Items Voted: 1,476	Items Voted: 3,513	Items Voted: 813	Items Voted: 2,014	Items Voted: 1,686
Approx. size (bn): £3.5	Approx. size (bn): £2.5	Approx. size (bn): £0.6	Approx. size (bn): £1.0	Approx. size (bn): £4.0

Votes with/against management



Resolutions against by category



Q2 2020 Voting Highlights



Barclays plc

At the 2020 AGM both management and shareholders put forth separate climate proposals, an unprecedented occurrence. Having engaged with Barclays' Chairman and the shareholder resolution's proponent, we supported the management resolution regarding the bank's climate change strategy (99.93% support) and abstained on the shareholder proposal (24% support).



Chevron Corp.

At the 2020 AGM we voted against a shareholder resolution on lobbying activities that was filed in order to undermine a genuine shareholder resolution on the issue. Under SEC rules organisations are allowed to exclude resolutions with similar wording, unfortunately the genuine resolution filed by a shareholder advocacy organisation was rejected. The proposal failed to pass, only gaining 29% support from shareholders.



Exxon Mobil Corp

In May 2020 we voted against the Lead Director and the CEO as we see the company's failure to address climate change as a structural issue. Exxon has been a laggard on climate issues, exemplified last year when the company blocked a shareholder proposal calling for the company to report on the alignment between its strategy and the Paris Agreement. At the AGM on average, 93.6% of the votes were cast for the directors nominated.

Q2 2020 Voting Highlights

Woodside Petroleum



We supported two resolutions put to the April AGM by the Australian Centre for Corporate Responsibility related to climate change practices. The resolutions requested disclosure of how the company's strategy is aligned with the Paris Agreement, and a review of the company's lobbying activities on climate change. The resolutions received 51% and 43% support respectively. Neither vote is binding but this is seen as a breakthrough moment for climate change action in Australia.

Tesco plc



The June AGM saw Tesco receive a significant vote against its advisory vote on pay with 67% of shareholders voting against the resolution. The defeat of the advisory vote is one of the largest shareholder revolts in UK corporate history. The main concern was amendments made by the Remuneration Committee and the exclusion of online grocer Ocado from peer benchmarking, which boosted the long term incentive payout for both the CEO and Finance Director. The vote is advisory, meaning that executives will still receive the payout, although a defeat marks an embarrassing failure for Tesco.

Alphabet Inc



Alphabet has been at the centre of debate on digital human rights with shareholders registering concerns over the company's human rights policies. A coalition of investors filed a resolution which was put to the June AGM calling the company to set up an independent committee at board level tasked with monitoring human rights risks in its products and value chain. Other shareholder resolutions files covered a range of issues including gender and racial pay equity and sustainability. We supported all the shareholder resolutions. None of the shareholder resolutions were approved.

Engagement Q2 2020

We believe that engagement is an important component of active ownership. Our engagement strategy includes several different strands to engaging with our investee companies:

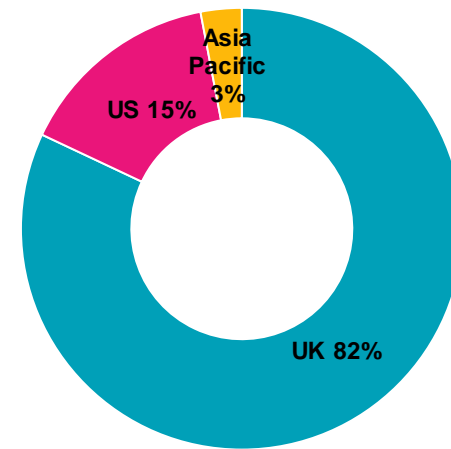
- Our internal portfolio managers engage directly with companies within their portfolios.
- External managers engage with companies on our behalf (see page 10-11).
- Robeco as voting and engagement service provider engage on our behalf with companies held in internally managed sub-funds across a number of engagement themes globally (see page 12).
- LAPFF conducts company engagement on behalf of its members on a wide range of issues (see page 13).
- We believe that we can increase our voice when working with other like-minded shareholders and have joined a number of RI initiatives compatible with our aims and beliefs.

Border to Coast meetings with investee companies

Our Portfolio Managers meet companies on a regular basis and address ESG issues where relevant. We met with 34 companies during the quarter.

The meetings were via a combination of face to face meetings and conference calls to discuss issues such as business strategy, environmental performance and succession planning.

Q2 - Engagement by region

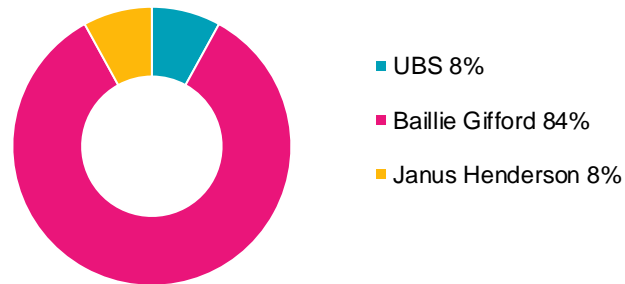


UK Equity Alpha Engagement Q2 2020

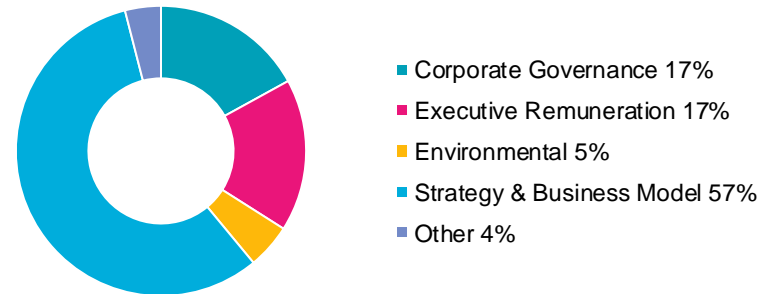
During the quarter our three external managers held engagement meetings with 36 companies. Meetings were held with company chairs, senior non-executive directors via calls, meetings and collective engagement.

A broad range of topics were covered including corporate governance, remuneration and environmental risk.

Q2 2020 - Engagement by Manager



Q2 2020 - Engagement by Topic

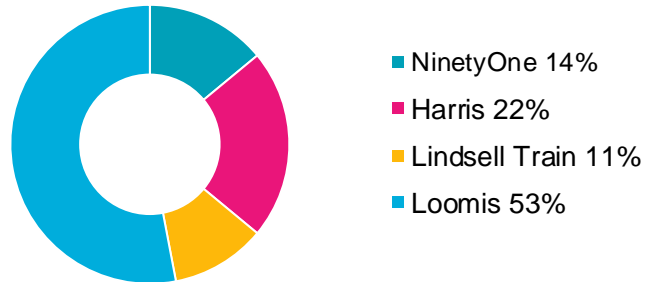


Global Equity Alpha Engagement Q2 2020

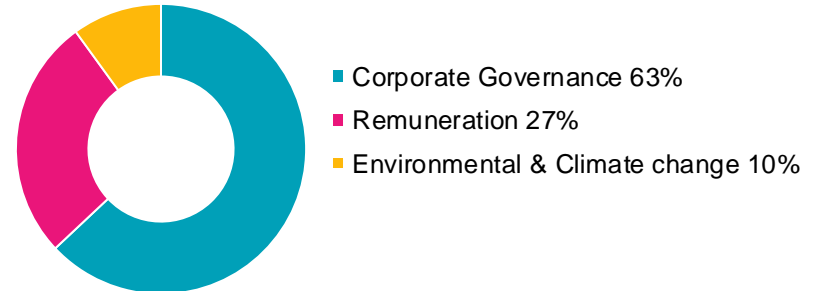
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Q2 -2020 Engagement by Manager



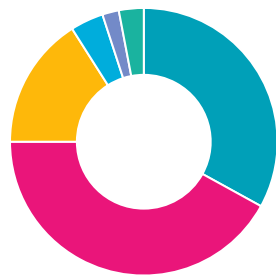
Q2 - 2020 Engagement by Topic



Robeco Engagement – Q2 2020

Robeco engages with companies on our behalf across all of the internally managed sub-funds. Over the quarter Robeco conducted 160 engagements with 84 companies. These took place by letter, meetings, conference call and email. Robeco's engagement is covered in greater detail in their Active Ownership Client Report Q2 2020, which can be found on our website.

Company Engagement Activities



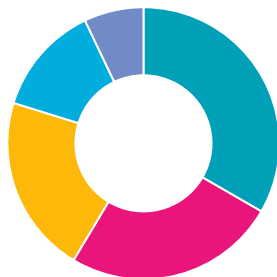
- Email 33%
- Conference call 42%
- Letter 16%
- Analysis 4%
- Shareholder Meeting 2%
- Other 3%

Engagement Overview by Topic



- Corporate governance 32%
- Env management 19%
- Healthy Living 12%
- Human rights 17%
- Env impact 7%
- Global Controversy 8%
- Social Management 5%

Engagement by Region

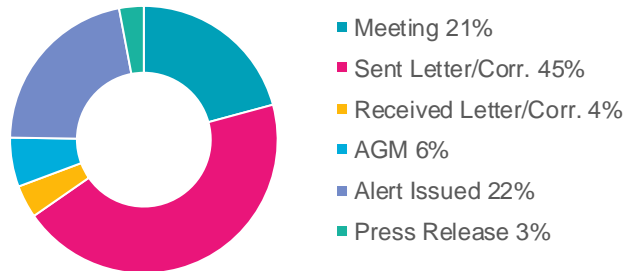


- USA 33%
- Europe 25%
- Pacific 21%
- UK 13%
- Emerging Markets 7%

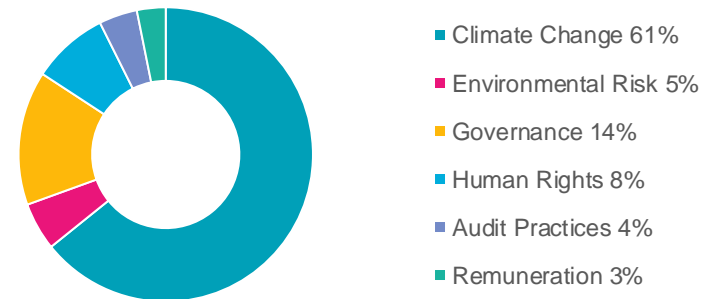
LAPFF Engagement – Q2 2020

LAPFF conducts company engagement on behalf of its members, LGPS and public sector funds, on a wide range of issues. LAPFF engaged with 70 companies over the quarter by a combination of letters and meetings. Issues engaged on included human rights, climate change, general governance and environmental risk.

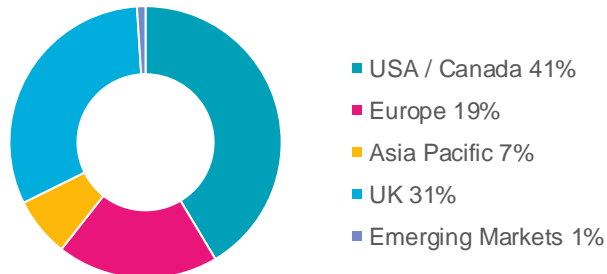
Company Engagement Activities



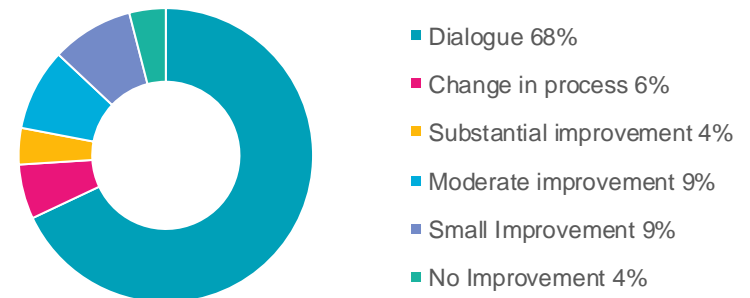
Engagement Overview by Topic



Engagement by Region



Engagement Outcomes



Engagement – RI Collaborations

Investor Mining and Tailings Safety Initiative

An announcement was made at the end of June that the Global Industry Standard on Tailings Management had been endorsed by the co-convenors of the Global Tailings Review, the UN Environment Programme, PRI and the International Council on Mining and Metals. This is the product of a rigorous independent process including multi-stakeholders. It establishes robust requirements for the safer management of both existing and new tailings facilities globally.

A global standard to drive best practice has been called for by people for decades. It took the Brumadinho disaster in January 2019 and the investor initiative calling for a new industry standard, to finally make this happen. Expectations are for all mining companies to comply with the framework. Investors have the responsibility to drive the implementation by incorporating the Standard into their active ownership strategies.

The Global Tailings Portal is live and companies are continuing to make disclosures following the coordinated engagement led by Robeco. At the time of publishing 97 mining companies have disclosed data covering 1938 tailings facilities.



The Workforce Disclosure Initiative (WDI) finalised the company engagement list and 750 companies have been contacted and invited to submit responses to the survey. Engagement is ongoing with investors encouraging companies to respond. The survey will be open for responses from early September. The impact of COVID-19 has seen companies taking different approaches to human capital management. This highlights the importance of collecting the right data to assess risks and risk management. The WDI is hosting several webinars and roundtables for signatories throughout 2020 covering workforce issues.



The TPI has released a carbon performance methodology paper on the mining sector following a consultation process and roundtable with companies. The paper assesses the carbon performance of the 10 biggest mining companies. A paper has also been produced on the European oil and gas sector analysing companies' commitments and targets to reduce carbon emissions.

External Collaboration



Robeco is our voting and engagement partner. They work on ESG issues with the companies we hold, and vote on our behalf. This allows us to better fulfil our stewardship objective to be an active shareholder.

Partnerships allow us to collaborate with like-minded investors and bodies to create a stronger voice on ESG issues. We work with a number of RI partnerships which support our ESG areas of focus.



Institutional Investors Group on Climate Change



Investor Mining and Tailings Safety Initiative



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Useful links

[Border to Coast website](#)

[LAPFF](#)

[IIGCC](#)

[30% Club](#)

[Climate Action 100+](#)

[TCFD](#)

[Workforce Disclosure Initiative](#)

[Investor Mining and Tailings Safety Initiative](#)

[Transition Pathway Initiative](#)