



PENSIONS PARTNERSHIP

BORDER TO COAST RESPONSIBLE INVESTMENT AND STEWARDSHIP REPORT 2019/20



Introduction

RESPONSIBLE INVESTMENT & STEWARDSHIP

Border to Coast was established by its Partner Funds to facilitate the pooling of their investments with the aim of improving value for money through scale, increased access to investment opportunities and strengthened governance.

As a customer-owned, customer-focused organisation, our long-term vision is to make a positive difference to investment outcomes for our Partner Funds. Pooling gives us a stronger voice and, working in partnership with our Partner Funds and across the asset owner and asset management industry, we aim to deliver cost effective, innovative and responsible investment thereby enabling sustainable, risk-adjusted performance over the long-term.



▶ Discover more at bordertocoast.org.uk

Cover photos: Cumbria and Infinity bridge
Stockton on Tees

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At a glance

Responsible Investment is at the centre of Border to Coast's corporate and investment philosophy. We believe that investing in sustainable companies and practising active stewardship will make a positive difference to long-term investment outcomes for our Partner Funds. This means holding companies to account on environmental, social and governance ('ESG') issues with the potential to impact corporate value. We practise active ownership across all asset classes, using our shareholder rights to vote at company meetings and engaging, both directly and in collaboration with other like-minded investors.

3 Primary engagement topics

Governance

Transparency and Disclosure

Diversity

Signatory to the PRI

Number of AGMs voted

831

Resolutions voted globally

11,440

Supporter of Transition Pathway Initiative

Responsible Investment partnerships

8

Total number of engagements

814

CEO's message

MAKING A POSITIVE DIFFERENCE



“As long-term investors, Responsible Investment is fundamental to our investment process: we, alongside our Partner Funds, believe that well and sustainably run companies make better returns over time. And with a lengthened investing horizon, identifying long-term risks becomes even more important.”

Responsible Investment (‘RI’) is fundamental to our investment process. It means placing our Partner Funds at the heart of everything we do. We understand what they want and ensure that we and the asset managers with whom we work take long-term risks into account to achieve the best possible investment outcomes.

We believe businesses that are governed well and run in a sustainable way, taking all stakeholders’ interests into account, are more resilient, better able to survive shocks and have the potential to provide superior returns for investors.

I am proud of the work undertaken during the year across Border to Coast to prepare for becoming a signatory to the Principles for Responsible Investment (‘PRI’). The team was very thoughtful about wishing to “walk the walk” and ensure the implications for the organisation were well understood. As well as the work to prepare us for signature, we and our Partner Funds have developed a strategy based on the six Principles for Responsible Investment. Areas of particular strategic focus include:

- The continuing integration of Environmental, Social and Governance (‘ESG’) factors into our investment process, holding external managers as well as our own portfolio managers to account. Planned developments include frameworks for new asset classes, training programmes and enhanced research analysis of ESG factors.
- Working with like-minded asset owners and managers, both to increase the impact of our voice on behalf of Partner Funds and to create clarity about our intentions and expectations regarding active stewardship and ownership. This work includes a clear map of how we are engaging with portfolio companies on material issues to ensure those in which we invest receive a joined-up message.

- A commitment to transparent reporting. This includes enhanced reporting on material ESG themes and the effectiveness of engagement, as well as helping our Partner Funds with their own reporting.

Good stewardship means engaging with management to understand the business, to provide guidance and to hold them to account on how they are running the organisation. We believe it is imperative for the asset owners to give companies clarity about our collective expectations. While we welcome the increasing level of scrutiny on asset managers around RI, we believe there is a real risk of it becoming a ‘race’ to ask the most difficult questions rather than making a real difference to outcomes.

It takes time to see the impact of engagement, but practical positive differences are starting to emerge. It is vital to set clear milestones and measure progress against those. And we must acknowledge where it isn’t working as much as where it is. That is how we learn.

Climate change is a good example of where we are starting to see engagement gain real traction. Best-in-class organisations are responding to the clear expectations set by the large asset owner collaborations we have seen emerge over the last few years. This is a complex area. Climate risk isn’t about carbon foot-printing alone. Best-in-class requires a fully holistic investment approach that takes into account more than just carbon, with an understanding of the end-to-end impact of issues right across the production and supply chain.

I commend this, our second annual Responsible Investment and Stewardship Report. I look forward to engaging with all stakeholders over the next twelve months at least as effectively as we did during 2019/20.

Rachel Elwell
CEO Border to Coast

Our twelve partner funds

*With effect from 1 April 2020 Northumberland merged with Tyne and Wear Pension Fund.

Everything we do at Border to Coast comes back to making a positive difference to the one million LGPS members, c. 2,500 local employers and many millions of taxpayers who are associated with our twelve Partner Funds.

Our business

HOW WE DO BUSINESS



Location: Cumbria



Location: Bedford



Location: Warwickshire



Location: Leeds

Business model

Border to Coast offers our Partner Funds a series of risk and return-focused investment funds covering a comprehensive set of asset classes. Partner Funds choose the funds which support their strategic asset allocation, holding shares, units or limited partnership interests in the funds they select.

We are one of the largest pensions pools in the UK. Our single voice enables us to have more influence on behalf of our Partner Funds on issues such as responsible investment.

▶ Business model see **page 9** of Annual Report

Strategy

We aim to be a full investment partner for our Partner Funds, set up to deliver long-term, risk-adjusted investment performance. We continue to build capabilities to ensure we are an efficient organisation that is sustainable for the long term.

We achieve our goals through the quality of our people's decision making and risk management. We have developed a three-year RI strategy using the UN-supported Principles for Responsible Investment as a framework and support the ambitions of the UK Stewardship Code through being a signatory and expecting our external managers to be signatories as well.

▶ Strategy see **page 10** of Annual Report

Governance

The Board has responsibility for the continued sound management of the business. It also holds the Executive to account for promoting an open and inclusive culture and establishing the values required to maintain a successful business.

We have adopted relevant parts of the UK Corporate Governance Code, reflecting our size and the nature of our business. We feel it is right to comply with its spirit as well as its principles and provisions. Doing so aligns us with good practice, transparency and openness.

The Board approves the RI strategy and policies with updates presented to the Board at regular intervals. The Chief Investment Officer ('CIO') is responsible for the implementation of the RI policy, with oversight from the Investment Committee, chaired by the Chief Executive Officer.

▶ Governance see **page 18** of Annual Report

Risk

Border to Coast's risk management framework forms an integral part of our Executive and Board processes and decision making. It enables us to appropriately identify and manage risks within our risk appetite and to minimise those that could result in significant financial loss or reputational damage. We believe a strong risk framework is fundamental for a regulated asset manager responsible for many billions of pounds of pension scheme assets. The principal risks are grouped into broad themes: strategic, investment, financial and operational. Responsible investment and stewardship are classified as investment risks and opportunities.

▶ Risk see **page 11** of Annual Report

Message from Daniel Booth, Chief Investment Officer

INVESTING RESPONSIBLY



“Our investment horizon is properly measured in decades rather than months. Responsible investment allows us to take a measured and balanced approach in all our investment decisions.”

At Border to Coast our investment horizon is properly measured in decades rather than months or even quarters. As a long-term, through-the-cycle asset manager, it is therefore essential that we take a measured and balanced approach in our investments, considering all risk factors. This is why the principles and practice of RI, and the ESG considerations with which they go hand in hand, are so important to us.

Over the last year, we have integrated these principles more fully into our processes as we focus on opportunities that will deliver over the long term. This approach to investment – that explicitly acknowledges the relevance of ESG factors to the generation of long-term sustainable returns – is core to how we will deliver on our purpose.

Ensuring this approach to RI is embedded not just in our, but our partners', processes is fundamental. As a result, asset managers are often struck during tenders by our rigour in ensuring their approach to RI is aligned with ours.

RI is not a static issue. We know today's standards – particularly those relating to the climate – will no longer be acceptable in a few years' time. It has been good in recent months to see some high-profile investors and asset managers, who have been slower than most to recognise the significance of climate risk, take a more positive stance on the issue. At Border to Coast, we will continue to integrate ESG risk factors into our internal decision making processes and ensure that our external managers have robust policies in place.

For our internal portfolios, in addition to conducting quarterly screening and benchmarking, we also incorporate ESG risk consideration at the individual stock level. Portfolio managers complete detailed investment analysis, including in depth review of ESG factors for portfolio investments, with the support of our Research and RI team.

We also include an ESG questionnaire as part of our request for proposal process for selecting external fund managers and private market funds, and on an annual basis after appointment, which are assessed by our portfolio managers and RI team. We seek to actively and constructively engage with the management of portfolio investments, and vote at meetings in line with the RI policy agreed with our Partner Funds.

I am delighted with the work undertaken to date by our RI team, led by Jane Firth, who won the Institutional Investor Peer to Peer Award for Best ESG Programme during the year. This outstanding recognition from her industry peers was thoroughly deserved. It makes us confident about meeting our goal of enhancing our ESG knowledge more deeply and widely throughout our organisation, knowing this effort will be led by such a strong and capable team.

Daniel Booth
Chief Investment Officer



Location: North Yorkshire

Active ownership

We take our investment responsibilities and the need for continuous improvement very seriously. We have a robust process in validating the ESG commitments of the assets we invest in, ensuring that they factor in ESG as a fundamentally important risk factor. Among other measures, this involves a quarterly screening of all (internal and external) portfolios, using external research and insight, such as MSCI data, to assess them against applicable benchmarks and we also measure them against a range of different carbon metrics.

Message from Jane Firth, Head of Responsible Investment

EFFECTIVE ACTIVE OWNERSHIP



“One of the benefits of pooling is to give our Partner Funds a stronger voice. Collectively we are now one of the largest pension pools in the UK. This increases not only our influence, but also our responsibility to drive Responsible Investment forward.”

As an active investor, Border to Coast aims to maximise long-term returns for our Partner Funds and their scheme members, by holding companies and asset managers to account across a range of environmental, social and governance (‘ESG’) issues. In doing so, we actively seek to influence and change behaviour to improve sustainability and performance across all asset classes, both now and far into the future.

We became a signatory to the UN-supported Principles for Responsible Investment (‘PRI’) during the year. This reflects both our own and our Partner Funds’ commitment to long-term sustainable investment, and the stringent discipline involved has enabled us to identify gaps in our approach to RI.

As a result, we have been able to take an even more robust approach to assuring the ESG credentials of the asset managers and other partners we work with. Many of our asset managers have acknowledged our thorough approach, raising our profile in the industry.

One of the benefits of pooling is to give our Partner Funds a stronger voice. Collectively we are now one of the largest pension pools in the UK. This increases not only our influence, but also our responsibility to drive Responsible Investment forward. This is illustrated by the fact that several companies consulted us on their remuneration policies prior to their AGMs, reflecting our growing reputation in this area.

Governance continued to be a key area of focus during the year. Our work with our voting and engagement partner, Robeco, was particularly important, with the launch of new engagement themes for the coming year which include addressing corporate governance in emerging markets. Our Voting Guidelines demonstrate our commitment to the superior risk mitigation and corporate decision making that more diverse and inclusive boards and

executive committees are proven to deliver. We also continued in our effort to improve the standards for disclosure and reporting that we and our Partner Funds expect of the companies we invest in.

These focus areas were reflected in some of the activities and collaborations which we were involved in during the year, helping us to monitor the risks in our portfolio. These include the Workforce Disclosure Initiative, the Climate Change Working Party, which we held with our Partner Funds, and the Investor Mining and Tailings Safety Initiative on which we reported last year. New in the last year was our support of the Transition Pathway Initiative, which assesses how ready companies are to adapt to a low-carbon economy, and collaborating with other investors to address cybersecurity issues.

The current pandemic has increased corporate and investor attention on ESG issues with the realisation that it’s not just a nice to have in the good times. This is going to be a challenging time for companies. Investors will focus on their response to the COVID-19 pandemic, taking into account responsibilities to all stakeholders – employees, suppliers and other partners as well as investors. As a responsible investor we will support boards and management teams who reflect the long term in their decision making. We need to remain flexible in our approach as priorities for the remainder of 2020 may change as a result.

Looking ahead, our focus until the end of 2022 is in delivering the three-year RI strategy agreed by our Board in late 2019. The key areas are: continuing to integrate ESG factors into day-to-day operations, collaborating with other institutional investors and developing reporting. So, we are building knowledge internally, training the Investment Team and wider colleagues on a range of RI and ESG topics, and developing a framework to help us



Location: Durham

“Looking ahead, our focus until 2022 continues to be on integrating ESG factors into day-to-day operations, collaboration with other institutional investors and developing reporting.”

map and improve how we engage in these areas across our portfolios. Robeco, meanwhile, is helping build our engagement skills so we can take the lead on collaborative initiatives we support. We are a signatory to the Financial Reporting Council’s UK Stewardship Code, which will be a key driver of how we develop our reporting in the years to come.

Jane Firth,
Head of Responsible Investment

Our responsible investment policy

OUR HOLISTIC APPROACH TO RESPONSIBLE INVESTMENT

Sustainability is one of the core values at Border to Coast. From an investment perspective this is brought to life through our approach to RI. This means we place ESG issues at the heart of our research and investment decision making processes. As a long term, strategic investor, combining financial and ESG analysis helps us identify broader risks. This leads to better informed investment decisions, improved risk-adjusted returns and a more holistic approach to investing that can improve performance.

Our Responsible Investment Policy

We originally developed our Responsible Investment Policy and Corporate Governance and Voting Guidelines (Voting Guidelines) in 2017 in conjunction with our Partner Funds. The Responsible Investment policy sets out our approach to RI and stewardship, and the Voting Guidelines set out our approach and principles relating to voting (and are available on our website). Both policies are designed to help us manage risk and generate sustainable, long-term returns for our Partner Funds. We review them both annually to reflect developments in best practice and regulation, and we update them as necessary through the appropriate governance channels.

All Partner Funds participate in the review process to ensure we have a strong, unified voice. This year's review resulted in some changes to both policies. These reflect the new Shareholder Rights Directive that came into force during 2019, our determination to continue clarifying our intentions on voting, and our need to be in alignment with the PRI. We apply the Voting Guidelines to all listed equities, whether we manage them internally or via mandates with external managers. This provides a framework for voting and ensures each is administered and assessed on a case-by-case basis.

Key features of our policies

- **Governance and implementation:** we have created our RI policies following collaboration and engagement with our Partner Funds, with whom we jointly own and review them annually. The Board and Executive Committees consider and oversee RI, and the Chief Investment Officer ('CIO') is accountable for the implementation of the policies.
- **Skills and competency:** we ensure the Board and our staff maintain the appropriate skills in RI through ongoing professional development. We will take expert advice from RI specialists where needed.
- **ESG integration:** we integrate ESG factors into investment analysis and decision making across all the different asset classes we invest in, enabling long-term sustainable investment performance for our Partner Funds. We consider those ESG factors that could cause financial and reputational risk, which in turn could reduce long and short-term shareholder value and increase the risk of investing in a company.
 - **Internally managed listed equities:** we use ESG data and specialist research alongside general stock and sector research. When used in conjunction with traditional financial analysis, this approach results in a more informed investment decision making process and gives us an additional context for stock selection.
 - **Fixed income:** we incorporate ESG analysis factors into the investment process for corporate and sovereign issuers to manage risk. The challenges of integrating ESG in practice are greater than for equities with the availability of data for some markets lacking.
 - **Private markets:** we believe that ESG risk forms an integral part of the overall risk management framework for private market investment. ESG

issues are considered as part of the due diligence process for all private market investments which includes assessing a manager's ESG strategy through a specific ESG questionnaire. We expect managers to report on progress and any potential risks annually, and we monitor managers to identify any possible ESG breaches.

- **External manager selection:** we have incorporated RI into our external manager selection and appointment process. We monitor the performance of these managers, including an assessment of how far they integrate stewardship and ESG in accordance with our policies.
- **Approach to climate change:** we actively consider how climate change, the shifting regulatory environment around it and its potential macroeconomic impact will affect investments.
- **Voting:** wherever practicable, we aim to vote in every market in which we invest, exercising our voting rights carefully to promote and support the principles of good corporate governance. Wherever possible, we also apply our Voting Guidelines to externally managed assets.
- **Engagement:** we aim to use constructive shareholder engagement to influence companies' governance standards and their environmental, human rights and other policies. We will also work collaboratively with other like-minded investors and bodies to increase our influence.
- **Communication and reporting:** we aim to be transparent, making our RI and voting policies publicly available. We publish quarterly voting and full voting activity on our website along with our quarterly and annual Stewardship reports. We also report directly to our Partner Funds on our engagement and RI activities, both quarterly and in our annual RI & Stewardship Report.



Location: Surrey

Our approach to engagement

As a long-term investor we practise active ownership. We believe well-governed, sustainably run businesses are more resilient, better able to cope with market volatility and deliver good returns for investors. This approach is set out in our Responsible Investment Policy and Corporate Governance & Voting Guidelines, which outline how we practise active ownership through monitoring, engagement and voting and, if necessary, litigation.

Climate change

MANAGING THE RISKS OF CLIMATE CHANGE

Climate change is one of the most significant threats to a sustainable future, posing existential risks to the stability of the financial system. This is recognised by central banks, with the realisation that the growing risks to financial stability need to be urgently addressed. Physical and transition risks could both have a significant impact on investment outcomes for pension schemes, their members, and participating employers. We welcome the fact that it is increasingly recognised as a fundamental issue for asset owners and the asset management industry.

The science behind climate change is well established and scientists, academics and leading scientific organisations agree it is extremely likely the warming of the climate is due to human activities. The frequency of extreme weather events has been rising over the last few decades, and many examples occurred in 2019, including record temperatures in the UK and Europe and wildfires of unprecedented intensity in Australia.

Climate change, the shifting regulatory environment and associated potential macroeconomic impact have the potential to affect the long-term value of investments across all asset classes. Climate change has the potential to transform how the world works, radically affecting the way we live and work, the development of business and industry and the flows of capital.

We can divide climate-related risks into two main categories: those associated with the transition to a low-carbon economy; and those related to physical impacts. All have the potential to cause financial damage. This is not a theoretical possibility that will affect asset owners at some unspecified future point. It has real implications now, due to changes in government policy and regulation. Although the US withdrawing from the Paris Agreement is a significant setback, there is still momentum on environmental policy at regional and

national level. China is progressively focusing on more environmentally sustainable growth. The EU has released its Green Deal and financial plan to move to a green economy, with the aim of being carbon neutral by 2050.

The transition to a low-carbon economy will affect some sectors more than others, most notably energy, extractives, utilities and sectors that are highly reliant on energy. There are likely to be winners and losers even within these sectors, however. Climate-related issues can have a financial impact on a company's revenues, its spending and the valuation of its assets and liabilities. For example, transition and physical risks may affect demand for products and services, impacting company revenues. An organisation's debt and equity structure may also change as debt levels increase to compensate for reduced operating cash flows or to cover increased R&D spending.

We need to consider the financial implications of climate change both strategically and at a portfolio or individual stock level to ensure our portfolios are equipped to provide long-term sustainable financial returns for our Partner Funds. To better understand the potential investment implications, in 2019 we established a Climate Change Working Party made up of Border to Coast personnel and Partner Fund officers. The six sessions held in 2019 featured presentations from a range of experts including Robeco and our external managers.

We share with our Partner Funds a clear priority to manage the risks and opportunities arising from climate change, and together we identified several areas to progress over the coming period. These include:

- continuing to embed and enhance ESG analysis, including climate risk, into our investment decisions; and

- investigating options for measuring the management of transition risk, including scenario analysis and the role of private markets in managing transition risk.

We use third-party ESG and carbon data to measure and monitor our portfolios, recognising that carbon footprinting is only part of the 'toolbox' and should not be viewed and used in isolation. We therefore use the Transition Pathway Initiative's tool to assess companies' progress on how they are transitioning to a low-carbon economy.

We use engagement and our voting rights to encourage and influence companies to adapt their business strategies to align with a low-carbon economy. We are supporters of Climate Action 100+, the largest collaborative RI initiative in history, which since launch has made some significant progress with several companies. However, much more needs to be achieved to persuade some of the world's largest emitters of greenhouse gases to take stronger action on climate change.

Robeco and the Local Authority Pension Fund Forum ('LAPFF') also carry out climate-related engagement on our behalf. We use our votes to register concern by voting on climate-related agenda items and co-filing shareholder resolutions that reflect our RI policy. As a supporter of the Task Force on Climate-related Financial Disclosures, in 2020 we are taking our first steps towards applying its recommendations through voluntary reporting. Our disclosure report can be found on our website.



Location: Bedfordshire

“We use our votes to register concern by voting on climate-related agenda items and co-filing shareholder resolutions that reflect our RI policy. As a supporter of the Task Force on Climate-related Financial Disclosures, in 2020 we are taking our first steps towards applying its recommendations through voluntary reporting.”

Voting

EFFECTIVE STEWARDSHIP

As a shareowner, Border to Coast has responsibility for the effective stewardship of the companies in which we invest. Voting rights are therefore an asset which we exercise carefully to promote and support the principles of good corporate governance.

We aim to engage with investee companies globally and vote on our shareholdings in listed equity portfolios in every market where this is practicable. We believe the most effective way to achieve this is through a specialist external provider; we have therefore appointed Robeco as our voting and engagement provider to implement our detailed voting guidelines and ensure votes are executed in accordance with policies.

The voting data below for our UK Listed Equity Fund, Overseas Developed Markets Equity Fund, Emerging Markets Equity Fund and UK Listed Equity Alpha Fund cover the full year, as these funds were all launched in 2018. However, this report does not cover a full year's voting data for the Global Equity Alpha Fund, as it was launched on 30 September 2019.

We and our Partner Funds reviewed and revised our Corporate Governance and Voting Guidelines during the year, and expanded them to reflect global corporate governance trends. The Voting Guidelines, which are available on our website, provide a framework for voting. Portfolio managers and responsible investment staff administer and assess them on a case-by-case basis before voting is executed to take specific company and meeting circumstances into account.

We produce quarterly voting records and annually publish a full list of our voting activity. You can view these on our website.

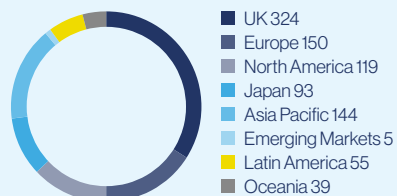
Total number of meetings

831

Total number of resolutions

11,440

Shareholder meetings voted by region



Total

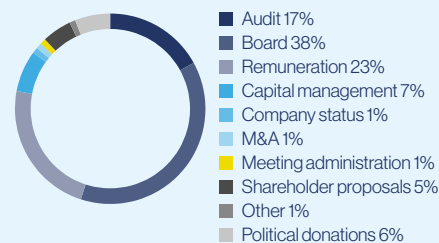
929

(N.B. companies may be held in multiple portfolios).

Global meetings – votes with/against management



Global votes against – by category %



Location: Surrey

“We aim to engage with investee companies globally and vote on our shareholdings in listed equity portfolios in every market where this is practicable.”

Voting continued

As at 31 March 2020

UK Listed Equity Fund

Launch

July 2018

Approximate size

£3.5bn

Managed

Internally

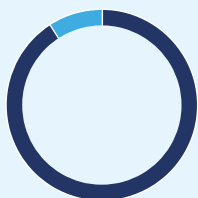
Total number of meetings

131

Total number of agenda items voted

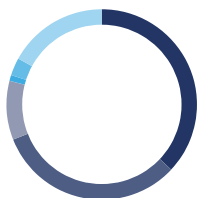
2,311

Votes with/against management



■ With management 91%
■ Against management 9%

Votes against by category



■ Audit 37%
■ Board 32%
■ Remuneration 10%
■ Capital management 1%
■ Shareholder proposals 3%
■ Political donations 17%

Overseas Developed Markets Equity Fund

Launch

July 2018

Approximate size

£2.5bn

Managed

Internally

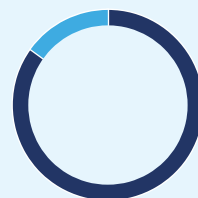
Total number of meetings

398

Total number of agenda items voted

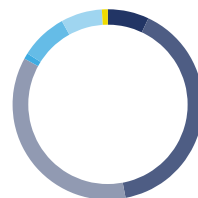
5,356

Votes with/against management



■ With management 85%
■ Against management 15%

Votes against by category



■ Audit 7%
■ Board 40%
■ Remuneration 36%
■ Company status 1%
■ Capital management 8%
■ Shareholder proposals 7%
■ Other 1%

Emerging Markets Equity Fund

Launch

October 2018

Approximate size

£0.6bn

Managed

Internally

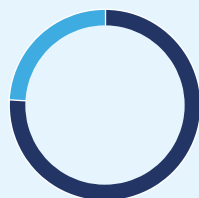
Total number of meetings

167

Total number of agenda items voted

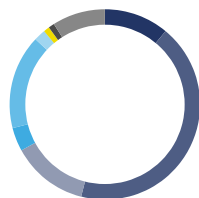
1,530

Votes with/against management



■ With management 76%
■ Against management 24%

Votes against by category



■ Audit 11%
■ Board 43%
■ Remuneration 13%
■ Company status 4%
■ Capital management 16%
■ Shareholder proposals 2%
■ M&A 1%
■ Political donations 1%
■ Other 9%

UK Listed Equity Alpha Fund

Launch

December 2018

Approximate size

£1bn

Managed

Externally

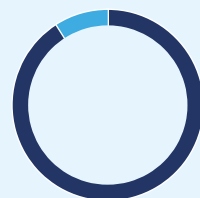
Total number of meetings

207

Total number of agenda items voted

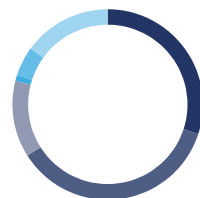
3,393

Votes with/against management



■ With management 91%
■ Against management 9%

Votes against by category



■ Audit 30%
■ Board 36%
■ Remuneration 13%
■ Capital management 1%
■ Shareholder proposals 5%
■ Political donations 15%

Global Equity Alpha Fund

Launch

October 2019

Approximate size

£4bn

Managed

Externally

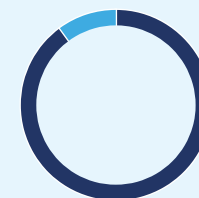
Total number of meetings

26

Total number of agenda items voted

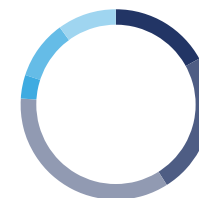
316

Votes with/against management



■ With management 90%
■ Against management 10%

Votes against by category



■ Audit 17%
■ Board 24%
■ Remuneration 35%
■ Capital management 4%
■ Shareholder proposals 10%
■ Political donations 10%

Engagement

DRIVING CHANGE THROUGH DIALOGUE

Border to Coast believes that the best way to influence companies is through engagement. We will not divest from companies principally on social, ethical or environmental reasons. As responsible investors, the approach we take is to actively influence companies' governance, social and environmental policies through constructive engagement and the use of voting rights; holding companies and asset managers to account on ESG issues that could impact corporate value. During 2019/20 we engaged with the companies in which we invest across our main themes of Governance, Transparency and Disclosure, and Diversity.

As a long-term investor and representative of asset owners, we practise active ownership by holding companies and asset managers to account on ESG issues that could impact corporate value.

We believe engagement is an important component of active ownership, and our strategy includes several different strands for engaging with our investee companies. Because we need to engage meaningfully with global companies, our voting and engagement provider Robeco works globally on our behalf across a number of themes with companies held in internally managed sub-funds. Our internal portfolio managers and RI team also engage directly on various ESG issues with companies we hold in internally managed portfolios. As part of their mandate, we expect external managers to engage with companies and bond issuers held in the equity and fixed income funds they manage for us.

The approach to engagement varies depending on the asset class and ownership structure. As the UK Stewardship Code has extended its scope to asset classes beyond shares in UK issuers, we need to ensure that we are engaging across all the asset classes we are invested in. Engagement on our listed equity holdings

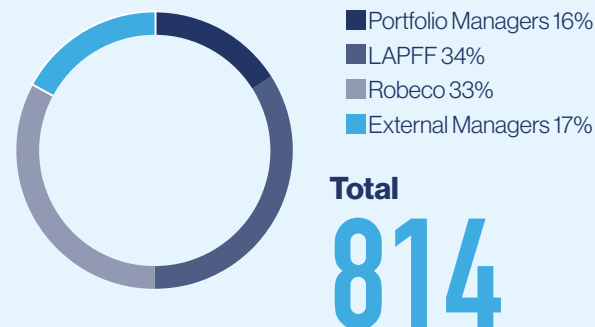
has been taking place via Robeco and our internal team since the first listed equity sub-funds went live in July 2018. We also have externally managed mandates and are working with our managers on engagement reporting and outcomes.

While bondholders do not have voting rights as such, they have a direct line of access to management as capital providers to corporations. We expect our fixed income and multi asset credit managers to engage on our behalf where ESG risks have been identified in portfolios. Fixed income engagement examples are not included in this report as the first fixed income sub-fund was only launched in March 2020.

We launched the first funds as part of our alternatives offering during 2019, covering private equity, infrastructure and private credit. Responsible Investment criteria are integrated into our due diligence process and we prioritise engagement with the General Partners ahead of investment to ensure managers meet our requirements in this area. This has led to some managers agreeing to enhance ESG reporting and focus going forward. As the programme is immature, with capital starting to be deployed over the 2019/20 we will be able to provide greater detail as underlying funds make commitments and issue annual reports.

We believe we can strengthen our voice even more by working with other like-minded shareholders. We have joined a number of collaborative RI initiatives, including Climate Action 100+ and the 30% Club Investor Group, compatible with our aims and beliefs (see page 8 for more detail). We are a member of the Local Authority Pension Fund Forum ('LAPFF'), which carries out company engagement on behalf of its members across a broad range of ESG issues.

Number of engagements



Robeco engagement by topic



Engagement continued

Engagement themes

Given the breadth of potential RI issues, we recognise that we can be more effective by focusing on specific areas. During 2019-20 Border to Coast continued to concentrate on three main ESG areas: governance, transparency and disclosure, and diversity. We look in greater detail at examples of each of these areas below. Although we have specific focus areas for engagement, our relationship with Robeco and our membership of LAPFF allow us to engage more widely across our global portfolios. Robeco undertakes active engagement on our behalf across twenty different ESG themes, including corporate governance, climate action, single use plastics and cyber security, on our global holdings. Engagement also takes place with companies that have breached the United Nations Global Compact Principles.

The UN Sustainable Development Goals (‘SDGs’) are a comprehensive set of 17 global goals to achieve a better and more sustainable future for all. Over recent years Robeco has been taking steps to increase understanding of the impact of engagement on the SDGs. During 2019, 14 of their engagement themes were linked to a relevant SDG. Engagement across four of the

Robeco are engaging with companies on 12 of the UN Sustainable Development Goals



SDGs was linked to product impact, and engagement on ten SDGs was in relation to business conduct.

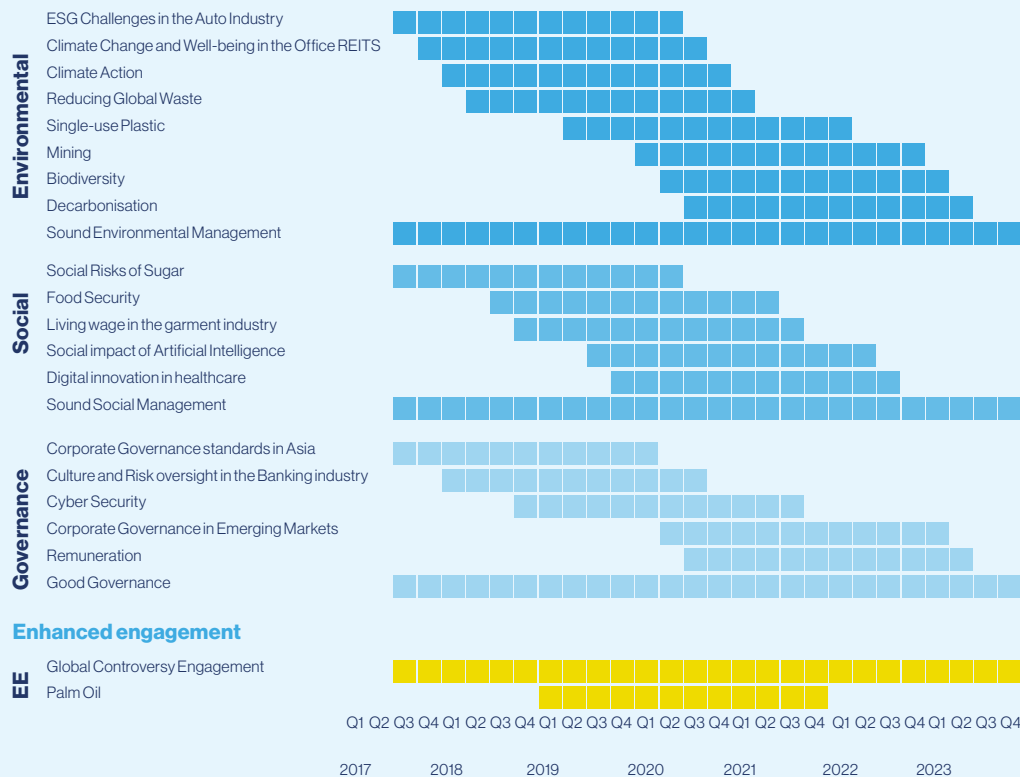
Engagement needs to be conducted over an extended period of time to build long-term relationships and trust with company management in order to achieve change. Robeco’s engagement themes reflect this by running for a period of three years. Each year some engagement themes are completed and closed and replaced by new themes. During 2019 new areas included single-use plastic and digital innovation in healthcare and the closing of four themes including tax accountability. New themes being launched in 2020 include engaging with the mining sector, corporate governance in emerging markets, decarbonisation, biodiversity with a focus on agriculture and deforestation, and remuneration focusing on EU and US companies. Robeco’s engagement is covered in greater detail in their Active Ownership Client Reports, which can be found on our website.

We are also members of LAPFF, which allows us to engage collaboratively with other Local Government Pension Funds and Pools across different ESG themes on behalf of its members. Themes covered complement and, in some instances, overlap and strengthen the engagements undertaken by Robeco and Border to Coast. Areas covered include employment practices, anti-bribery and corruption, climate risk, board composition and human rights.

The following case studies are engagements conducted by our external managers, our Voting and Engagement Partner, and through collaborative initiatives.

Robeco’s engagement themes for 2020

Value engagement



Enhanced engagement

Engagement continued

Governance

Good governance is at the core of any successful business. High standards of corporate governance tend to feed through to robust oversight and good management of environmental and social factors. Company boards should adhere to standards of best practice in relation to issues such as leadership, effectiveness, accountability, relations with stakeholders and remuneration. The Executive remuneration policy is one of the instruments companies use to guide, evaluate and reward the behaviour and achievements of executives. It is therefore in the interests of a company, its shareholders and other stakeholders to have an appropriate remuneration policy in place for executives. Over many decades it has been argued that the design of executive remuneration structures impacts top management's focus, risk appetite and decision horizon. An appropriately structured remuneration policy should align executive pay with company strategy, by incentivising executives to create long-term, sustainable shareholder value. A number of criteria should be fulfilled in any compensation plan. For example, an appropriate balance must be struck between fixed and variable compensation, and short- and long-term performance. Performance must be measured over a period long enough to capture success or failure in building long-term shareholder value. A portion of compensation must also be truly 'at risk' to appropriately align pay with performance, including reduced pay-outs when the company underperforms peers. Targets used for variable compensation should be sufficiently challenging to incentivise added value and outperformance.

In order to come to an informed assessment of compensation structure, it is therefore important that companies disclose the metrics, thresholds, targets and vesting conditions of equity based compensation in an accurate and transparent manner. The company must

also coherently report on the guidance behind the philosophy of the remuneration policy. In addition, we expect remuneration committees to be responsive to shareholders by taking into account the levels of votes against remuneration at previous shareholder meetings, and engaging with shareholders where discontent exists.

Engagement examples:

Engagement with a North American financial services company

Reasons for engagement: The North American financial services company was involved in scandals related to incentive schemes and compliance.

Objectives: Increase transparency on risk governance and management approach, with a focus on the behavioural implications of incentive structures for both top-executives and sales staff, trends and requirements for risk governance systems, and operational risk management.

Scope and process: Following the 2019 annual shareholder meeting, discussions were held with the Chair of the board regarding progress made on the shareholder proposal requesting more disclosure on risks associated with the incentive structure in the company. Later, in November 2019, discussions were held with the Head of Remuneration and Head of the Product Review Committee on new appointments, remuneration and product approval process.

Engagement outcome: Although challenges remain for the company, progress has been made in reforming corporate structure, centralising its organisation and making an inventory of all control processes that need to be harmonised. In addition, the long-term incentive program has been amended to curb a high degree of risk-taking, by setting appropriate limits and preconditions for pay-out. Nonetheless, concerns remain with limited disclosure on risks considerations in the remuneration

policy. The product approval process now appears to be robust and the approval of an independent risk committee is an important safeguard against products that do not have a clear business rationale.

Engagement with a UK housebuilding company

Reasons for engagement: Over the last few years, the company has faced severe criticism from shareholders, politicians and the wider society due to its pay practices for executives.

Objectives: To improve transparency and disclosure on executive remuneration policies and approaches.

Scope and process: Prior to the AGM, dialogue was had with the Chairman of the Board and Chairwoman of the Remuneration Committee to discuss compensation-related topics, after the contract with a former CEO was terminated due to a scandal involving his compensation plan. An independent review was commissioned by the Chair of the Board.

Engagement outcome: In contrast to earlier dialogues with the former Chairman of the Board, the company has been open to discuss compensation-related topics, which is a positive development. The company is willing to enhance transparency by publicly disclosing findings of the independent review.



Location: Tyne and Wear

“Good governance is at the core of any successful business, and high standards tend to feed through to good management of environmental and social factors.”

Engagement continued

Governance continued

Engagement examples:

[Engagement with Genus – an animal genetics company](#)

Reason for engagement: Engagement with board members following the unexpected departure of the Chief Executive Officer ('CEO'), length of the Chairman's tenure, and also in relation to a review of the remuneration policy.

Objectives: To understand and monitor the CEO succession management process, to ensure board stability and oversight during the period of executive change, and to encourage changes to the remuneration policy proposals.

Scope and process: Engagement was had with the Chairman, following an announcement that the highly regarded CEO was leaving the business. The discussion focused on the background to this unexpected development and the board's succession planning and recruitment processes.

The UK Corporate Governance Code recommends that a chairman serve on a board for a maximum period of nine years. To strictly comply with the Code, the Genus Chairman should have stepped down in November 2019. The Senior Independent Director was keen to explore whether shareholders would support the Chairman's re-election and extension of this tenure beyond nine years, to provide stability to the board and support to the executives as they settled into their new roles. This seemed to be a sensible and desirable outcome in shareholders' interests.

Engagement meetings were also held with the Chair of the Remuneration Committee on revisions to the remuneration policy. The amendments that Genus was proposing were considered and suggestions made for improvement.

Engagement outcome: Board stability was maintained, and the remuneration committee further revised its proposals, fully addressing the concerns raised.

Diversity

Diversity on boards and within an organisation is important to ensure that a company is sustainable. There is growing evidence that more diverse boards result in better-performing companies, leading to better investment returns and financial outcomes for investors. A common argument is that boards with people from different backgrounds are more likely to approach issues from various perspectives, leading to better-informed decision making and more effective supervision. Recent studies have demonstrated the connection between gender diversity and financial performance, finding companies with more diverse boards better equipped to outperform. Government intervention in this area has increased, with several countries adopting legislative measures to promote gender diversity at board level through mandatory gender quotas.

It is important to remember that board diversity is not just about gender but also involves increasing the representation of ethnic minorities on boards, bringing a variety of perspectives to board discussions to ensure there is cognitive diversity. The Parker Review and report recommendations of 2017 urged businesses to improve

the ethnic and cultural diversity of boards to reflect the communities they serve and their employee base, proposing that FTSE 100 companies have at least one director from an ethnic minority background by 2021.

The last couple of years have seen a surge in gender-related shareholder resolutions, particularly in the US, including requests for gender pay gap or employment diversity reports to enhance diversity at the board level. Enhanced disclosures on workforce gender diversity and remuneration opportunities should benefit shareholders; failure to address such matters could present significant legal, reputational, and retention concerns for companies.

Diversity is clearly a prime candidate for active ownership approaches through voting and engagement. We are a supporter of the 30% Club Investor Group which is a key way for us to engage with companies to encourage change. Before casting our votes, a thorough assessment of the overall board diversity in terms of tenure, skills, gender and external commitments is conducted, and compared to local best practices. Our voting guidelines reflect this assessment criteria.



Location: Rumburgh near Helwick

“Board diversity is not just about gender but also involves increasing the representation of ethnic minorities on boards, bringing a variety of perspectives to board discussions to ensure cognitive diversity.”

Engagement continued

Diversity continued

Engagement examples:

Engagement with an integrated energy company

Reason for engagement: The company was identified as a target for engagement due to a decreasing level of gender diversity on the board.

Objectives: To understand the company's strategy for overcoming their apparent challenge to recruiting women and to improve board diversity.

Scope and process: A letter was sent requesting a meeting to seek clarity on the development of the board's gender diversity strategy. A subsequent meeting was held with the company and shareholders to discuss the approach to diversity and inclusion.

Engagement outcome: The company is committed to improving board diversity and working to ensure that the right culture is instilled at board level. A female Non-Executive Director was appointed to the board in early 2020 taking female board representation to 33%.

Transparency and disclosure

Recent years have brought many developments in the corporate governance landscape, especially in emerging markets, with changes such as amendments to the corporate governance code, and the introduction of numerous stewardship codes. In the UK the Financial Reporting Council (FRC) published the revised UK Stewardship Code which became effective from 1st January 2020. The new Code is ambitious and sets new expectations on how stewardship and investment are integrated, with specific reference to ESG issues. These changes have created momentum for the improvement of corporate governance for listed companies. Such changes can have strong relevance to investors, in that improving disclosure and corporate governance could enhance communication between investors and companies and align shareholder interests with those of corporate managers.

We believe that additional information and reporting from companies is essential for investors to understand the underlying risks within portfolios and investee companies, enabling good investment decisions that take long-term risks into account.

For example:

- A clear disclosure of a company's business strategy is essential for investors to assess how strategic management aims to foster competitive advantage and consequently future performance and value.
- Transparency is critical in allowing investors to understand the link between pay and performance over time. Companies must disclose the metrics, thresholds, targets and vesting conditions of equity-based compensation in an accurate and transparent manner.
- In June 2017 the Task Force on Climate-related Financial Disclosures ('TCFD') issued a set of voluntary recommendations to help corporates assess and report on financial impacts of Climate-related risks and opportunities. Following this announcement, TCFD became a core aspect of engagement with companies on the issue of climate change and disclosure.



Location: South Yorkshire

“We believe additional information and reporting from companies is essential for investors to understand the underlying risks within portfolios and investee companies, enabling good investment decisions that take long-term risks into account.”

Engagement continued

Transparency and disclosure continued

Engagement examples:

Engagement with a European publishing company

Reasons for engagement: Regulators and investors are increasingly scrutinising multinationals on how they deal with corporate taxes. As companies have a certain degree of discretion on how and where to pay corporate taxes, it is relevant for investors to have an understanding of the sustainability of a company's tax rate.

Objectives: Greater transparency is required by companies in disclosing their tax policy, governance, and the impact of future regulation on their tax position.

Scope and process: A constructive, continuous dialogue has taken place with the company, that has given insights in the implementation of its tax policy, the governance and reporting on taxation, as well as the impact of the US tax reform. The three year engagement has positively changed the perception of the company, as a result of the dialogue and additional disclosure.

Engagement outcome: During the time of the engagement, the company has made an effort to publish the risk control framework around tax practices as part of the public tax document, improving disclosure practices. The company maintains a continuous dialogue with all its stakeholders, including regulators, and finance professionals, to keep up to date with all relevant changes to tax legislation and practices. Tax governance appears to be strong, and the company has started to explore real time tax reporting in collaboration with the government, reinforcing the finding that reporting systems are of high standards.

Engagement with a European consumer goods company

Reasons for engagement: Regulators and investors are increasingly scrutinising multinationals on how they deal with corporate taxes. As companies have a certain degree of discretion on how and where to pay corporate taxes, it is relevant for investors to have an understanding of the sustainability of a company's tax rate.

Objectives: Greater transparency is required by companies in disclosing their tax policy, governance, and the impact of future regulation on their tax position.

Scope and process: Engagement was conducted over a three year period with dialogue with the Group Head of Tax and a representative of Investor Relations. The particular focus was around policy and principles, and disclosures. The company is widely considered an industry best practice, and served as an example in the engagement peer group.

Engagement outcome: During the engagement time frame, the company has published a Corporate Tax Page and included its approach on taxation in the sustainability report, demonstrating the principles with concrete guidelines for implementation. There are still further opportunities for improvement; the Head of Global Tax expects the company to move towards Country to Country reporting in the future, this will be monitored.

Engagement with a large European oil and gas company

Reason for engagement: Additional factors need to be integrated into analysis of fossil fuel assets to ensure climate risk is priced properly, and capital is allocated to align with the transition to a low carbon future.

Objectives: To have a future-proof business strategy, to actively minimise operational carbon footprint, consider product development and be transparent on lobbying activities.

Scope and process: Over the course of three years, there has been extensive engagement on climate change. In 2019, investors behind the Climate Action 100+ initiative filed a shareholder resolution that was supported by the company's board at the AGM in May. The key ask of the resolution was to improve capital expenditure, and to review new investments in relation to alignment with the goals of the Paris Agreement.

Engagement outcomes: The support of the board for the resolution was a major achievement of the Climate Action 100+ collaboration. As a result, the company now discloses how it evaluates the consistency of each new material capital expenditures' alignment with the goals of the Paris Agreement. In addition, it discloses progress in reducing the carbon intensity of its energy products over time. In early 2020, influenced by investor engagement, the company announced bold new climate change ambitions including being a net zero emitting company by 2050 taking into consideration emissions throughout the entire value chain, including scope 3 emissions of sold products.



Location: Lincolnshire

Collaborations

WORKING IN PARTNERSHIP

Pooling our Partner Funds' assets gives us a stronger voice when it comes to influencing through voting and engagement. When considering RI, Border to Coast has two roles: to be responsible stewards of the assets under its remit and to support the Partner Funds in their own role as asset owners. This has been a key factor when developing our RI strategy; identifying the strategic development priorities and being able to support our Partner Funds in these key areas. We have a detailed and structured way of engaging with our Partner Funds which is fully explained in our Governance Charter on our website.

We work in partnership to ensure we can fully understand our Partner Funds' needs. RI workshops are held on a quarterly basis with the Officers Operations Group, which is made up of the lead officers from each of the Partner Funds. The workshops cover standing RI related agenda items and special topics for discussion. A specific workshop is also held which enables Partner Funds to feed into the Responsible Investment policy and Voting Guidelines review. We held our first RI workshop for the Border to Coast Joint Committee in March 2020 which was well received. We conducted a survey to ensure we were focusing on key issues of interest which included climate change and the implementation of the revised UK Stewardship Code. Further workshops will be held during 2020. We keep our Partner Funds informed on the RI and stewardship activities and outcomes via bespoke research pieces, quarterly stewardship reports and the annual Responsible Investment and Stewardship Report.

Joining with other like-minded asset owners and managers gives even greater opportunities to make a difference to investment outcomes. During 2019-2020, we were pleased to register our support for the Transition Pathway Initiative ('TPI') and become a signatory to the UN-supported Principles for Responsible Investment ('PRI'). We continue to support and consider collaborations that support our engagement focus areas of Governance, Transparency and Disclosure, and Diversity.

Border to Coast seeks to work collaboratively with other like-minded investors, external groups, investor coalitions and others to maximise our influence, particularly when doing so is more effective than acting alone.



The Local Authority Pension Fund Forum

With more than £230 billion in combined assets under management, the Local Authority Pension Fund Forum ('LAPFF') is the UK's largest collaborative shareholder engagement forum. Its aim is to support the long-term investment interests of beneficiaries by promoting the highest standards of corporate governance and responsibility among investee companies. LAPFF currently has 82 LGPS Funds and six Pools as members. All of our Partner Funds are members, and we made the decision to become a member before the first investments were transitioned from Partner Funds.

Councillor Doug McMurdo, the Chair of Bedfordshire Pension Fund and Chair of the Border to Coast Joint Committee, became the LAPFF Chair in July 2019. LAPFF engages across a broad range of environmental, social and governance themes. It continues to engage with policy makers and responds to consultations. It has continued its work on 'reliable accounts', participating in an initiative led by Sarasin Partners that engages with the Big Four auditors on climate impact in auditor statements. LAPFF has also played a significant role in the Investor Mining and Tailings Safety Initiative by connecting with affected communities and raising their visibility.



The 30% Club Investor Group

The 30% Club Investor Group has 38 members, across asset owners, asset managers and charity investors with

over £11 trillion AUM collectively. It aims to engage with company boards and senior management to encourage diversity, effecting change through voting and engagement. Diversity on boards and within organisations is important to ensure that companies are sustainable. There is growing evidence that more diverse boards result in better-performing companies. This is because diverse teams make better decisions, and gender-balanced companies attract and retain better talent. This leads to materially better investment returns and financial outcomes for investors.

Diversity is one of our main engagement themes, and supporting the 30% Club Investor Group is a key way for us to engage with those who are slow to respond and encourage change. The Group is also keen to praise companies whose strong levels of gender diversity on their boards and in their senior management teams make them leaders in this area.



Climate Action 100+

Climate Action 100+ ('CA100+') was launched in 2017 as a five-year investor-led initiative, to undertake collaborative engagement with the largest greenhouse gas ('GHG') emitters and other global companies. Its aim is to curb emissions, strengthen climate-related financial disclosures and improve governance on climate change risks and opportunities.

It has grown to be one of the world's largest investor-led initiatives, supported by over 450 signatories collectively with more than \$40 trillion in assets under management. Although originally looking to engage with the top 100 largest emitters, the list has been extended and 161 companies are now under engagement. These companies account for around 80% of global industrial emissions. Companies including Royal Dutch Shell, Glencore, Maersk, VW, Heidelberg Cement, PetroChina and Nestlé have made industry-leading public commitments as a result of this engagement.



Location: Tyne and Wear

“Border to Coast will seek to work collaboratively with other like-minded investors, external groups, investor coalitions and others to maximise our influence, particularly when doing so is more effective than acting alone.”

Collaborations continued

Climate Action 100+ continued

In October 2019, CA100+ published its first progress report. Although much has been achieved by companies across a range of industries, including some of the most challenging to decarbonise, the report emphasised that the world's largest corporate emitters need to do far more to tackle climate change. Corporate lobbying on climate policy is a priority for investors as many companies have yet to declare their support for positive action. Investors working through CA100+ have set out the expectations of European investors on corporate lobbying. As a result of engagement, several companies have committed to reviewing their lobbying activity and industry association memberships.

Priorities for the next strategic phase of the initiative include working to secure more commitments on lobbying disclosures, setting clear targets for reducing emissions to net zero by 2050 and for companies to implement the TCFD recommendations.



The Workforce Disclosure Initiative

The Workforce Disclosure Initiative ('WDI') was launched by ShareAction in 2017 with funding from the UK Department for International Development. It was set up to improve data disclosure from listed companies on how they manage workers in their direct operations and supply chains.

To achieve this, it uses an annual survey to request comparable data from companies. Investors' focus has predominantly been on governance and environmental matters, where data and disclosure on social risks has historically been poor. Better data will enable investors to assess any potential risks within investee companies, particularly given the wide range of different responses we are currently witnessing to the COVID-19 crisis.

The first survey in 2017 was sent to the FTSE 50 plus 25 mega cap companies listed on global stock exchanges, achieving a 45% response rate. In 2019, the initiative's third year, 750 companies were contacted and 118 responses received. Respondents came from five continents, covering 11 sectors, including first-time submissions from Russia, South Africa and Brazil.

Interaction and engagement with companies has increased over the time the initiative has been running as companies realise the importance of disclosing workforce data. The WDI is in the process of relaunching as a fee-paying initiative and will send out this year's survey to 750 companies in July 2020.



The Institutional Investor Group on Climate Change

The Institutional Investor Group on Climate Change ('IIGCC') provides a collaborative forum for pension funds and other institutional investors to engage with policymakers, regulators and companies to address the long-term risks and opportunities associated with climate change. Membership enables Border to Coast to deliver our RI Policy commitment to engaging with policymakers about climate change. This would be more difficult to do in isolation.

IIGCC has more than 230 members across 15 countries, mostly pension funds and asset managers with over €30 trillion in assets under management. IIGCC operates several work plans which cover policy, investor practices, property and supporting members in their active ownership approach. It also plays a key role in investor initiatives and collaborations globally, including Climate Action 100+, The Investor Agenda and the Global Investor Coalition on Climate Change.

During the year, IIGCC hosted a roundtable setting out investor expectations on corporate lobbying and climate change, which was attended by major oil and gas and mining companies. In May, it launched the Paris Aligned Investment Initiative looking at how investors can most effectively align portfolios with the goals of the Paris Agreement. It also published an investor guide for the construction materials sector, which outlines the steps investors expect from companies to manage climate risks and accelerate action to decarbonise in line with the goals of the Paris Agreement. The guide will be used to inform company engagement through Climate Action 100+. Discussions and engagement continued throughout the year with senior policy makers and politicians in Brussels.

The Global Investor Statement to Governments on Climate Change, coordinated by the IIGCC, now has the backing of over 515 investor signatories with over \$35 trillion in assets under management.



The Task Force on Climate-related Financial Disclosures

The Task Force on Climate-related Financial Disclosures ('TCFD') is a voluntary framework for companies and investors to provide climate-related information in their annual reports around governance, strategy, risk management and metrics.

Greater disclosure is key to obtaining reliable and consistent data, which improves investors' ability to assess climate-related risks and opportunities across investments. As a supporter of the TCFD, we encourage investee companies to improve disclosure and report in line with the TCFD recommendations. This was the first year in which we applied the recommendations by voluntarily reporting. The TCFD report, which sets out Border to Coast's approach to managing climate-related risks and opportunities within the four thematic areas, can be accessed on our website.



The Transition Pathway Initiative

The Transition Pathway Initiative ('TPI') is a global initiative led by asset owners and supported by asset managers. Aimed at investors, it is a free-to-use tool that assesses how prepared companies are for the low carbon transition. To do so, the TPI uses a framework to evaluate how well companies manage the GHG emissions associated with their business. It also assesses companies' planned or expected future carbon performance and how this compares to international targets and national pledges made as part of the Paris Agreement. It makes the information publicly available through an online tool.

Over the year, the TPI published research and assessment pieces on high-emitting sectors, hosted webinars and published the TPI State of Transition Report 2020. The TPI has a number of priorities for 2020 and beyond which include:

- extending coverage of its listed equity universe to approximately 800 companies;
- extending its analysis to include corporate fixed income and sovereign bonds; and
- developing analytical tools to help investors assess if portfolios are aligned to a 2° or 1.5°C temperature rise.

Border to Coast became a supporter of the TPI in October 2019. We actively use the research and TPI tool when assessing portfolios.

Collaborations continued

Signatory of:



Principles for Responsible Investment

The Principles for Responsible Investment ('PRI') is the world's leading advocate for Responsible Investment ('RI'), with over 2,300 signatories worldwide. It enables investors to publicly demonstrate commitment to RI, by supporting the six principles for incorporating ESG issues into investment practice.

Border to Coast became a signatory to the PRI in November 2019, enabling us to publicly demonstrate our commitment to long-term sustainable investment. We have established strong foundations in RI in the last eighteen months in voting, engagement, ESG integration and collaborating with other asset owners and asset managers.

We will use the PRI framework to implement our RI strategy, with a focus on integrating ESG across all asset classes as well as enhancing and expanding our reporting.

Investor Mining and Tailings Safety Initiative

Waste generated from mining, known as 'tailings', is growing as increased demand for essential metals leads to the extraction and development of low-grade orebodies: this results in larger quantities of tailings per ton of product. Such waste needs to be carefully handled, processed and stored in facilities that are continuously monitored to ensure they are not at risk of collapse or leaking waste into the environment.

While there are various estimates of the global number of 'tailings dams', the current estimate is 3,500. The true figure is likely to be much higher, however. A large number of these dams risk impacting local communities if they were to collapse. Companies therefore need to take preventative action to mitigate potential future risks of collapse.

In recent years, major accidents have increased public awareness of the dangers surrounding poor management of tailings dams by mining companies. In January 2019, catastrophic failure of a tailings facility at an iron ore mine in Brumadinho, Brazil – owned by listed Brazilian mining company Vale – resulted in a tragic loss of life and major environmental pollution, with more than 270 known fatalities and many others missing.

Immediately following this incident, major investors led by the Church of England Pensions Board and the Swedish National Pension Funds' Council on Ethics set up the Investor Mining & Tailings Safety Initiative. As a company with a strong commitment to RI, we at Border to Coast pledged our support in early 2019. The initiative is now supported by investors with over \$13 trillion in assets under management.

Since launch, the initiative has made five calls for action, held four high-level investor roundtables and two global tailings summits. It has sought input from leading experts, communities impacted by the recent disaster, government representatives, leading technical advisors and mining companies. Its calls for action were to:

- set up an independent and publicly accessible international standard for tailings dams – this has led to a global review being convened;
- contact 726 listed extractive companies asking for specific disclosure of all tailings facilities – as at 31 March 2020 over 84% of the industry by market capitalisation have disclosed;
- create an independent global database to drive transparency and best practice – The Global Tailings Portal is now live;
- set up a Financial Working Group to look at the relationship with company annual reporting; and
- respond to community concerns. Affected communities have shared their stories with investor members, co-ordinated by LAPFF.

Border to Coast are part of a collaboration of investors supporting the initiative, led by Robeco, engaging with the non-responding companies to encourage disclosure of data and information on tailings dams.

The results and progress achieved by the initiative over the last year have been remarkable, due in no small part to the passion and leadership of its co-chairs, Adam Matthews and John Howchin. Working in partnership with others is helping to drive a new level of accountability and transparency and to promote positive change across the mining industry.



Location: East Hiding

“Border to Coast became a signatory to the PRI in October 2019, enabling us to publicly demonstrate our commitment to long-term sustainable investment.”

Outlook for 2020-2021

SUPPORTING COMPANIES THAT MAKE THE RIGHT DECISION

At the time of writing, we are in the midst of the COVID-19 crisis. Companies are doing their utmost to survive the devastating impact of economies in shut down. Boards need to strike the balance between short-term survival and the long-term sustainability of their business. Rather than making ESG issues less relevant, the crisis has emphasised the financial materiality and importance of ESG risks.

The 'social' aspects of ESG have tended to be somewhat overlooked in the past, but arguably they are now the most important. Companies are not only being scrutinised on how they are treating their workforce, suppliers and customers, but also on how they are supporting wider society.

As investors we need to be clear about our expectations and we need to support companies that make the right decisions. There are good examples of companies supporting their employees, executives taking pay cuts and forgoing bonuses, and of production lines being repurposed to manufacture healthcare items. The opposite is also true, with companies experiencing a backlash after treating workers and suppliers poorly.

How companies treat people and suppliers now will be remembered once the crisis is over and the 'new normal' begins. At Border to Coast, we are monitoring how companies are responding. We will engage where required and may use the information we gain to inform our voting decisions at next year's AGMs. As a responsible investor, we will support boards and management teams whose decision making is based on the long term.

We became a signatory to the PRI in late 2019, and following discussion with the Board and Partner Funds, have used the six principles as a framework for assessing our baseline and to set our three-year RI strategy. This

was an important piece of work which sets out a clear timeline for strategic development and priority actions whilst understanding the needs of and support required by our Partner Funds. We have prioritised ESG integration and reporting, as these align with our investment beliefs and transparency value. Collaboration and promoting the Principles of the PRI are important in the longer term, as we seek to make the most of the stronger voice that scale brings. We have made good progress over the last 18 months ensuring we have strong foundations across all six areas and will be working hard to meet the expectations over the coming years.

We will continue to embed ESG into our investment process across all asset classes as we launch new sub-funds. We are working with our internal portfolio managers, Research Team and external managers, building on and improving the processes and tools we have in place. We will also manage ESG risks, including climate risk, through our active ownership programme.

Regulators are increasingly focusing on stewardship and climate change, and the revised UK Stewardship Code pays close attention to the activities and outcomes of stewardship across all asset classes. As we continue to launch equity and fixed income sub-funds and increase our Private Markets proposition, we are therefore developing our engagement approach and reporting accordingly. This year will pose new and different RI challenges, and we will be working with our external providers and managers to make sure we are fully prepared.

Our RI Strategy

Our three-year RI strategy was developed following discussions on the strategic direction of RI with our Board and Partner Funds, using the PRI Principles as a framework.

Our target for 2022 includes:

- Well embedded ESG tools and analysis across asset classes for both internally and externally managed sub-funds
- A holistic engagement framework in place, tracking milestones across portfolios and asset classes
- A well-researched approach to requiring disclosures to support our investment process
- The PRI Principles embedded throughout our procurement process and contract monitoring
- Being an active partner on RI collaborations
- Producing quality, transparent disclosures and reporting on Responsible Investment



Location: North Yorkshire

“Our focus over the next year will continue to be on our core engagement areas of governance, diversity and transparency and disclosure.”

Glossary

A

Active ownership

Investors using their voting rights alongside engagement to effect change and improve the long-term value of a company.

B

Best-in-class

Investing in companies that have performed better than their peers in meeting environmental, social and governance ('ESG') criteria within their industry or sector. It can also be considered as positive screening.

C

Carbon footprint

The amount of carbon dioxide released into the atmosphere due to the activities of an organisation.

CDP

CDP is a global, investor-driven, climate change reporting scheme which motivates companies to disclose and reduce their environmental impacts by using the power of investors and companies.

Clean energy

Energy from non-polluting sources, including solar, wind and water.

Climate Action 100+

Climate Action 100+ ('CA100+') was launched in 2017 as a five-year investor-led initiative, to undertake collaborative engagement with the largest greenhouse gas ('GHG') emitters and other global companies.

Climate change

The long-term change in the expected patterns of average weather of a region (or the whole Earth), also linked to global warming.

Climate risks/opportunities

Risks/opportunities as a result of climate change that have the potential to affect companies, industries and whole economies. These include regulatory, reputational, transitional and physical risks and opportunities.

Conference of the Parties ('COP')

A UN conference on climate change that is held annually. The 25th conference ('COP 25') was held in Madrid in December 2019. COP21 negotiated the Paris Agreement, a landmark global treaty on the reduction of climate change.

Corporate governance

The system of rules, practices and processes by which a company is directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders' role includes appointing the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place.

Corporate Social Responsibility ('CSR')

The term under which companies report on their social, environmental and ethical performance, having recognised their responsibility to the community and environment in which they operate.

D

Divestment

Sale of stocks, bonds or investments seen as being in conflict or unaligned with ESG objectives, values or convictions.

E

Engagement

The practice of shareholders entering into dialogue with management of companies to change or influence corporate behaviour and decision making.

ESG

ESG is the consideration of environmental, social and governance factors alongside financial ones in the investment decision making process. E, S, and G are the three key factors in assessing an investment's sustainability.

ESG integration

The incorporation of ESG factors and analysis into investment decisions.

Ethical investing

An investment approach that uses ethical values and beliefs as a screen for selecting investments.

Extra-financial

Elements of a company's behaviour that may not be captured in traditional financial reporting and analysis. ESG factors are often associated with extra-financial factors.

F

Fiduciary duty

Fiduciary duties exist to ensure that those who manage other people's money act in beneficiaries' interests rather than their own.

Financial Reporting Council (FRC)

Regulates auditors, accountants and actuaries, and sets the UK's Corporate Governance and Stewardship Codes.

G

Global Compact (United Nations Global Compact)

The world's largest corporate sustainability initiative, asking companies to align strategies and operations with universal principles on human rights, labour, environmental concerns and anti-corruption, and to take actions that advance societal goals.

Green bonds

A bond specifically earmarked to be used for climate and environmental projects, also referred to as climate bonds.

Green investing

An investment philosophy that considers the environmental impact of an underlying investment.

Green-washing

When an unsubstantiated or misleading claim is made about the environmental benefits of a fund or financial instrument.

Glossary continued

I

Impact investing

An investment philosophy which supports companies working to provide significant societal or environmental benefit, in addition to generating a financial return. Impact investments can target a range of returns from below market to market rate, depending on investors' strategic goals.

Institutional Investor Group on Climate Change ('IIGCC')

IIGCC provides a collaborative forum for pension funds and other institutional investors to engage with policy-makers, regulators and companies to address the long-term risks and opportunities associated with climate change.

International Energy Agency ('IEA')

The International Energy Agency is an autonomous inter-governmental organisation that was established following the 1973 oil crisis. The IEA acts as a policy adviser to nations in the fields of energy security, economic development and environmental protection.

L

Low-carbon economy

An economy based on low-carbon power sources with minimal greenhouse gas emissions into the environment.

N

Negative screening

An investment approach that excludes some companies or sectors from the investment universe based on criteria relating to their policies, actions, products or services.

P

The Paris Agreement

The Paris Agreement sits within the United Nations Framework Convention on Climate Change. It sets out a global framework to avoid dangerous climate change by limiting warming to well below 2°C and was signed in 2016.

Principles for Responsible Investment ('PRI')

The United Nations-supported Principles for Responsible Investment initiative was launched in 2006. The world's leading advocate for responsible investment, it enables investors to publicly demonstrate commitment to responsible investment with signatories committing to supporting the six principles for incorporating ESG issues into investment practice.

Proxy voting

Proxy voting allows shareholders to exercise their right to vote without needing to attend AGMs. This can involve shareholders with voting rights delegating their votes to others who vote on their behalf.

R

Responsible investment ('RI')

Responsible investment involves incorporating environmental, social and governance ('ESG') considerations into investment decision making while practising active ownership. RI can help deliver sustainable, long-term returns for investors.

S

Stranded assets

Typically refers to fossil fuel reserves that may become 'un-burnable' due to issues such as climate, regulatory or market changes.

Sustainable Development

The concept of meeting present needs without compromising future generations.

Sustainable Development Goals ('SDGs')

The SDGs are a collection of seventeen global goals covering a wide range of ESG issues, from poverty and health to gender equality and the environment, set by the United Nations General Assembly in 2015 for the year 2030.

T

Task Force on Climate-related Financial Disclosure ('TCFD')

Set up to develop voluntary, consistent, climate-related financial risk disclosures to guide companies in providing information to investors, lenders, insurers and other stakeholders.

The Transition Pathway Initiative

The Transition Pathway Initiative ('TPI') is a global initiative led by asset owners and supported by asset managers. Aimed at investors, it is a free-to-use tool that assesses how prepared companies are for the low carbon transition.

U

United Nations Global Compact

An initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies and report on their implementation.

UN Guiding Principles ('UNGP') on Business and Human Rights

A global standard for preventing and addressing the risk of adverse impacts on human rights linked to business activity. The UNGPs encompass three pillars outlining how states and businesses should implement the framework.

UK Stewardship Code

A code first published by the Financial Reporting Council in 2010. The Code underwent a substantial revision in January 2020 ("UK Stewardship Code 2020").

W

Workforce Disclosure Initiative

The Workforce Disclosure Initiative (WDI) was launched in 2017. It was set up to improve data disclosure from listed companies on how they manage workers in their direct operations and supply chains.



Location: Lincolnshire



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PENSIONS PARTNERSHIP



Location: Northumberland