



Border to Coast Pensions Partnership Ltd Joint Committee

Date of Meeting: 1st October 2020

Report Title: Responsible Investment update (for discussion)

Report Sponsor: Border to Coast CEO – Rachel Elwell

1 Executive Summary

- 1.1 This report provides an update to the Joint Committee on Responsible Investment (RI) activities and reporting carried out by Border to Coast.
- 1.2 Border to Coast considers transparency and disclosure as key to communicating Responsible Investment (RI) activities to Partner Funds, beneficiaries and other stakeholders. We do this by disclosing our voting activity quarterly and producing quarterly and annual Stewardship reports, which are published on our website.
- 1.3 We published our second Annual Responsible Investment and Stewardship Report in July. This document is intended to demonstrate the activities and work undertaken over the year, showing our commitment to active ownership. The Financial Reporting Council (FRC) published the revised UK Stewardship Code ('the Code') which came into effect from 1st January 2020. The new Code is substantially more ambitious than its predecessor and signatories will be expected to report against the new Code from 2021. This year's report has moved towards the expectations of the Code and we have identified the steps we need to take to meet the reporting requirements for next year.
- 1.4 Border to Coast is a supporter of the Task Force on Climate-related Financial Disclosures. This year we took the first steps in applying the recommendations by voluntarily reporting against the TCFD requirements and publishing our first TCFD report. The report is split into four sections: Governance, Strategy, Risk Management, and Metrics and Targets. This is also available on our website.
- 1.5 Border to Coast became a signatory to the UN Supported Principles for Responsible Investment (PRI) in October 2019, this allows us to publicly demonstrate our commitment to responsible investment. The six Principles are voluntary and aspirational and for most signatories' commitments are a work-in-progress.
- 1.6 Signatories must report annually using the PRI Reporting Framework, reporting on asset specific modules which incorporate detailed assessment indicators on Responsible Investment implementation. This is our first year as a signatory and as such was not mandatory that we report; however, we made the decision to report in preparation for 2021 to identify any areas for improvement.

- 1.7 Responses are assessed and results compiled into an Assessment Report and Transparency Report. We reported on four modules and the results were above or in-line with the median score for the module (A's and A+'s) – a result with which we are particularly pleased given our relative youth and it being our first year of reporting.
- 1.8 The Responsible Investment policies are reviewed annually and the process for the 2020/21 review is currently in progress. Proposed revisions have been shared with Partner Funds for comment and feedback. Revised policies need to be in place ahead of the 2021 proxy voting season.
- 1.9 Ahead of the November Joint Committee where these will be reviewed, we will be holding two pensions officer RI workshops and an elected member workshop. We are particularly keen to review progress against the RI strategy agreed with Partner Funds in 2019 and whether this strategy remains reflective of Partner Funds' objectives.

2 Recommendation

- 2.1 The Joint Committee is asked to note the update provided in this report.

3 Annual Responsible Investment and Stewardship Report

- 3.1 Border to Coast are strong advocates of Responsible Investment and supporting our Partner Funds with their RI activities, enabling them to fulfil their stewardship obligations. We consider transparency and disclosure as key to communicating our RI activities to Partner Funds, beneficiaries and stakeholders.
- 3.2 We currently publish a Stewardship Quarterly on the website which covers voting highlights, engagement and RI activities undertaken during the quarter (see Appendix I). The Annual RI Report demonstrates the work that has been undertaken over the course of the year and acts as a showcase for our achievements (Appendix II).
- 3.3 The UK Stewardship Code, of which Border to Coast is a Tier 1 signatory, was substantially revised last year with the new Code taking effect from 1st January 2020.
- 3.4 The scope of the Code has broadened to cover other asset classes, including fixed income and private markets. It has also become much more outcomes based with signatories expected to explain how they have implemented stewardship, with a focus on reporting activities and outcomes.
- 3.5 Gap analysis has been conducted to determine what work needs to be done to be able to report in-line with the Code next year. This year's report has developed to meet some of the reporting expectations this year, with the aim to be fully compliant for the 2021 report. It covers our approach to RI and includes details on how we manage climate risk, voting, details on engagement and collaborative initiatives we support. The Annual RI Report can be found on the [website](#).
- 3.6 The FRC has reviewed early reporting against the new Code by asset owners and asset managers this year and is publishing a report with observations. The FRC has selected excerpts from our Annual RI report which they class as good examples of reporting for possible inclusion. A call is to be scheduled with the FRC to provide detailed feedback and identify areas we need to focus on.

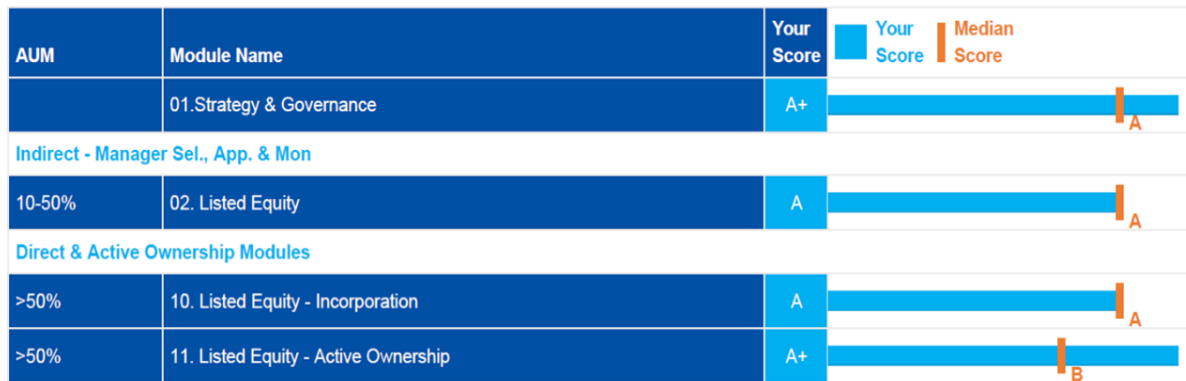
4 TCFD Report

- 4.1 Border to Coast considers climate change to be a systemic risk with the potential to impact long-term shareholder value. As investors it is imperative that we have greater clarity from companies as to how they are managing climate risk. The TCFD recommendations provide investors with a reporting framework to assess companies' responses. Therefore, the decision was taken prior to launch to become a supporter of the TCFD recommendations.
- 4.2 The expectation is for supporters of the TCFD to also report in-line with the recommendations and this is the first year that we have produced a report. The TCFD recommends reporting on four thematic areas that represent core elements of how an organization operates:
- **Governance** – setting out the respective roles of the board and management team in managing risks and opportunities.
 - **Strategy** – identifying risks and opportunities over different time horizons and explaining how these impact strategic and financial planning.
 - **Risk Management** – having processes in place for managing identified risks and including these within the overall risk management framework.
 - **Metrics and Targets** – explaining how both climate change impact and exposure to risks are measured, setting targets and tracking ongoing progress.
- 4.3 A substantial amount of work went into producing the report, with support from colleagues across Border to Coast, which can be found on our [website](#) (Appendix III).

5 PRI reporting update

- 5.1 Border to Coast became a signatory to the UN-supported Principles for Responsible Investment in October 2019. The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles offering a framework of possible actions for incorporating ESG issues into investment practice. The only mandatory requirement is to publicly report on responsible investment activity through the Reporting Framework.
- 5.2 It is voluntary to report in an organisation's first full reporting cycle, however, the PRI encourages signatories to report during the voluntary year for learning purposes. We made the decision to complete the Reporting Framework and to use it as a learning process to identify areas where we can develop and improve.
- 5.3 Responses are assessed and results compiled into an Assessment Report and Transparency Report. Each module is scored and given a performance band graded from E (lowest) to A+. Assessment Reports are confidential and not shared with other signatories, whereas Transparency Reports can be accessed on the PRI website and are available to signatories.
- 5.4 The Reporting Framework consists of a number of asset-specific modules. We reported against four modules: strategy and governance, listed equity, listed equity – incorporation, and listed equity – active ownership.
- 5.5 A summary of all the completed module scores is presented in the following Summary Scorecard against the median scores of all PRI signatories:

Summary Scorecard



Module Score (%)	Performance Band
>95%	'A+'
76-94%	'A'
51-75%	'B'
26-50%	'C'
1-25%	'D'
0	'E'

- 5.6 The Strategy and Governance module covers Border to Coast's overarching approach to Responsible Investment such as governance, RI Policy(ies), ESG resourcing, collaborations, objectives and targets and communication. We scored an A+ or 100% in this module demonstrating a strong set of RI/ESG policies which have been made public along with areas such as setting ESG objectives, joining RI collaborations and reviewing climate change at climate change risks and opportunities.
- 5.7 The Indirect Listed Equity module covers how we select, appoint and monitor our external managers. Given the reporting period it currently only covers UK Equity Alpha but in the following reporting cycles it will also cover Global Equity Alpha, private markets and fixed income. We scored an A or 94% in this module (37/39). This is very close to the 95% required for an A+. Full marks were achieved for the selection and appointment processes for our external managers and we were also above the median score for monitoring processes.
- 5.8 The Direct Listed Equity module covers our approach to integrating ESG into our internally managed listed equity assets. We scored an A or 81% in this module (17/21). We scored very strongly on the advanced questions in this module about the types of ESG information used in the investment decision and research process and how information from engagements and voting is made available to the investment team.
- 5.9 The Listed Equity Active Ownership module covers our engagements via collaborations and service providers as well as our approach to voting. We scored an A+ or 96 % (84/87). This is a particularly high score for this module sitting in the top 5% of all new signatories. We scored particularly highly for the engagement work Robeco are doing on our behalf including how objectives are set and monitored throughout the engagement. We were also able to report how we feed into the engagement themes selected by Robeco, which is best practice. We were also recognised as having a thorough and public voting policy including an escalation process for shareholder resolutions.

- 5.10 Overall, this is a real achievement considering we have only been operational for just over two years and demonstrates the work that has been done across the organisation, developing policies and processes which have been implemented. Areas have been identified from the PRI reports for improvement which we will be working to address over the coming year.

6 Annual RI policies review

- 6.1 The Responsible Investment Policy and Corporate Governance Guidelines are reviewed annually. The process kicked off in July with Robeco evaluating both policies using the International Corporate Governance Network Global Governance Principles, UK Stewardship Code and Principles for Responsible Investment as benchmarks.
- 6.2 The draft policies have been shared with the officers at Partner Funds for comment and feedback and are to be discussed at a workshop in late September. Other topics for discussion and potential consideration for future policy reviews includes exclusions.
- 6.3 There is a dedicated section covering climate change in the current RI Policy. With increasing regulations and pressures on Partner Funds the decision has been taken to develop a standalone climate change policy. Due to the work required this will be done outside the normal policy review cycle.
- 6.4 The revised policies will go to the Border to Coast Board in November for approval. After which they will be presented to this committee for review and comments on the proposed revisions, also to recommend taking the revised policies to the Partner Funds for them to consider adopting the principles in their own policies.
- 6.5 The annual review and governance processes need to be completed, with policies approved by pension committees so that they are ready to be implemented ahead of the 2021 proxy voting season.

7 RI Strategy

- 7.1 In November 2019, we agreed with Partner Funds the strategic development with respect to Responsible Investment for the period 2020 to 2023 (as summarised in Appendix IV). Over the coming months, as part of the annual RI policy review, we are keen to consider whether this remains reflective of Partner Fund expectations. This will enable us to assess the resources required to implement any further developments ahead of the annual shareholder approval for Border to Coast's business plans.
- 7.2 This will be discussed further with Partner Fund officers and chairs during workshops planned over the coming months.

8 Risks

- 8.1 Responsible Investment and sustainability are central to Border to Coast's corporate and investment ethos and a key part of delivering our partner funds' objectives. There may be reputational risk if we are perceived to be failing in our commitment of this objective.
- 8.2 As an organisation we are committed to being transparent regarding our RI activities, this includes producing an Annual Responsible Investment and Stewardship Report and TCFD report. There may be reputational risk if we are perceived to be failing in our commitment of this objective.

9 Conclusion

9.1 The Joint Committee is asked to note the report.

10 Author

Jane Firth, Head of Responsible Investment

22 September 2020

11 Supplementary Papers

- I. Quarterly Stewardship Report Q2 2020
- II. Annual Responsible Investment and Stewardship Report 2020
- III. TCFD Report 2020
- IV. Border to Coast RI strategy 2020-23