



# Border to Coast Pensions Partnership Ltd Joint Committee

**Date of Meeting:** 30<sup>th</sup> September 2021

**Report Title:** Responsible Investment update

**Report Sponsor:** Rachel Elwell – CEO, Border to Coast

## 1 Executive Summary

- 1.1 This paper primarily covers the development of our Climate Change Policy (“the Policy”) during 2021. We also include a more general update on Responsible Investment (RI) activities at section 5.
- 1.2 To ensure our Climate Change Policy meets both Border to Coast’s and Partner Funds’ needs and expectations, we have undertaken considerable stakeholder engagement. Workshops have been held for Officers and the Joint Committee and follow up meetings and RI training session have been held with some committees and Chairs. Feedback and questions received have been addressed.
- 1.3 The Policy has several elements that were discussed with Partner Funds before including in the final version for approval by the Board. This included a commitment by Border to Coast to be Net Zero by 2050 at the latest for the aggregate investment funds and incorporating exclusions for the first time in a policy.
- 1.4 Following the governance process, the Climate Change Policy was presented to the September Border to Coast Board meeting for approval. The final approved version is attached at Appendix 1 for noting.

## 2 Recommendations

- 2.1 The Joint Committee is asked to note the report.

## 3 Background

- 3.1 The decision was made during the RI Policy review in 2020 that a standalone Climate Change Policy would be developed. EY was appointed to assist in developing the Policy, conducting a market assessment of climate change policies to identify best practice and an exercise benchmarking Border to Coast against 10 leading global institutional investors. This helped to identify the increased level of ambition required for the Policy which includes a Net Zero commitment and the main areas of focus.
- 3.2 We also needed to consider the current resourcing and implications for additional requirements during the implementation phase.

- 3.3 We have incorporated exclusions for the first time in a policy. This does not contravene our belief in engagement over divestment as this is fundamental to our active stewardship approach. However, in some cases, there is limited scope for influencing company strategy and behaviour, and this would be considered along with key financial risks (regulatory, litigation, reputational, social and environmental) and the investment time horizon when assessing the investment case.
- 3.4 The outcome of the process and analysis has led to the exclusions of pure coal and tar sand companies in this Policy. Initially a >90% revenue threshold is used where revenues are either from thermal coal or tar sands and related activities. At this level of revenues, we see little scope for successful engagement, where companies either cannot or will not change their strategy. We believe there is potential for positive engagement with companies where coal and tar sands related activities are a smaller part of the business although we note that our portfolios do not currently include companies with a significant reliance on such revenues given the investment case.
- 3.5 Working with stakeholders has been essential in gaining support for the Policy. The draft Policy was initially shared with the Partner Fund Officers in May for feedback ahead of the June RI Officers Operation Group.
- 3.6 A workshop was held for the Joint Committee in July, the agenda covered the Climate Change Policy, exclusions and Net Zero by 2050. Additional RI training sessions have been held for some Partner Funds. A follow up workshop was held with the Joint Committee in early September to provide an opportunity to further discuss the approach to exclusions, facilitate discussion and gain support. Feedback following these meetings and the questions raised have been addressed and the exclusions wording in the draft Policy at 5.1 has been amended.
- 3.7 The Climate Change Policy was presented to the Board and approved on 21<sup>st</sup> September. Following this an announcement is due to be made regarding the Policy and the Net Zero commitment ahead of the annual Border to Coast conference.
- 3.8 The Climate Change Policy is attached as Appendix 1.

#### **4 Climate Change Policy**

- 4.1 The draft Policy was initially shared with the Border to Coast Board in May and the proposed level of ambition for the Policy was agreed. The Policy is based on the Net Zero Investment Framework which has been used to articulate our climate change strategy. This is split into four pillars: Identification and Assessment, Investment Strategy, Engagement and Advocacy, and Disclosures and Reporting.
- 4.2 The draft Policy included a number of items in brackets which were to be removed following discussions with Partner Funds. These included the following where all brackets have now been removed:
- 2.4 - Roadmap (inserted)
  - 3.1 - Commitment to Net Zero by 2050 at the latest
  - 3.1 - Commitment to develop a plan to be published in September 2022
  - 4.2 - Use of the Net Zero Investment Framework
  - 5.1 - Reference to exclusions – revision to original text

- 5.2 - Wording on role of Private Markets offering
- 5.3 - Encourage external managers to report in line with TCFD
- 6.1 - Climate Change a key engagement theme

4.3 As noted above, the wording relating to the proposed exclusions has been amended at 5.1. This is to further emphasise that any exclusions are based on the investment criteria, the investment time horizon, the scope for successful engagement and ongoing monitoring for potential reinstatement.

4.4 Our commitment to Net Zero will be supported by using the Net Zero Investment Framework. A roadmap is included in the Policy at 2.4 which demonstrates the milestones to implement the Policy over the next 12 months. We will develop and set out a plan with high-level targets for each of the four supporting pillars of our climate change strategy (see 4.1) which will be published in September 2022.

## 5 Responsible Investment update

5.1 The annual Responsible Investment and Stewardship Report was presented to the Joint Committee and published at the end of July. This report allows us to demonstrate our commitment to the Financial Reporting Council's (FRC) UK Stewardship Code. The deadline for potential signatories to submit stewardship reports to the FRC to be included in the first list of signatories was 30 April. As Border to Coast report on a financial rather than calendar year, all reports are published in July, we were therefore unable to submit and be included in the initial signatory list. We held discussions with the FRC regarding alternative submission dates for organisations with different reporting periods. This led to the FRC including two additional submission periods. We are submitting our report to meet the 31 October deadline.

5.2 We have joined the Occupational Pensions Stewardship Council as an inaugural member. The council was set up by the Department for Work and Pensions as a forum for UK pensions schemes to share best practice and support members. We look forward to working with peers to progress and promote high stewardship standards.

5.3 We are a supporter of the Workforce Disclosure Initiative (WDI), a collaborative engagement initiative which encourages listed companies to disclose data through an annual survey on how they manage workers in their direct operations and supply chains. This year the survey has been sent to over 1,000 companies globally and we are engaging with a number of companies to encourage them to respond.

5.4 As a member of the Institutional Investor Group on Climate Change (IIGCC) we have signed the annual Global Investor Statement to Governments along with over 580 other investors. The Statement is being presented to the UN General Assembly in September. We also co-signed an 'Investor Position Statement' on transition planning coordinated by IIGCC. This calls for companies to disclose a net zero transition plan and for investors to be able to vote on progress annually.

5.5 We produce quarterly and annual reports detailing our responsible investment activities. The quarterly stewardship reports produced by Border to Coast and Robeco, along with the voting reports can be found on our [website](#).

## 6 Risks

- 6.1 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 this area and our management of climate risk.
- 6.2 There is a risk that insufficient resources are available to realise the actions, meet the ambitions of the Climate Change Policy and implement in the required timeframe.

## 7 Conclusion

- 7.1 The Climate Change Policy has been developed with input from key stakeholders including the Investment Team and Partner Funds. Workshops and additional sessions have been held with Officers and Pension Committees to gain support. Feedback from Officers and the Joint Committee has been acted upon. The Policy includes a commitment to being Net Zero by 2050 and the use of the Net Zero Investment Initiative to support the implementation of this strategy.
- 7.2 The Committee is asked to note the report.

## 8 Author

Jane Firth, Head of Responsible Investment, [jane.firth@bordertocoast.org.uk](mailto:jane.firth@bordertocoast.org.uk)

21 September 2021

## 9 Supporting documents

- Appendix 1 – Climate Change Policy

### **Important Information**

Border to Coast Pensions Partnership Ltd is authorised and regulated by the Financial Conduct Authority (FRN 800511). The information provided in this paper does not constitute a financial promotion and is only intended for the use of Professional Investors. The value of your investment and any income you take from it may fall as well as rise and is not guaranteed. You might get back less than you invested. Issued by Border to Coast Pensions Partnership Ltd, Toronto Square, Leeds, LS1 2HP.