

Border to Coast Pensions Partnership

Quarterly
Stewardship
Newsletter

Q1 2019



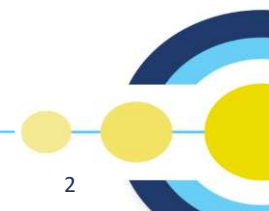
What it means to us

Sustainability

Border to Coast takes a holistic approach to sustainability and as such it is at the core of our corporate and investment thinking. We are a strong advocate of Responsible Investment (RI) and believe that businesses that are governed well and run in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors.

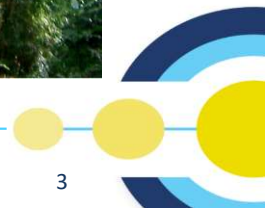
Active Ownership

As a long-term investor and representative of asset owners, we will practice active ownership by holding companies and asset managers to account on environmental, societal and governance (ESG) issues that have the potential to impact corporate value. We will also use our shareholder rights by voting at company meetings, monitoring companies, engagement and litigation. Our approach to RI and stewardship is set out in our RI policy and the Corporate Governance & Voting Guidelines, both of which can be viewed on our website. The aim is to manage risk and generate the sustainable, long-term returns which are a key part of making a difference to our Partner Funds and delivering their objectives.



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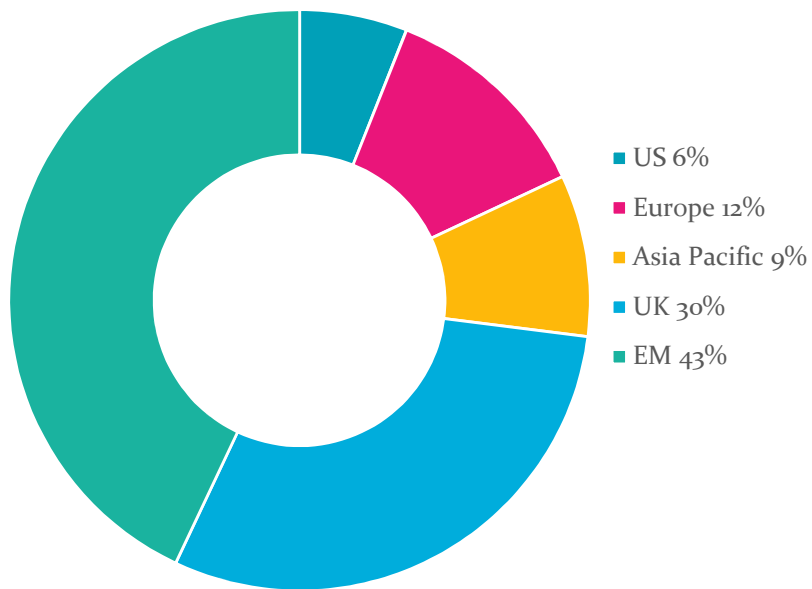


Voting

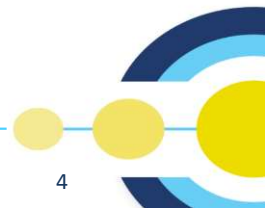
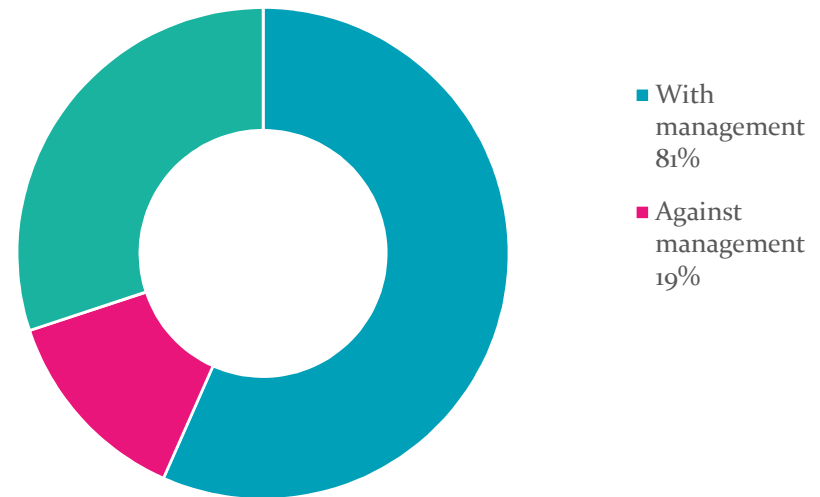
Following the annual review of the Responsible Investment Policy and Corporate Governance & Voting Guidelines, we worked with Robeco, our Voting and Engagement Partner, to ensure that the revisions to the voting guidelines were in place ahead of the 2019 proxy voting season. Both policies can be found on the Border to Coast website. The voting guidelines provide a framework for voting and are administered and assessed on a case-by-case basis.

For the first quarter of 2019 quarter we voted at a total of 122 meetings globally. The total number of agenda items voted was 1,409, and at 77% of meetings we voted against management on at least one resolution.

Shareholder meetings voted by region



Global meetings - votes with/against management

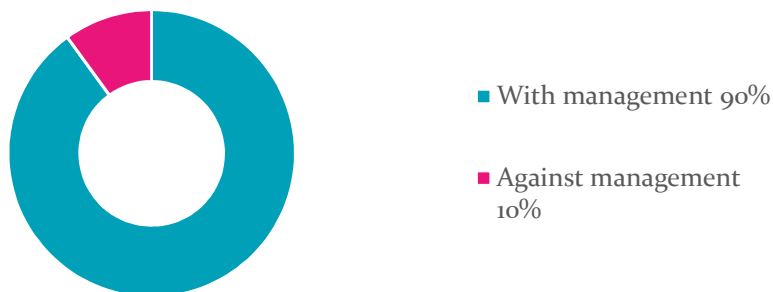


Voting (ctd)

Border to Coast UK Listed Equity Fund

Over the quarter we voted at 12 meetings on 177 proposals. We supported all votes at 6 meetings (50%) and voted against 1 or more resolution at 6 meetings (50%). We opposed or abstained on 10% of proposals. Most related to board appointments (41%) and auditor appointments (35%).

UK Listed Equity Fund - votes with/against management



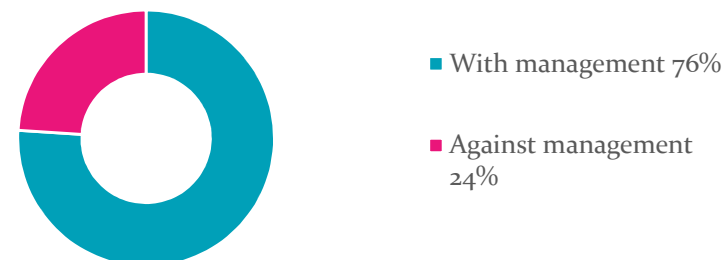
UK Listed Equity Fund - votes against by category



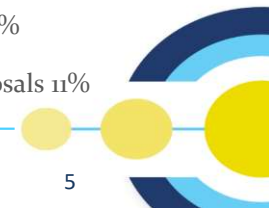
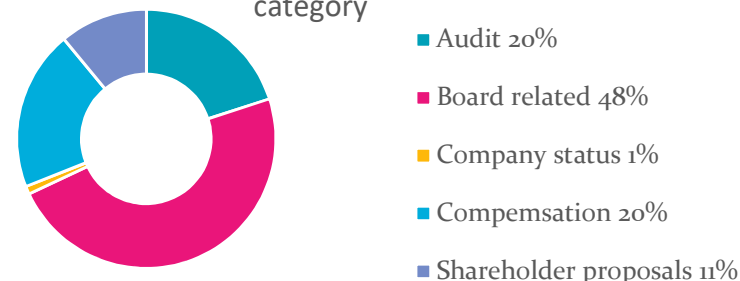
Border to Coast Overseas Developed Equity Fund

Over the quarter we voted at 66 meetings on 737 proposals. We supported all votes at 7 meetings (11%) and voted against 1 or more resolution at 59 meetings (89%). We opposed or abstained on 24% of proposals. Most related to board appointments (48%), followed by compensation (20%) and auditor appointments (20%).

Overseas Developed Market Fund - votes with/against management



Overseas Developed Market Fund - votes against by category

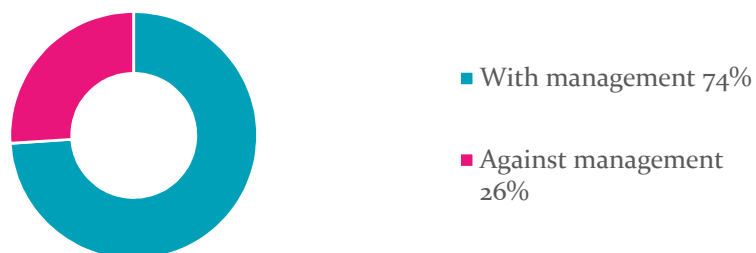


Voting (ctd...)

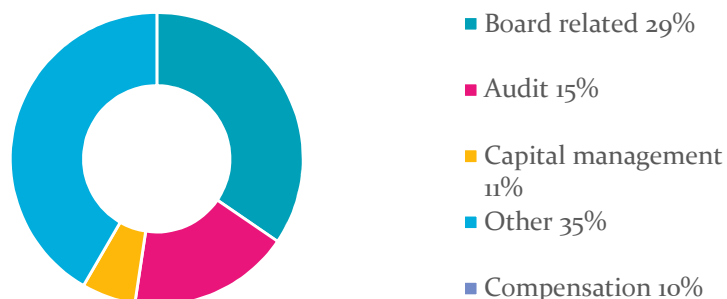
Border to Coast Emerging Markets Equity Fund

Over the quarter we voted at 20 meetings on 153 proposals. We supported all votes at 9 meetings (45%) and voted against 1 or more resolution at 11 meetings (55%). We opposed or abstained on 26% of proposals. The categories receiving the most votes against was board appointments (28%) and other (35%).

Emerging Markets Fund - votes with/against management



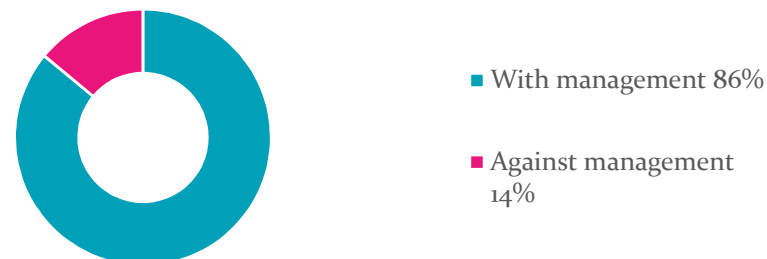
Emerging Markets Equity Fund - votes against by category



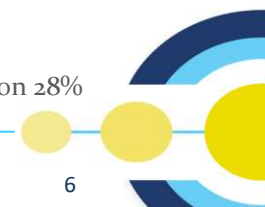
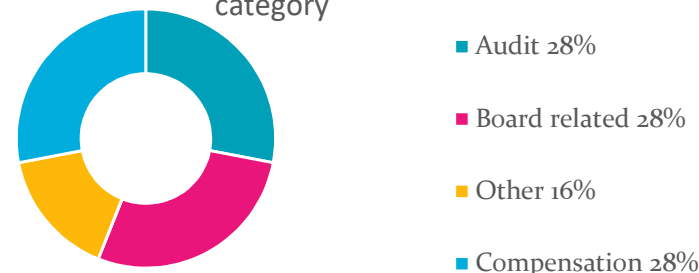
Border to Coast UK Listed Equity Alpha Fund

Over the quarter we voted at 28 meetings on 394 proposals. We supported all votes at 9 meetings (32%) and voted against 1 or more resolution at 19 meetings (68%). We opposed or abstained on 14% of proposals. Most related to auditors (28%), board appointments (28%) and compensation (28%).

UK Listed Equity Alpha Fund - votes with/against management



UK Listed Equity Alpha Fund - votes against by category



Voting (ctd...)

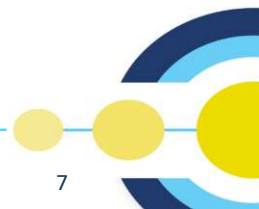
The resolution categories that saw the highest votes against management were board appointments, remuneration and auditor appointments. This pattern of voting was across portfolios and not specific to any market.



We supported a shareholder proposals at Walgreens Boots Alliance Inc, a US pharmacy-led health and wellbeing company, regarding an independent chair. In the US combined CEO-Chairs remain the norm with only 31% of S&P boards having an independent Chair. Academic studies have found links between independent Chairs and better long-term shareholder returns and also lower executive remuneration costs. Having an independent Chair is considered to be international best practice. Walgreens currently has an Executive Chair and a CEO who is also the Vice Chair of the board. The proposal received 38% votes in favour.

We voted against the election of directors at Cemex, the Mexican listed construction material company. Mexican boards are generally elected as a slate, where a group of candidates are put up for election and voted as one resolution on the AGM agenda. Although improvements have been made to the Company's corporate governance practices, especially regarding board composition there are still several concerns. 40% of the board represent the interest of two families which is vastly out of proportion to their equity stake. Further to this there is a lack of independence on the corporate governance committee with one family representing 50% of this committee's composition.

We also voted against a number of resolutions at the Walmart de Mexico AGM. This included statutory reports, consolidated financial statements and election of directors due to insufficient information being disclosed by the company ahead of the AGM.



Voting (ctd...)

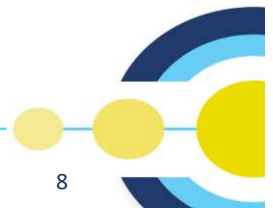
We have voted against a number of proposals regarding executive remuneration policy; in the US such resolutions are only advisory.



The Apple AGM saw us vote against the resolution on executive compensation. Although it is important to have remuneration packages in place to attract and retain high calibre executives, we had concerns over the structure of the pay package. The annual bonus plan does not include a comprehensive clawback policy and sign-on bonuses should have reasonable limits. We believe there is room for improvement and will monitor the remuneration policy going forward.



Accenture has seen a steady increase in CEO remuneration over the last few years. In 2018 68% of the CEO's pay was performance based with inadequate disclosure on how this was calculated, and whether it is aligned with shareholder returns and company performance. Over a quarter of the CEO's total compensation was discretionary, with no evidence as to how this was calculated. We do not expect companies to disclose information considered to be commercially sensitive, however we do expect the remuneration committee to explain their use of discretion. In this case we decided to vote against the executive compensation plan at the AGM.



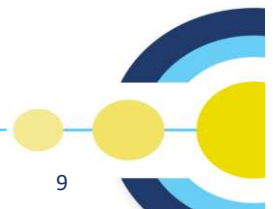
Voting (ctd...)



Hyundai Motor, headquartered in South Korea, has been facing increasing shareholder pressure to improve its corporate governance and capital allocation practices. Elliot Management, a large US activist hedge fund manager, initiated a proxy fight with the management at this year's AGM. Three independent directors were proposed by each party for three available board seats. Robeco discussed the proposals with the company and Elliott on our behalf ahead of the meeting. The decision was made to support a mix of candidates put forward by both the management and Elliott, based on experience and skills that individuals brought to the board.



We voted against the appointment of auditors and authority to set auditor's fees at Imperial Brands due to excessive tenure. PricewaterhouseCoopers has served as the Company's auditor since 1996 with no tender carried out over the period; this is not in-line with EU audit legislation. The Company has, since the AGM in February, announced that it has completed an audit tender and will be recommending the appointment of EY at the 2020 AGM.



Industry reviews

The last quarter has seen the launch of a raft of consultations and reviews on green finance, reporting and stewardship.

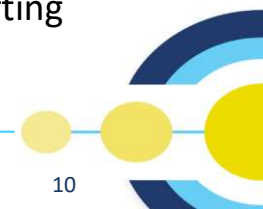
The FCA has launched two consultations and discussion papers. The first, a Consultation Paper on proposals to improve shareholder engagement, proposes regulatory measures to implement the provisions of the amended Shareholder Rights Directive (SRD II) for FCA-regulated life insurers and asset managers. The second is a joint Discussion Paper by the FCA and the FRC on the importance of effective stewardship; this closed at the end of April.

The Financial Reporting Council (FRC) introduced the UK Stewardship Code in 2010 which was subsequently revised in 2012. As there has been an improvement in stewardship since the Code's introduction and also significant changes in expectations of stewardship, the Stewardship Code now requires significant revision to ensure its effectiveness and differentiate excellence in stewardship. The FRC published a consultation on the draft 2019 UK Stewardship Code at the end of January which closed on 29 March 2019. The FRC has undertaken extensive outreach. It has sought

feedback from 170 members of the investment community, company organisations and representative bodies. This has included several meetings with representatives of the local government pension pools, where Border to Coast was present. Outreach events have also taken place with investors based in the USA, Canada, Europe and Asia. Border to Coast submitted a response to the FRC on the proposed revision to the Stewardship Code.

The Corporate Reporting Dialogue, which brings together major corporate reporting initiatives and frameworks, has launched a consultation calling for feedback on how to better align. Respondents are being asked for their views driving better alignment of sustainability reporting frameworks, and better integration between non-financial and financial reporting.

The Investment Association launched the first industry-wide consultation on sustainability and responsible investment. The consultation covers the following three key areas: agreed industry-endorsed standard definitions for different sustainable investment approaches; development of a UK product label to assist retail investors better identify sustainable investment funds; and review reporting frameworks used by asset managers.



What we've been doing this quarter

This has been another busy quarter on the responsible investment front for Border to Coast. It saw us give presentations and training sessions to our Partner Fund Pensions Committees on responsible investment and participate on an ESG panel at the LAPF Strategic Investment Forum.

We continue to focus on the core ESG themes of transparency and disclosure, governance and diversity. This is reflected in how we vote at company AGMs, engagement meetings we hold with companies, and our involvement in RI initiatives.



Workforce Disclosure Initiative

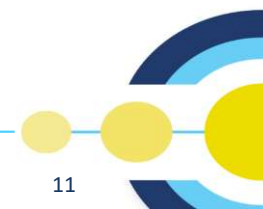
We attended the Workforce Disclosure Initiative (WDI) roundtable update in January. This event was to gain feedback and input from signatories to the initiative ahead of the publication of the 2018 report in March. The WDI now has more than 120 signatories with over \$13 trillion in AUM. In 2018, the WDI contacted more than 500 listed

companies, requesting data on how they manage their direct operations and supply chain workforce. The 2018 survey saw 90 companies respond - up from 34 in 2017. The respondents were from 16 countries, covered all 11 GICS sectors and included 21 of the world's top 100 companies by market capitalisation. Half of respondents to the latest survey are overseas companies.

UK Stewardship Code Compliance Statement

Border to Coast Pensions Partnership Ltd is regulated by the Financial Conduct Authority as an Alternative Investment Fund Manager. As such it is required to disclose clearly its commitment to the FRC's Stewardship Code. A Stewardship Code compliance statement, demonstrating our commitment to responsible investment and active ownership, was submitted to the Financial reporting Council for inclusion on its website.

We have had confirmation that the FRC has assessed our Stewardship Code Statement and it is classed as Tier 1.



What we've been doing this quarter (ctd...)

Climate Change Working Party

Following the 2018 review of the Border to Coast Responsible Investment Policy, it was agreed to set up a working party to consider in depth the implications of climate change on our approach to investment.

We have six sessions scheduled over the next six months covering a range of topics. The kick off session was held in early February and was facilitated by Jaap Van Dam of PGGM. We discussed our objectives for the working party, our scope and how we wanted to work together.

The second session held in March looked at risk identification and monitoring. We invited Aon to present their approach to climate change and scenario modelling at this second session. Aon's approach to scenario analysis differs from other methodologies as it also looks at the impact on a pension fund's liabilities. It is important for pension funds to know what the impact could be on its liabilities and funding levels.

Future sessions will cover Engagement; The Role of Managers; Collaboration; and Communication.

Shareholder resolutions

One way that investors can encourage companies to improve disclosure is by filing shareholder resolutions. We saw resolutions being filed at company AGMs ahead of the approaching proxy voting season, to improve disclosure on climate risk and lobbying activity. We will look to co-file shareholder resolutions on climate risk disclosure that we consider to be of institutional quality and consistent with our RI policy. We were involved in co-filing a climate change resolution at BP, and we welcome the BP Board's decision to support this resolution. This demonstrates the strength of investor engagement and shows the Company's commitment to a business strategy in-line with the Paris Agreement.

Investor Mining & Tailings Safety Initiative

Two high level investor roundtables have been held at Church House in London, chaired by the Church of England Pensions Board and Swedish Council of Ethics. Border to Coast have been represented at both events and will attend future monthly meetings.



Investor Mining & Tailings Safety Initiative



Rescue workers searching for survivors at Córrego do Feijão Mine

Border to Coast has pledged its support to the Investor Mining & Tailings Safety Initiative. This calls for a new independent mine safety system to be implemented globally following the failure of a tailings dam, which burst on 25th January 2019 at the Córrego do Feijão Mine in Brumadinho, Brazil. The initiative was launched on 31st January and as of 24th April now has support from investors world-wide with over £12 trillion of assets under management.

The dam failure at the Iron Ore mine, owned by listed Brazilian mining company Vale, resulted in a tragic loss of life, has had an enormous environmental impact and was one of the worst disasters ever to occur in South American history. This is the 11th serious failure of a tailings dam in

the last decade and these incidents, which have a devastating impact on local communities and the environment, are predicted to increase in frequency in the absence of any major changes to the law and regulation practices within the industry. The financial implications over the long term are substantial in this instance and there is a suggestion that companies may not be choosing to prioritise safety to a high degree in this crucial area.

The Initiative has sought input from leading experts, communities impacted by the recent disaster, government representatives, leading technical advisors and mining companies. There has been a positive response with a global review announced, co-convened by the International Council on Mining and Metals (ICMM), the Principles for Responsible Investment (PRI) and the United Nations Environment Programme (UNEP). A letter has also been sent to over 680 extractive companies requesting greater disclosure on tailings dams management.

As a company with a strong commitment to Responsible Investment, Border to Coast felt it imperative to support the Investors' Statement. Working in partnership with others will ideally help to drive a new level of accountability, transparency and promote positive change across the mining industry.



Engagement

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

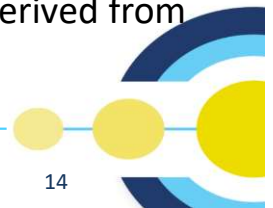
- Our internal portfolio managers engage directly with companies within their portfolios.
- Robeco as voting and engagement service provider engage on our behalf with companies held in internally managed sub-funds across a number of engagement themes globally (see page 12).
- We believe that we can increase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

Border to Coast engagement with investee companies

Our Portfolio Managers meet companies on a regular basis and address ESG issues where relevant. Meetings were held with 27 companies over the 1st quarter of 2019. These were a mix of UK, European and US companies via a combination of face to face meetings and conference calls with current and potential investments.

Portfolio managers discussed building design, energy efficiency and the environmental impact of new developments with property companies. Further discussions were had with food retailers on efficiencies around packaging and implementation of changes in packaging design. Current lending policies to fossil fuel companies were covered with a large UK bank. Cyber security and the independence of directors were other issues covered in meetings.

The UK portfolio managers met Rio Tinto in a joint meeting with other investors. Given the recent tailings dam disaster at the Vale operated site in Brazil and Border to Coast's support of the investor initiative, a significant part of the meeting was spent understanding their risks derived from



Engagement (ctd...)

tailings dams and the impact on the market of the reduction in capacity as Vale halts production at a number of sites.

With investment trusts, portfolio managers discussed investment opportunities with long term ESG bias and how managers identify and screen for suitable investee companies.

LAPFF engagement

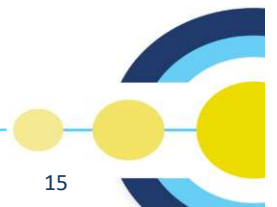
LAPFF engaged with 100 companies over the quarter by a combination of letter and meetings. Issues engaged on included human rights, environment and carbon risk, employment standards and board composition.

LAPFF responded to the Global Reporting Initiative Tax Standard Consultation, welcoming the standard and its content as a positive way forward on tax transparency and payments to governments. The response focused on ensuring appropriate accountability structures for corporate tax practices. More detail on LAPFF's work and engagement can be found on the LAPFF [website](#).

External manager engagement with investee companies

The UK Listed Equity Alpha sub-fund was launched in mid-December 2018 so this was the first full quarter with our three external managers engaging with UK companies on our behalf. During the quarter engagement meetings were held with a number of company chairs and senior non-executive directors of companies. A broad range of topics were covered including remuneration, board composition, succession planning, environmental risk and human capital management.

Managers provided feedback to the FRC on the proposed new UK Stewardship Code. During the quarter Janus Henderson became a public supporter of the TCFD and are currently working on a range of initiatives to improve implementation of the recommendations. Towards the end of the quarter Janus Henderson joined the collaborative investor engagement on mining and tailings safety.

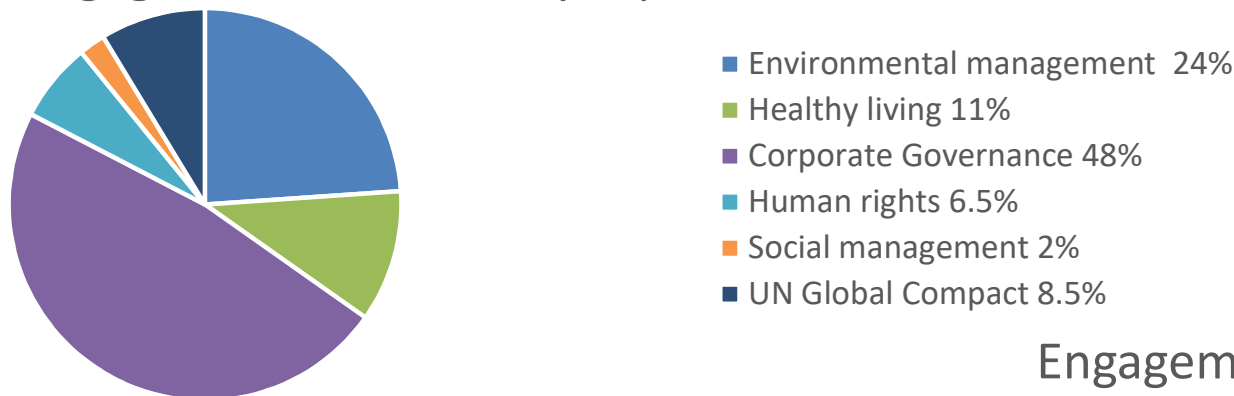


Engagement (ctd...)

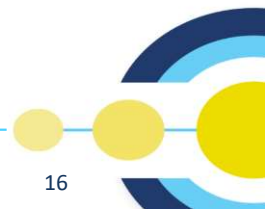
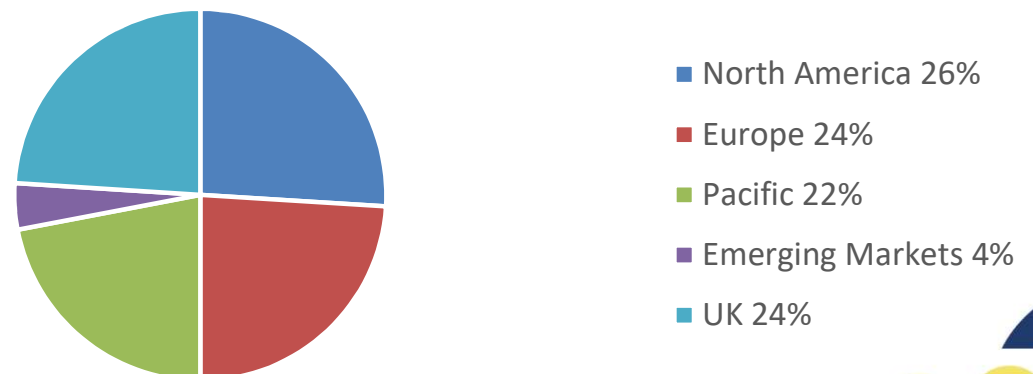
Robeco engagement

Robeco is now engaging with companies on our behalf across all the internally managed sub-funds. Engagement has taken place by letter, meetings, conference call and email. Four new engagement themes were launched at the beginning of 2019: palm oil, single use plastic, social impact of artificial intelligence, and digital innovation in the healthcare sector. Robeco's engagement is covered in greater detail in their Active Ownership Client Report Q1 2019, which can be found on our website.

Engagement overview by topic



Engagement by region



Engagement – RI collaborations



Climate Action 100+ investor engagements are having an impact, with an increasing number of commitments being made by focus companies. A significant amount of progress has been made in the first year of the initiative. Below are a few highlights from the last quarter:

American Electric Power, the largest carbon-emitting power company in North America, set an unprecedented goal to cut carbon dioxide emissions 60% from 2000 levels by 2030, and 80% from 2000 levels by 2050. This announcement came only eight weeks after appearing on the Climate Action 100+ focus list.

BP's board has announced it will support a resolution filed by Climate Action 100+ signatories. The resolution requests that BP's business strategy is consistent with the goals of the Paris Agreement.

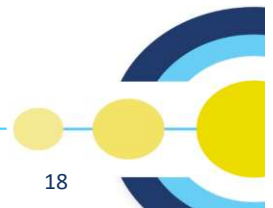
Glencore, the world's largest coal exporter, has agreed to cap production of thermal and coking coal at about 150m tonnes per year. This is close to its planned output level for 2019 which largely rules out future expansion of its coal business. Glencore also made six further commitments, including aligning its business with the Paris Agreement, improving reporting of Scope 3 emissions and pledged to review its membership of trade associations.

Rio Tinto has published a report which shows how it plans to contribute and leverage the transition to a low carbon future. The report uses the Taskforce on Climate-related Financial Disclosure (TCFD) recommendations as a framework. The Company acknowledges that, following its decision to exit coal, it is the first fossil fuel-free mining company, and is therefore actively positioning for a low carbon future.

Climate Action 100+ lead investors, with support from the Institutional Investor Group on Climate Change and Ceres, have filed shareholder resolutions at focus companies in Europe and the U.S.



Responsible investment partnerships



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Useful links

[Border to Coast website](#)

[LAPFF](#)

[IIGCC](#)

[30% Club](#)

[Climate Action 100+](#)

[TCFD](#)

[Workforce Disclosure Initiative](#)

