BCPP JOINT COMMITTEE

AGENDA

Venue: **Border to Coast Offices, Toronto Square, Leeds, LS1 2HJ**

Date: **Wednesday, 30 November 2022**

Time: **1.15 pm**

Membership:

Chair:-

Cllr Doug McMurdo	Bedfordshire Pension Fund

Vice Chair

Cllr Patrick Mulligan	North Yorkshire Pension Fund

Membership:-

Cllr Mel Worth	Cumbria Pension Fund
Cllr Mark Abley	Durham Pension Fund
Cllr Nigel Wilkinson	East Riding Pension Fund
Cllr Eddie Strengiel	Lincolnshire Pension Fund
Cllr Eric Polano	Teesside Pension Fund
Cllr John Mounsey	South Yorkshire Pension Fund
Cllr Nick Harrison	Surrey Pension Fund
Cllr Anne Walsh	Tyne & Wear Pension Fund
Cllr Christopher Kettle	Warwickshire Pension Fund

Scheme Member Representatives

Linda Bowen	East Riding LPB
Nicholas Wirz	Tyne & Wear LPB

Terms of Reference of the BCPP Joint Committee

1. The primary purpose of the Joint Committee is to exercise oversight over investment performance of the collective investment vehicles comprised in the BCPP Pool.

2 The Joint Committee will provide effective engagement with the Authorities as the BCPP Pool vehicles are established and ultimately operated. It will encourage best practice, operate on the basis that all partners have an equal say and promote transparency and accountability to each Authority.

The remit of the Joint Committee is:

2.1 Phase 2 – Post Establishment and Commencement of Operations

2.1.1 To facilitate the adoption by the Authorities of relevant contracts and policies.

2.1.2 To consider requests for the creation of additional ACS sub-funds (or new collective investment vehicles) and to make recommendations to the BCPP Board as to the creation of additional sub-funds (or new collective investment vehicles).

2.1.3 To consider from time to time the range of sub-funds offered and to make recommendations as to the winding up and transfer of sub-funds to the BCPP Board.

2.1.4 To review and comment on the draft application form for each additional individual ACS sub-fund on behalf of the Authorities prior to the Financial Conduct approval (or the draft contractual documents for any new collective investment vehicle).

2.1.5 To formulate and propose any common voting policy for adoption by the Authorities and to review and comment on any central policy adopted by BCPP.

2.1.6 To formulate and propose any common ESG/RI policy for adoption by the Authorities and to review and comment on any central policy adopted by BCPP.

2.1.7 To formulate and propose any common conflicts policy for adoption by the Authorities and to review and comment on any central policy adopted by BCPP.

2.1.8 To agree on behalf of the Authorities high level transition plans on behalf of the Authorities for approval by the Authorities for the transfer of BCPP assets.

2.1.9 To oversee performance of the BCPP Pool as a whole and of individual sub-funds by receiving reports from the BCPP Board and taking advice from the Officer Operations Group on those reports along with any external investment advice that it deems necessary.

2.1.10 To employ, through a host authority, any professional advisor that the Joint Committee deems necessary to secure the proper performance of their duties.

AGENDA

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PENSIONS PARTNERSHIP

Minutes of the Border to Coast Joint Committee

Thursday 29th September 2022 - Border To Coast, Toronto Square, Leeds, LS1 2HJ

Present

Members	Councillor Doug McMurdo (Chair) Councillor Eddie Strengiel, Councillor Patrick Mulligan, Councillor John Mounsey, Councillor Nick Harrison, Councillor David Coupe, Councillor Jim Foreman Councillor Michael Stead (in absence of Councillor Mark Abley) Councillor Nick Marriner (in absence of Councillor Mel Worth in the room) Nicholas Wirz (Scheme Member Representative)
Border to Coast Ltd Representatives	Rachel Elwell, Fiona Miller, Ewan McCulloch, Chris Hitchen, Milo Kerr Jane Firth (Item 5 onwards), Mark Lyon (Item 6 onwards), Graham Long (Item 15 onwards)
Fund Officers	Julie McCabe, Alison Clark, Paul Cooper, Tom Morrison, Jo Ray, Nick Orton, Ian Bainbridge, Victoria Moffett
Statutory Officer Representative(s)	George Graham, Andrew Felton, Anna D'Alessandro, Julian Neilson
Apologies were received from	Councillor Mark Abley, Councillor Wilf Flynn, Councillor Christopher Kettle, Councillor Mel Worth, Councillor Nigel Wilkinson,

1 APOLOGIES FOR ABSENCE/DECLARATIONS OF INTEREST

The Chair welcomed everyone to the meeting. Apologies were noted as above.

Councillor Coupe declared an interest in item 3 as the nominee for the Non-Executive Director role.

2 MINUTES OF THE MEETING HELD ON 20TH JUNE 2022

Nicholas Wirz noted that the minutes did not cover the issue he raised in connection with the Governance Review and the approach to Scheme Member representation. Ian Bainbridge gave an update on the position and it was agreed that the minutes would be amended to reflect the discussion on this matter in June 2022.

RESOLVED – Subject to the issue noted above that the minutes of the meeting held on 20th June 2022 be agreed as a true record.

3 JOINT COMMITTEE ELECTION RESULTS

A report was submitted detailing the results of the elections to the various roles associated with the Joint Committee and requesting members consider the appointment of a Vice Chair at the meeting and the arrangements for filling a casual vacancy for a Scheme Member Representative.

RESOLVED –

i. That the election of Cllr Doug McMurdo as Chair be noted.
ii. That the nomination of Cllr David Coupe as a Non-Executive Director of the Company be noted.
iii. The term for Partner Fund Non Executive Directors be increased from two years to three.
iv. That Cllr Patrick Mulligan be appointed a Vice Chair of the Joint Committee for the forthcoming year.
v. That the resignation of Ms Dierdre Burnett as a Scheme Member Representative be noted and a letter of appreciation for Ms Burnett's service to the Committee be sent.
vi. That the Secretary make arrangements for the election of a new Scheme Member representative following the same procedure as used previously.
vii. Consideration to be given to removing the requirement for Scheme Member representatives to be limited to two terms.

4 JOINT COMMITTEE BUDGET

A report was submitted which gave an update on the budgetary position for 2022/23

It was noted that, to date, the major costs incurred related to legal work in respect of the Governance Review with further expenditure likely on secretariat support and legal work related to Global property.

RESOLVED – That the report be noted.

5 RESPONSIBLE INVESTMENT UPDATE

A report was considered which updated the Committee on Responsible Investment Activity. The report highlighted the Company's success in recognition under the Stewardship Code and publication of the latest TCFD report, as well as voting activity that had taken place over the main "proxy voting" season.

In discussion it was highlighted that:

- The Company was in the process of seeking to appoint to 3 vacant roles in the Responsible Investment Team but that there was significant competition for such roles.
- There was a need for those managers not operating within the Pool to be regularly informed of both the Border to Coast voting guidelines and other information such as LAPFF voting alerts.

RESOLVED – That the report be noted.

6 SUMMARY OF INVESTMENT PERFORMANCE AND MARKET RETURNS

A report was presented setting out the current macro-economic and market environment, providing the context for the review of the performance of individual investment propositions elsewhere on the agenda.

The key issues highlighted were the impact of the war in Ukraine and its effect on prices and as a driver of inflation with significant downside risks in all markets and levels of inflation and interest rates in developed markets not seen since before the Global Financial Crisis.

RESOLVED – That the report be noted.

Exclusion of the Public and Press

RESOLVED – That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act and the public interest not to disclose information outweighs the public interest in disclosing it.

7 SHAREHOLDER GOVERNANCE REVIEW

A report was presented summarising the conclusions reached by the work undertaken to review Shareholder Governance within the Partnership, reflecting on the lessons learned both over the first few years of the Partnership's existence and from other pools both within the UK and internationally.

RESOLVED – That the Committee

i) Note the proposed changes to the Inter Authority Agreement, which subject to any further feedback, will be put to each of the Administering Authorities for approval in line with their own governance arrangements.

ii) Note the proposed changes to the Shareholder Agreement, which will be put to each of the Administering Authorities and the Border to Coast Board for approval in line with their own governance arrangements.

iii) Note the proposed changes to the Articles of Association, which will be put to the shareholders for approval via a shareholder resolution.

iv) Note the change to the term of Partner Fund Nominated Non-Executive Directors from three terms of two years, only two of which may be served consecutively, to two terms of three years.

8 NET ZERO IMPLEMENTATION PLAN

A report was presented setting out the Company's "roadmap" for achieving Net Zero both within the various investment propositions and at corporate level, following the adoption of a 2050 Net Zero objective in November 2021. The plan included targets for emissions within individual propositions and followed the approach set out by the Net Zero Asset Managers' Initiative. Following discussion at the Joint Committee it was intended to publish the "roadmap" in early October.

RESOLVED – That the report be noted.

9 TCFD CONSULTATION

The Committee considered a report examining the consultation issued by the Department of Levelling Up Housing and Communities (DLUHC) on the introduction of TCFD reporting by LGPS funds. While there were similarities with the regime adopted for private sector funds it was noted that there were some key differences and that successful implementation would require significant collaboration between Border to Coast and Partner Funds. The intention was to have a draft response ready for discussion prior to the deadline to allow it to be shared with Partner Funds.

RESOLVED – That the report be noted.

10 ANNUAL REVIEWS OF INVESTMENT PROPOSITIONS

11 UK LISTED EQUITY

A report was submitted which summarised the performance and activity of the Border to Coast UK Listed Equity Fund over the previous year.

It was noted that performance since inception had been in line with the performance target, while taking less risk than allowed within the mandate.

Factors which benefitted and detracted from the Fund were contained within the report.

RESOLVED – That the report be noted.

12 OVERSEAS DEVELOPED EQUITY

A report was submitted which summarised the performance and activity of the Border to Coast Overseas Developed Equity Fund over the previous year.

It was noted that overall Fund performance was above its target since inception while taking less risk than allowed for in the mandate.

Factors which benefitted and detracted from the Fund were contained within the report.

RESOLVED – That the report be noted.

13 ALTERNATIVES

A report was considered which summarised the performance and activity of the Alternatives proposition following completion of its first three-year cycle.

The report highlighted the fact that commitments were more than twice the anticipated level and that capital had been deployed in line both with expected timeframes and risk parameters, while generating substantial cost savings.

While it remained early in the programme initial performance had been encouraging across all 3 asset classes.

RESOLVED – That the report be noted.

14 CEO REPORT

The Company's CEO submitted a report updating the Committee on activity across the whole range of the Company's activity. In discussion the following issues were highlighted.

- The continuing high level of engagement between Partner Funds and the company.
- Continued transition of assets in line with the overall plan.
- The potential for post-valuation strategy reviews to impact on various investment propositions.
- Positive operational performance including an increase in reported savings.
- The nature of the ongoing people risks facing the organisation.

RESOLVED – That the report be noted.

15 PERFORMANCE REPORT

A report was submitted which summarised the performance of the various investment propositions over the latest quarter.

RESOLVED – That the report be noted.

16 UPDATE ON EMERGING MATTERS - RACHEL ELWELL/FIONA MILLER/IAN BAINBRIDGE

There were no further matters to update the Committee on.

CHAIR

Border to Coast Joint Committee

Date of Meeting: 30th November 2022

Report Title: Scheme Member Representatives Election Results

Report Author: George Graham (Director – South Yorkshire Pensions Authority)

1.0 Executive Summary:

1.1 This report provides members with details of the results of the election for a Scheme Member representative held during November 2022 and approval of the scheme member term of office of more than two years.

2.0 Recommendation:

2.1 It is recommended that that the contents of this report are noted and that the position of the Scheme Member Representative is formally confirmed.

3.0 Election Results

3.1 As previously reported the terms of the Inter Authority Agreement (IAA) together with the Joint Committee's Constitution and other subsequent decisions and agreements require that elections are held for Scheme Member Representatives. Following the resignation of Deirdre Burnet a bye election has been held for a scheme member representative. The election was conducted by South Yorkshire Pensions Authority during November and the results were as follows:

- Scheme Member Representative – Lynda Bowen – 6 votes
  Karen Thomson – 3 votes
  Nil returns – 2

3.2 The election process also provided an opportunity to consult on whether Scheme Member Representatives should be limited to two terms of two years. The views of the majority of consultees were that:

Agree – 7

Disagree – 2

Nil Returns - 2

4.0 Recommendation

4.1 It is recommended that

a. The results set out in the body of this report be noted

b. The Committee agree to the appointment of Lynda Bowen as a Scheme Member Representative.

c. The Committee agree to accept the view of consultees that there should be no term limits for Scheme Member representatives.

Report Author:

George Graham - Director – Governance South Yorkshire Pensions Authority.

ggraham@sypa.org.uk

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PENSIONS PARTNERSHIP

Border to Coast Joint Committee

Date of Meeting: 30th November 2022

Report Title: Joint Committee Budget

Report Sponsor: Ian Bainbridge

1.0 Recommendation

1.1 The Joint Committee is asked to note the budget position for 2022/23;

2.0 2022/23 Joint Committee Budget

2.1 At the Joint Committee meeting in March 2022 a budget of £40,000 was approved for 2022/23. This is consistent with the budget in previous years.

2.2 The Budget is intended to cover costs incurred by the Joint Committee and the partner funds, including the secretarial services to convene and run meetings, and for collective advice and support (internal from partner funds and external sources) which may be required from time to time by all partner funds.

2.3 It is also considered reasonable that this budget is used to cover travel costs and expenses for any members or officers who are attending meetings to represent all partner funds. This will include but will not be limited to meetings with the Department of Levelling Up, Housing and Communities (DLUHC). This budget will not be used where members and officers are attending meetings to represent their own funds including Joint Committee meetings and Officer Operations Group Meetings.

2.4 The budget will also be used to cover travel expenses for scheme member representatives appointed as non-voting members to the Joint Committee. This is because they will be deemed to be representing the scheme members from all partner funds.

2.5 In line with the cost sharing principles these costs will be shared equally between the partner funds.

2.6 As the time of writing total expenditure incurred for the year to date against this budget was £25,300. This all relates to external legal costs for the review of the Border to Coast Governance documentation.

2.7 Other expenditure which will be incurred on the current year, includes

- Secretariat support to the Joint Committee, from South Yorkshire Pensions Authority.

- Legal work to review the Global Property legal documentation.

- Travel and subsistence for the scheme member representatives on the Joint Committee.

3.0 Conclusion

3.1 For 2022/23 the expenditure incurred to date is within the Joint Committee Budget.

Report Author:

Ian Bainbridge, ian.bainbridge@southtyneside.gov.uk

Further Information and Background Documents:

N/A

Border to Coast Pensions Partnership Joint Committee

Date of Meeting: 30th November 2022

Report Title: Shareholder Governance Review (for information)

Report Sponsor: Ian Bainbridge, Head of Pensions, Tyne and Wear

1 Executive Summary

1.1 The Joint Committee has been kept updated with a review of the governance arrangements at Border to Coast which has focussed on the main three governance documents that underpin the relationship between Border to Coast and the partner funds, as both investors and shareholders. These are the Inter Authority Agreement; the Shareholders' Agreement and the Articles of Association.

1.2 Squire Patton Boggs (SPB) has been appointed by the partner funds to provide external legal advice to assist in this process.

1.3 This review is now nearing completion and the latest versions of the documentation have been agreed and issued to the partner funds to seek approval through their own governance arrangements.

1.4 Included in the recent pack of documentation issued to partner funds was a formal Letter of Advice from SPB that provides an overview of the changes and confirms that SPB are comfortable with the final documents and they believe that they are acceptable from a legal perspective and can be agreed by the Partner Funds.

1.5 One issue that will need to be addressed is that some changes may be needed in respect of the re-organisation of Cumbria County Council, which will result in a change to the administering authority of the Cumbria County Council Pension Fund. The best way to address this is still under consideration but may result in some changes to the Articles and Shareholders' Agreement to cover this and future proof similar scenarios in the future. However, given that this is unlikely to be contentious, partner funds have been asked to progress with the current documentation and this will be addressed prior to the final sign off.

1.6 It is understood that it may take some partner funds a couple of months to gain formal approval to sign the updated documentation. Consequently, the process will not be concluded until early 2023.

1.7 Border to Coast has also sought its own external legal advice and will progress through its own governance arrangements prior to all documents being signed.

2 Recommendations

2.1 The Committee is asked to note the position on the review of the governance arrangements.

3 Risks

3.1 A shared and common understanding of the governance for Border to Coast is imperative in the running of an effective and efficient organisation and its scrutiny and oversight by Partner Funds as both shareholders and customers. This governance review is timely to address the risks to our collective effective operation.

4 Author

Ian Bainbridge, Head of Pensions, Tyne and Wear Pension Fund
16th November 2022.

AGENDA ITEM 06

Border to Coast Pensions Partnership Limited

Joint Committee

Date of Meeting: **30th November 2022**

Report Title: **Responsible Investment Policies Review (for discussion)**

Report Sponsor: **CIO – John Harrison**

1 Executive Summary

1.1 The Responsible Investment Policy and Corporate Governance & Voting Guidelines (Voting guidelines) are reviewed annually and updated as necessary through the appropriate governance channels. The process for review includes the participation of all the Partner Funds to ensure that we have a strong, unified voice.

1.2 The first standalone Climate Change Policy was developed last year and published with effect from 1st October 2021. The annual review of the Climate Change Policy is being aligned with that of the other Responsible Investment policies.

1.3 The policies have been evaluated by Robeco using the International Corporate Governance Network Global Governance Principles, UK Stewardship Code and to reflect changes in market best practice. Policies have also been reviewed against asset managers and asset owners seen to be RI leaders.

1.4 Responsible Investment workshops are held at regular intervals for the Partner Fund Officers and the Joint Committee to discuss RI topics and issues that may be included in the policy review.

1.5 The annual review and governance processes need to be completed, with policies approved and ready to be implemented ahead of the 2023 proxy voting season. Partner Fund Officers have provided feedback on the proposed revisions and suggested amendments. After the Board's review, they will be shared with the Joint Committee for discussion prior to review at Pension Committee meetings.

2 Recommendation

2.1 That the Joint Committee reviews and comments on the proposed revisions to the RI Policy (Appendix 1), Corporate Governance & Voting Guidelines (Appendix 2), and Climate Change Policy (Appendix 3).

2.2 That the Joint Committee supports taking the revised policies to Pensions Committees for comment and for them to consider adoption of the principles in their own RI policies in line with industry best practice.

3 Annual review process

3.1 As a responsible investor we practice active ownership, using our voting rights and engaging with investee companies with the aim being to manage risk and generate sustainable, long-term returns. The Border to Coast Responsible Investment policy sets out our approach to RI and stewardship, the Corporate Governance & Voting Guidelines set out the approach and principles to voting, and the Climate Change Policy sets out the approach to managing climate risk and opportunities.

3.2 The policies are reviewed annually or when material changes need to be made. As the Climate Change Policy was developed and published last year, the governance process is now being aligned with that of the other RI policies. The annual review process commenced in July to ensure any revisions are in place ahead of the 2023 proxy voting season.

3.3 Current policies were evaluated by Robeco, our voting and engagement provider, considering the global context and shift in best practice. This included consideration of the recently revised International Corporate Governance Network[1] (ICGN) Global Governance Principles, the UK Corporate Governance Code and the UK Stewardship Code.

3.4 The policies of best-in-class asset managers, and asset owners considered to be RI leaders were also consulted to determine developments across the industry. We have also taken into account the Investment Association Shareholder Priorities for 2022.

3.5 Regular RI workshops have been held for the Officers Operation Group (OOG) and the Joint Committee where our approach to Net Zero by 2050 was discussed including selection of metrics and associated targets.

3.6 A workshop was held with the officers of the Partner Funds on 3rd October. The proposed revised policies were shared with Officers and feedback and comments were received. Feedback on the RI Policy covered climate change exclusions and the implication that the revenue threshold will 'ratchet down' over time, and the addition of cluster munition exclusions. Comments on the Voting Guidelines were on climate-related voting. Feedback on the Climate Change Policy was regarding external

[1] International Corporate Governance Network - investor-led organisation to promote effective standards of corporate governance and investor stewardship to advance efficient markets and sustainable economies world-wide.

manager decarbonisation targets and that any actions to achieve them would not be taken in isolation.

3.7 These points along with the other proposed revisions to both policies were discussed, and amendments have been made to the draft policies.

3.8 The annual review and governance processes need to be completed, with policies approved and ready to be implemented ahead of the 2023 proxy voting season. After considering feedback from the Officer Operation Group and the Investment Committee, the revised policies were approved by the Board on 11th November.

3.9 We have asked Partner Funds to complete their review by the end of 2022 so that we are able to carry out this implementation and disclose our voting intentions to companies prior to the peak season.

4 RI Policy – key changes

4.1 This year's RI Policy review reflects work undertaken during the year; this includes the Net Zero commitment. All changes are shown as track changes in the attached Appendix 1.

4.2 Human rights are an area receiving increased focus from investors. To support our social engagement theme, we have joined an initiative led by the PRI. To recognise the importance of this area we have highlighted our expectation of companies in the RI Policy, including reference to further detail on our voting approach in our Voting Guidelines.

4.3 Minor amendments have been made to some of the specific sections when integrating RI into investment decisions. This is due to continuing to develop and embed ESG into investment decision making, and the impact of our Net Zero commitment.

4.4 Due to the development and publication of a standalone Climate Change Policy, the climate change section within the RI Policy was significantly reshaped last year. This included reference to the exclusions put in place for thermal coal and oil sands. Due to our Net Zero commitment, it was articulated that subsequent Climate Change Policy reviews could lead to reductions in the revenue thresholds for exclusions

4.5 When considering any exclusions, we conduct analysis of the associated material financial risk of a company's business operations and whether we have concerns about its long-term viability. This includes considering key financial risks and the likelihood of success through engagement in influencing company strategy and behaviour.

4.6 As part of this year's annual RI policies review process the approach has been revisited. Revenue thresholds for thermal coal and oil sands have been reviewed with analysis conducted across equity and fixed income funds, associated benchmarks and the MSCI Universe to identify potential companies that managers may also invest in off benchmark.

4.7 To demonstrate our commitment to Net Zero and provide a clear signal of our long-term intentions to reducing exposure to the most carbon intensive fossil fuels in our investment portfolios, the proposal is to decrease the revenue threshold to >70% for investments in public markets, with a lower threshold of 25% for private markets to reflect the long-term nature of these investments. This still reflects the risk criteria used to determine the original exclusions in last year's policy.

4.8 Controversial weapons were highlighted as an area to consider for exclusions last year but due to a lack of data and ability to screen portfolios effectively this was deferred. As additional screening tools are now available the analysis of cluster munition companies has been conducted across portfolios, associated benchmarks and the MSCI Universe.

4.9 Following this the proposal is to extend the exclusion policy to cover companies manufacturing cluster munition whole weapons systems and companies that manufacture components that were developed or are significantly modified for exclusive use in cluster munitions.

4.10 As exclusions have broadened following this annual review, it is therefore appropriate to have a separate section in the policy specifically detailing our approach.

4.11 As we support a just transition and recognise that not all countries are at the same stage in their decarbonisation journey, we will assess the implications of the thermal coal and oil sand exclusions and may make exceptions if we consider this to be appropriate.

4.12 The RI Policy specifically names the current voting and engagement provider within the stewardship sections of the policy. Direct references have been removed to ensure that the policy will not need to go through governance if the provider is changed in the future. To ensure compliance with the FRC's Stewardship Code, reference to third-party providers is included as an appendix to the RI Policy.

4.13 Minor amendments were made following feedback from Partner Funds. This includes additional wording at 6.2.3 regarding the direction of travel for revenue thresholds on thermal coal and oil sands, and wording on just transition and Emerging Markets.

4.14 The proposed amendments to the RI policy are highlighted in the table below.

Section	Page	Type of Change	Rationale
1. Introduction	2	Amendment	Update on UK Stewardship Code signatory status.
1.1 Policy framework	3	Amendment	Revised diagram to include Climate Change Policy
2. What is responsible investment	3	Amendment	Insertion of 'opportunities'.
3. Governance and implementation	3	Amendment	Revision on use of term 'sustainability'.

Section	Page	Type of Change	Rationale
5. Integrating RI into investment decisions	4 4 4	Amendment Addition Addition	Remove ‘internally and externally managed’. Add ‘Pay conditions’ to table under social issues New text on human rights.
5.2 Private markets	5	Addition	Reference to annual monitoring questionnaire.
5.4 Real estate	6	Amendment	Revised in line with TCFD report.
5.5 External manager selection	6	Addition	Update on climate change and net zero.
5.6 Climate change	7 7	Amendment Addition	Text on exclusions cut and moved to new section. New text on just transition.
6 Stewardship	7	Amendment	Update on Stewardship Code signatory status
6.1.1 Use of proxy advisors	8	Amendment	Removal of Voting & Engagement provider name.
6.2.3 Exclusions	11 - 13	Addition	New section on exclusions.
6.3 Due diligence and monitoring procedure	13	Amendment	Removal of Voting & Engagement provider name.
8. Communication and reporting	13	Addition	Reporting on progress on implementation of Net Zero Plan.
10. Conflicts of interest	14	Addition	Includes reference to stewardship conflicts.
Appendix A	14	Addition	New section referencing third-party providers.

4.15 The policies were presented to the Board on 9th November and the revisions approved. There is then a period where Partner Funds take the revised policies to their committees to begin their internal alignment process. The revised policies will be effective from 1st January 2023.

5 Voting Guidelines – key changes

5.1 The Corporate Governance & Voting Guidelines have been reviewed by Robeco considering best practice. Asset owner and asset manager voting policies and the Investment Association Shareholder Priorities for 2022 have also been used in the review process. There are several minor amendments including proposed additions and clarification of text. All changes are shown as track changes in the attached Appendix 2.

5.2 As we have one set of Voting Guidelines that cover all markets, there have been some additions/amendments to reflect best practice or local market standards. This assists the proxy adviser and our Voting & Engagement provider, when interpreting the Voting Guidelines and making voting recommendations.

5.3 During last year's policy review, feedback was received on the text covering stakeholder engagement. To ensure that wider stakeholders are referenced, not just shareholders, additional wording has been included in this section.

5.4 A new section on human rights has been included to support the addition to the RI Policy.

5.5 Amendments have been made to the climate change section to continue to strengthen the Voting Guidelines in this area and to support our Net Zero commitment.

5.6 This year we have revised when we will vote against the Chair of the board based on the Transition Pathway Initiative (TPI) assessment of companies, moving to level 2 for high emitting sectors, and level 3 for Oil and Gas companies. We have also made revisions when reviewing companies failing Climate Action 100+ Net Zero Benchmark indicators and will vote against the Chair where a company fails one or more of the first four indicators.

5.7 As banks will play a pivotal role in the transition to a low carbon economy, we have set out our climate-related voting intentions for the sector. We will assess banks using the framework developed by the Institutional Investors Group on Climate Change (IIGCC) and the TPI. We will vote against the Chair of the Sustainability Committee, or appropriate agenda item if a company fails the first four indicators of the framework.

5.8 Proposed amendments to the Corporate Governance & Voting Guidelines are highlighted in the table below:

Section	Page	Type of Change	Rationale
Composition and independence	3 4	Amendment Addition	Remove 'large cap'. Detail on expectations of overall board tenure.
Leadership	4	Addition	Clarification on voting intention, considering market practice.

Diversity	5	Amendment	Expectations of FTSE 100 and FTSE 250 companies.
Succession planning	5	Amendment	Remove 'solely' to cover all jurisdictions.
Stakeholder engagement	6	Addition	Additional reference to key stakeholders and expectations of the board.
Long-term incentives	8	Addition	To cover standards for other markets.
Human rights	14	Addition	New section to articulate voting approach and expectations of companies.
Climate change	12 13 13 13	Amendment Amendment Addition Addition	Text amended to reflect changes to Climate Change Policy. Revised thresholds for TPI and CA100_ indicators. New text regarding banks New text on just transition.

6 Climate Change Policy – key changes

6.1 The Policy has been reviewed by Robeco and against asset managers and asset owners to determine developments across the industry.

6.2 The original Policy highlighted areas for focus over the 12-months post publication in October 2021. These have also been captured in the proposed updates and amendments. The main changes are detailed below. All changes are shown as track changes in the draft Policy attached as Appendix 3.

6.3 The Just Transition was not previously referenced in the Policy. This is an important area as the transition to a low carbon economy should consider all stakeholders and be inclusive whilst recognising global inequalities.

6.4 The roadmap only covered the 12-months to September 2022, this has been replaced with the reporting and monitoring timeline included in the Net Zero Implementation Plan which provides milestone out to 2050.

6.5 As we have used the Net Zero Investment Framework (NZIF) and joined the Net Zero Asset Managers initiative (NZAM) this has been added to the Policy. The scope of the assets covered and high-level wording on targets is now included. Extra detail is also included on the expectations of our external managers regarding engagement, and how we will work with them on implementing specific decarbonisation parameters for their mandates.

6.6 An update on exclusions was presented to the August Investment Committee. Following an in-depth discussion, the recommendation was to reduce the revenue threshold for thermal coal and oil sands to 70% and include a lower threshold (25%) for private markets, this is to reflect the illiquid nature of these types of investments.

6.7 The engagement section has been updated. This includes revising the wording on how we will exercise our votes in relation to companies in high emitting sectors. These are in line with the proposed revisions to the Voting Guidelines. Reference has also been made to the IIGCC's Net Zero Stewardship Toolkit which we have used to further develop our stewardship approach, aligning with NZIF and our membership of NZAM.

6.8 Some minor updates have been made to the disclosures and reporting section to include how we will report on progress against our Net Zero commitment.

6.9 The amendments to the Climate Change Policy are highlighted in the table below.

Section	Page	Type of Change	Rationale
2.1. Our views and beliefs on climate change	2	Addition	Impact of climate change on the investment universe.
2.2 Why climate change is important	3 4	Addition Addition	Reference to physical and transition risk. Included text on a Just Transition.
2.4 Roadmap	6	Revision	Replace with timeline going out to 2050.
3.1 Our ambition – Net zero	7	Amendment	Reference use of NZIF and joining NZAM.
3.5 Regulatory change management	8	Revision	Reviewed by Head of Compliance.
4.1 How we identify climate-related risks	8	Revision	Revised in line with TCFD report.
4.2 How we assess climate-related risks and opportunities	9	Revision	Update on climate change scenario analysis.
5.1 Our approach to investing	9 10	Addition Amendment	Text on engagement as a key lever for reducing emissions – investee companies and fund managers (private markets). Revise exclusion threshold to 70% from 'pure'; 25% for illiquid assets.
5.2 Acting within different asset classes	10 10	Addition Amendment	Extra data sources used. Reference to Climate Opportunities offering.

Section	Page	Type of Change	Rationale
	10	Addition	Reference to targets set at portfolio and asset class level.
5.3 Working with external managers	11 11 11	Addition Addition Addition	Engagement expectations. Encourage managers to set firm wide net zero commitment and join NZAM. Working with managers on decarbonisation parameters for mandates.
6. Engagement and advocacy	11	Addition	Reference to engagement with regulators, policy makers etc.
6.1 Our approach to engagement	11 12 12	Addition Amendment Addition	Additional areas for engagement e.g. Just Transition. Revisions to voting text in line with proposed revisions to Voting Guidelines. Reference to use of Net Zero Stewardship Toolkit.
7. Disclosures and reporting	12/13	Amendment	Reporting on Policy implementation and progress against Net Zero commitment.

7 Financial

7.1 Any financial implications are in respect of implementation and fulfilment of the policies. The cost of the external voting and engagement provider and RI initiatives have previously been approved. Additional spend will be in relation to ESG data providers, and ongoing training and development of staff through attendance at conferences and specific training events

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. Increasing regulation and pressure from beneficiaries and stakeholders has propelled RI and ESG up the agenda for investors and our Partner Funds. There may be reputational risk if we are perceived to be failing in our commitment of this objective.

8.2 Commitment to RI is becoming increasingly important to the Partner Funds. To maintain collective policies and the strong voice this gives us; we need to ensure that all Partner Funds are in agreement.

9 Conclusion

9.3 The Committee is asked to consider the recommendations as section 2.

10 Author

Jane Firth, Head of Responsible Investment
9th November 2022

11 Supporting Documentation

Appendix 1: Draft Border to Coast Responsible Investment Policy
Appendix 2: Draft Border to Coast Corporate Governance & Voting Guidelines
Appendix 3: Draft Border to Coast 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 2HJ

Responsible Investment Policy

Border to Coast Pensions Partnership

~~November 2021~~
January 2023

Responsible Investment Policy

This Responsible Investment Policy details the approach that Border to Coast Pensions Partnership ~~will~~ follows in fulfilling its commitment to our Partner Funds in their delegation of the implementation of certain responsible investment (RI) and stewardship responsibilities.

1. Introduction

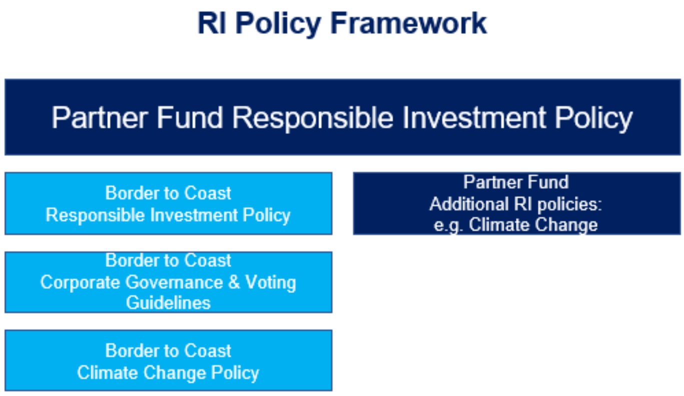
Border to Coast Pensions Partnership Ltd is an FCA-authorised investment fund manager (AIFM). It operates investment funds for its eleven shareholders which are Local Government Pension Scheme funds (Partner Funds). The purpose is to make a difference to the investment outcomes for our Partner Funds through pooling to create a stronger voice; working in partnership to deliver cost effective, innovative, and responsible investment now and into the future; thereby enabling great, sustainable performance.

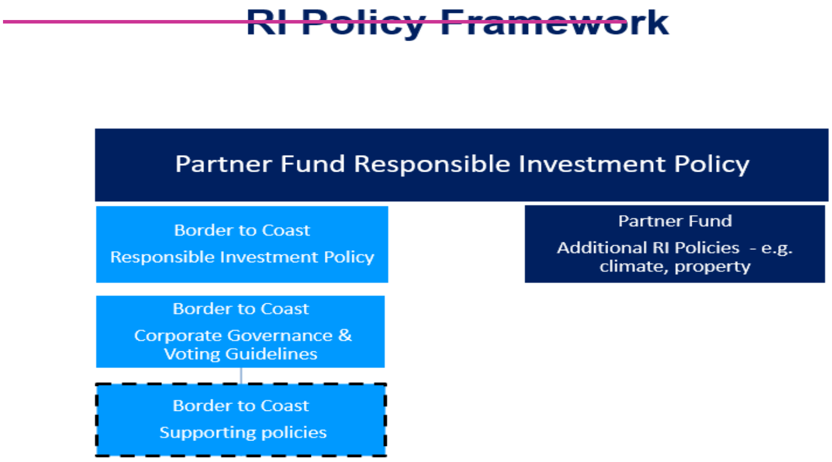
Border to Coast takes a long-term approach to investing and believes that businesses that are governed well, have a diverse board and run in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. Diversity of thought and experience on boards is significant for good governance, reduces the risk of 'group think' leading to better decision making. Environmental, social and governance (ESG) issues can have a material impact on the value of financial assets and on the long-term performance of investments, and therefore need to be considered across all asset classes in order to better manage risk and generate sustainable, long-term returns. Well-managed companies with strong governance are more likely to be successful long-term investments.

Border to Coast is an active owner and steward of its investments ~~, both internally and externally managed,~~ across all asset classes. This commitment is demonstrated through achieving signatory status to the Financial Reporting Council UK Stewardship Code. ~~The commitment to responsible investment is communicated in the Border to Coast UK Stewardship Code compliance statement.~~ As a long-term investor and representative of asset owners, we ~~will~~ hold companies and asset managers to account regarding environmental, societal and governance factors that have the potential to impact corporate value. We ~~will~~ incorporate such factors into our investment analysis and decision making, enabling long-term sustainable investment performance for our Partner Funds. As a shareowner, Border to Coast has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It ~~will~~ practices active ownership through voting, monitoring companies, engagement and litigation.

1.1. Policy framework

The LGPS (Management and Investment of Funds) 2016 regulations state that the responsibility for stewardship, which includes shareholder voting, remains with the Partner Funds. Stewardship day-to-day administration and implementation have been delegated to Border to Coast by the Partner Funds, on assets managed by Border to Coast, with appropriate monitoring and challenge to ensure this continues to be in line with Partner Fund requirements. To leverage scale and for operational purposes, Border to Coast has, in conjunction with Partner Funds, developed this RI Policy and accompanying Corporate Governance & Voting Guidelines to ensure clarity of approach on behalf of Partner Funds. This collaborative approach results in an RI policy framework illustrated below with the colours demonstrating ownership of the various aspects of the framework:





2. What is responsible investment?

Responsible investment (RI) is the practice of incorporating ESG issues into the investment decision making process and practicing investment stewardship, to better manage risk and generate sustainable, long-term returns. Financial and ESG analysis together identify broader risks and the opportunities leading to better informed investment decisions and can improve performance as well as risk-adjusted returns.

Investment stewardship includes active ownership, using voting rights, engaging with investee companies, influencing regulators and policy makers, and collaborating with other investors to improve long-term performance.

3. Governance and Implementation

Border to Coast takes a holistic approach to the integration of sustainability and- responsible investment, which are~~and as such it is~~ at the core of our corporate and investment thinking.

Sustainability, which includes RI, is considered and overseen by the Board and Executive Committees. Specific policies and procedures are in place to demonstrate the commitment to RI, which include the Responsible Investment Policy and Corporate Governance & Voting Guidelines (available on the **website**). Border to Coast has dedicated staff resources for managing RI within the organisational structure.

The RI Policy is owned by Border to Coast and created after collaboration and engagement with our eleven Partner Funds. The Chief Investment Officer (CIO) is accountable for implementation of the policy. The policy is monitored with regular reports to the CIO, Investment Committee, Board, Joint Committee and Partner Funds. It is reviewed at least annually or whenever revisions are proposed, taking into account evolving best practice, and updated, as necessary.

4. Skills and competency

Border to Coast~~ will~~, where needed, take proper advice in order to formulate and develop policy. The Board and staff ~~will ~~maintain appropriate skills in responsible investment and stewardship through continuing professional development; where necessary expert advice will be taken from suitable RI specialists to fulfil our responsibilities.

5. Integrating RI into investment decisions

Border to Coast considers material ESG factors when analysing potential investments. ESG factors tend to be longer term in nature and can create both risks and opportunities. It is therefore important that, as a long-term investor, we take them into account when analysing potential investments.

The factors considered are those which could cause financial and reputational risk, ultimately resulting in a reduction in shareholder value. ESG issues are~~will be~~ considered and monitored in relation to ~~both internally and externally managed ~~all asset classes~~s~~. The CIO is~~will be~~ accountable for the integration and implementation of ESG considerations. Issues considered include, but are not limited to:

Environmental	**Social**	**Governance**	**Other**
Climate change Resource & energy management Water stress Single use plastics Biodiversity	Human rights Child labour Supply chain Human capital ~~Human capital~~ Employment standards Pay conditions (e.g. living wage in UK)	Board independence~~/~~ D~~d~~iversity of thought Executive pay Tax transparency Auditor rotation Succession planning Shareholder rights	Business strategy Risk management Cyber security Data privacy Bribery & corruption Political lobbying

When considering human rights issues, we believe that all companies should abide by the UN Global Compact Principles and the OECD Guidelines for Multinational Enterprises. Companies should have processes in place to both identify and manage human rights risks across their business and supply chain. Further detail on our voting approach is included in the Corporate Governance & Voting Guidelines.

Whilst the specific aspects and form of ESG integration and stewardship vary across asset class, the overarching principles outlined in this policy are applied to all ~~internally and externally~~

~~managed~~ assets of Border to Coast. More information on specific approaches is outlined below.

5.1. Listed equities (Internally managed)

Border to Coast looks to understand and evaluate the ESG-related business risks and opportunities companies face. We consider the integration of ESG factors into the investment process as a necessary complement to the traditional financial evaluation of assets; this results in a more informed investment decision-making process. Rather than being used to preclude certain investments, it is used to provide an additional context for stock selection.

ESG data and research from specialist providers is used alongside general stock and sector research; it is an integral part of the research process and when considering portfolio construction, sector analysis and stock selection. The Head of RI works with colleagues to ensure they are knowledgeable and fully informed on ESG issues. Voting and engagement should not be detached from the investment process; therefore, information from engagement meetings is~~will be~~ shared with the team to increase and maintain knowledge, and portfolio managers are~~will be~~ involved in the voting process.

5.2. Private markets

Border to Coast believes that ESG risk forms an integral part of the overall risk management framework for private market investment. An appropriate ESG strategy will improve downside protection and help create value in underlying portfolio companies. Border to Coast takes the following approach to integrating ESG into the private market investment process:

- The assessment of ESG issues is integrated into the investment process for all private market investments.
- A manager's ESG strategy is assessed through a specific ESG questionnaire agreed with the Head of RI and reviewed by the alternatives investment team with support from the Head of RI as required.
- Managers are requested to complete an annual monitoring questionnaire which contains both binary and qualitative questions, enabling us to monitor several key performance indicators, including RI policies, people, and processes, promoting RI and RI-specific reporting.
- Managers are requested to report annually on the progress and outcomes of ESG related values and any potential risks.
- Ongoing monitoring includes identifying any possible ESG breaches and following up with the managers concerned.
- Work with managers to improve ESG policies and ensure the approach is in-line with developing industry best practice.

5.3. Fixed income

ESG factors can have a material impact on the investment performance of bonds, both negatively and positively, at the issuer, sector and geographic levels. ESG analysis is therefore incorporated 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.

The approach to engagement also differs as engagement with sovereigns is much more difficult than with companies. Third-party ESG data is used along with information from sources including UN bodies, the World Bank and other similar organisations. This together with traditional credit analysis is used to determine a bond's credit quality. Information is shared between the equity and fixed income teams regarding issues which have the potential to impact corporates and sovereign bond performance.

5.4. Real estate

Border to Coast is preparing to launch funds to make~~considering making~~ Real Estate investments through both direct properties and indirect through investing in real estate funds. For real estate funds, a central component of the fund selection/screening process will be an assessment of~~reviewing~~ the General Partner and Fund/Investment Manager's Responsible Investment and ESG approach and policies. Key performance indicators will include~~be~~ energy performance measurement, flood risk and rating systems such as GRESB (formerly known as the Global Real Estate Sustainability Benchmark), and BREEAM (Building Research Establishment Environmental Assessment Method). Our process will review the extent to which they are used in asset management strategies. We are in the process of developing our ESG and RI strategies for direct investment which includes~~will involve~~ procuring a third-party manager and working with them to develop our~~a best-in-class~~ approach to managing ESG risks.

5.5. External manager selection

RI is incorporated into the external manager appointment process including the request for proposal (RFP) criteria and scoring and the investment management agreements. The RFP includes specific requirements relating to the integration of ESG by managers into the investment process which includes assessing and mitigating climate risk, and~~and to~~ their approach to engagement.

~~.~~We expect to see evidence of how material ESG issues are considered in research analysis and investment decisions. Engagement needs to be structured with clear aims, objectives and milestones.

Voting is carried out by Border to Coast for both internally and externally managed equities where possible and we expect external managers to engage with companies in alignment with the Border to Coast RI P~~p~~olicy.

The monitoring of appointed managers~~will~~ also includes assessing stewardship and ESG integration in accordance with our policies. All external fund managers are~~will be~~ expected to be signatories or comply with international standards applicable to their geographical location. We~~will~~ encourage managers to become signatories to the UN-supported Principles for Responsible Investment[1] ('PRI'). We also encourage managers to make a firm wide net zero commitment and to join the Net Zero Asset Manager initiative (NZAM) or an equivalent initiative. Managers are~~will be~~ required to report to Border to Coast on their RI activities quarterly.

[1] The UN-supported Principles for Responsible Investment (PRI) is the world's leading advocate for responsible investment enabling investors to publicly demonstrate commitment to responsible investment with signatories committing to supporting the six principles for incorporating ESG issues into investment practice.

5.6. Climate change

The world is warming, the climate is changing, and the scientific consensus is that this is due to human activity, primarily the emissions of carbon dioxide (CO_2) from burning fossil fuels. We support this scientific consensus; recognising that the investments we make, in every asset class, will both impact climate change and be impacted by climate change. We actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect investments. We believe that we have the responsibility to contribute and support the transition to a low carbon economy in order to positively impact the world in which pension scheme beneficiaries live in.

Climate change is a systemic risk with potential financial impacts associated with the transition to a low-carbon economy and physical impacts that may manifest under different climate scenarios. Transition will affect some sectors more than others, notably energy, utilities and sectors highly reliant on energy. However, within sectors there are likely to be winners and losers which is why divesting from and excluding entire sectors may not be appropriate.

~~We believe that using our influence through ongoing engagement with companies, rather than divestment, drives positive outcomes. This is fundamental to our responsible investment approach. Our investment approach is not to divest or exclude entire sectors, however there may be specific instances when we will look to sell or not invest in some industries based on investment criteria, the investment time horizon and the likelihood for success in influencing company strategy and behaviour. Using these criteria and due to the potential for stranded assets, we interpret this to cover pure coal and tar sands companies and will therefore not invest in these companies. Any companies excluded will be monitored and assessed for progress and potential reinstatement at least annually.~~In addition, the transition to a low-carbon economy will undoubtedly affect the various stakeholders of the companies taking part in the energy transition. These stakeholders include the workforce, consumers, supply chains and the communities in which the companies' facilities are located. A just transition involves maximising the social and economic opportunities and minimising and managing challenges of a net zero transition. We expect companies to consider the potential stakeholder risks associated with decarbonisation.

Detail on Border to Coast's approach to managing the risks and opportunities associated with climate change can be found in our Climate Change Policy on our website.

6. Stewardship

As a shareholder Border to Coast has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It practises active ownership through the full use of rights available including voting, monitoring companies, engagement and litigation. As a responsible shareholder, we are committed to being a signatory to the 2020 UK Stewardship Code[2] and were accepted as a signatory in March 2022. ~~have made an application to become a signatory by submitting our 2021~~

[2] The UK Stewardship Code aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders. https://www.frc.org.uk/directors/corporate-governance-and-stewardship

~~Responsible Investment & Stewardship Report to the Financial Reporting Counci~~l~~;~~ W~~w~~e are also a signatory to the PRI.~~UN-supported Principles of Responsible Investment[3]~~.

6.1. Voting

Voting rights are an asset and Border to Coast ~~will~~ exercises its rights carefully to promote and support good corporate governance principles. It ~~will~~ aims to vote in every market in which it invests where this is practicable. To leverage scale and for practical reasons, Border to Coast has developed a collaborative voting policy to be enacted on behalf of the Partner Funds which can be viewed on our **website** at: Corporate Governance & Voting Guidelines. Where possible the voting policies are~~will~~ also ~~be~~ applied to assets managed externally. Policies are~~will be~~ reviewed annually in collaboration with the Partner Funds. There may be occasions when an individual fund may wish Border to Coast to vote its pro rata holding contrary to an agreed policy; there is a process in place to facilitate this. A Partner Fund wishing to diverge from this policy will provide clear rationale in order to meet the governance and control frameworks of both Border to Coast and, where relevant, the Partner Fund.

6.1.1. Use of proxy advisors

Border to Coast use a~~appointed Robeco as~~ Voting and Engagement provider to implement the set of detailed voting guidelines and ensure votes are executed in accordance with policies. Details of the third-party Voting and Engagement provider and proxy voting advisor are included in Appendix A.

A proxy voting platform is used with proxy voting recommendations produced for all meetings voted managed by ~~Robeco as~~ the Voting & Engagement provider. The~~Robeco's~~ proxy voting advisor ~~(Glass Lewis. Co)~~ provides voting recommendations based upon Border to Coast's Corporate Governance & Voting Guidelines ('the Voting Guidelines'). A ~~Robeco~~ team of dedicated voting analysts analyse the merit of each agenda item to ensure voting recommendations are aligned with the Voting Guidelines. Border to Coast's Investment Team receives notification of voting recommendations ahead of meetings which are assessed on a case-by-case basis by portfolio managers and responsible investment staff prior to votes being executed. A degree of flexibility is required when interpreting the Voting Guidelines to reflect specific company and meeting circumstances, allowing the override of voting recommendations from the proxy adviser.

The Voting and Engagement provider~~Robeco~~ evaluates their proxy voting agent at least annually, on the quality of governance research and the alignment of customised voting recommendations and Border to Coast's Voting Guidelines. This review is part of the~~Robeco's~~ control framework and is externally assured. Border to Coast also monitors the services provided ~~by Robeco~~ monthly, with a six monthly and full annual review.

Border to Coast has an active stock lending programme. Where stock lending is permissible, lenders of stock do not generally retain any voting rights on lent stock. Procedures are in place to enable stock to be recalled prior to a shareholder vote. Stock is~~will be~~ recalled ahead of meetings, and lending can also be restricted, when any, or a combination of the following, occur:

- The resolution is contentious.

~~[3] The UN-supported Principles for Responsible Investment (PRI) is the world's leading advocate for responsible investment enabling investors to publicly demonstrate commitment to responsible investment with signatories committing to supporting the six principles for incorporating ESG issues into investment practice.~~

- The holding is of a size which could potentially influence the voting outcome.
- Border to Coast needs to register its full voting interest.
- Border to Coast has co-filed a shareholder resolution.
- A company is seeking approval for a merger or acquisition.
- Border to Coast deems it appropriate.

Proxy voting in some countries requires share blocking. This requires shareholders who want to vote their proxies to deposit their shares before the date of the meeting (usually one day after cut-off date) with a designated depositary until one day after meeting date.

During this blocking period, shares cannot be sold; the shares are then returned to the shareholders' custodian bank. We may decide that being able to trade the stock outweighs the value of exercising the vote during this period. Where we want to retain the ability to trade shares, we may refrain from voting those shares.

Where appropriate Border to Coast ~~will~~ considers co-filing shareholder resolutions and ~~will~~ notifies~~y~~ Partner Funds in advance. Consideration is~~will be~~ given as to whether the proposal reflects Border to Coast's Responsible Investment policy, is balanced and worded appropriately, and supports the long-term economic interests of shareholders.

6.2. Engagement

The best way to influence companies is through engagement; therefore, Border to Coast will not divest from companies principally on social, ethical or environmental reasons. As responsible investors, the approach taken is~~will be~~ to influence companies' governance standards, environmental, human rights and other policies by constructive shareholder engagement and the use of voting rights.

The services of specialist providers may be used when necessary to identify issues of concern. Meeting and engaging with companies are an integral part of the investment process. As part of our stewardship duties, we monitor investee companies on an ongoing basis and take appropriate action if investment returns are at risk. Engagement takes place between portfolio managers and investee companies across all markets where possible.

Border to Coast has several approaches to engaging with investee holdings:

- Border to Coast and all eleven Partner Funds are members of the Local Authority Pension Fund Forum ('LAPFF'). Engagement takes place with companies on behalf of members of the Forum across a broad range of ESG themes.
- We ~~will~~ seek to work collaboratively with other like-minded investors and bodies in order to maximise Border to Coast's influence on behalf of Partner Funds, particularly when deemed likely to be more effective than acting alone. This is~~will be~~ achieved through actively supporting investor RI initiatives and collaborating with various other external groups e.g. LAPFF, the Institutional Investors Group on Climate Change, other LGPS pools and other investor coalitions.

- Due to the proportion of assets held in overseas markets it is imperative that Border to Coast is able to engage meaningfully with global companies. To enable this and complement other engagement approaches, Border to Coast use an external V~~v~~oting and E~~e~~ngagement service provider. ~~has been appointed.~~We ~~Border to Coast~~ provide~~s~~ input into new engagement themes which are considered to be materially financial, selected by the external engagement provider on an annual basis, and also participate~~s~~ in some of the engagements undertaken on our behalf.
- Engagement ~~will~~ takes place with companies in the internally managed portfolios with portfolio managers and the Responsible Investment team engaging directly across various engagement streams; these ~~will~~ cover environmental, social, and governance issues as well as UN Global Compact[4] breaches or OECD Guidelines[5] for Multinational Enterprises breaches.
- We ~~will~~ expect external managers to engage with investee companies and bond issuers as part of their mandate on our behalf and in alignment with our RI policies~~y~~.

Engagement conducted can be broadly split into two categories: engagement based on financially material ESG issues, or engagement based on (potential) violations of global standards such as the UN Global Compact or OECD Guidelines for Multinational Enterprises.

When engagement is based on financially material ESG issues, engagement themes and companies are selected in cooperation with our engagement service provider based on an analysis of financial materiality. Such companies are selected based on their exposure to the engagement topic, the size and relevance in terms of portfolio positions and related risk.

For engagement based on potential company misconduct, cases are selected through the screening of news flows to identify breaches of the UN Global Compact Principles or OECD Guidelines for Multinational Enterprises. Both sets of principles cover a broad variety of basic corporate behaviour norms around ESG topics. Portfolio holdings are screened on the ~~on 1)~~ validation of a potential breach, ~~2)~~ the severity of the breach and ~~3)~~ the degree of to which management can be held accountable for the issue. For all engagements, SMART[6] engagement objectives are defined.

In addition, internal portfolio managers and the Responsible Investment team monitor holdings which may lead to selecting companies where engagement may improve the investment case or can mitigate investment risk related to ESG issues. Members of the investment team have access to our engagement provider's thematic research ~~Active Ownership profiles~~ and engagement records. This additional information feeds into the investment analysis and decision making process.

[4] UN Global Compact is a shared framework covering 10 principles, recognised worldwide and applicable to all industry sectors, based on the international conventions in the areas of human rights, labour standards, environmental stewardship and anti-corruption.

[5] OECD Guidelines for Multinational Enterprises are recommendations providing principles and standards for responsible business conduct for multinational corporations operating in or from countries adhering to the OECD Declaration on International and Multinational Enterprises.

[6] SMART objectives are: specific, measurable, achievable, relevant and time bound.

We engage with regulators, public policy makers, and other financial market participants as and when required. We encourage companies to improve disclosure in relation to ESG and to report and disclose in line with the TCFD recommendations.

6.2.1. Engagement themes

Recognising that we are unable to engage on every issue, we focus our efforts on areas that are deemed to be the most material to our investments - our key engagement themes. These are used to highlight our priority areas for engagement which includes working with our Voting and Engagement provider and in considering collaborative initiatives to join. We do however engage more widely via the various channels including LAPFF and our external managers.

Key engagement themes are reviewed on a three yearly basis using our Engagement Theme Framework. There are three principles underpinning this framework:

- that progress in the themes is expected to have a material financial impact on our investment portfolios in the long-term;
- that the voice of our Partner Funds should be a part of the decision; and
- that ambitious, but achievable milestones can be set through which we can measure progress over the period.

When building a case and developing potential new themes we firstly assess the material ESG risks across our portfolios and the financial materiality. We also consider emerging ESG issues and consult with our portfolio managers and Partner Funds. The outcome is for the key themes to be relevant to the largest financially material risks; for engagement to have a positive impact on ESG and investment performance; to be able to demonstrate and measure progress; and for the themes to be aligned with our values and important to our Partner Funds.

The key engagement themes following the 2021 review are:

- Low Carbon Transition
- Diversity of thought
- Waste and water management
- Social inclusion through labour management

6.2.2. Escalation

Border to Coast believe that engagement and constructive dialogue with the companies in which it invests is more effective than excluding companies from the investment universe. However, if engagement does not lead to the desired result escalation may be necessary. A lack of responsiveness by the company can be addressed by conducting collaborative engagement with other institutional shareholders, registering concern by voting on related agenda items at shareholder meetings, attending a shareholder meeting in person and filing/co-filing a shareholder resolution. If the investment case has been fundamentally weakened, the decision may be taken to sell the company's shares.

6.2.3 Exclusions

We believe that using our influence through ongoing engagement with companies, rather than divestment, drives positive outcomes. This is fundamental to our responsible investment approach. Our investment approach is not to divest or exclude entire sectors, however there may be specific instances when we will look to sell or not invest in some industries based on investment criteria, the investment time horizon, and the likelihood for success in influencing company strategy and behaviour.

When considering whether a company is a candidate for exclusion, we do so based on the associated material financial risk of a company's business operations and whether we have concerns about its long-term viability. We initially assess the following key financial risks:

- regulatory risk
- litigation risk
- reputational risk
- social risk
- environmental risk

Thermal coal and oil sands:

Using these criteria and due to the potential for stranded assets, we will not invest in companies with more than 70% of revenues derived from thermal coal and oil sands. We will continue to monitor companies with such revenues for increased potential for stranded assets and the associated investment risk which may lead to the revenue threshold decreasing over time.

We support a just transition towards a low-carbon economy which should be inclusive and acknowledge existing global disparities. We recognise that not all countries are at the same stage in their decarbonisation journey and need to consider the different transition timelines for emerging market economies. Therefore, in the interests of a just transition we will assess the implications of the exclusion policy and where we consider it appropriate, may operate exceptions.

For private markets the threshold will be 25%, this is due to the illiquid nature of these investments and less ability for investors to change requirements over time.

Cluster munitions:

In addition, we will not invest in companies contravening the Convention on Cluster Munitions (2008). It is illegal to use these weapons in many jurisdictions and many signatories to the Convention regard investing in the production of cluster munitions as a form of assistance that is prohibited by the convention. Therefore, as a responsible investor we will not invest in the following:

- Companies where there is evidence of manufacturing cluster munition whole weapons systems.
- Companies manufacturing components that were developed or are significantly modified for exclusive use in cluster munitions.

Companies that manufacture "dual-use" components, such as those that were not developed or modified for exclusive use in cluster munitions, will be assessed and excluded on a case-by-case basis.

Restrictions relate to the corporate entity only and not any affiliated companies.

Any companies excluded will be monitored and assessed for progress and potential reinstatement at least annually.

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6.3. Due diligence and monitoring procedure

Internal procedures and controls for stewardship activities are reviewed by Border to Coast's external auditors as part of the audit assurance (AAF) control review. ~~Robeco, as t~~ The external Voting and Engagement provider, is also monitored and reviewed by Border to Coast on a regular basis to ensure that the service level agreement is met.

The Voting and Engagement provider~~Robeco~~ also undertakes verification of its stewardship~~active ownership~~ activities and the~~. Robeco's~~ external auditor audits stewardship~~active ownership~~ controls on an annual basis; this audit is part of the annual International Standard for Assurance Engagements control.

7. Litigation

Where Border to Coast holds securities, which are subject to individual or class action securities litigation,~~ we will,~~ where appropriate, we participate in such litigation. There are various litigation routes available dependent upon where the company is registered. We~~ will~~ use a case-by-case approach to determine whether or not to participate in a class action after having considered the risks and potential benefits. We~~ will~~ work with industry professionals to facilitate this.

8. Communication and reporting

Border to Coast is~~will be~~ transparent with regard to its RI activities and~~ will~~ keeps beneficiaries and stakeholders informed. This is ~~will be~~ done by making publicly available RI and voting policies; publishing voting activity on our **website** quarterly; reporting on engagement and RI activities to the Partner Funds quarterly,~~;~~ and in our annual RI report.

We also report in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and provide an annual progress report on the implementation of our Net Zero Plan.

9. Training and assistance

Border to Coast ~~will~~ offers the Partner Funds training on RI and ESG issues. Where requested, assistance~~ will be~~is given on identifying ESG risks and opportunities in order to help develop individual fund policies and investment principles for inclusion in the Investment Strategy Statements.

The Investment Team receive training on RI and ESG issues with assistance and input from our Voting & Engagement Partner and other experts where required. Training is also provided to the Border to Coast Board and the Joint Committee as and when required.

10. Conflicts of interest

Border to Coast has a suite of policies which cover any potential conflicts of interest between itself and the Partner Funds which are applied to identify and manage any conflicts of interest, this includes potential conflicts in relation to stewardship.~~.~~

Appendix A: Third-party Providers

Voting and Engagement provider	Robeco Institutional Asset Management BV	June 2018 - Present
Proxy advisor	Glass Lewis	June 2018 - Present

Corporate Governance & Voting Guidelines

Border to Coast Pensions Partnership

~~November 2021~~
January 2023

1. Introduction

Border to Coast Pensions Partnership believes that companies operating to higher standards of corporate governance along with environmental and social best practice have greater potential to protect and enhance investment returns. As an active owner Border to Coast will engage with companies on environmental, social and governance (ESG) issues and exercise its voting rights at company meetings. When used together, voting and engagement can give greater results.

An investment in a company not only brings rights but also responsibilities. The shareholders' role includes appointing the directors and auditors and to be assured that appropriate governance structures are in place. Good governance is about ensuring that a company's policies and practices are robust and effective. It defines the extent to which a company operates responsibly in relation to its customers, shareholders, employees, and the wider community. Corporate governance goes hand-in-hand with responsible investment and stewardship. Border to Coast considers the UK Corporate Governance Code and other best practice global guidelines in formulating and delivering its policy and guidelines.

2. Voting procedure

These broad guidelines should be read in conjunction with the Responsible Investment Policy. They provide the framework within which the voting guidelines are administered and assessed on a case-by-case basis. A degree of flexibility will be required when interpreting the guidelines to reflect specific company and meeting circumstances. Voting decisions are reviewed with the portfolio managers. Where there are areas of contention the decision on voting will ultimately be made by the Chief Executive Officer. A specialist proxy voting advisor is employed to ensure that votes are executed in accordance with the policy.

Where a decision has been made not to support a resolution at a company meeting, Border to Coast will, where able, engage with the company prior to the vote being cast. In some instances, attendance at AGMs may be required.

Border to Coast discloses its voting activity on its website and to Partner Funds on a quarterly basis.

We will support incumbent management wherever possible but recognise that the neglect of corporate governance and corporate responsibility issues could lead to reduced shareholder returns.

We will vote **For**, **Abstain** or **Oppose** on the following basis:

- We will support management that acts in the long-term interests of all shareholders, where a resolution is aligned with these guidelines and considered to be in line with best practice.
- We will abstain when a resolution fails the best practice test but is not considered to be serious enough to vote against.
- We will vote against a resolution where corporate behaviour falls short of best practice or these guidelines, or where the directors have failed to provide sufficient information to support the proposal.

3. Voting Guidelines

Company Boards

The composition and effectiveness of the board is crucial to determining corporate performance, as it oversees the running of a company by its managers and is accountable to shareholders. Company behaviour has implications for shareholders and other stakeholders. The structure and composition of the board may vary between different countries; however, we believe that the following main governance criteria are valid across the globe.

Composition and independence

The board should have a balance of executive and non-executive directors so that no individual or small group of individuals can control the board's decision making. They should possess a suitable range of skills, experience and knowledge to ensure the company can meet its objectives. Boards do not need to be of a standard size: different companies need different board structures, and no simple model can be adopted by all companies.

The board of ~~large cap~~ companies, excluding the Chair, should consist of a majority of independent non-executive directors although local market practices shall be taken into account. Controlled companies should have a majority of independent non-executive directors, or at least one-third independent directors on the board. As non-executive directors have a fiduciary duty to represent and act in the best interests of shareholders and to be objective and impartial when considering company matters, the board must be able to demonstrate their independence. Non-executive directors who have been on the board for a significant length of time, from nine to twelve years (depending on market practice) have been associated with the company for long enough to be presumed to have a close relationship with the business or fellow directors. We aspire for a maximum tenure of nine years but will review resolutions on a case-by-case basis where the local corporate governance code recommends a maximum tenure between nine and twelve years.

The nomination process of a company should therefore ensure that potential risks are restricted by having the right skills mix, competencies and independence at both the supervisory and executive board level. It is essential for boards to achieve an appropriate balance between tenure and experience, whilst not compromising the overall independence of the board. The re-nomination of board members with longer tenures should be balanced out by the nomination of members able to bring fresh perspectives. It is recognised that excessive length of tenure can be an issue in some markets, for example the US where it is common to have a retirement age limit in place rather than length of tenure. In such cases it is of even greater importance to have a process to robustly assess the independence of long tenured directors. Where it is believed an individual can make a valuable and independent contribution, tenure greater than nine years will be assessed on a case-by-case basis.

The company should, therefore, have a policy on tenure which is referenced in its annual report and accounts. There should also be sufficient disclosure of biographical details so that shareholders can make informed decisions. There are a number of factors which could affect independence, which includes but is not restricted to:

- Representing a significant shareholder.
- Serving on the board for over nine years.
- Having had a material business relationship with the company in the last three years.

- Having been a former employee within the last five years.
- Family relationships with directors, senior employees or advisors.
- Cross directorships with other board members.
- Having received or receiving additional remuneration from the company in addition to a director's fee, participating in the company's share option or performance-related pay schemes, or being a member of the company's pension scheme.

If the board has an average tenure of greater than 10 years and the board has had fewer than one new board nominee in the last five years, we will vote against the chair of the nomination committee.

Leadership

The role of the Chair is distinct from that of other board members and should be seen as such. The Chair should be independent upon appointment and should not have previously been the CEO. The Chair should also take the lead in communicating with shareholders and the media. However, the Chair should not be responsible for the day-to-day management of the business: that responsibility rests with the Chief Executive. The role of Chair and CEO should not be combined as different skills and experience are required. There should be a distinct separation of duties to ensure that no one director has unfettered decision making power.

However, Border to Coast recognises that in many markets it is still common to find these positions combined. Any company intending to combine these roles must justify its position and satisfy shareholders in advance as to how the dangers inherent in such a combination are to be avoided; best practice advocates a separation of the roles. A senior independent non-executive director should be appointed, in-line with local corporate governance best practice, if roles are combined to provide shareholders and directors with a meaningful channel of communication, to provide a sounding board for the chair and to serve as an intermediary for the other directors and shareholders. Led by the senior independent director, the non-executive directors should meet without the chair present at least annually to appraise the chair's performance. Where the Chair and CEO roles are combined and no senior independent non-executive director has been appointed, we will vote against the nominee holding the combined Chair/CEO role, taking into consideration market practice.

Non-executive Directors

The role of non-executive directors is to challenge and scrutinise the performance of management in relation to company strategy and performance. To do this effectively they need to be independent; free from connections and situations which could impact their judgement. They must commit sufficient time to their role to be able to carry out their responsibilities. A senior independent non-executive director should be appointed to act as liaison between the other non-executives, the Chair and other directors where necessary.

Diversity

Board members should be recruited from as broad a range of backgrounds and experiences as possible. A diversity of directors will improve the representation and accountability of boards, bringing new dimensions to board discussions and decision making. Companies should broaden the search to recruit non-executives to include open advertising and the process for board appointments should be transparent and formalised in a board nomination policy. Companies should have a diversity and inclusion policy which references gender, ethnicity, age, skills and experience and how this is considered in the formulation of the board. The policy should give insight into how diversity is being addressed not only at board level but throughout the company, it should reflect the demographic/ethnic makeup of the countries a company is active in and be disclosed in the Annual Report.

We support the government-backed Davies report, Hampton Alexander and Parker reviews, which set goals for UK companies regarding the representation of women and ethnic minorities on boards, executive teams and senior management. Therefore, in developed markets without relevant legal requirements, we expect boards to be composed of at least 33% female directors. Where relevant, this threshold will be rounded down to account for board size. Recognising varying market practices, we generally expect emerging market and Japanese companies to have at least one female on the board. We will vote against the chair of the nomination committee where this is not the case and there is no positive momentum or progress. On ethnic diversity, we expect FTSE 100 companies to have met the Parker Review target and FTSE 250 companies to disclose the ethnic diversity of their board and have a credible plan to achieve the Parker Review targets by 2024. We will vote against the chair of the nomination committee at FTSE 100 companies where the Board does not have at least one person from an ethnic minority background, unless there are mitigating circumstances or plans to address this have been disclosed.

Succession planning

We expect the board to disclose its policy on succession planning, the factors considered and where decision-making responsibilities lie. A succession policy should form part of the terms of reference for a formal nomination committee. The committee should comprise of a majority~~, comprised solely~~ of independent directors or comply with local standards and be headed by the Chair or Senior Independent Non-executive Director except when it is appointing the Chair’s successor. External advisors may also be employed.

Directors’ availability and attendance

It is important that directors have sufficient time to devote to the company’s affairs; therefore, full time executives should not hold more than one non-executive position in a FTSE 100 company, or similar size company in other regions; nor the chairmanship of such a company. In the remaining instances, directors working as full-time executives should serve on a maximum of two publicly listed company boards.

With regard to non-executive directors, there can be no hard and fast rule on the number of positions that are acceptable: much depends upon the nature of the post and the capabilities of the individual. Shareholders need to be assured that no individual director has taken on too many positions. Full disclosure should be made in the annual report of directors’ other commitments and attendance records at formal board and committee meetings. A director should attend a minimum of 75% of applicable board and committee meetings to ensure commitment to responsibilities at board level.

Re-election

For a board to be successful it needs to ensure that it is suitably diverse with a range of skills, experience and knowledge. There is a requirement for non-executive directors to be independent to appropriately challenge management. To achieve this, boards need to be regularly refreshed to deal with issues such as stagnant skill sets, lack of diversity and excessive tenure; therefore, all directors should be subject to re-election annually, or in-line with local best practice. As representatives of shareholders, directors should preferably be elected using a majority voting standard. In cases where an uncontested election uses the plurality[1] voting standard without a resignation policy, we will hold the relevant Governance Committee accountable by voting against the Chair of this committee.

Board evaluation

A requisite of good governance is that boards have effective processes in place to evaluate their performance and appraise directors at least once a year. The annual evaluation should consider its composition, diversity and how effectively members work together to achieve objectives. As part of the evaluation, boards should consider whether directors possess the necessary expertise to address and challenge management on key strategic topics. These strategic issues and important areas of expertise should be clearly outlined in reporting on the evaluation. The board should disclose the process for evaluation and, as far as reasonably possible, any material issues of relevance arising from the conclusions and any action taken as a consequence. Individual director evaluation should demonstrate the effective contribution of each director. An internal evaluation should take place annually with an external evaluation required at least every three years.

Stakeholder engagement

Companies need to develop and maintain relationships with key stakeholders to be successful in the long-term. The board therefore~~Companies~~ should take into account the interests of and feedback from stakeholders which includes the workforce. Considering the differences in best practice across markets, companies should report how key stakeholder views and interests have been considered and impacted on board decisions. Companies should also have an appropriate system in place to engage with employees.

Engagement and dialogue with shareholders and wider stakeholders on a regular basis are key for companies; being a way to discuss governance, strategy, and other significant issues. Companies should engage with shareholders ahead of the AGM in order that high votes against resolutions can be avoided where possible.

Where a company with a single share class structure has received 20% votes against a proposal at a previous AGM, a comprehensive shareholder and stakeholder consultation should be initiated. A case-by-case approach will be taken for companies with a dual class structure where a significant vote against has been received. Engagement efforts and findings, as well as company responses, should be clearly reported on and lead to tangible improvement. Where companies fail to do so, the relevant board committees or members will be held to account.

Directors' remuneration

Shareholders at UK companies have two votes in relation to pay; the annual advisory vote on remuneration implementation which is non-binding, and the triennial vote on forward-looking pay policy which is binding. If a company does not receive a majority of shareholder support

[11] A plurality vote means that the winning candidate only needs to get more votes than a competing candidate. If a director runs unopposed, he or she only needs one vote to be elected.

for the pay policy, it is required to table a resolution with a revised policy at the next annual meeting.

It must be noted that remuneration structures are varied, with not one model being suitable for all companies; however, there are concerns over excessive remuneration and the overall quantum of pay. Research shows that high executive pay does not systematically lead to better company performance. Excessive rewards for poor performance are not in the best interests of a company or its shareholders. Remuneration levels should be sufficient to attract, motivate and retain quality management but should not be excessive compared to salary levels within the organisation and with peer group companies. There is a clear conflict of interest when directors set their own remuneration in terms of their duty to the company, accountability to shareholders and their own self-interest. It is therefore essential that the remuneration committee is comprised solely of non-executive directors and complies with the market independence requirement.

Remuneration has serious implications for corporate performance in terms of providing the right incentives to senior management, in setting performance targets, and its effect on the morale and motivation of employees. Corporate reputation is also at risk. Remuneration policy should be sensitive to pay and employee conditions elsewhere in the company, especially when determining annual salary increases.

Where companies are potentially subject to high levels of environmental and societal risk as part of its business, the remuneration committee should also consider linking relevant metrics and targets to remuneration to focus management on these issues. The selection of these metrics should be based on a materiality assessment that also guides the company's overall sustainability strategy. If environmental or social topics are incorporated in variable pay plans, the targets should set stretch goals for improved ESG performance, address achievements under management's control, and avoid rewarding management for basic expected behaviour. Where relevant, minimum ESG standards should instead be incorporated as underpins or gateways for incentive pay. If the remuneration committee determines that the inclusion of environmental or social metrics would not be appropriate, a clear rationale for this decision should be provided in the remuneration report.

The compensation provided to non-executive directors should reflect the role and responsibility. It should be structured in a manner that does not compromise independence, enhancing objectivity and alignment with shareholders' interests. Non-executive directors should, therefore, not be granted performance-based pay. Although we would not expect participation in Long-term Incentive Plans (LTIPs), we are conscious that in some exceptional instances non-executives may be awarded stock, however the proportion of pay granted in stock should be minimal to avoid conflicts of interest.

To ensure accountability there should be a full and transparent disclosure of directors' remuneration with the policy published in the annual report and accounts. The valuation of benefits received during the year, including share options, other conditional awards and pension benefits, should be provided. Companies should also be transparent about the ratio of their CEO's pay compared to the median, lower and upper quartiles of their employees.

• **Annual bonus**

Bonuses should reflect individual and corporate performance targets which are sufficiently challenging, ambitious and linked to delivering the strategy of the business and performance over the longer-term. Bonuses should be set at an appropriate level of base salary and should be capped. Provisions should be in place to reduce or forfeit the annual bonus where the company has experienced a significant negative event. For large cap issuers, we expect the annual bonus to include deferral of a portion of short-term payments into long-term equity scheme or equivalent. We will also encourage other companies to take this approach.

• **Long-term incentives**

Remuneration policies have over time become more and more complex making them difficult for shareholders to adequately assess. Border to Coast therefore encourages companies to simplify remuneration policies.

Performance-related remuneration schemes should be created in such a way to reward performance that has made a significant contribution to shareholder value. Poorly structured schemes can result in senior management receiving unmerited rewards for substandard performance. This is unacceptable and could adversely affect the motivation of other employees.

Incentives are linked to performance over the longer-term in order to create shareholder value. If restricted stock units are awarded under the plan, the vesting period should be at least three years to ensure that the interests of both management and shareholders are aligned in the long-term. Executives' incentive plans should include both financial and non-financial metrics and targets that are sufficiently ambitious and challenging. Remuneration should be specifically linked to stated business objectives and performance indicators should be fully disclosed in the annual report.

The performance basis of all such incentive schemes under which benefits are potentially payable should be clearly set out each year, together with the actual performance achieved against the same targets. We expect clawback or malus provisions to be in place for all components of variable compensation, taking into account local market standards. We encourage Executive Directors to build a significant shareholding in the company to ensure alignment with the objectives of shareholders. These shares should be held for at least two years post exit.

The introduction of incentive schemes to all employees within a firm is encouraged and supported as this helps all employees understand the concept of shareholder value.

Directors' contracts

Directors' service contracts are also a fundamental part of corporate governance considerations. Therefore, all executive directors are expected to have contracts that are based upon no more than twelve months' salary. Retirement benefit policies of directors should be aligned with those of the majority of the workforce, and no element of variable pay should be pensionable. The main terms of the directors' contracts including notice periods on both sides, and any loans or third-party contractual arrangements such as the provision of housing or removal expenses, should be declared within the annual report. Termination benefits should be aligned with market best practice.

Corporate reporting

Companies are expected to report regularly to shareholders in an integrated manner that allows them to understand the company's strategic objectives. Companies should be as transparent as possible in disclosures within the r~~R~~eport and a~~A~~ccounts. As well as reporting financial performance, business strategy and the key risks facing the business, companies should provide additional information on ESG issues that also reflect the directors' stewardship of the company. These could include, for example, information on a company's human capital management policies, its charitable and community initiatives and on its impact on the environment in which it operates.

Every annual report should include an environmental section, which identifies key quantitative data relating to energy and water consumption, emissions and waste etc., explains any contentious issues and outlines reporting and evaluation criteria. It is important that the risk areas reported upon should not be limited to financial risks.

We will encourage companies to report and disclose in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommendations, and the Workforce Disclosure Initiative in relation to human capital reporting.

Audit

The audit process must be objective, rigorous and independent if it is to provide assurance to users of accounts and maintain the confidence of the capital markets. To ensure that the audit committee can fulfil its fiduciary role, it should be established as an appropriate committee composition with at least three members who are all independent non-executive directors and have at least one director with a relevant audit or financial background. Any material links between the audit firm and the client need to be highlighted, with the audit committee report being the most appropriate place for such disclosures. Audited financial statements should be published in a timely manner ahead of votes being cast at annual general meetings.

FTSE 350 companies should tender the external audit contract at least every ten years. Reappointment of the same firm with rotation of the audit partner, will not be considered as sufficient. If an auditor has been in place for more than ten fiscal years, their appointment will not be supported. For the wider market, the external audit contract should be put out to tender at least every ten years. Where an auditor has resigned, an explanation should be given. If the accounts have been qualified or there has been non-compliance with legal or regulatory requirements, this should be drawn to shareholders' attention in the main body of the annual report. If the appropriate disclosures are not made, the re-appointment of the audit firm will not be supported.

Non-Audit Fees

There is concern over the potential conflict of interest between audit and non-audit work when conducted by the same firm for a client. Companies must therefore make a full disclosure where such a conflict arises. There can be legitimate reasons for employing the same firm to do both types of work, but these need to be identified. As a rule, the re-appointment of auditors will not be supported where non-audit fees are considerably in excess of audit fees in the year under review, and on a three-year aggregate basis, unless sufficient explanation is given in the accounts.

Political donations

There are concerns over the reputational risks and democratic implications of companies becoming involved in funding political processes, both at home and abroad. Companies should disclose all political donations, demonstrate where they intend to spend the money and that it is the interest of the company and shareholders. Where these conditions are not met, or there is insufficient disclosure that the money is not being used for political party donations, political donations will be opposed. Any proposals concerning political donations will be opposed.

Lobbying

A company should be transparent and publicly disclose direct lobbying, and any indirect lobbying through its membership of trade associations. We will assess shareholder proposals regarding lobbying on a case-by-case basis; however, we will generally support resolutions requesting greater disclosure of trade association and industry body memberships, any payments and contributions made, and requiring alignment of company and trade association values. This includes expectations of companies to be transparent regarding lobbying activities in relation to climate change and to assess whether a company's climate change policy is aligned with the industry association(s) it belongs to.

Shareholder rights

As a shareowner, Border to Coast is entitled to certain shareholder rights in the companies in which it invests (Companies Act 2006). Boards are expected to protect such ownership rights.

- **Dividends**

Shareholders should have the chance to approve a company's dividend policy and this is considered best practice. The resolution should be separate from the resolution to receive the report and accounts. Failure to seek approval would elicit opposition to other resolutions as appropriate unless there is a clearly disclosed capital management and allocation strategy in public reporting.

- **Voting rights**

Voting at company meetings is the main way in which shareholders can influence a company's governance arrangements and its behaviour. Shareholders should have voting rights in equal proportion to their economic interest in a company (one share, one vote). Dual share structures which have differential voting rights are disadvantageous to many shareholders and should be abolished. We will not support measures or proposals which will dilute or restrict our rights.

- **Authority to issue shares**

Companies have the right to issue new shares in order to raise capital but are required by law to seek shareholders' authority. Such issuances should be limited to what is necessary to sustain the company and not be in excess of relevant market norms.

- **Disapplication of Pre-emption Rights**

Border to Coast supports the pre-emption rights principle and considers it acceptable that directors have authority to allot shares on this basis. Resolutions seeking the authority to issue shares with and without pre-emption rights should be separate and should specify the amounts involved, the time periods covered and whether there is any intention to utilise the authority.

Share Repurchases

Border to Coast does not necessarily oppose a company re-purchasing its own shares but it recognises the effect such buy backs might have on incentive schemes where earnings per share measures are a condition of the scheme. The impact of such measures should be reported on. It is important that the directors provide a full justification to demonstrate that a share repurchase is the best use of company resources, including setting out the criteria for calculating the buyback price to ensure that it benefits long-term shareholders.

Memorandum and Articles of Association

Proposals to change a company's memorandum and articles of association should be supported if they are in the interests of Border to Coast, presented as separate resolutions for each change, and the reasons for each change provided.

If proposals to adopt new articles or amend existing articles might result in shareholders' interests being adversely affected, we will oppose the changes.

Mergers and acquisitions

Border to Coast will normally support management if the terms of the deal will create rather than destroy shareholder value and makes sense strategically. Each individual case will be considered on its merits. Seldom will compliance with corporate governance best practice be the sole determinant when evaluating the merits of merger and acquisition activity, but full information must be provided to shareholders on governance issues when they are asked to approve such transactions. Recommendations regarding takeovers should be approved by the full board.

Articles of Association and adopting the report and accounts

It is unlikely that Border to Coast will oppose a vote to adopt the report and accounts simply because it objects to them per se; however, there may be occasions when we might vote against them to lodge dissatisfaction with other points raised within this policy statement. Although it is a blunt tool to use, it can be an effective one especially if the appropriate Chair or senior director is not standing for election.

Virtual Shareholder General Meetings

Many companies are considering using electronic means to reach a greater number of their shareholders. An example of this is via a virtual annual general meeting of shareholders where a meeting takes place exclusively using online technology, without a corresponding in-person meeting. There are some advantages to virtual only meetings as they can increase shareholder accessibility and participation; however, they can also remove the one opportunity shareholders have to meet face to face with the Board to ensure they are held to account. We would expect an electronic meeting to be held in tandem with a physical meeting. If extraordinary circumstances rule out a physical meeting, we expect the company to clearly outline how shareholders' rights to participate by asking questions and voting during the meeting are protected. Any amendment to a company's Articles to allow virtual only meetings without these safeguards will not be supported.

Shareholder Proposals

We will assess shareholder proposals on a case-by-case basis. Consideration will be given as to whether the proposal reflects Border to Coast's Responsible Investment policy, is balanced and worded appropriately, and supports the long-term economic interests of shareholders.

Shareholder proposals are an important tool to improve transparency. Therefore, we will, when considered appropriate, support resolutions requesting additional reporting or reasonable action that is in shareholders' best interests on material business risk, ESG topics, climate risk and lobbying.

Human rights

When considering human rights issues, we believe that all companies should abide by the UN Global Compact Principles and the OECD Guidelines for Multinational Enterprises. We expect companies exposed to human rights issues to have adequate due diligence processes in place to identify risks across their business and supply chain, in line with the UN Guiding Principles on Business and Human Rights. Where a company is involved in significant social controversies and at the same time is assessed as having poor human rights due diligence, we will vote against the most accountable board member or the report and accounts.

Climate change

~~We expect companies with high emissions or in high emitting sectors to have a climate change policy in place, which at minimum includes greenhouse gas emission reduction targets and disclosure of Scope 1 and 2 emissions. We use the Transition Pathway Initiative (TPI)[2] toolkit and the Climate Action 100+ Net Zero Benchmark (CA100+ NZB) to assess our listed equities investments. Both tools enable us to assess how companies are managing climate change, the related business risk and the progress being made. Where a company in a high emitting sector receives a score of zero or one by the TPI, or fails to meet the expectations above, we will vote against the Chair of the board if we consider the company is not making progress. Where a company covered by CA100+ NZB fails the first four indicators of the Benchmark which includes a net-zero by 2050 (or sooner) ambition, and short, medium and long-term emission reduction targets, we will also vote against the Chair of the board.~~

Climate change is a systemic risk which poses significant investment risks, but also opportunities, with the potential to impact long-term shareholder value. We believe it is vital we fully understand how companies are dealing with this challenge, and feel it is our duty to hold the boards of our investee companies to account.

Our primary objective from climate related voting and engagement is to encourage companies to adapt their business strategy in order to align with a low carbon economy and reach net zero by 2050 or sooner. The areas we consider include climate governance; strategy and Paris alignment; command of the climate subject; board oversight and incentivisation; TCFD

~~[2] 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.~~

disclosures and scenario planning; scope 3 emissions and the supply chain; capital allocation alignment, climate accounting, a just transition and exposure to climate-stressed regions.

For companies in high emitting sectors that do not sufficiently address the impact of climate change on their businesses, we will oppose the agenda item most appropriate for that issue. To that end, the nomination of the accountable board member takes precedence. Companies that are not making sufficient progress in mitigating climate risk are identified using recognised industry benchmarks including the Transition Pathway Initiative (TPI) and the Climate Action 100+ (CA100+) Net Zero Benchmark. We will vote against the Chair (or relevant agenda item) where companies are scored 2 or lower by the TPI. In addition, we will vote against the Chair for Oil and Gas companies scoring 3 or lower. Where a company covered by CA100+ Net Zero Benchmark fails indicators of the Benchmark, which includes a net zero by 2050 (or sooner) ambition, and short, medium and long-term emission reduction targets, we will also vote against the Chair of the Board.

Additionally, an internally developed framework is used to identify companies with insufficient progress on climate change.

Banks will play a pivotal role in the transition to a low carbon economy, and we will therefore be including the sector when voting on climate-related issues. We will assess banks using the IIGCC/TPI framework and will vote against the Chair of the Sustainability Committee, or the agenda item most appropriate, where a company materially fails the first four indicators of the framework.

We support a just transition towards a low-carbon economy which should be inclusive and acknowledge existing global disparities. We recognise that not all countries are at the same stage in their decarbonisation journey and need to consider the different transition timelines for emerging market economies. Therefore, in the interests of a just transition we will assess the implications when considering our voting decisions on a case-by-case basis.

Investment trusts

Border to Coast acknowledges that issues faced by the boards of investment companies are often different to those of other listed companies. The same corporate governance guidelines do not necessarily apply to them; for example, investment companies can operate with smaller boards. However, the conventions applying to audit, board composition and director independence do apply.

The election of any representative of an incumbent investment manager onto the board of a trust managed or advised by that manager will not be supported. Independence of the board from the investment manager is key, therefore management contracts should not exceed one year and should be reviewed every year. In broad terms, the same requirements for independence, diversity and competence apply to boards of investment trusts as they do to any other quoted companies.

We may oppose the adoption of the report and accounts of an investment trust where there is no commitment that the trust exercises its own votes, and there is no explanation of the voting policy.

Climate Change Policy

Border to Coast Pensions Partnership

Policy Owner: The Chief Investment Officer
Live from: ~~October 2021~~January 2023

Climate Change Policy

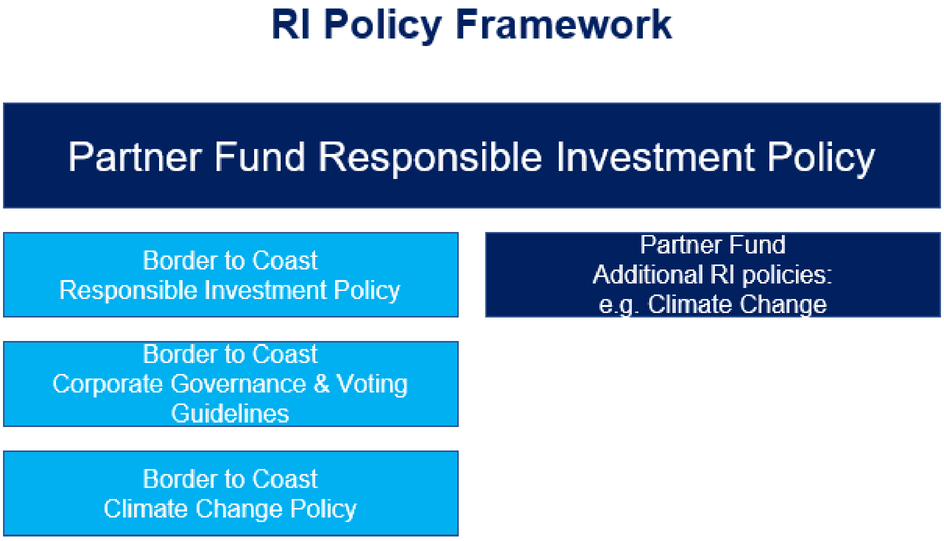
This Climate Change Policy details the approach that Border to Coast Pensions Partnership will follow in fulfilling its commitment to managing the risks and opportunities associated with climate change across the assets managed on behalf of our Partner Funds.

1 Introduction

Border to Coast Pensions Partnership Ltd is an FCA regulated and authorised investment fund manager (AIFM), operating investment funds for its eleven shareholders which are Local Government Pension Scheme funds (Partner Funds). As a customer-owned, customer-focused organisation, our purpose is to make a sustainable and 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.

1.1 Policy framework

Border to Coast has developed this Climate Change Policy in collaboration with our Partner Funds. It sits alongside the Responsible Investment Policy and other associated policies, developed to ensure clarity of approach and to meet our Partner Funds' fiduciary duty and fulfil their stewardship requirements. This collaborative approach resulted in the RI policy framework illustrated below with the colours demonstrating ownership of the various aspects of the framework:



2 Policy overview

2.1 Our views and beliefs on climate change

The world is warming, the climate is changing, and the scientific consensus is that this is due to human activity, primarily the emissions of carbon dioxide (CO2) from burning fossil fuels. Our planet has warmed by over 1ºC relative to the pre-industrial average temperature, and we are starting to experience the significant effects of this warming. This changes the world in which we live, but also the world in which we invest.

Atmospheric CO2 is at unprecedented levels in human history. Further warming will occur, and so adaptation will be required. The extent of this further warming is for humankind to collectively decide, and the next decade is critical in determining the course. If the present course is not changed and societal emissions of CO2 and other greenhouse gases (GHG) are not reduced to mitigate global warming, scientists have suggested that global society will be catastrophically disrupted beyond its capability to adapt, with material capital market implications.

Recognising the existential threat to society that unmitigated climate change represents, in 2015, the nations of the world came together in Paris and agreed to limit global warming to 2ºC and to pursue efforts to limit the temperature increase to 1.5ºC. A key part of the Paris Agreement was an objective to make finance flows consistent with a pathway towards low GHG emissions and climate resilience. This recognises the critical role asset owners and managers play, reinforcing the need for us and our peers to drive and support the pace and scale of change required.

In 2018, the Intergovernmental Panel on Climate Change (IPCC) published a special report, "Global warming of 1.5ºC"[1], which starkly illustrated how critical successful adaptation to limit global warming to 1.5ºC is. The report found that limiting global warming to 1.5°C would require "rapid and far-reaching" transitions in land, energy, industry, buildings, transport, and cities. This includes a need for emissions of carbon dioxide to fall by approximately 45 percent from 2010 levels by 2030, and reach 'net zero' around 2050. We support this scientific consensus; recognising that the investments we make, in every asset class, will both impact climate change and be impacted by climate change. Urgent collaborative action is needed to reach net zero greenhouse gas emissions globally by 2050, and everyone has a part to play in ensuring the goal is met.

2.2 Why climate change is important to us

The purpose of embedding sustainability into our actions is twofold: we believe that considering sustainable measures in our investment decisions will increase returns for our Partner Funds, in addition to positively impacting the world beneficiaries live in.

Our exposure to climate change comes predominantly from the investments that we manage on behalf of our Partner Funds. We develop and operate a variety of internally and externally managed investments across a range of asset classes both in public and private markets for our Partner Funds to invest in.

We try to mitigate these exposures by taking a long-term approach to investing as we believe that businesses that are governed well and managed in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. Climate change can have a material impact on the value of financial assets and on the long-term performance of investments, and therefore needs to be considered across all asset classes in order to better manage risk and generate sustainable, long-term returns.

Climate change is a systemic risk which poses significant investment risks, but also opportunities, with the potential to impact long-term shareholder value. There are two types of risks that investors are exposed to, the physical risk of climate change impacts and the transitional risk of decarbonising economies, both can also impact society resulting in social risks.

Transition to a low carbon economy will affect some sectors more than others, and within sectors there are likely to be winners and losers, which is why divesting from and excluding entire sectors may not be appropriate. We actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect investments. We believe that we have the responsibility to contribute and support the transition to a low carbon economy in order to positively impact the world in which pension scheme beneficiaries live in.

1 https://www.ipcc.ch/sr15/

In addition, the transition to a low-carbon economy will undoubtedly affect the various stakeholders of the companies taking part in the energy transition. A just transition refers to the integration of the social dimension in the net zero transition and is part of the Paris Agreement, the guidelines adopted by United Nations' International Labour Organization (ILO) in 2015, and the European Green Deal. These stakeholders include the workforce and the communities in which the companies' facilities are located. We expect companies to consider the potential stakeholder risks associated with decarbonisation.

Our climate change strategy is split into four pillars**: Identification and Assessment, Investment Strategy, Engagement and Advocacy, and Disclosures and Reporting.** We will continue to monitor scientific research in this space; evolving and adapting our strategy in order to best respond to the impacts of climate change.

2.3 How we execute our climate change strategy

We integrate climate change risks within our wider risk management framework and have robust processes in place for the identification and ongoing assessment of climate risks.

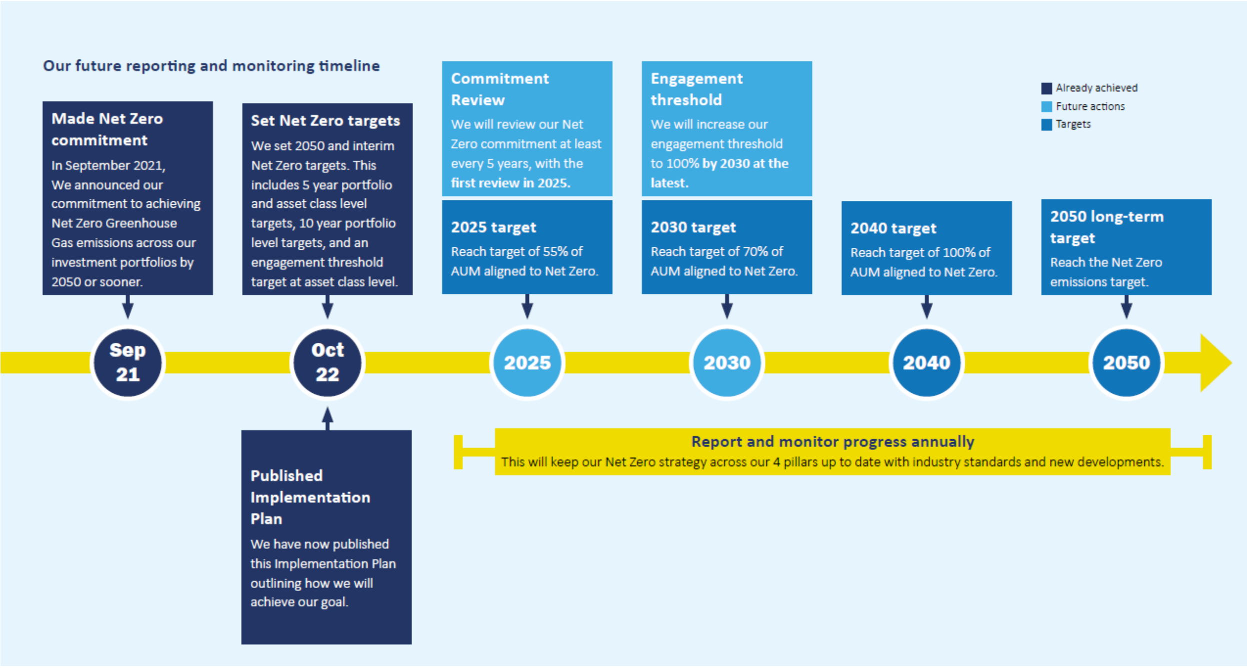
We consider climate change risks and opportunities within our investment decision making process.

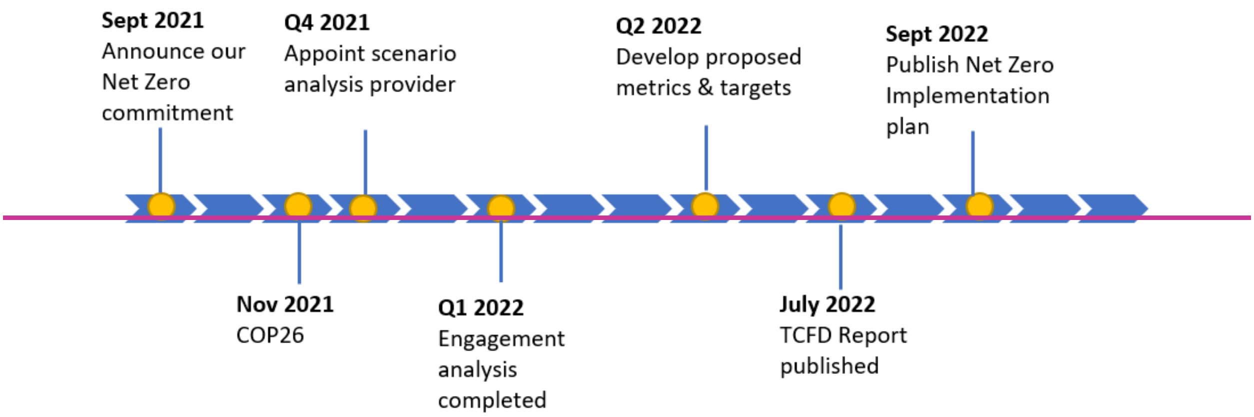
We are committed to transparency regarding our climate change issues and activities.

Border to Coast, as a large investor, aims to influence companies to adapt and articulate their climate change strategy, to enable them to be well prepared for the transition to a low carbon economy. This in turn will improve investment outcomes.

2.4 Roadmap

~~The roadmap demonstrates the milestones to implement the policy over the next 12 months~~.
The roadmap demonstrates the future reporting and monitoring timeline for implementing our Net Zero plan.


Our future reporting and monitoring timeline
Made Net Zero commitment
In September 2021, We announced our commitment to achieving Net Zero Greenhouse Gas emissions across our investment portfolios by 2050 or sooner.
Set Net Zero targets
We set 2050 and interim Net Zero targets. This includes 5 year portfolio and asset class level targets, 10 year portfolio level targets, and an engagement threshold target at asset class level.
Commitment Review
We will review our Net Zero commitment at least every 5 years, with the first review in 2025.
2025 target
Reach target of 55% of AUM aligned to Net Zero.
Engagement threshold
We will increase our engagement threshold to 100% by 2030 at the latest.
2030 target
Reach target of 70% of AUM aligned to Net Zero.
2040 target
Reach target of 100% of AUM aligned to Net Zero.
2050 long-term target
Reach the Net Zero emissions target.
Already achieved
Future actions
Targets
Sep 21
Oct 22
2025
2030
2040
2050
Published Implementation Plan
We have now published this Implementation Plan outlining how we will achieve our goal.
Report and monitor progress annually
This will keep our Net Zero strategy across our 4 pillars up to date with industry standards and new developments.


Sept 2021
Announce our Net Zero commitment
Q4 2021
Appoint scenario analysis provider
Q2 2022
Develop proposed metrics & targets
Sept 2022
Publish Net Zero Implementation plan
Nov 2021
COP26
Q1 2022
Engagement analysis completed
July 2022
TCFD Report published

3 Climate change strategy and governance

3.1 Our ambition – Net Zero

Our climate change strategy recognises that there are financially material investment risks and opportunities associated with climate change which we need to manage across our investment portfolios. We have therefore committed to a net zero carbon emissions target by 2050 at the latest for our assets under management, in order to align with efforts to limit temperature increases to under 1.5ºC.

We recognise that assessing and monitoring climate risk is under constant development, and that tools and underlying data are developing rapidly. There is a risk of just focusing on carbon emissions, a backwards looking metric, and it is important to ensure that metrics we use reflect the expected future state and transition plans that companies have in place or under development. We will continue to assess the metrics and targets used as data and industry standards develop.

As a supporter of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), we ~~will~~ continue to embed climate change into our investment process and risk management systems, reporting annually on our progress in the TCFD report.

To demonstrate our Net Zero commitment, we joined the Net Zero Asset Manager initiative (‘NZAM’) pledging to decarbonise investment portfolios by 2050 or sooner.

We are using the Net Zero Investment Framework to support us in implementing our strategy to being Net Zero by 2050.
~~In support of our Net Zero commitment~~W~~, w~~e have~~will~~ developed ~~and set out~~ an implementation plan ~~with~~ which sets out the four pillars of our approach: governance and strategy, targets and objectives, asset class alignment, and stewardship and engagement. We believe success across these four elements will best enable us to implement the change needed. ~~high-level targets for each of the four supporting pillars of our climate change strategy which will be published in September 2022~~The Net Zero Implementation Plan can be found on our website.

3.2 Governance and implementation

We take a holistic approach to the integration of sustainability and responsible investment; it is at the core of our corporate and investment thinking. Sustainability, which includes RI is considered and overseen by the Board and Executive Committee. We have defined policies and procedures that demonstrate our commitment to managing climate change risk, including this Climate Change Policy, our Responsible Investment Policy and Corporate Governance & Voting Guidelines which can be found on our website.

3.3 Division of roles and responsibilities

The Board determines the Company’s overall strategy for climate change and with support from the Board Risk Committee, more broadly oversees the identification and management of risk and opportunities. The Board is responsible for the overarching oversight of climate related considerations~~impacts~~ as part of its remit with respect to Border to Coast’s management of investments. The Board approves the Responsible Investment strategy and policies, which includes the Climate Change Policy. Updates on Responsible Investment are presented to the Board at regular intervals, this includes activities related to climate change. The Board reviews and approves the TCFD report prior to publication.

The Climate Change Policy is owned by Border to Coast and created after collaboration and engagement with our Partner Funds. We will, where needed, take appropriate advice in order to further develop and implement the policy.

The Chief Investment Officer (CIO) is responsible for the implementation and management of the Climate Change Policy, with oversight from the Investment Committee, which is chaired by the Chief Executive Officer. Each year the CIO reviews the implementation of the policy and reports any findings to the Board. The policy is reviewed annually, taking into account evolving best practice, and updated as needed.

The Investment Team, which includes a dedicated Responsible Investment Team, works to identify and manage environmental, social and governance (ESG) issues including climate change. Climate change is one of our responsible investment priorities and sits at the core of our sustainability dialogue. We are on the front foot with UK, European and Global climate change regulation, horizon scanning for future regulation and actively participate in discussions around future climate policy and legislation through our membership of industry bodies.

3.4 Training

Border to Coast's Board and colleagues maintain appropriate skills in responsible investment, including climate change, maintaining and increasing knowledge and understanding of climate change risks, available risk measurement tools, and policy and regulation. Where necessary expert advice is taken from suitable climate change specialists to fulfil our responsibilities. We also offer our Partner Funds training on climate change related issues.

3.5 Regulatory change management

Regulatory change horizon scanning is a key task undertaken by~~the role of~~ the Compliance function, which regularly scans for applicable regulatory change. This includes FCA, associated UK financial services regulations, and wider regulation impacting financial services including Responsible Investment, and climate change. The relevant heads of functions and departments, as subject matter experts, also support the process and a tracker is maintained to ensure applicable changes are appropriately implemented.

4 Identification and assessment

4.1 How we identify climate-related risks

The Identification and Assessment pillar is a key element of our climate change strategy. Our investment processes and approach towards engagement and advocacy reflect our desire to culturally embed climate change risk within our organisation and drive change in the industry.

The risk relating to climate change is integrated into the wider Border to Coast risk management framework. The Company operates a risk management framework consistent with the principles of the 'three lines of defence' model.~~,~~ Primary responsibility for risk management lies with the Investment and Operations teams. Second line of defence is provided by the Risk and Compliance functions, which report to the Board Risk Committee, and the third line of defence is provided by Internal Audit, which reports to the Audit Committee and provides risk-based assurance over the Company's governance, risk and control framework.
~~with external assurance providers acting as a fourth line. Risks to the Company are owned and managed by the business or functional areas (1st Line of Defence) and are subject to oversight and challenge by the Risk and Compliance Function (2nd Line of Defence) and independent assurance by Internal Audit (3rd Line of Defence).~~

We consider both the transition and physical risks of climate change. The former relates to the risks (and opportunities) from the realignment of our economic system towards low-carbon, climate-resilient and carbon-positive solutions (e.g. via regulations). The latter relates to the physical impacts of climate change (e.g. rising temperatures, changing precipitation patterns, increased risk arising from rising sea levels and increased frequency and severity of extreme weather events).

4.2 How we assess climate-related risks and opportunities

We currently use a number of different tools and metrics to measure and monitor climate risk across portfolios. We acknowledge that this is a rapidly evolving area, and we are developing our analytical capabilities to support our ambition. Carbon data is not available for all equities as not all companies disclose, therefore there is a reliance on estimates. Data is even more unreliable for fixed income and is only just being developed for Private Markets. We will work with our managers and the industry to improve data disclosure and transparency in this area.

We utilise third party carbon portfolio analytics to conduct carbon footprints across equity and fixed income portfolios, analysing carbon emissions, carbon intensity and weighted carbon intensity and fossil fuel exposure when assessing carbon-related risk, on a quarterly basis. The Transition Pathway Initiative ('TPI')[2] tool and climate Action 100+ Net Zero Company Benchmark analysis is used to support portfolio managers in decision making with respect to net zero assessments. We use research from our partners and specific climate research, along with information and data from initiatives and industry associations we support.

We continue to~~are~~ develop~~ing~~ climate risk assessments for our listed equity investments that combines several factors to assess overall whether a company is aligned with the Paris Agreement (to limit global warming to 2ºC), so that we can both engage appropriately with the company on their direction of travel and also track our progress. This is~~s will necessarily be~~ an iterative process, recognising that data, tools and methodologies are developing rapidly.

~~We are reviewing how we conduct scenario analysis across our portfolios, evaluating tools and external providers and different scenarios and expect to have this in place during 2022.~~We understand that scenario analysis is useful for understanding the potential risks and opportunities attached to investment portfolios and strategies due to climate change. We note that scenario analysis is still developing, with services and products evolving as data quality and disclosure from companies continues to improve. During 2022 we will be evaluating our third-party scenario analysis tools and conducting analysis using a number of different scenarios.

~~We are using the Net Zero Investment Framework to support us in implementing our strategy to being Net Zero by 2050. Work will be undertaken during 2022 to assess and define any targets based around this commitment.~~

5 Investment strategy

5.1 Our approach to investing

We believe that climate change should be systematically integrated into our investment decision-making process to identify related risks and opportunities. This is critical to our long-term objective of improving investment outcomes for our Partner Funds.

Border to Coast offers Partner Funds a variety of internally and externally managed investment funds covering a wide-ranging set of asset classes with different risk-return profiles. Partner Funds then choose the funds which support their strategic asset allocation.

Partner Funds retain responsibility for strategic asset allocation and setting their investment strategy, and ultimately their strategic exposure to climate risk. Our implementation supports Partner Funds to deliver on their fiduciary duty of acting in the best interests of beneficiaries.

We consider climate change risks and opportunities in the process of constructing and developing investment funds. Engaging with our investee companies will be a key lever we will use to reach our Net Zero goals, but we also recognise the role of screening, adjusting portfolio weights, and tilted benchmarks in decarbonising our investments.

Climate change is also considered during the external manager selection and appointment process. We monitor and challenge our internal and external managers on their portfolio holdings, analysis, and investment rationale in relation to climate-related risks.

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[2] 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.

We monitor a variety of carbon metrics, managing climate risk in portfolios through active voting and engagement, whilst also looking to take advantage of the long-term climate-related investment opportunities.

We believe in engagement rather than divestment and that by doing so can effect change at companies. Our investment approach is not to divest or exclude entire sectors, however there may be specific instances when we will look to sell or not invest in some industries based on investment criteria, the investment time horizon and if there is limited scope for successful engagement. Using these criteria and due to the potential for stranded assets, we interpret this to cover public market companies with 70% of revenue derived from thermal~~pure~~ coal and oil~~tar~~ sands~~ companies~~ and will therefore not invest in these companies. For private markets a revenue threshold of 25% is in place, this is due to the illiquid nature of these investments. Any companies excluded will be monitored with business strategies and transition plans assessed for potential reinstatement.

5.2 Acting within different asset classes

We integrate climate change risks and opportunities into our investment decisions within each asset class. The approach we take for each asset class is tailored to the nature of the risk and our investment process for that asset class. The timeframe for the impact of climate change can vary, leading to differing risk implications depending on the sector, asset class and region. These variations are considered at the portfolio level. This policy gives our overall approach and more detail on the processes and analysis can be found in our annual TCFD report.

Climate risks and opportunities are incorporated into the stock analysis and decision-making process for **listed equities** and **fixed income**. Third-~~-~~party ESG and carbon data are used to assess individual holdings. We also use forward looking metrics including the TPI ratings,~~ and~~ Climate Action 100+ (‘CA100+) Net Zero Company Benchmark and the Science Based Targets initiative (‘SBTi) to assess companies’ transition progress. Internal, sell-side and climate specific research, and engagement information are also utilised. Carbon footprints are conducted relative to the benchmark. Climate scenario analysis is also conducted for listed equity and fixed income portfolios using third-party data.

For our **alternative funds**, ESG risks, which includes climate change, are incorporated into the due diligence process including ongoing monitoring. Across both funds and co-investments, we consider the impact of carbon emissions and climate change when determining our asset allocation across geographies and industries. We assess and monitor if our GPs track portfolio metrics in line with TCFD recommendations. Climate change presents real financial risks to portfolios but also provides opportunities with significant amounts of private capital required to achieve a low-carbon transition. We have therefore launched a Climate Opportunities offering and will be facilitating increased investment in climate transition solutions taking into account Partner Fund asset allocation decisions. ~~We are therefore considering the role private markets will play in managing transition risk and how we can invest in climate change opportunities as part of our Private Markets offering.~~

To meet our commitment to reach net zero carbon emissions by 2050 or sooner, we have developed targets for our investments in line with the Net Zero Investment Framework (NZIF). We have set targets at two levels: portfolio level, which refers to our combined total investments in the asset classes covered by this plan, and asset class level, which refers to our investments split by investment type (i.e. listed equity, corporate fixed income etc). This covers 60% of our AUM (at 31/03/2022) and we will look to increase coverage across the rest of our investments when appropriate.

5.3 Working with E~~e~~xternal M~~m~~anagers

Assessing climate risk is an integral part of the E~~e~~xternal M~~m~~anager selection and appointment process. It also forms part of the quarterly screening and monitoring of portfolios and the annual manager reviews. We monitor and review our fund managers on their climate change approach and policies. Where high emitting companies are held as part of a strategy managers are challenged and expected to provide strong investment rationale to substantiate the holding. We ~~encourage~~ expect managers to engage with companies in line with our Responsible Investment Policy and to support collaborative initiatives on climate, and to report in line with the TCFD recommendations. In addition, we encourage ~~assess and monitor where~~ managers to make a firm wide net zero commitment.~~are making net zero commitments~~. We will work with External Managers to implement specific decarbonisation parameters for their mandate. We will monitor our managers' carbon profiles and progress against targets on a quarterly basis and as part of our annual reviews. We will also consider the suitability of those targets on an annual basis. Where carbon profiles are above target, this will act as a prompt for discussion with the manager to understand why this has occurred, any appropriate actions to be taken to bring them back to target, and the timescales for any corrective action.

6 Engagement and advocacy

As a shareholder, we have the responsibility for effective stewardship of all companies or entities in which we invest, whether directly or indirectly. We take the responsibilities of this role seriously, and we believe that effective stewardship is key to the success for our climate ambition. As well as engaging with our investee companies it is important that we engage on systemic risks, including climate change, with policymakers, regulators and standard setters to help create a stable environment to enhance long-term investment returns. ~~can be supported by effective stewardship and governance oversight~~.

6.1 Our approach to engagement

As a long-term investor and representative of asset owners, we will hold companies and asset managers to account regarding environmental, social and governance issues, including climate change factors, that have the potential to impact corporate value. We support engagement over divestment as we believe that constructive dialogue with companies in which we invest is more effective than excluding companies from the investment universe, particularly with regard to promoting decarboni~~z~~sation in the real world. If engagement does not lead to the desired results, we have an escalation process which forms part of our RI Policy, this includes adverse voting instructions on related AGM voting items, amongst other steps. We practice active ownership through voting, monitoring companies, engagement and litigation. Through meetings with company directors, we seek to work with and influence investee companies to encourage positive change. Climate is one of our key engagement themes. We believe it is vital we fully understand how companies are dealing with this challenge, and feel it is our duty to hold the boards of our investee companies to account.

Our primary objective from climate related engagement is to encourage companies to adapt their business strategy in order to align with a low carbon economy and reach~~ing~~ net ~~Net-Z~~zero by 2050 or sooner. The areas we consider in our engagement activities include climate governance; strategy and Paris alignment; command of the climate subject; board oversight and incentivisation; TCFD disclosures and scenario planning; scope 3 emissions and the supply chain; capital allocation alignment, a just transition and exposure to climate-stressed regions.

In order to increase our influence with corporates and policy makers we work collaboratively with other like-minded investors and organisations. This is achieved through actively supporting investor RI initiatives and collaborating with various other external groups on climate related issues, including the Institutional Investors Group on Climate Change, ~~Climate Action 100+~~CA100+, the UN-supported Principles for Responsible Investment, the Local Authority Pension Fund Forum and the Transition Pathway Initiative.

In particular, we are currently focusing on the following actions:

- ~~Vote against company Chairs in high emitting sectors where the climate change policy does not meet our minimum standards, and/or rated Level 0 or 1 by the TPI, where there is no evidence of a positive direction of travel.~~ . When exercising our voting rights for companies in high emitting sectors that do not sufficiently address the impact of climate change on their businesses, we will oppose the agenda item most appropriate for that issue. To that end, the nomination of the accountable board member takes precedence. Companies that are not making sufficient progress in mitigating climate risk are identified using recognised industry benchmarks including the TPI and Climate Action 100+ Net Zero Benchmark. Additionally, an internally developed framework is used to identify companies with insufficient progress on climate change. Our voting principles are outlined in our Corporate Governance & Voting Guidelines. We are also transparent with all our voting activity and publish our quarterly voting records on our website.

- Support climate-related resolutions at company meetings which we consider reflect our Climate Change Policy. We will co-file shareholder resolutions at company AGMs on climate risk disclosure and lobbying, after conducting due diligence, that we consider to be of institutional quality and consistent with our Climate Change Policy.

- Engage with companies in relation to business sustainability and disclosure of climate risk in line with the TCFD recommendations.

- Encourage companies to publish targets and report on steps taken to reduce greenhouse gas emissions.

- Work collaboratively with other asset owners in order to strengthen our voice and make a more lasting impact for positive change. Engagement is conducted directly, through our engagement partner ~~Robeco~~ and through our support of collaborations. We also expect our external asset managers to engage with companies on climate-related issues.

- Use the IIGCC's Net Zero Stewardship Toolkit to develop our net zero stewardship strategy,

- Use carbon footprints ~~and~~ the TPI toolkit, CA100+ Net Zero Benchmark and SBTi to assess companies and inform our engagement and voting activity. This will enable us to prioritise shareholder engagement, set timeframes and monitor progress against our goals.

- Engage collaboratively alongside other institutional investors with policy makers through membership of the Institutional Investor Group on Climate Change ('IIGCC'). We will engage with regulators and peer groups to advocate for improved climate related disclosures and management in the pensions industry and wider global economy.

7 Disclosures and reporting

Transparency is one of our key organisational values. We disclose our RI activity on our website, publishing quarterly stewardship and voting reports, annual RI & Stewardship reports and our TCFD report. We are committed to improving transparency and reporting in relation to our RI activities, which include climate change related activities.

We will keep our Partner Funds and our stakeholders informed on our progress of implementing the Climate Change Policy and Net Zero commitment, as well as our exposure to the risks and opportunities of climate change. This will include:

- Reviewing annually how we are implementing this policy with findings reported to our Board and Partner Funds;

~~During 2021 and 2022 we will be focusing on the following actions:~~

~~Reviewing on an annual basis how we are implementing this Climate Change Policy. The findings~~

~~will be reported to our Board and Partner Funds, as well as made publicly accessible through our TCFD and Stewardship reports and other disclosures.~~

- ~~R~~report~~ing~~ in line with the TCFD recommendations on an annual basis, including reporting on the actions undertaken with regards to implementation of this policy and progress against our Net Zero commitment. ~~climate change. We published our first TCFD report in 2020 and will look to evolve and refine our TCFD report, reflecting further developments that we undertake as part of implementation of this policy.~~
- We will d~~D~~isclos~~e~~~~ing~~ our voting activity and ~~.~~ r~~R~~eport~~ing~~ on engagement and RI activities, including climate change, to the Partner Funds quarterly and in our annual RI & Stewardship report.
- Disclos~~e~~~~ing~~ climate metrics and targets that help to analyse the overall exposure of our portfolios to the risks and opportunities presented by climate mitigation and adaption.
- ~~Reporting our progress against the Net Zero Investment Framework.~~

AGENDA ITEM 07

Border to Coast Pensions Partnership Limited

Joint Committee

Date of Meeting: **30th November 2022**

Report Title: **Responsible Investment update**

Report Sponsor: **Rachel Elwell - CEO**

1 Executive Summary

1.1 Border to Coast is a strong advocate for Responsible Investment which includes embedding environmental, social and governance issues into investment decision making and practicing active ownership through voting and engagement. This report provides an update on Responsible Investment activity and reporting.

1.2 To demonstrate our Net Zero commitment, we have published our Net Zero Implementation Plan which details our approach to managing climate-related risks and opportunities. We have also produced and published our regular quarterly stewardship reports which can be found on our website.

2 Recommendations

2.1 The Joint Committee is asked to note the report.

3 Responsible Investment update

3.1 We launched our Net Zero Implementation Plan at the beginning of October which details how we will address the systemic risk of climate change, drive reductions in real world carbon emissions, and reduce our carbon footprint to Net Zero by 2050 or sooner. Its publication comes a year after we formally committed to the 2050 goal and joined the Net Zero Asset Managers' initiative

3.2 The plan demonstrates how we will continue to leverage our collective scale and influence to engage with companies to decarbonise, collaborate to improve data and reporting across the investment industry and create investment propositions aligned with net zero emission goals. The plan is aligned with the global goals of the Paris Agreement and follows the Net Zero Investment Framework (NZIF) set by the

Institutional Investors Group for Climate Change (IIGCC). The Net Zero Implementation Plan can be found on our website.

3.3 To demonstrate our Net Zero commitment, we joined the Net Zero Asset Manager initiative ('NZAM') in October last year, pledging to decarbonise investment portfolios by 2050 or sooner. This involves submitting a roadmap and targets within 12 months of joining. NZAM published an update in early November with the third set of asset managers' initial targets for the proportion of assets managed in line with achieving net zero by 2050 sooner. Border to Coast is one of the managers included in this latest wave of reporting which takes the number of asset managers that have set net zero targets to 169. All asset managers whose targets have been approved by NZAM can be found on NZAM website.

3.4 We 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. Signatories must report annually using the PRI Reporting Framework, reporting on asset specific modules which incorporate detailed assessment indicators on Responsible Investment implementation.

3.5 Reporting in our first year as a signatory was not mandatory; however, the decision was made to report to identify any areas for improvement. We reported against four modules and scored A or A+, which were either in line or above median scores.

3.6 The PRI revamped its Reporting Framework for the 2021 reporting season. The scoring had previously been graded from E to A+ but changed to star rating with five stars being the highest. There were issues with the new reporting tool which led to severe delays in the delivery of reporting outputs from the PRI.

3.7 We reported against seven modules and were pleased with the results which we received in September. They are significantly above the median and are either four or five-star ratings for all the modules. Although it is difficult to compare to the previous year due to the change in methodology, we believe these are broadly consistent with the 2020 scores. It is worth noting that as the reporting covers the year to 31st March 2021 progress has continued against the RI Strategy.

3.8 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 for the third quarter can be found on our website.

3.9 We recognise that not all countries are at the same stage in their decarbonisation journey and need to consider the different transition timelines for emerging market economies. Earlier this year we joined a collaboration of UK pension funds representing almost £400bn in assets to address how to support a just transition in emerging markets and we are working together on a set of guiding principles.

3.10 The contract for the Voting and Engagement provider has been in place for four years and the contract has been retender using the National LGPS Framework for Stewardship Services. The tendering process has been completed resulting in the contract being awarded to Robeco. The initial contract length is for four years with the ability to extend.

4 Risks

4.1 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.

4.2 There is a risk that insufficient resources are in place to realise the Responsible Investment strategy.

5 Conclusion

5.1 As a responsible investor we publish quarterly and annual reports on stewardship (voting and engagement). In addition, we have recently published our Net Zero Implementation Plan which details how we will address the systemic risk of climate change. All reports can be found on the website.

5.2 We continue to work collaboratively with other large institutional investors and are supporting a climate transition initiative for emerging markets.

5.3 The Committee is asked to note the report.

6 Author

Jane Firth, Head of Responsible Investment, jane.firth@bordertocoast.org.uk

10 November 2022

Important Information

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PENSIONS PARTNERSHIP

Border to Coast Pensions Partnership Limited

Joint Committee

Date of Meeting: **30 November 2022**

Report Title: **Summary of Investment Performance and Market Review**

Report Sponsor: **John Harrison – Interim CIO**

1 Executive Summary

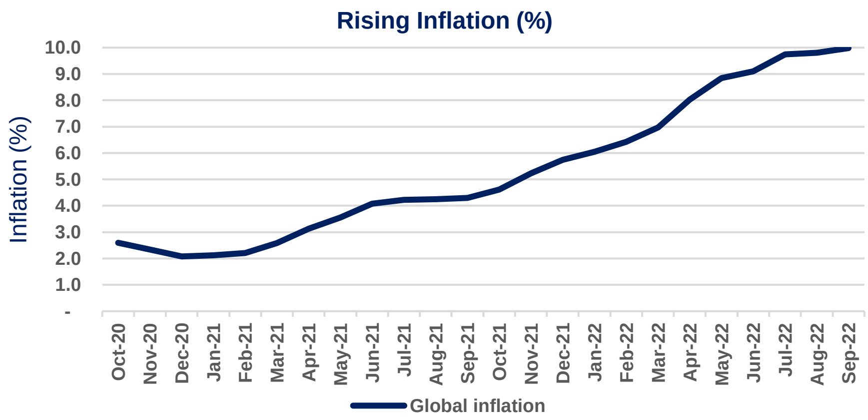
1.1 This report provides an overview of the macroeconomic and market environment, the performance of Border to Coast funds and the medium-term investment outlook.

2 Recommendation

2.1 That the report is noted.

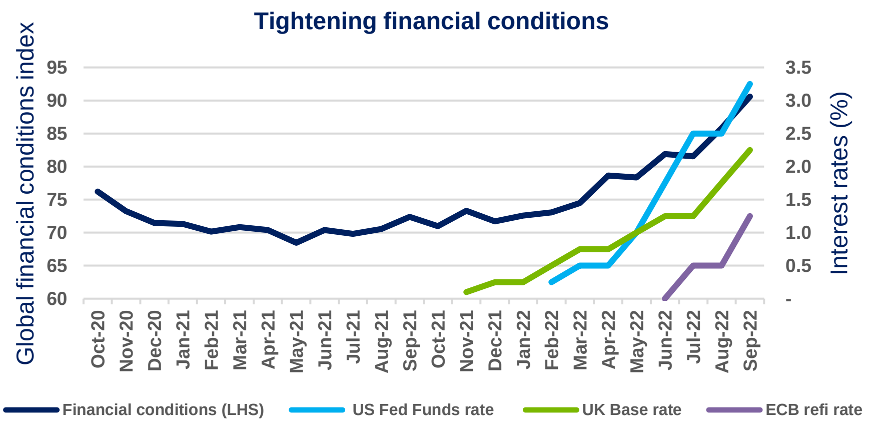
3 Macroeconomic environment

3.1 Inflation has increased dramatically in the last year driven by loose monetary policy, tight labour markets, post-Covid reopening of economies, supply chain disruption and rising commodity prices as a result of the Russia/Ukraine conflict. The rate of change is reducing and the balance of market commentary is that inflation has peaked although it may take some time for it to fall. There remains a risk that inflation becomes entrenched requiring greater central bank intervention.



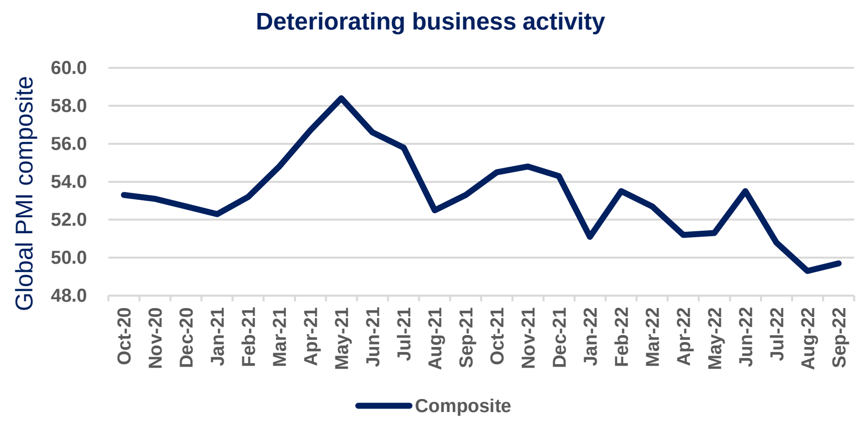
Source: Bloomberg, Border to Coast

3.2 Financial conditions were already tightening as central banks started to reverse quantitative easing. This has been exacerbated by the recent sharp rise in interest rates which now stand at 2% in Europe, 3% in the UK and 4% in the US following further increases towards the end of October.



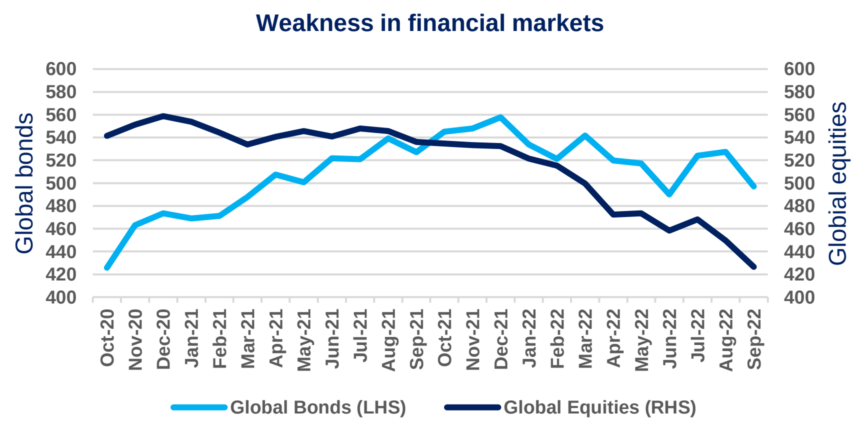
Source: Bloomberg, Border to Coast

3.3 High inflation and rising interest rates have had a significant adverse impact on business activity. Market expectations are for the majority of major economies to fall into recession in the next 6 – 12 months with the downturn in Europe expected to be particularly sharp given its proximity to the Russia/Ukraine conflict.



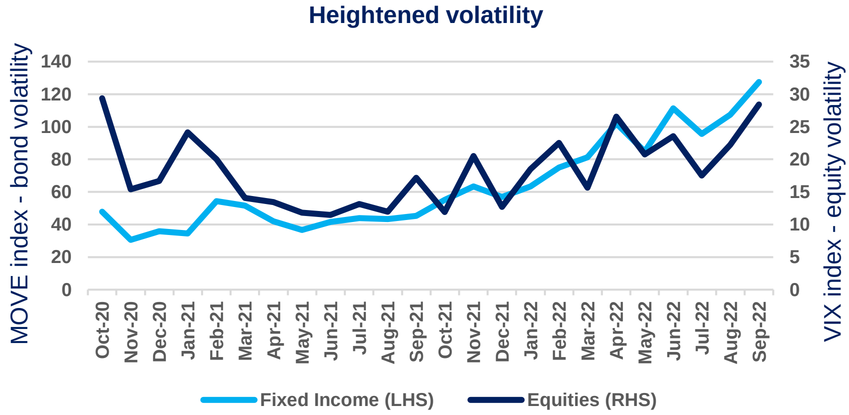
Source: Bloomberg, Border to Coast

3.4 This has resulted in significant weakness in financial markets with global equities and bonds falling by ~20% and ~15% respectively since peaking towards the end of 2021. This is perhaps not surprising as financial markets typically anticipate, and perhaps overreact to, bad news.



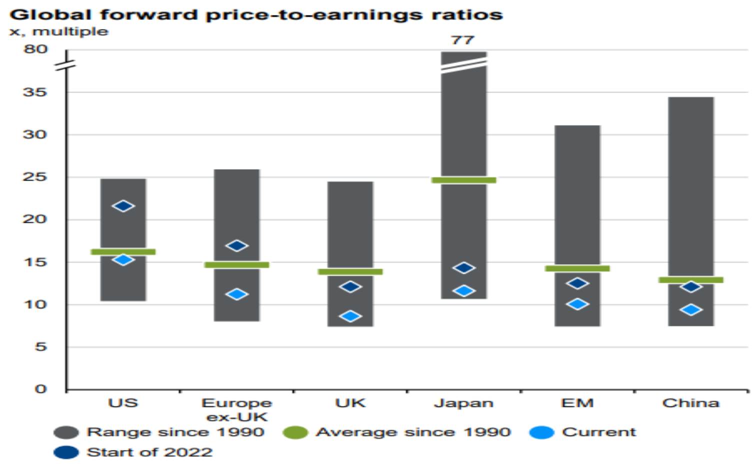
Source: Bloomberg, Border to Coast

3.5 Unsurprisingly given the political and economic turmoil of the last few months, volatility in financial markets has increased. It has been particularly notable in the fixed income markets. For example, during Q3 the UK index-linked gilt market was more volatile than Bitcoin!



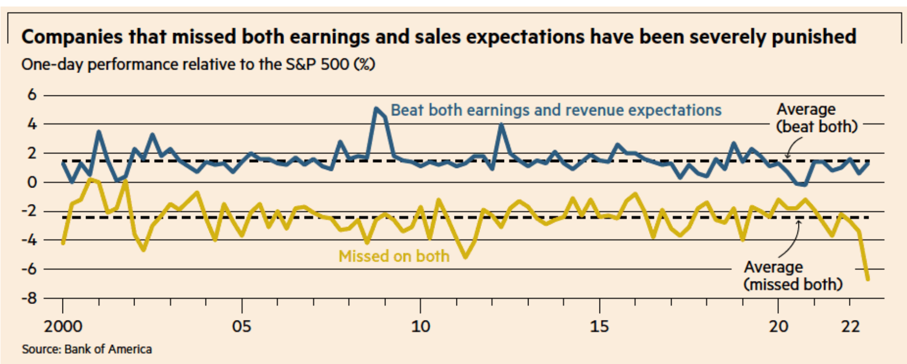
Source: Bloomberg, Border to Coast

3.6 The sharp correction in equity markets has resulted in a fall in valuation multiples which are now significantly lower than at the start of 2022, below the long term average for the majority of markets, and close to the lowest in the last three decades in the UK and Japan.



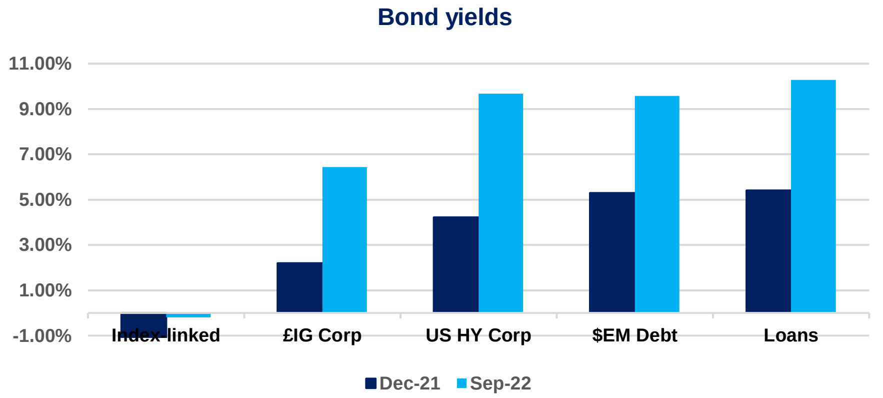
Source: JP Morgan

3.7 However, earnings expectations have been slow to react to the deterioration in macroeconomic data raising the risk of a "value trap". Results announcements for Q3 so far are starting to reflect this weakness and investors are punishing companies that miss these short term forecasts.



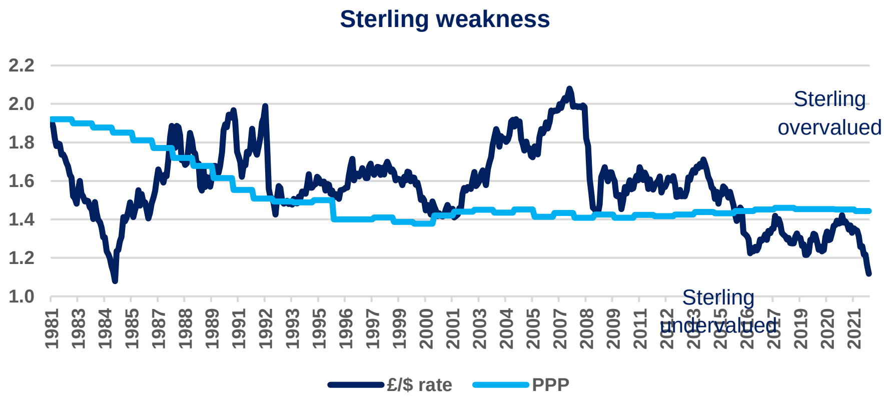
Source: FT

3.8 As with equity markets, the correction in bond markets has increased the yields available with high single digit yields for most bond types. Even real index-linked bond yields are close to positive and reached the heady heights of 1.5% towards the end of September.



Source: Bloomberg, Border to Coast

3.9 The other key trend has been the sharp devaluation of Sterling, particularly relative to the US Dollar. This has been due to less aggressive monetary tightening in the UK as well as the market reaction to the “mini-Budget” towards the end of September. This weakness has somewhat protected the returns from overseas investments for sterling investors. Sterling has since stabilised as a result of the recent political changes but remains relatively weak and below the long term fair value implied by the albeit simplistic “purchasing power parity” model.



Source: Bloomberg, Border to Coast

3.10 Economic forecasts have deteriorated further since the last update with a fall in economic growth, higher inflation, higher unemployment and higher bond yields – perhaps the darkest hour is just before the dawn!

2023 forecasts	Real GDP	CPI Inflation	Unemployment	10 year yield
UK	-0.5% (-0.1%)	6.3% (6.6%)	4.4% (4.4%)	3.7% (3.1%)
US	0.4% (0.9%)	4.2% (3.7%)	4.3% (4.1%)	3.4% (3.3%)
Germany	-0.6% (0.3%)	6.3% (4.7%)	5.6% (5.4%)	2.0% (1.7%)
Japan	1.4% (1.6%)	1.6% (1.3%)	2.5% (2.5%)	0.2% (0.2%)
China	4.8% (5.2%)	2.4% (2.3%)	4.0% (3.9%)	2.9% (2.7%)

Source: Bloomberg consensus forecasts (data as at 7 November 2022, comparatives in parentheses as at 13 September 2022)

4 Fund Performance

4.1 The table below shows performance data for the ACS funds (listed assets) to 30th September 2022 for funds with more than 12 months since inception.

% pa since inception	Type	Launch date	Return	Benchmark	Relative
Equities					
UK Listed Equities	Internal	July 2018	2.0	1.0	+1.0
UK Equity Alpha	External	Dec 2018	2.6	3.9	-1.3
Overseas Developed	Internal	July 2018	7.2	5.9	+1.3
Global Equity Alpha	External	Oct 2019	6.9	8.4	-1.5
Emerging Market Equities	Hybrid	Oct 2018	3.1	4.9	-1.8
Fixed Income					
Sterling Investment Grade Credit	External	Mar 2020	-5.3	-6.3	+1.0
Sterling Index Linked Bonds	Internal	Oct 2020	-19.6	-20.0	+0.4

4.2 4 of the 5 equity funds outperformed during Q3 with only Global Equity Alpha behind benchmark. The equity market backdrop was relatively volatile with a strong recovery earlier in the quarter petering out towards the end. Portfolios with a more defensive and quality stance performed better in these market conditions.

4.3 With regards to Fixed Income, the Index-linked fund modestly outperformed and the investment grade fund underperformed by a similar margin with both benchmarks falling by ~11%. The majority of the market fall occurred in September as bond yields rose sharply following the fallout from the “mini-Budget”.

4.4 Since inception, 4 of the 7 funds are in line or ahead of their targets.

Looking forward

4.5 Whilst the macroeconomic backdrop is challenging there are some signs for optimism (or perhaps less pessimism).

4.6 Whilst high inflation and tightening financial conditions are not particularly conducive for financial markets, heightened volatility and weak business activity tend to be leading indicators of improved market returns in the short term. This is because investor sentiment tends to overreact and any reduction in volatility or improvement in business activity is taken positively.

4.7 Lower equity multiples also tend to result in higher market returns for a similar reason, although this is likely to require a stabilisation in earnings expectations which may be a challenge if we are on the cusp of a global recession.

4.8 Bond yields are discounting higher interest rates and increased default rates. In the event that the peaks in the interest rate and default cycles are lower, bonds could appear relatively attractive, certainly more attractive than they have done for a number of years.

4.9 Investors’ asset allocations are likely to have shifted significantly due to recent market movements which may result in an increase in rebalancing activity. As the values of private market assets do not respond in as timely a manner it is likely that allocations to these asset classes will be optically higher. There is some market chatter around overextended investors reducing their exposure through the secondary market often at sizeable discounts.

4.10 In addition, the sharp rise in UK index-linked yields should have had a beneficial impact on the liability side of the equation, particularly for those funds that have not historically hedged.

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11 November 2022

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