



## **Border to Coast Pensions Partnership Limited**

### **Joint Committee**

**Date of Meeting:** 30<sup>th</sup> 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<sup>1</sup> (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

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<sup>1</sup> 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 11<sup>th</sup> 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	Amendment	Remove 'internally and externally managed'.
	4	Addition	Add 'Pay conditions' to table under social issues
	4	Addition	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	Amendment	Text on exclusions cut and moved to new section.
	7	Addition	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 9<sup>th</sup> 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 1<sup>st</sup> 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	Amendment	Remove ‘large cap’.
	4	Addition	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	Amendment	Text amended to reflect changes to Climate Change Policy.
	13	Amendment	Revised thresholds for TPI and CA100_ indicators.
	13	Addition	New text regarding banks
	13	Addition	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	Addition	Reference to physical and transition risk.
	4	Addition	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	Addition	Text on engagement as a key lever for reducing emissions – investee companies and fund managers (private markets).
	10	Amendment	Revise exclusion threshold to 70% from 'pure'; 25% for illiquid assets.
5.2 Acting within different asset classes	10	Addition	Extra data sources used.
	10	Amendment	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	Addition	Engagement expectations.
	11	Addition	Encourage managers to set firm wide net zero commitment and join NZAM.
	11	Addition	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	Addition	Additional areas for engagement e.g. Just Transition.
	12	Amendment	Revisions to voting text in line with proposed revisions to Voting Guidelines.
	12	Addition	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  
9<sup>th</sup> 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**

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