



Border to Coast Joint Committee

Date of Meeting: 28 November 2023

Report Title: Responsible Investment Policies Annual Review

Report Sponsor: CIO – Joe McDonnell

1 Executive Summary

- 1.1 The Responsible Investment Policy (RI) and Corporate Governance and Voting Guidelines (Voting Guidelines) were developed in 2017 in conjunction with the Partner Funds. A standalone Climate Change Policy was developed and published in 2021. All three policies are reviewed annually and updated as necessary through the appropriate governance channels. The process for review includes the participation of all the Partner Funds; this is to ensure that we have a strong, unified voice.
- 1.2 All three policies have been evaluated by Robeco using the International Corporate Governance Network Global Governance Principles and to reflect changes in market best practice. Policies have also been reviewed against asset managers and asset owners seen to be RI leaders and the other seven LGPS pools.
- 1.3 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.
- 1.4 The annual review and governance processes needs to be completed, with policies approved and ready to be implemented, ahead of the 2024 proxy voting season. Partner Fund Officers have provided feedback on the proposed revisions and suggested amendments. After the Joint Committee, they will be shared with Partner Funds for 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 The three RI-related policies are reviewed annually or when material changes need to be made. The annual review process commenced in July to ensure any revisions to the policies are in place ahead of the 2024 proxy voting season.
- 3.2 The current policies were evaluated by Robeco, our voting and engagement provider, considering the International Corporate Governance Network (ICGN) Global Governance Principles and the changing regulatory environment. The policies have also been reviewed against best-in-class asset managers, and asset owners considered to be RI leaders to determine how best practice has developed. All seven other pools climate change policies were also reviewed.
- 3.3 Regular RI workshops have been held during the year for the Officers Operation Group and the Joint Committee. Areas covered included the RI strategy, the regulatory landscapes, thematic engagement, the voting process and climate-related voting. A separate working group has been set up with Partner Funds' officers covering TCFD reporting.
- 3.4 Partner Funds were asked for input early in the review process and a common area of interest was the reduction of revenue thresholds for thermal coal and oil sands production. A workshop was held with the Officer Operation Group of the Partner Funds on 3 October, and the proposed revised Policies were shared with officers and feedback received from two Partner Funds. This was requesting the impact on the investible universe of reducing revenue threshold levels and broadening the controversial weapons definition, the voting implications of raising the threshold for gender diversity for UK companies, and wording on scenario analysis.
- 3.5 The approach to exclusions was reviewed as part of the policies review process. More detail is included at section 4.
- 3.6 These points along with the other proposed revisions to both policies were discussed, and amendments have been made to the draft policies.
- 3.7 The annual review and governance processes need to be completed, with policies approved and ready to be implemented ahead of the 2024 proxy voting season. After considering feedback from the Officer Operation Group and the Investment Committee, the revised policies were approved by the Board on 14th November.
- 3.8 We have asked Partner Funds to complete their review by the end of 2023 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 suggested improvements from Robeco and work undertaken during the year; this includes on our Net Zero commitment. All changes are shown as track changes in the attached Appendix 1.

- 4.2 Amendments have been made to all the sections for integrating RI into investment decisions. This is due to continuing to develop and embed ESG into investment decision making, the impact of our Net Zero commitment and progress made on Real Estate ahead of launch later this year.
- 4.3 Last year we included some specific wording on human rights as this is an area gaining more prominence for investors. This has been expanded to include how we engage.
- 4.4 An area continuing to gain focus from an investment perspective is biodiversity. We are currently engaging on biodiversity issues through our support of the Investor Policy Dialogue on Deforestation Initiative (IPDD), through Robeco and as part of our Waste and Water theme and our engagement on climate change. Therefore, a high-level overview has been inserted into the RI Policy which covers our approach to engagement.
- 4.5 As part of this year's annual review the approach to exclusions has been revisited. When considering any exclusions, we consider 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. We also assess the impact on the investible universe and the benchmarks our portfolios are measured against.
- 4.6 As part of this year's annual RI policies review process the approach has been revisited, this included the review of the policies and approach of asset managers and asset owners seen as leaders in this area. Revenue thresholds for thermal coal and oil sands production 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 An update on exclusions was presented to the August Investment Committee. Following an in-depth discussion, and recognising to support our Net Zero goal we need to send a clear signal on our intentions, the recommendation was to reduce the exclusion thresholds to 25% for thermal coal and oil sand production (aligned with illiquid assets).
- 4.8 An exclusion related to thermal coal power generation has been introduced with a revenue threshold of 50% for developed markets. A higher threshold of 70% has been introduced for emerging markets this is to reflect our support of a just transition and recognition that countries have differing transition timelines and dependencies on coal and the potential impact on energy availability and economic development.
- 4.9 The exclusion for controversial weapons has been broadened to cover landmines, biological and chemical weapons. This covers international treaties and conventions relating to controversial weapons that the UK has either ratified or is a state party to.
- 4.10 The exclusions in place take into account material financial factors and are limited to areas where it is important to give explicit indications to the investment decision makers.

4.11 The changes to the exclusions approach are not expected to lead to any significant changes to our existing investment portfolios as these risks are already reflected in the investment decision making process. Partner Funds will be able to assess this through performance versus respective benchmarks for the investment funds. This is an area we will continue to engage with Partner Funds as to how this develops over time.

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

Section	Page	Type of Change	Rationale
2. What is responsible investment	3	Addition	RI approach potential to add value (reflecting our Chair's comments).
5. Integrating RI into investment decisions	4	Addition	Add just transition to the table under social issues.
	4	Addition	Additional text on human rights and engagement
	4	Addition	New text on biodiversity as an investment risk and how we engage.
5.1 Listed equities	5	Addition	More detail on integration process.
5.2 Private markets	5/6	Addition	Additional information on annual questionnaire and involvement in industry initiatives.
5.3 Fixed income	6	Amendment	Moved text on engagement.
5.4 Real estate	6/7	Amendment	Updated for progress made ahead of launch.
5.5 External manager selection	7	Addition	Update on engagement to support net zero; PRI assessment considered in selection and monitoring.
5.6 Climate change	7/8	Amendment	Amendment to wording on a just transition and expectations of companies.
	8	Addition	Additional wording on Net Zero and stewardship.
6. Stewardship	8	Amendment	Inserted 'where appropriate' regarding litigation.
6.2 Engagement	11	Amendment	Engagement with wider industry to create stable environment.
6.2.2 Escalation	12	Addition	Extra tools as part of escalation.
6.2.3 Exclusions	12/13	Amendments and addition	Revenue thresholds reduced for thermal coal and oil sands. Controversial weapons exclusions broadened. New exclusion for thermal coal power generation.
9. Training and assistance	14	Addition	Included wider colleagues.

4.13 The policies were presented to the Board on 14th 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 2024.

5 Voting Guidelines – key changes

- 5.1 The Voting Guidelines have been reviewed by Robeco considering best practice. Asset owner and asset manager voting policies and the Investment Association Shareholder Priorities for 2023 have also been used in the review process. There are several minor amendments and proposed additions covering diversity and climate change. All changes are shown as track changes in the attached Appendix 2.
- 5.2 Our voting stance in relation to diversity representation at board level, for both gender and ethnicity, has been strengthened this year. This is to reflect the FCA’s listing rules and also expectations of FTSE 250 companies to be meeting the Parker Review recommendations.
- 5.3 We have further strengthened the approach to climate-related voting and will now include a fifth Climate Action 100+ (CA100+) Net Zero Benchmark indicator covering a company’s decarbonisation strategy. We are also adding the Urgewald Global Coal Exit List to the industry benchmarks (CA100+, TPI) used to assess whether companies are making sufficient progress.
- 5.4 Proposed amendments to the Corporate Governance & Voting Guidelines are highlighted in the table below:

Section	Page	Type of Change	Rationale
Diversity	5	Amendment	Expectations of UK companies on board gender diversity.
		Addition	FTSE 250 on racial diversity and US companies.
Audit	9	Addition	Plans to retender.
Shareholder proposals	12	Addition	General stance on proposals aligned with Paris Agreement.
Climate change	13	Addition	5 th CA100+ Net Zero Benchmark indicator added.
		Addition	Adding Urgewald Global Coal Exit List as industry benchmark tool.
		Amendment	Caveat around TPI scoring and data.
		Addition	Stance on Say on Climate items not aligned with Paris Agreement.

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. The climate change approaches of the other seven LGPS pools have also been reviewed.

- 6.2 The main changes reflect the work undertaken to support our Net Zero commitment and are detailed below. All changes are shown as track changes in the draft Policy attached as Appendix 3.
- 6.3 Additional wording has been added about why climate change is important to us as an investor. This has been taken from the Climate Change Report and includes reference to the role we need to play through engagement and the investment opportunities for investors and how this will support our Partner Funds.
- 6.4 Reference to our Net Zero targets has been included in the 'Our ambition – Net Zero section' with detail on the specific targets for carbon reduction alignment and engagement. This has been moved from a later section of the policy.
- 6.5 A paragraph has been included on how we have considered the different climate scenarios available, those which we will be using and the limitations and associated risks of climate modelling.
- 6.6 Our approach to exclusions has been updated in line with the RI Policy with the lower revenue thresholds for public market companies for thermal coal and oils sands production (now aligned with illiquid assets) and the introduction of an exclusion for thermal coal power generation.
- 6.7 Additional wording has been added on the importance of engagement in meeting our Net Zero goal and the targets we have set. The focus actions for the next and subsequent years have been updated which includes our voting approach to 'Say on Climate' resolutions and climate-related shareholder resolutions.
- 6.8 The amendments to the Climate Change Policy are highlighted in the table below.

Section	Page	Type of Change	Rationale
2.2 Why climate change is important to us	3	Addition	Additional wording taken from the Climate Change Report – importance, our role, and opportunities.
		Amendment	Revision to just transition wording.
3.1 Our ambition – Net zero	5/6	Addition	Inserted reference to our Net Zero targets – wording moved from 5.2
3.3 Division of roles and responsibilities	6	Addition	Wording in line with Climate Change Report.
4.1 How we identify climate-related risks	7	Revision	Wording in line with Climate Change Report.
4.2 How we assess climate-related risks and opportunities	8	Addition	Update on climate change scenario analysis. – in line with Climate Change Report.

Section	Page	Type of Change	Rationale
5.1 Our approach to investing	8/9	Addition	Additional wording on consideration when excluding.
		Amendment	Revise exclusion threshold for thermal coal and oil sands.
		Addition	New exclusion on thermal coal power generation.
5.2 Acting within different asset classes	9	Amendment	Paragraph moved to 3.1.
		Addition	Approach for Real Estate.
6.1 Our approach to engagement	10/11	Amendment	Inserted 'where considered to be appropriate' regarding litigation.
		Addition	Reference to engagement and targets.
		Amendment / addition	Focus areas including voting and engagement.
7. Disclosures and reporting	12	Amendment	Revised wording on transparency and reporting.

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

9.1 The Committee is asked to consider the recommendations at Section 2.

10 Author

Jane Firth, Head of Responsible Investment
15th November 2023

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