Border to Coast Joint Committee 26th March 2024 – Public Questions

Question 1 - Submitted by Ms Alison Whalley

Preamble

As the Joint Committee is aware, climate risk scenarios (from advisers such as Mercers and Hyman Robertson) are one of various factors used to inform investment, especially long- term investment decisions. Recent research has put this modelling under academic scrutiny and found that these scenarios produce mis-leading economic modelling that grossly mismatches what climate scientists are saying about how a world that warms to over 1.5°C will behave. Important bodies like the Pension Regulator and the Institute and Faculty of Actuaries are sounding the alarm and urging investors to review their reliance on such modelling.

Question

We are encouraged to learn that BCPP does not use this flawed climate modelling. This being the case, we would like to know how BCPP assesses climate risk and what modelling is used? And further, whether this important information has been shared with your eleven Pension Fund partners, and if not, why not, given that BCPP's position on this matter would carry considerable weight with the individual Pension Funds and the impact on their Responsible Investment and Climate Change/Net Zero policies.

Response

The Border to Coast operating company provides fund management services to the 11 partner pension funds. Under the LGPS regulations it is the responsibility of the 11 partner funds to determine their own policies to the management of climate risk. In doing this they will make use of information provided by the Border to Coast company (and other fund managers with whom they might have relationships) although the licensing arrangements for the use of some data make it difficult for this to fully shared.

The Company uses third-party ESG and carbon data to assess individual holdings. The Company conduct carbon screens to identify the largest emitters and potential risks around stranded assets. The Company utilise internal, sell-side and climate-specific research and produce Carbon Risk Assessment (CRA) reports for the largest emitters in our portfolio, which provide a deeper dive to assess the credibility of the transition plans of the companies. The Company also use forward-looking metrics, including the TPI tool, the CA100+ Net Zero Company Benchmark and the IIGCC's Net Zero Investment Framework (NZIF) Paris Alignment metric to assess companies' transition progress. Climate risks are factored into the selection and appointment of external managers and the ongoing monitoring of these mandates.

Stewardship is a critical component of the Company's Net Zero Implementation Plan, with engagement being the primary mechanism for driving alignment to Net Zero in our portfolio companies and thereby meeting our own Net Zero targets, both at asset class and portfolio level, as

well as for driving real-world decarbonisation. They have therefore developed a Net Zero Engagement Strategy using the Institutional Investors Group on Climate Change’s (IIGCC) Net Zero Stewardship Toolkit.

The collectively agreed position of the Partner Funds on these issues is reflected in the policies agreed by the Joint Committee each year. Partner Funds own policies will vary reflecting their own circumstances and either mirror the collective policy or be a statement of where they would wish the consensus position to move to.

Question 2 – Submitted by Ms Jenny Condit

Preamble

In February of this year BCPP announced a number of steps intended to "Further strengthen responsible investment policies to support climate and ESG risk management". One particular part of the policy, however, appears to be anything but strong. You say you will not invest in organisations where thermal coal and oil sand production represent more than 25% of revenues. The implication of this statement is that these types of fossil fuels are so damaging that you will restrict your ownership of them. Notwithstanding this policy, in the past two years you have built a £50mm position in ConocoPhillips (COP) in the Global Equity Alpha fund. This company is a major player in the Athabasca Tar Sands , and effective with a recently completed acquisition has actually doubled its tar sands assets. COP must now own the largest or second largest amount of tar sands reserves in the world. Yet even given its dominant position in this business, COP does not breach your test for exclusion from your portfolio. In fact it's not even close. This is because COP, a vast fossil fuel company, generates so much conventional oil and gas as well. This demonstrates that if you have a big enough carbon footprint overall, you can bring as much tar sands product into the world as you want and BCPP can still own you.

Question

Would you accept that your policy for exclusion of businesses from your portfolio as a function of a percentage of revenue test for a troublesome product line is really not fit for purpose? Do you not think a test should better address how much carbon a business is generating, rather than how much money the owner is making on it? In the case of tar sands, with its extreme carbon intensity, a 25% contribution to revenue is equivalent to a much larger contribution to carbon emissions. A test which does not exclude a dominant player in a business is less a test than a cakewalk, surely?

Response

The selection of individual stocks is not a matter for the Joint Committee and is delegated to those managing portfolios within the individual investment funds. Each fund is managed in line with an investment mandate which defines the investment universe for the Fund and other parameters such as performance targets and risk tolerances. These matters are the responsibility of the Partner Funds who retain responsibility for setting policy and strategy. The collective position of the partner funds as set out in the various collectively agreed policies is to favour engagement over divestment while at the same time gradually ratcheting down the revenue threshold applied to exclude companies in particularly problematic sectors from the investment universe. There are different means of determining how to exclude individual companies, however, a revenue threshold is the most common means and the easiest to apply in practice.

Question 3 – Submitted by Lindsey Coeur-Belle

Preamble
In 2022 PFZW, a €256bn care and welfare pension fund in the Netherlands and the 3rd largest in Europe, divested from 114 fossil fuel producers who had no carbon reduction targets.

They then undertook a 2-year engagement programme in which oil and gas companies were asked to produce a viable energy transition strategy by the end of 2023 with short- and medium-term targets and information on carbon emissions. As a result of this exercise in February this year PFZW sold their €2.8bn stake in a further 310 oil and gas companies including Shell, BP, and Total Energies.

Question
PFZW have demonstrated the effectiveness of utilising a "SMART" approach to engagement (defined as specific, measurable, achievable, relevant and time bound). In light of this example will BCPP, and its constituent member funds, revise their engagement strategies immediately to a SMART based approach as currently they are woefully inadequate for professional organisations?

Response

Engagement activities undertaken on behalf of the 11 partner funds whether by the operating company's team, external fund managers, Robeco acting for the operating company or the Local Authority Pension Fund Forum acting for the 11 partner funds all work with defined objectives, timescales, and approaches to escalation. As detailed in the collectively agreed Responsible Investment Policy, the best way to influence companies is through engagement; therefore, the Partnership does not divest from companies principally on social, ethical, or environmental reasons. As responsible investors, the approach taken is to influence companies' governance standards, environmental, human rights and other policies by constructive shareholder engagement and the use of voting rights. For all engagements, SMART engagement objectives are defined.

If engagement does not lead to the desired result, then 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.

Clearly the effectiveness of these approaches are a matter of opinion on which the Partnership would differ from the questioner.