Query: *At what point does failed engagement / lack of change lead to divestment? What examples do you have of divestment in our portfolios? How do we measure the value of engagement?*

Border to Coast believes that engagement and constructive dialogue with the companies we invest in is more effective than divestment, and that by remaining engaged we can effect change at those companies. This is a fundamental part of our responsible investment approach and we believe is how we can most effectively push for alignment with net zero goals in our portfolio companies.

From the outset, engagements are structured with clear objectives specific to the business change Border to Coast expect to see. Engagement "*success*" is measured by the engaged company's progress against these targets.

Our Responsible Investment Policy, which is available on our website, sets out the escalation process if our engagements do not lead to the desired results. The methods of escalation vary, and depend on the circumstances, but include for example: voting against related agenda items at shareholder meetings, attending shareholder meetings in-person to raise concerns, making public statements, publicly pre-declaring our voting intentions, and filing or co-filing shareholder resolutions.

The case-by-case nature of engagement and the many other investment criteria we consider, means that we do not have a singular threshold for disinvestment. If our engagement is unsuccessful or unsatisfactory, we assess both the feasibility of future engagement steps and the existing investment case. If we identify a fundamental weakening of the investment case, a decision may be taken to sell, or reduce our holding in, a company's shares.

A recent example of divestment following engagement is within the 2023/24 Annual Stewardship Report. United Tractors, listed in Indonesia, was a holding for several years until the decision to divest, given what is believed to be a challenged outlook for its core businesses in view of material environmental risks. Approximately 25% of the company's revenues are derived from mine contracting services to several major open-cast coal mines in Indonesia. A further 30% of revenues relate to the sale and servicing of heavy machinery, much of which is utilised in its mining operations. The business was a profitable and cash generative one, however global efforts to reduce investment in coal generation have weighed on global thermal coal prices as well as investment in additional mine capacity. United Tractors' mine contracting business could therefore be considered to have become ex-growth, which was not an appealing characteristic. Placing this concern alongside the company's direct and indirect contribution to portfolio emissions, the investment case was further weakened. While the company had made progress regarding ESG commitments, including the promise to reduce Scope 1 and 2 emissions by 30% by 2030, the very nature of its business exposure to an energy source that is in terminal decline prompted the decision to divest in the fourth quarter. The capital raised was invested in other businesses in Indonesia and across emerging markets with more attractive and sustainable long-term growth prospects.

At a company level, engagement value is realised in the achievement of the specific business change Border to Coast expect to see. A company's progress under public assessments, i.e. Climate Action 100 and Transition Pathway Initiative assessments, are good indicators of the real world contribution Border to Coasts' particular engagement has. Border to Coast is a member of Climate Action 100 which is engaging 170 high emitting companies. Between 2021 and 2023 the number of companies under engagement that had adopted a net zero target increased from 25% to 57% and were disclosing in line with TCFD increased from 8% to 39%.

At a Border to Coast level, the value of climate engagement is found in the contribution engaged entities have to the achievement of firm wide decarbonisation and asset alignment targets.