

UK Stewardship Code Compliance Statement

Border to Coast Pensions Partnership



January 2019

UK Stewardship Code Compliance Statement

Introduction

Border to Coast Pensions Partnership Ltd is an FCA alternative investment fund manager (AIFM). It operates investment funds for its twelve shareholders which are Local Government Pension Scheme funds (Partner Funds) based on their strategic asset allocation through internally and externally managed sub-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.

Responsible Investment (RI) is central to Border to Coast's corporate and investment philosophy; this includes holding companies to account on environmental, social and governance (ESG) issues and practising active ownership across all asset classes. The Border to Coast Responsible Investment policy, which can be found on the [website](#), details the approach to RI and stewardship which we will follow in fulfilling our fiduciary responsibility to Partner Funds. The Corporate Governance & Voting Guidelines (Voting Guidelines), also accessible on the [website](#), set out the approach and principles to voting. The aim is to manage risk and generate sustainable, long-term returns for our Partner Funds.

This document describes the approach Border to Coast takes to stewardship, referenced against the seven Principles of the UK Stewardship Code.

Principle 1: Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities

As a long-term investor, Border to Coast takes its stewardship responsibilities seriously believing that effective active ownership leads to superior long-term returns. As a shareowner, we have a responsibility for effective stewardship of the companies we invest in, whether directly or indirectly through mandates with fund managers. We practice active ownership through voting, monitoring companies, engagement and ultimately if deemed necessary litigation.

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. ESG issues will be integrated into investment decision making across all asset classes. We use specialist data providers to monitor ESG risks across internally and externally managed portfolios which compliment financial, quantitative and risk analysis. For internally managed portfolios ESG data is used when conducting pre-buy analysis and for ongoing monitoring of portfolio companies.

We expect our external managers to adhere to the Border to Coast RI policy and be able to demonstrate the integration of ESG into investment processes. RI is a component of the external manager selection process and incorporated into the RfP and due diligence. External managers' portfolios are monitored for ESG risk with issues addressed at regular meetings.

As responsible investors we believe that the best way to influence companies is through engagement; therefore, the approach taken will be to influence companies by constructive

shareholder engagement and the use of voting rights. Border to Coast has several strands to its engagement strategy. This includes direct engagement by members of the Investment and Research Teams of Border to Coast, with collaborative engagements conducted by Robeco, the third-party Voting and Engagement Partner, on our behalf.

Border to Coast will vote across global equity holdings managed internally and externally, where possible. Voting will be administered by a specialist third-party provider according to the Border to Coast Voting Guidelines.

Responsible Investment which includes stewardship, is considered and overseen by the Board and Executive Committees. Specific policies and procedures are in place to demonstrate our commitment to stewardship. As an organisation we are committed to transparency and disclosure; therefore, our Responsible Investment Policy and Corporate Governance & Voting Guidelines, which explain in detail our approach to Stewardship, can be viewed on the Border to Coast website at (web link)

Principle 2: Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed

Border to Coast has a Conflicts of Interest policy which will be published as part of our Publication Scheme and is available on request. We work actively to continually achieve obligations under the FCA's Principles for Business, PRIN. Whilst all the Principles must be embodied in all of Border to Coast's work, the Principles of direct application to this policy are Principle 6 and Principle 8. The policy is reviewed and updated annually. All staff will receive compulsory and regular training to assist them in identifying, preventing or managing Conflicts of Interest. Personal account dealing and employees outside business positions and interests are addressed by the policy. Conflicts are included on the agenda at Board meetings.

We consider the following in managing Conflict of Interest:

- All reasonable steps must be taken to identify Conflicts of Interest that may result in a material risk of damage to a customer.
- Once identified, conflicts will be escalated to the Chief Risk Officer who will, as appropriate, refer the conflict to the Chief Executive Officer (and Board Chair or the Remuneration and Nomination Committee Chair in respect of Directors' interests).
- Once identified, Conflicts of Interest must be managed in a way that ensures the customers' interests are not adversely affected.
- Border to Coast has implemented internal controls and undertakes awareness raising and monitoring to assist in complying with the approved mitigation or relevant regulatory requirements.

Procedures and policies are in place which cover personal dealing and managing inside information. Information barriers are in operation to ensure that price sensitive information is not passed between different areas of the business. Market soundings can only be received by authorised persons who must then notify Compliance. A register is kept to record inside information when received by any member of Border to Coast staff. A restriction on dealing is then enforced for the investment manager and personal dealing by the member of staff until the information is made public.

Principle 3: Institutional investors should monitor their investee companies

Border to Coast has both internally and externally managed sub-funds. Internally managed funds are monitored by the respective portfolio managers with input from the Head of Equities, the Head of RI and the Research Team. To assist investment staff, research from a number of different providers is utilised; this includes research from sell-side brokers, economists, ESG data providers, proxy voting advisers and industry journals. Additionally, the opinions of NGOs, regulators, other industry bodies and stakeholders will be taken into consideration to give a more informed view.

External managers will be expected to monitor investments managed on behalf of Border to Coast. However, on an ongoing basis, the Border to Coast team will actively monitor market conditions and trends that may impact the performance of the Sub-Funds. Furthermore, on a regular basis the team will compile and review a series of quantitative metrics for all the underlying investment managers and their respective holdings. Managers will be challenged and held to account regarding investee companies, including on ESG issues. Finally, the team will complete a full due diligence for each portfolio manager to assess the strength, consistency, performance, and operations of the underlying funds, on a periodic basis. The due diligence will act as a full reassessment of each manager and will cover similar activities conducted in the original selection process.

All equity portfolios are screened for ESG risk with results used to drive deeper analysis and shape engagement.

Regular meetings are held with companies, other investors, stakeholders and industry professionals to monitor companies' business development and ESG risks and opportunities. Detailed records are kept of engagement meetings, voting and other ESG and stewardship related activities.

Border to Coast has an engagement strategy which consists of internal and external portfolio managers meeting with investee companies, collaborative engagement through investor RI initiatives, and engagements conducted by our Voting and Engagement Partner. We recognise we will not always be able to conduct effective engagement alone which is why collaboration is a strong feature of our engagement strategy. Issues which Border to Coast has engaged on include:

- Diversity
- Climate change
- Independence of non-executive directors
- Human Capital Management

Border to Coast is an active owner of its investee companies and will therefore use its voting rights carefully to influence corporate behaviour.

Principle 4: Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities

As a shareowner Border to Coast practises active ownership which involves engaging with companies and exercising voting rights to influence corporate behaviour, enhancing and protecting long-term returns. When an issue has been identified the first step will be to reach out directly to the company. This approach may vary depending upon where the company is based. Ideally, we will contact the Senior Independent Director or Chair. If this is not possible

we will communicate through the Investor Relations Team or company broker. We believe the key to successful engagement is in building and maintaining relationships with investee companies and realise that some engagement may take place over an extended period.

We are mindful that it may be more effective for us to participate in collaborative engagement. This may be achieved through our membership of LAPFF, RI initiatives, collaboration with other interested investors, and via the Voting and Engagement Partner.

Border to Coast is focussing on a number of broad responsible investment themes which include high standards of corporate governance, transparency and disclosure and diversity. Issues that we have engaged collaboratively on include gender diversity, climate change, data privacy and corporate governance in Japan.

Border to Coast may also vote against management at AGMs, attend AGMs to ask questions and will consider co-filing shareholder resolutions. Where appropriate we will participate in shareholder litigation.

Principle 5: Institutional investors should be willing to act collectively with other investors where appropriate

We acknowledge that in many cases joint engagement with other investors has the potential to effect greater change than acting alone. We will therefore seek to work collaboratively with other like-minded investors and bodies to maximise Border to Coast's influence on behalf of Partner Funds, where we consider this to be the most effective means of engagement. This will be achieved through actively supporting investor RI initiatives and collaborating with various other external groups; each opportunity is assessed on a case by case basis. Border to Coast has appointed a third-party Voting and Engagement Partner, Robeco, who engage on our behalf across the internally managed global equity holdings. When carrying out engagement, Robeco do so collectively on behalf of their clients, therefore increasing Border to Coast's influence. This will not preclude Border to Coast engaging with companies alone on specific issues. We also expect external managers to engage with companies on our behalf. We are currently a member or supporter of the following collaborative initiatives:

Local Authority Pension Fund Forum

Workforce Disclosure Initiative

PLSA

Institutional Investor Group on Climate Change

30% Club Investor Group

Climate Action 100+

The contact for any potential collaborative engagement with Border to Coast is Jane Firth who can be contacted at jane.firth@bordertocoast.org.uk

Principle 6: Institutional investors should have a clear policy on voting and disclosure of voting activity

To have a greater influence and for operational reasons, it was deemed essential to have a collective voting policy in place at Pool level. This was developed in collaboration with all Partner Funds. Border to Coast has a policy to exercise its voting rights across all global equity holdings for both internally and externally managed sub-funds. Robeco has been appointed as the external Voting and Engagement Partner, to administer voting on our behalf, providing analysis and also advise when required. The Voting Guidelines are principle based and applied on a case by case basis. The Head of RI & Voting has the ability to override decisions following discussions with internal and external managers. If agreement cannot be reached the decision is referred to the Chief Investment Officer. The Voting Guidelines are reviewed and revised annually to reflect changes in industry best practice. Border to Coast respond to requests from companies on voting rationale and will, where possible, engage with companies prior to voting against a resolution. Summary voting activity is reported and disclosed on the website on a quarterly basis showing votes against and any votes cast contrary to policy with rationale. All votes are disclosed annually.

Border to Coast operates stock lending. Procedures are in place to restrict lending and stock will be recalled ahead of meetings when certain criteria detailed in the RI policy are met.

Principle 7: Institutional investors should report periodically on their stewardship and voting activities

Border to Coast communicates its approach to Stewardship through its RI policy and Corporate Governance & Voting Guidelines; these documents are reviewed and updated annually to reflect changes in best practice.

A quarterly Stewardship publication is produced and published on the [website](#). This includes detail on voting, engagement and market developments. The Active Ownership report prepared by the Voting and Engagement Partner contains voting highlights and coverage of engagement conducted on our behalf, available on the [website](#). Border to Coast's Annual Report includes a section on Responsible Investment including a summary of annual voting activity. A separate standalone annual RI report is also produced. Voting activity is reported on a quarterly basis with annual disclosure of all votes on the [website](#). All the aforementioned documents are shared with the Partner Funds to fulfil our stewardship obligations. Additionally, Border to Coast reports to Partner Funds on ESG in-line with their requirements and provides briefing papers on specific topics, themes and issues.

January 2019