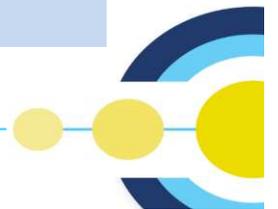


# Border to Coast Pensions Partnership

Quarterly  
Stewardship  
Newsletter

Q2 2019



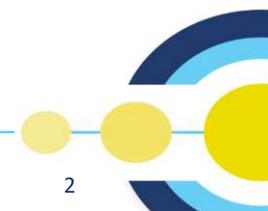
# What it means to us

## Sustainability

Border to Coast takes a holistic approach to sustainability and as such it is at the core of our corporate and investment thinking. We are a strong advocate of Responsible Investment (RI) and believe that businesses that are governed well and run in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors.

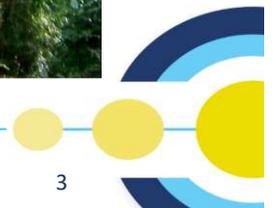
## Active Ownership

As a long-term investor and representative of asset owners, we will practice active ownership by holding companies and asset managers to account on environmental, societal and governance (ESG) issues that have the potential to impact corporate value. We will also use our shareholder rights by voting at company meetings, monitoring companies, engagement and litigation. Our approach to RI and stewardship is set out in our RI policy and the Corporate Governance & Voting Guidelines, both of which can be viewed on our website. The aim is to manage risk and generate the sustainable, long-term returns which are a key part of making a difference to our Partner Funds and delivering their objectives.



# Contents

1. Voting highlights
2. Industry developments
3. What we've been doing this quarter
4. Engagement
5. Engagement - RI collaborations

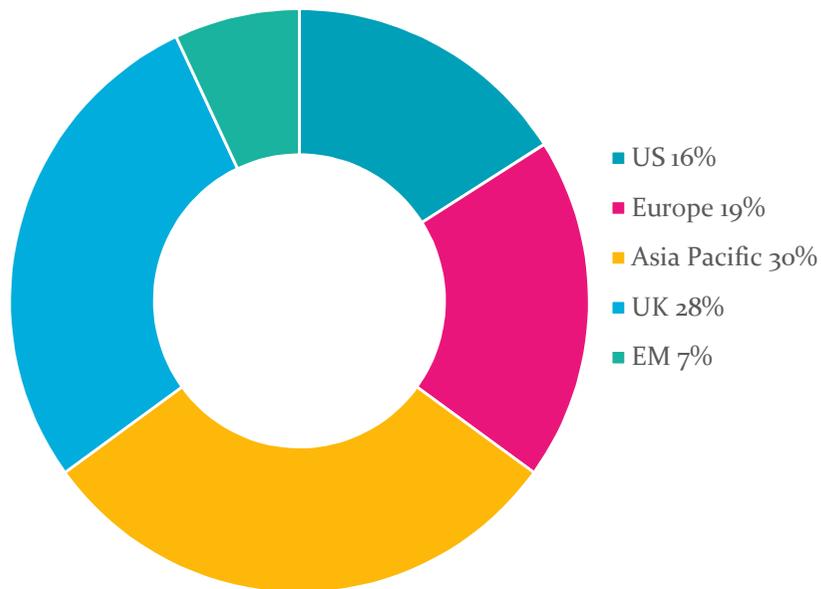


# Voting

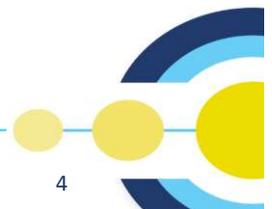
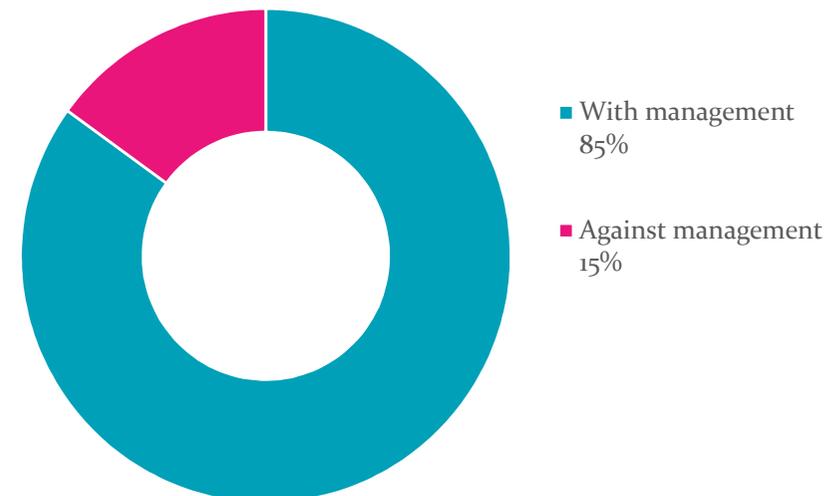
The second quarter saw the start of peak voting season. It tends to begin towards the end of March, with a peak in May and tails off during the later summer months. Analysis of the voting season so far suggests an increase in opposition to director elections and compensation proposals and more votes being cast on environmental and social proposals.

For the second quarter of 2019 quarter we voted at a total of 525 meetings globally. The total number of agenda items voted was 7,974 and at 74% of meetings we voted against management on at least one resolution.

Shareholder meetings voted by region



Global meetings - votes with/against management



# Voting (ctd)

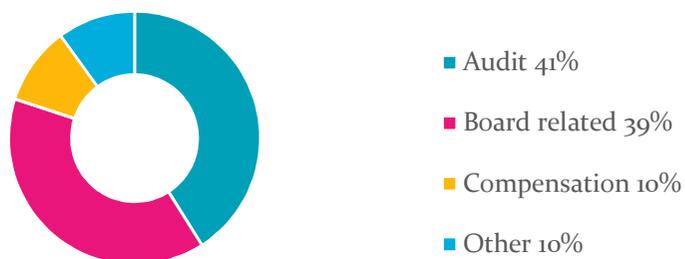
## Border to Coast UK Listed Equity Fund

Over the quarter we voted at 75 meetings on 1,456 proposals. We supported all votes at 20 meetings (27%) and voted against 1 or more resolution at 55 meetings (73%). We opposed or abstained on 10% of proposals. Most related to auditor appointments (41%), board appointments (39%) and compensation (10%).

UK Listed Equity Fund - votes with/against management



UK Listed Equity Fund- votes against by category



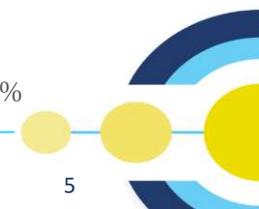
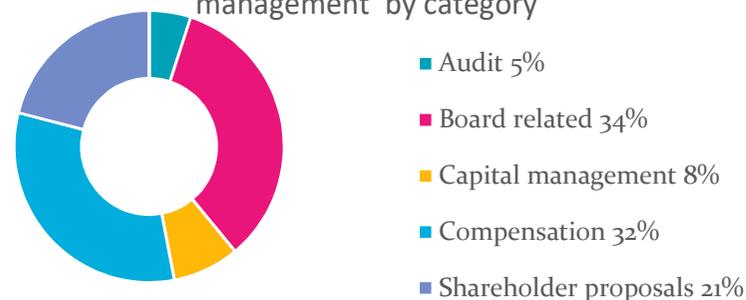
## Border to Coast Overseas Developed Equity Fund

Over the quarter we voted at 276 meetings on 4,007 proposals. We supported all votes at 71 meetings (26%) and voted against 1 or more resolution at 205 meetings (74%). We opposed or abstained on 15% of proposals. Most related to board appointments(34%), followed by compensation (32%) and shareholder proposals (21%).

Overseas Developed Market Fund - votes with/against management



Overseas Developed Market Fund - votes against management by category



# Voting (ctd...)

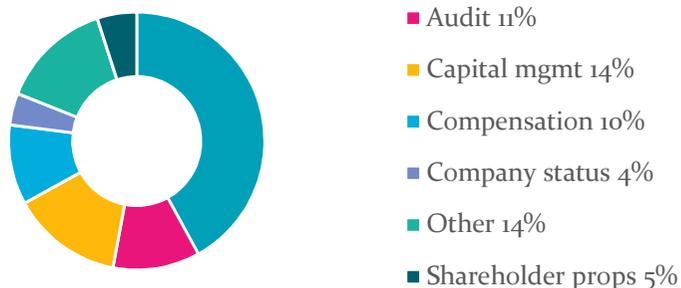
## Border to Coast Emerging Markets Equity Fund

Over the quarter we voted at 103 meetings on 1,183 proposals. We supported all votes at 21 meetings (20%) and voted against 1 or more resolution at 82 meetings (80%). We opposed or abstained on 27% of proposals. The categories receiving the most votes against were board appointments (42%), capital management (14%) and auditor appointments (10%).

Emerging Markets Fund - votes with/against management



Emerging Markets Equity Fund - votes against by category



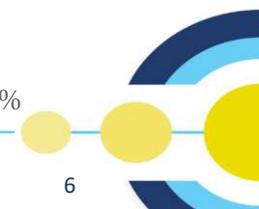
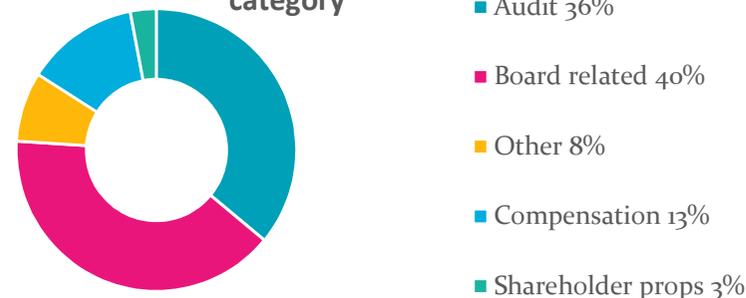
## Border to Coast UK Listed Equity Alpha Fund

Over the quarter we voted at 121 meetings on 2,124 proposals. We supported all votes at 33 meetings (27%) and voted against 1 or more resolution at 88 meetings (73%). We opposed or abstained on 9% of proposals. Most related to board appointments (40%), auditor appointments (36%) and compensation (13%).

UK Listed Equity Alpha Fund - votes with/against management



UK Listed Equity Alpha Fund - votes against by category



## Voting (ctd...)

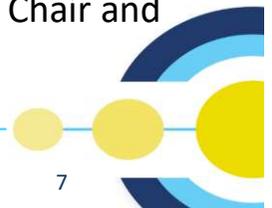
This quarter once again saw the resolution categories with the highest votes against management being for board appointments, remuneration and auditor appointments. Executive compensation and board changes rival as the key issues for shareholders with gender diversity also remaining an issue. In the US, environmental and social shareholder proposals outnumbered governance proposals again for the 3<sup>rd</sup> consecutive year.



Verizon Communications is a multi-national integrated telecommunications company headquartered in the US. Investors were asked to vote on a number of shareholder proposals at this year's AGM. We supported all the proposals which included the request for an independent Chair and proposals related to executive pay (covering executive deferrals, severance approval and links to cybersecurity). We voted against the advisory vote on executive compensation.



A shareholder proposal calling the company to set and disclose targets for reducing greenhouse gas emissions was submitted for Exxon's 2019 AGM by the New York City Comptroller and the Church of England. Exxon wrote to the US Securities and Exchange Commission (SEC) in an attempt to block the proposal, stating it was an attempt by investors to micro-manage the company. The SEC ruled that the company could keep the proposal off the agenda, therefore denying investors the opportunity to vote on emissions targets. Investors with a total of \$9.5tn under management had written to the SEC in support of the proposal. A number of other climate-related proposals still made it onto the agenda including requesting that Exxon add a climate change committee to its board. The two proponents of the denied shareholder resolution publicly stated that they would vote against the re-election of the entire board to register their dissatisfaction. We made the decision to vote against the Chairman and Lead Director whilst supporting the shareholder resolutions for an independent Chair and the formation of a climate change committee.



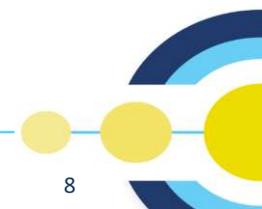
## Voting (ctd...)

# amazon.com

Amazon.com is an online retailer, web services provider and entertainment company. This year saw 12 shareholder proposals filed at the AGM, showing how the company's global influence over many sectors and supply chains makes it vulnerable to regulatory, reputational, competitive and financial risks. None were adopted as they didn't receive a majority of votes in favour, however a number were supported by more than a quarter of shareholders. Artificial intelligence and the impact on human rights featured high on the agenda as the company has developed a facial recognition system (Rekognition) which it is marketing to governments and law enforcement agencies. We supported the resolution requesting an independent study on the technology assessing potential threats to civil liberties, which received the support of 28% of shareholders. We also supported resolutions on food waste, gender pay equity reporting, linking executive pay to sustainability and separation of CEO and board chair roles.



A shareholder resolution filed at BP's AGM by members of the investor-led initiative Climate Action 100+ (CA100+) was passed with 99.14% of shareholders voting in favour. Border to Coast co-filed the resolution, which requested the company report on the alignment between its strategy and the goals set out by the Paris Agreement. A contributing factor to the overwhelming support was the fact that BP's board were supportive of the proposal and recommended investors vote in favour. This is at least in part due to the collaborative engagement between CA100+ members and the company. This demonstrates the value and power of voting and engagement, when performed in tandem. It sends a signal to the rest of the industry and should encourage the laggards to follow suit.



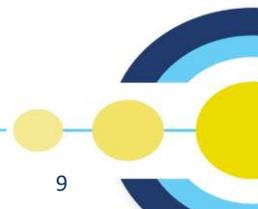
# Industry developments

The focus on climate change risk by financial regulators and central banks has been increasing. A network of Central Banks was established at the Paris “One Planet Summit” in December 2017, for Greening the Financial System (NGFS). It has now grown to 42 Members and 8 Observers, representing 5 continents. It recognises that there is a strong risk that climate-related financial risks are not fully reflected in asset valuations and there is a need for collective leadership and globally coordinated action. In April the NGFS published its first report “A call for action” which puts forward six recommendations for central banks, supervisors, policymakers and financial institutions to enhance their role in the greening of the financial system and the managing of environment and climate-related risks.

In April the Bank of England announced that it will disclose how it manages climate-related financial risk in its 2019/20 annual report. May saw the Bank publish a framework for assessing the financial impacts of physical climate change for the general insurance sector. A Policy Statement was also issued from the Prudential Regulation Authority (PRA) regarding banks’ and insurers’ approaches to managing financial risks from climate change.

The FCA introduced new requirements in June 2019 to improve shareholder engagement and increase transparency around stewardship. The new rules followed the consultation launched in January 2019 and implement the provisions of the amended Shareholder Rights Directive (SRD II). Asset managers and asset owners are required to make disclosures about their engagement policies and investment strategies.

The EU Commission’s Technical Expert Group published a number of reports and guidelines in June 2019, as part of its Sustainable Finance Action Plan. The Commission has developed new guidelines on reporting climate-related information which integrates the recommendations of the Task Force on Climate-related Financial Disclosures. A draft report was published on a new green taxonomy; a classification system for environmentally sustainable economic activities. There have been polarised responses from carbon-intensive industries, investors, and sustainable finance experts. A call for feedback is open until mid September. An interim report on technical requirements for Climate benchmarks was also published with. Following feedback, a final version of the report is expected by the end of September.



# What we've been doing this quarter

May saw the launch of our Private Equity offering with £500m of commitments from eight Partner Funds; our infrastructure offering went live in July. The integration of Responsible Investment into private market investing is particularly important given its illiquidity and we have worked hard to develop a framework for assessing how the private market managers through whom we invest have a strong approach to considering long-term risks.

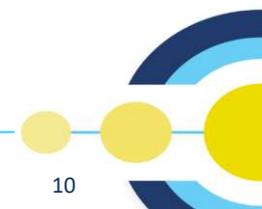
We are also beginning the build of our fixed income offerings for Partner Funds and have been considering the approach to Responsible Investment in this asset class. We touched on this in our manager days in June 2019 and have now begun the process for awarding the mandates for both Sterling Investment Grade and core Multi-Asset Credit.

We announced the appointment of Harris Associates, Investec Asset Management, Lindsell Train and Loomis Sayles as external managers to the Border to Coast Global Equity Alpha Fund. We are working with the managers, building relationships ahead of assets being transitioned.

Over the quarter we continued to support our Partner Funds on responsible investment by presenting to pensions committees. We attended the RI Europe conference in London, and other events including ESG in Fixed Income and a roundtable as part of London Climate Week.

Jane Firth, Head of Responsible Investment, took part in a LGPS Institutional Masterclass on ESG for Asset TV alongside peers from American Century Investments, Lazard Asset Management and Brunel Pensions Partnership. You can watch the video [here](#) (you will need to register with Asset TV to watch the video).

We are delighted that colleagues were recognised by the industry with two Institutional Investor Peer to Peer awards. Rachel Elwell was awarded Influencer of the Year, and Jane Firth Best ESG Programme. Both participated on panels at the subsequent Institutional Investor Summit.



# What we've been doing this quarter (ctd...)

## Climate Change Working Party

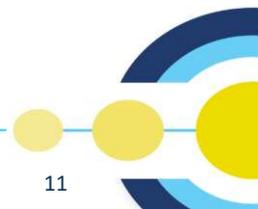
The working party's objective is to consider the potential impact of climate change risk for Partner Funds and to identify and recommend next steps for consideration by Border to Coast Board and Pensions Committees. This quarter we held two sessions covering engagement and the role of external managers.

In our third working party meeting held in April, we looked at the question of engagement vs divestment as a mitigant for climate change risk. Robeco, our Voting & Engagement Partner, presented on their approach to engagement in regard to climate change. Robeco have been engaging with companies on climate issues since 2008, focusing on carbon intensive sectors at most risk of disruption from a transition to a low carbon economy. They favour engagement over divestment, as constructive engagement can be more successful. Robeco are a member of Climate Action 100+ (CA100+), acting as lead investor of the engagement with a number of companies. Targeting systemically important companies is key to achieving impactful emissions reductions. Engagement is already creating positive progress as demonstrated by the significant commitments gained from corporates as part of the CA100+ collaborative initiative.

We welcomed Legal & General Investment Managers ("LGIM") to our fourth working party meeting in June, where we considered the role of asset managers in managing climate change risk. LGIM have provided significant leadership in this area for several years now, as founding members of a number of collaborative initiatives, engaging with companies to create demonstrable change including the annual publication of their Climate Impact Pledge. The Pledge works by assessing companies on areas including board governance, business strategy, transparency and public policy.

There is growing recognition that climate change impacts all sectors and the broader market. LGIM take a holistic approach to climate risks and do not advocate divesting as a sector-wide strategy as all sectors have their role to play in the transition to a low-carbon economy.

The remaining sessions will cover Collaboration and Communication.



# Engagement

We believe that engagement is an important component of active ownership. Our engagement strategy includes several different strands to engaging with our investee companies:

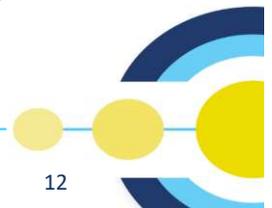
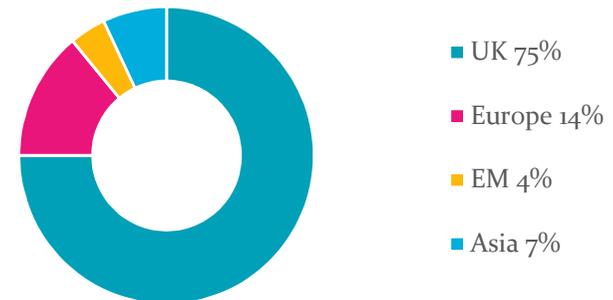
- Our internal portfolio managers engage directly with companies within their portfolios.
- Robeco as voting and engagement service provider engage on our behalf with companies held in internally managed sub-funds across a number of engagement themes globally (see page 12).
- We believe that we can increase our voice even more when working with other like-minded shareholders and have joined a number of RI initiatives compatible with our aims and beliefs.
- LAPFF conducts company engagement on behalf of its members on a wide range of issues.
- External managers will be engaging with companies on our behalf.

## Border to Coast engagement with investee companies

Our Portfolio Managers meet companies on a regular basis and address 28 companies during the 2nd quarter of 2019. These were a mix of UK, European, Japanese and Indian companies via a combination of face to face meetings and conference calls with current and potential investments.

Issues discussed by Portfolio managers included board independence and composition, energy efficiency, and product safety. Discussions were had with a buildings material company around the recycled content in products and the reduction of plastic waste. Climate risk and the impact on business strategy was covered in a meeting with a large automotive company.

Engagement by Region

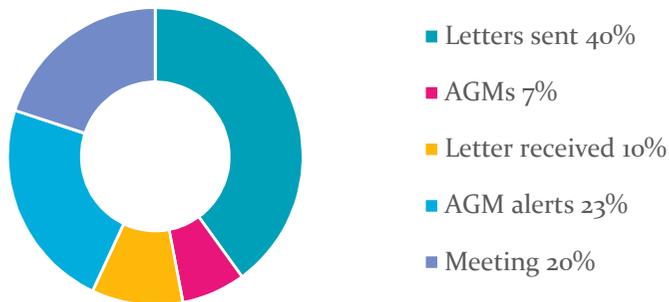


# Engagement (ctd...)

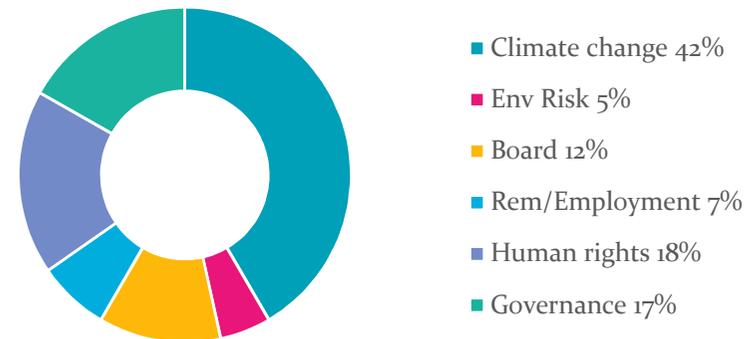
## LAPFF engagement

LAPFF engaged with 60 companies over the quarter by a combination of letter, meetings, LAPFF AGM alerts and attendance at AGMs. Issues engaged on included human rights, environment and carbon risk, employment standards and board composition.

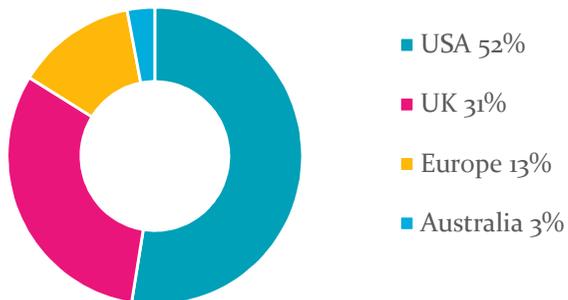
Company Engagement Activities



Engagement Overview by Topic



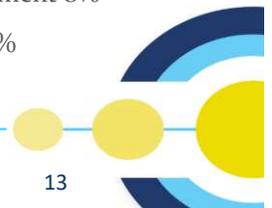
Engagement by Region



Engagement Outcomes



More detail on LAPFF's work and engagement can be found on the LAPFF [website](#).

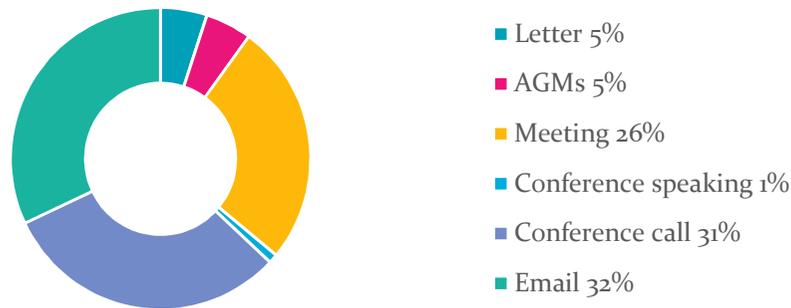


# Engagement (ctd...)

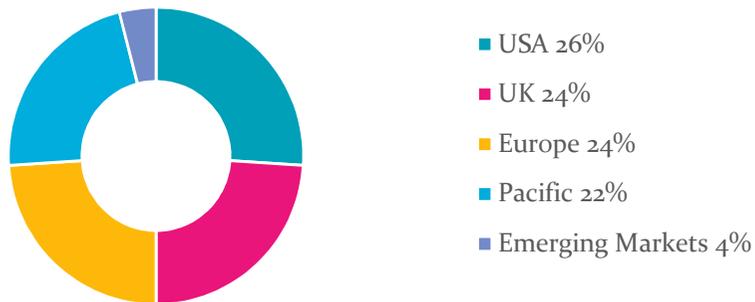
## Robeco engagement

Robeco engages with companies on our behalf across all the internally managed sub-funds. Over the quarter engagement has taken place by letter, meetings, conference call and email. Robeco's engagement is covered in greater detail in their Active Ownership Client Report Q1 2019, which can be found on our website.

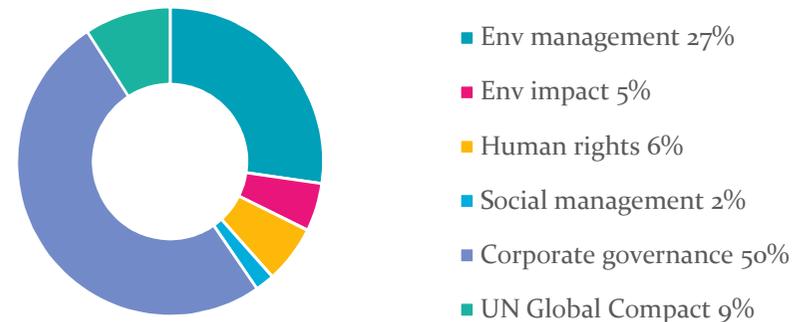
### Company Engagement Activities



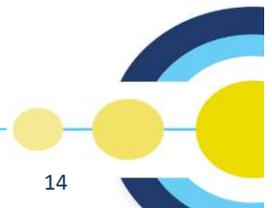
### Engagement by Region



### Engagement Overview by Topic



More detail on LAPFF's work and engagement can be found on the LAPFF [website](#).

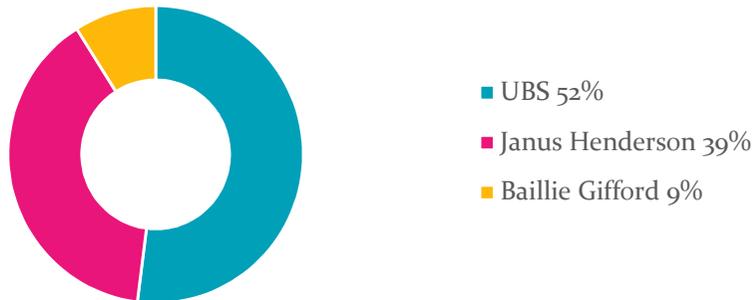


# Engagement (ctd...)

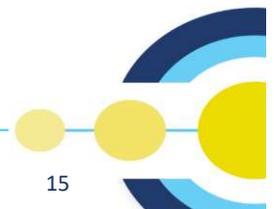
## UK Equity Alpha Fund engagement

During the quarter our three external managers held 23 engagement meetings with 19 companies. Meetings were held with company chairs , senior non-executive directors via calls, meetings and collective engagement. A broad range of topics were covered including business strategy, succession planning, environmental risk and human capital management. Engagement covered over 20% of the total UK Equity Alpha Fund.

Engagement by Manager



Engagement Overview by Topic



# Engagement – RI collaborations

## Investor Mining & Tailings Safety Initiative

Earlier this year Border to Coast pledged its support to the Investor Mining & Tailings Safety Initiative. Since the start of the initiative, we have seen two interventions:

- 1) a call for a new independent and publicly accessible international standard for tailings dams.
- 2) a letter sent to over 600 listed extractives companies asking for specific disclosures on every individual tailings facility under their control. The letter is supported by 100 investors with \$12.5 trillion (USD) in assets under management.

By early July, 34 of the top 50 mining companies had made disclosures on thousands of individual tailings dams. 21 of 22 publicly owned companies that are members of the International Council on Mining & Metals and 66% of the industry by market capitalisation have now responded. A central global database is being developed to track all tailings facilities and store key information on each dam.

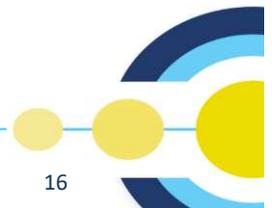
Affected communities have shared their stories with investor members, co-ordinated by LAPFF. Companies are being encouraged to engage with communities on their new disclosures, so that they are aware of the tailings dams that might affect them.

Major mining companies have disclosed tailings dam data and action plans. BHP have set up a Tailings Taskforce which is accountable for the continued improvement and assurance of its operated tailings storage facilities. It disclosed that a high number of its tailings dams across the world were considered to be ‘high risk’ under current safety classifications, with four dams in Australia carrying the highest possible risk classification.



## Workforce Disclosure Initiative

The last week of May saw the launch of this year's survey. WDI engagement letters were sent to 750 target companies, inviting them to take part in the 2019 survey. The WDI team will be working with companies to encourage disclosure during the months of July through to October. The inaugural WDI conference took place in June with the theme reinforcing the importance of standardised and comparable data on workforce issues. It brought together 150 of the largest global asset managers, companies and NGOs.



# Engagement – RI collaborations



Climate Action 100+ (CA100+) has seen some great successes since its launch in 2017 and expectations are for it to go from strength to strength. Global collaborative engagement on such a scale sends a powerful signal that investors are expecting companies to respond to climate change. Below are a few highlights from the last quarter:

Equinor is one of an emerging group of oil and gas majors that understand the need to act on climate change. As a result of engagement led by CA 100+ signatory investors, Equinor has agreed to make strengthened commitments on climate change.

The shareholder resolution put to the BP AGM by a coalition of CA100+ members was passed with the support of 99.14% of shareholders. BP must now set out its business strategy consistent with the goals of the Paris Agreement.



In 2018 IIGCC published the Investor Expectations on Corporate Climate Lobbying document to inform investor engagement in this area. This has led to engagement with companies and the filing of shareholder resolutions at some company AGMs. In early April Shell published its Industry Associations Climate Review. It reviewed memberships of 19 industry associations and announced it was not renewing its membership of American Fuel & Petrochemical Manufacturers.

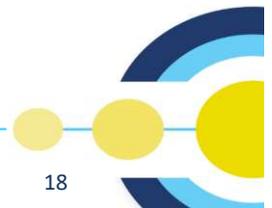
Investors recognise that climate change is one of the largest systemic risks to portfolios. IIGCC has launched a new initiative to develop approaches and methods that investors can use to align their portfolios with the Paris Agreement.

Guidance is also being developed for investors on identifying, assessing and managing physical climate risks.



# Responsible investment: partnerships

Boarder to Coast work with a number of partnerships and collaborative groups to improve overall stewardship and corporate standards. Formal updates are provided annually and included within our Annual Responsible Investment Report. Work is ongoing within each group every quarter.



## Disclaimer

Border to Coast distributes voting reports as a service to its customers and other interested parties.

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## Useful links

[Border to Coast website](#)

[LAPFF](#)

[IIGCC](#)

[30% Club](#)

[Climate Action 100+](#)

[TCFD](#)

[Workforce Disclosure Initiative](#)

