BORDER TO COAST
RESPONSIBLE INVESTMENT & STEWARDSHIP REPORT 2020/21

BORDER TO COAST
PENSIONS PARTNERSHIP

Introduction

MAKING A DIFFERENCE

Border to Coast was established by our eleven like-minded Partner Funds to facilitate the pooling of investments with the objective to improve value for money through scale, increased access to investment opportunities and strengthened governance.

As a customer-owned, customer-focused organisation, our vision is to make a difference for the Local Government Pension Scheme.

Pooling gives us a stronger voice and, working in partnership with our Partner Funds and across the asset owner and asset management industry, we aim to deliver cost effective, innovative and responsible investment, thereby enabling sustainable, risk-adjusted performance over the long term.

Discover more at
bordertocoast.org.uk

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Front cover
Tyne and Wear Pension Fund

Introduction continued

Our approach to responsible investment and stewardship

Managing £24.7bn (as at 31 March 2021) of investments on behalf of our Partner Funds, responsible investment ('RI') and active stewardship are fundamental to our approach. We believe that businesses that are governed well and run in a sustainable way are more resilient and able to survive shocks and have the potential to provide better financial returns for investors. Integrating environmental, social and governance ('ESG') factors into our investment analysis helps us identify broader risks and opportunities, which leads to better informed investment decisions and improved risk-adjusted returns.

At the core of this investment approach is our role as stewards of our customers' capital. Holding companies to account is part of the management of the investment risks and opportunities associated with ESG and other financially material factors. These factors are increasingly linked to a company's social licence to operate.

This is the first report of Border to Coast's activities in investment stewardship since the introduction of the 2020 Stewardship Code. We very much support the recommendations of the updated Code.

As a long-term investor and representative of asset owners, we recognise our responsibilities to:

- promote stewardship across the investment industry;
- integrate ESG into investment decisions across asset classes and mandates managed internally and by our external managers; and
- engage directly with investee companies, through our investment stewardship partner, Robeco, and in collaboration with other investors.

We believe in using all of the rights that flow to providers of capital in carrying out our stewardship duties. This involves using our shareholder rights by monitoring companies, voting at company meetings, robust engagement with company management and with independent board members as our agents in the boardroom, collaborating with other investors, requisitioning shareholder resolutions and litigation. We seek to steward all of our investments, regardless of asset class.

We will continue to develop our approach to engagement escalation strategies and in how we apply ESG integration and stewardship to all asset classes. We will also continue to work to elevate investment stewardship standards with the ultimate aim of delivering better, more sustainable risk-adjusted returns for our Partner Funds.

Key highlights

£24.7bn
Responsible for investing

902
Total number of meetings voted

A and A+
PRI scores

10
Number of collaborative initiatives supported

12,011
Total number of resolutions voted

1,250
Number of engagement meetings held

3
Number of new collaborations supported


Warwickshire Pension Fund

CEO's message

DELIVERING FOR OUR PARTNER FUNDS

Rachel Elwell
Chief Executive Officer

As a customer-owned, customer-focused business, we exist to make a difference for the Local Government Pension Scheme. We were established with the belief that responsible investment ('RI'), including effective stewardship, is fundamental to our collective success and this remains core to what we do and how we operate.

The impact of COVID-19 on individuals, businesses and society has demonstrated the importance of integrating environmental, social and governance ('ESG') issues in both our investment philosophy and wider decision making. While difficult decisions must be made, long-term value can be destroyed by firms making decisions based on short-term factors, failing to consider the importance of supporting their employees, suppliers and other partners in times of crisis.

Good stewardship means engaging with management to understand their business and to hold them to account on the decisions they make. We appreciate that this has been, and will continue to be, a challenging time. It is for this reason that early in the pandemic we issued a statement regarding our expectations of, and support for, companies which make decisions that enable them to thrive in the long term.

As a relatively young organisation we have recognised both the opportunity and the challenge that comes with embedding responsible investment into the way we work. This is a rapidly changing environment where best practice can very quickly become the norm. In 2019 we agreed with our Partner Funds our first three-year responsible investment strategy, which was developed using the six Principles for Responsible Investment ('PRI') as a framework. We made strong progress in its delivery over the last year, illustrated by achieving A and A+ scores in our first year as a signatory to the PRI:

- We continued to integrate ESG factors into our investment processes, including the introduction of carbon screens for all equity and fixed income funds, and have developed and implemented a monitoring framework for external managers.
- We continued to develop our RI reporting, including publishing our first Task Force on Climate-related Financial Disclosures Report which details how we are identifying and managing climate risks and opportunities. We have also improved the nature and scope of our quarterly stewardship reports, which are shared on our website, and our internal reporting to enable ongoing monitoring of ESG risks.


Tyne and Wear Pension Fund

Addressing Principles 7 and 9 of the Stewardship Code

CEO's message continued

- It is our belief that in working together we can give our Partner Funds a stronger voice and have a greater impact. We continued to work in collaboration with like-minded institutional investors across a range of issues and have supported additional initiatives this year – such as the Investors Policy Dialogue on Deforestation in Brazil and an engagement initiative on microfibre marine pollution.

On this latter point, I was pleased to be invited to join the board of the Investment Association, and to join an industry initiative on creating sustainable value for savers and investors through improving standards in areas such as corporate governance, culture, transparency and sustainability.

Climate change remains a key area of concern for us all, and with the UN climate change summit (COP26) being held in Glasgow later in 2021, it is likely to attract even greater attention. Following the 2020 annual review of our Responsible Investment Policy with our Partner Funds, we have committed to developing a standalone Climate Change Policy, which will be published later this year.

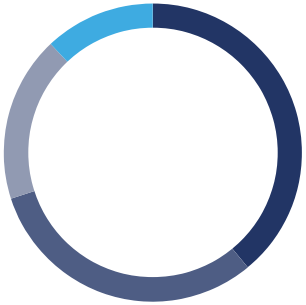
This year we will hold the first review of our priority engagement themes since they were developed in 2018 to enable the prioritisation of our engagement work with both portfolio companies and policymakers. The themes we select will be guided by three key principles: that progress in these areas will have a material financial impact on our investment portfolios in the long term; that the voice of our Partner Funds should be a part of the decision; and that ambitious but achievable milestones can be set through which we can measure progress over the period.

It is important to recognise the challenges that all asset owners and managers face in the coming years given significant mandatory change and escalating political scrutiny; with increasing regulation, legislation and reporting requirements. I believe that it is becoming increasingly vital to work together with like-minded investors to ensure the industry is able to develop appropriately.

I am delighted with the work undertaken to date across the organisation, led by Jane Firth, our Head of Responsible Investment, under the guidance of our Chief Investment Officer, Daniel Booth. The team has worked hard to embed responsible investment across Border to Coast to enable us to both understand and fulfil our responsibilities as good stewards and responsible investors.

Rachel Elwell
Chief Executive Officer

Responsible for managing £24.7bn



Equities – Internally Managed	£9.6bn
Equities – Externally Managed	£7.5bn
Fixed Income	£4.5bn
Private Markets	£3.0bn

As at 31 March 2021

Our Partner Funds

Bedfordshire Pension Fund
Cumbria County Council
Durham County Council
Lincolnshire Pension Fund
North Yorkshire County Council
South Yorkshire Pensions Authority
teesside pension fund
Tyne and Wear Pension Fund
Warwickshire pension fund
ERPF East Riding Pension Fund
Surrey Pension Fund


Durham County Council

Our response to COVID-19

COVID-19 RESPONSE

Three key principles have driven our approach to management during this period: continuity of service to our Partner Funds; colleague, customer and supplier welfare; and our social responsibility. Engagement with companies continued over the period and we adjusted our voting policy to reflect the pandemic, taking a case-by-case approach with respect to dividend cancellations, equity issues and share buybacks.

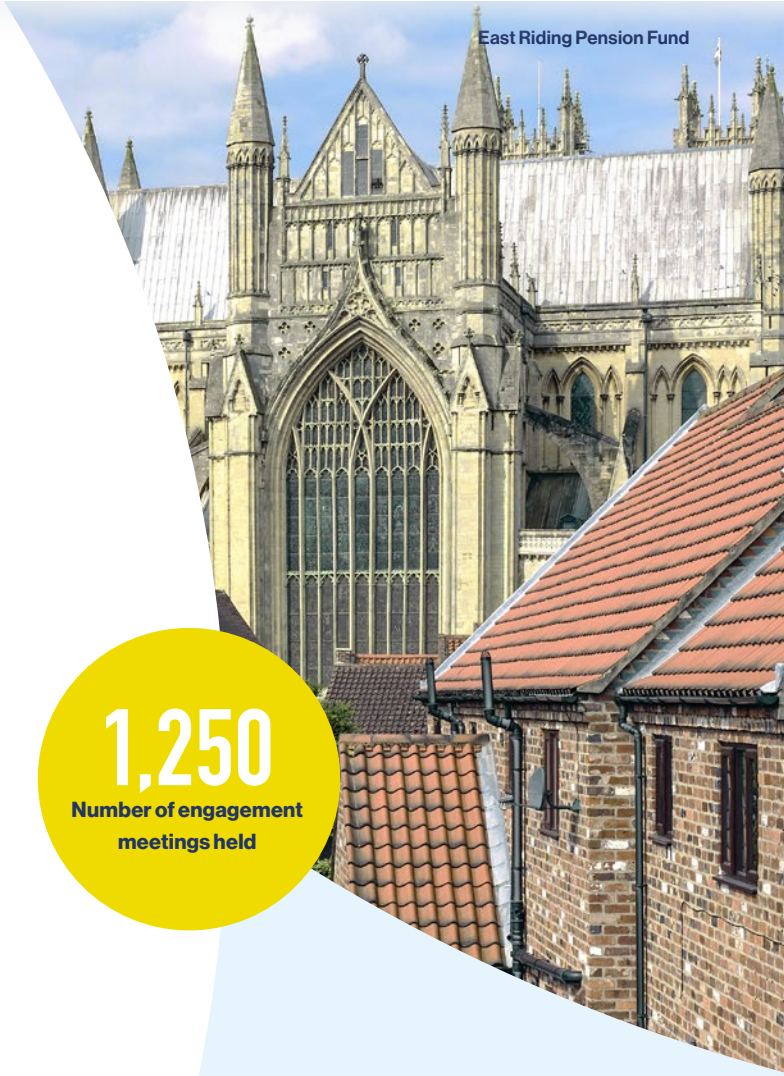
When the World Health Organization declared COVID-19 as a pandemic in March 2020 and the UK went into its first lockdown, we never imagined that a year later we would still be working from home. As a relatively young company we were set up with the infrastructure to work remotely, and this had been tested prior to lockdown. Thanks to everyone at Border to Coast, our Partner Funds and our strategic partners, despite the unusual times, it has almost been "business as usual" in many ways.

We have continued to work closely with and support our Partner Funds, hosting and participating in a range of virtual committee meetings, workshops and conferences with officers, pension committee members and advisors. Although there have been challenges, we have continued to deliver our strategy, successfully running manager selections, appointing managers, and launching funds while working remotely. We have increased oversight of our external providers, reviewed risks and controls, and kept our Partner Funds, colleagues and Board regularly updated.

As a long-term investor, our investment strategy and approach were unaffected, with relatively few changes made to underlying portfolio holdings. Companies initially needed to focus on surviving the devastating impact of the pandemic while striking the balance between short-term survival and the long-term sustainability of their business. Discussions were held with companies on capital allocation, remuneration and bonuses, human capital and supply chain management, and we continue to monitor the actions taken in these areas. We will be assessing company responses and how these may impact our voting decisions in the 2021 proxy voting season. The focus is on how companies will emerge from lockdown into the "next normal". The companies that will survive and thrive will be the ones that innovate, reinvent business models, have strong leadership and evidence resilience.

Engagement with companies moved to virtual rather than in person; in many cases, this improved accessibility and enabled more frequent engagement with senior management via video link. All thematic engagement conducted by our engagement partner, Robeco, continued as planned. With many company AGMs either postponed or held virtually this was challenging for both companies and investors. We took a pragmatic approach as it was important to strike the right balance with respect to voting for good governance and not penalising companies unduly. For instance, we took a case-by-case approach with respect to dividend cancellations, equity issues and share buybacks. This continues to be a testing time for companies; shareholders need to remain focused on protecting value in the long term for all stakeholders.

Our approach to work has had to adjust rapidly and while working remotely has made life more challenging in some areas, equally there have been a lot of positive learnings. Capturing and embedding these in how we work in the future is a part of who we are as a learning organisation and will serve to make us collectively stronger.



1,250
Number of engagement meetings held

Addressing Principles 2, 4, 9 and 12 of the Stewardship Code

OUR APPROACH TO RESPONSIBLE INVESTMENT

The Border to Coast Responsible Investment Policy sets out our approach to RI and stewardship to help us manage risk and generate sustainable, long-term returns for our Partner Funds. All Partner Funds participate in an annual review process to ensure we have a strong, unified voice.

More information and details of our Responsible Investment Policy are available on our website, **bordertocoast.org.uk**


Surrey Pension Fund

Governance and implementation

We review and update our RI policies annually, which includes the Responsible Investment Policy and Corporate Governance and Voting Guidelines, following close engagement with our Partner Funds. The Board and Executive Investment Committee consider and oversee RI, and the Chief Investment Officer ('CIO') is accountable for the implementation of our RI policies.

Skills and competency

We ensure the Board and our colleagues across the business maintain the appropriate skills in RI through ongoing professional development. Where needed, this is supplemented by expert advice from RI specialists.

ESG integration

We use ESG considerations to enhance our investment process. This ensures we use all relevant information to inform our investment decisions, enabling us to better understand the risks and opportunities across the asset classes in which we operate:

Internally managed listed equities

We use ESG data and specialist research alongside general stock and sector research. This is a necessary complement to traditional financial analysis, resulting in a more informed investment decision-making process whereby all risks and opportunities are considered.

Fixed income

We incorporate ESG analysis factors into the investment process for corporate and sovereign issuers to manage risk. The challenges of integrating ESG in practice are far greater than for equities with the availability of data for some markets yet to be accurately captured.

Private markets

We believe that ESG risk forms an integral part of the overall risk management framework for private market investment. ESG issues are considered as part of the due diligence process for all private market investments which includes assessing a manager's ESG strategy through a specific ESG questionnaire and supplementary interviews. We expect managers to report on progress and any potential risks annually, and we monitor managers to identify any possible ESG breaches.

External manager selection

RI is incorporated into our external manager selection, appointment and oversight. We monitor the performance of these managers, including an assessment of how they integrate stewardship and ESG in accordance with our policies. There is an expectation that external managers are signatories to the UN PRI and/or their country's own stewardship codes. We are in regular dialogue with our appointed external managers around key votes, quarterly engagement and investment decision making.

Our approach to climate change

We actively consider how climate change, the shifting regulatory environment around it, and its potential macroeconomic impact will affect investments.

Voting

Where practicable, we aim to vote in all markets in which we invest, exercising our voting rights carefully to promote and support the principles of good corporate governance.

Engagement

We believe in engagement over divestment and use constructive shareholder engagement, individually and with other like-minded investors, to influence companies' governance standards and their approach to environmental, human rights and other issues.

Communication and reporting

We aim to be transparent, making our RI and voting policies publicly available along with reporting on engagement and voting activity.

Our approach to stewardship continued

IMPLEMENTING EFFECTIVE STEWARDSHIP

Border to Coast, as a long-term investor and representative of asset owners, embraces its responsibility for the effective stewardship of the companies in which it invests. Wholly owned by eleven Partner Funds, we work closely with them to develop our approach.

Our stewardship approach

1

Our investment process

Investing on behalf of our Partner Funds, which manage open defined benefit pension schemes, our investment horizon can be better measured in years and decades than in months and quarters.

We work with our Partner Funds to design, develop and launch the investment options to allow them to meet their investment strategy requirements. As such, we have a variety of internally and externally managed investment funds covering a range of asset classes with different risk-return profiles. We have a minimum average expected holding period of three to five years (and longer holding periods for private market investments).

As a long-term investor, we believe companies should take a balanced approach which reflects the importance of supporting their employees, suppliers and other stakeholders.

RI is fully integrated into our investment process with ESG issues incorporated into investment decisions across investment portfolios and asset classes. For our internally managed public market funds this begins with the investment analysis, including ESG factors, that is completed ahead of an investment being made. This analysis is then used as a benchmark for ongoing investment monitoring and stewardship decisions, which also includes discussions ahead of key votes that carry ESG-related risks. For private markets ESG due diligence is part of the analysis and decision-making process. RI is included in the selection and appointment process for external asset managers and in our ongoing monitoring and challenge.

2

Managing risks

The importance of the role of investors in supporting well-functioning markets is recognised – and there is increasing expectation from regulators and stakeholders on the role investors need to play in this area.

We actively horizon scan for future risks, opportunities and regulations which have the potential to impact markets and returns. As an example of this, and reflecting the ability of climate change, as a systemic risk, to impact financial markets and assets across all geographies, we recognise climate change as one of our principal strategic risks.

We work in collaboration with a range of partners to promote continued improvement in the functioning of financial markets. For example, we engage with companies directly through the investor coalition Climate Action 100+ and, as members of the Institutional Investors Group on Climate Change ('IIGCC'), we participate in climate-related public policy advocacy with governments.

3

Engagement

We have identified three priority areas for engagement with portfolio companies: governance, diversity, and transparency and disclosure. These are based on our belief that well-governed, transparent companies, with diversity of thought, help to drive positive outcomes across environmental, social and governance factors, which will ultimately have the most material financial impact on our investment portfolios in the long term. We also use these lenses to understand systemic risks such as climate change.

We use these themes in deciding our priorities in working with Robeco as our engagement and voting provider and in considering which collaborations to join, to give focus to our reporting and our investment process – these themes are based on our understanding of the material ESG factors in our investment portfolios.

Although we have these specific focus areas for engagement, our relationships with Robeco and external managers and our membership of the Local Authority Pension Fund Forum ('LAPFF'), an engagement forum for Local Government Pension Funds, allow us to engage more widely across our global portfolios. Robeco, for example, undertakes active engagement on our behalf across 20 different RI-related themes.

Our engagement strategy is delivered through a variety of mechanisms: internal engagement; external managers engaging on our behalf; our membership of the Local Authority Pension Fund Forum; and through our engagement partner, Robeco, which engages across our portfolios globally. We are also considering ways in which we can escalate our stewardship activities going forward.

Addressing Principles 1, 5, 6, 7, 8 and 9 of the Stewardship Code

Our approach to stewardship continued

4

Collaboration

Collaboration gives us the opportunity to increase our voice by working with other like-minded investors. We participate in several initiatives where we are active and which fit with our RI Policy and key engagement themes. In addition to our broader collaborations as outlined on page 22, we have joined three new collaborations this year, covering cybersecurity, deforestation and microfibre marine pollution.

5

Voting

In conjunction with our Partner Funds we have developed Voting Guidelines to ensure a consistent voting approach on all our holdings, whether managed internally or externally. We aim to vote on our shareholdings in listed equity portfolios in every market where this is practicable. We believe the most effective way to achieve this is through a specialist external provider and use Robeco as our voting and engagement provider to ensure our votes are executed in accordance with our policies.

6

Reporting

Transparency and disclosure are key areas for us – both as a firm, reporting on our activity to our Partner Funds, and as an investor, requiring reliable, verified and comparable data from companies across a number of different ESG metrics. We have continued to develop our quarterly and annual stewardship reporting and we have also developed ESG and carbon reporting for our Partner Funds. We continue to develop our reporting and have recently surveyed our Partner Funds on our various reports, ensuring they are meeting their evolving requirements.

Our strong progress in this area is demonstrated by the inclusion of our 2020 Annual Responsible Investment Report in the Financial Reporting Council's review of early reporting as an example of effective reporting.

7

Supporting our Partner Funds

As a signatory to the PRI we take account of our Partner Funds and beneficiary needs and communicate the activities and outcomes of our stewardship to them. We regularly discuss with them how we can meet their requirements.

The responsibility for stewardship, which includes shareholder voting, remains with the Partner Funds but the day-to-day administration and implementation have been delegated to Border to Coast for assets managed by us.

We produce quarterly stewardship and voting reports and full voting reports annually which are also available on our website. We also provide additional support and training as required and present to pension committees. We hold regular RI workshops throughout the year with our Partner Funds covering RI topics to ensure continuing dialogue and for Partner Funds to feed into the annual review of our RI Policy.

Cumbria County Council

Leading by example

OUR GOVERNANCE

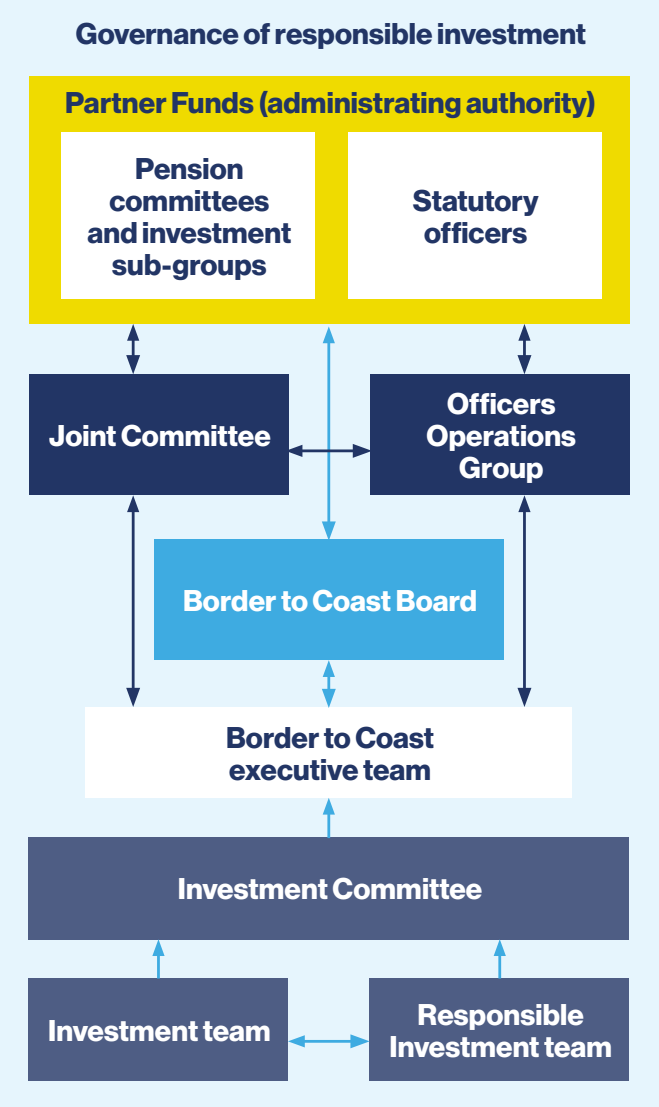
Oversight of RI is carried out by the Board and Executive Investment Committee and is a regular agenda item at meetings with reports to the CIO, our Investment Committee, Board, Joint Committee and Partner Funds. Our internal procedures and controls for stewardship activities are reviewed by our external auditor as part of our assurance report on our internal controls (AAF reporting).

Border to Coast's performance as a Company is overseen by the Board, which is appointed by its shareholders. Our investment performance and capability are overseen by the Partner Funds on a day-to-day basis by each Fund's pensions officer and, on a quarterly basis, by a Joint Committee, which is constituted of elected member representatives from each of the Partner Funds.

Our approach to stewardship is developed in consultation with our Partner Funds and approved by the Board. Oversight of RI is carried out by the Board and Investment Committee and is a regular agenda item at meetings with reports to the CIO, our Investment Committee, Board, Joint Committee and Partner Funds. The CIO is accountable for implementation of the RI Policy. All policies are monitored and reviewed annually.

Stewardship and RI are embedded in individual and team responsibilities. Border to Coast does not operate a performance-related pay model; however, adherence to RI and stewardship policies forms a key part of the annual objective setting and performance review process for investment, risk and compliance and senior executive colleagues. To support our integration efforts, we have a dedicated Responsible Investment team which acts as a centre of expertise and helps manage and co-ordinate our activities. This team also supports the development and training of the Investment team, wider colleagues and the Board with training and workshops held for Partner Fund officers and committees. This team is headed by Jane Firth, our Head of Responsible Investment, and is supported by our voting and engagement provider and our other strategic partners. During the year, we increased our resourcing in this area with the hire of a Responsible Investment Manager.

Addressing Principles 2, 3, 5, 7 and 8 of the Stewardship Code




South Yorkshire Pensions Authority

Leading by example continued

Managing conflicts of interests

We have robust arrangements in place to ensure all reasonable steps are taken to prevent both business and colleague, including Board member, conflicts of interest from affecting the interests of our customers. Our Conflicts of Interest Policy, which is approved by our Partner Funds, ensures that we pay due regard to our customers' interests and take steps to identify, avoid and manage any real or potential business or personal colleague conflicts fairly and effectively. In addition, we have other supporting policies to avoid and manage conflicts of interest including: Personal Account Dealing, Gifts and Hospitality and Market Abuse and Insider Dealing. These policies are reviewed and updated in accordance with our overall risk management policy framework; the Conflicts of Interest Policy is updated annually.

Conflicts may arise between Border to Coast and the duty we owe our customers; firms connected to Border to Coast and the duty owed to customers; or duties owed by one customer to another. Examples of where potential conflicts may arise include but are not restricted to:

- development of new investment products;
- personal account dealing;
- substantial gifts and hospitality received that may influence behaviour; and
- insider information is used to make a financial gain or avoid a loss.

All colleagues receive training as part of their induction to Border to Coast and regular mandatory training to assist in identifying, preventing or managing conflicts. Any actual or potential colleague conflicts are reported by colleagues to the Head of Compliance or, in the case of Directors, the Head of Legal. Each conflict will be prevented or managed, and the full details logged in the conflicts of interest register held by the Compliance department. This is reviewed frequently by the business and Compliance department, and overseen by the Board Risk Committee. Conflicts will be escalated to the Chief Risk Officer, Chief Executive Officer and Board Chair when appropriate. If a conflict of interest cannot be managed or prevented, the conflict will be disclosed to the affected customers.

Appointment and oversight of our external providers

Given the importance of RI, we incorporate it into our supplier and external manager selection, appointment and oversight via a robust tender and annual review process. We monitor the performance of managers, including regular assessment of how they integrate stewardship and ESG in accordance with our policies. We will also be conducting RI reviews on the main manager of the passive investments held by our Partner Funds. This service will be conducted on an annual basis beginning in 2021.

Our internal procedures and controls for stewardship activities are reviewed by our external auditor as part of the assurance report on our internal controls (AAF). We also monitor and review Robeco, as our external voting and engagement provider, holding monthly operation calls and conducting more formal six-monthly and annual contract reviews to ensure that the service level agreement is met.

Robeco also undertakes verification of active ownership activities and has an annual external audit of its active ownership controls; this audit is part of the annual International Standard on Assurance Engagements control framework. Robeco evaluates the proxy voting agent at least annually, on the quality of governance research and the alignment of customised voting recommendations and Border to Coast's Voting Guidelines. This review is part of Robeco's control framework and is externally assured.

Tyne and Wear Pension Fund

Improving our approach to stewardship

DEVELOPING OUR CAPABILITIES

Work during the year included improving our process of ESG integration and investment stewardship alongside training for the Border to Coast Board, the Joint Committee and Partner Fund pension committees and officers on a range of RI and stewardship-related topics.

Stewardship is not static. It is a constantly evolving and developing area with new risks, increasing regulation, emerging opportunities and higher reporting expectations and is increasingly seen as an investment discipline in its own right. Tools, data and assessment frameworks continue to progress. As such, working with our Partner Funds, we continue to review and evolve our approach. To support this process we use the PRI Principles as the framework for our three-year RI strategy, with strategic development in all six areas and a particular focus on embedding ESG, active ownership and reporting.

Listed equity and fixed income

The investment process for our internally managed listed equity, incorporating ESG and climate risk factors, has been expanded to include fixed income. Work has continued to improve the process, which includes reviewing output from specialist ESG data and research providers, as well as ESG themed research from other third party research providers. Quarterly ESG screens are used to monitor stock and portfolio ESG risk, flagging any issues for further analysis, and to inform engagement activity. ESG factors are an integral part of the research process alongside traditional financial analysis. Rather than being used to preclude certain investments, they are used to provide additional context for stock selection. For example, the decision was made not to invest in the recent initial public offering of Deliveroo due to the very aggressive valuation, governance concerns regarding the share class structure, and the treatment of employees.

We utilise third party carbon portfolio analytics to conduct quarterly carbon footprints across all our listed equity portfolios. We have increased coverage to include our fixed income portfolios during the year. Our Investment team has access to our engagement provider's portal, keeping us informed of the engagement status for portfolio holdings.

We are developing a climate risk assessment methodology for our investments that combines several factors to assess overall whether a company is aligned with the Paris Agreement, so that we can both engage appropriately with the company on its direction of travel and also track our progress. This will necessarily be an iterative process, recognising that data, tools and methodologies are developing rapidly.

Managing our external managers

To effectively monitor and challenge our external managers during the year we have developed a manager monitoring framework to use across all our equity, fixed income and multi-asset credit managers. This not only allows us to assess our managers on a quarterly basis, noting any progress, improvements and direction of travel, but is also a useful tool in meeting our Stewardship Code requirements. The output enables us to understand how ESG is being integrated by a manager and what engagement is being conducted across portfolio holdings, and feeds into the quarterly and annual oversight reviews. This monitoring framework was launched during 2020 and will be kept under review to ensure it remains relevant across a range of asset classes; for example, we are working with our multi-asset credit managers ahead of the launch of our Multi-Asset Credit Fund later in 2021. For annual reviews, we carry out a "deep dive" look at each manager's approach to RI integration. This process has been strengthened with enhanced due diligence in line with the PRI's guidance.

Training

To ensure that colleagues maintain knowledge on RI and ESG issues and developments, the RI team provides training with assistance and input from Robeco and other experts. We also utilise our external research providers which are increasingly incorporating ESG themes into their traditional research offerings. Training sessions over the period have been held on the "Lifecycle management of mining" which focused on tailings dam risks and water management practices. Members of the Investment team, including representatives of the RI, Research and Private Markets teams and internal portfolio managers, have also participated in climate change training, developed by AllianceBernstein in partnership with Columbia University's Earth Institute.

RI training is also provided to the Border to Coast Board. We hold RI focused workshops for the Joint Committee at regular intervals throughout the year. We also conduct RI training sessions for Partner Fund pension committees and quarterly RI workshops for officers which have a structured agenda. Topics covered during the year included the UK Stewardship Code, diversity, TCFD reporting, climate change and the transition to net zero.


Lincolnshire Pension Fund

Addressing Principles 2 and 8 of the Stewardship Code

Driving standards in private markets

WORKING IN PARTNERSHIP

We are working collaboratively to improve ESG standards across private markets by strengthening due diligence, enhancing reporting and establishing KPIs across all of our private equity, private credit and infrastructure mandates.

While ESG reporting has improved in public markets, there is a need to enhance standards, transparency, and how we measure ESG risk, opportunity and performance in private markets. Early in 2020, we appointed Albourne Partners to provide support services in several areas for our private markets programme, including how standards can be raised in private markets. With our support, Albourne has since launched a new ESG framework for private markets based on the recommended due diligence questions set out by the PRI. Albourne is rolling out the new approach for all the alternative investment managers it is engaged with.

We ask potential managers to complete a detailed ESG questionnaire to allows us to assess the approach they take. As a result of this process, we engaged with one venture capital manager to further develop its RI policy and formalise its integration of detailed due diligence ESG factors. It welcomed this approach, which led to improvements to its RI policy and the inclusion of ESG as a standard part of the investment memo. We progressed the partnership with the manager and continue to engage with them on RI matters.

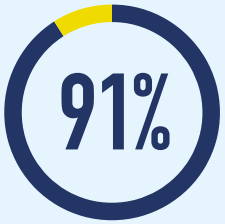
In January 2020 we issued to all our managers our annual monitoring questionnaire, which was a mix of binary and qualitative questions, enabling us to monitor a number of key performance indicators. Questions covered ESG policies, people and processes, promoting ESG and ESG reporting. We were pleased that all 33 of our managers covering private equity, private credit and infrastructure responded with information as of 31 December 2020. We continue to work with these managers to encourage them to develop their RI practices.

Addressing Principle 10
of the Stewardship Code

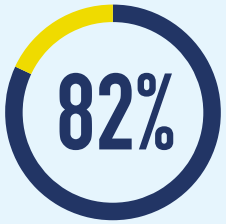
Results of our annual private markets ESG questionnaire

General partners' ('GPs') ESG policy, people and processes

ESG a standing item on all investment committee papers



Investment staff receive annual ESG training

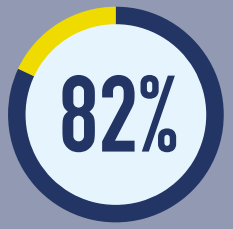


Portfolio companies with an ESG policy (or similar)

GPs with an ESG/RI policy

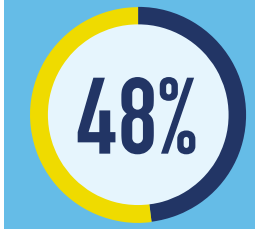
Promoting ESG

PRI signatories

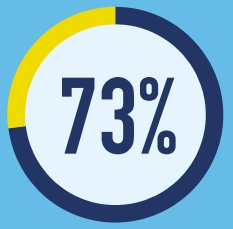


ESG reporting by GPs

Track metrics in line with SDGs



Provide standardised ESG reporting



Track climate metrics in line with TCFD recommendations

Managing key issues

A FOCUS ON CLIMATE CHANGE

While the pandemic continues to dominate our thinking, as active stewards, there are several other global challenges which must be addressed including climate change, resource scarcity, water stress, social and financial inequalities, food security, supply chain risks, deforestation, sustainable oceans and biodiversity loss.

As a responsible investor Border to Coast has a role to ensure businesses are resilient to these risks and any regulatory changes which emerge to manage these issues, and to provide capital to finance solutions and address these global challenges.

With our Partner Funds, we seek to manage the risks and opportunities from these issues, and we continue to embed and enhance ESG analysis into our investment decisions.

As climate change is a key risk for us as an investor, we provide greater detail in our approach to managing this risk.

Managing climate risks

Climate change is a systemic risk with potential financial impacts associated with the transition to a low-carbon economy. It poses existential risks to the stability of the financial system which is being recognised by central banks across the world. The shifting regulatory environment and associated macroeconomic impact have the potential to affect the long-term value of investments across all asset classes. The associated physical and transition risks could pose significant investment risks, as well as opportunities impacting investment outcomes for pension schemes, their members and participating employers.

Addressing Principle 4
of the Stewardship Code

Policy change

Although COVID-19 has dominated the news, it has not derailed climate action. Indeed, it has prompted governments to seek to "build back better" in the shape of a green recovery. The focus has also increased due to the UN climate change summit (COP26) due to be held this year in Glasgow, while the USA has already signalled a renewed focus on climate, formally re-entering the Paris Agreement, and President Biden has signed a series of executive orders designed to address the issue. China is progressively focusing on more environmentally sustainable growth, has set a target for being net zero by 2060 and, for the first time, referred to longer-term climate goals in its five-year plan. The EU's aim of being carbon neutral by 2050 has been echoed by other countries, and the UK has announced an ambitious 68% emissions reduction target by 2030.

Corporate concerns

As well as countries committing to being net zero, we are also seeing a growing number of corporates also committing to being carbon neutral by 2050, aligning with the goals of the Paris Agreement. Climate-related issues can have a financial impact on a company's revenues, its spending and the valuation of its assets and liabilities. The transition to a low-carbon economy will affect some sectors more than others, most notably energy, extractives, utilities and industries where emissions are hard to abate, such as cement and steel.

There are likely to be winners and losers even within these sectors. We need all industries across the economy to enable a smooth transition and reach net zero. That involves companies working together and across their supply and customer chains to get there. This joined-up approach is needed to reach the Paris goal.

South Yorkshire Pensions Authority

Managing key issues continued

Risks and opportunities

We share with our Partner Funds a clear priority to manage the risks and opportunities arising from climate change. We do this through continuing to embed and enhance ESG analysis, including climate risk, into our investment decisions. We conduct carbon footprints across all our equity and fixed income portfolios using third party data, measuring and assessing a number of different data metrics. We recognise that carbon footprinting is only part of the "toolbox", is backward looking and should not be viewed and used in isolation. Therefore, in addition we use the Transition Pathway Initiative tool and the newly launched Climate Action 100+ Net Zero Company Benchmark assessments. We are investigating further options for measuring the management of transition risk, including forward looking metrics and scenario analysis.

Engagement

We advocate engagement over divestment and engage directly and collaboratively with other investors to encourage and influence companies to adapt their business strategies to align with a low-carbon economy.

We are part of a range of collaborations on this issue – for example as supporters of Climate Action 100+, a coalition representing investors totalling over $54 trillion in assets under management. This work is driving improved data disclosure by companies enabling investors to understand companies' transition plans – although more work in this area is needed.

This engagement is not just with companies, but with policymakers and standard setters. Our membership of the Institutional Investors Group on Climate Change ('IIGCC') enables us to collaborate on this along with other investors and harness the power of the collective investor voice.

Voting

We use our votes to register concern by voting on climate-related agenda items and will co-file shareholder resolutions that reflect our position. We have updated our Voting Guidelines for 2021 to vote against company chairs in high-emitting sectors where the climate change policy does not meet our minimum standards, and/or is rated Level 0 or 1 by the TPI, and where there is no evidence of a positive direction of travel.

Reporting

As a supporter of the Financial Stability Board's Task Force on Climate-related Financial Disclosures ('TCFD') we have published our second report this year. We encourage companies to report in line with the TCFD and, as a representative of asset owners, we have a role to play in influencing the companies and organisations in which we invest to take account of climate change, including the provision of better climate-related financial disclosures, enabling us to make better informed investment decisions.

"We advocate engagement over divestment and engage directly and collaboratively with other investors to encourage and influence companies to adapt their business strategies to align with a low-carbon economy."

Teesside Pension Fund

Engagement

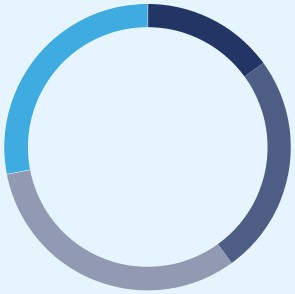
INFLUENCING CORPORATE BEHAVIOURS

We believe that the best way to influence companies, and to positively change behaviour and investment outcomes, is through dialogue and structured engagement that escalate over time. Building long-term relationships with companies and meeting and engaging with them are integral parts of our investment process. This includes meeting company management for information discovery and strategy updates and to raise any specific concerns. More structured long-term engagement takes place on issues identified as being financially material to influence or change behaviour. The outputs of all types of engagement feed into the investment decision-making process.

Engagement is a core component of active ownership, and our engagement strategy includes several different strands with our investee companies and varies depending on the asset class and ownership structure:

- Our internal portfolio managers engage directly with companies within their portfolios.
- External managers, as part of their mandate, engage with companies and bond issuers held within our externally managed equity and fixed income funds.
- Robeco is our voting and engagement partner. It engages on our behalf across our equity and fixed income mandates with companies and issuers we own globally across several ESG themes. This allows us to better fulfil our stewardship objective to be an active shareholder.
- Border to Coast and all Partner Funds are members of the Local Authority Pension Fund Forum ('LAPFF'), which engages on behalf of its members, which are Local Government Pension Funds and pools, across various ESG themes to maximise their influence as shareholders.
- Partnerships allow us to collaborate with like-minded investors and organisations to create a stronger voice on ESG issues. We work with a number of RI initiatives which support our priority ESG areas.

Number of engagements

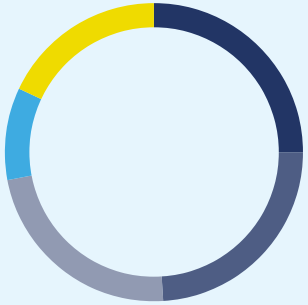


- Portfolio managers 15%
- LAPFF 25%
- Robeco 32%
- External managers 28%

Total

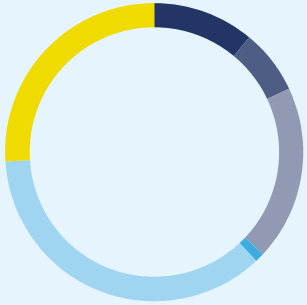
1,250

Breakdown by topic



- Environmental 25%
- Social 24%
- Governance 23%
- ESG general 10%
- Business strategy 18%

Breakdown by region



- APAC 11%
- Emerging markets 7%
- Europe 19%
- Middle East 1%
- UK 36%
- North America 26%

Addressing Principles 1, 9 and 11
of the Stewardship Code

Engagement continued

Engaging the wider ESG issues

We engage on a range of wider ESG issues through our partnership with Robeco, allowing us to engage more widely across our global portfolios. Robeco undertakes active engagement on our behalf covering our global portfolios across more than 20 different ESG themes, including corporate governance in emerging markets, climate action, food security and palm oil. Engagement also takes place with companies that have breached the United Nations Global Compact Principles.

Successful engagement with companies is achieved by building relationships and trust with company management to realise change and meet the aims and objectives of the engagement. Most engagement therefore needs to be conducted over an extended period of time. To achieve meaningful change Robeco's engagement themes run for a period of three years. Each year some engagement themes are completed and closed and replaced by new themes.

We participated in the process for the selection of new themes for 2021. Ten potential themes were shared with clients for discussion and feedback which led to five new areas being selected including climate transition of financials, labour rights in a post-COVID-19 world, and acceleration to the Paris Agreement. These will run for three years in addition to themes already in the engagement programme. A number of themes were closed during the year including the social risks of sugar and ESG challenges in the auto sector. Robeco's engagement is covered in greater detail in its Active Ownership Client Reports, which can be found on our website.

Our membership of LAPFF also allows us to engage collaboratively with other Local Government Pension Funds and pools across different ESG themes. In some cases, there is a degree of overlap with engagement themes undertaken by Robeco and collaborations we are involved in, but we believe that this complements and strengthens engagement in these areas. Themes covered by LAPFF include human rights, employment practices, climate risk and cybersecurity.

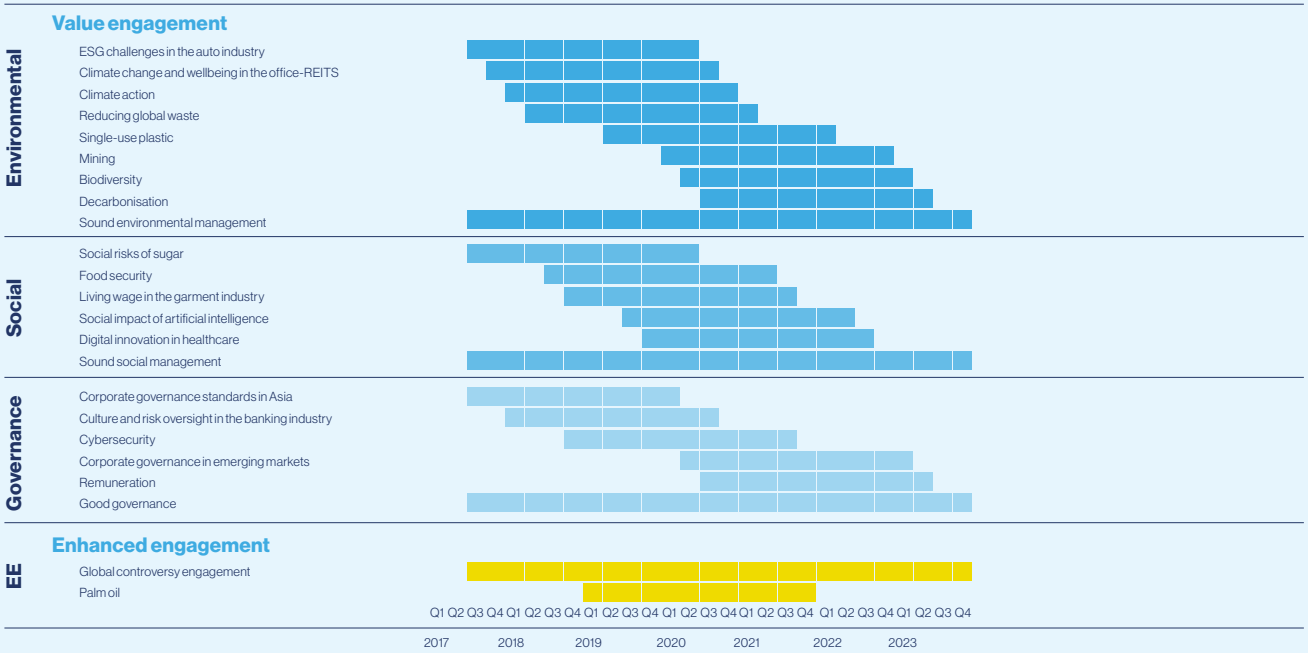
We also support a number of collaborative engagement initiatives that link to our key engagement focus areas. This year we supported three new collaborations covering governance and environmental issues including a collaboration led by one of the appointed managers in our Sterling Investment Grade Credit Fund, Royal London Asset Management. This initiative covers cybersecurity, initially focusing on 25 companies across a number of sectors including retail, utilities, banks and healthcare.

The UN Sustainable Development Goals ('SDGs') are a comprehensive set of 17 global goals to achieve a better and more sustainable future for all. Over recent years Robeco has been taking steps to increase understanding of the impact of engagement on the SDGs.

Robeco investigates if there is alignment with the SDG targets in the research phase of its engagement themes. If so, objectives are defined that lead to positive outcomes aligned with the SDG targets. Of the 19 value engagement themes that were active in 2020, 16 (84%) had a tangible link to at least one SDG. In total, 14 of the SDGs are addressed in engagement objectives.

Robeco is engaging with companies on 14 of the UN Sustainable Development Goals

Robeco's engagement themes



Engagement continued

Listed equities and fixed income

Engagement on our listed equity and fixed income holdings is undertaken through various channels. Engagement by our voting and engagement partner, Robeco, takes place across global portfolios and can be broadly split into two categories – engagement based on financially material ESG issues, and engagement based on violations of global standards such as the UN Global Compact. For engagement based on financially material ESG issues, engagement themes and companies are selected in conjunction with Robeco based on an analysis of financial materiality. Such companies are selected based on their exposure to the engagement topic, and the size and relevance in terms of portfolio positions and related risk.

When engagement is due to company misconduct, companies that have breached the UN Global Compact Principles or OECD Guidelines for Multinational Enterprises are screened to validate the potential breach, the severity of the breach and the degree to which management can be held accountable for the issue.

Although bondholders do not have voting rights as such, they have a direct line of access to management as capital providers to corporations. We expect our fixed income and multi-asset credit managers to engage on our behalf where ESG risks have been identified in portfolios and we assess our managers in their management of such risks and how they act as good stewards.

Private markets

Our investments cover private equity, infrastructure and private credit. Responsible investment criteria are integrated into our due diligence process which includes an extensive ESG questionnaire. We prioritise engagement with the general partners ahead of investment to ensure managers meet our requirements in this area. This has led to some managers agreeing to enhance ESG reporting and focus going forward. We also conduct annual monitoring of managers to assess improvements and inform where further dialogue and interaction is needed.

Industry participation and public policy advocacy

Engagement with regulators, standards setters and public policymakers is an important aspect of stewardship. During 2020/21 we responded to consultations and co-signed several letters encouraging public policy development. We supported the Global Investor Statement to Governments on Climate Change, supporting the Paris Agreement and urging governments to implement the actions needed to achieve the goals. We co-signed letters to the UK government highlighting the urgent need for the government to set emissions targets for 2030 in line with the net zero by 2050 target.

Rachel Elwell, our CEO, was appointed to the Investment Association's board of directors in October 2020 and joined an industry initiative to examine how stewardship and long-term investment can be better integrated to create sustainable value for investors set up by the Investment Association and the Pensions and Lifetime Savings Association.

Escalation strategy

We believe that engagement and constructive dialogue with companies is more effective than excluding companies from the investment universe. However, in cases where engagement does not lead to the desired result escalation may be necessary. Our escalation strategy involves collaborative engagement with other institutional shareholders to strengthen our voice, using our vote to register concern, attending shareholder meetings in person or making an AGM statement, and co-filing a shareholder resolution. If the investment case has been fundamentally weakened, the decision may be taken to sell the company's shares.

Warwickshire Pension Fund

Engagement continued

INVESTMENT THEME: GOVERNANCE

Good governance is at the core of any successful business. High standards of corporate governance typically feed through to robust oversight and good management of environmental and social factors. Company boards should adhere to standards of best practice in relation to issues such as leadership, effectiveness, accountability, diversity, relations with stakeholders and remuneration. Governance standards vary across markets and this is an important area on which to engage with companies, standard setters and regulators. The importance of such a framework has been highlighted by COVID-19 and how companies have managed their approach and strategy in response to the pandemic.

The executive remuneration policy is one of the instruments companies use to guide, evaluate and reward the behaviour and achievements of executives; therefore, an appropriately structured remuneration policy should align executive pay with company strategy, by incentivising executives to create long-term, sustainable shareholder value. It is expected that where companies are potentially subject to high levels of environmental and societal risk as part of its business, the remuneration committee should also consider linking relevant metrics and targets to remuneration to focus management on these issues.

Teesside Pension Fund

Engagement with Alphabet Inc. (listed equity)

Reason for engagement: The benefits of artificial intelligence ('AI') are promising. However, various social issues have surfaced showing that AI's ethical development and deployment cannot be guaranteed unless these concerns are appropriately addressed by users. As a leading technology company, Alphabet Inc. is exposed to financially material risks from its development and use of AI.

Objectives: To promote strong governance and human rights practices to mitigate undesirable social impact from AI. Companies that have clear policies, risk management systems and strong structures of accountability are less likely to be adversely impacted by incoming regulations.

Scope and process: Following persistent efforts to enter a constructive dialogue with the company, engagement remained challenging. In escalation, Robeco co-led the filing of a shareholder proposal at Alphabet's AGM asking for a human rights risk oversight committee to be established, comprised of independent directors with relevant experience.

Outcome: Some 16% of shareholders voted in favour of the resolution, which is a substantial part of the non-controlling shareholder votes. In response, Alphabet announced an update of its Audit Committee Charter, which now includes the review of major risk exposures around sustainability and civil and human rights. This is in line with the request to formalise board oversight and is a first step towards getting this in place on specific sustainability-related issues, such as human rights.

Engagement with Yorkshire Water (fixed income)

Reason for engagement: Following conclusions drawn from the performance assessment conducted by the Environment Agency ('EA') in 2019, Yorkshire Water was identified as an outlier within the water utilities sector in the UK and was among the lowest scoring. This, coupled with the increasing pressures that ever-changing weather patterns bring, as a result of climate change, means that through investments in such companies, portfolios are potentially exposed in the medium to long term to the impacts of climate risk.

Objectives: To better understand the reason for the company's weak performance within the water utilities sector in pollution, leakage and meter rates, and determine whether its current strategy is strong enough to ensure improvement in its management of climate risk.

Scope and process: Engagement has been driven by information discovery of Yorkshire Water's specific climate-related risk exposure to understand the relative investment position and to encourage change and influence improvements in pollution, leakage and meter rates, which were among some of the worst in the industry according to the EA's report. Research revealed that the unusually low performance from the company had been somewhat influenced by extreme weather during the EA's reporting year (2018). Cognisant of extreme weather events likely to occur over the coming years, Yorkshire Water appears to be investing significant amounts into data-driven systems and physical infrastructure that combat leakages and limit pollution. The company is also investing in bio-resource plants which will help it to increase self-generated renewable energy.

Outcome: The company is taking serious steps to significantly improve performance, which will ultimately strengthen credit ratings. Monitoring of the progress will continue and further investigation around pollution levels may be required.

Engagement continued

INVESTMENT THEME: TRANSPARENCY AND DISCLOSURE

Recent years have brought many developments in the corporate governance landscape, especially in emerging markets, with changes such as amendments to corporate governance codes and the introduction of numerous stewardship codes. The 2018 OECD Asian Roundtable noted that corporate governance in the Asian markets has been transforming and improving, with better transparency and greater board diversity. In the UK the revised and expanded UK Stewardship Code became effective from 1 January 2020, covers all asset classes and applies to global portfolios with a focus on activities and outcomes rather than engagement policy statements. This has been further reinforced by the report published in November 2020 by the Asset Management Task Force which builds upon the expectations of the Stewardship Code.

These changes have created momentum for the improvement of corporate governance and disclosure for listed companies. We believe that additional information and reporting from companies is essential for investors to understand the underlying risks and opportunities within portfolios and investee companies, enabling good investment decisions that take long-term risks into account.

Cumbria County Council

Engagement with Royal Dutch Shell plc (listed equity)

Reason for engagement: Reaching net zero carbon emissions by 2050 is vital to halt climate change and avoid irreversible consequences. Climate change poses systemic risks to the global economy and financial system and companies play a key role in mitigating these risks. At the same time, companies can reap the opportunities that arise from the transition and mitigation.

Objectives: To improve and enhance transparency on long-term climate planning in alignment with the goals of the Paris Agreement.

Scope and process: A lengthy engagement with Shell has featured regular conversations with key decision makers, including the CEO, chair, and the other independent board members. Extensive engagement was undertaken by investors from Climate Action 100+, led by Robeco and the Church of England Pensions Board, along with other platforms including the Dutch investors group Eumedion and the Institutional Investors Group on Climate Change.

Outcome: In 2020, engagement led to an upgraded climate ambition to become a net zero energy business by 2050. The plans provided more insight into levers under the company's control to achieve this and commitment to continued transparency on progress. Following ongoing dialogues, in early 2021, Shell was the first company in its sector to announce a "Say on Climate" proposal at its AGM.

Engagement with an integrated mining company (listed equity)

Reason for engagement: The company has been associated with a number of environmental and social controversies and is currently the subject of a corruption investigation by the US Department of Justice. In addition, and partly connected to this history, the company is in a process of transition in terms of its board and executives.

Objectives: A multi-year engagement is underway with the company to ensure improvement in its environmental and social risk management, including its approach to legal compliance. Business conduct, safety, and security issues have been identified as financially material engagement goals, requiring further investment in systems and people to reduce fatalities and to change company culture. A smooth transition of both chair and CEO, changes in executive positions and an overall improvement in board quality are also required.

Scope and process: Extensive meetings have been held with the company management and board over the last two years including meetings with the chair, CEO, CFO, head of mining division, general counsel and the head of ESG respectively. In the last year two meetings have been held with the chair to discuss the company's progress, with a particular focus on chair and CEO succession and remuneration.

Outcome: The company has made progress against objectives including establishing a new permanent board committee covering business conduct and culture, and changes in operational management. In late 2020 the company launched a new strategy encompassing climate change actions and targets. The company has appointed a new CEO and has committed to appointing a new chair in the next twelve months. In early 2021 the company also announced new appointments adding depth and diversity to the board. Engagement with the company continues to further improve environmental and social performance.

INVESTMENT THEME: DIVERSITY

Diversity on boards and within an organisation is important to ensure that a company is sustainable. Diversity is not limited to considerations of gender but also involves increasing the representation of other under-represented groups, such as racial and ethnic minorities, on boards. There is growing evidence that more diverse boards result in better-performing companies, leading to better investment returns and financial outcomes for investors.

Research by McKinsey shows not only that the business case remains robust but also that the relationship between diversity on executive teams and the likelihood of financial outperformance has strengthened over time. This was the case for gender, ethnic and cultural diversity. Boards with people from different backgrounds are more likely to approach issues from various perspectives, avoiding groupthink and leading to better-informed decision making and more effective supervision.

The COVID-19 pandemic has demonstrated the importance of having diversification of thought, with companies embracing diversity more likely to emerge stronger from the crisis. Government intervention in this area has increased, with several countries adopting legislative measures to promote gender diversity at board level through mandatory gender quotas. The 2017 Parker Review urged businesses to improve the ethnic and cultural diversity of boards, proposing that FTSE 100 companies have at least one director from an ethnic minority background by 2021.

Enhanced disclosures on workforce diversity and remuneration are needed and should benefit shareholders. Failure to address such matters could present significant legal, reputational, and retention concerns for companies. Diversity is clearly a prime candidate for active ownership approaches through voting and engagement. We are a member of the 30% Club Investor Group, which during 2020 extended its purpose to include representation on boards and executive committees of women of colour by 2023. The group enables us to engage with companies to encourage change and harness investor collaboration in order to do this.

Engagement with a North American science and technology company (listed equity)

Reason for engagement: The company was chosen for engagement as human capital management was identified as a material risk and the company's board lacked diversity.

Objectives: To encourage improved disclosure on human capital management, and to increase the level of female representation on the board and in senior leadership.

Scope and process: Multiple conference calls with the company's investor relations team and CSR leadership were held during the year. The discussions focused on responsible talent management, female board representation and the company's governance structures overseeing diversity and inclusion efforts.

Outcome: The company appointed an additional female director to the board in 2020. Noting the importance of the topic to investors, the board has committed to recruiting another female director. This will bring the board to around a 30% diversity level, in line with best practice and the engagement request. The company conducted a materiality analysis, which identified diversity and inclusion as one of the most material topics across its workforce.

Engagement with UK gaming companies (listed equity)

Reason for engagement: A proactive engagement with three UK video gaming companies following allegations of employee welfare and gender discrimination issues at a large European peer.

Objectives: To understand how the companies aim to increase workforce diversity and improve employee wellbeing. The industry has notorious issues with "crunch" periods, which relate to the overworking of employees prior to the launch of a new game.

Scope and process: During 2020 calls were arranged with the relevant executives at Team17, Codemasters and Frontier Developments. Discussions were focused on the impact of the above issues to company culture and management's attitude towards change.

Outcome: Whilst the above challenges remain for the industry as a whole, the companies indicated a desire to improve the gender and racial mix of their employee base with specific programmes such as targeted graduate recruitment and joining of organisations such as "Raise the Game". With regards to employee welfare, it was clear that all the companies actively engaged with staff to understand capacity and manage workloads. For example, certain management teams have made changes to internal deadlines or hired third party contractors to cope with demanding release schedules. It was encouraging to note that there were open communication channels with senior executives for employees to voice opinions and raise concerns.

Collaborations

AMPLIFYING OUR VOICE

Collaborating with other investors allows us to leverage the collective voice of shareholders in addressing issues of systemic risk and we expect our external managers to contribute to collaborative efforts and lead such collaborations where appropriate.

In working together with other institutional investors, Border to Coast has a stronger voice and greater influence when voting and engaging with investments on behalf of our Partner Funds. We also recognise the need to engage collaboratively in addressing market-wide and systemic risks.

We continue to support collaborations that are aligned with our engagement focus areas of governance, transparency and disclosure, and diversity, as well as climate change, and evaluate new opportunities on a case-by-case basis. Our membership and support of the following organisations allow us to collaborate with other institutions engaging with corporates, policymakers, standard setters and industry associations.

Addressing Principle 10 of the Stewardship Code

We continue to support collaborations that are aligned with our engagement focus areas of governance, transparency and disclosure, and diversity and evaluate new opportunities on a case-by-case basis. Our membership and support of the following organisations allows us to collaborate with other institutions engaging with corporates, policymakers, standard setters and industry associations.

30% Club Investor Group	Campaigns for increased gender and wider diversity and inclusion in the boardroom and senior management. We have signed joint letters and engaged with companies on diversity along with other members of the initiative.
Climate Action 100+	A five-year, investor-led initiative, to undertake collaborative engagement with the largest greenhouse gas emitters and other global companies. We are a supporter of the initiative and participate in the working group on shareholder resolutions.
Institutional Investors Group on Climate Change ('IIGCC')	Provides a collaborative engagement forum for institutional investors to address climate-related risks and opportunities. We support the initiative through our participation in the Corporate Programme workstream, sign letters to companies and governments on climate-related strategy and policy, and signed the Global Investor Statement to Governments.
Investment Association	The trade and industry voice for UK investment managers on legal, regulatory and fiscal landscapes supporting members with industry insight, analysis and training. We are actively involved with the Investment Association; this includes our CEO, Rachel Elwell, being elected to the board in September 2020.
Investor Mining and Tailings Safety Initiative	An investor-led initiative convening institutional investors active in extractive industries including major asset owners and asset managers. We were an early supporter of the initiative and have engaged with mining companies to encourage disclosure of tailings facilities.
Local Authority Pension Fund Forum ('LAPFF')	LAPFF is a forum for Local Government Pension Funds and is the UK's largest collaborative shareholder engagement forum, engaging across a broad range of ESG themes with investee companies. Border to Coast is a pool member of LAPFF and feeds into the annual engagement work plan.
Principles for Responsible Investment	The world's leading advocate for responsible investment. It enables investors to publicly demonstrate commitment to RI, by supporting the six Principles for incorporating ESG issues into investment practice. Being a signatory to the PRI allows us to demonstrate our commitment to RI and how we implement the Principles. We encourage all our managers to be signatories and have used the six Principles to inform and shape our three-year RI strategy.
Task Force on Climate-related Financial Disclosures ('TCFD')	A voluntary framework for companies and investors to provide climate-related information in their annual reports around governance, strategy, risk management and metrics. We support the TCFD and report annually against the recommendations.
The Transition Pathway Initiative	A global, asset owner-led initiative which assesses companies' preparedness for the transition to a low-carbon economy. We use the TPI tool to assess our portfolio investee companies and inform our voting and engagement.
The Workforce Disclosure Initiative ('WDI')	This initiative was set up by ShareAction to improve data disclosure from listed companies on how they manage workers in their direct operations and supply chains. As a supporter of the WDI we engage with companies to encourage completion of the annual survey, disclosing important human capital data for investors.

Collaborations continued

We set out here below some more detailed information of our contributions to a selection of the collaborations that we are members of:

The Workforce Disclosure Initiative ('WDI')

We became a supporter of the initiative in 2018 as we believe having access to data on how companies manage human capital in their direct operations and supply chains is important for investors. This has been emphasised by the pandemic and the differing responses of companies.

WDI uses an annual survey to request comparable data from companies. The 2020 survey was sent to 750 companies. We engaged with a number of companies underlining the importance of disclosing workforce data and to encourage them to respond to the survey. COVID-19 caused challenges for some companies to report, including those that had previously reported. Despite this, a record 141 companies responded to the survey with increases across all sectors. Some notable first-time responders included Nike, Vodafone, Legal & General and Santander.

Investor Mining and Tailings Safety Initiative

We joined the Investor Mining and Tailings Safety Initiative in 2019 shortly after the launch. The initiative was set up following the catastrophic failure of a tailings dam at an iron ore mine in Brumadinho, Brazil, which resulted in a tragic loss of life, with 270 known fatalities, and major environmental pollution.

Remarkable progress has been made since the collaborative initiative was launched with the development of a new Global Industry Standard on Tailings Management, the first global database of listed company disclosures, and a commitment to establish an independent International Institute on Tailings to advance the global standards and future disclosure. We are part of a collaboration of investors supporting the initiative, engaging with the non-responding companies to encourage disclosure of data and information on tailings dams. This saw additional companies disclosing data for inclusion on the global database.

Investors Policy Dialogue on Deforestation in Brazil

In June 2020 we signed a joint letter with a coalition of investors with over $4.6 trillion of assets under management, asking for the government of Brazil to show clear commitment to eliminating deforestation. Following this meetings have been held with government and central bank representatives.

The initial response and dialogue with the Brazilian government representatives have been encouraging. This marks the start of engagement and demonstrates how collaboration between governments, companies and investors can be a force for change. The initiative has been formalised as the Investors Policy Dialogue on Deforestation in Brazil, which we continue to support.

Cybersecurity

We are members of a collaboration led by Royal London Asset Management focused on cybersecurity. The World Economic Forum has identified cybersecurity as the fifth most likely risk to impact globally. It poses a significant threat to society, companies and investors, and this risk has crystallised with the impact of COVID-19 and the massive shift to home working.

Initially the engagement is focusing on 25 companies across a number of sectors including retail, utilities, banks and healthcare. Phase one of the engagement involved writing to all the companies with some follow-up meetings. This has been positive with more than half of the target companies responding, allowing a baseline for best practice and disclosure to be established. Phase two of the engagement started towards the end of 2020 with additional companies identified in high-risk sectors.

Marine microplastic pollution

During the year we joined an engagement initiative in collaboration with the UK's Marine Conservation Society focusing on marine microplastic pollution. Microplastics are a significant contributor to plastic pollution in waterways and oceans with research showing they cause harm to marine organisms and ecosystems. This initiative is engaging with the manufacturers of domestic and commercial laundry machines. The aim is for manufacturers to fit, as standard, filters that will prevent plastic microfibres from entering the world's marine ecosystems. This technology is available today but is not widely used by the industry. Meetings are being held with manufacturers globally. The engagement contributes to Sustainable Development Goal 14: Life Under Water.

Bedfordshire Pension Fund

How we vote

HOLDING COMPANIES TO ACCOUNT

Voting is fundamental to the exercise of our rights as providers of capital. We believe in transparent and robust voting decisions that hold companies to account and challenge them where their decisions and outcomes have challenged the trust we seek to build with them.

Engagement and voting work hand in hand. We practice active ownership across all asset classes engaging with companies and we consider voting rights an asset we exercise carefully as an effective and active steward. Different approaches may be required depending on the asset class and market geography; for example, in private markets and fixed income, our stewardship approach relies primarily on engagement and monitoring. With our Partner Funds we have developed Voting Guidelines to ensure a consistent voting approach across all our internally and externally managed holdings. We aim to vote on our shareholdings in listed equity portfolios in every market where this is practicable. This may not always be possible due to share blocking or power of attorney requirements. We believe the most effective way to achieve this is through a specialist provider and use Robeco as our voting and engagement provider to ensure votes are executed in line with our policies. During the reporting period, we voted on 99.02% of our shareholdings across our equity holdings.

Robeco uses Glass Lewis, a leading provider of global governance services, as a proxy voting advisor to provide voting recommendations based upon our Voting Guidelines. All of Robeco's voting recommendations are reviewed by the Border to Coast RI team and portfolio managers prior to votes being executed.

A degree of flexibility is required when interpreting the guidelines to reflect specific company and meeting circumstances. This allows for the override of voting recommendations where we want to vote contrary to Robeco's recommendation or to our Voting Policy. These decisions are tracked as part of our annual audit and reported quarterly to our Partner Funds.

Where possible we engage with a company if we plan not to support management prior to a vote. Over the last year there have been several occasions where companies have contacted us for input on their new remuneration policies, leading to constructive dialogue on several issues.

Where there are areas of contention the final voting decision voting will be made by the Chief Executive Officer. These contentious issues are rare, and a decision can usually be made following discussions with the Investment team, Robeco, external managers (if required) and the company.

There may be occasions when one of our Partner Funds may wish Border to Coast to vote its pro rata holding contrary to an agreed policy and a process is in place to facilitate this.

Border to Coast has an active stock lending programme. We have a procedure in place to recall stock ahead of an AGM vote and restrict lending in certain circumstances including, but not restricted to, if the resolution is contentious, the holding is of a size which could potentially influence the voting outcome, or we have co-filed a shareholder resolution.

Voting Policy

We updated our Corporate Governance and Voting Guidelines during the year with our Partner Funds to reflect emerging practices in areas such as diversity and climate change. Key changes included:

- **Diversity** – We support the recommendations of the Davies, Hampton-Alexander and Parker Reviews for the representation of women and ethnic minorities on UK boards, executive teams and senior management. In developed markets we expect at least 30% female representation on a board. In emerging markets and in Japan we expect at least one female on the board. We will vote against the chair of the nomination committee where these expectations are not met.
- **Climate change** – We expect companies with high emissions or in high-emitting sectors to have a climate change policy in place, which at minimum includes greenhouse gas emission reduction targets and disclosure of Scope 1 and 2 emissions. We use the Transition Pathway Initiative ('TPI') toolkit to assess our listed equities investments. Where a company in a high-emitting sector receives a score of 0 or 1 by the TPI, or fails to meet the expectations above, we will vote against the chair of the board if we consider the company is not making progress.

Total number of meetings

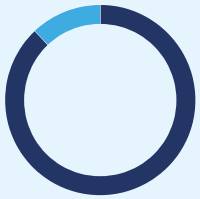
902

N.B. companies may be held in multiple portfolios.

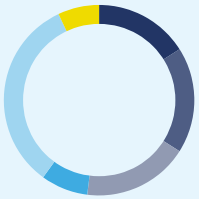
Total resolutions voted

12,011

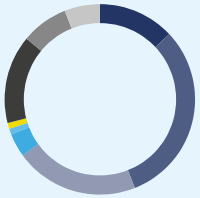
Global meetings – votes with/against management



Number of meetings by geography



Global votes against by category



Addressing Principles 1 and 12 of the Stewardship Code

How we vote continued

ANNUAL VOTES BY FUND

UK Listed Equity Fund

Total number of meetings

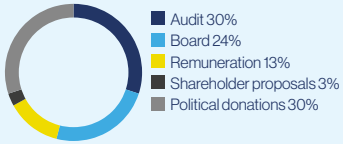
149

Total number of agenda items

2,430

Meetings – votes with/against management

Votes against by category



Overseas Developed Markets Equity Fund

Total number of meetings

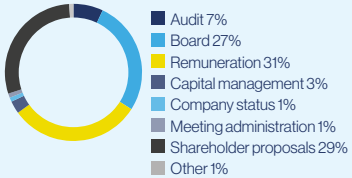
355

Total number of agenda items

4,859

Meetings – votes with/against management

Votes against by category



Emerging Markets Equity Fund

Total number of meetings

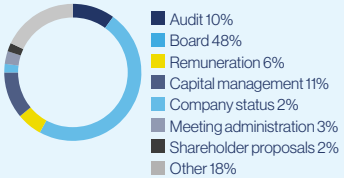
160

Total number of agenda items

1,393

Meetings – votes with/against management

Votes against by category



UK Listed Equity Alpha Fund

Total number of meetings

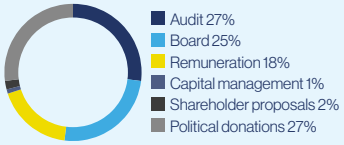
211

Total number of agenda items

3,266

Meetings – votes with/against management

Votes against by category



Global Equity Alpha Fund

Total number of meetings

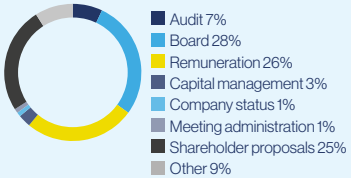
177

Total number of agenda items

2,531

Meetings – votes with/against management

Votes against by category



How we vote continued

We consider our voting rights as an asset to be exercised carefully and therefore class all our votes as significant for the purposes of the EU Shareholder Rights Directive (SRD II). We produce quarterly voting records with rational for abstentions and votes against, and annually publish a full list of our voting activity. To increase transparency we will be reporting all votes on a quarterly basis during the second half of 2021. You can view these on our website.

Here we provide some examples of our voting activity during the year.

Australia and New Zealand Banking Group (Overseas Developed)

At its AGM in December 2020, a shareholder resolution was filed by over 100 shareholders calling for a reduction in exposure to the coal, oil and gas sectors, which was consistent with the goals of the Paris Agreement on climate change. The resolution achieved a 28.9% vote in favour, almost doubling the 14.9% support received by a similar resolution last year. Border to Coast supported the resolution in both years.

Nike Inc. (Overseas Developed)

Nike's 2020 remuneration report proposed some very high levels of compensation for the newly appointed CEO. Along with the high quantum of this package, a short performance period was also proposed which does not help to guarantee long-term value creation. Along with the CEO's pay, Nike also made an additional discretionary bonus payment to all executives despite not meeting their short and long-term targets in light of the COVID-19 pandemic. These concerns led us to vote against the "Say on Pay" proposal. The remuneration report only received 54% votes in favour which is a stark contrast to the 97% approval received in 2019.

Barclays plc (UK Listed Equity, UK Listed Equity Alpha)

At Barclays' 2020 AGM both management and shareholders put forth separate climate proposals, an unprecedented occurrence. Having engaged with Barclays' board chair and the shareholder resolution's proponent, we supported the management resolution regarding the bank's climate change strategy (99.93% support) and abstained on the shareholder proposal (24% support). We wrote to the chair of Barclays to relay our voting decision and that we would be monitoring progress which would inform our voting at following years' AGMs.

Samsung Electronics (Overseas Developed Markets Equity, Global Equity Alpha)

At the 2020 AGM, we supported the election of a new independent chair. This follows a relatively high turnover in board members in recent years. Most recently, the former chair of the board resigned from their role after just two months after being found guilty of "union sabotage". Although there were some questions raised over the incoming chair's independence, engagement with Samsung addressed these concerns. 95% of shareholders supported the resolution.

Apple Inc (Overseas Developed Markets Equity)

At the 2020 AGM, we supported a shareholder resolution that requested Apple to uphold freedom of expression globally. More specifically it asked Apple to be more transparent on how it responds to the Chinese government's demand to restrict certain apps. The US Securities and Exchange Commission denied Apple's request to block the resolution and it received more than 40% of votes in favour.

Woodside Petroleum (Overseas Developed Markets Equity)

We supported two resolutions put to the April AGM by the Australian Centre for Corporate Responsibility related to climate change practices. The resolutions requested disclosure of how the company's strategy is aligned with the Paris Agreement, and a review of the company's lobbying activities on climate change. The resolutions received 51% and 43% support respectively. Neither vote is binding but due to the high degree of support this is seen as a breakthrough moment for climate change action in Australia.

Tesco plc (UK Listed Equity, UK Listed Equity Alpha)

The AGM saw Tesco receive a significant vote against its advisory vote on pay, which we voted against, with 67% of shareholders voting against the resolution. The defeat of the advisory vote is one of the largest shareholder revolts in UK corporate history. The main concern was amendments made by the remuneration committee and the exclusion of online grocer Ocado from peer benchmarking, boosting the long-term incentive payout for both the CEO and finance director.

Unilever (UK Listed Equity, UK Listed Equity Alpha, Global Equity Alpha, Overseas Developed Markets Equity)

At its 2020 AGM Unilever proposed a cross-border merger moving the company to one legal entity that would give it greater corporate flexibility and also strengthen corporate governance. A similar, but ultimately unsuccessful, item was proposed in 2018. The concerns for investors at the time were Unilever moving its headquarters out of the UK and losing its FTSE 100 status. The new plan unifies the company's share structure, this time without disadvantaging existing investors, while retaining London as its new home. We supported the proposal which this time passed with support of more than 99% of shares voted.

Surrey Pension Fund

Outlook for 2021/22

CONTINUING TO DELIVER

Our RI strategy

One year on and we are still in the midst of a global pandemic. We are seeing progress being made towards a version of normalcy in the UK and the USA due to the vaccination programmes but a more delayed transition for other countries and areas of the world. As economies begin to unlock there is an increased focus on sustainability, with governments beginning to look at how to shape their economic recovery packages to "build back better".

Climate change and ESG remained high on investors' agendas with record flows into ESG and sustainable labelled funds. This focus will remain and, especially on climate change, intensify in 2021 with the UN climate change summit (COP26) due to be held in Glasgow in November 2021. We have already seen a number of net zero initiatives aimed at asset managers and asset owners. In response to the heightened focus in this key strategic risk area we are developing a standalone Climate Change Policy which will be launched later this year.

2020 was also a year of significant ESG policy and regulation and many climate and ESG-related consultations were launched. There is a need for greater disclosure and transparency by companies as investors need consistent, accurate and verifiable data to understand their long-term sustainability. Regulation which encourages and requires this is welcomed. We will continue to engage with companies especially in relation to TCFD disclosures and alignment of business strategies to "net zero" either directly or through our engagement partners.

2021 sees us entering the third year of our three-year RI strategy and we will be working to ensure we meet the targets we set ourselves in late 2019. We will also consider with our Partner Funds the development we wish to make over our next strategic period. During 2020/21 we have three key focus areas.

Firstly, we are embedding ESG into investment analysis and decision making across asset classes. We are developing climate risk assessments for our listed equity investments, so that we can both engage with companies on their direction of travel and also track progress. This will necessarily be an iterative process, recognising that data, tools and methodologies are developing rapidly. We will also be reviewing ESG and carbon data providers to ensure we have the coverage needed as the number of funds and assets classes increases.

Secondly, we continue to develop our active ownership strategy. This year we will review and refresh our three key engagement themes of governance, diversity, and transparency and disclosure, which have been in place since our launch in 2018. We have principles to underpin the process which include having the voice of our Partner Funds as part of the decision-making process; that progress has a material financial impact over the long-term for our portfolios; and that we can set ambitious but achievable milestones to measure progress . We are also developing an engagement framework to better capture and report on outcomes and progress.

Finally, we continue to develop and improve reporting on RI, supporting our Partner Funds, with better data and information on our activities and outcomes. We are continuing to develop quarterly ESG and carbon reporting covering listed equity portfolios and we will be considering how we can extend this to other asset classes in the future.

This is an exciting time to be a responsible investor as sustainability and climate change remain a key focus. Investors are reliant on third-parties, including index and data providers, which are still developing the required information sources and quality assurance protocols. All parties will need to work together to meet the same goals as the dial starts to turn up even higher on engagement with companies, specifically on climate risk and net zero alignment. This year will provide new challenges for us as an investor and we will continue to work with our strategic partners to ensure we are prepared.

Our three-year RI strategy was developed using the PRI Principles as a framework. Our target for 2022 includes:

- well-embedded ESG tools and analysis across asset classes for both internally and externally managed sub-funds;
- a holistic engagement framework in place, tracking milestones across portfolios and asset classes;
- a well-researched approach to requiring disclosures to support our investment process;
- the PRI Principles embedded throughout our procurement process and contract monitoring;
- being an active partner on RI collaborations; and
- producing quality, RI reporting and transparent disclosures.

Addressing Principle 1
of the Stewardship Code

Bedfordshire Pension Fund

Appendix

Stewardship Code

Principle 1: Purpose, strategy and culture

See **page 6**
See **page 16**
See **page 25**

Details related to our purpose and investment beliefs and how these guide our approach to investment strategy and stewardship are outlined in the "Our approach to stewardship" section. In assessing how effective we have been in serving the best interests of our Partner Funds, we have provided engagement and voting case studies in the "Engagement" and "How we vote" sections respectively.

Principle 2: Governance, resources and incentives

See **page 9**

Information relating to our governance structures, responsible investment resources and incentive structure can be found in the "Our governance" section. Here we detail how our structures have supported our approach to stewardship, how we have sought to improve our approach and how we are working with our Partner Funds to further strengthen our ability to support them in this fast-moving area.

Principle 3: Conflicts of interest

See **page 11**

How we seek to identify and mitigate potential conflicts of interest is outlined in the "Our governance" section.

Principle 4: Promoting well-functioning markets

See **page 5**

We have provided detail on how we responded to the COVID-19 pandemic, one of the most significant, market-wide, systemic impacts of recent decades, in the "COVID-19 response" section. Here we cover how we responded as a Company and as an asset manager and how we, in collaboration with Robeco, as our engagement partner, continued our thematic engagement programme on behalf of our Partner Funds.

Principle 5: Review and assurance

See **page 8**
See **page 9**

Detail related to our policies, assurance and how we have ensured our reporting is fair, balanced and understandable for our Partner Funds is detailed in the "Our governance" and 'Our approach to stewardship" sections.

Principle 6: Client and beneficiary needs

See **page 7**
See **page 25**

Detail related to our structure, the investments we have made and how we exist to make a positive contribution for our Partner Funds can be found in the "Our investments" and "Our approach to stewardship" sections.

Principle 7: Stewardship, investment and ESG integration

See **page 11**

Details related to how integration of stewardship has been implemented across internal, external, public and private markets can be found in 'Our approach to stewardship' section. Oversight of external management integration is documented in 'Our governance' section.

Principle 8: Monitoring managers and service providers

See **page 7**
See **page 11**
See **page 12**

We have disclosed how we monitor and review third-party service providers (including our engagement partner and external managers) in the 'Our approach to stewardship', 'Our governance' and 'Improving our approach to stewardship' sections.

Principle 9: Engagement

See **page 7**
See **page 15**

Detail related to our priority engagement themes, how we implement our engagement programme and the process for engagement escalation can be found in the sections 'Our approach to stewardship' and 'Engagement' sections.

Principle 10: Collaboration

See **page 21**

As an active asset owner, we are a member of and active participant in a number of collaborative initiatives to strengthen our voice. We have provided detail related to this activity in the reporting year under the 'Collaborations' section.

Principle 11: Escalation

See **page 19**

We have disclosed how we select activities for escalation and the process for this under the 'Engagement' section.

Principle 12: Exercising rights and responsibilities

See **page 23**

Detail related to our voting process, voting policy, approach to securities lending and voting data is disclosed under the 'How we vote' section.

Voting Guidelines summary

The full Corporate Governance and Voting Guidelines can be found on our website but, in summary, our position on key issues is:

- **Company boards, composition and independence:** The composition and effectiveness of the board are crucial to determining corporate performance as company behaviour has implications for shareholders and other stakeholders.
- **Leadership:** The role of the chair is distinct from that of other board members and should generally be seen as such but should not be responsible for the day-to-day management of the business.
- **Non-executive directors:** The role of non-executive directors is to challenge and scrutinise the performance of management in relation to company strategy and performance. To do this effectively they need to be independent.
- **Succession planning:** We expect the board to disclose its policy on succession planning, the factors considered and where decision-making responsibilities lie.
- **Board evaluation:** A requisite of good governance is that boards have effective processes in place to evaluate their performance and appraise directors at least once a year.
- **Stakeholder engagement:** Companies should take into account the interests of and feedback from stakeholders, which include the workforce.
- **Directors' remuneration, annual bonus and long-term incentives:** Remuneration has serious implications for corporate performance. Bonuses should reflect individual and corporate performance targets which are sufficiently challenging, ambitious and linked to delivering the strategy of the business and performance over the longer term.
- **Audit:** The audit process must be objective, rigorous and independent if it is to provide assurance to users of accounts and maintain the confidence of the capital markets.
- **Political donations and lobbying:** Companies should disclose all political donations and demonstrate where they intend to spend the money and that it is the interest of the company and shareholders.
- **Dividends:** Shareholders should have the chance to approve a company's dividend policy, and this is considered best practice. The resolution should be separate from the resolution to receive the report and accounts.
- **Shareholder proposals:** Shareholder proposals are assessed on a case-by-case basis. Consideration will be given as to whether the proposal reflects Border to Coast's Responsible Investment Policy and supports the long-term economic interests of shareholders.

Appendix: Our Responsible Investment Team

Jane Firth
Jane is the Head of Responsible Investment at Border to Coast Pensions Partnership, where she is leading the development of Border to Coast's responsible investment strategy across internally and externally managed assets. Prior to joining Border to Coast, Jane worked for South Yorkshire Pensions Authority, one of our Partner Funds, as a portfolio manager. Additionally, she oversaw the Fund's voting activities, and was responsible for developing responsible investment policy and stewardship practice. Jane now sits on the Investment Association stewardship committee as an asset owner representative. She has a first-class honours degree in International Studies from the Open University.

George Kendall
George joined Border to Coast as Responsible Investment Manager in March 2021 to support our efforts across all areas of responsible investment and stewardship. Prior to joining Border to Coast, he spent four years with KPMG's investment advisory business, where he was a member of the responsible investment and multi-asset manager research teams. George has a master's degree in Accounting and Financial Management from the University of York and is a Chartered Member of the Chartered Institute for Securities and Investment.

Alex Faulkner
Alex joined Border to Coast as Responsible Investment Analyst in 2019 and brings over ten years of experience in responsible investment and ESG-related issues, having previously worked at the Principles for responsible investment ('PRI') and the Carbon Disclosure Project ('CDP'). Alex has a BSc degree in Biodiversity from the University of Kent and a master's degree in Environmental Consultancy from the University of West England, Bristol.

BORDER TO COAST

PENSIONS PARTNERSHIP

www.bordertocoast.org.uk

Surrey Pension Fund

North Yorkshire County Council