

Border to Coast Pensions Partnership

Quarterly
Stewardship
Newsletter

Q3 2018



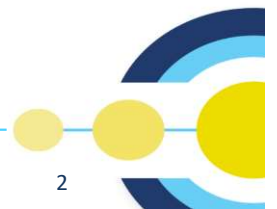
What it means to us

Sustainability

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

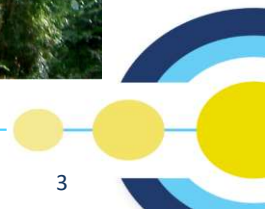
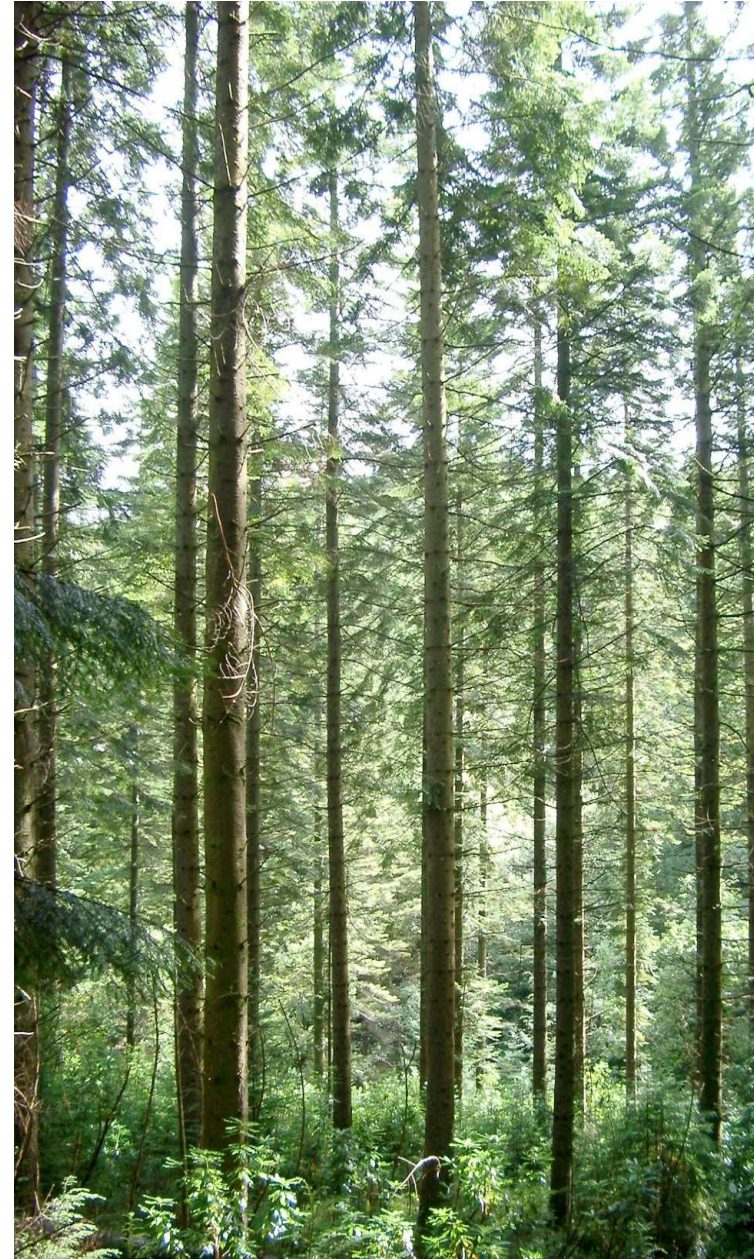
Active Ownership

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



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Voting

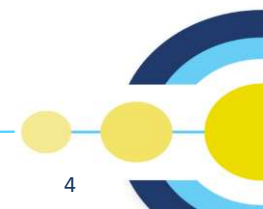
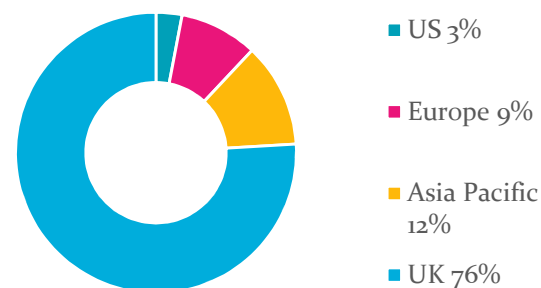
Border to Coast launched two internally managed sub-funds in July, the UK Listed Equity Fund and the Overseas Developed Markets Fund. As a shareowner, we have a responsibility for effective stewardship of the companies we're invested in; therefore, we need to vote our shareholdings in listed equity portfolios and to engage with investee companies globally.

The most effective way to achieve this is through an external voting and engagement provider. Robeco was appointed at the end of June as our service provider to ensure we were ready to vote at company meetings once the sub-funds were operational. This guaranteed that votes could be cast at meetings as soon as the assets were transferred from our Partner Funds.

Our Corporate Governance & Voting Guidelines, which can be accessed on our website, provide a framework for voting and are administered and assessed on a case-by-case basis. A degree of flexibility is required when interpreting the guidelines to reflect specific company and meeting circumstances. We began voting at company meetings on behalf of our Partner Funds from 10 July 2018.

The third quarter is the tail end of the peak proxy season, consequently the number of meetings is relatively low. We voted at a total of 57 meetings; total number of agenda items voted was 917; and at 72% of meetings we voted against management on at least one resolution.

Shareholder meetings voted by region

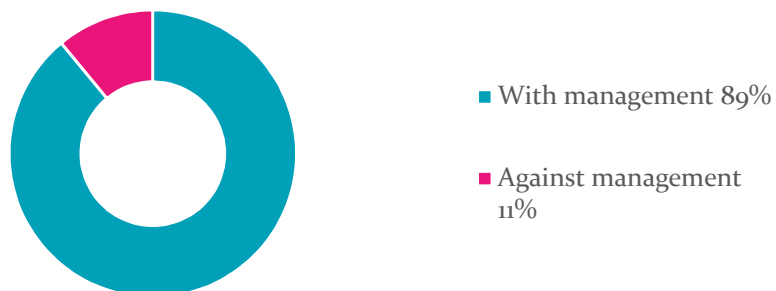


Voting (ctd)

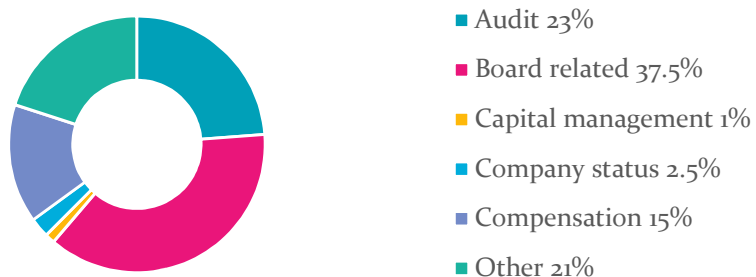
Border to Coast UK Listed Equity Fund

Over the quarter we voted at 43 meetings on 714 proposals. We supported all votes at 11 meetings (25.5%) and voted against 1 or more resolution at 32 meetings (74.5%). We opposed or abstained on 11% of proposals. Most related to board appointments (37.5%), followed by appointment of auditors (23%) and compensation (15%).

UK Listed Equity Fund - votes with/against management



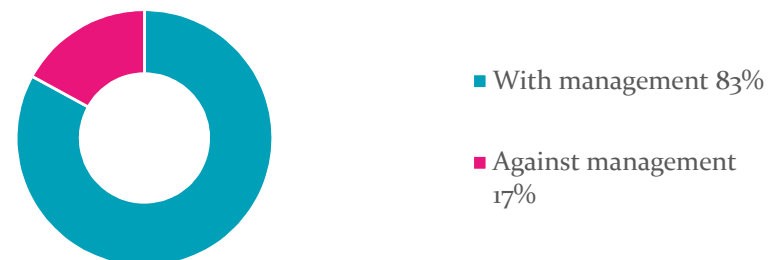
UK Listed Equity Fund - votes against by category



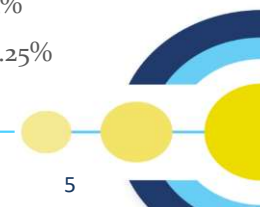
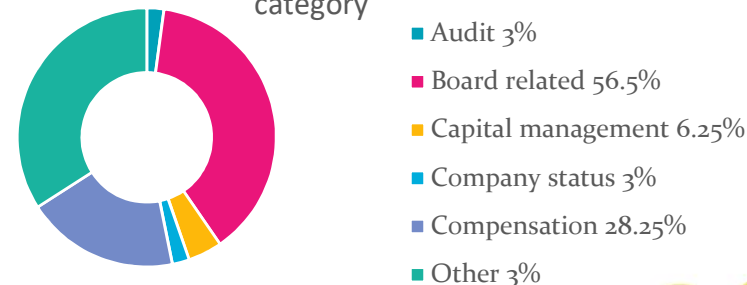
Border to Coast Overseas Developed Equity Fund

Over the quarter we voted at 14 meetings on 203 proposals. We supported all votes at 5 meetings (36%) and voted against 1 or more resolution at 9 meetings (64%). We opposed or abstained on 17% of proposals. Most related to board appointments (56.5%), followed by compensation (28.25%).

Overseas Developed Market Fund - votes with/against management



Overseas Developed Market Fund - votes against by category



Voting (ctd)

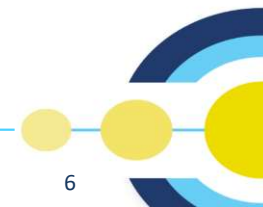
The 2018 proxy voting season has seen continuing concern over executive pay, an increase in votes against individual directors and an increase in shareholder resolutions on environmental and social issues.

The number of shareholder revolts at UK FTSE-350 AGMs in relation to executive remuneration has doubled since last year. However, despite the publicity surrounding excessive pay packages, the number of resolutions defeated remained small. Overall company disclosure on remuneration globally remains poor. We voted against remuneration reports where performance periods are too short, long-term awards are not linked to performance and on excessive quantum.

Board diversity is an area we are focusing on through voting, engagement and by supporting the 30% Club Investor Group. We voted against directors chairing nomination committees where companies have less than 30% of women on the board.

Auditor independence, tenure and magnitude of non-audit fees were the grounds for the high percentage of our votes opposing auditor appointment. The FRC is investigating large accountancy firms over their audits after a number of high profile profit warnings at companies and the collapse of Carillion.

In the US, although the number of social, environmental and political shareholder resolutions submitted as a percentage of all shareholder resolutions was comparable to the previous year, the percentage withdrawn was significantly higher. This was due to increased engagement by companies on these issues. Shareholder proposals on board gender diversity that went to a vote in 2018, as well as the high withdrawal rate, suggest that board gender diversity is now a priority for companies.



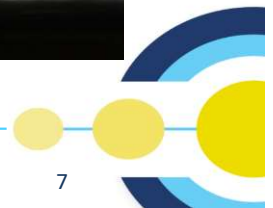
Corporate Governance Reforms

The year so far has seen advances in corporate governance reform in the UK. The Financial Reporting Council (FRC) published the 2018 UK Corporate Governance Code in July. The Code has had a substantial re-write and simplification with the focus being on a company's approach to governance and to long-term success.

There is an emphasis on enabling greater board engagement with the workforce to understand their views; a focus on creating a culture which preserves value over the long-term; emphasis on board refreshment and succession planning, and the importance of external board evaluation.

The Government published The Companies (Miscellaneous Reporting) Regulations 2018, updating the Companies Act 2006; this alongside other governance reform aims to rebuild trust in business.

The Department for Work and Pensions (DWP) published a consultation in June: clarifying and strengthening trustees' investment duties. The consultation and revisions are aimed at occupational pension schemes and are not applicable to the Local Government Pension Scheme (LGPS), it is however important to have consistency across the pensions industry. We submitted a letter to demonstrate support of proposals that create more parity.



What we've been doing this quarter

A priority, ahead of the launch of the internally managed sub-funds in July, was to ensure we had a voting and engagement service provider in place. Following a thorough procurement process we appointed Robeco at the end of June, enabling us to vote during the transition period. Once the transition was completed Robeco analyzed the portfolios, identifying 59 companies for engagement under 14 of its engagement themes. As we were the first Pool to appoint a Stewardship partner we had a great deal of interest from the media, receiving positive press coverage on the partnership.

Border to Coast joined the Local Authority Pension Fund Forum (LAPFF) in June. Chris Hitchen stood for election to the LAPFF Executive at July's AGM and was duly elected. Chris joins Councilor Doug McMurdo, the Chair of Bedfordshire Pension Fund and Chair of the Joint Committee, on the Executive.

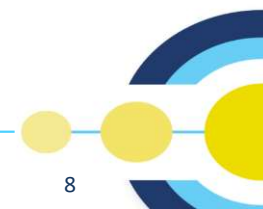
We have attended conferences over the quarter including the LGC Pension Symposium and the LGC Investment Summit speaking about Responsible Investment and ESG issues.

Ahead of the Global Climate Action Summit held in San Francisco in September, there were several press articles regarding challenges to pension funds on climate risk. To support Partner Funds we issued a briefing note 'Pension Fund Climate Change Challenge'.

To demonstrate our commitment to transparent reporting of costs for our Partner Funds, we signed up to the LGPS Advisory Board Code of Transparency.



The Responsible Investment policy and Corporate Governance & Voting Guidelines annual review process commenced in September with a RI workshop for Partner Funds.



Engagement

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

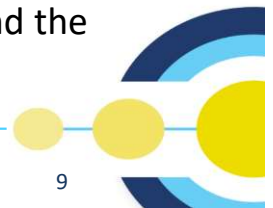
- Our internal portfolio managers engage directly with companies within their portfolios.
- Robeco as voting and engagement service provider engage on our behalf with companies held in internally managed sub-funds across a number of engagement themes globally (see page 10).
- We believe that we can increase our voice even more when working with other like-minded shareholders and have joined a number of RI initiatives compatible with our aims and beliefs (see page 11).
- LAPFF conducts company engagement on behalf of its members on a wide range of issues.
- Over the coming quarter, with the launch of our first externally managed funds, external managers will be engaging with companies on our behalf.

Border to Coast engagement with investee companies

Our Portfolio Managers meet companies on a regular basis and address ESG issues where relevant. Over 20 meetings were held during Q3 2018. These were all UK companies via a mix of face to face meetings and conference calls with current and potential investments. ESG issues covered included board structure, related party transactions and local community impact. Portfolio managers chose not to make new investments in some companies where ESG issues remained unresolved.

LAPFF engagement

LAPFF engaged with 63 companies on behalf of members over the quarter on issues including climate changes, shareholder rights, employment standards and the Sustainable Development Goals.

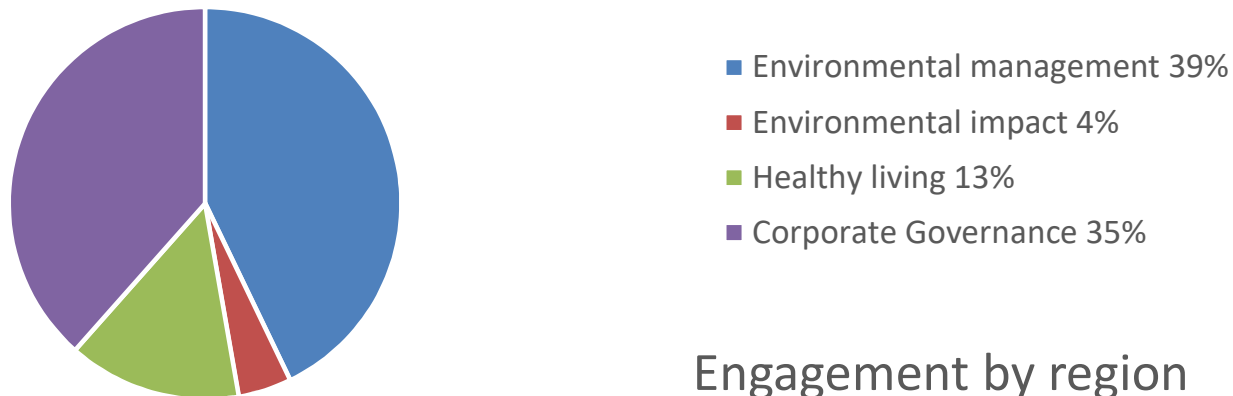


Engagement (ctd)

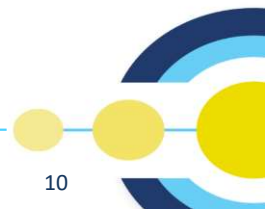
Robeco engagement

Robeco began engaging with companies on our behalf with the launch of two internally managed sub-funds at the end of July. 59 companies in Border to Coast's portfolios were identified under Robeco's 14 engagement themes. Robeco's engagement on our behalf is covered in greater detail in their Active Ownership Client Report Q3 2018, which can be found on our website.

Engagement overview by topic



Engagement by region



Engagement (ctd)

Responsible Investment Initiatives

As a pool of 12 Partner Funds with combined assets of over £45 billion, we have a much stronger voice and greater ability to influence investee companies. To further increase that influence we are working collaboratively with other like-minded investors and bodies by actively supporting investor RI initiatives. Areas of focus for us this year are governance, transparency and disclosure. This is reflected in the RI initiatives that we are currently supporting along with further initiatives we will be committing to in the next quarter.



The Local Authority Pension Fund Forum (LAPFF) exists to promote the long-term investment interests of local authority pension funds, and to maximise their influence as shareholders by promoting the highest standards of corporate governance and responsibility among investee



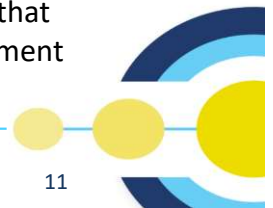
The 30% Club Investor Group aims to engage with company boards and senior management to encourage diversity; to effect change through voting and engagement.



A voluntary framework for companies and investors to provide climate-related information in annual financial reports based around governance, strategy, risk management and metrics.



A five-year investor led initiative to engage with largest greenhouse gas emitters and other global companies that can drive energy transition to achieve the Paris Agreement



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Useful links

<https://www.bordertocoast.org.uk/sustainability/>

<http://www.lapfforum.org/>

<http://www.iigcc.org/>

<https://30percentclub.org/initiatives/investor-group>

<http://www.climateaction100.org/>

<https://www.fsb-tcdf.org/>

<http://lgpsboard.org/index.php/manager-list>

