

Border to Coast Pensions Partnership

Quarterly
Stewardship
Newsletter

Q4 2018



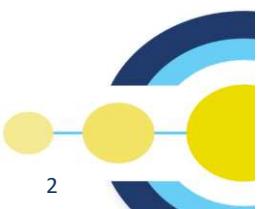
What it means to us

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

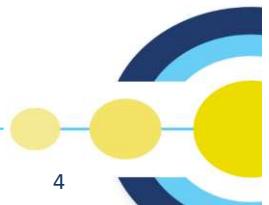
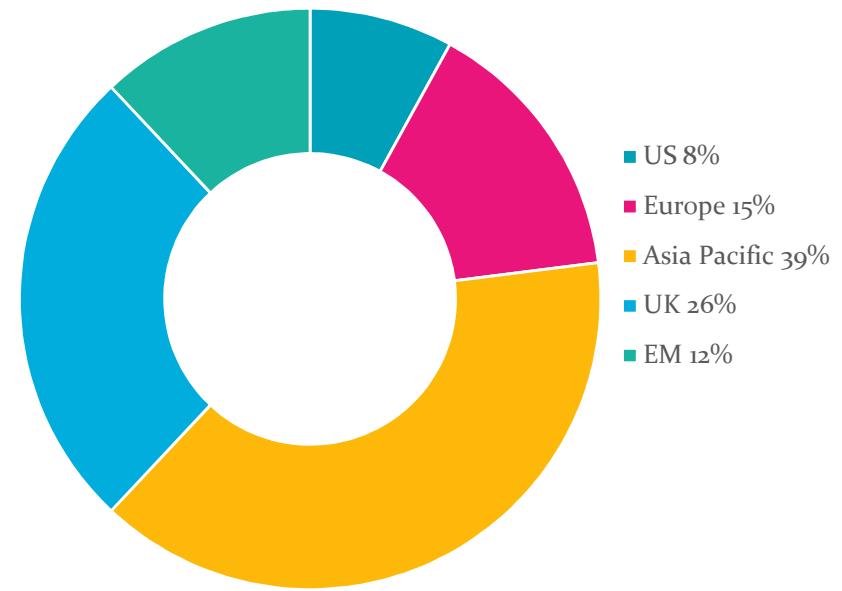
The annual review of the Responsible Investment Policy and Corporate Governance & Voting Guidelines has been completed. The Voting Guidelines have been revised to reflect global market trends. Both policies can be accessed on our website. They provide a framework for voting and are administered by our Voting and Engagement Partner and assessed on a case-by-case basis.

Our relationship with Robeco, our voting and engagement partner, is continuing to develop as more assets have transferred to Border to Coast from our Partner Funds.

Border to Coast launched a further two sub-funds in the quarter to 31 December 2018. The Emerging Markets Equity Fund, an internally managed sub-fund went live at the beginning of October. The first of the externally managed sub-funds, the UK Listed Equity Alpha Fund, was launched in November. Assets came out of transition in mid-December and are now managed by Janus Henderson, Baillie Gifford and UBS Asset Management. Voting has begun at company meetings for both the newly launched sub-funds.

For the fourth quarter we voted at a total of 88 meetings globally. The total number of agenda items voted was 750, and at 52% of meetings we voted against management on at least one resolution.

Shareholder meetings voted by region

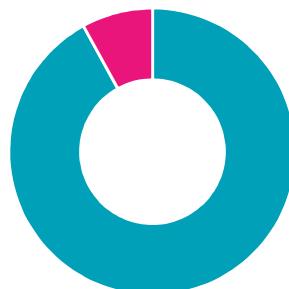


Voting (ctd)

Border to Coast UK Listed Equity Fund

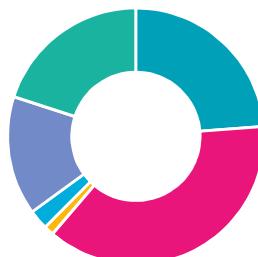
Over the quarter we voted at 21 meetings on 190 proposals. We supported all votes at 14 meetings (77%) and voted against 1 or more resolution at 7 meetings (33%). We opposed or abstained on 8% of proposals. Most related to auditor appointments (40%), followed by board appointments (20%) and compensation (13%).

UK Listed Equity Fund - votes with/against management



- With management 92%
- Against management 8%

UK Listed Equity Fund - votes against by category

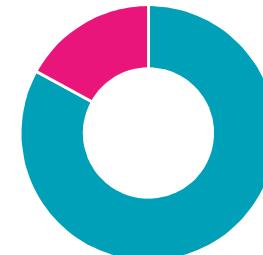


- Audit 23%
- Board related 37.5%
- Capital management 1%
- Company status 2.5%
- Compensation 15%
- Other 21%

Border to Coast Overseas Developed Equity Fund

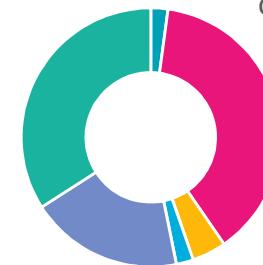
Over the quarter we voted at 53 meetings on 397 proposals. We supported all votes at 26 meetings (49%) and voted against 1 or more resolution at 27 meetings (51%). We opposed or abstained on 17% of proposals. Most related to board appointments (52%), followed by compensation (28%).

Overseas Developed Market Fund - votes with/against management



- With management 83%
- Against management 17%

Overseas Developed Market Fund - votes against by category



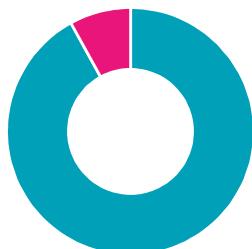
- Audit 8%
- Board related 52%
- Capital management 5%
- Company status 1%
- Compensation 28%
- Other 6%

Voting (ctd)

Border to Coast Emerging Markets Equity Fund

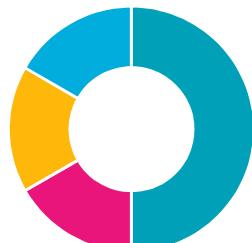
Over the quarter we voted at 9 meetings on 82 proposals. We supported all votes at 4 meetings (44%) and voted against 1 or more resolution at 5 meetings (56%). We opposed or abstained on 8% of proposals. The category receiving the most votes against was board appointments (50%).

Emerging Markets Fund - votes with/against management



- With management 92%
- Against management 8%

Emerging Markets Equity Fund - votes against by category

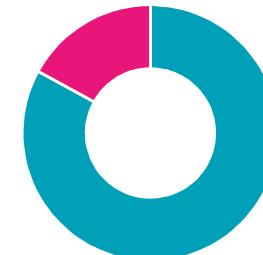


- Board related 50%
- Capital management 17%
- Company status 17%
- Other 16%

Border to Coast UK Listed Equity Alpha Fund

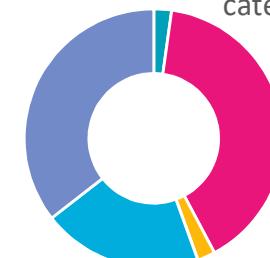
Over the quarter we voted at 11 meetings on 127 proposals. We supported all votes at 3 meetings (27%) and voted against 1 or more resolution at 8 meetings (73%). We opposed or abstained on 17% of proposals. Most related to auditors (34%) followed by board appointments (28%).

UK Listed Equity Alpha Fund - votes with/against management



- With management 83%
- Against management 17%

UK Listed Equity Alpha Fund - votes against by category



- Audit 34%
- Board related 28%
- Company status 18%
- Compensation 15%
- Other 5%

Voting (ctd)

Unilever

In the Spring of 2018 Unilever announced the next steps in their plan to create a simpler, more agile and focused business. This included removing the dual-listed structure, creating a single share listed in the Netherlands. The boards of both the PLC and NV advocated that this would provide greater strategic flexibility and help drive long-term performance. To succeed would require 75% of shareholders to vote in favour. Large institutional shareholders voiced concerns: Unilever PLC would have exited the FTSE100, with UK index tracking funds being forced to sell stock, receiving no upside. The company underestimated the opposition and was forced to make a U-turn and cancel the vote.

Governance

In 2018 the percentage of S&P500 companies with a joint chair and CEO was 45.6%, down from nearly 70% in 2005. In Nov. 2018 we saw Tesla's Elon Musk relinquish his role as chair and Renault split the roles after Carlos Ghosn was arrested in Japan over claims of financial misconduct. In 2018 9.2% of Stoxx Europe 600 companies had combined chair and CEO, down from 11% in 2013.

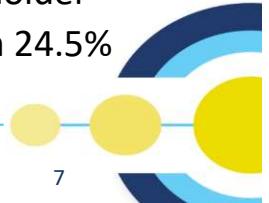
A concentration of power in these roles can contribute to limited accountability and a failure in corporate governance. We will use our votes to oppose their combination.

Climate Change

We support climate-related resolutions at AGMs where they are considered to be aligned with our policies. One recent example was a shareholder resolution asking Origin Energy, an Australian energy company, to review its lobbying memberships . It was supported by 46% of shareholders. This was the largest vote for any shareholder proposal in Australian corporate history. It is common for companies to belong to industry associations that engage in public policy advocacy; however we believe that it is important that these are aligned with the Paris Agreement.

Diversity

Board and diversity-related shareholder proposals were the most common resolutions filed on the social front in 2018. Research suggests that corporate diversity can have a material financial impact on investment outcomes. Shareholder support for this type of resolution increased from 24.5% in 2017 to 36.6% in 2018.



Industry reviews



Financial Reporting Council

December saw the reports of the Kingman Review and the Competition and Markets Authority published on the same day. In April 2018, the Government announced its intention to conduct an independent review of the FRC following a number of high-profile corporate collapses, notably Carillion. The review led by John Kingman, Chair of Legal & General, was to assess the effectiveness of the FRC's governance, impact and powers, and to ensure it is fit for the future. The call for evidence closed early August 2018 and the findings were published on 18th December. The Local Authority Pension Fund Forum (LAPFF) has been a longstanding champion for change and abolition of the FRC.

The Review recommends, in line with the LAPFF position, that the FRC is disbanded and replaced with the Accounting, Reporting and Governance Authority. This new body should have statutory recognition and funding to



make it more robust. Kingman said the FRC board and staffing needed an overhaul. The review also supported a shift in approach to the UK's Stewardship Code which is overseen by the FRC; the Code has just gone out to consultation. The revised form should be focused on "outcomes and effectiveness" rather than policy statements.

October saw the launch by the Competition and Markets Authority (CMA), of an in-depth review of Britain's auditing industry examining competition in a sector dominated by the so-called Big Four accountancy firms. The review published in December, proposes separation of audit from consultancy work; introduces measures increasing the accountability of audit committee chairs, and mandates joint audits for the FTSE 350 using a non-Big Four firm.



What we've been doing this quarter

This has been another busy quarter for Border to Coast. It saw the launch of the first externally managed sub-fund, UK Listed Equity Alpha. We are working with the three appointed managers on responsible investment issues. The launch of the Emerging Markets Equity Fund has also seen the number of companies that Robeco is engaging with on our behalf increase.

Border to Coast held its annual investment conference in November which was attended by over 100 Elected Members, Board members and officers. Jane Firth and Kenny Robertson from Robeco presented a joint session on RI and engagement. This looked at our RI strategy and approach to engagement in partnership with Robeco.

October saw an increase in our involvement in RI initiatives. We became a member of the Institutional Investor Group on Climate Change (IIGCC). The IIGCC provides a collaborative forum for pension funds and other institutional investors to engage with policy makers, regulators and companies to address the long-term risks and opportunities associated with climate change.

We also became a supporter of the Workforce Disclosure Initiative which focuses on promoting transparency on human capital management reporting from listed companies.

In December the IIGCC wrote to utility companies asking them to accelerate decarbonisation and plan for a net-zero carbon economy in-line with the Paris Agreement. Expectations are for explicit timelines and commitments for the rapid elimination of coal use by utilities in EU and OECD countries by no later than 2030. As a member, we took the opportunity to sign and join a list of 94 investors representing in total over \$11 trillion assets under management. This forms part of Border to Coast's engagement strategy which involves collaborating with other institutional investors on major issues including climate change and is aligned with our existing RI policy.

We also began working with two new ESG data providers this quarter, enabling us to better monitor and measure ESG risk across both internally and externally managed assets. This is an important step in the integration of ESG factors into our investment processes.



Climate Change: COP24

The 2018 United Nations Climate Change Conference was the 24th Conference of the Parties, also known as COP24. It was held in December 2018 in Katowice, Poland.

National delegations were under intense pressure to recognise the critical urgency of climate change, particularly following publication of the

Intergovernmental Panel on Climate Change (IPCC) Special Report and in light of new research released at COP showing that global emissions were going up, not down. The stated aim of COP24 was for countries to agree the detailed implementation plan that will allow the Paris Agreement to function and to guide parties in fulfilling these commitments. The COP succeeded in adopting the rulebook; this includes how governments will measure, report on and verify their emissions-cutting efforts. This is a key element because it ensures all countries are held to proper standards. Certain elements have, however, been deferred to 2019.

There was a clear effort to balance the views of the global heavyweights with those of smaller, climate-vulnerable states. Unfortunately, the US, Saudi Arabia, Russia and Kuwait, joined forces to prevent the conference fully

embracing the findings of the IPCC's Special Report. The statement text was watered down to a weak commendation of the timing of the report. The EU, other developed countries and developing nations confirmed that they would strive to meet the IPCC's advice on limiting warming to no more than 1.5C.

The next meeting will be in Chile in 2019 to settle the final elements of the Paris rulebook and begin work on future emissions targets. The crucial conference will be in 2020, when countries must meet the deadline for their current emissions commitments and produce new targets for 2030 and beyond.



Engagement

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

- Our internal portfolio managers engage directly with companies within their portfolios.
- Robeco as voting and engagement service provider engage on our behalf with companies held in internally managed sub-funds across a number of engagement themes globally (see page 12).
- We believe that we can increase our voice even more when working with other like-minded shareholders and have joined a number of RI initiatives compatible with our aims and beliefs (see page 14).
- LAPFF conducts company engagement on behalf of its members on a wide range of issues.
- External managers will be engaging with companies on our behalf.

Border to Coast engagement with investee companies

Our Portfolio Managers meet companies on a regular basis and address ESG issues where relevant. Meetings were held with 21 companies over the 4th quarter of 2018. These were a mix of UK, European and US companies via a combination of face to face meetings and conference calls with current and potential investments. ESG issues covered included energy efficiency; board composition and succession planning; use of plastics and packaging; and alignment of shareholder interests. Meetings held with investment trusts covered incorporation of ESG into the investment process. We also held calls with analysts in Korea and Japan on corporate governance in these two markets.

LAPFF engagement

LAPFF engaged with 95 companies over the quarter on issues ranging from human capital management and board composition to climate change reporting and sustainability.



Engagement – RI collaborations



One of the collaborative RI initiatives that we support is the Climate Action 100+. This is a five-year investor-led initiative to engage with the largest greenhouse gas emitters and other global companies to curb emissions, strengthen climate-related financial disclosures, and improve governance on climate change risks and opportunities. It is coordinated by five partner organisations, including the IIGCC. The initial list of 100 companies was drawn up in December 2017, with an extra 60 companies added in July 2018. More than 300 investors with over \$32 trillion assets under management support the initiative.

Engagement is taking place with companies in the automotive, oil and gas, industrial manufacturing, utilities, consumer goods, building materials and mining sectors.

There have been some key milestones achieved over the last year. Anglo American committed to publish analysis of its resilience to low carbon scenarios, review its lobbying activities, and set greenhouse gas reduction targets for 2030.

AP Moller Maersk, the Danish shipping company, promised to cut its carbon emissions to zero by 2050. Royal Dutch Shell made a joint statement with Climate Action 100+ investors. It will set carbon emissions targets and link these to remuneration. This is a significant achievement and a sector-leading development (more detail on pg.14).

The IIGCC shareholder resolution sub-group, has identified companies ahead of the 2019 proxy season where resolutions may be filed in relation to climate risk. These are focused on target setting and lobbying. We will assess and conduct due diligence ahead of committing to co-file.

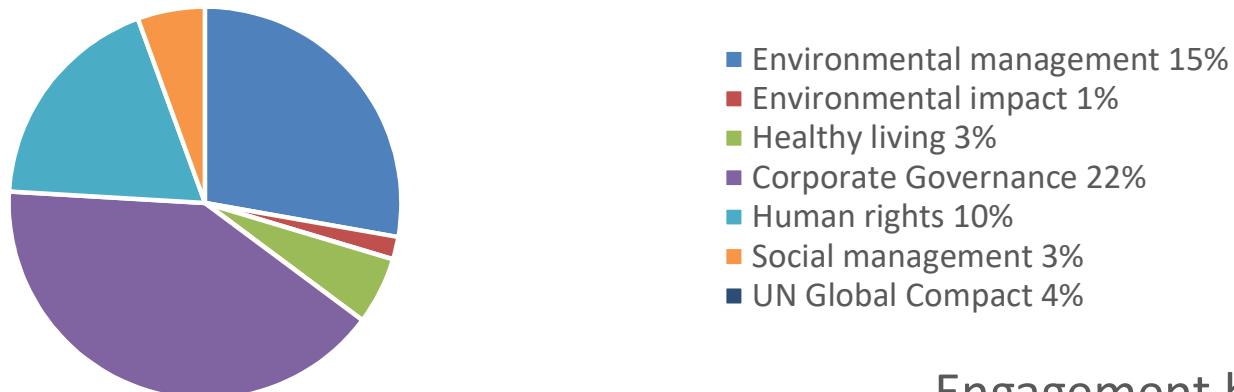


Engagement (ctd)

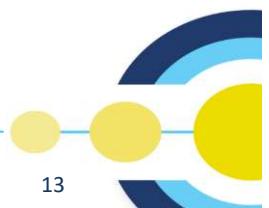
Robeco engagement

Robeco is now engaging with companies on our behalf across all the internally managed sub-funds. Engagement has taken place by letter, meetings, conference call and email. A new engagement theme was launched during the quarter on Food Security. Robeco's engagement is covered in greater detail in their Active Ownership Client Report Q4 2018, which can be found on our website.

Engagement overview by topic



Engagement by region



Royal Dutch Shell – Joint statement



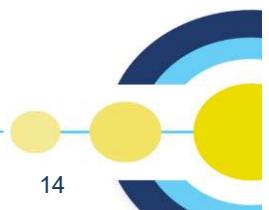
December saw a joint statement between Royal Dutch Shell plc and a group of institutional investors on behalf of the global investor initiative: Climate Action 100+, of which we are a supporter. The engagement with Shell was jointly led by Robeco and the Church of England Pensions Board. Following lengthy negotiations between investors and the company, a joint statement has been published setting out a number of detailed commitments from Shell regarding how it will translate its Net Carbon Footprint (NCF) as part of its corporate strategy.

We believe Shell now leads the sector in terms of their planning and positioning for the energy transition. We plan, through our collaborative engagements, to ask other companies to follow suit.



The joint statement with Shell, commits the company to:

- Set climate targets - aims to reduce the Net Carbon Footprint (NCF) of its energy products by around half by 2050, and by around 20% by 2035
- Link these targets to executive remuneration policy – to be voted at the 2020 AGM
- Frequently review progress
- Align with the TCFD Recommendations
- Review the companies lobbying positions.



Responsible investment partnerships



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Useful links

[Border to Coast website](#)

[LAPFF](#)

[IIGCC](#)

[30% Club](#)

[Climate Action 100+](#)

[TCFD](#)

[Workforce Disclosure Initiative](#)

