

# Border to Coast Pensions Partnership

Quarterly  
Stewardship  
Newsletter

Q3 2019



# What it means to us

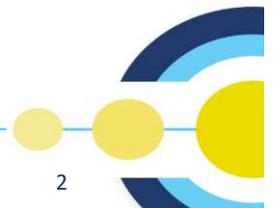
## Sustainability

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

## Active Ownership

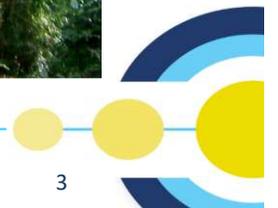
As a long-term investor and representative of asset owners, we will practice active ownership by holding companies and asset managers to account on environmental, societal and governance (ESG) issues that have the potential to impact corporate value. We will also use our shareholder rights by voting at company meetings, monitoring companies, engagement and litigation.

Our approach to RI and stewardship is set out in our [RI Policy](#) and the [Corporate Governance & Voting Guidelines](#), both of which can be viewed [on our website](#). The aim is to manage risk and generate the sustainable, long-term returns which are a key part of making a difference to our Partner Funds and delivering their objectives.



# Contents

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

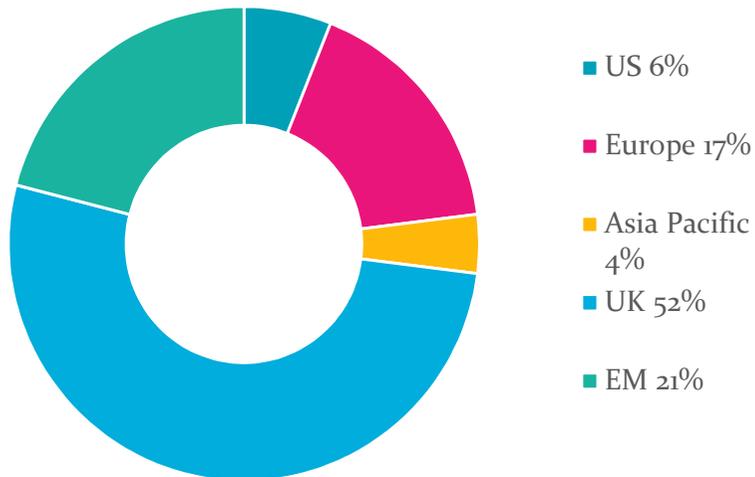


# Voting

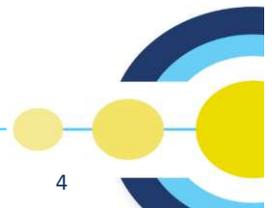
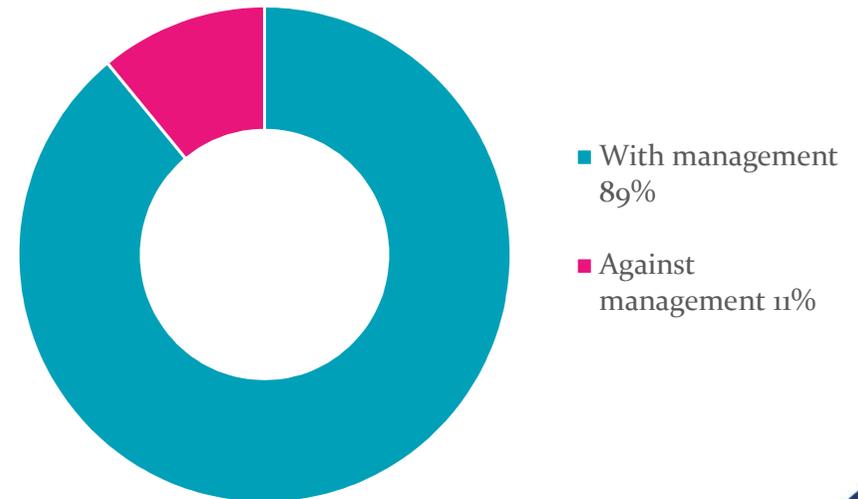
The third quarter has been quieter in terms of voting numbers following the peak 2019 AGM season in the second quarter. We have used this period to begin the review of our voting policy with our Partner Funds and Robeco (our Voting and Engagement Partner). We aim to have the new policy in place before peak 2020 AGM season.

For the third quarter of 2019 quarter we voted at a total of 101 meetings globally. The total number of agenda items voted was 1,241, and at 66% of meetings we voted against management on at least one resolution.

Shareholder meetings voted by region



Global meetings - resolutions voted with/against management

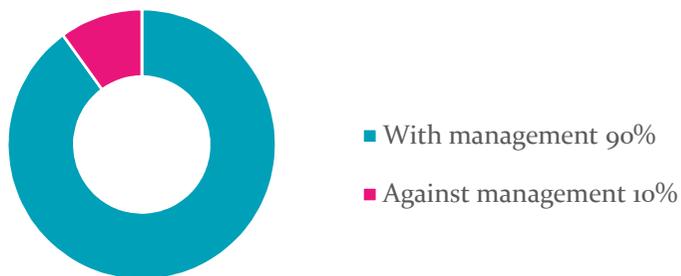


# Voting (ctd)

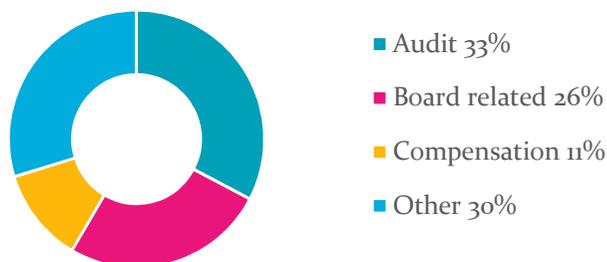
## Border to Coast UK Listed Equity Fund

Over the quarter we voted at 25 meetings on 444 proposals. We supported all votes at 6 meetings (24%) and voted against 1 or more resolution at 19 meetings (76%). We opposed or abstained on 11% of proposals. Most related to auditor appointments (33%) and board appointments (26%).

UK Listed Equity Fund - votes with/against management



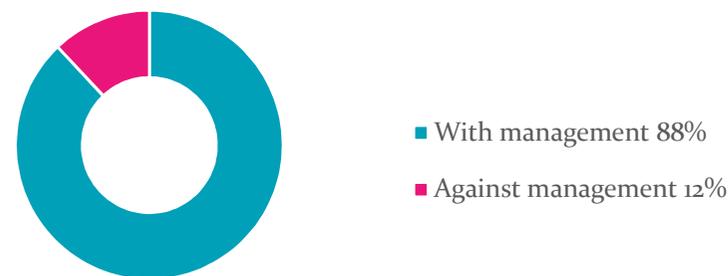
UK Listed Equity Fund- votes against by category



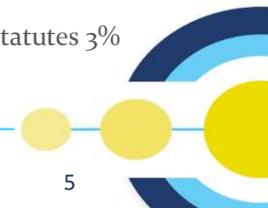
## Border to Coast Overseas Developed Equity Fund

Over the quarter we voted at 22 meetings on 279 proposals. We supported all votes at 6 meetings (27%) and voted against 1 or more resolution at 16 meetings (73%). We opposed or abstained on 12% of proposals. Most related to compensation (49%), followed by Board (35%) and shareholder proposals (14%).

Overseas Developed Market Fund - votes with/against management



Overseas Developed Market Fund - votes against management by category



# Voting (ctd...)

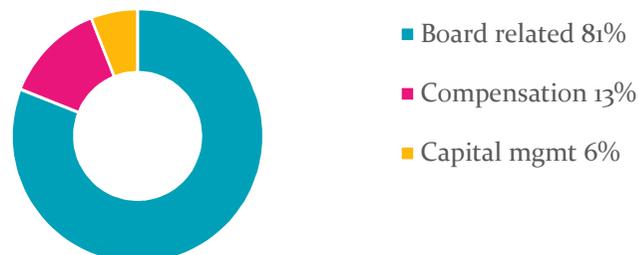
## Border to Coast Emerging Markets Equity Fund

Over the quarter we voted at 29 meetings on 184 proposals. We supported all votes at 8 meetings (38%) and voted against 1 or more resolution at 13 meetings (62%). We opposed or abstained on 17% of proposals. The categories receiving the most votes against were board appointments (81%) and compensation (13%).

Emerging Markets Fund - votes with/against management



Emerging Markets Equity Fund - votes against by category



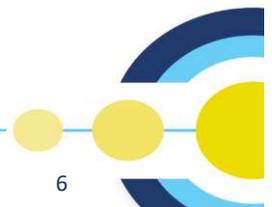
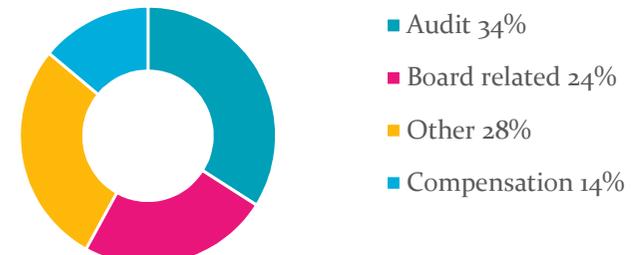
## Border to Coast UK Listed Equity Alpha Fund

Over the quarter we voted at 35 meetings on 535 proposals. We supported all votes at 10 meetings (30%) and voted against 1 or more resolution at 23 meetings (70%). We opposed or abstained on 9% of proposals. Most related to auditor appointments (34%) and board appointments (24%).

UK Listed Equity Alpha Fund - votes with/against management



UK Listed Equity Alpha Fund - votes against by category



# Emerging voting issues in 2019

The 2019 AGM season saw newer issues such as cybersecurity and the traditional topic of CEO succession addressed by both shareholders and issuers.

**Cybersecurity** is a rapidly developing threat to many companies, especially those operating in technology-driven sectors. Many issues faced by companies lie in the oversight structures although perhaps the biggest risk is human error. It is estimated that two-thirds of breaches are caused by employee negligence or malicious acts, placing it in the realm of the board's risk supervision role.

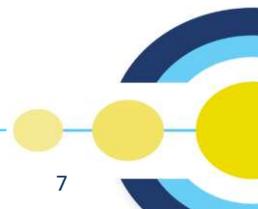
The first link between cybersecurity and our voting relates to the election of directors on the board. We take cyber risk into account when looking at board composition to ensure that directors serve investors' long-term interests by bringing valuable expertise to the table.

Secondly, we may encounter a cybersecurity-related shareholder proposal up for vote. A notable example from this past year was a proposal that asked Verizon Communications, a major telecommunications company, to issue a report assessing the feasibility of tying executive compensation to cybersecurity and data privacy KPIs. This is aligned with our engagement to strengthen accountability for cyber risk in companies. We voted in favour, along with 12% of other shareholders.

It is crucial for companies to have a robust **succession planning** process in place. This ensures a smooth transition as changes in senior executive positions introduce inherent risks to companies and their shareholders.

It is important that the nomination committee is objective in both formulating and executing the policy on succession planning. As such, we encourage companies to have only independent non-executive directors serving on the nomination committee, headed by the Chairman or Senior Independent Director. The CEO can provide advice to the committee but as the transition evolves, we expect the CEO's participation to diminish.

When undertaking a CEO transition, one of the most contentious topics is the pay package offered to both the outgoing and incoming CEO. Executive pay should encourage long-term thinking by tying company leaders' remuneration to long-term share price even after they leave the organisation. We encourage Executive Directors to build a significant shareholding in the company to ensure alignment with shareholders and to continue to hold the stock for at least two years after they have left the company.



# Voting highlights



Electronic Arts Inc. develops video games and online game-related software. The 2019 AGM featured two competing proposals on the threshold to allow shareholders to call special meetings, one put forth by management, and one by shareholders. We supported the shareholder proposal as given the company's size and shareholder base we believe that a 15% threshold is appropriate. Both received strong support, however, the higher threshold put forth by management received greater support and was immediately implemented into the bylaws. Although this change was good news it was disappointing that EA did not choose to adopt best practice.

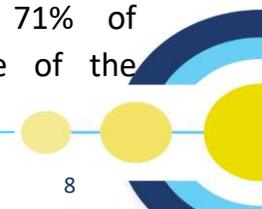


Mahindra & Mahindra Ltd. manufactures automobiles, equipment and components. Board independence is a critical corporate governance topic in the Indian market. At the 2019 shareholder meeting we voted against a newly-appointed director due to their professional services relationship with the company and the overall insufficient level of independence on the Board. The company has classified two board members as

Independent despite having been on the board for twenty seven years. Local corporate governance provisions consider directors' independence to be compromised if they have been in position for over ten consecutive years. Long tenures can harm directors' objective judgement and the company has not provided sufficient evidence to show that their independence has been preserved. The re-appointment of these two directors was not up for vote this year.



Anadarko Petroleum Corporation is an oil and gas exploration company headquartered in the US. In May 2019, Anadarko announced they had entered into a merger agreement with Occidental Petroleum. Although the merger received overwhelming shareholder support, the ensuing golden parachutes for Anadarko executives were less endorsed. Golden parachutes accelerate the vesting of unearned equity awards following a merger and can lead to pay-outs not linked to performance. We voted against this proposal along with 71% of shareholders. Given the non-binding nature of the proposal the company still paid the executives.



# Industry developments

September saw the **United Nations Climate Action Summit held in New York**. The summit aimed to bring together governments, investors, companies and civil society to strengthen commitments and accelerate the implementation of the Paris Agreement on Climate Change.

At the summit, the largest-ever group of investors called on governments to phase out thermal coal power globally, price carbon pollution and end government subsidies for fossil fuels. The [Global Investor Statement to Governments on Climate Change](#) was eventually signed by 515 institutional investors managing \$35 trillion.

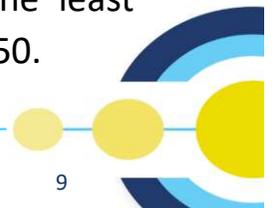
In related news, the UK was confirmed as securing the presidency, alongside Italy, of **COP26 in 2020**. It provides a key opportunity for the UK to showcase its commitment to clean growth and demonstrate its leadership on climate change and climate finance.

In September the largest global conference on responsible investment, **PRI in Person**, was held in

Paris welcoming nearly 1800 participants. Climate change was an ever-present topic with the theme being responsible investment in an age of urgent transition. Participants were welcomed by a message from President Emmanuel Macron highlighting the urgency of investor action to safeguard the climate.

Topics covered included the role of SDGs, a Just Transition, plastic and the circular economy, modern slavery, and regulatory updates. The 'Inevitable Policy Response', research developed by the PRI which lays out a realistic forecast of how governments will respond and the potential implications for the financial economy, was also addressed.

The Transition Pathway Initiative published new research covering 135 of the world's largest and highest emitting public companies across three energy sectors: coal, electricity, and oil and gas. It found that only two oil and gas companies assessed (Shell and Repsol) plan to be aligned with the least ambitious benchmark (Paris Pledges) before 2050.



# What we've been doing this quarter

This quarter we were pleased to publish our first [Annual Responsible Investment Report](#). The report sets out our focus on Responsible and Sustainable Investment along with our future plans.

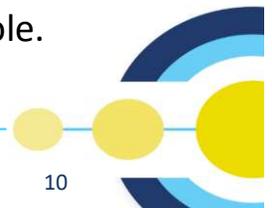
Following our [Manager Day in June](#), September saw us appoint Royal London Asset Management, M&G Investment Management and Insight Investment as external managers to the Border to Coast Sterling Investment Grade Credit Fund. Subject to FCA approval, the Fund is scheduled to launch in early 2020 with assets of over £2bn. This is the first in a series of fixed income funds to support our Partner Funds in implementing their strategic asset allocations. We are working with our managers on Responsible Investment and reporting.

In early July we took part in the roundtable discussion on The Role of UK Pension Funds in the Low Carbon Transition; an event as part of London Climate Action week. Guy Opperman, the Under Secretary of State for Pensions and financial Inclusion at the DWP, gave the keynote address, which was followed by a roundtable discussion.

Jane Firth, Head of Responsible Investment, spoke at an Engagement Forum, held by Surrey Pension Fund on ESG issues. We also attended the UK Pension Scheme RI Roundtable, the PRI in Person Conference and the IIGCC 'Tracking the Transition' event.



We are delighted that Border to Coast was awarded 'Pool of the Year' at the LAPF Investment Awards. The award recognised the progression of the pooling process and demonstrating leadership both for member funds and within the LGPS as a whole.



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

## Climate Change Working Party

The working party's objective is to consider the potential impact of climate change risk on Border to Coast Pensions Partnership and to identify and recommend next steps for consideration by the Border to Coast Board and Partner Funds.

This quarter we held two working party sessions covering Collaboration and Communication.

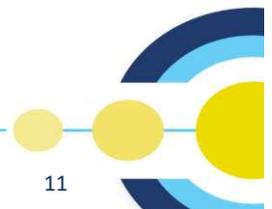
In the fifth working Party meeting held in July, Adam Mathews from the Church of England Pension Board presented to us on the importance and power of collaborative engagement. Bringing together more investors allows the engagement to gain greater traction facilitating change at a company and sector level.

The Church of England has worked hard to create collaborations with other asset owners, including co-leading on the global engagement of Tailings Dams through the [Investor Mining and Tailings Safety Initiative](#) as well as playing a major role on climate initiatives such as [Climate Action 100+](#) (CA100+), the [Transition Pathway Initiative](#) (TPI) and the [IIGCC Paris Aligned Investment Initiative](#).

The sixth and final Working Party meeting provided the opportunity to reflect on all the previous sessions and review whether we have met our objectives. The session was also used to assess our recommendations for next steps.

We concluded that there was a clear shared priority across Partner Funds and Border to Coast to manage risk and opportunities from climate change. We will be meeting with Partner Funds in the coming months to agree the next steps and projects. We will continue to embed and enhance the use of climate analysis into investment decisions and engagement with companies, and look at the role of private markets in managing transition risk.

Complementary to the working party, LGIM's Head of Commodities came in to present their research on the energy transition to the internal investment and research team.



# 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:

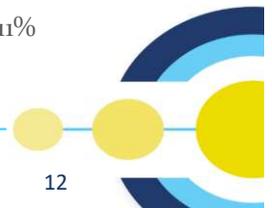
- Our internal portfolio managers engage directly with companies within their portfolios (see opposite).
- Robeco as our voting and engagement partner engage on our behalf with companies held in internally managed sub-funds across a number of engagement themes globally (see page 14).
- We believe that we can increase our voice even more when working with other like-minded shareholders and have supported a number of RI initiatives compatible with our aims and beliefs.
- LAPFF conducts company engagement on behalf of its members on a wide range of issues (see page 13).
- External managers are engaging with companies on our behalf (see page 16).

## Border to Coast engagement with investee companies

Our portfolio managers meet companies on a regular basis and address ESG issues where relevant. We met with 44 companies during the third quarter. These were a mix of UK, European, Japanese and Australian companies via a combination of face to face meetings and conference calls with current and potential investments.

Issues discussed by portfolio managers included board independence and composition, succession planning, environmental management and climate change. Discussions were had with an energy company on their climate change strategy ahead of a shareholder proposal. Governance and ownership concerns were also discussed with a household appliance firm.

Engagement by Region

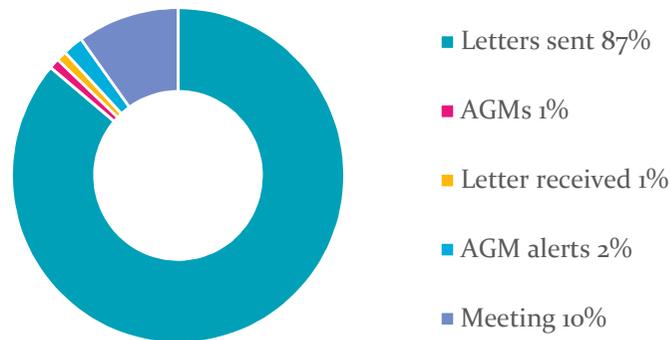


# Engagement (ctd...)

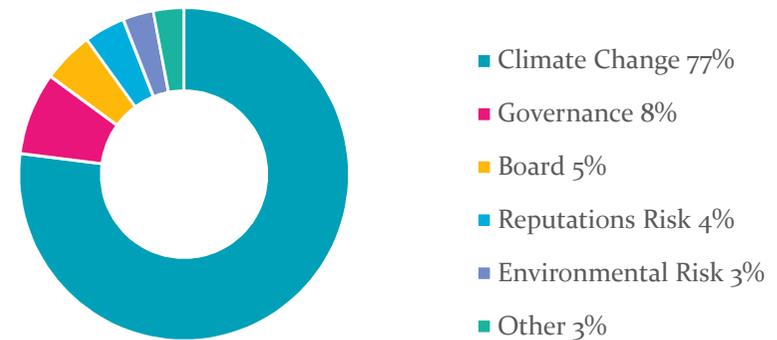
## LAPFF engagement

LAPFF engaged with 106 companies over the quarter by a combination of letter, meetings, LAPFF AGM alerts and attendance at AGMs. Issues engaged on included climate change, general governance, Board composition and environmental risk.

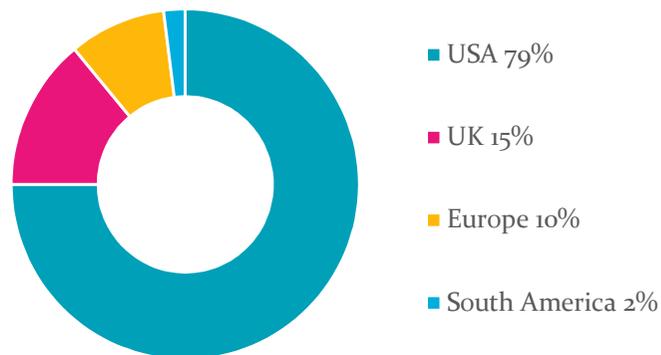
### Company Engagement Activities



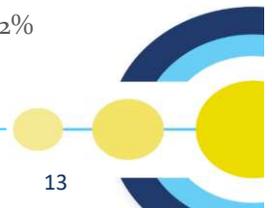
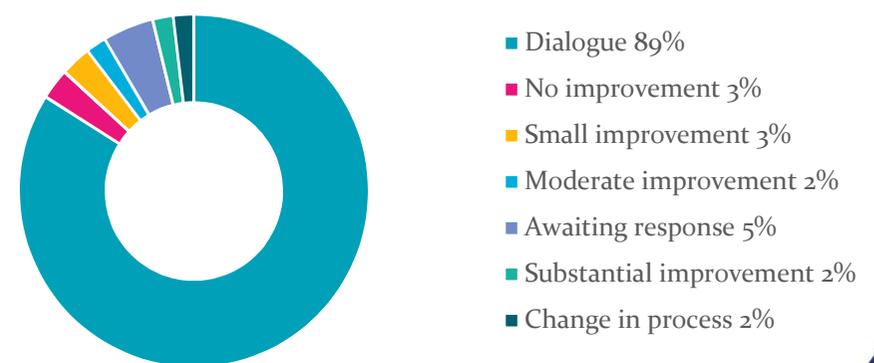
### Engagement Overview by Topic



### Engagement by Region



### Engagement Outcomes

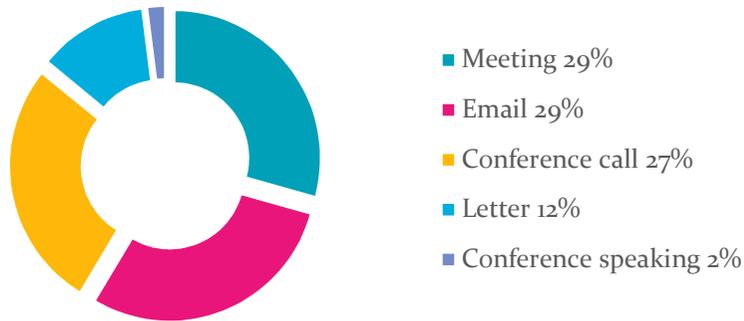


# Engagement (ctd...)

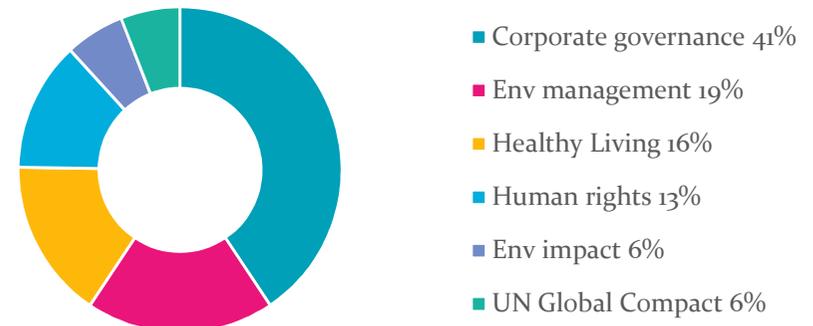
## Robeco engagement

Robeco engages with companies on our behalf across all the internally managed sub-funds. Over the quarter engagement has taken place by letter, meetings, conference call and email. Robeco's engagement, including the impact and results, is covered in greater detail in their Active Ownership Client Report Q3 2019, which can be found on our website.

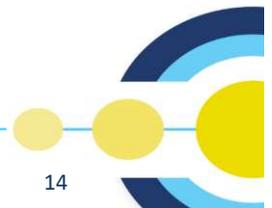
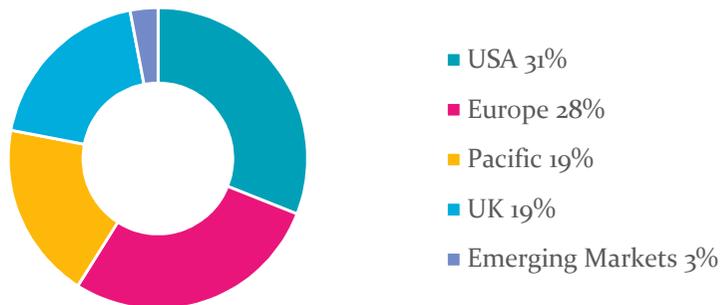
Company Engagement Activities



Engagement Overview by Topic

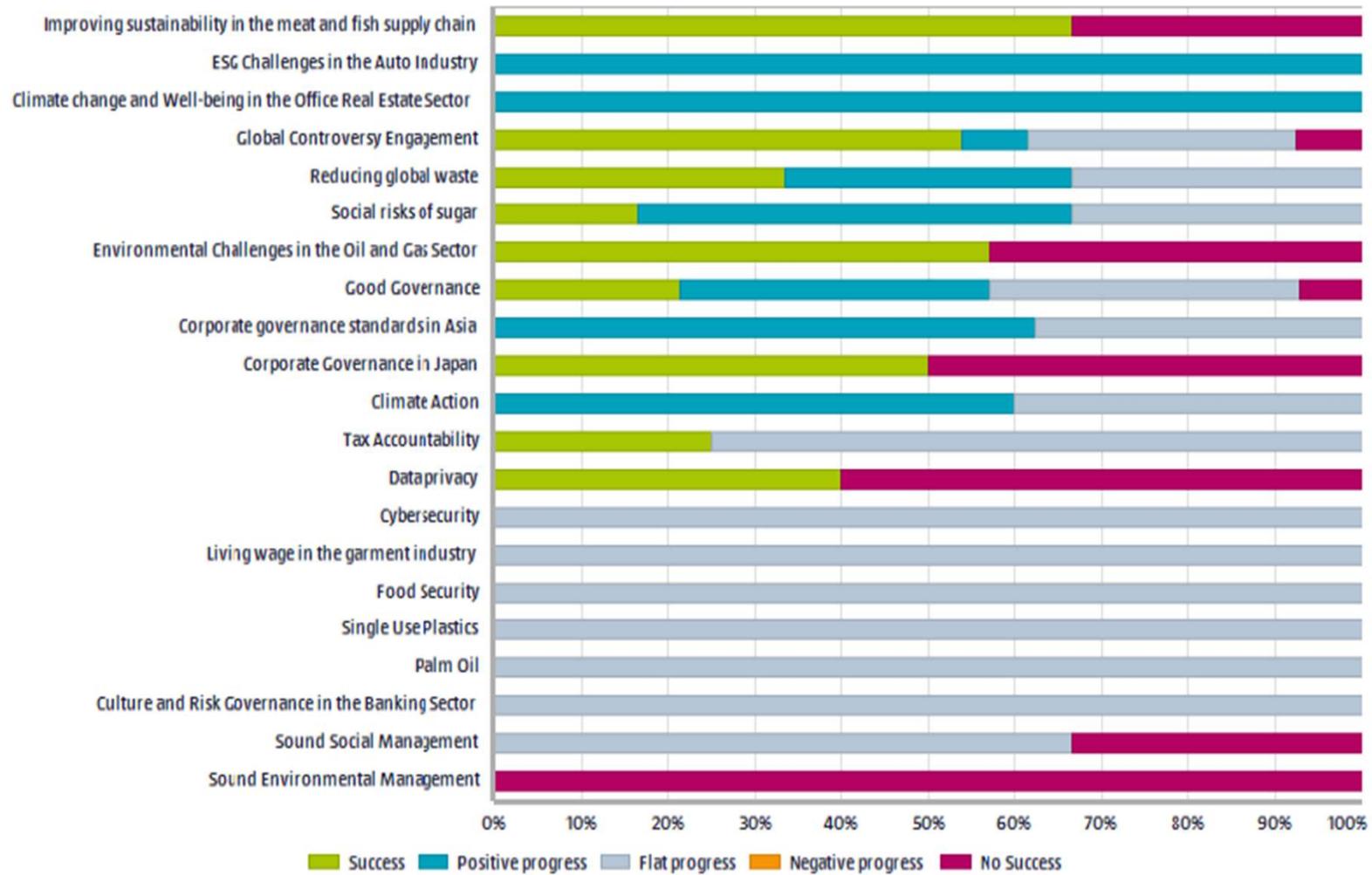


Engagement by Region

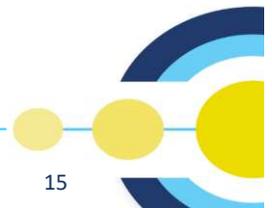


# Engagement (ctd...)

## Robeco engagement results per theme\*



\*Results are updated when the overall status of an engagement has changed .

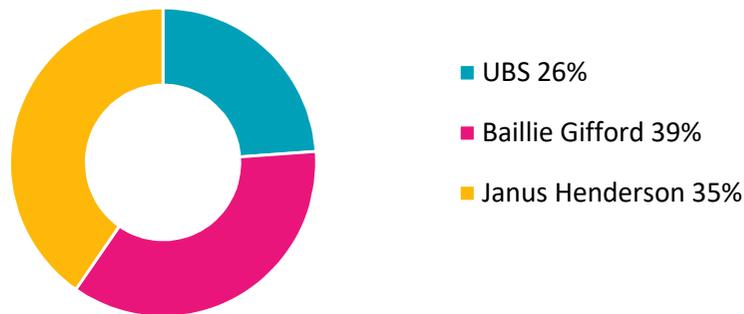


# Engagement (ctd...)

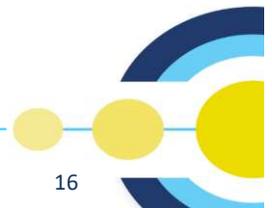
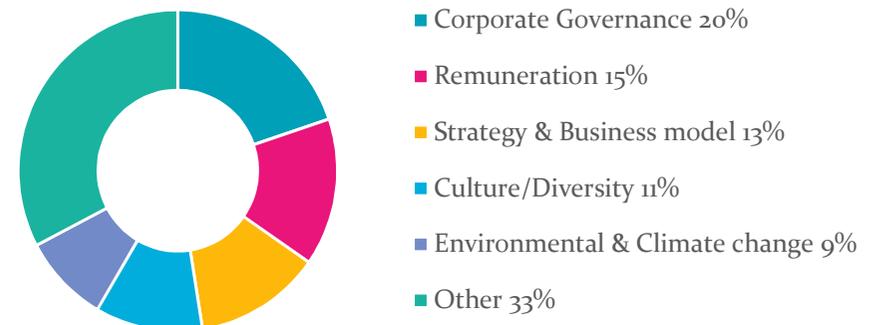
## UK Equity Alpha Fund engagement

During the quarter our three external managers held 23 engagement meetings with 21 companies. Meetings were held with company chairs , senior non-executive directors via calls, meetings and collective engagement. A broad range of topics were covered including corporate governance, business strategy, succession planning, environmental risk and human capital management. Engagement covered over 19% of the total UK Equity Alpha Fund by assets under management.

Q3 Engagement by Manager



Q3 Engagement by Topic



# Engagement – RI collaborations

## Investor Mining & Tailings Safety Initiative

Progress has continued over the summer. Companies are still disclosing their tailings dams with investors engaging directly with the non-disclosers. A third intervention by the initiative involves setting up a global tailings database. A detailed proposal has been developed and submitted for seed funding. A Norwegian data provider and consultant are assisting in developing the infrastructure for a permanent public database. The information collected would be used in the development of an international standard for tailings facilities that is expected to create a “step change” in safety and security.

A breakout session was held at the PRI in Person conference in Paris in September related to mining safety, titled *Tailings in the mining sector: opportunities for investor action*.

A high level Mining & Tailings Summit is planned during the key mining week at the end of October. It is intended to be a significant event building on the four investor roundtables held so far.



IIGCC has developed an investor guide for the construction materials sector. It outlines the steps that investors expect companies to take to manage climate risks and accelerate action to decarbonise in line with the goals of the Paris Agreement. The guide will be used to inform company engagement through Climate Action 100+. Its launch received widespread media coverage and is already being used to inform engagement with the sector. Post the 2019 AGM season the IIGCC Resolutions Working Sub-Group will be focusing on if and where resolutions may be filled in 2020.

A roundtable event was held by the Transition Pathway Initiative and IIGCC in September with senior company executives and investors. This reviewed the status of the low-carbon transition looking at the steps towards realising a net-zero emissions economy across six critical sectors: oil and gas, mining, electric utilities, autos, steel and aviation.

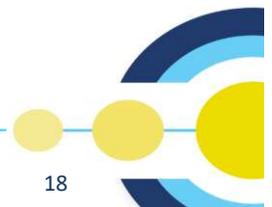


# Responsible investment: partnerships

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



## Investor Mining and Tailings Safety Initiative



## Disclaimer

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## Useful links

[Border to Coast website](#)

[LAPFF](#)

[IIGCC](#)

[30% Club](#)

[Climate Action 100+](#)

[TCFD](#)

[Workforce Disclosure Initiative](#)

[Investor Mining and Tailings Safety Initiative](#)

