BORDER TO COAST

Quarterly Stewardship Newsletter Quarter 1, 2021

Malham, North Yorkshire

BORDER TO COAST

PENSIONS PARTNERSHIP

WHAT RESPONSIBLE INVESTMENT MEANS TO BORDER TO COAST

Border to Coast operates collective investment vehicles covering a wide-ranging set of asset classes in which the eleven Local Government Pension Scheme Funds (our 'Partner Funds') who are our customers and shareholders can invest to implement their strategic asset allocations.

We aim to make a positive difference to investment outcomes for our Partner Funds by delivering cost effective, innovative and responsible investment, thereby enabling sustainable, risk-adjusted performance over the long-term.

Sustainability

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.

Indeed, integrating environmental, social and governance (ESG) factors into our analysis helps us identify broader risks, which leads to better informed investment decisions and improved risk-adjusted returns.

Active Ownership

As a long-term investor and representative of asset owners, we 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 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 Wolds, East Riding of Yorkshire

QUARTERLY REVIEW

Investments

During the quarter we committed £540m to six new infrastructure funds. The commitments provide exposure to several of Border to Coast's targeted themes within Infrastructure which include the Energy Transition. Investments were selected using a robust responsible investment process focusing on investment and operational due diligence.

Collaboration

In 2020 we appointed Albourne Partners to support our private markets offering and have been working with them to raise ESG standards across the industry. On the back of this Albourne have launched a new ESG framework for alternatives, based on the recommended due diligence questions set out by the UN PRI. The new approach is being rolled out for all the alternative investment managers they are engaged with.

Our People

Our Head of Responsible Investment, Jane Firth and CIO, Daniel Booth, took part in a Transition Pathway Initiative (TPI) roundtable event at the World Investment Forum hosted by FTSE Russell. The event was an interactive session with a group of asset owners and consultants sharing their TPI experiences and insights. Jane also participated in a panel discussion on societal responsibility, specifically around investing to create a more equal society, at the LGC Investment seminar held in March. Ryan Boothroyd, portfolio manager in our External Management Team, was part of a panel for Room151's LGPS quarterly webinar speaking on RI in Multi Asset Credit strategies.

Several Border to Coast colleagues recently completed a course through the Climate Change and Investment Academy, a joint initiative developed by Alliance Bernstein with the Columbia University Earth Institute. The course aims to provide a fundamental understanding of climate risk, alongside more in-depth material on topics such as sea-level rise, extreme weather, modelling and the regulatory landscape.

Finally, our Responsible Investment Team has a new member! George Kendall joins us as Responsible Investment Manager from Isio (formerly KPMG), where he was a consultant in the investment advisory business and a member of the Responsible Investment and Multi-Asset research teams.

Eden Valley, Cumbria

INDUSTRY UPDATE

The 'Build Back Better' Budget

As economies begin to open up towards a post-pandemic future, governments are beginning to look at how to shape their economic recovery packages. The UK Government has made a commitment to "build back better", with the Budget delivered by the Chancellor in March setting out the vision for a greener pathway towards economic growth.

- **Infrastructure-focused recovery:** As part of this, the Chancellor confirmed the launch of a new UK Infrastructure Bank based in our home city of Leeds. The Bank will have £12bn in capital and is expected to support the funding of £40bn worth of public and private projects, prioritising projects to help tackle climate change.
- **The first 'Green Gilts':** The government also formally set out its intention to raise a minimum of £15bn from 'green' gilt issuance during 2021/22 including the launch of the world's first sovereign green savings bond for retail investors. The funds raised from these gilts will be specifically targeted at low carbon projects.
- **Net zero:** To help the UK achieve 'Net Zero' the Chancellor confirmed details of the Net -Zero Innovation Portfolio, a £1bn fund which is part of the ten-point plan for a green industrial revolution; this will provide funding for low-carbon technologies and systems.
- **The Bank of England goes 'green':** Finally, the Bank of England's mandate has been updated with climate and environmental goals to be considered as part of monetary policy. Specifically, this involves incorporating adjustments to its corporate bond purchase scheme to account for the climate impact of bond issuers.

Department for Work and Pensions (DWP) Consultations

- **Climate risk:** The DWP launched a second consultation on plans to require pension funds to disclose in-line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). According to the latest proposals, schemes with over £5bn in assets under management will be required to report from 2021 with the threshold falling to £1bn from 2022. The Ministry of Housing, Communities and Local Government intends to consult on mandatory TCFD-aligned reporting later this year for the LGPS with implementation by 2023.
- **Social risks in focus:** A further consultation has also been launched on the consideration of social risks and opportunities in investment decisions. We are encouraged to see social elements being given the same level of focus as other long term systemic risks and therefore welcome the consultation. We are working towards providing a formal response during Q2 2021.


Durham Cathedral, County Durham

QUARTERLY VOTING ACTIVITY

Digital Action

The first quarter of 2021 saw most voting activity take place digitally. Despite this, we saw investors continue to raise their concerns and achieve notable impact, demonstrating that proxy voting is a fundamental part of corporate governance and can make a difference to companies' operations and decisions, as detailed below.

Shifting Focus towards Post-Pandemic

We have seen an increasing number of shareholder resolutions focusing on climate change and the promotion of social equity and justice. This has made it clear that investors are continuing to shift their focus from short-term gains to long-term benefits, and this is translated in their proxy voting decisions. Shareholders, regulators, and other stakeholders have increasing expectations for board action in the wake of the pandemic. Boards are being prompted to address financial and social pressures, a reimagined workplace, evolving regulatory demands and further scrutiny of ESG risks.

Say on Climate

Although the frequency and subject matter of shareholder proposals vary greatly across markets, one new climate-focused proposal gaining significant traction this proxy season is the 'Say on Climate' advisory vote. Such proposals demand that a company provide shareholders with the opportunity to approve a company's climate policies and strategies on a consultative basis.

Active ownership is critical in encouraging companies to commit, disclose and align business strategies to net zero, however, due to the number of companies that must prepare for the transition we need efficient active ownership tools to communicate to companies the necessity of providing net zero alignment disclosures, and to ensure they deliver on investor expectations of net zero alignment. We are supporting the work the IIGCC is doing in this space.

Generally, under our RI policy, we support these proposals if a net zero carbon target or ambition is set, the company publishes concrete plans and intermediary targets in the short and medium term, the proposal is based on Paris aligned scenario analysis and progress is reported in line with the TCFD framework.

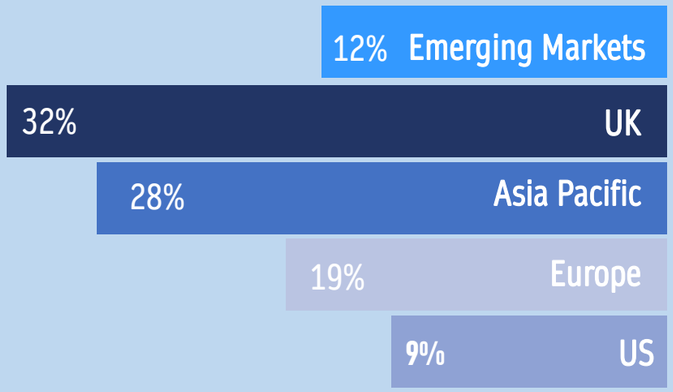
Resolution votes with & against management

55% Meetings with one vote against management

141 Meetings voted

1558 Agenda items

Voting activity by region

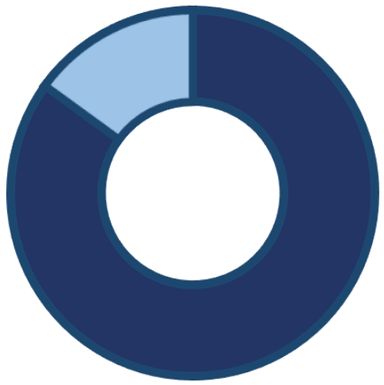


FURTHER DETAIL ON OUR VOTING RECORD CAN BE FOUND ON OUR WEBSITE

QUARTERLY VOTES BY FUND

Emerging Markets

Meetings:	27
Items Voted:	182
Approx. size:	£0.8bn*



Votes with & against management

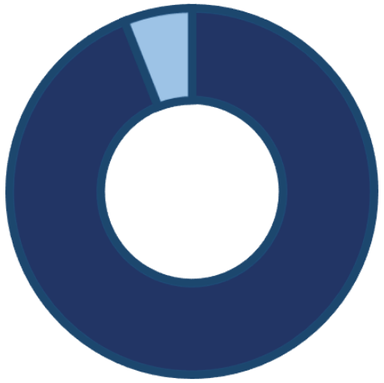
With	85%
Against:	15%

Resolutions by category

Board Related	39%
Audit	18%
Capital Management	0%
Executive Pay	7%
Other	36%

Global Equity Alpha

Meetings:	22
Items Voted:	158
Approx. size:	£5.5bn*



Votes with & against management

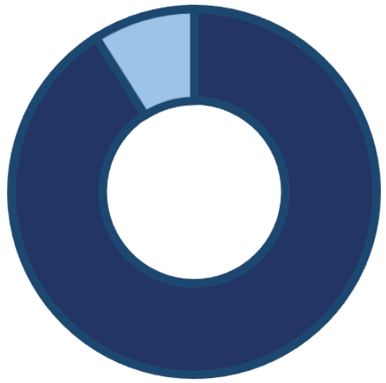
With	94%
Against:	6%

Resolutions by category

Board Related	32%
Audit	11%
Capital Management	0%
Executive Pay	37%
Other	10%

Overseas Developed

Meetings:	54
Items Voted:	641
Approx. size:	£4.2bn*



Votes with & against management

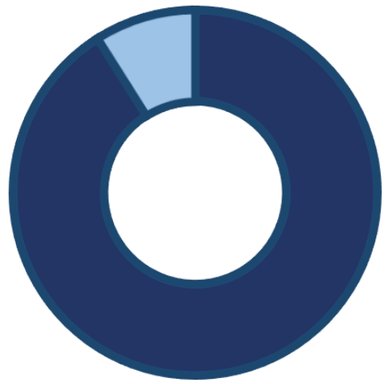
With	91%
Against:	9%

Resolutions by category

Board Related	39%
Audit	26%
Capital Management	0%
Executive Pay	31%
Other	0%

UK Equity Alpha

Meetings:	38
Items Voted:	421
Approx. size:	£1.4bn*



Votes with & against management

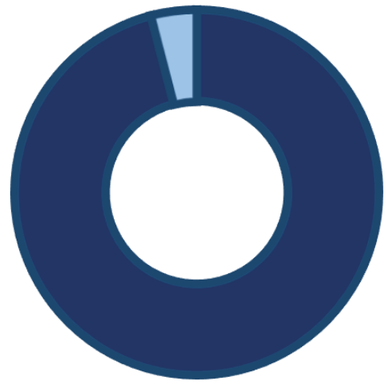
With	90%
Against:	10%

Resolutions by category

Board Related	24%
Audit	19%
Capital Management	0%
Executive Pay	31%
Other	26%

UK Listed Equity

Meetings:	20
Items Voted:	246
Approx. size:	£4.6bn*



Votes with & against management

With	96%
Against:	4%

Resolutions by category

Board Related	19%
Audit	0%
Capital Management	0%
Executive Pay	45%
Other	36%

*As of 31 March, 2021

QUARTER'S VOTING HIGHLIGHTS

Apple Inc (Overseas Developed)

Apple Inc. is a US-based technology company.

What did we do? We voted against the advisory vote on executive compensation, and we supported the shareholder resolution regarding improvements to the executive compensation program.

Our view: Although we have seen positive developments in Apple's executive pay, we were concerned by the total level of compensation for all named executive officers (NEOs). Notably, the non-CEO executives' pay packages are comparable to the pay packages given to CEOs in the company's peers.

We wanted to encourage the company to provide extra transparency and disclosure on the compensation design practices and bring further improvements, specifically to include NEOs pay ratios and other ethical, social, and economic factors.

Voting outcome: The advisory vote was supported by 95% of shareholders. The shareholder resolution was supported by 6% of shareholders. We are continuing to engage with the company.

The Walt Disney Company (Overseas Developed & Global Equity Alpha)

The Walt Disney Company is a worldwide entertainment company.

What did we do? We supported two shareholder resolutions. The first calling for the reporting of lobbying activities and expenditures and the second calling for the board to adopt a policy of increasing employee representation.

Our view: We believe the first resolution is an important step in enhancing disclosure both in terms of company behaviour and how it allocates capital. The second resolution was consistent with our view that employee representation could help grow long-term value of the company and contribute to long-term corporate sustainability.

Voting outcome: The first resolution received 33% support from all shareholders, while the second resolution was supported by 6% of all shareholders. We are continuing to engage with the company.

Dunstable Down, Bedfordshire

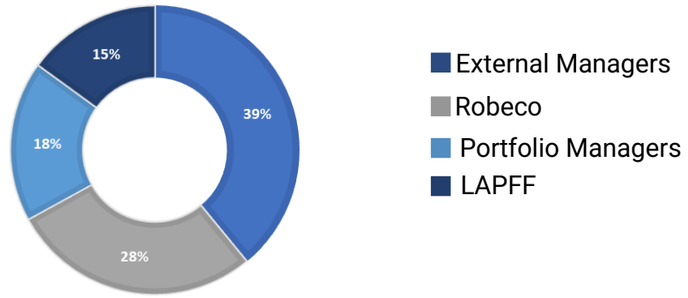
QUARTERLY ENGAGEMENT

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

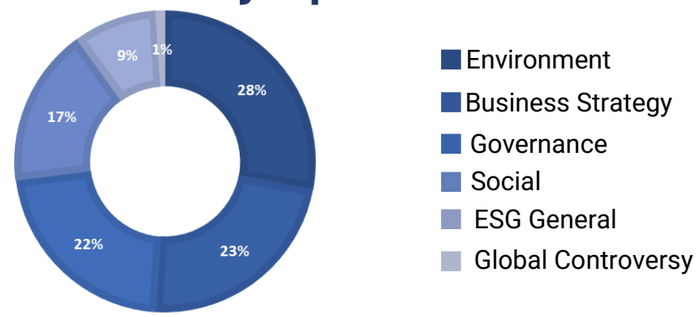
- Our internal portfolio managers engage directly with companies within their portfolios.
- External managers engage with companies on our behalf.
- Robeco is our voting and engagement partner. They engage on our behalf with companies we own globally across a number of ESG themes. This allows us to better fulfil our stewardship objective to be an active shareholder.
- LAPFF engages on behalf of its members who are local authority pension funds and pools, across various ESG themes to maximise their influence as shareholders.
- Partnerships allow us to collaborate with like-minded investors and bodies to create a stronger voice on ESG issues. We work with a number of RI initiatives which support our ESG areas of focus.

245
ENGAGEMENTS
Engagement activity covering period 01.01.21 to 31.03.21

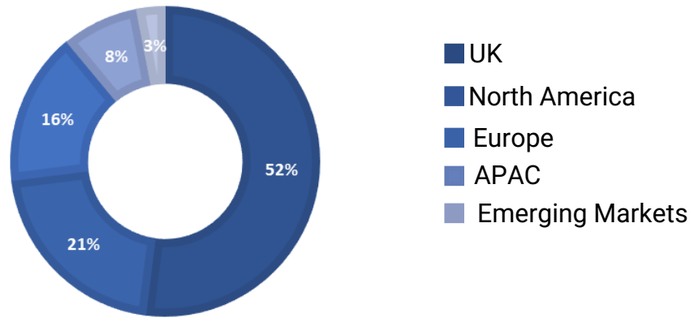
Breakdown of engagements



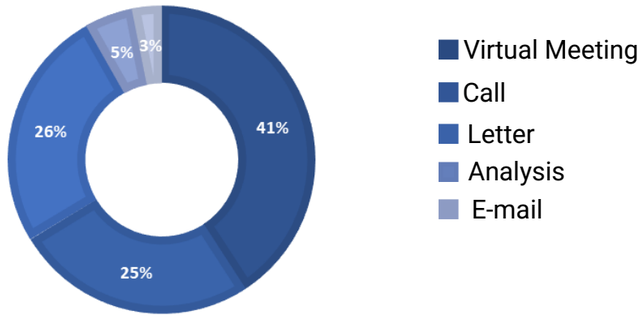
Breakdown by topic



Breakdown by region



Breakdown by type



CLIMATE TRANSITION OF FINANCIAL INSTITUTIONS

This quarter saw our engagement partner, Robeco, launch a new engagement theme on the climate transition of financial companies.

Why is this important?

Banks, via their lending activity, have a substantial role to play in financing the transition to a low-carbon economy, with significant investment required to meet Paris Agreement targets for annual global temperature increases. Much of this investment will come from the financial sector, including bank loans.

Who is in focus?

Ten banks (of which seven are Border to Coast investee companies), spread across a variety of markets, have been selected for engagement based on their exposure to carbon-intensive sectors, their current lending practices, and overall sustainability ranking.

What does success look like?

In 2017, the Financial Stability Board-convened Task Force on Climate-related Financial Disclosures (TCFD) provided guidance on how companies should disclose clear, comparable, and consistent information about the risks and opportunities presented by climate change. The engagement objectives will be based on the TCFD recommendations, with the aim of improving disclosures around how banks develop and report on their climate transition strategies. We will be reporting on progress at periodic points over the coming three years.

FOR MORE DETAILS ON ROBECO'S ENGAGEMENT THEMES VISIT OUR WEBSITE

Canary Wharf, London

COLLABORATIVE ENGAGEMENT

A Benchmark is Born

Climate Action 100+, the world's largest investor-led engagement initiative on climate change, has released its first-ever benchmark evaluating the corporate ambition and action of the world's largest greenhouse gas emitters. The Benchmark provides assessments of individual focus company performance against the initiative's three high-level commitment goals: reducing greenhouse gas emissions, improving governance, and strengthening climate-related financial disclosures.

A framework for 'Net-Zero' alignment

In March, the Institutional Investors Group on Climate Change (IIGCC) launched the 'Net-Zero Investment Framework'. Developed with more than 70 global investors, representing more than $16 trillion in assets, the Framework provides a comprehensive set of recommended actions, metrics and methodologies to enable investors to monitor how aligned their portfolios are with Paris Agreement goals to keep global warming below 1.5°C.

Industrials and materials in focus

In February, the Transition Pathway Initiative (TPI) released their latest assessment of the industrials and materials sectors, covering 169 companies across aluminium, cement, chemicals, diversified mining, paper, steel, and other industrials. The report found that just 14% of the companies covered are aligned with the goals of the Paris Agreement. The TPI will, individually and through initiatives such as Climate Action 100+, continue to engage on improving management quality, carbon performance and disclosures.

They note that structural changes will be needed within the sector, driven by policymakers and industry bodies to define how these sectors might transition over time. The TPI, in partnership with IIGCC and other investor networks as part of CA100+ have started this process and will be accelerating this in 2021.

OUR PARTNERS

WDI

ROBECO

Signatory of:

PRI Principles for Responsible Investment

Transition Pathway Initiative

Local Authority Pension Fund Forum

30% Club GROWTH THROUGH DIVERSITY

Climate Action 100+ Global Investors Driving Business Transition

INVESTOR MINING & TAILINGS SAFETY INITIATIVE

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

OUR PARTNER FUNDS

Cumbria County Council

Bedfordshire Pension Fund

Durham County Council

ERPF East Riding Pension Fund

Lincolnshire Pension Fund

North Yorkshire County Council

SOUTH YORKSHIRE PENSIONS AUTHORITY

Surrey Pension Fund

teesside pension fund

Tyne and Wear Pension Fund
Administered by South Tyneside Council

WARWICKSHIRE pension fund

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Roker Pier, Tyne & Wear