

# BORDER TO COAST QUARTERLY STEWARDSHIP REPORT Q2 2021



PENSIONS PARTNERSHIP





# WHAT RESPONSIBLE INVESTMENT MEANS TO BORDER TO COAST

Border to Coast operates collective investment vehicles covering a wide-range 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 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 more 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 ESG issues that have the potential to impact corporate value. We also use our shareholder rights by voting at company meetings, monitoring companies, and via 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.



Staithes, North Yorkshire



# QUARTERLY HIGHLIGHTS

## Annual Stewardship and TCFD Reporting

We have now published both our Responsible Investment and Stewardship (RI) Report and Taskforce on Climate-related Financial Disclosures (TCFD) Report for 2020/21. These outline how Border to Coast is delivering on our commitment to fully integrate responsible investment and effective stewardship as we seek to make a difference for the LGPS.

The RI Report provides a detailed view into our approach to stewardship and the management of the investment risks and opportunities associated with ESG factors, demonstrating our commitment to the UK Stewardship Code. During the reporting year, we held 1,250 engagement meetings with companies, voted on more than 12,000 resolutions at over 900 shareholder meetings and participated in 10 collaborative initiatives.

The TCFD Report illustrates our approach to managing climate-related risks and opportunities in line with the TCFD recommendations. In this reporting period, all Border to Coast investment funds are materially below their respective benchmarks for carbon intensity – some by more than 50%. There have also been decreases in all carbon metrics both in absolute terms and relative to the benchmarks in all the funds reported.

Both reports are available [here](#).

## Investor Statement

In June, along with more than 450 other investors with combined assets under management of over US\$41 trillion, we signed the '2021 Global Investor Statement to Governments on the Climate Change Crisis'. This is a call to governments to raise their climate ambition and implement meaningful policies. It also calls for climate-related financial reporting to be made mandatory and for post-pandemic economic recovery plans to support the just transition to a net-zero emissions future.

## Our People

Our Head of Responsible Investment, Jane Firth, appeared in an AssetTV masterclass on Sustainable Investing in Equities with Mike Fox and George Crowdy from Royal London Asset Management, discussing sustainable investing issues. Additionally, Jane now sits on the Investment Association Stewardship Committee as an asset owner representative. A recording of the masterclass can be viewed [here](#).

Our CEO, Rachel Elwell, joined The Economist to discuss how investors are incorporating climate science data into investment decisions, what companies can do to reassure investors about their strategies, and the anticipated implications for capital markets as a result of climate change adaptation.

The City Walls, York



# INDUSTRY UPDATE

## Global Energy – A Net Zero Roadmap

The International Energy Agency (“IEA”) published a roadmap for the global energy system, giving a detailed insight into what may be required from each sector to meet net-zero by 2050, notably calling for an immediate end to new investment in oil and gas projects. Although the IEA is a respected forecaster, there are some challenges, with OPEC and some country members of the IEA disputing the findings. However, we believe this marks a positive step, with more companies adopting the IEA’s scenarios for strategy planning.

## Consultations

We are seeing an increasing number of consultations related to RI appearing in the marketplace, indicating a growing trend towards a desire for best-practice consensus.

- **Social risks:** During the quarter, we provided a response to the Department for Work and Pensions (DWP) consultation on the consideration of social risks and opportunities in investment decisions. An important step in ensuring the S in ESG is given an appropriate degree of focus by investors.
- **TCFD:** Although we are hugely supportive of the TCFD, we have some concerns relating to the current consultation on forward-looking financial sector metrics. As members of the Transition Pathway Initiative, we, along with other asset owners, have provided detailed feedback.
- **FCA TCFD:** The FCA launched two consultations in June. The first on proposals to extend the application of climate-related disclosures to issuers of standard-listed equity shares. The second relates to proposals to introduce climate-related disclosure rules and guidance for asset managers, life insurers and FCA-regulated pension providers.
- **PLSA RI Quality Mark:** The Pensions and Lifetime Savings Association (PLSA) has opened a consultation on a proposed new Responsible Investment Quality Mark for pension schemes, intended to help pension savers identify whether their schemes are meeting the highest RI standards.

## Regulatory Reform

On 1 July, the Chancellor delivered the Mansion House speech outlining a wide set of reforms, including plans requiring companies, pension schemes, financial services firms and their investment products to report on their environmental impact in a similar manner to existing EU regulation and wider initiatives. The government intends to set out its approach to green finance regulation ahead of COP26 and work with the FCA to create a new labelling system enabling consumers to better compare impacts and sustainability.



The Wolds, East Riding of Yorkshire

# QUARTERLY VOTING ACTIVITY

## 2021 AGM Season

Traditionally, the AGM season takes place between March and June. However, this year saw a knock-on impact from 2020’s COVID-affected season, with executive remuneration votes requiring further analysis to account for the pandemic’s impact on performance. We discuss these in more detail below.

## Additional Complexity in Remuneration

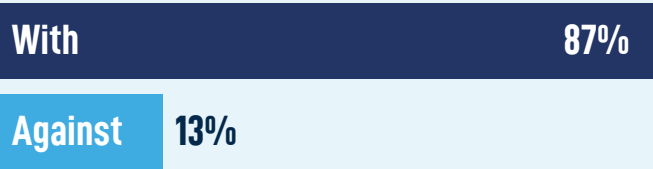
In many markets, shareholders get an advisory vote on how management is paid. This is an important vote for many as it allows them to determine if pay practices set the right incentives for management. Applying this analysis requires us to investigate how variable pay compares to fixed pay, and which performance-related metrics are set and with what level of ambition. It also reveals how companies report on pay practices, and how remuneration committees exercise discretion.

This season, we also needed to carefully consider how companies dealt with the impact of the pandemic. For example, if companies had received state aid, cancelled their dividends, or had to lay off a large part of their workforce, we expected boards to lower executives' variable pay-outs, or forego bonuses. If companies failed to do this, we voted against their remuneration proposals. So far this has led to a higher percentage of votes against remuneration proposals (28%) compared to last year (24%).

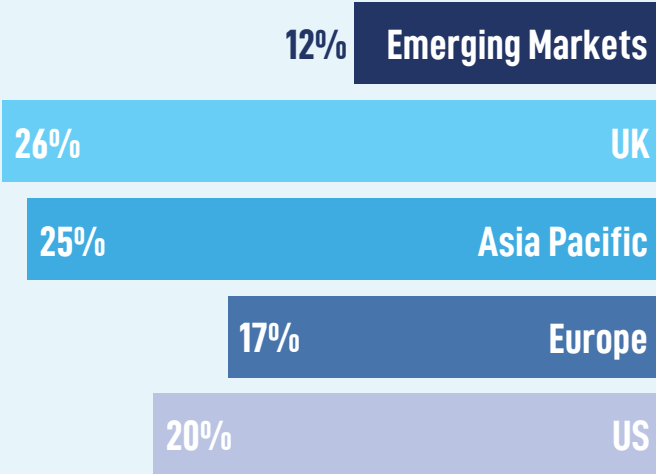
## Say on Climate

In the 2021 AGM season, we have also seen the introduction of management proposals in relation to their climate strategies. Unilever, Royal Dutch Shell, Total, and Nestlé were some of the first large companies to ask for an explicit shareholder advisory vote on their climate strategies or reporting. We expect that by having a frequent shareholder vote, best practices will evolve in terms of reporting, ambition levels and progress on the mitigation of climate change. In our view, supporting a ‘Say on Climate’ does not absolve management from its responsibility to further improve its climate strategy. Rather, we believe that a recurring vote is a useful tool to monitor progress on the mitigation of climate change, and in pushing companies to make progress.

## Resolution votes with & against management

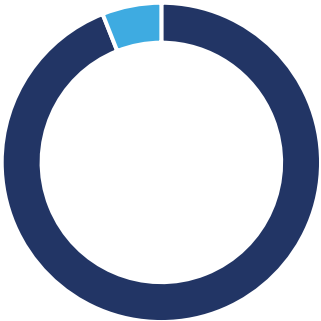
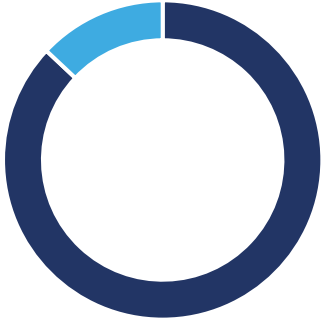

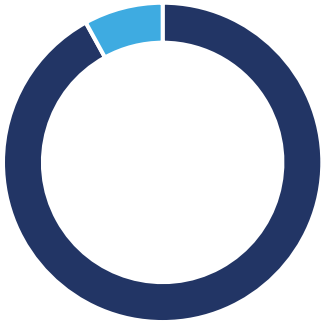
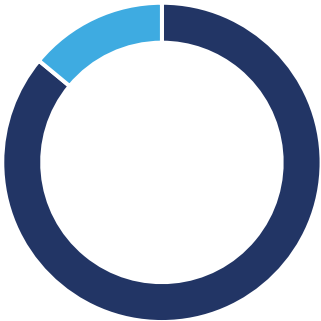


## Voting activity by region



# QUARTERLY VOTES BY FUND

[Further detail on our voting record can be found on our website](#)

UK Listed Equity Fund	Overseas Developed Markets Equity Fund	Emerging Markets Equity Fund	UK Listed Equity Alpha Fund	Global Equity Alpha Fund
Meetings: 82	Meetings: 196	Meetings: 133	Meetings: 109	Meetings: 113
Items Voted: 1,559	Items Voted: 3,069	Items Voted: 1,482	Items Voted: 1,932	Items Voted: 1,829
Approx. size: £4.6bn*	Approx. size: £4.2bn*	Approx. size: £0.8bn*	Approx. size: £1.4bn*	Approx. size: £6.1bn*
				
Votes with & against management	Votes with & against management	Votes with & against management	Votes with & against management	Votes with & against management
With: 94%	With: 87%	With: 62%	With: 92%	With: 86%
Against: 6%	Against: 13%	Against: 38%	Against: 8%	Against: 14%
Resolutions by Category	Resolutions by Category	Resolutions by Category	Resolutions by Category	Resolutions by Category
Board Related: 9%	Board Related: 34%	Board Related: 33%	Board Related: 18%	Board Related: 42%
Audit: 33%	Audit: 3%	Audit: 13%	Audit: 24%	Audit: 7%
Capital Management: 0%	Capital Management: 8%	Capital Management: 26%	Capital Management: 0%	Capital Management: 6%
Executive Pay: 17%	Executive Pay: 45%	Executive Pay: 12%	Executive Pay: 24%	Executive Pay: 32%
Other: 41%	Other: 10%	Other: 16%	Other: 34%	Other: 13%

\* Size of Fund as at 31 March 2021



# QUARTERLY VOTING HIGHLIGHTS

## BP plc (UK Listed Equity & UK Equity Alpha)

BP plc is an oil and petrochemicals company.

**What did we do?** We supported the shareholder resolution, filed by Follow This, that requested the company set Scope 1, 2, and 3 emissions reduction targets over the short, medium and long term. The proposal also asked that the company report annually on their GHG emissions reduction plan.

**Our view:** We believe that this shareholder proposal adds value because the company, unlike some of their peers, did not put forward a Say on Climate resolution in 2021. Supporting the Follow This resolution acts as an important signal that formalised progress reporting and shareholder feedback mechanisms are a vital component of climate leadership.

**Voting outcome:** The shareholder proposal received just over 20% support from shareholders at the AGM sending a clear message to the company. The board has committed to continue engagement with shareholders on its climate plans, and to report progress on this engagement on a regular basis, in line with the UK Corporate Governance Code.

## HSBC Holdings plc (UK Listed Equity & UK Equity Alpha)

HSBC Holdings plc (HSBC) is a banking and financial services company.

**What did we do?** We voted in favour of HSBC's climate policy.

**Our view:** HSBC put its own climate policy to a vote at the AGM following pressure from a shareholder resolution that was originally filed by ShareAction at the same AGM. Following engagement with HSBC, ShareAction ultimately withdrew their resolution and expressed support for HSBC's own proposal.

**Voting outcome:** The resolution received 99% support from shareholders. HSBC has committed to phasing out financing of coal-fired power and thermal coal in EU and OECD countries by 2030 and all regions by 2040. These steps are significant given HSBC's exposure to Asia. HSBC also acknowledged that expansion of coal-fired power is incompatible with the goals of the Paris agreement. HSBC will publish a new coal policy by the end of 2021.

Dunstable Down, Bedfordshire



# QUARTERLY VOTING HIGHLIGHTS (CONT.)

## Anhui Conch Cement Limited (Emerging Markets)

Anhui Conch Cement is a China-based company principally engaged in the production and sale of cement.

**What did we do?** We voted against the annual report and accounts.

**Our view:** Climate change poses a material risk to many industries, and it is vital to hold boards accountable for their actions to mitigate this risk. In order to assess the climate-preparedness of companies, we make use of the Transition Pathway Initiative (TPI), which ranks the climate-related management quality of companies. Anhui Conch is currently rated as a Level 1 (out of 5) by the TPI.

In line with our Voting Guidelines, we use the annual shareholder meetings of companies who score lowly on the TPI assessment to voice our discontent. This is usually done by voting against the most accountable board member. However, due to staggered board elections, Anhui Conch did not have an accountable board member up for re-election, and so we opposed the approval of the annual accounts and reports.

**Voting outcome:** Anhui is the largest cement company in China and is viewed as a key company to drive global net-zero emissions. In response to China's increasing focus on climate change regulation, Anhui has made investments in carbon capture and storage projects and has set emission reduction targets for 2025. Anhui is under engagement via Robeco's "Corporate Governance in Emerging Markets" theme, with climate change a key element of the discussions. We also intend to leverage the local presence and specialist expertise of our external managers to further engage the company. At the next AGM, board members who are directly accountable for climate strategy will be up for re-election if we need to escalate our concerns.

## Berkshire Hathaway (Overseas Developed & Global Equity Alpha)

Berkshire Hathaway is an American multinational conglomerate holding company.

**What did we do?** Due to the voting standard applied allowing only 'For' or 'Withhold' votes, we withheld our vote for the re-election of the Chairman and CEO due to governance and climate action planning concerns. However, we voted to support two shareholder resolutions: one requesting a report on climate-related risks and opportunities, and another requesting an annual report assessing diversity and inclusion efforts.

**Our view:** The Chairman and CEO roles are currently combined and there is no lead director. Another contributing factor was that Berkshire's climate action planning and disclosure are ranked as a bottom performer by the TPI (Level 0).

**Voting outcome:** Both shareholder resolutions received approximately 25% support from shareholders. This figure is significant given that the current CEO/Chair (Warren Buffett) controls nearly one-third of Berkshire's voting power and opposed both proposals.

Hadrian's Wall, Tyne & Wear



# QUARTERLY ENGAGEMENT

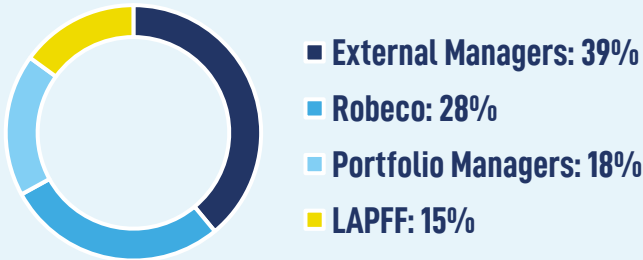
We believe that engagement is an important component of active ownership. Our engagement strategy includes several different strands to engaging with our investee companies:

- **Internally:** Our internal portfolio managers engage directly with companies within their portfolios.
- **Externally:** Our appointed managers engage with companies on our behalf and provide details as part of their reporting cycles.
- **In Partnership:**
  - Robeco is our voting and engagement partner. They engage on our behalf with companies we own globally across several ESG themes. This allows us to better fulfil our stewardship objectives as an active shareholder.
  - LAPFF engages on behalf of its members, who are local authority pension funds and pools, to maximise their influence as shareholders.
- **Other Collaborations:** Partnerships allow us to collaborate with like-minded investors and bodies to create a stronger voice on ESG issues. We work with several RI initiatives which support our ESG areas of focus. Further detail on our collaborative initiatives is available on our [website](#).

315  
ENGAGEMENTS

Engagement activity covering  
period 01.04.21 to 30.06.21

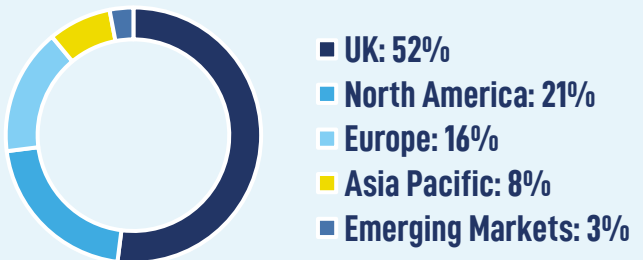
## Breakdown of engagements



## Breakdown by topic



## Breakdown by region



## Breakdown by type



# LABOUR PRACTICES IN A POST-COVID WORLD

This quarter saw our engagement partner, Robeco, launch a new engagement theme focusing on labour practices in the three focus sectors of e-commerce, hospitality and online food delivery, as the global economy navigates its way out of the pandemic.

## Why is this important?

COVID-19 has caused significant labour market disruption, shining a light on the vulnerability and precarious employment status of some lower wage workers. Labour and human rights risks may expose companies to legal, operational and reputational issues, while companies that manage these risks appropriately may benefit from brand value improvement, higher employee satisfaction and lower costs. Additionally, systemic risks may arise from rising social inequality due to increasing income disparities, which has the potential to undermine economic growth.

## Who is in focus?

The engagement focuses on eight major employers in the sectors under scope, of which we have exposure to four: Amazon Inc and Meituan (e-commerce), InterContinental Hotels Group plc (hospitality) and Walmart Inc (online food delivery).

## What does success look like?

There is a need for investors to support a broad-based recovery that is human-centered, focusing on employment, income, workers' rights, and social dialogue. The theme aims to engage in-scope companies to place labour practices and human capital strategies at the core of their corporate strategy, thus putting in place safeguards to mitigate risks identified at both a company-specific and systemic level and ultimately delivering more sustainable outcomes for investors.

[Further detail on Robeco's engagement themes can be found on our website](#)



Sheffield, South Yorkshire



# COLLABORATIONS



## Workforce Disclosure Initiative

The Workforce Disclosure Initiative has launched its findings report for its 2020 survey results. The survey covers topics including wage levels, staff turnover and workers' rights. 141 companies responded, up 20% from the previous year, with every economic sector covered.

The high-level findings saw companies:

- Improving transparency on pay, with more progress needed to tackle inequalities.
- Having diversity and inclusion as priority areas.
- Making commitments to human rights, which are not always matched in practice.
- Are often not explaining how they are taking responsibility for their supply chains.

The 2021 survey is now underway with the target list covering over 1,000 companies. We will again be engaging with a number of companies encouraging them to respond.

Occupational  
Pensions  
Stewardship  
Council

## Occupational Pensions Stewardship Council

In their 2020 report, “Investing with Purpose”, The Asset Management Taskforce (a group comprised of government, senior asset management representatives and other key stakeholders), recommended that a dedicated council representing UK pension schemes should be established to promote and facilitate high standards of stewardship of pension assets.

In response to this recommendation, the DWP created the Occupational Pensions Stewardship Council, of which we are delighted to have joined as an inaugural member. The council provides a forum for sharing experience, best practice and research, and providing practical support. We look forward to working with our peers over the coming months and years.

## Our Partners



ROBECO

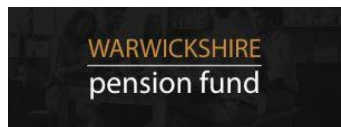
Signatory of:



INVESTOR MINING  
& TAILINGS SAFETY  
INITIATIVE



# OUR PARTNER FUNDS



DISCLAIMER: Border to Coast distributes voting reports as a service to its customers and other interested parties. Although Border to Coast compiles these reports with utmost care on the basis of several internal and external sources which are deemed to be reliable, Border to Coast cannot guarantee the completeness, correctness or timeliness of this information. Nor can Border to Coast guarantee that the use of this information will lead to the right analyses, results and/or that this information is suitable for specific purposes. Border to Coast can therefore never be held responsible for issues such as, but not limited to, possible omissions, inaccuracies and/or changes made at a later stage. Without written prior consent from Border to Coast you are not allowed to use this report for any purpose other than the specific one for which it was compiled by Border to Coast. Suitable for professional clients only, regulated by the Financial Conduct Authority (FRN 800511).



Barnsley Town Hall, South Yorkshire