

Border to Coast Pensions Partnership

Quarterly
Stewardship
Newsletter

Q3 2020



What Responsible Investment means to us

Border to Coast operates collective investment vehicles covering a comprehensive 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

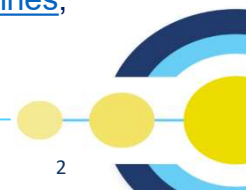
We are a strong advocate of Responsible Investment (RI) and believe that businesses that are governed well and run in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors.

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](#).



What we've been doing this quarter

The quarter saw Border to Coast secure £1.4bn of commitments to infrastructure investment and £1bn of commitments to Private Equity investments as we continue to develop new investment opportunities for our Partner Funds. Increased investment in infrastructure was one of the original objectives of pooling.

We also appointed four specialist managers for the Multi-Asset Credit Fund. Subject to FCA approval, the Fund is scheduled to launch in the first half of 2021 with assets of £2.7bn.



Last year we became a signatory to the UN-supported Principles of Responsible Investment (PRI). Signatories are required to report annually on their RI activities. We reported against four modules: Strategy and Governance, Indirect Listed Equity, Direct Listed Equity and Listed Equity Active Ownership. We are delighted to have received straight 'A's (and two A+'s). This, demonstrates the strong progress made in a relatively short period of time and is particularly pleasing given it is our first year of submission.

The Financial Reporting Council (FRC) has reviewed early reporting against the new UK Stewardship Code by asset owners and asset managers this year and published [a report](#) with observations. We published our Annual RI and Stewardship Report in July and are pleased that excerpts from this have been included as demonstrating good examples of reporting.



We held our annual Border to Coast Conference at the beginning of October. This year the event was virtual and the theme was *'Building on our foundations for success in an uncertain world'*. There were a number of external speakers including representatives from our Partner Funds and external asset managers. The RI session focused on *'Investing for the long term'*. We were fortunate to have Jaap van Dam Principal Director of Investment Strategy at PGGM (the €246bn Dutch pension fund) sharing his experience of sustainable investing.



Quarterly Industry Update

Consultations

This year has seen a large number of consultations on Responsible Investment issues with a focus on climate change. The most recent ones being the FCA: Proposals to enhance climate-related disclosures by listed issuers, the IIGCC Paris Aligned Investment Initiative: Net Zero Investment Framework, and the DWP's consultation on taking action on climate risk.

The US market lags behind Europe when it comes to ESG investing, this is largely due to the political and regulatory environment. Over recent years, the federal government has been discouraging sustainable investing, pulled out of the Paris Agreement and is rolling back environmental regulations.

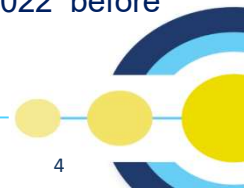
This summer the Department of Labor (DOL) issued proposed changes amending its "investment duties" regulation. This was to address concerns over what it sees as the growing emphasis on ESG. Much of the objection stems from an outdated perception that integrating ESG results in lower financial returns. We responded to this consultation as it conflates impact investing with integration of ESG factors into the investment process. Combining financial and ESG analysis helps identify broader risks, which leads to better informed investment decisions, improved risk-adjusted returns and a more holistic approach to investing.

Task Force on Nature-related Financial Disclosures (TNFD)

We believe that biodiversity loss, like climate change and the COVID-19 pandemic, is a systemic risk and one of the top global risks to society. Biodiversity plays a critical role in underpinning life on land and in the oceans. The loss of biodiversity has the potential to have severe economic impact. This has been the "elephant in the room" as investors are unsure how to try and tackle what is such a broad ranging issue.

The idea for the Task Force on Nature-related Financial Disclosure (TNFD) began at the World Economic Forum in January 2019. Work has been ongoing to bring together the Task Force, which was publicly launched in September. Financial institutions from across five continents have joined forces with governments and financial regulators to form a Working Group. This will plan a two year work programme looking to resolve data, metrics and reporting requirements of financial institutions.

The TNFD is aiming to develop an initial draft reporting framework in 2021 which will be tested in 2022 before being made available worldwide.



Voting Activity Q3 2020

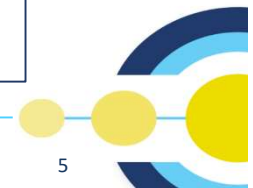
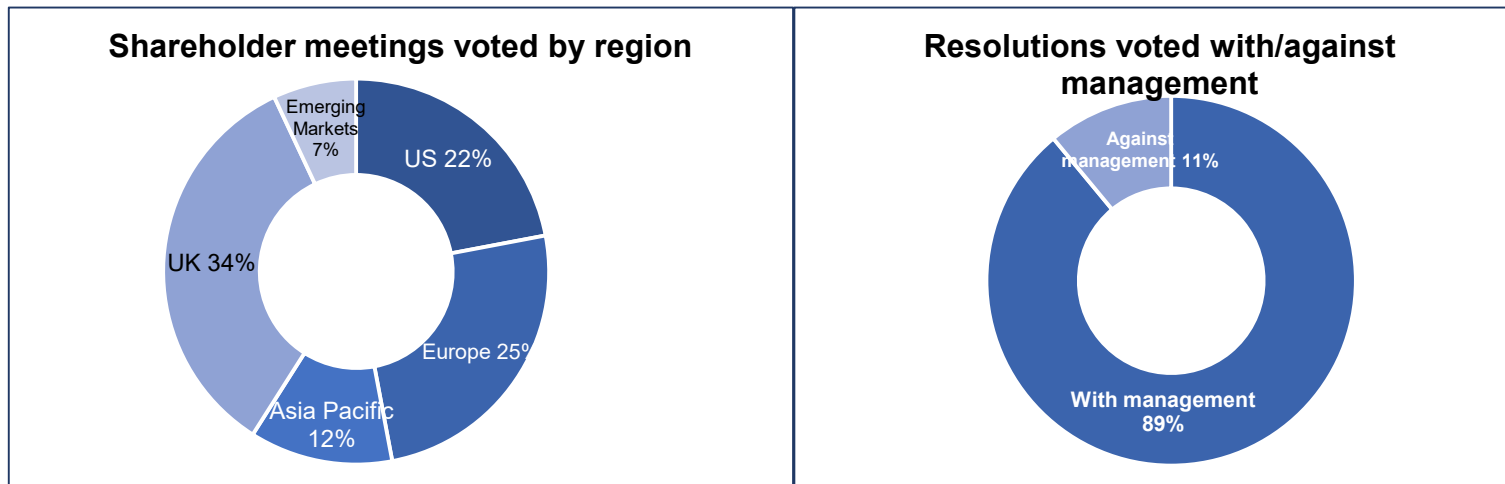
123
Meetings Voted

1,527
Agenda Items

65%
meetings with one vote against

This quarter was much quieter in terms of the number of AGM's following the peak voting season in Q2. However, there were still some important outcomes of Say-on-Pay (SOP) proposals. Nike Inc is an example which is included in the Voting Highlights section. The SOP regulation was introduced to improve the ability of shareholders to voice discontent with companies remuneration practices and to align shareholder expectations. Although Country specific regulations vary in the level of strictness (advisory or binding) all different versions of SOP are broadly defined as any shareholder vote regarding the approval of executive compensation during an AGM.

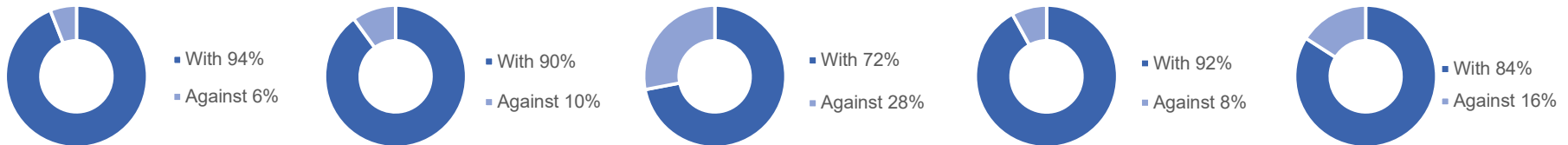
More information on our voting activities can be [found on our website](#).



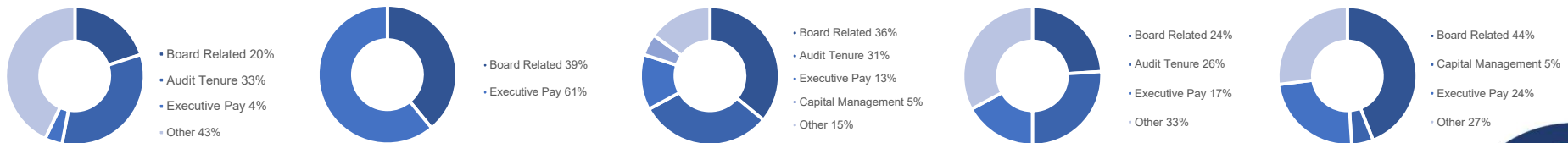
Quarterly Votes by Fund

UK Listed Equity	Overseas Developed	Emerging Markets	UK Equity Alpha	Global Equity Alpha
Meetings: 29	Meetings: 22	Meetings: 38	Meetings: 35	Meetings: 23
Items Voted: 445	Items Voted: 306	Items Voted: 340	Items Voted: 519	Items Voted: 359
Approx. size (bn): £3.5*	Approx. size (bn): £2.5*	Approx. size (bn): £0.6*	Approx. size (bn): £1.0*	Approx. size (bn): £4.0*

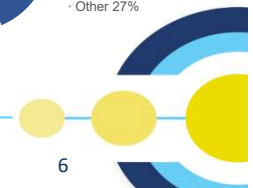
Votes with/against management



Resolutions against by category



* As at 31 March 2020



Q3 2020 Voting Highlights



Nike Inc.

Nike's 2020 remuneration report proposed some very high levels of compensation for the newly appointed CEO. Along with the high quantum of this package a short performance period of 1.5 years was also proposed which does not help to guarantee long-term value creation. Along with the CEO pay, Nike also made an additional discretionary bonus payments to all executives despite not meeting their short/long-term targets in light of the Covid-19 pandemic. These concerns led us to vote against the say-on-pay proposal. The remuneration report only received 54% votes in favour which is a stark contrast to the 97% approval they received in 2019.



Unilever

At its 2020 AGM Unilever proposed a cross-border merger moving the company to one legal entity that would give it greater corporate flexibility and also strengthen corporate governance. A similar, but ultimately unsuccessful, item was proposed in 2018. The concerns for investors at the time were Unilever moving its headquarters out of the UK and losing its FTSE 100 status. The new plan unifies the company's share structure, this time without disadvantaging existing investors, while retaining London as its new home. The proposal was passed this time with support of more than 99% of shares voted.



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:

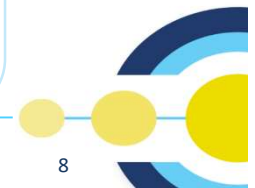
Our **internal portfolio managers** engage directly with companies within their portfolios.

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.

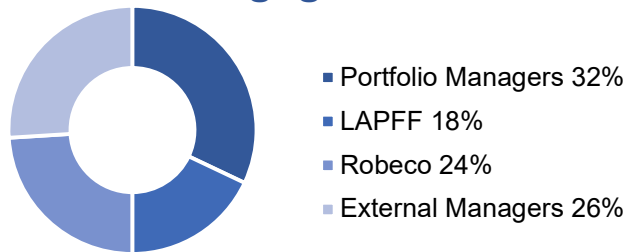


Quarterly Engagement

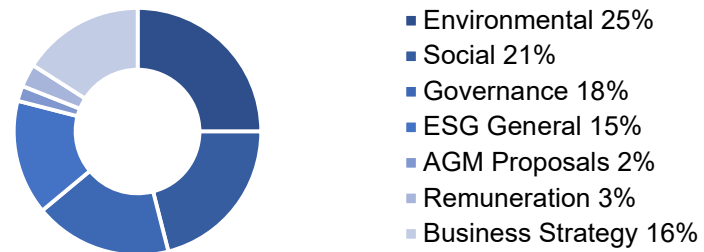
Engagement activity covering period 01/07/2019 – 30/09/2020

237
Engagements

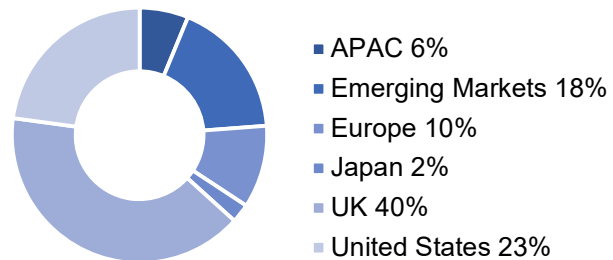
Breakdown of engagements



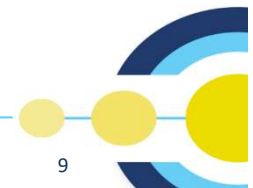
Engagement by topic



Engagement by Region



Engagement by type



Engagement – RI Collaborations



Climate Action 100+ has written to the chairs and CEOs of the world’s largest greenhouse gas emitters calling on them to develop net-zero strategies backed by science-based targets and also to set medium-term objectives to reduce emissions. Progress will be assessed through a new benchmark that will be released in 2021. Outcomes of the analysis and company responses will inform investor engagement strategies through CA100+. Where relevant, this will include shareholder activity for the 2021 annual general meeting season. The results of the assessment will be published sector-by-sector starting next spring.



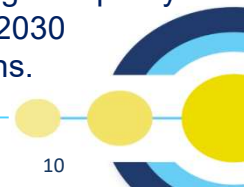
The Workforce Disclosure Initiative (WDI) along with investor supporters is continuing to engage with companies to encourage them to respond. Border to Coast has contacted a number of companies underlining the importance of disclosing workforce data. The survey response aims to allow companies to demonstrate to investors and all stakeholders how they

manage their staff and supply chain workers. It also gives companies the opportunity to explain how their approach to workforce management is aligned to the overall business strategy, and to signal their understanding of major workforce-related risks and opportunities.



IIGCC launched the draft Net Zero Investment Framework for consultation which closed at the end of September. It aims to provide a comprehensive set of recommended actions, metrics and methodologies, to enable asset owners and asset managers in reaching net zero emissions for investment portfolios by 2050. The Framework is due to be finalised later this year.

A new investor guide on physical climate risk was published to help investors identify, assess and manage physical climate risks and opportunities across their portfolios. Further new and revised Investor Expectation guides are due to be published over the next year. In the quarter IIGCC also published a report setting out policy recommendations for policymakers on the EU 2030 action essential for achieving net zero emissions.



Engagement Spotlight

Deforestation in Brazil

Last quarter we signed a joint letter asking for the government of Brazil to show clear commitment to eliminating deforestation. This was led by Storebrand Asset Management along with a group of investors with over \$4.6 trillion assets under management. Following this a meeting was held with the Vice President of Brazil and the Governor of the Central Bank. A further meeting of the full group of investors was held with members of the Brazilian congress.

Aims of the engagement

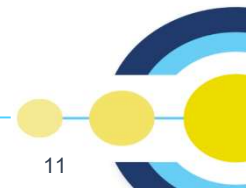
Discussions with the members of congress focused on the following five points:

- Reduction in deforestation rates, to show efforts to comply with Brazil's Climate Law.
- Enforcement of Brazil's Forest Code.
- The ability of Brazil's agencies to carry out their mandates effectively, and any legislative developments that may impact forest protection.
- Prevention of fires in or near forest areas.
- Public access to data on deforestation, forest cover, tenure and traceability of commodity supply chains.

Outcomes

The initial response and dialogue with the Brazilian government representatives has been encouraging. This marks the start of engagement and demonstrates how collaboration between governments, companies and investors can be utilised to make changes.

In order that sustained engagement continues in this important area the initiative has been formalised. Border to Coast has continued its involvement, joining the Investors Policy Dialogue on Deforestation (Brazil). This is a two year programme of engagement.



Border to Coast Pensions Partnership



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