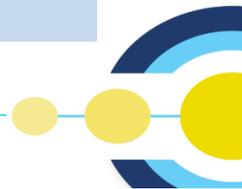


Border to Coast Pensions Partnership

Quarterly
Stewardship
Newsletter

Q4 2019



What it means to us

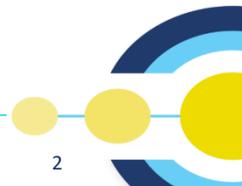
Sustainability

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

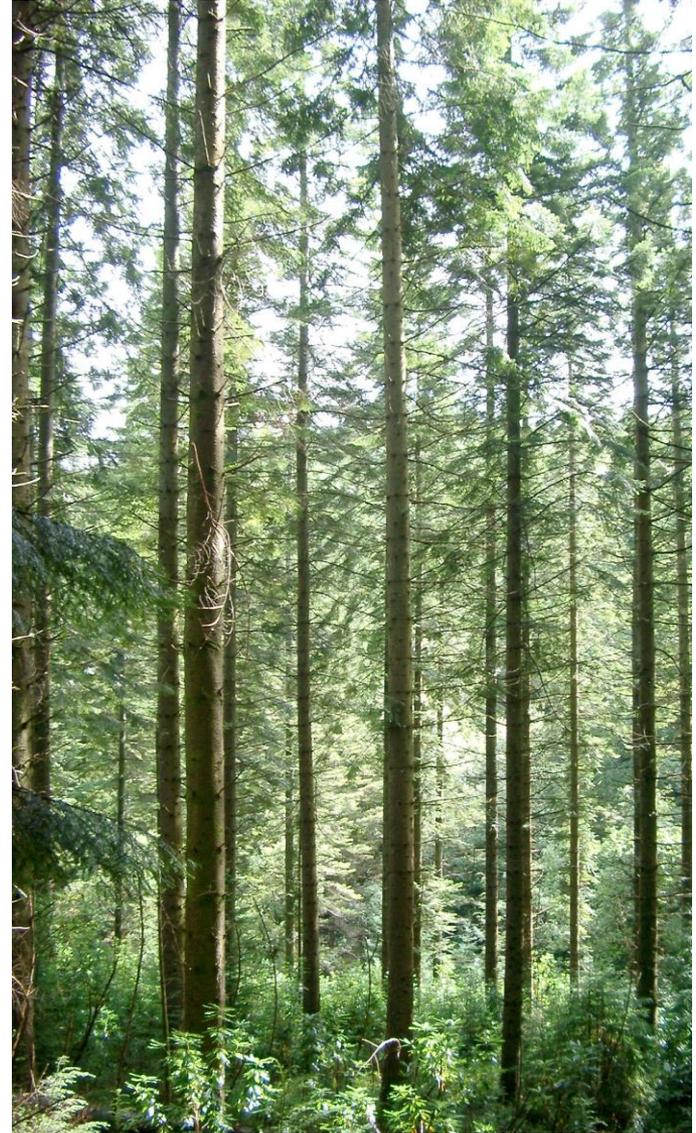
As a long-term investor and representative of asset owners, we will practice active ownership by holding companies and asset managers to account on environmental, societal and governance (ESG) issues that have the potential to impact corporate value. We will also use our shareholder rights by voting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

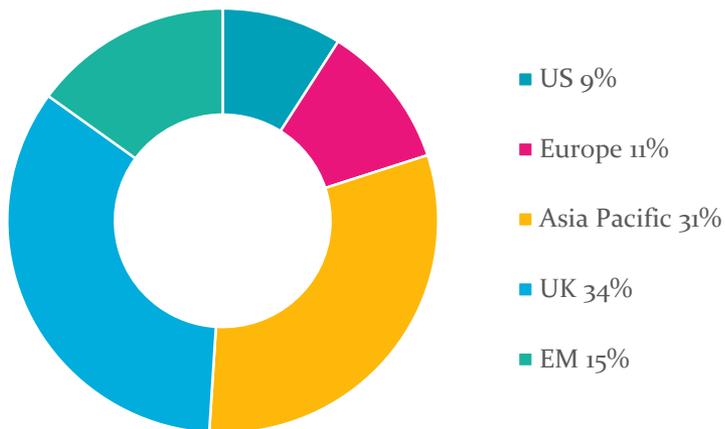


Voting

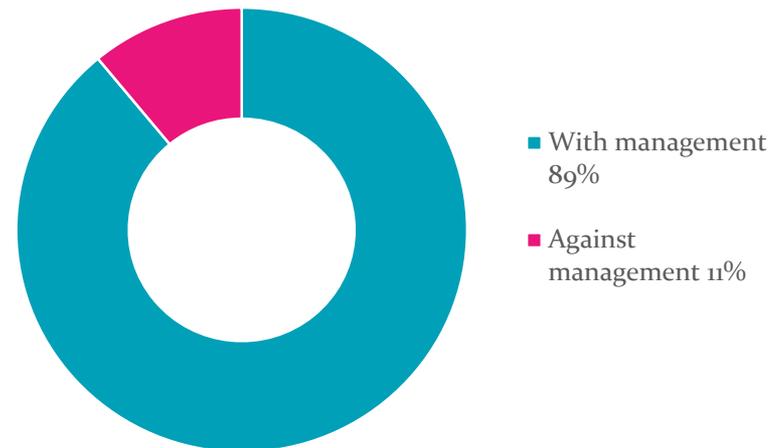
The annual review of the Responsible Investment Policy and Corporate Governance & Voting Guidelines has been completed. Some minor revisions have been made to the Voting Guidelines to align them with the ICGN Global Governance Principles and the UK Corporate Governance Code. Both policies can be [accessed on our website](#).

The fourth quarter saw the peak 2019 AGM season for Oceania. This region alone accounted for a third of our total global votes in the period. In total we voted 98 meetings globally on 888 agenda items, and at 57% of meetings we voted against management on at least one resolution.

Shareholder meetings voted by region



Global meetings - resolutions with/against management



Voting (ctd)

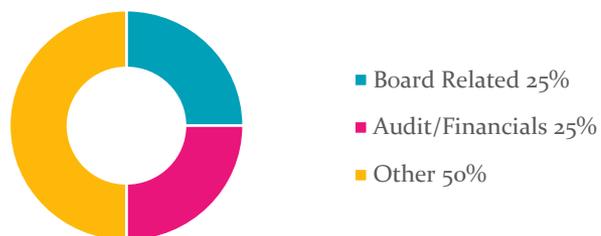
Border to Coast UK Listed Equity Fund

Over the quarter we voted at 17 meetings on 176 proposals. We supported all votes at 12 meetings (71%) and voted against 1 or more resolution at 5 meetings (19%). We opposed or abstained on 6% of proposals. Most related to board appointments (25%) and audit/financial proposals (25%).

UK Listed Equity Fund - resolutions with/against management



UK Listed Equity Fund - resolutions against by category



Border to Coast Overseas Developed Equity Fund

Over the quarter we voted at 45 meetings on 408 proposals. We supported all votes at 19 meetings (41%) and voted against 1 or more resolution at 26 meetings (59%). We opposed or abstained on 14% of proposals. Most related to board appointments (51%), followed by compensation proposals (29%).

Overseas Developed Market Fund - resolutions with/against management



Overseas Developed Market Fund - resolutions against management by category



Voting (ctd...)

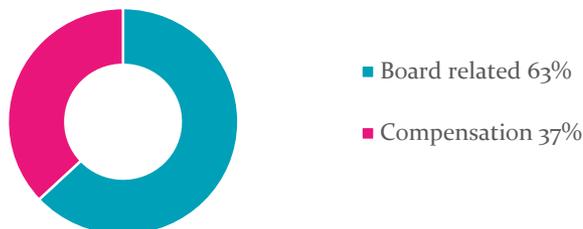
Border to Coast Emerging Markets Equity Fund

Over the quarter we voted at 19 meetings on 76 proposals. We supported all votes at 12 meetings (63%) and voted against 1 or more resolutions at 7 meetings (37%). We opposed or abstained on 11% of proposals. The categories receiving the most votes against were board appointments (63%) followed by compensation (37%).

Emerging Markets Fund - resolutions with/against management



Emerging Markets Equity Fund - resolutions against by category



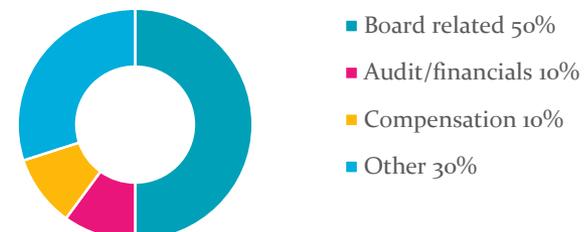
Border to Coast UK Listed Equity Alpha Fund

Over the quarter we voted at 22 meetings on 263 proposals. We supported all votes at 10 meetings (45%) and voted against 1 or more resolutions at 12 meetings (55%). We opposed or abstained on 8% of proposals. Most related to board appointments (50%), followed by audit/financial (10%) and proposals on compensation (10%).

UK Listed Equity Alpha Fund - resolutions with/against management



UK Listed Equity Alpha Fund - resolutions against by category



Voting (ctd...)

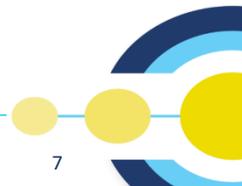
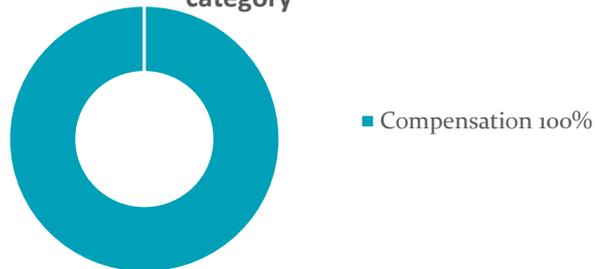
Border to Coast Global Equity Alpha Fund

Over the quarter we voted at 2 meetings on 7 proposals. We supported all votes at 1 meeting (50%) and voted against 1 or more resolution at 1 meeting (50%). We opposed or abstained on 14% of proposals. There was only one vote in total against management and that was related to compensation (100%).

Global Equity Alpha Fund - resolutions with/against management



Global Equity Alpha Fund - resolutions against by category



Emerging voting issues in Q4 2019

2019 saw the emergence of more **environmental topics** being raised in shareholder proposals at company annual meetings.

The risks associated with the energy transition and physical impacts of climate change have put the energy sector under greater scrutiny in recent years. As a result, oil majors and utilities companies have increasingly been targeted by shareholder activism, calling upon them to properly address environmental issues linked to their operations.

Growing concerns around the impact of climate change have also led to a shift in investors' voting approaches. For instance, increased collaboration amongst investors has led to a convergence of requests, on climate risks disclosure, emission reduction targets, climate stress testing and climate risk governance. Similarly, the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) have become a reference point for engagement on climate issues and more broadly on ESG issues.

On November 5th, the **Securities Exchange Commission (SEC)** proposed a set of changes to several rules related to filing shareholder resolutions and the service offered by proxy voting advisors.

The proposed changes, in our view, may severely hinder shareholders' rights and do not represent the long-term interest of minority shareholders. Shareholder resolutions serve as a useful tool to inform corporate management and boards of shareholder priorities and concerns. This has been a strong mechanism in the United States, creating accountability and facilitating dialogue between investors and companies and enabling the achievement of considerable changes in corporate conduct.

One of the amendments proposed by the SEC involves increasing the resubmission thresholds for shareholder resolutions from 3% to 5% in the first year of submission, 6% to 15% in the second year and 10% to 25% in the third year. This would put new, evolving topics under strain that do not gain large traction when they first emerge.

Another proposed rule change involves restricting the number of shares that can be aggregated to meet the applicable minimum ownership threshold to submit a shareholder proposal.

In response to these proposals, Border to Coast has co-signed the [PRI's letter to the SEC](#) opposing these changes in collaboration with over 75 other signatories.

Examples of ESG votes in Q4

BHP

BHP Group Ltd operates as an international resources company offering mineral exploration and production, petroleum exploration and refining. BHP Group operates in a high-impact sector and is subject to much scrutiny from shareholder proposals due to its influence.

At the 2019 AGM, shareholders filed a resolution asking the company to review their memberships in industry associations and suspend those whose actions are not aligned with the Paris Agreement. We supported the proposal as this is an important measure of climate readiness, and the resolution seeks to strengthen responsible lobbying practices. The resolution would help ensure consistency between company action and the political and industry influence it can exert.

Many shareholders, including ourselves, perceive BHP to already be a leader in responsible lobbying in its sector. In 2017, the company published its first industry association review in response to a shareholder proposal similar to the one seen in 2019. As a consequence of that report BHP terminated its membership of the World Coal Association, and lobbied two further high-profile associations to develop new climate positions.

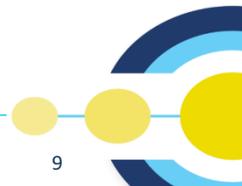
In December, shortly after the AGM, BHP published its second [Industry Association Review](#). This report identified material misalignments on climate policy that BHP has committed to resolving through engagement.



Oracle Corporation supplies software for enterprise information management.

At Oracle's shareholder meeting we withheld our votes for directors serving on the remuneration committee. This was due to the company not responding to almost half of shareholders voting against the company's executive compensation plan at the previous AGM. Despite Oracle's founder holding 35 percent of all outstanding shares, the approval rate from shareholders was still below 50 percent.

Given this low approval rate we believe the compensation committee should proactively consider how to address shareholder disapproval and implement amendments to the executive compensation plan accordingly.



Examples of ESG votes in Q4



Qantas Airways Limited provides transportation of passengers through two airlines including Qantas (full-service carrier) and Jetstar (low cost carrier), operating international, domestic and regional services.

Qantas Airways held a shareholder meeting in Sydney in October 2019. It was under increased pressure, for a second year in a row, over the forced deportation of asylum seekers. Close to a quarter of shareholders, up from 6% in 2018, supported a proposal calling on the company to review its involvement in forced deportations of refugees and asylum seekers.

The wording of the resolution was amended from the previous year to not only focus on the company's policies and processes but also dropped the request for the company to cease these departures until a full review had been conducted.

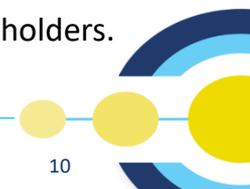
We voted in favour of the resolution as we believe this is a material risk for the company and its brand.



National Australia Bank Limited (NAB) is one of Australia's largest business banks.

At the AGM on 18 December 2019, NAB faced two climate related shareholder resolutions. The first was regarding exposure to fossil fuel assets and the second suspension of industry association memberships. We supported the resolution on reducing exposure to fossil fuel assets along with 13% of shareholders. Whilst we recognised that the proposal grouped natural gas, an important transition fuel, with more carbon intensive fossil fuels, we found the wording to be sufficiently broad to allow management to implement strategies and targets that accommodate such a transition.

Similarly to BHP we supported the proposal on suspension of industry memberships as the resolution would help ensure consistency between company action and the influence it can exert on climate issues. The resolution was supported by 15% of shareholders.



Industry developments

In October The Financial Reporting Council (FRC) published the revised **UK Stewardship Code** which is effective from 1st January 2020. The new Code is ambitious and sets new expectations on how stewardship and investment are integrated, with specific reference to environmental, social and governance (ESG) issues. The Code contains 12 principles for asset owners and asset managers and six separate principles for service providers. Signatories are now expected to explain how they have exercised stewardship across asset classes beyond listed equity. A signatory is required to report annually on the activities undertaken and the outcomes achieved. The report will need to meet the reporting expectations set out in the new Code for an organisation to be listed as a signatory on the FRC's website.

The Pensions Regulator announced the formation of a new UK pensions industry group linked to the **government's green finance strategy**, to create best practice guidance for pension funds on climate risk building on the Task Force on Climate-related Financial Disclosures recommendations.

The **European Investment Bank** has agreed to phase out lending for all fossil fuel projects by 2021, including mainstream gas-fired power plants, the first of all multilateral lenders to do so.

The **International Energy Agency (IEA)** released its Annual Energy Outlook in November stating that a rapid reduction in emissions required “significantly more ambitious policy action” in favour of efficiency and clean energy technologies than those being planned. The report noted the world's reliance on fossil fuels remained “stubbornly high”, with a “gap between renewables-driven energy transitions and the reality of today's energy systems”. Energy use accounts for almost all global carbon dioxide emissions and about two-thirds of all greenhouse gases.

In December, EU legislators approved the introduction of the **EU taxonomy**, a framework designed to act as a catalyst for sustainable investment through a set of criteria which clearly define whether an economic activity is environmentally sustainable or not.

What we've been doing this quarter

In October we signed up to the United Nations supported Principles of Responsible Investment (PRI). This reflects our ongoing commitment to long term sustainable investment. The PRI is an international global network of asset managers, owners and service providers working together to put responsible investment into practice. The six Principles for Responsible Investment, which are voluntary and aspirational, provide a framework for integrating environmental, social and corporate governance (ESG) considerations into investment decision-making and ownership practices.

In November we announced the launch of the Global Equity Alpha fund, with assets of c. £5bn. This brings our assets under management to c. £15bn, excluding commitments to private markets of £1.8bn that are currently being placed. Harris Associates, Investec Asset Management, Lindsell Train and Loomis Sayles were appointed as managers and eight (out of twelve) of our Partner Funds invested at launch.

The annual Border to Coast Conference was also held in October at the Armouries in Leeds, the theme being “Making a Difference to Long Term Outcomes”.

There were a number of external speakers including George Magnus, economist and author and representatives from our Global Equity Alpha managers. The RI session focussed on managing climate change risk and we were fortunate to have Adam Matthews, Director of Ethics and Engagement for the Church of England speak on its approach.

This quarter saw Border to Coast representatives attending and participating at a number of Conferences and Responsible Investment events including the LAPFF Conference and SPS Northern Conference in Leeds.

Jane Firth took part in a panel at the [‘Divest or Engage? Strategies for Responsible Investing’](#) event at Downing College, Cambridge. The conference considered papers on: ESG ratings and stock returns, changing governance preferences of asset owners, and the role of monitoring and engagement in trading decisions.

Rachel Elwell was interviewed by [Asset TV](#) in November, discussing public equities, fund launches and what’s to come in 2020.

What we've been doing this quarter

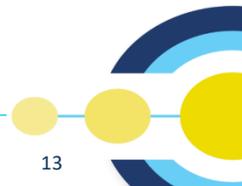
October saw Border to Coast Chair, Chris Hitchen, participate on a panel at the Responsible Asset Owners Global Symposium in London, discussing the challenges and opportunities when investing using ESG principles.



In November Rachel Elwell and Jane Firth attended the Robeco Active Ownership Client Panel in Rotterdam. Engagement over the last year was discussed with key successes shared. Eight potential shortlisted new themes for 2020 were presented with input sought from clients, including Border to Coast.

The final list of new themes was announced in December and includes engaging with the mining sector, corporate governance in emerging markets, decarbonisation, biodiversity with a focus on agriculture and deforestation, and remuneration focusing on EU and US companies.

The London School of Economics in conjunction with Leeds University held an event in Leeds to discuss the 'just transition' and what role investors have in ensuring a just transition in Yorkshire and the UK, covered in a [report](#) published in October. Rachel Elwell sat on the panel along with Bill Adams, Regional Secretary, TUC Yorkshire and the Humber, and Ben Sanderson, Executive Director at Hermes Investment Management. The transition to a low-carbon economy will boost prosperity overall but there will be transitional challenges for workers, communities and countries. The just transition involves the active management of the socio-economic impacts of the net zero carbon transition by government, business and finance.



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:

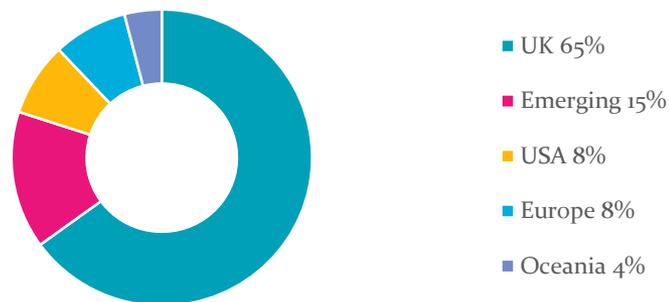
- Our internal portfolio managers engage directly with companies within their portfolios.
- External managers engage with companies on our behalf (see page 15).
- Robeco as voting and engagement service provider engage on our behalf with companies held in internally managed sub-funds across a number of engagement themes globally (see page 17).
- LAPFF conducts company engagement on behalf of its members on a wide range of issues (see page 18).
- We believe that we can increase our voice when working with other like-minded shareholders and have joined a number of RI initiatives compatible with our aims and beliefs.

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 26 companies during the fourth quarter. Most of these were with UK companies but we also met with companies in emerging markets, USA, Europe and Oceania.

The meetings discussed were via a combination of face to face meetings and conference calls to discuss issues such as business strategy, environmental performance and succession planning.

Engagement by Region

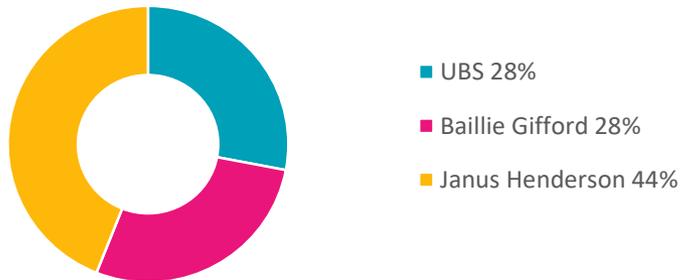


Engagement (ctd...)

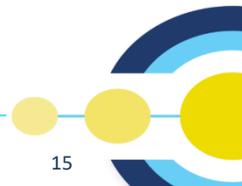
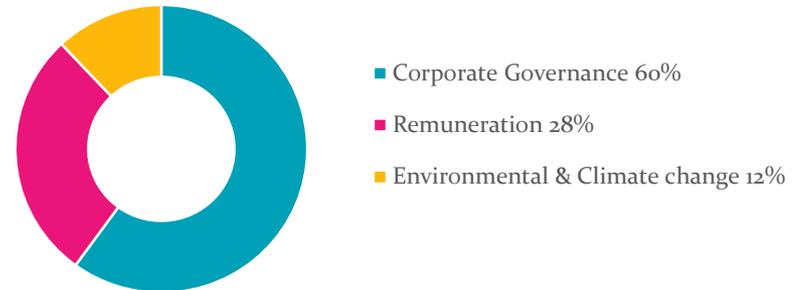
UK Equity Alpha Fund engagement

During the quarter our three external managers held 24 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, remuneration and environmental risk. Engagement covered over 22% of the total UK Equity Alpha Fund by assets under management.

Q4 Engagement by Manager



Q4 Engagement by Topic

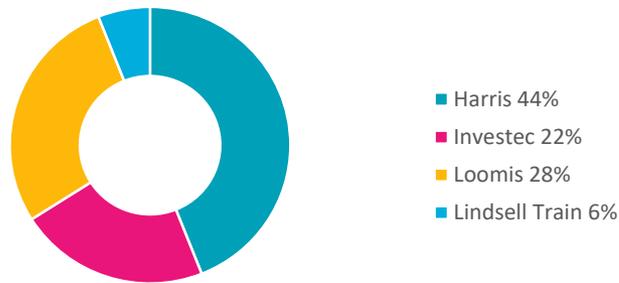


Engagement (ctd...)

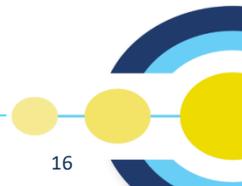
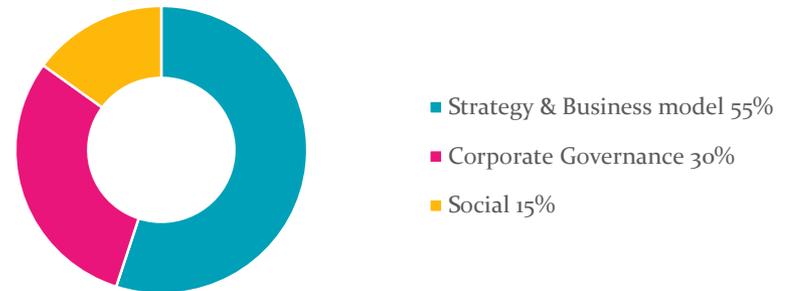
Global Equity Alpha Fund engagement

During the quarter our four external managers held 25 engagement meetings with 24 companies. Meetings were held with company chairs, senior non-executive directors via calls, in-person and collective engagement. A broad range of topics were covered including business strategy, corporate governance and social issues such as product externalities and bribery. Engagement covered over 14% of the total Global Equity Alpha Fund by assets under management.

Q4 Engagement by Manager



Q4 Engagement by Topic

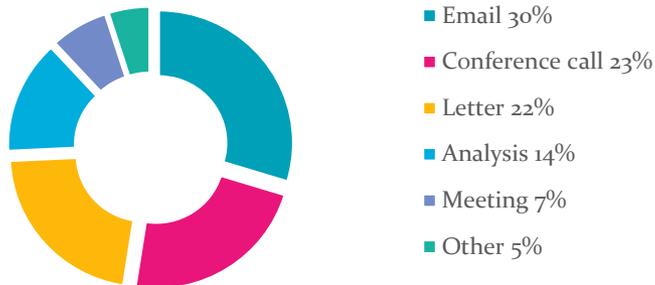


Engagement (ctd...)

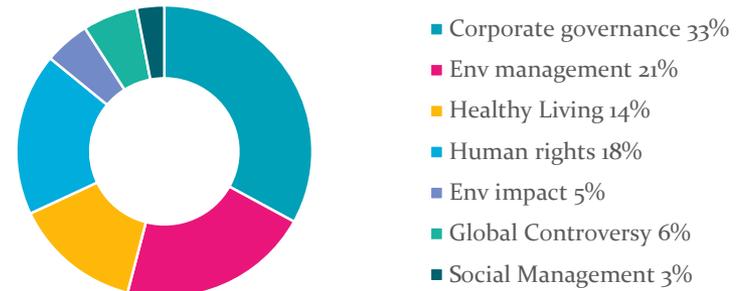
Robeco engagement

Robeco engages with companies on our behalf across all of the internally managed sub-funds. Over the quarter Robeco conducted 177 engagements with 84 companies. These took place by letter, meetings, conference call and email. Robeco's engagement is covered in greater detail in their Active Ownership Client Report Q4 2019, which can be found on our website.

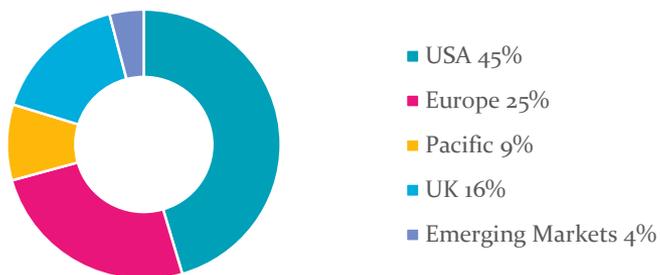
Company Engagement Activities



Engagement Overview by Topic



Engagement by Region

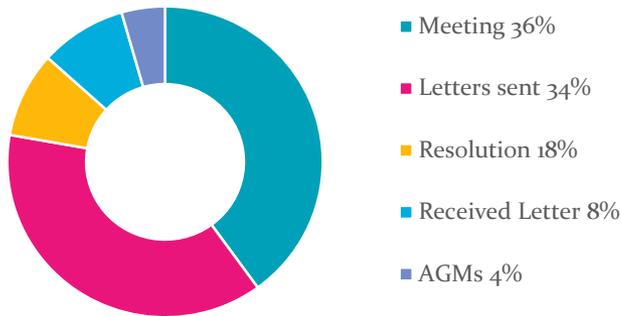


Engagement (ctd...)

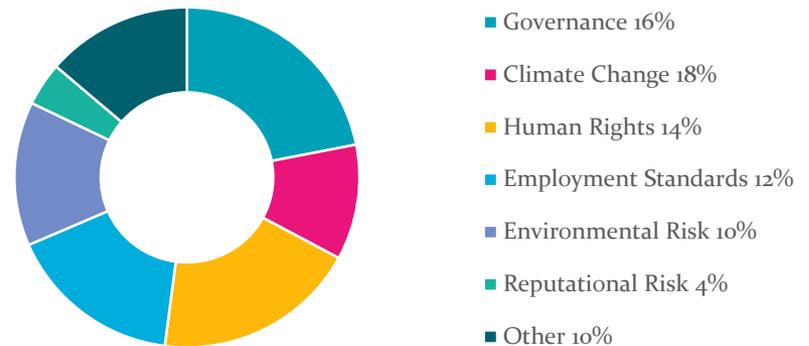
LAPFF engagement

LAPFF conducts company engagement on behalf of its members, LGPS and public sector funds, on a wide range of issues. LAPFF engaged with 35 companies over the quarter by a combination of letters and meetings. Issues engaged on included human rights, climate change, general governance and environmental risk.

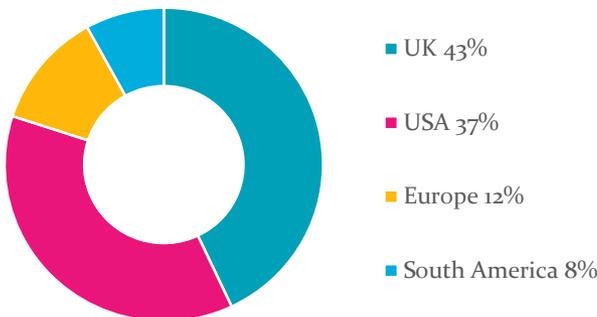
Company Engagement Activities



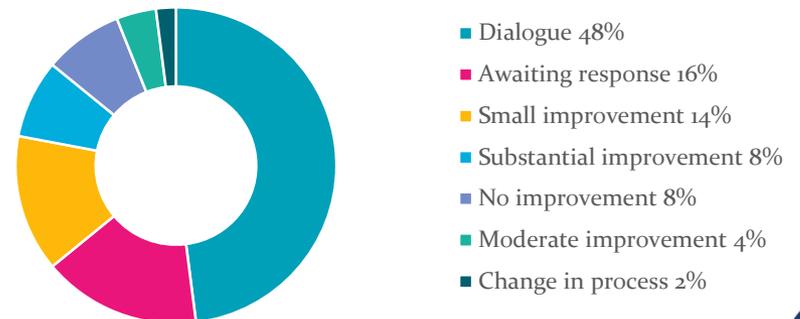
Engagement Overview by Topic



Engagement by Region



Engagement Outcomes



Engagement – RI collaborations

Investor Mining & Tailings Safety Initiative

A high-level Mining & Tailings Safety Summit, Chaired by the Bishop of Birmingham, was held in London on 31st October. The Summit was attended by 100 senior representatives of banks, insurers, investors, companies, universities, governments and experts. The keynote speaker was Mark Cutifani, CEO of Anglo American plc. Investors reviewed the disclosures companies have made on tailings dams. Information had been requested from 726 companies with the aim for them to confirm if they had tailings dams and if so to provide answers to 20 questions on each individual facility.

Those present heard from the communities that have been impacted by catastrophic tailings dam failures. A presentation was given by Professor Elaine Baker of GRID-Arendal and the University of Sydney on the academic assessment of disclosures received so far. 43% of companies had responded, all 22 members of the International Council of Mining & Metals responded and 76% of the top 50 largest mining companies by market capitalisation. The first ever independent global database on tailings dams, to drive transparency and best practice, is expected to be completed by the time of the anniversary of the Brumadinho disaster at the end of January 2020.



In October 2019 Climate Action 100+ (CA100+) published its first progress report. This showed that despite significant progress achieved, far more needs to be done by the world's largest corporate greenhouse gas emitters in tackling climate change.

Significant progress has been seen across a range of industries, many of which are among the most challenging to decarbonise. Examples of companies making substantial net zero commitments over the past seven months include; Heidelberg Cement, Duke Energy, Nestle, Daimler, VW, Thyssenkrupp, ArcelorMittal, BHP Billiton and Centrica.

The 161 companies under engagement by CA100+ account for around 80% of global industrial emissions. Of these; 70% have set long-term emissions reduction targets; 9% have emissions targets in line with (or go beyond) the minimum goal of the Paris Agreement; 8% of companies have policies in place to ensure lobbying activity is aligned with climate change; 40% undertake and disclose climate scenario analysis; 30% of companies have formally supported the TCFD and 77% have defined board level responsibility for climate change.

Engagement – RI collaborations (ctd...)



In November the IIGCC hosted its Annual General Meeting. A.P. Møller Holding A/S started the event with a keynote corporate insight into a net-zero emissions strategy for the shipping industry.

There were sessions focused on policy within the UK to reach net-zero by 2050 as well as more broadly what the European Commission is doing.

The highlight of the AGM was a conversation with Christina Figueres, the *Convener - Mission 2020 and Former Executive Secretary of the UN Framework Convention on Climate Change*, and Claire O'Neill, COP 26 President, on COP26 and How to Materialise a Net-Zero Ambition. The final panel of the day looked at Understanding Physical Climate Risks and Opportunities.

The IIGCC has a host of important policy work planned in 2020 running up to COP 26, which is being held in Glasgow, and we will update more on that in Q1 2020.



In December 2019, the Transition Pathway Initiative (TPI) released a report on the *Management Quality and Carbon Performance of Transport Companies*. The report evaluated 57 companies across the automobile, airlines and freight shipping sectors. Shipping companies were being evaluated for the first time.

Over two thirds of the 13 international freight shipping companies the TPI assess are already aligned with a Below 2C benchmark for 2030. This is likely to be in part because the largest, publicly listed companies in the sector are unrepresentative of the sector as a whole, with larger, more efficient vessels.

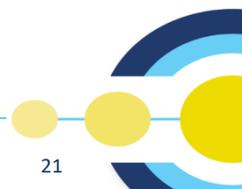
Conversely only two airlines are aligned with the least ambitious International Pledges benchmark by 2030; Easyjet and Wizz Air. Many other airlines adopt the industry-wide approach of setting net emissions targets, which include the use of offsets. While offsets are a cost effective way to cut carbon, TPI does not take into account targets that include offsetting, as it is unclear how much airlines' own emissions will fall under such targets. The airline sector will have to reduce its own emissions significantly to deliver the Paris temperature goals.

Responsible investment: partnerships and collaborations

Boarder to Coast work with a number of partnerships and collaborative groups to improve overall stewardship 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



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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](#)

[Transition Pathway Initiative](#)

