

# BORDER TO COAST

Quarterly Stewardship Newsletter Quarter 4 2020



Flamborough Landing Beach, East Riding of Yorkshire





# WHAT RESPONSIBLE INVESTMENT MEANS FOR BORDER TO COAST

Border to Coast operates collective investment vehicles covering a comprehensive set of asset classes in which our 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.

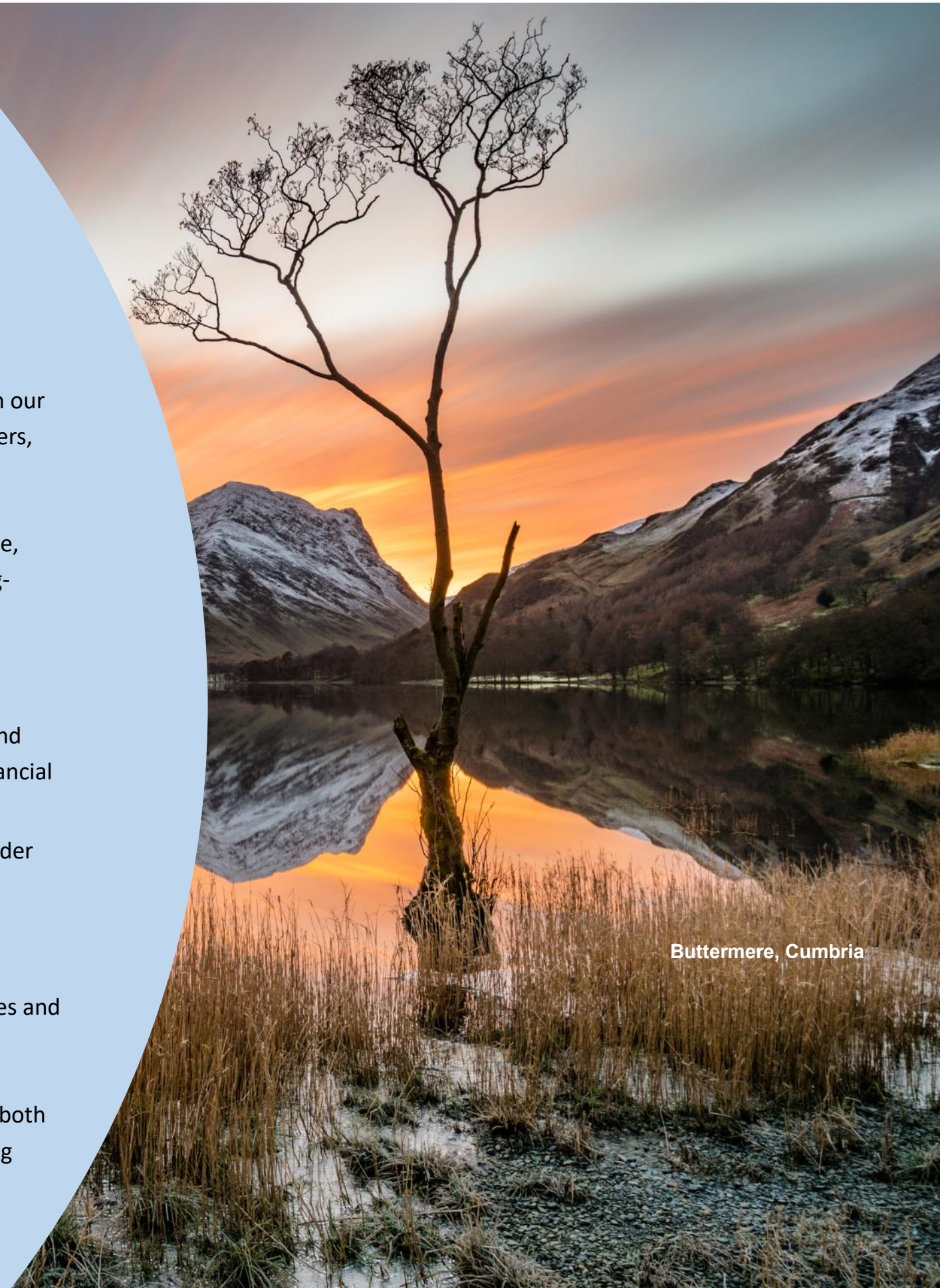
## Sustainability

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 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](#) along with other reports on our approach to active ownership including TCFD, annual stewardship and voting records.



Buttermere, Cumbria



# QUARTERLY REVIEW

In November we made our first co-investment with £40m invested in Sleaford Renewable Energy Plant. It uses a blend of straw and sustainable woodchip to generate renewable power and heat, capable of generating electricity for 65,000 homes, saving 50,000 tonnes of CO2 per annum. This marks a significant step forward for Border to Coast as an active investor, reflecting the appetite of Partner Funds seeking predictable, secure income cash flows from renewable infrastructure assets. The investment has been made with Greencoat Capital LLP, one of the UK's largest investors in resource efficient and renewable energy.

At the beginning of 2021 we published our revised Responsible Investment Policy and Corporate Governance & Voting Guidelines following consultation and discussion with our Partner Funds. The Responsible Investment Policy details the approach that Border to Coast will follow in fulfilling its commitment to Partner Funds in their delegation of the implementation of certain responsible investment and stewardship responsibilities. For 2021, we have strengthened our approach to climate change and diversity among other issues. Separately we have started work on a standalone climate change policy that we will progress in 2021.

**Following the destruction by Rio Tinto of an aboriginal heritage site in 2020 and the implications for the wider mining sector, we co-signed a letter along with other investors managing assets of over \$10 trillion.**

Following the destruction by Rio Tinto of an aboriginal heritage site in 2020 and the implications for the wider mining sector, we co-signed a letter along with other investors managing assets of over \$10 trillion. This seeks assurances on the issue of indigenous community rights and a company's social license to operate. The letter was sent to the top 71 international mining companies and all other major companies that operate in Australia.

We also co-signed a letter to the Prime Minister in early December alongside other investors, companies and business groups, highlighting the urgent need for Government to set emissions targets for 2030 in line with the net zero by 2050 target.

Rachel Elwell, CEO has recently joined an industry initiative to examine how stewardship and long-term investment can be better integrated to create sustainable value for investors set up by the Investment Association and the Pensions & Lifetime Savings Association (PLSA). [Read more here.](#) Rachel also took part in the EY Asset Management CEO Forum in early December alongside Mark Carney (former Governor of the Bank of England), discussing topics including ESG and sustainable capitalism.

The Border to Coast team have contributed articles on investment and stewardship to industry publications and participated in a number of online events over the quarter. In November Jane Firth, Head of RI, took part in a session at the FT Investing for Good conference with Claudia Chapman, Head of Stewardship at the FRC, discussing stewardship expectations.



Sleaford Energy Plant

# INDUSTRY UPDATE

Further to last quarter's update, in October 2020 the US Department of Labor (DOL) released its final regulation relating to a fiduciary's consideration of ESG factors when making investment decisions for pension plans subject to the Employee Retirement Income Security Act (ERISA). The DOL softened the rule having received thousands of comments, including from Border to Coast, which were mostly in opposition. The rule took effect in January but is to be reviewed by the new Biden administration. This follows the announcement that the US will re-join the Paris Agreement.

## The UK Government TCFD Taskforce published its interim report and Roadmap in November outlining the UK's approach to implementing the recommendations of the Taskforce on Climate-related Financial Disclosures

The quarter saw the launch of further consultations with the IFRS Foundation and Financial Reporting Council (FRC) both issuing papers. The IFRS Foundation, the world's largest standards organisation, issued a [Consultation Paper on Sustainability Reporting](#). The proposition is to set up a Sustainability Standards Board with the initial focus on climate-related issues (transition and physical risk) in order to establish these crucial standards as quickly as possible. The FRC issued a paper - A Matter of Principles - which supports the development of non-financial reporting standards. The FRC believes that they should be placed on a similar statutory footing to financial reporting.

The UK Government TCFD Taskforce published its [Interim Report and Roadmap](#) in November outlining the UK's approach to implementing the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). The broad aim is to make TCFD-aligned disclosures mandatory across the UK economy by 2025. The TCFD also launched a consultation on the development and use of forward-looking climate-related metrics by the financial sector.

The Asset Management Taskforce has set up Stewardship and Stakeholder working groups, to help strengthen stewardship and responsible investment in the UK. November saw the publication of the recommendations in the report: [Investing with Purpose: placing stewardship at the heart of sustainable growth](#). Their 19 recommendations cover three areas: stewardship behaviours, stewardship for clients and savers, and the economy wide approach to stewardship.

As the UN Climate Change Conference (COP26) is being held in Glasgow later in 2021 we are seeing a number of initiatives and announcements on sustainable finance. In November, the UK Chancellor outlined new proposals to support sustainable financial flows including announcements that the UK's first green gilt will be issued in 2021 and that TCFD aligned reporting will be fully mandatory across the UK economy by 2025.

December saw the launch of the Net Zero Asset managers initiative supported by more than 30 leading global asset managers representing over \$9 trillion of assets. The members have made a commitment to support the goal of net zero greenhouse gas emissions by 2050 or sooner. Further commitments from other leading asset managers are expected over the coming months.



River Wainfleet, Lincolnshire



# QUARTERLY VOTING ACTIVITY

The fourth quarter was the peak AGM season for Oceania where we voted almost a quarter of our total votes. In total we voted at 121 meetings globally on 1,056 agenda items.

As we reach the end of 2020, this year has shown that not only companies, but society as a whole, is facing various challenges. Addressing complex and urgent problems like a pandemic, climate change, biodiversity loss and political conflict requires a multi-dimensional approach.

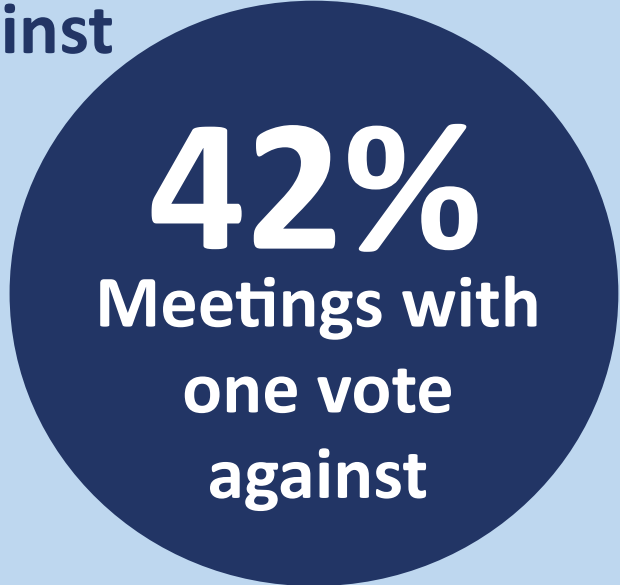
A diverse group of people with a varied skill set and background is best placed to succeed. Diversity matters among employees as well as among management and the Board and research shows that diversity corresponds with improved financial performance, higher employee retention rates, stronger employee engagement and higher talent acquisition.

Data on a global level still shows that women hold only 16.7% of the board seats at publicly traded firms, although this figure varies across different countries. Shareholders, such as Border to Coast, play a role in improving diversity through voting at AGM's and by engaging.

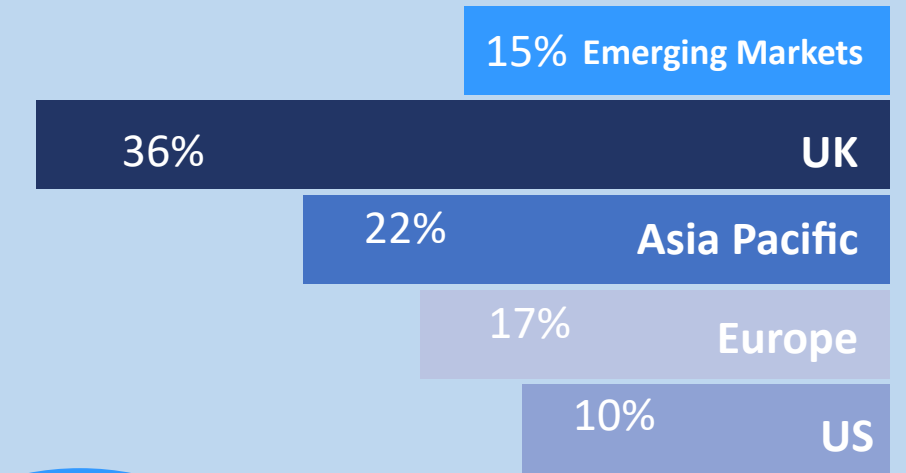
Diversity is a complex and constantly evolving issue. The challenge of increasing gender diversity is also followed by the challenge of achieving better ethnic diversity; however, the ability for investors to structurally challenge insufficient ethnic diversity on boards is constrained by the complexities of fair and accurate data collection. For example, lesbian, gay, transsexual, and queer (LGBTQ+) representation on the board is usually not in the scope of corporate governance standards. It is estimated that there are fewer than ten openly LGBTQ+ board members on Fortune 500 boards.

A positive step taken by Nasdaq in December 2020 was to file a request with the SEC to require its 3,300 listed companies to have, or explain why they do not have, at least one female board member and one board member who identifies as either under-represented minority or LGBTQ+.

## Resolution votes with & against


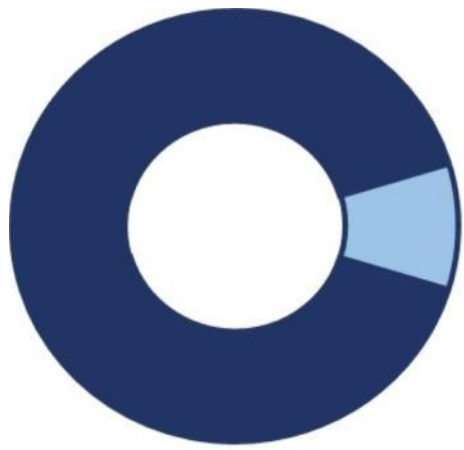
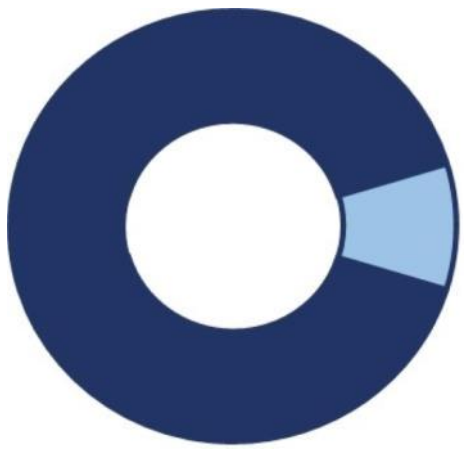

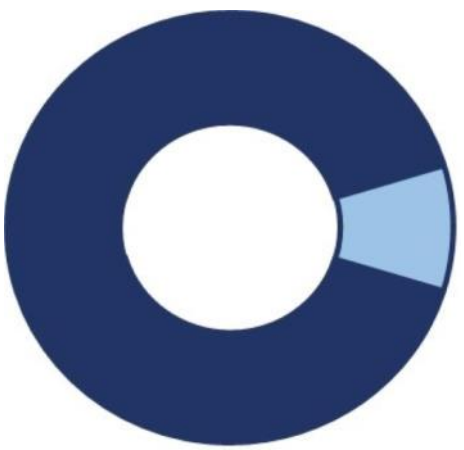


## Voting activity by region



# QUARTERLY VOTES BY FUND

\*As of 31 December 31, 2020

Emerging Markets	Global Equity Alpha	Overseas Developed	UK Equity Alpha	UK Listed Equity
Meetings: 17	Meetings: 22	Meetings: 48	Meetings: 29	Meetings: 22
Items Voted: 58	Items Voted: 158	Items Voted: 399	Items Voted: 312	Items Voted: 236
Approx. size: £0.8bn*	Approx. size: £5.6bn*	Approx. size: £3.4bn*	Approx. size: £1.3bn*	Approx. size: £4.4bn*
				
Votes with & against management	Votes with & against management	Votes with & against management	Votes with & against management	Votes with & against management
With 100%	With 90%	With 90%	With 91%	With 90%
Against: 0%	Against: 10%	Against: 10%	Against: 9%	Against: 10%
Resolutions by category	Resolutions by category	Resolutions by category	Resolutions by category	Resolutions by category
Board Related 0%	Board Related 20%	Board Related 43%	Board Related 28%	Board Related 14%
Audit 0%	Audit 27%	Audit 8%	Audit 14%	Audit 29%
Capital Management 0%	Capital Management 0%	Capital Management 5%	Capital Management 0%	Capital Management 0%
Executive Pay 0%	Executive Pay 33%	Executive Pay 24%	Executive Pay 34%	Executive Pay 19%

# QUARTER'S VOTING HIGHLIGHTS

## **BHP (Overseas Developed UK Listed & UK Listed Equity Alpha)**

BHP Group engages in the natural resources business worldwide operating through petroleum, copper, iron ore and coal segments. At BHP's Annual meeting, the Australasian Centre for Corporate Responsibility (ACCR) raised their concerns on ESG related issues by submitting three shareholder proposals (SHPs).

The first was more procedural for Australian AGMs and the second SHP regarding cultural heritage protection was withdrawn following engagement with BHP directly. Following the engagement with a coalition of more than 20 Aboriginal and other leaders, BHP committed to several principles and steps to improve its practices.

The final SHP asked that the company review their industry association membership in relation to COVID-19. Although the SHP is understandable given some trends in the industry, we felt that it neglected BHP's current leadership in this area and supported management by voting AGAINST the resolution. The resolution achieved a 22.4% vote in favour.

## **Australian & New Zealand Banking Group (Overseas Developed)**

The Australia and New Zealand Banking Group Limited (ANZ), is an Australian multinational banking and financial services company headquartered in Melbourne, Australia. It is the second largest bank by assets and third largest bank by market capitalisation in Australia. At their AGM in December 2020, a shareholder resolution was filed by over 100 shareholders calling for a reduction in exposure to the coal, oil and gas sectors, consistent with the goals of the Paris Agreement on climate change.

The resolution achieved a 28.9% vote in favour, almost doubling the 14.9% support received by a similar resolution last year. Border to Coast has supported the resolution in both years. It should be recognised that ANZ updated their climate policy in October 2020 restricting finance to thermal coal and pledging to exit the sector fully by 2030. They also emphasised that this was necessary to manage risk and act in the best long-term interest of shareholders, saying there is a major transition underway to a low carbon economy.





# 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.

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## ENGAGEMENTS

Engagement activity covering  
period 01.10.20 to 31.12.20

## Breakdown of engagements



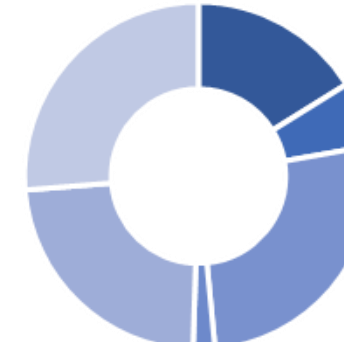
- Portfolio Managers 9%
- LAPFF 39%
- Robeco 36%
- External Managers 16%

## Breakdown by topic



- Environmental 24%
- Social 34%
- Governance 21%
- ESG General 5%
- AGM Proposals 1%
- Remuneration 1%
- Business Strategy 14%

## Breakdown by region



- APAC 16%
- Emerging Markets 6%
- Europe 26%
- Middle East 2%
- UK 23%
- North America 27%

## Breakdown by type



- Call 22%
- Virtual Meeting 17%
- E-mail 14%
- Letter 37%
- Analysis 8%
- Other 2%



# INVESTOR MINING AND TAILINGS SAFETY INITIATIVE

25th January 2021 was the second anniversary of the catastrophic tailings dam collapse at the Brumadinho mine in Brazil, which saw the loss of 270 lives. A meeting of the investor collaboration, which now has the support of investors with over \$20 trillion in AUM, was held to observe the anniversary, review the progress made and further work required. Members of the community also spoke on the impact to them personally and as a community. An act of remembrance was led by the Rt Revd David Urquhart for all those impacted by the disaster.

Remarkable progress has been made since the collaborative initiative was launched with investors working with the mining industry bodies, business, the United Nations Environment Programme (UNEP) and experts. Notable achievements include:

- The development of a new Global Industry Standard on Tailings Management, released in August 2020
- Corporate disclosures from listed mining companies on their management of tailings dams
- The first global database of listed company disclosures, with data on 1853 tailings facilities
- A commitment to establish an independent International Institute on Tailings to advance the Global Standard and future disclosure

Although considerable progress has been made it was acknowledged that much more still needs to be done to ensure another disaster such as this does not occur. There is the need for investors to continue to work with industry not only on tailings waste and storage but a range of systemic issues that challenge the sector's social licence to operate. Further steps to be taken include:

- Launching an independent Global Institute by the end of 2021
- Expectation of companies to confirm adoption of the Global Industry Standard and disclose a timeline for their intended compliance
- Creation of a number of independent Expert Advisory and Working Groups
- Developing a 2030 Investor Agenda for the Mining Sector



# COLLABORATIVE ENGAGEMENT



Climate Action 100+ published its second progress update report in December which summarised overall progress made by the initiative. In 2020 it developed the Net Zero Company Benchmark, which will be used to publicly benchmark focus companies with the first set of scorecards being released in early 2021. The report covers the 160 focus companies assessed using a subset of the Net Zero Company Benchmark indicators. Although nearly half of companies have set a net zero by 2050 target or ambition, and also shorter-term emission reduction targets for 2025, it was recognised that there is still a long way to go.



The Workforce Disclosure Initiative's (WDI) annual survey was sent to 750 companies this year and was open from September to November 2020. COVID-19 caused challenges for some companies to report, including those that had previously reported. Despite this, a record 141 companies responded to the survey with increases across all sectors. Some notable first-time responders included Nike, Vodafone, Legal & General and Santander.



The IIGCC's 2020 virtual AGM was held at the beginning of December and covered the role of investors in helping lead the transition to a net zero global economy. Speakers included the CEO of BP, the head of the International Energy Agency, and a video address from HRH The Prince of Wales. The AGM also confirmed the appointment of Faith Ward, Chief Responsible Investment Officer of Brunel Pension Partnership as the new Chair. During this quarter IIGCC published an investor report - Expectations for Paris-aligned Accounts. This covers the steps that companies and their auditors need to take to ensure that climate-related risks are taken into account when drawing up financial statements.

## OUR PARTNERS

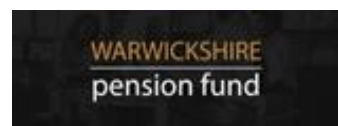


Signatory of:





# OUR PARTNER FUNDS



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