

BORDER TO COAST QUARTERLY STEWARDSHIP REPORT Q3 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.



Walltown Crag, Northumberland



Scarborough, North Yorkshire

QUARTERLY HIGHLIGHTS

Net-Zero Commitment and Climate Change Policy

Recognising the urgent need to tackle climate change, we recently announced our commitment to achieving net-zero greenhouse gas emissions across our investments by 2050 or sooner, if possible. Alongside this, we have joined the global Net-Zero Asset Managers initiative, which seeks to mobilise action by the asset management industry. Specifically, the initiative aims to drive the transition to net-zero and provide a forum to share best practice and overcome barriers to achieving it. This includes collaborating on decarbonisation goals and the setting of and review of interim targets.

We have also published our first standalone Climate Change Policy, developed in collaboration with our Partner Funds. The policy details our approach to fulfilling our commitment to managing the risks and investment opportunities associated with climate change and aims to ensure clarity of approach to meet our fiduciary duty to our Partner Funds and help them to meet their stewardship requirements.

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

Border to Coast Annual Conference

We recently hosted our Partner Funds for our fourth Annual Conference. Over the course of two days, we covered a variety of topics across the investment spectrum, including trends in responsible investment, break-out sessions covering ESG in practice, sustainable opportunities in private markets and the road to net-zero. We thank our Partner Fund participants for helping to make the event a success.

Investor Position Statement Support on climate transition planning

In July, we supported an Investor Position Statement on corporate net-zero transition plans, along with 54 other investors coordinated by the Institutional Investors Group on Climate Change (IIGCC). The statement (available to view [here](#)) calls for firms to disclose comprehensive net-zero transition plans, identify the directors accountable for the plans and provide a routine shareholder vote on progress against these plans.

Our People

Our Head of Responsible Investment, Jane Firth, appeared in an AssetTV ESG LGPS Institutional Masterclass with panellists from LGPS Central, BlackRock and American Century Investments. The panel discuss net-zero, engagement and greening the global economy and a recording of the masterclass can be viewed [here](#).

Lloyd Thomas, Lead Portfolio Manager of our Multi-Asset Credit Fund, took part in a roundtable for Portfolio Institutional covering a range of topics, including the performance of credit assets during the pandemic and ESG integration in credit. A recording of the roundtable can be viewed [here](#).

INDUSTRY UPDATE

Intergovernmental Panel on Climate Change (IPCC) Assessment Report

The IPCC published its [sixth assessment report](#) on climate change in August. The report, prepared by 234 scientists from 66 countries, concluded that human influence has irrefutably played a major role in global warming and provides yet more scientific backing for efforts to reduce greenhouse gas emissions by policymakers, regulators, and investors. It is hoped that the findings of the report have provided further impetus to policymakers in the run-up to the COP26 climate conference, with over half of participating countries having submitted updated climate action plans.

Financial Conduct Authority (FCA) consultation on board and executive committee diversity

The FCA launched a consultation (available to view [here](#)) in July on proposals to improve transparency for investors on the diversity of listed company boards and their executive management teams. Specifically, the FCA is consulting on changes to its Listing Rules to require listed companies to publish annually:

- A 'comply or explain statement' on whether they have achieved certain proposed targets for gender and ethnic minority representation on their boards, and;
- As part of the same annual disclosure obligation, data on the make-up of their board and most senior level of executive management in terms of gender and ethnicity.

The proposals aim to build on progress achieved under existing initiatives (such as the Hampton-Alexander Review and Parker Review) to improve diversity on the boards of the largest UK companies.

UK government issues first green bonds

In September, the UK joined many other sovereign issuers by issuing its first 'green gilts'. The bond proceeds will support the UK's Green Financing Framework, announced in July. The framework outlines how investment will focus on the key areas of clean transportation, renewable energy, energy efficiency, pollution prevention, living and natural resources, and climate change adaptation.

European Commission in record green bond issuance to support COVID-19 recovery

In October, the European Commission issued €12 billion in green bonds, representing the first tranche of financing for its proposed €800 billion COVID-19 recovery fund. The issuance is the world's largest in green bonds. The recovery fund aims to provide support to countries in their recovery efforts, with countries expected to outline how they will use the funds to create sustainable outcomes relating to improving skills, tackling inequalities, and developing technologies.



Burton Waters Marina, Lincolnshire

QUARTERLY VOTING ACTIVITY

Shaping Accountable Remuneration Committees

Historically, shareholders have predominantly focused on aligning pay with performance, however, the 2021 proxy season reflected a change in dynamic, with investors increasingly calling out the relationship between executive pay and the treatment of the broader workforce.

Many companies have large portions of their shares designed to keep control in the hands of management and founders, which can prove a headwind to investor opposition on pay. Changing these structures is difficult in the near term, however, in most developed markets, boards assign pay-setting responsibility to a Remuneration Committee. While direct dialogue with committees is a preferable first step in addressing misalignment in pay expectations, shareholders do have some degree of influence on the composition of the committee via the use of voting rights to oppose re-election of its members. Border to Coast uses this leverage when proposals are materially out of step with best practice.

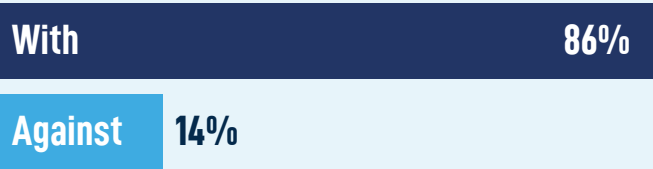
As remuneration continues to be a contested item on the yearly AGM agenda, it is expected that shareholders will increasingly look at the roles of committees directly. This is in line with a broader shareholder movement to use director elections to voice concerns on a broad range of issues.

Diversity and Inclusivity (D&I)

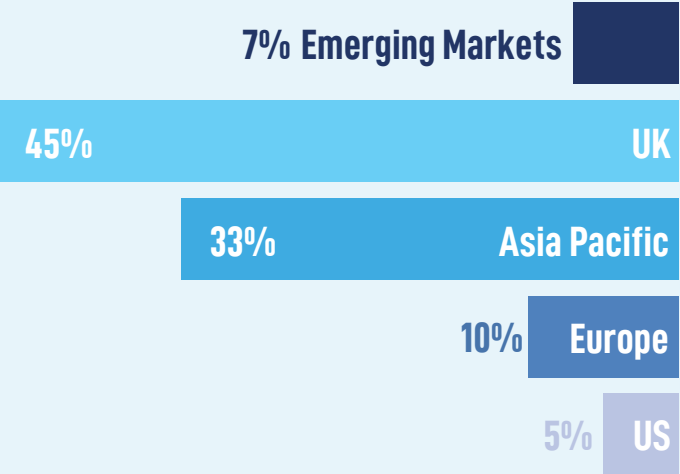
Diversity and inclusivity have increasingly become hot topics in recent years, either as agenda items at AGMs, or in investors’ engagement efforts with companies. Diversity has more aspects than only gender, race, or ethnicity. Indeed, in December 2020, Nasdaq, the stock exchange, filed a request with the US Securities and Exchange Commission (SEC) to require its 3,300 listed companies to have at least one female board member and one board member who identifies as either an underrepresented minority or LGBTQ, on a comply or explain basis.

These elements are difficult to capture and to set specific targets on. Nevertheless, this year saw shareholders asking more companies to reveal diversity data about their workforces. Extra disclosure and measurable employee diversity data will allow investors to assess and have better oversight of diversity and inclusion efforts. This is why we support the work of the Workforce Disclosure Initiative.

Resolution votes with & against management

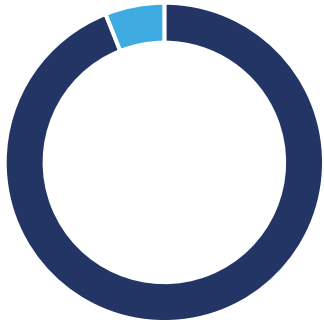
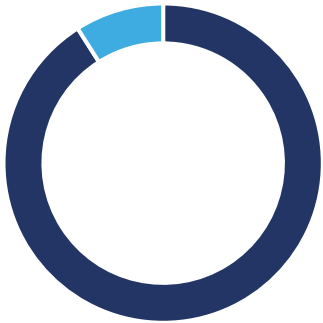

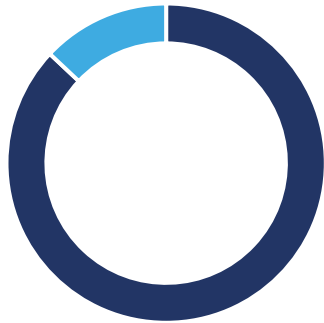
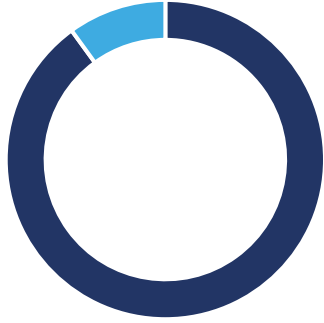


Voting activity by region



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: 29	Meetings: 16	Meetings: 44	Meetings: 19	Meetings: 38
Items Voted: 487	Items Voted: 212	Items Voted: 313	Items Voted: 220	Items Voted: 557
Approx. size: £4.5bn*	Approx. size: £5.1bn*	Approx. size: £1.0bn*	Approx. size: £1.5bn*	Approx. size: £6.6bn*
				
Votes with & against management	Votes with & against management	Votes with & against management	Votes with & against management	Votes with & against management
With: 93%	With: 91%	With: 72%	With: 87%	With: 90%
Against: 7%	Against: 9%	Against: 28%	Against: 13%	Against: 10%
Resolutions by Category	Resolutions by Category	Resolutions by Category	Resolutions by Category	Resolutions by Category
Board Related: 6%	Board Related: 50%	Board Related: 36%	Board Related: 26%	Board Related: 52%
Audit: 37%	Audit: 0%	Audit: 7%	Audit: 18%	Audit: 0%
Capital Management: 0%	Capital Management: 0%	Capital Management: 29%	Capital Management: 7%	Capital Management: 9%
Executive Pay: 15%	Executive Pay: 50%	Executive Pay: 16%	Executive Pay: 21%	Executive Pay: 26%
Other: 42%	Other: 0%	Other: 12%	Other: 28%	Other: 13%

* Size of Fund as at 30 September 2021

QUARTERLY VOTING HIGHLIGHTS

SSE plc (UK Listed Equity)

SSE plc (SSE) is an energy company engaged in the generation, transmission, distribution and supply of electricity, gas and in other energy services.

What did we do? We supported the company's Net-Zero Business Plan.

Our view: SSE proposed to adopt a plan for the company to set Scope 1, 2, and 3 emissions reduction targets to become net-zero by 2050 or sooner. Additionally, they committed to proposing a resolution at each future AGM for shareholders to consider and approve. SSE reported progress based on the TCFD guidelines and is committed to setting a more ambitious set of emissions reduction targets (on scope 1, 2 and 3 emissions) that are aligned with 1.5C scenario under the SBTi. Although we recognise that the plan still needs some further granular details, we believe the company's direction of travel is aligned with best practice.

Voting outcome: The proposal received over 99% support from shareholders at the AGM sending a clear message of support to the company. The proposal included an annual vote on its Net Zero Transition report aligning the company and shareholders with enhanced climate-related engagement.

Alibaba Group Holdings (Emerging Markets & Global Equity Alpha)

Alibaba Group Holding Ltd (Alibaba) is a holding company providing the technology infrastructure and marketing to help merchants and businesses leverage new technology to engage with users and customers.

What did we do? We opposed the election of the executive vice chair, who also serves as a member of the Remuneration Committee and as a chair of the Governance and Nomination Committee. We also opposed the election of a director who also serves as a CEO and president of another large communications company.

Our view: We believe that key committees such as the Nomination and Remuneration Committees should have a high degree of independence. Furthermore, candidates serving on a total of three public company boards (including being the CEO of one company) may not be able to commit sufficient time to their role to fulfil their duties. Finally, we were concerned by the lack of an independent chair or an independent lead, especially with the high number of affiliated/insider directors on the board. Though we understand that independent board leadership is not a common practice for Chinese companies, we encourage those companies that have an international shareholder base to work towards adopting international best practice.

Voting outcome: The executive vice chair received 26% of shareholder votes 'against'. This was significantly up from 13% 'against' in 2019 which was the last AGM the candidate was up for election. We will continue to monitor Alibaba's response to this vote and engage via our external managers.



Newcastle, Tyne & Wear

QUARTERLY ENGAGEMENT

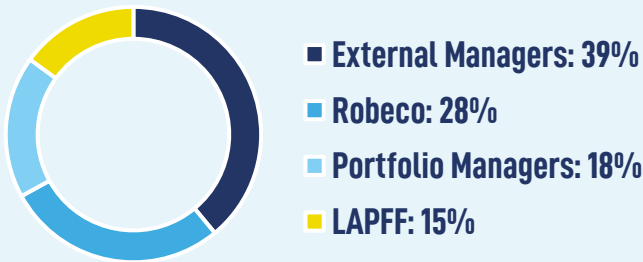
We believe that engagement is an important component of active ownership. Our engagement strategy includes several different strands to engaging with our investee companies:

- **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](#).

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ENGAGEMENTS

Engagement activity covering
period 01.07.21 to 30.09.21

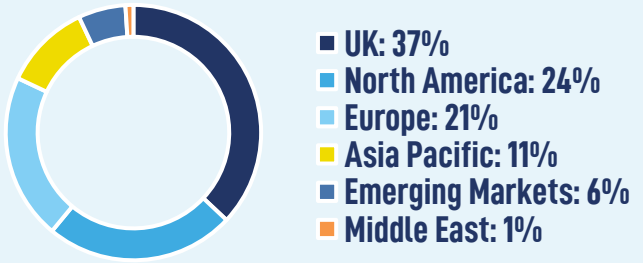
Breakdown of engagements



Breakdown by topic



Breakdown by region



Breakdown by type



HUMAN RIGHTS DUE DILIGENCE

This quarter saw our engagement partner, Robeco, launch a new engagement theme on human rights due diligence, which turns its focus towards companies assessed as operating in conflict-affected and/or higher risk areas.

Why is this important?

Human rights have become increasingly at risk around the world and indeed, there are a variety of ways in which companies can have an impact on human rights, depending upon their sector, business model, products, or services. This development has further emphasised the importance of the 'Social' aspect of ESG and the obligations of companies and investors in respect of human rights. This theme aims to highlight human rights risks in companies and strengthen their risk management systems.

How will companies be assessed for engagement?

Human rights risk exposure and due diligence efforts of companies are evaluated via consideration of their grievance mechanisms and remediation measures as well as the presence of a context analysis of any high-risk regions in which they operate. Companies will be engaged to ensure alignment with the best practices laid out in the UN Guiding Principles on Business and Human Rights.

What does success look like?

With this engagement theme, collaboration with target companies will highlight the importance of a proactive approach to human rights risk assessment. This includes carrying out enhanced human rights due diligence when entering new markets or engaging in joint ventures. The engagement theme aims to gain a better understanding of best practices, by focusing on gaps identified for each target company, such as insufficient reporting, undisclosed performance measures and/or lack of access to appropriate remediation.

A combination of proactive improvements to human rights management systems and responses to conflict-affected and high-risk situations that respect human rights can help to mitigate not only the risk to the company and its performance, but also the impact on people.

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



Sheffield, South Yorkshire

COLLABORATIONS



Transition Pathway Initiative (TPI)

The TPI introduced new benchmark low-carbon scenarios to their carbon performance analysis over the quarter, enabling investors to see if a company's carbon performance is aligned with a 1.5°C pathway. The new benchmark will be used for the annual assessment of the energy sector being conducted in Q4 of this year.

The [TPI Global Climate Transition Centre](#) was announced at the opening of the London Stock Exchange on 19th October 2021. The Centre will be a key part of post-COP26 financial infrastructure to support investor action on climate change and will dramatically increase TPI assessments from 400 companies today to 10,000, as well as assessing corporate debt and sovereign bonds.



International Investors Group on Climate Change (IIGCC)

The IIGCC published a number of reports during the period and August saw the launch of the first global sector strategy piece covering the steel industry. This report outlines the priority actions for steel producers to align with the Paris Agreement goals. The 'Net Zero Standard for Oil and Gas' companies was also launched by the IIGCC in September, setting out what investors expect to be included as part of a company's plan to transition to net-zero.

This month also saw the publication of the 'Investor Expectations of Companies on Physical Climate Risks and Opportunities'. This document sets out how risks and opportunities caused by the physical impacts of climate change can be integrated into the investment process. This is an area we expect to garner increasing focus over the coming months and years as transition plans begin the ramp up.

Our Partners



ROBECO

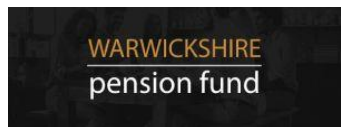
Signatory of:



INVESTOR MINING
& TAILINGS SAFETY
INITIATIVE



OUR PARTNER FUNDS



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Chesterton Windmill, Warwickshire