BORDER TO COAST
QUARTERLY STEWARDSHIP REPORT
Q4 2021

BORDER TO COAST
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.

Chesterton, Warwickshire

QUARTERLY HIGHLIGHTS

2022 Responsible Investment Policy Update

We have recently published our Responsible Investment Policy and Corporate Governance and Voting Guidelines for 2022. Developed in consultation with our Partner Funds, the revised policies clarify and strengthen our approach to ESG integration and active ownership. Both documents can be found here.

Net-Zero Asset Managers Initiative

Following our commitment to achieving net zero across our investments by 2050 at the latest, we have now joined the global Net Zero Asset Managers Initiative. The initiative, which now numbers 220 investors in total, seeks to mobilise action by the asset management industry to drive the transition to net zero and provides a forum to share best practice and overcome barriers to achieving it.

Robeco Engagement Themes

We took part in Robeco's client panel again this year to discuss new potential engagement priorities with other investors. We are pleased to note that Robeco's new themes for 2022 are very much aligned with our own engagement theme development. These forthcoming themes include: 'Net Zero Emissions', 'Natural Resource Management', 'Diversity, Equity, and Inclusion' and adoption of a new, collaborative initiative 'Nature Action', which seeks to address a company's potential impact on biodiversity, such as deforestation, overfishing and pollution.

Support for Net-Zero Aligned Audits

In November, along with 22 other investors, we co-signed a letter to the 'Big 4' auditors: PwC, Deloitte, EY and KPMG. The letter set out expectations for auditors to provide net-zero aligned audits of financial statements and associated disclosures. This reflects the growing importance for investors to be able to understand whether companies are considering the material financial implications of the transition and providing appropriate disclosures.

Our People

Our Head of Responsible Investment, Jane Firth, featured in an ESG Roundtable with Funds Europe in October, featuring spokespeople from MSCI, the Church of England Pensions Board, BlackRock and Broadridge. It was a great opportunity to share ideas about incorporating the E, S, and G, into the investment process, as well as the importance of engaging with the companies in which we invest to push for positive, real-world change. Read the piece, titled 'Darker Shades of Green', online here.

INDUSTRY UPDATE: COP26

COP26 was the largest climate summit ever, with the focus moving from negotiation to implementation. While significant progress has been made on commitments, pledges and target setting, policy gaps remain, particularly ahead of 2030. Importantly, however, agreement was made formally that 1.5 degrees is the official target, and it is expected that policy setting around this will ratchet up over the next year.

What was achieved?

Key agreements included:

- **New net zero commitments** were made by countries, including interim targets. It was acknowledged, however, that further progress is needed, and agreement was made for countries to revisit their plans during 2022.
- **Global Methane Pledge:** A commitment to cut 30% of methane emissions by 2030. Over 100 countries have joined, however, some of the current largest emitters; China, Russia, and India, have not.
- **Deforestation:** Over 100 countries representing 85% of the world's forestry pledged to eliminate deforestation by 2030; a key factor given trees absorb a significant amount of CO2 from the atmosphere.
- **Developing nations:** Agreement to increase funding to help developing nations transition to a low-carbon economy. However, some nations felt the pledge to be insufficient.
- **The Paris Rulebook:** After 6 years of negotiation, global governments agreed on the rulebook for implementing the Paris Agreement. For the first time fossil fuels are explicitly included in the text of the agreement with reference to the "phasing down" of coal. Importantly, however, this reflects a change from the proposal to "phase out" coal, following objection by some developing nations.
- **US & China agreement:** Both countries pledged to increase cooperation; what form this cooperation will take remains to be seen.
- **Disclosure standards:** The establishment of the International Sustainability Standards Board (ISSB) was seen as major step to a single set of global ESG reporting standards.
- **Glasgow Finance Alliance for Net Zero:** Brings together 450 companies in banking, insurance, asset management, and consulting, representing $130trn of private capital. The signatories will be expected to meet net zero by 2050 and deliver their fair share of 50% emissions reductions this decade, reviewing their targets every five years and reporting on progress within the next year.

Old Bailey, Durham

Buttermere, Cumbria

INDUSTRY UPDATE:

UK Government Roadmap to Sustainable Investing

The UK Government released a document setting out its roadmap for aligning the financial system with its net zero commitment. The roadmap outlines three phases to achieving this:

- **Informing**: Focusing on the provision of sustainability-related information.
- **Acting:** Ensuring this information is being used in business and financial decision making.
- **Shifting:** Encouraging financial flows to align with a net zero economy.

The document focuses on the first phase, to be delivered through the new Sustainability Disclosure Requirements, which will require enhanced sustainability-related disclosures from market participants including corporate entities, investment product providers, asset managers and asset owners.

Department for Work and Pensions (DWP) and Financial Conduct Authority (FCA) Consultations

We have responded to further consultations in the last quarter; one from the DWP on climate change reporting, and the other from the FCA on sustainability disclosure requirements.

While we welcome the DWP’s intent to introduce consistent and more robust climate change reporting, we highlighted the potential unintended consequences of the plans as they stand. These reflect both the relative immaturity of the methodologies in use, which could drive investment decision making, and, in seeking to set a new fixed standard, may inhibit future innovation and development of best practice.

Our feedback to the FCA noted that their discussion paper appeared to be overly focused on the environment at the expense of social and governance factors. We also suggested that there was a danger that the proposed sustainable investment labels may simply set a low benchmark for sustainability standards.

US Department of Labor (DOL) proposes supporting ESG funds

The Department has proposed a rule to allow retirement plan fiduciaries to consider environmental, social and governance (ESG) factors when making investments. This has been widely supported by institutions. It demonstrates that ESG factors can be financially material and considering them can lead to better long-term risk-adjusted returns, removing uncertainties created by the previous administration.

QUARTERLY VOTING ACTIVITY

Overview

The fourth quarter saw the peak AGM voting season for Asia Pacific (APAC) and Oceania. Approximately 40% of the 131 total meetings were voted in this region. The total number of agenda items voted was 1,036, and at 47% of meetings we voted against management on at least one resolution. Most of the votes against management were linked to individual board member nominations (31%), compensation (25%) and ESG-related shareholder proposals (20%). We cover some of these below.

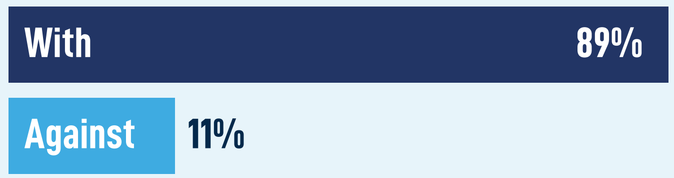
ESG and Compensation

The trend we have seen over the recent years, is for investors to push companies to incorporate Environmental, Social, and Governance (ESG) metrics into their short-term and long-term incentive plans. This trend is based on the idea that companies that promote sustainable business practices, and link executive pay to ESG metrics, are more likely to outperform those that do not.

There is no one-size-fits-all solution on how to link executive compensation to sustainability and at the same time drive performance and successfully manage all stakeholders.

Investors have increasingly supported the link of executive remuneration to sustainability. However, we believe companies should clearly define those metrics that have a meaningful impact in their business strategy, by conducting a materiality assessment. The outcome of this assessment should be transparently disclosed, and the metrics used in the compensation scheme should have a measurable impact on stakeholders and a financial materiality for shareholders. Our expectation around this is a principle in our Corporate Governance & Voting Guidelines and informs our decision when voting on company remuneration policies.

Resolution votes with & against management

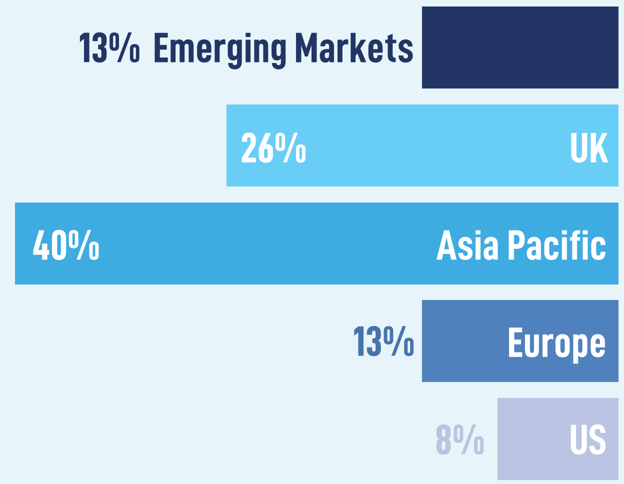


131
Meetings voted on

47%
Meetings with one vote against management

1,036
Agenda Items

Voting activity by region

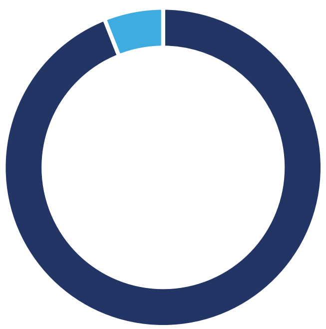


QUARTERLY VOTES BY FUND

Further detail on our voting record can be found on our website

UK Listed Equity Fund

Meetings:	17
Items Voted:	208
Approx. size:	£4.5bn*



Votes with & against management

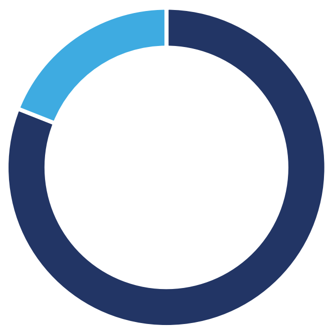
With:	94%
Against:	6%

Resolutions by Category

Board Related:	55%
Audit:	3%
Capital Management:	17%
Executive Pay:	21%
Other:	3%

Overseas Developed Markets Equity Fund

Meetings:	38
Items Voted:	351
Approx. size:	£5.3bn*



Votes with & against management

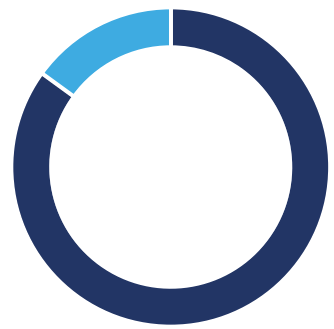
With:	81%
Against:	19%

Resolutions by Category

Board Related:	37%
Audit:	2%
Capital Management:	17%
Executive Pay:	39%
Other:	5%

Emerging Markets Equity Fund

Meetings:	47
Items Voted:	189
Approx. size:	£1.0bn*



Votes with & against management

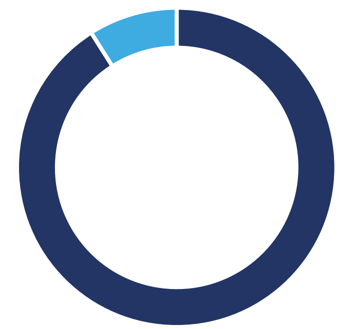
With:	85%
Against:	15%

Resolutions by Category

Board Related:	55%
Audit:	3%
Capital Management:	17%
Executive Pay:	21%
Other:	3%

UK Listed Equity Alpha Fund

Meetings:	27
Items Voted:	253
Approx. size:	£1.5bn*



Votes with & against management

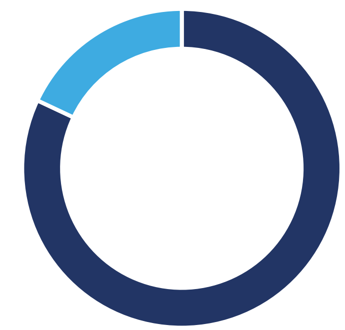
With:	91%
Against:	9%

Resolutions by Category

Board Related:	43%
Audit:	10%
Capital Management:	0%
Executive Pay:	19%
Other:	29%

Global Equity Alpha Fund

Meetings:	16
Items Voted:	126
Approx. size:	£6.8bn*



Votes with & against management

With:	82%
Against:	18%

Resolutions by Category

Board Related:	21%
Audit:	7%
Capital Management:	0%
Executive Pay:	57%
Other:	14%

* Size of Fund as at 31 December 2021

QUARTERLY VOTING HIGHLIGHTS

BHP Group Limited / PLC (Overseas Developed, UK Listed Equity & UK Listed Equity Alpha)

BHP Group Plc is a global resources company focused on extracting and processing minerals, oil and gas primarily in Australia and the Americas.

What did we do? We voted against the Climate Transition Action Plan.

Our view: Despite the fact that BHP's Climate Transition Action Plan provided thorough discussion of its climate-related considerations and CapEx spending, we had concerns regarding the level of ambition of the emissions reduction targets and their alignment with the goals of the Paris Agreement. In particular, the plan had limitations on how it will achieve its emissions reduction targets on scope 3 emissions. Also, the plan references the use of offsets to meet all its targets while remaining unclear of the quality and amount of offsets that will be used.

Voting outcome: The proposal received around 85% in shareholder support at the AGM; substantially lower than some other Transition Plans. However, BHP have been open to constructive engagement prior to the AGM and we expect this to continue through direct dialogue as well as engagement via CA100+ and LAPFF.

Microsoft Corporation (Overseas Developed & Global Equity Alpha)

Microsoft Corporation is a U.S. based multinational corporation that develops, licenses, and supports software, services, devices, and solutions worldwide.

What did we do? Microsoft saw a total of five shareholder resolutions covering a variety of social factors including human rights, employment rights and gender/racial equality. We supported the proposal asking the company to report on median pay gaps across race and gender.

Our view: This proposal raised the importance of ensuring equal work for equal pay, no matter the gender or the racial background. Despite some progress being made in closing the gender pay gap, recent research shows that men and women in tech companies are still not getting paid equally. Similarly, the research also found that there is a high racial pay inequity in the tech industry. Though we recognise that the company is disclosing the steps it's taking to promote pay equality, we also consider it highly important for companies to take further action to resolve the issue.

Voting outcome: The proposal received over 40% support from shareholders, reflecting the importance of the topic. We also supported the shareholder proposal asking the company to release a transparency report assessing the effectiveness of the company's workplace sexual harassment policies. We acknowledge the importance of the issue to employees and that it entails reputational risks that can harm shareholder value. We supported the proposal along with 78% of shareholders and will monitor company progress.

Brampton, Cumbria

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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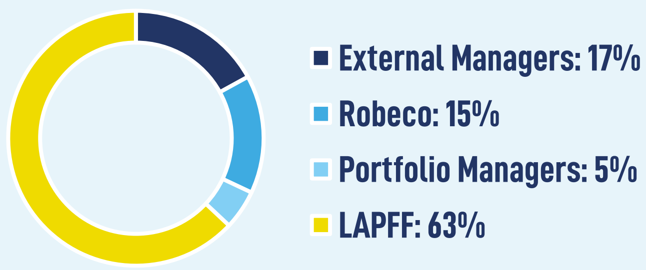
ENGAGEMENTS

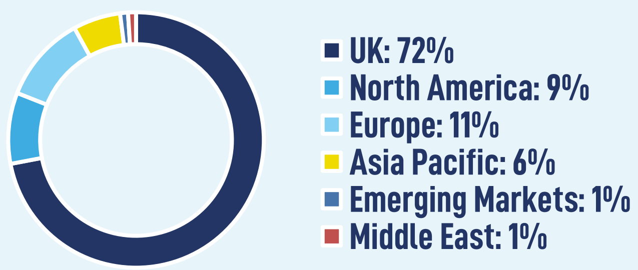
Engagement activity covering period 01.10.21 to 31.12.21

Breakdown of engagements

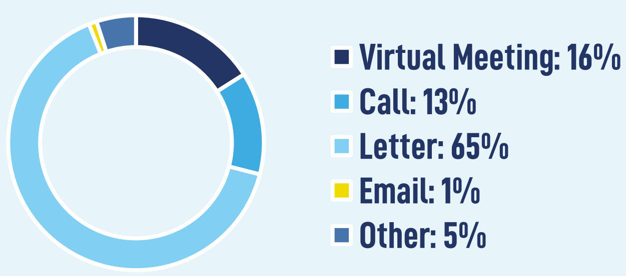


Breakdown by topic

Breakdown by region



Breakdown by type



ENGAGEMENT IN FOCUS

New Robeco Theme: Acceleration to Paris

This quarter saw our engagement partner, Robeco, launch a new engagement theme focused on triggering climate action at companies that have a large carbon footprint and assessed as lagging in their efforts to transition towards a low-carbon business model.

The engagement aims to encourage companies to meet expectations in eight engagement objectives, which are aligned with the Net Zero Benchmark of the Climate Action 100+ initiative. In addition, for those companies identified to be developing new coal power generation plans, a ninth engagement objective will prioritise the transition to clean energy sources. This theme represents an expansion of the Net Zero Emissions engagement theme launched in 2020, which focuses on high carbon emitting companies that are lagging in transitioning to net zero.

To launch the theme, Robeco sent a letter outlining expectations for the continued evolution of climate strategies to the CEOs of 170 companies, which Border to Coast supported and co-signed.

Engagement Theme Closure: Living Wage in the Garment Industry

In 2019, Robeco launched an engagement program with companies in the garment industry to encourage, support, assess and monitor target companies on their commitment to pay a living wage in their supply chain. Engagement was carried out through the Platform Living Wage Financials (PLWF), a coalition of 18 financial institutions, using their influence and leverage to engage with investee companies on this topic. Although this engagement theme has closed, we will continue to keep progress on living wage under review.

Five of our portfolio companies were included in the scope of the engagement (Adidas, Burberry Group, The Home Depot, Inditex and Nike). The program focused on how companies uphold the payment of living wages across their business; how this is supported by responsible purchasing practices and meaningful industry collaborations; and the response when incidents are identified. After three years of engagement, positive progress was seen in several areas across the sector, for example:

- **Adidas:** Saw notable performance in transparency, with supplier lists publicly available, alongside detail on how risk assessments for sourcing countries are conducted. There is a third party-managed complaint process for explicit human rights related issues, with the results disclosed.
- **Burberry:** Improved its living wage policy, including a comprehensive living wage definition, developed in collaboration with the Living Wage Association and Association of Chartered Certified Accountants.
- **Inditex:** Has a strong presence in leading industry collaborations and engagement with trade unions. They have also strengthened social dialogue and collecting bargaining agreements to improve wage levels.

Great Ouse, Bedfordshire

COLLABORATION: CYBERSECURITY

Cybersecurity – a growing risk

Cyber-attacks have tripled in the last decade as businesses have become increasingly reliant on technology and the impacts of these attacks can impose substantial damages on companies through fines, loss of revenues, and reputational harm.

Recognising this growing risk, Border to Coast joined a collaborative initiative, led by Royal London Asset Management, which sought to engage with a target list of over 35 companies to evolve the understanding of the risks faced and how best to mitigate them.

What has been achieved so far? (Phases 1 & 2)

Over the initial phases, 65% of the target companies have been formally engaged with, predominantly via meetings, video conferences and written responses. These initial phases were geared towards gaining a fuller understanding of the key enablers of cyber resilience and establishing best practice. The results indicate that in-depth dialogue with companies, as opposed to increasing general disclosures, may be in the best interest of investors.

What are the next steps?

Efforts during the next phase will be focused on uncovering the leadership and resources that underpin governance and risk management, corporate culture, and systems, with an emphasis on supply chains and corporate action (M&A) as areas of enhanced risk.

The phase will target companies where cybersecurity is deemed to be a material risk to investor portfolios and where there have either been known breaches or there is a disproportionately low level of disclosure on the approach taken. Investor expectations will be set out to each company and will include both minimum expectations and practices which are considered to be advanced or best practice.

Reporting on progress and learnings of Phase 3 is expected to be within one year of this phase’s commencement.

COLLABORATIONS

Climate Action 100+ March 2022 assessments

The Climate Action 100+ initiative was initiated in 2017 to engage some of the world's highest corporate emitters. The initiative recently shared their timeline for the March 2022 assessments, noting limited changes to the Benchmark assessment criteria. Preliminary analysis began in September, with companies invited to provide additional disclosure by 31 December. Company assessments will be finalised during January and February 2022 and publicly released in March.

Workforce Disclosure Initiative (WDI) development of workforce-related reporting

The WDI aims to improve corporate transparency and accountability on workforce issues, provide companies and investors with comprehensive and comparable data and help increase the provision of good jobs worldwide. The initiative has seen an increase in support and is now backed by 62 investors with over $8.6 trillion in assets under management.

The latest annual survey saw responses from 173 global companies, a 23% increase on 2020. 50 FTSE100 companies disclosed employee data up from 39 in 2018. Some companies are in discussions with WDI with a view to future disclosure, but most listed companies are still not disclosing workforce data. Investors will continue to engage with companies seen as laggards to encourage disclosure of this important data.

In October, the WDI joined the Secretariat supporting the Project Taskforce on European Sustainability Reporting Standards, working towards compiling a series of recommended indicators to ensure companies properly account for how they treat their staff and suppliers.

Transition Pathway Initiative (TPI) publishes energy sector report

TPI published its analysis of major energy companies' transition plans, the first using the TPI's 1.5°C benchmark. This found that only 10% of companies were aligned with a pathway to keep global warming to 1.5°C.

Our Partners

WDI

ROBECO

Signatory of:

PRI Principles for Responsible Investment

IIGCC

Transition Pathway Initiative

Local Authority Pension Fund Forum

30% Club GROWTH THROUGH DIVERSITY

Climate Action 100+ Global Investors Driving Business Transition

INVESTOR MINING & TAILINGS SAFETY INITIATIVE

Occupational Pensions Stewardship Council

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

OUR PARTNER FUNDS

Tyne Bridge, Newcastle upon Tyne