

**Q1
2022**

BORDER TO COAST

QUARTERLY STEWARDSHIP REPORT



PENSIONS PARTNERSHIP



**Chesterton Windmill,
Warwickshire**

OUR APPROACH TO RESPONSIBLE INVESTMENT

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 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.

Integration

We are a strong advocate of Responsible Investment (RI) and believe businesses that are well-governed 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 we believe 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 external 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](#), [Corporate Governance & Voting Guidelines](#), and [Climate Change Policy](#), all of which can be viewed on our website.





Surrey Hills, Surrey

QUARTERLY OVERVIEW

Our Investment Activity

Our £1.4bn Listed Alternatives Fund was launched in mid-March, expanding the investment opportunities available to our Partner Funds.

The Fund provides exposure to a diversified portfolio of investments, in sectors such as renewable energy, digital infrastructure, specialist healthcare, real estate, private equity, and alternative credit. These sectors tap into key long-term structural themes. For example, the current portfolio gives investors access to 40GW of wind power and 14GW of solar power to enable the net zero transition and 2,400 healthcare facilities needed to support the ageing global population.

Meeting High Standards

As a long-term investor, and representative of our 11 Partner Funds, we practice active ownership by holding companies and external managers to account on issues that have the potential to impact corporate value. We are, therefore, pleased that our work in this area has been recognised by the Financial Reporting Council and we have been accepted as a signatory to the UK Stewardship Code.

Additionally, we are proud that Border to Coast's commitment to embedding transparency, integrity, and accountability into its governance framework was recognised with a Good Governance Award at the annual LAMP Investment Awards.

Voting

March saw the start of peak season voting with our strengthened voting guidelines now in place. We voted on 121 meetings over the quarter, covering 1,398 agenda items.

Engagement

327 company engagements were carried out over the quarter. Discussions were not dominated by a single topic, with social-related themes given an increased focus alongside environmental, strategic, and governance-related considerations.

Collaboration

Climate Action 100+ published the second round of Net Zero Company Benchmark assessments during March. The results show some corporate climate progress against key climate indicators, but find much more action is required to support efforts to limit temperature rise to 1.5°C.

In line with our new voting guidelines, we will vote against company Chairs in high emitting sectors where the climate change policy does not meet our minimum standards. Where a company covered by the initiative fails the first four indicators of the Benchmark, we will also vote against the Chair of the board.

People News

Jane Firth, our Head of Responsible Investment, took part in an ESG masterclass in March, hosted by AssetTV. The masterclass, which also included specialists from fellow pool, London CIV and one of our external managers for our Sterling Investment Grade Credit Fund, Royal London Asset Management, discussed engaging on net zero and securing a just transition. The masterclass is available to view online [here](#).

To support our work embedding responsible investment, we are looking to expand the Responsible Investment team. Additional roles will focus on further developing our stewardship capabilities and supporting our Net Zero commitment.

INDUSTRY UPDATE

War in Ukraine

On 1st March we made a statement strongly condemning the invasion of Ukraine by Russia. In response, we suspended any further investments in Russia, and we continue to review our existing holdings, including our approach to exiting, as and when markets permit. We are also continuing to keep our approach to stewardship with Russian companies under review.

IPCC Assessment Report

The Intergovernmental Panel on Climate Change (IPCC) recently finalised the second and third parts of the Sixth Assessment Report on climate change for 2022: **Impacts, Adaptation and Vulnerability** and **Mitigation of Climate Change**. The latter made clear that greenhouse gas emissions must stop rising before 2025 if the world is to avoid the worst impacts of climate change. The COP27 summit, being held in Egypt later this year, is a crucial opportunity for governments to work together to make progress.

TNFD Framework

The Taskforce on Nature-related Financial Disclosures (TNFD) is a global initiative, with the aim of developing a risk management and disclosure framework for reporting and acting on nature-related risks and opportunities. March saw the release of the first beta version of its **framework**.

The framework consists of three main components; key science-based concepts to enable users to define nature-based risks and opportunities; disclosure recommendations that are in alignment with the Task Force on Climate-Related Financial Disclosures (TCFD) reporting framework; and guidance on how nature can be incorporated into enterprise risk and portfolio management processes.

It is expected that the beta framework will be modified over the next 18 months in response to the experiences of testers, with the finalised framework scheduled for release in late 2023. We will be monitoring progress throughout the testing period.

Enhancing Sustainability Disclosure

The establishment of the International Sustainability Standards Board (ISSB), which was announced at COP26 in November 2021, was seen as a major step to a single set of global ESG reporting standards.

The ISSB has now launched a **consultation** on its first two proposed standards: one setting out general disclosure requirements and the other specifying climate-related disclosure requirements. The proposals build upon the recommendations of the TCFD and incorporate industry-based disclosure requirements, derived from the Sustainability Accounting Standards Board (SASB) standards.

Additionally, the US Securities and Exchange Commission (SEC) recently announced **proposals** requiring companies to disclose climate-related information in their filings. Proposed disclosures, which would be subject to third-party attestation, include an assessment of:

- Climate-related risks deemed likely to have a material impact on the company's operations.
- The actual and potential impacts of those risks on the company's strategy and business model
- The company's governance of climate-related risks and relevant risk management processes.

The proposed disclosure enhancements have attracted significant attention across the industry and with both the ISSB and SEC building upon the existing TCFD framework, it is hoped that a standardised approach to such disclosures will become mainstream.



Carlisle, Cumbria

OUR VOTING

Overview

The first quarter saw the end of peak AGM voting season for Asia Pacific (APAC) and Oceania. Approximately 41% of the 121 total meetings were voted in this region. The total number of agenda items voted was 1,398, and at 60% of meetings we voted against management on at least one resolution. Most of the votes against management were linked to individual board member nominations (41%), and compensation related proposals (20%).

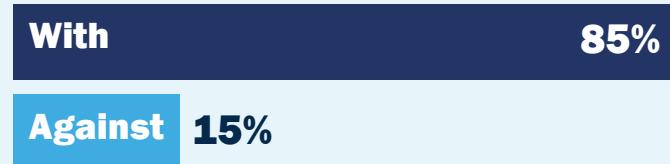
Climate Expectations

The early part of 2022 has seen voter expectations shift from the setting of long-term carbon reduction targets, to establishing credible plans to meet these targets in the short and medium term. Several companies are beginning to put their climate transition plans up to vote for the second year running. The so-called “Say on Climate” proposals are expected to attract a higher degree of scrutiny in 2022 compared to last year, where many investors gave companies a grace period by supporting proposals.

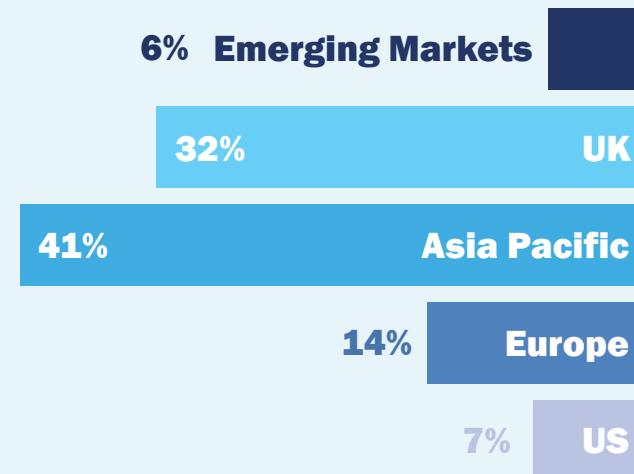
‘S’ in the Spotlight

‘Social’ issues have historically been given less scrutiny by investors than environmental and governance-related considerations. However, due to the ongoing pandemic and some governments’ agendas in this area, awareness has been raised on how a company treats and manages its workforce. This has led to an increasing focus on social and labour issues at AGMs. Institutional investors have been leading a rise in proposals focusing on such issues, driven by systemic improvements in their own stewardship policies. This year sees a sustained focus on diversity, equity, and inclusion (DEI) with requests for increased disclosure and racial equity audits. There have been several proposals on AGM ballots already this year asking for racial equity audits, including at Apple Inc where the proposal was passed with just under 54% support from shareholders who cast a vote and did not abstain.

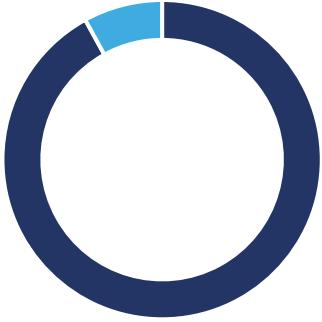
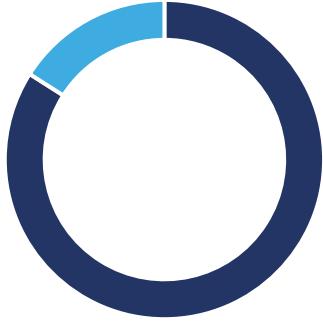
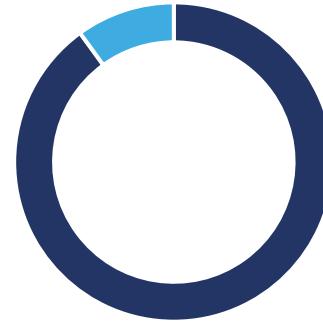
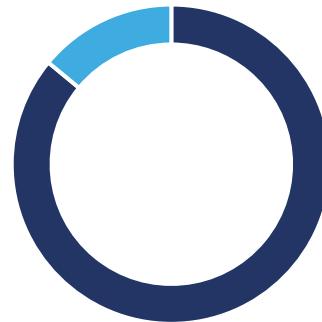
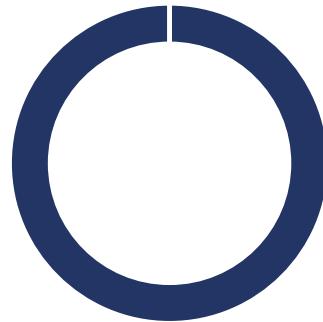
Resolution votes with & against management



Voting activity by region



QUARTERLY VOTES BY FUND

UK Listed Equity Fund	Overseas Developed Markets Equity Fund	Emerging Markets Equity Fund	UK Listed Equity Alpha Fund	Global Equity Alpha Fund	Listed Alternatives Fund
Meetings: 13	Meetings: 47	Meetings: 28	Meetings: 32	Meetings: 17	Meetings: 1
Items Voted: 196	Items Voted: 621	Items Voted: 171	Items Voted: 420	Items Voted: 255	Items Voted: 1
Approx. size: £4.2bn*	Approx. size: £5.2bn*	Approx. size: £1.0bn*	Approx. size: £1.4bn*	Approx. size: £6.5bn*	Approx. size: £1.4bn*
					
Votes with & against management	Votes with & against management	Votes with & against management	Votes with & against management	Votes with & against management	Votes with & against management
With: 92%	With: 84%	With: 59%	With: 90%	With: 86%	With: 100%
Against: 8%	Against: 16%	Against: 41%	Against: 10%	Against: 14%	Against: 0%
Resolutions by Category	Resolutions by Category	Resolutions by Category	Resolutions by Category	Resolutions by Category	Resolutions by Category
Board Related: 11%	Board Related: 57%	Board Related: 28%	Board Related: 33%	Board Related: 38%	Board Related: 0%
Audit: 11%	Audit: 20%	Audit: 12%	Audit: 10%	Audit: 17%	Audit: 0%
Capital Management: 11%	Capital Management: 0%	Capital Management: 24%	Capital Management: 0%	Capital Management: 0%	Capital Management: 0%
Executive Pay: 17%	Executive Pay: 16%	Executive Pay: 20%	Executive Pay: 29%	Executive Pay: 25%	Executive Pay: 0%
Other: 50%	Other: 7%	Other: 16%	Other: 28%	Other: 20%	Other: 0%

* Size of Fund as at 31 March 2022

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

VOTING HIGHLIGHTS

Costco Wholesale Corp (Overseas Developed and Global Equity Alpha)

Costco Wholesale Corporation (“Costco”) operates wholesale membership warehouses across multiple countries.

What did we do? We supported the shareholder resolution requesting the adoption of short, medium, and long-term reductions in greenhouse gas (GHG) emissions.

Our view: This was seen as a landmark proposal as it is the first directly requesting a company to set emission reduction targets that also include the full value chain. Costco is seen as lagging its competitors on its approach to climate risk; lacking science-based emissions reduction targets and not accounting for emissions related to agriculture, land use change, and deforestation across its supply chains. We supported this resolution as the adoption of a plan further encourages the development of GHG emissions reductions goals, and reporting would provide transparency on the Company’s plan.

Voting outcome: The proposal received just over 70% support by shareholders at the AGM. This sends a strong signal that investors expect the Company to act and set ambitious climate targets, including for its supply chain.

Apple Inc (Overseas Developed)

Apple Inc. is a U.S. multinational technology company, that designs, manufactures, and markets consumer electronics, computer software, and online services.

What did we do? We voted against the executive compensation report, due to the structure of the remuneration package and the high quantum of total compensation.

Our view: We were concerned by the high quantum of total compensation for all named executive officers (NEOs) and the CEO. The compensation committee justified the high compensation levels based on the size, performance, and profitability of the company; however, we had concerns on the total remuneration package of the CEO. This was more than double the amount paid by Apple’s self-disclosed peer group.

We also had concerns that the long-term incentive (LTI) plan is overly reliant on only one relative metric (total shareholder return).

Voting outcome: Approximately 36% of shareholders voted against the advisory vote on executive compensation, sending a strong message to the Company’s on its consistent failure to address the remuneration design issues.



Great Ouse, Bedfordshire

OUR 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.
 - We are members of the Local Authority Pension Fund Forum (LAPFF), a forum for Local Government Pension Funds, and the UK's largest collaborative shareholder engagement forum. LAPFF engages across a broad range of ESG themes on behalf of its members, 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 01.01.22 to 31.03.22

Breakdown of Engagements



Breakdown by topic



Breakdown by region



Breakdown by type



ENGAGEMENT IN FOCUS

Engagement Theme Update: Global Controversy

Events such as the war in Ukraine, the military regime in Myanmar, and the climate crisis have driven a renewed focus on the social responsibility of companies and their operations. In response to this, our voting and engagement partner, Robeco, has recently updated its approach to assessing the behaviour of companies through their enhanced engagement program. This new approach aims to ensure robust governance around oversight, alongside strengthened assessment of a company's behaviour with respect to commonly accepted international norms and ethical standards, such as the [UN Global Compact \(UNGC\)](#) and [Organisation for Economic Co-operation and Development \(OECD\) Guidelines](#).

Specifically, the updated approach includes:

- A strengthened oversight through a newly-established Controversial Behaviour Committee, focusing on assessment of company behaviour and implications.
- The sourcing of robust data on UN Global Compact and OECD Guidelines breaches
- Onboarding a dedicated controversy engagement specialist to lead the renewed process and enhanced engagements with companies.

Engagement Theme Closure: Single-Use Plastics

In 2019, Robeco launched an engagement program with a focus on achieving a material shift towards a more circular plastic packaging model, with a view to addressing the waste issue of single-use plastics.

Active dialogue was held with several companies, encouraging collaboration with each other, governments, NGOs and other stakeholders along the plastic value chain on topics such as innovation, recycling and lobbying for regulatory change.

Five of our portfolio companies were included in the scope of the engagement (Danone, Henkel, Nestle, PepsiCo, and Proctor & Gamble) and after three years of engagement, positive progress was seen in all five companies in a variety of areas, examples include:

- **Nestle:** Made progress in its roadmap to eliminate harmful plastics and deforestation mitigation. The process is expected to complete in 2024 through fully eliminating products made up of a mix of plastics and papers, including laminates, caps and pvc liners.
- **PepsiCo:** Has established best practice in avoiding waste via its SodaStream platform. The platform enables users to track their intake, set goals and measure their positive environmental contribution via plastic bottles avoided.



Buttermere, Cumbria



Walltown Crag, Northumberland

OUR INITIATIVES & COLLABORATIONS



Signatory of:



STEWARDSHIP
CODE | 2021

ROBECO

Signatory of:



Occupational
Pensions
Stewardship
Council

INVESTOR MINING
& TAILINGS SAFETY
INITIATIVE



TCFD | TASK FORCE ON
CLIMATE-RELATED
FINANCIAL
DISCLOSURES



OUR PARTNER FUNDS



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Coatham, Teesside