# BORDER TO COAST

## RESPONSIBLE INVESTMENT AND STEWARDSHIP REPORT

**2021 2022**

BORDER TO COAST
PENSIONS PARTNERSHIP

# FOREWORD

**Rachel Elwell**
CEO

**Building anything new can be a challenge: for example an FCA-regulated asset manager, responsible for £38.3bn of investments, in just four years. But it also offers great freedom to embed the right way of doing things from the very beginning.**

Established in 2018, and as one of the UK's largest Local Government Pension Scheme (LGPS) pools, we are in the privileged position of being able to forge a new path for the LGPS. There was no blueprint for how pooling should be done in the UK, and together with our Partner Funds we have embraced the opportunity to build a business designed to make a difference for the long term. Embedding responsible investment and stewardship into our investment process is key to achieving this.

### Investing responsibly for the long term

Investing on behalf of open-ended defined benefit pension schemes, our focus is on delivering long-term and sustainable investment returns.

Over the year we have continued to develop our approach. In addition to our wider Responsible Investment Policy and Corporate Voting Guidelines, we published our first standalone Climate Change Policy in September 2021, which details our approach to managing the risks and opportunities associated with climate change.

I'm also delighted that at the same time we committed to achieving net zero greenhouse gas emissions across our investment portfolios by 2050 or sooner. We are working with like-minded investors to drive positive change in the companies we invest in, engage with policymakers and regulators to highlight where systemic solutions are required, and seek to understand how developed economies can support developing and emerging markets in this essential journey.

Hadrian's Wall, Tyne & Wear

## Stronger together

Collaboration is one of our core values at Border to Coast, and we use our collective scale to influence the firms we invest with and in to drive real change.

This year we revised our Responsible Investment Policies to further strengthen our voting approach and engagement activities, including strengthening our voting stance on companies that fail to act on climate change or improve boardroom diversity.

Working with our Partner Funds, we also published our four priority engagement themes: Low carbon transition; Waste and water management; Social inclusion and labour management; and Diversity of thought; all of which have the potential to have material financial impact on Partner Fund investment outcomes and will also support us in focusing our efforts in areas we believe we can have a real impact.

## Making progress

Despite our relative youth, we continue to make significant progress in our approach to Responsible Investment. This was recognised when we were accepted as a signatory to the FRC's Stewardship Code, for firms able to effectively demonstrate their stewardship activity and outcomes.

Reflecting our net zero pledge, later in 2022 we will publish our net zero roadmap, outlining the steps we will take to deliver this commitment.

More widely, we continue to develop our approach to Responsible Investment through our four strategic pillars of integrating environmental, social and governance factors; active ownership; industry engagement; and reporting and governance.

Border to Coast, as our full name suggests, is a partnership. We could not have made the progress we've made without the support and advice of our partners. Continued co-operation and collaboration will be essential as we continue to be an active steward and seek to make a difference with the collective voice that pooling brings.

**Rachel Elwell**
**Chief Executive Officer**

Lake District, Cumbria

## Contents



Our report has images from the areas represented by our Partner Funds.

Front cover: Pegsdon Hills, Bedfordshire

# HIGHLIGHTS

Commitment to
**Net Zero by 2050**

Responsible for investing
**£38.3bn**

Number of collaborative initiatives supported
**11**

Total number of resolutions voted
**12,206**

Total number of meetings voted
**930**

Total number of engagements
**1,672**

Signatory to the
**2020 UK Stewardship Code**

PRI scores
**A and A+**

Joined
**Net Zero Asset Managers Initiative**

Cockshaw Hill, North Yorkshire

# ABOUT US

## Who we are

Border to Coast Pensions Partnership was created to pool the investments of like-minded Local Government Pension Scheme ('LGPS') funds: our 'Partner Funds'. Established in 2018, we are one of the largest LGPS pools in the UK. As a customer-owned, customer-focused organisation, everything we do is for the benefit of our Partner Funds.

## Our purpose

Our purpose is to make a difference for the LGPS. We seek to do this by providing cost-effective, innovative, and responsible investment opportunities that deliver returns over the long-term. This is on behalf of the more than one million LGPS members, over 2,700 employers, and millions of taxpayers associated with our Partner Funds. We are regulated by the Financial Conduct Authority ('FCA').

## What we do

The work Border to Coast undertakes is centred on ensuring we deliver on our purpose by building a sustainable organisation that invests in a responsible manner.

To date, we have launched nine propositions across public equity and fixed income and four private markets-focussed portfolios. We also provide investment advisory services to our Partner Funds.

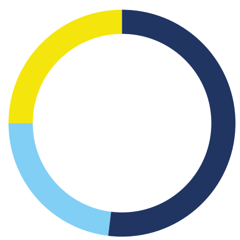
## Delivering for our Partner Funds

The initial aims of pooling in the LGPS were to deliver value for money, expand investment opportunities, and strengthen governance and risk management. In the past year we have delivered net savings of £14m for our Partner Funds and remain on track to deliver £110m of savings in the first decade of pooling, and £250m in the first 15 years.

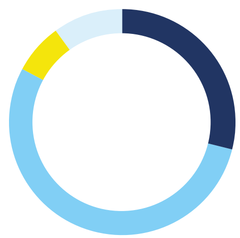
## Our investments

Our Partner Funds have c.£60bn in investments, of which Border to Coast are directly responsible for the management of £38.3bn. We also provide support and advice on a further £8.7bn, primarily invested in index funds, which sit outside of the pool.

### Asset Allocation by Asset Class




### Asset Allocation by Region: Equity and Fixed Income




### Asset Allocation by Region: Private Markets (Series 1 Commitments)

# OUR VALUES AND PHILOSOPHY


Gibraltar Point, Lincolnshire

### Our values

Our values underpin everything we do and ensure we can deliver on our purpose, to make a difference for the Local Government Pensions Scheme. They guide our judgements and build trust as a customer-owned, customer focused organisation.

### We are collaborative:

We depend on each other and build open and effective partnerships, both internally and externally.

### We act with integrity:

We do the right things for the right reasons and are transparent, fostering trust, respect, and confidence.

### We are sustainable:

We make decisions for the long term and invest in our people to deliver success for our Partner Funds.


### Our investment philosophy

Our investment philosophy is shaped by the needs of our Partner Funds. Their investment horizon is better measured in years and decades than months and quarters, as the invested assets are intended to fund pension payments for scheme members many years into the future – in some cases into the next century. As such, a deep understanding of the investments we make and the third parties we work with is crucial in developing and managing portfolios.

We believe that environmental, social and governance ('ESG') issues can have a material impact on the value of financial assets and on the long-term performance of investment portfolios, and so we embed these into our investment process. As the representative of asset owners, we also act as an active steward, engaging with companies to drive real positive changes and unlock greater value.

# OUR GOVERNANCE

Strong governance is fundamental to building a sustainable organisation and is an area we keep under regular review.

### Oversight

Border to Coast's performance as a Company is overseen by the Board, which is appointed by its shareholders. Our investment performance and capability are overseen by the Partner Funds by each Fund's pensions officer and, on a quarterly basis, by a Joint Committee, which is constituted of elected member representatives from each of the Partner Funds.

Oversight of responsible investment ('RI') is carried out by the Board and Investment Committee and is a regular agenda item at meetings with reports to the Chief Investment Officer ('CIO'), the Investment Committee, Board, Joint Committee and Partner Funds.

Our internal procedures and controls for stewardship activities are reviewed by our external auditor as part of the assurance report on our internal controls (AAF).

### Development

Our approach to RI, which includes stewardship, is developed in collaboration with our Partner Funds and implemented through our Responsible Investment Policy, Corporate Governance and Voting Guidelines ('Voting Guidelines') and Climate Change Policy, which are formally approved by the Board. The CIO is accountable for implementation of the policies which are reviewed at least annually.

### Resourcing and incentives

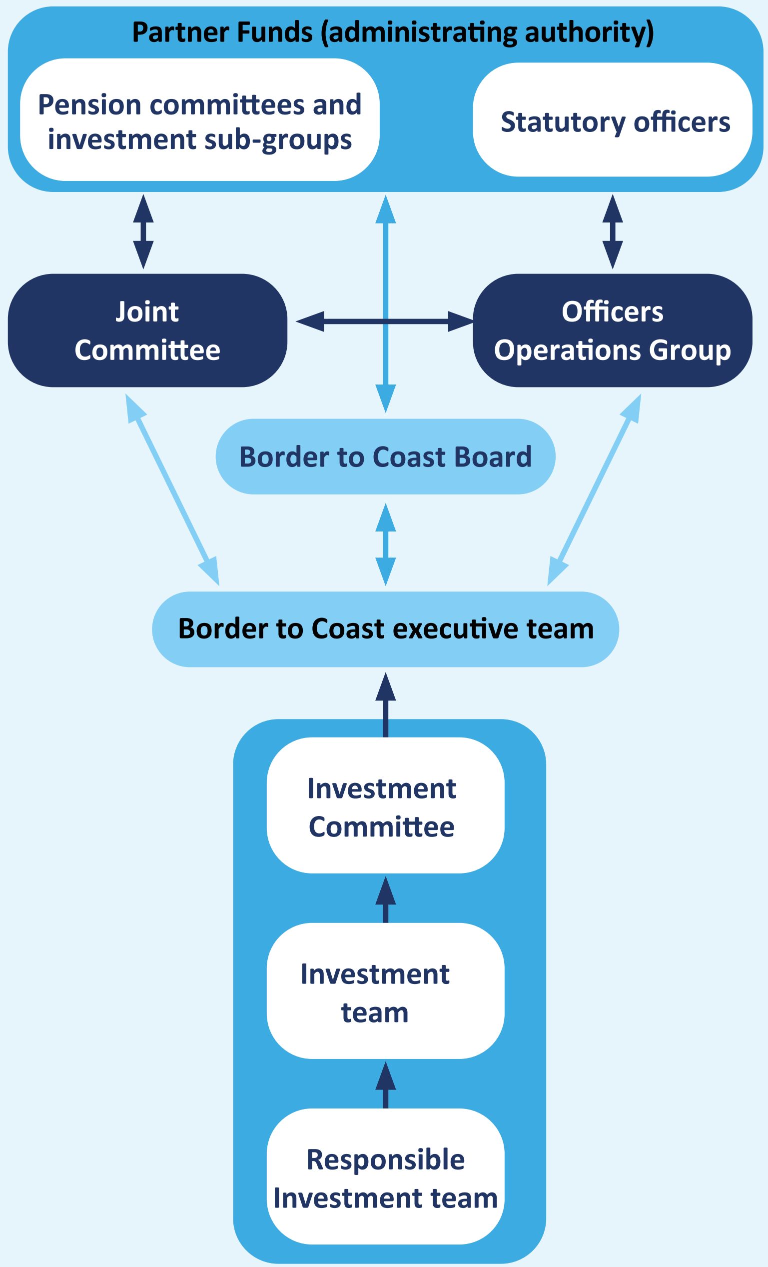
Stewardship and RI are embedded in individual and team responsibilities. Border to Coast does not operate a performance-related pay model; however, adherence to RI and stewardship policies forms a key part of the annual objective setting and performance review process for investment, risk, and senior executive colleagues.

To support our integration efforts, we have a dedicated Responsible Investment team which sits within the Investment Team and acts as a centre of expertise and helps manage and co-ordinate our activities. This team is headed by Jane Firth, our Head of Responsible Investment, and is supported by our voting and engagement provider and our other strategic partners.

### Training

Training and development for the Investment Team, Board, Partner Fund officers and committees is supported by the Responsible Investment team through regular meetings and workshops. Such meetings are often led by the team with additional support and input from our strategic partners and other experts, where appropriate. For example, in October 2021, one of the Global Equity Alpha Fund managers presented to our Investment Team on Net Zero and the Road to 2030.

### Governance of responsible investment



## Diversity and inclusion

We recruit based on talent and merit. 62% of our Board, and 38% of our senior leadership team are women. Equality, diversity, and inclusion are amongst our strengths, recognised by the Investment Association and internally by colleagues.

We are proactively building on this as well as developing reporting, actioning any areas of under-representation, and continuing to access a wide talent pool through our Graduate Programme. We seek to improve diversity by ensuring recruitment for our Graduate Programme is a fair and level playing field; 60% of graduate trainees are from minority ethnic backgrounds. In the absence of a graduate cohort in 2021 we offered two internships to women via the GAIN (Girls Are Investors) charity in summer 2021.

## External providers

### Proxy voting and engagement

Border to Coast has appointed Robeco as our Voting and Engagement provider to implement our detailed voting guidelines, ensure votes are executed in accordance with policies and to carry out engagement with companies on our behalf. Robeco evaluates their proxy voting agent at least annually, on the quality of governance research and the alignment of customised voting recommendations and Border to Coast's Voting Guidelines. This review is part of Robeco's control framework and is externally assured. Robeco also undertakes verification of active ownership activities and has an annual external audit of its active ownership controls; this audit is part of the annual International Standard on Assurance Engagements control framework. Border to Coast monitors the services provided by Robeco weekly, through individual vote assessments, monthly operations calls, six-monthly and annual reviews.

### External managers

RI is incorporated into our external manager selection and appointment process, assessing each manager on their firm-level policies, research capabilities, approach to RI integration and approach to stewardship. Voting rights on externally managed equities are retained by Border to Coast and voted according to the Voting Guidelines; however, we will monitor how managers vote to determine if they are aligned with our approach. We expect external managers to engage with companies in alignment with the Border to Coast RI policy, whether they manage an equity or fixed income mandate.

Oversight of external managers is carried out by both the External Management team and Responsible Investment team; managers are required to report to Border to Coast on their RI activities at least quarterly, with a full review conducted on an annual basis. More detail on this process is covered later in this report.

St Judes Chapel, Durham


## Managing Conflicts of Interest

### Policies and approach

We have appropriate arrangements in place to ensure all reasonable steps are taken to prevent both business and colleague, including Board member, conflicts of interest from affecting the interests of our customers. Our Conflicts of Interest Policy is approved by our Partner Funds as Shareholders. We take steps to identify, avoid and manage any real or potential conflicts fairly and effectively. In addition, we have other supporting policies to avoid and manage conflicts of interest including Personal Account Dealing, Gifts and Hospitality, Market Abuse and Insider Dealing. The Conflicts of Interest Policy is updated annually. These reviews consider changes to the business model, or any enhancements identified from internal reviews, such as Internal Audit or Compliance Monitoring reports.

Conflicts may arise between Border to Coast and the duty we owe our customers; firms connected to Border to Coast and the duty owed to customers; or duties owed by one customer to another. Examples of where potential conflicts may arise include but are not restricted to:

- development of new investment propositions.
- personal account dealing.
- substantial gifts and hospitality received that may influence behaviour.
- insider information used to make a financial gain or avoid a loss.

### Stewardship conflicts

We recognise that in carrying out our stewardship activities, potential conflicts may arise. Examples include:

- Border to Coast colleagues may have a personal or professional link to a company included in an engagement programme or whose shares we vote.
- Engaging with company management results in becoming an 'insider'.
- In certain circumstances, Border to Coast may cast votes differently for separate sub-funds at the same shareholder meeting, to reflect differing investment outcomes or strategies among portfolio managers and investment processes, or for other technical reasons.

All colleagues receive training as part of their induction to Border to Coast and regular mandatory training to assist in identifying, preventing, or managing conflicts. Any actual or potential colleague conflicts are reported by colleagues to the Head of Compliance or, in the case of Directors, the Company Secretary. Each conflict will be prevented or managed, and the full details logged in the conflicts of interest register held by the Compliance department. This is overseen by the Board Risk Committee. Conflicts will be escalated to the appropriate senior stakeholders, when necessary. If a conflict of interest cannot be managed or prevented, the conflict will be disclosed to the affected customers.

# OUR APPROACH TO RESPONSIBLE INVESTMENT

Responsible investment is the practice of incorporating ESG factors into the investment decision making process and being an active steward of investment holdings. The implementation of RI enables us to better manage risk, with a view to generating sustainable, long-term returns.

The Border to Coast Responsible Investment Policy sets out our approach to RI and stewardship to help us manage risk and generate long-term returns for our Partner Funds.

More information and details of our approach to RI are available on our website.

Links to both our Responsible Investment Policy and Voting Guidelines can be found here:

**Responsible Investment Policy**

**Corporate Governance and Voting Guidelines**

### Identifying and monitoring risk

We horizon-scan for risks relating to market-wide or regulatory-related material impacts and actively monitor for ESG-related risks across our asset classes.

### ESG integration

We use ESG considerations to enhance our investment process. This ensures we use relevant information to inform our investment decisions, enabling us to better understand the risks and opportunities across the asset classes in which we operate.

### Engagement

We believe in engagement over divestment. We engage with the firms we invest in, policy makers, regulators and other market participants to influence company behaviours and to help create a stable environment to enhance long-term portfolio returns.

### Collaboration

We seek to amplify our voice through working with other, like-minded investors.

### Voting

Where practicable, we aim to vote in all markets in which we invest. We retain the ability to exercise our voting rights on company shares, including those managed externally.

### Reporting

We aim to be transparent, making our RI and voting policies publicly available along with reporting on engagement and voting activity.

# IMPLEMENTATION OF RESPONSIBLE INVESTMENT

We continue on our journey to integrate responsible investment into our investment process, incorporating ESG-related factors into investment decisions across portfolios and asset classes.

## Identifying market-wide risks

Investors have an important role in supporting well functioning markets and there is increasing expectation from regulators and stakeholders on the role investors need to play in this area. All business areas are responsible for identifying risks, with senior managers accountable for the identification, assessment, and management of risks within their span of control. Risks are identified via several processes, including horizon scanning, strategic planning, emerging risk processes, our risk and control self-assessment process, and the Internal Capital Adequacy Assessment Process ('ICAP'), which was replaced by the Internal Capital and Risk Assessment ('CARA') process from 1st January 2022.

Identified risks are classified into specific types of risk which are managed in line with the Company's Risk Management Framework. Our overall risk profile is reported to the Board Risk Committee on a quarterly basis, where it is subject to review and challenge.

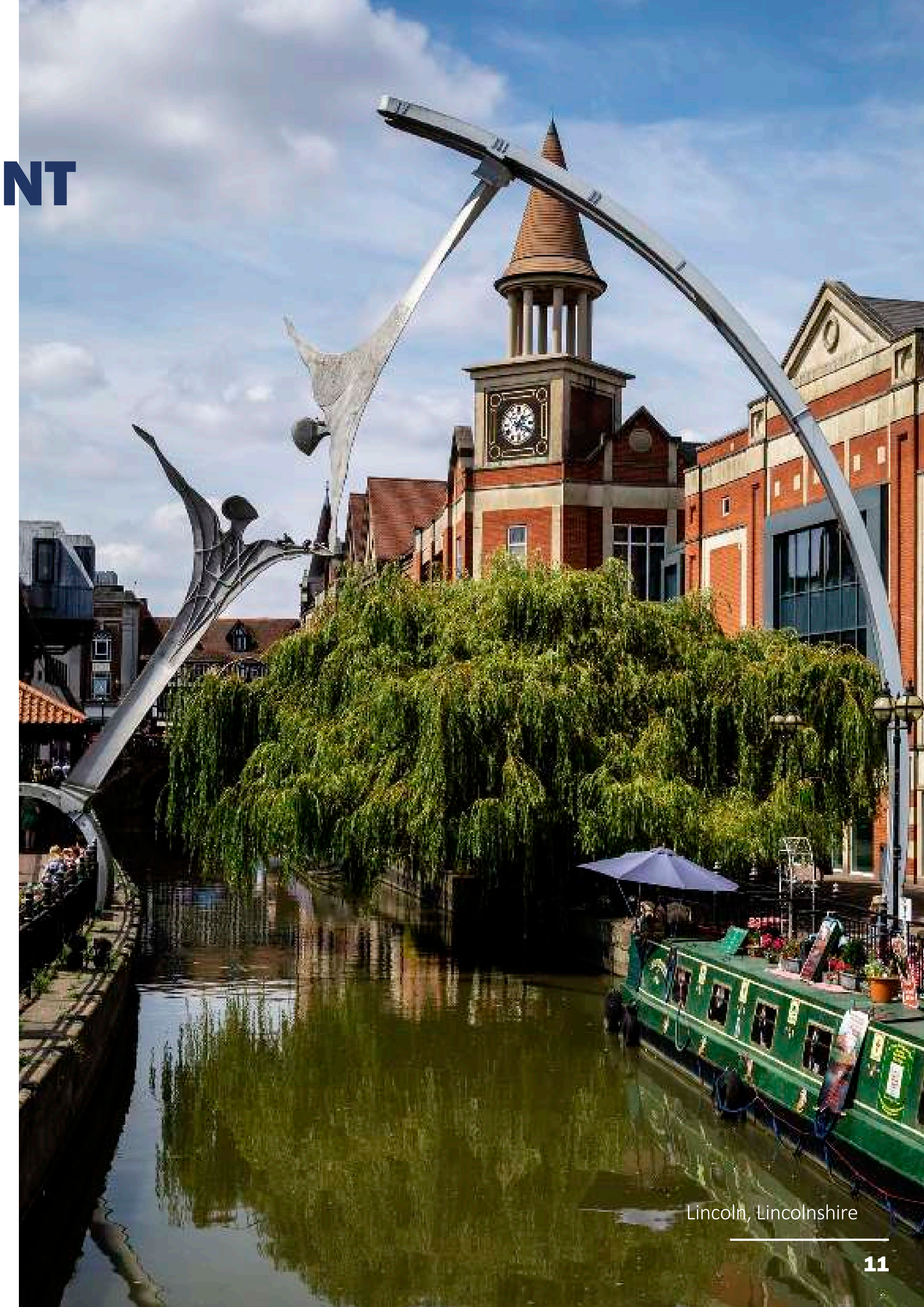
We actively horizon scan for emerging risks, opportunities and regulations which have the potential to impact markets and our ability to deliver desired customer outcomes. We do this through a variety of means, including but not limited to:

### Research

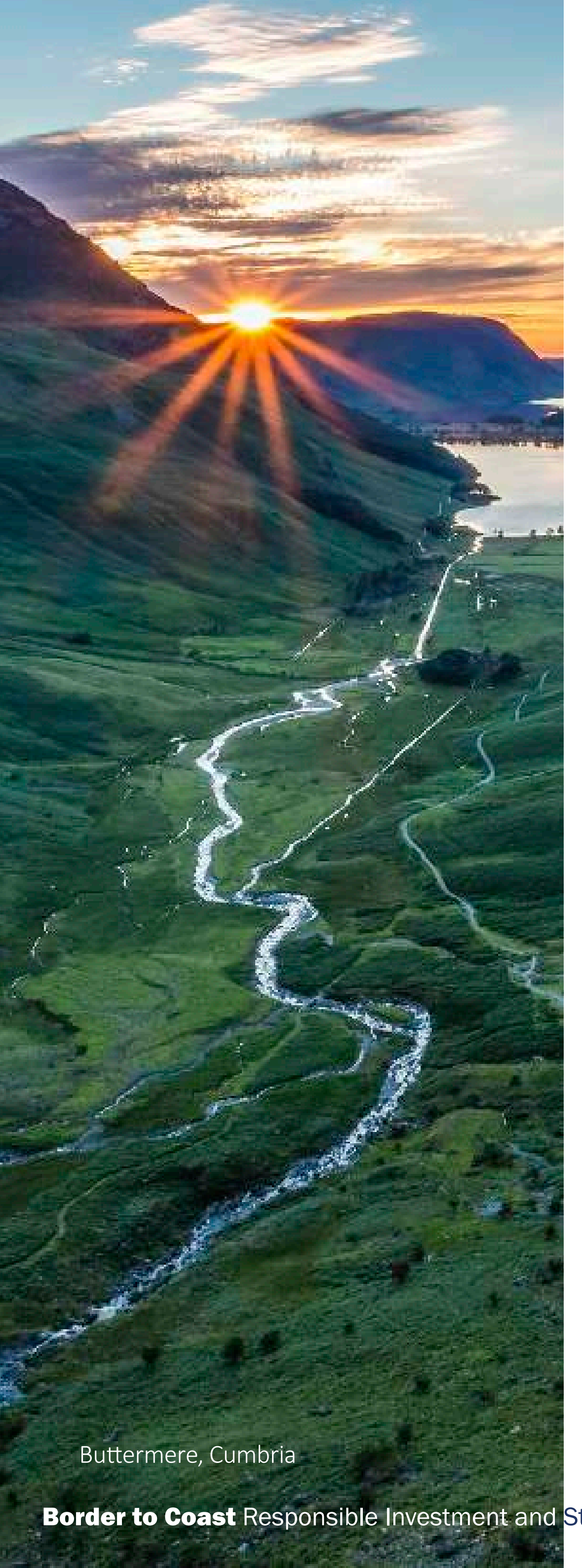
Our Investment, Portfolio Risk and Operations teams all have access to Bloomberg, providing real-time market data directly to their workspace. The Investment Team also has access to ESG and carbon data from MSCI, and a range of other third-party research providers and publications. Engagement information from Robeco is also shared with the Team, all of which support an informed view.

### Initiatives

Border to Coast is an active member of a variety of initiatives, which provide a forum for the discovery and discussion of market-wide risks. For example, we are members of the Investment Association, the trade body that represents UK investment managers. Our CEO, Rachel Elwell, sits on the Investment Association Board and our Head of Responsible Investment, Jane Firth, sits on the Investment Association stewardship committee as an asset owner representative.



Lincoln, Lincolnshire



Buttermere, Cumbria

### Across-teams forums

Border to Coast manages investments across a wide range of asset classes. Our Investment Team is therefore equipped with skills and experience across the market. We hold regular Investment Team meetings, with a focus on attendees discussing the environment they are facing currently and what material risks and/or opportunities are currently prevalent in their asset classes.

## Internally Managed Assets

ESG factors tend to be longer term in nature and can create both risks and opportunities. It is therefore important that, as a long-term investor, we take them into account when analysing potential investments. The factors considered are those which could cause financial and reputational risk, ultimately resulting in a reduction in shareholder value.

### Listed Equity

We seek to understand and evaluate the ESG-related business risks and opportunities companies face. We consider the integration of ESG factors into the investment process as a necessary complement to the traditional financial evaluation of assets; this results in a more informed investment decision-making process. Rather than being used to preclude certain investments, it is used to provide additional context for stock selection.

ESG data and research from specialist providers is used alongside general stock and sector research; it is an integral part of the research process and when considering portfolio construction, sector analysis and stock selection. The Head of Responsible Investment works with colleagues to ensure they are knowledgeable and fully informed on ESG issues. Voting and engagement is not detached from the investment process; information from engagement meetings is shared with the team to increase and maintain knowledge, and portfolio managers are actively involved in the voting process on a weekly basis.

### Fixed Income

ESG factors can have a material impact on the investment performance of bonds, both negatively and positively, at the issuer, sector, and geographic levels. ESG analysis is therefore incorporated into the investment process for corporate and sovereign issuers.

The challenges of integrating ESG in practice are greater than for equities with the availability of data for some markets lacking. The approach to engagement also differs as engagement with sovereigns is more challenging than with companies. Third-party ESG data is used along with information from sources including UN bodies, the World Bank, and other similar organisations. This together with traditional credit analysis is used to determine a bond’s credit quality. Information is shared between the equity and fixed income teams regarding issues which have the potential to impact corporate and sovereign bond performance.

## Externally Managed Assets

RI is incorporated into the external manager appointment process including the request for proposal (RFP) criteria and scoring and the investment management agreements. The RFP includes specific requirements relating to the integration of ESG by managers into the investment process and their approach to engagement. We expect to see evidence of how material ESG issues are considered in research analysis and investment decisions. Engagement is expected to be structured with clear aims, objectives, and milestones.

While voting rights are retained by Border to Coast for externally managed equities, we monitor external manager voting activity on a quarterly basis to assess alignment and we expect external managers to engage with companies in accordance with the Border to Coast RI Policy and priority engagement themes.

The monitoring of appointed managers includes assessing stewardship and ESG integration in accordance with our policies. All external managers are expected to be/become signatories or comply with international standards applicable to their geographical location. We also encourage managers to become signatories to the UN-supported Principles for Responsible Investment (‘PRI’). Managers are required to report to Border to Coast on their RI activities on a quarterly basis.

To tackle the lack of consistency in industry reporting, we have developed our own monitoring framework, standardising our assessment of external managers. This enables better comparability on ESG and climate risk assessment, demonstration of ESG integration, engagement and voting activity.

## Private Markets

The assessment of ESG issues is integrated into the investment process for all private market investments. A manager's ESG strategy is assessed through a specific ESG questionnaire, agreed with the Head of Responsible Investment, and reviewed by the Alternatives investment team. This year we implemented our internally developed ESG Scorecard which allows us to evaluate managers' ESG capabilities and target areas for improvement. Managers are requested to report annually on the progress and outcomes of ESG-related values and any potential risks. Ongoing monitoring includes identifying possible ESG breaches and following up with the managers concerned, as well as tracking improvements and targets met.

We recognise that RI is a growing challenge across private markets, and we therefore aim to work with managers to improve ESG policies and ensure the approach is in-line with developing industry best practice.

## Real Estate

As we develop our global real estate proposition, we will implement an assessment of real estate funds and the General Partner and Manager's approach to responsible investment will be a central component of the fund selection and screening process. Key performance indicators will include energy performance measurement, flood risk and rating systems such as GRESB (Global ESG Benchmark for Real Assets), and BREEAM (Building Research Establishment Environmental Assessment Method).

For the UK, which will include direct real estate investment, we are in the process of developing our strategy. This includes procuring a third-party manager and working with them to develop our approach to managing ESG risks.

### In-depth ESG risk analysis

**For each of our equity and fixed income funds, the Responsible Investment team carries out ESG-related risk and carbon screening using third-party data on at least a quarterly basis. The output from the screens is analysed to understand what risks are prevalent across each fund, where they are coming from and how they are derived at company level. This output is then discussed and debated with the portfolio managers and reported formally for further consideration to our Investment Committee. For external managers, this analysis is also repeated at the mandate level and compared with their own disclosures.**

**This analysis forms the basis for our detailed fund-specific RI reports, further developed during the year for reporting to our Partner Fund Pension Committees. Each report covers key ESG risks, carbon data, and individual stock narratives for those companies identified as potential ESG laggards or high emitters.**

### Working with our external managers

**During the year, we restructured one of our Funds and appointed external specialist managers to oversee a proportion of the Fund. One is a specialist boutique manager, with strong integration of ESG-related risks into the investment process.**

**We have worked with the manager to further improve their approach to documenting, monitoring, and reporting against ESG related information, together with strengthening their approach to engagement.**

**In the period, the manager became a signatory to the PRI, a member of the Asia Investor Group on Climate Change and has committed to reporting in alignment with TCFD in late 2022.**

# ENHANCING OUR APPROACH

Saltburn by the Sea, Teesside

Responsible investment and stewardship are constantly evolving as the world continues to change. Reflecting new risks, increasing regulation, emerging opportunities and higher reporting expectations, we have sought to enhance our approach in a variety of ways over the reporting year.

## 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 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 meeting our fiduciary duty to our Partner Funds helping meet their stewardship requirements. More detail on our approach to managing climate change risk can be found on our website and in our TCFD Report.

## Enhancing our policies

During the year, we revised both our RI Policy and Voting Guidelines as part of the regular annual cycle. The revisions aim to further strengthen our approach to RI implementation and outline how we will utilise active ownership to push for positive change in our portfolio companies.

Specifically, the revised policies clarify and strengthen Border to Coast's voting position on issues such as climate change and diversity ahead of the 2022 AGM season. They also outline four key themes which will form a vital part of our engagement in the years ahead.

### Voting enhancements on climate change

In line with our commitment to achieving net zero emissions across our portfolios by 2050 or sooner and as a supporter of the investor group Climate Action 100+, we have further strengthened our stance on climate change. We will now vote against the Chair of the board where a company in a high-emitting sector fails the first four indicators of the Climate Action 100+ Net Zero Benchmark.

### Voting enhancements on diversity

We have also strengthened our stance on boardroom diversity and will challenge FTSE 100 companies where there is not at least one director of colour on the board, unless mitigating factors or plans to ensure it is met have been disclosed. This follows recommendations by the 2017 Parker Review of ethnic diversity on UK boards, which laid out expectations for all boards to have improved representation by 2021. As members of the 30% club investor group, we will also engage with FTSE 350 companies where there is less than 33% of female representation on the Board.

## Data Procurement

During the year, we completed a procurement exercise to enhance our ESG and carbon-related data availability across both traditional and alternative asset classes. Specifically, we sought providers to strengthen our existing data on ESG-related risk and carbon, as well as exploring a new area for Border to Coast, climate scenario analysis. After a robust process, we appointed a single provider covering all areas.

## Developing our engagement priorities

In 2018 we set our three priority areas for engagement with portfolio companies: 'Governance', 'Diversity' and 'Transparency and Disclosure'. Whilst we recognise that these areas continue to be important, to reflect our growth and maturity as an organisation, we carried out a review of our themes for the next three-year strategic period, incorporating the views of our Partner Funds.

## Developing our external manager monitoring

To further improve external manager monitoring, the RI team developed a formal quarterly review document for each fund, in place for Q2 2021. We have also strengthened the annual review process over the reporting year. This includes issuing an RI-specific questionnaire to each external manager of the Fund under review. Managers are also asked for stock specific research and engagement examples. For the annual review of the Sterling Investment Grade Credit Fund, an updated questionnaire was produced, based on the PRI's revised guidance.

## Developing our reporting

### Quarterly fund reporting

We have continued to develop our detailed fund-specific RI reports, covering key ESG risks, carbon data, and information concerning potential laggards and high carbon emitters. The reports were initially produced for our listed equity funds only, however, we have now developed a report for our Sterling Investment Grade Credit Fund.

### Quarterly stewardship report

Each quarter, we report a summary of our stewardship activity in our quarterly stewardship report. This document, enhanced to cover more detail during the year, covers various information including quarterly highlights, industry updates, fund voting data, engagement data and detail on our collaborative initiatives. This document is publicly available on our website.

### External manager escalation

**During the annual review of an external manager, the RI team downgraded a manager due to the identification of perceived weaknesses across both integration and stewardship. The outcome of the review was reported to our Investment Committee and escalated with the manager, with whom we held further calls to discuss the improvements needed. Following this, we have noted a material increase in the quality of the manager's disclosures and have greater confidence in the integration of ESG factors.**

## Continuing to drive standards in private markets

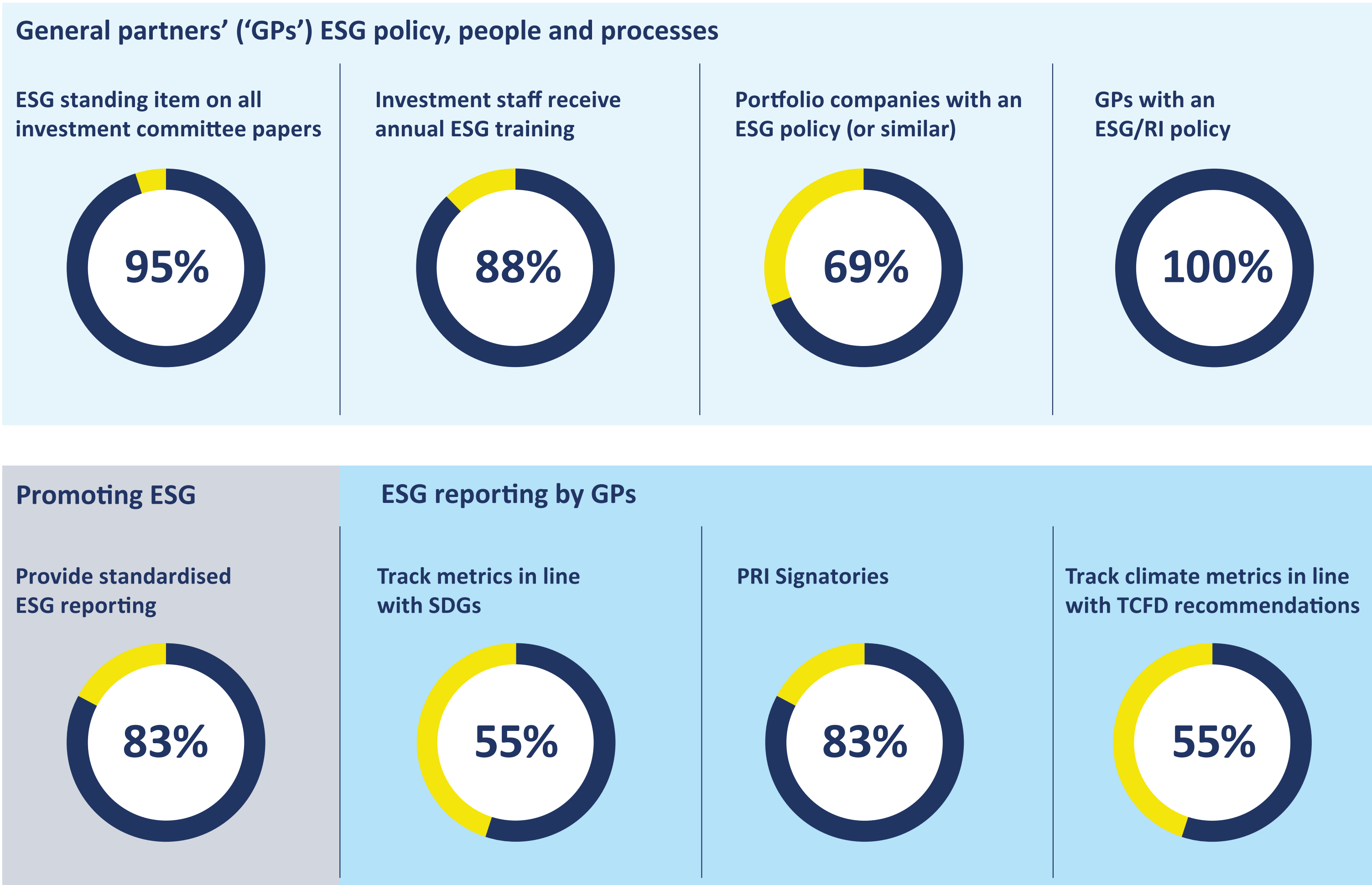
We have further developed our initial ESG due diligence and ongoing monitoring of our private markets managers and have introduced an ESG scorecard to support the due diligence process. This enables us to benchmark and track manager progress on key ESG issues across a variety of asset classes and strategies.

During the reporting year, we continued our work in seeking to understand and improve the quality of RI-related reporting in the private markets space. In January 2022, we issued our annual monitoring questionnaire to managers across our private equity, private debt, and infrastructure mandates. The questionnaire contains both binary and qualitative questions, enabling us to monitor several key performance indicators, including RI policies, people, and processes, promoting RI and RI-specific reporting.

All managers responded and there was a notable increase in the quality of responses compared to the previous year. 100% of underlying managers have an ESG policy in place for their firm and all but one manager has ESG as a standing item on Investment Committee papers. 88% of underlying managers are signatories to the PRI.

We continue to work with the industry to develop standardised reporting on ESG and carbon metrics and are supporting the ESG Data Convergence Project. This is the industry's first-ever collaboration to align on an initial set of standardised ESG metrics and mechanism for comparative reporting.

## 2022 results of our private markets manager survey



## Using our expertise to assist partner funds

### Passive manager oversight

As part of their investment strategy, some of our Partner Funds hold passive equity and fixed income mandates outside Border to Coast. During the reporting year, our Responsible Investment team carried out a review of the main asset manager used by Partner Funds, assessing their firm level policies, and approach to stewardship and climate change. This enabled us to leverage the knowledge gained through our external manager monitoring framework and apply that expertise in assisting our customers.

### Training

Recognising that our Partner Funds face increasing pressure to be well-informed stewards themselves, we have carried out several training sessions with our Partner Funds during the reporting year, both individually and through group workshops. Topics have ranged from RI integration and reporting to climate change and net zero.

## Obtaining feedback

At Border to Coast, we recognise the importance of ensuring that our work benefits our Partner Funds as both our customers and owners.

### Annual satisfaction survey

Responsible investment, both the day to day practicing of, and rapidly evolving reporting requirements, remains a priority for our Partner Funds. We therefore include several items covering responsible investment in our annual survey, which we then utilise to develop an action plan to ensure we continue to serve their needs.

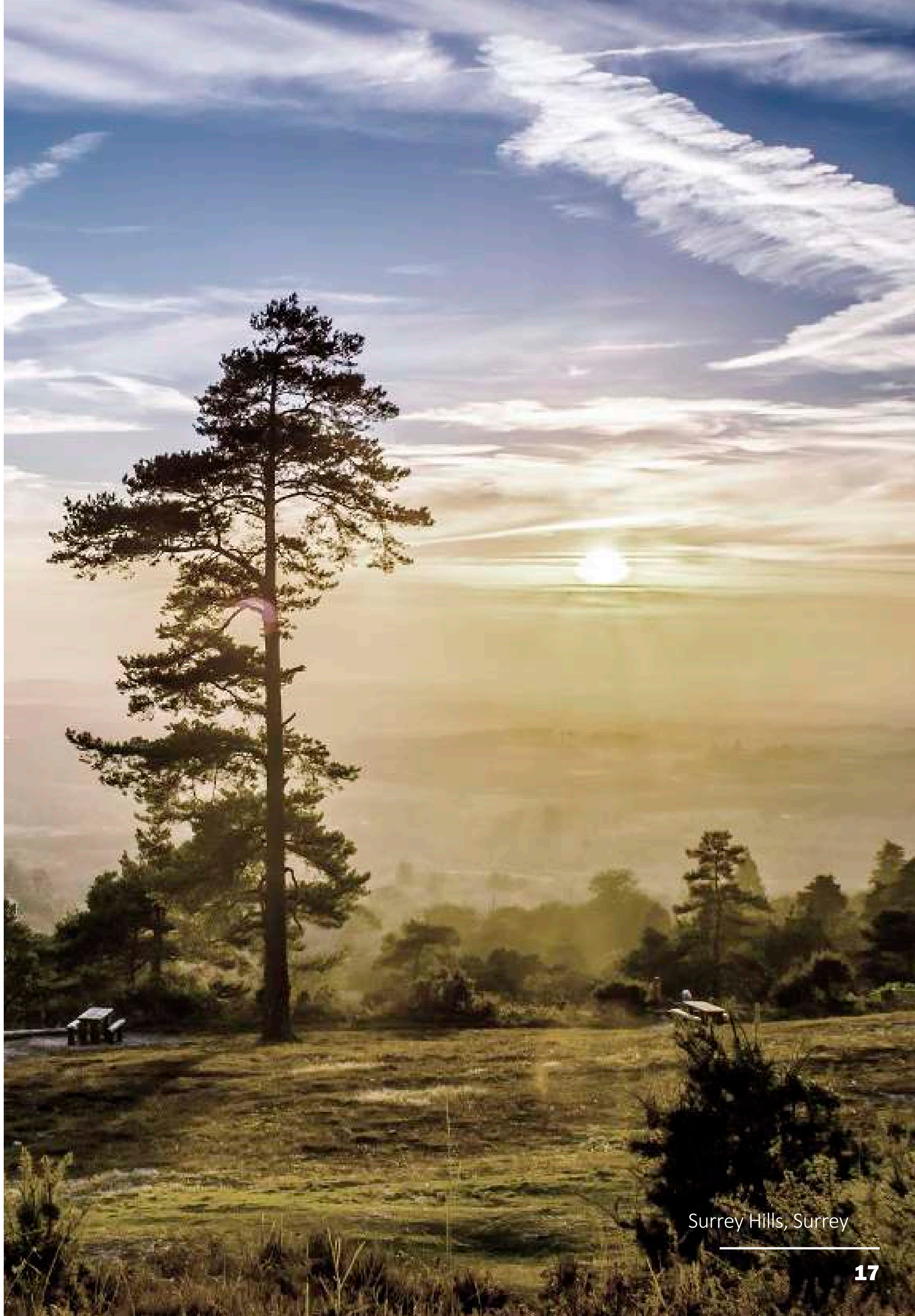
### Responsible investment survey

In April 2021, we surveyed our eleven Partner Funds to explore their understanding of and our collective priorities for RI.

The survey provides an important feedback loop, enabling us to ensure our customers are at the heart of our approach and that they are being appropriately represented.

### RI workshops

We host quarterly workshops throughout the year for our Partner Funds to discuss RI related issues. The workshops provide an open forum for us to understand the challenges they face and consider how we can support them in their journey. It also enables us to discuss what has worked well throughout the year and improvements that can be made to the support we provide them on an ongoing basis. We have reflected this feedback in the way in which we provide data for reporting purposes, both on a quarterly basis and, specifically, in relation to stewardship reporting.



Surrey Hills, Surrey

# INFLUENCING CORPORATE BEHAVIOUR

We believe the best way to influence companies is through engagement; therefore, Border to Coast will not divest from companies principally on social, ethical, or environmental reasons. As responsible investors, the approach taken will be to influence companies through constructive shareholder engagement.

Meeting and engaging with companies are an integral parts of the investment process. As part of our stewardship duties, we monitor investee companies on an ongoing basis and take appropriate action if investment returns are at risk. Engagement takes place between portfolio managers and investee companies across all markets, where possible.

## Our approach to engagement

Border to Coast has several approaches to engaging with investee holdings.

Engagement takes place with companies in our internally managed portfolios via our portfolio managers and the Responsible Investment team engaging directly.

Additionally, Border to Coast and all eleven Partner Funds are members of the Local Authority Pension Fund Forum ('LAPFF'). Engagement takes place with companies on behalf of members of the Forum across a broad range of ESG themes.

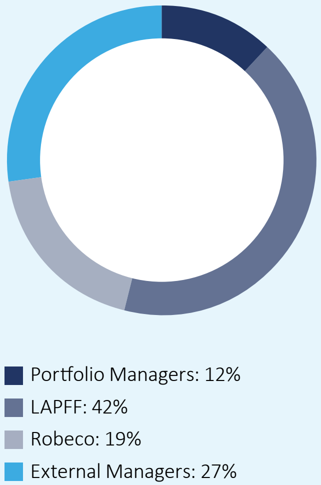
We also work collaboratively with other like-minded investors and organisations to maximise Border to Coast's influence on behalf of Partner Funds. We provide more detail in relation to this in the 'Collaboration' section.

## Our engagement activity

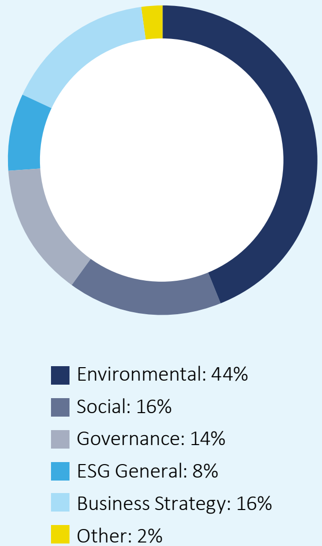
**Total number of engagements**

**1672**

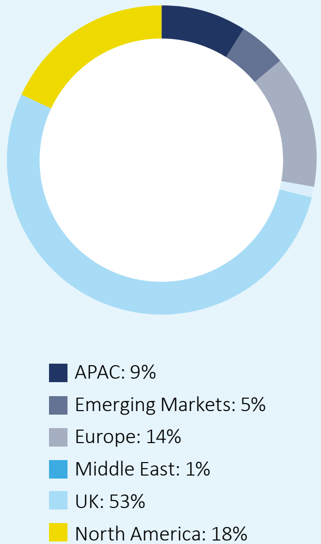
### Engagement summary




### Breakdown by topic




### Breakdown by region



## Engaging on wider issues

Due to the proportion of assets held in overseas markets, it is imperative that we can engage meaningfully with global companies. To enable this, and to complement other engagement approaches, Robeco was appointed as the external voting and engagement service provider.

Robeco undertakes active engagement on our behalf across over 20 environmental, social and governance themes. Objectives and milestones are set for each engagement theme, and reporting on progress is provided on an ongoing basis. The themes are launched throughout the year and typically run for three years.

### Wider themes

Over the reporting period, Robeco has undertaken active engagement on our behalf across more than 25 different themes, including Lifecycle management of mining, Biodiversity, Reducing global waste, the Social impact of gaming and Corporate governance in Emerging Markets. Engagement also takes place with companies that have breached the United Nations Global Compact Principles.

Robeco launched several new themes during the period, covering a wide range of issues and sectors, including Labour practices in a post-COVID world, Enhanced human rights due diligence, and additional climate-related themes including Climate transition of financial institutions and Acceleration to Paris. The latter targeting those companies that have a large carbon footprint and have been assessed as lagging in their efforts to transition to a low-carbon business model. As engagement themes typically run for three years a number were closed during the reporting year, this included; Cybersecurity, Reducing global waste, Food security, Climate action, Living wage in the garment industry, Single-use plastics and Culture and risk oversight in the banking industry.

Border to Coast provide input into the annual engagement theme review conducted by Robeco on issues considered to be financially material. Several of our key priority areas for the coming years have been adopted by Robeco, including Waste and water management, Diversity of thought and further engagement around the transition to a low-carbon economy.

More detail on the work of Robeco can be found on our website.

### Engaging on wider issues – Climate Action

**Robeco's Climate Action theme ran for three years, closing in Q1 2022. It focused on a number of high emitting companies and had set objectives in line with the Climate Action 100+ initiative. These included the implementation of a strong governance framework on climate-related issues, implementation of risk management systems to identify, assess and manage climate risk, take action to reduce emissions across the value chain, and to enhance corporate disclosure in line with the Task Force on Climate-related Financial Disclosures ('TCFD') recommendations. The theme saw all four of Border to Coast's in-scope companies meet or make positive progress against each objective of the engagement program at its culmination.**

### Engaging on wider issues – 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.**

**Five of our portfolio companies were included in the scope of the engagement, which 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, including aspects such as transparency, with supplier lists publicly available, alongside detail on how risk assessments for sourcing countries are conducted, improved living wage policies and leadership in industry collaborations and engagement with trade unions.**

## Engaging on wider issues – Labour practices in a post-COVID world

**COVID-19 has caused significant labour market disruption, shining a light on the vulnerability and precarious employment status of some lower wage workers. Labour and human rights risks may expose companies to legal, operational and reputational issues, while companies that manage these risks appropriately may benefit from brand value improvement, higher employee satisfaction and lower costs. Additionally, systemic risks may arise from rising social inequality due to increasing income disparities, which has the potential to undermine economic growth.**

**This year saw Robeco launch a new engagement theme, focusing on labour practices in the three focus sectors of e-commerce, hospitality, and online food delivery.**

**The theme aims to engage four of our in-scope companies to place labour practices and human capital strategies at the core of their corporate strategy, thus putting in place safeguards to mitigate risks identified at both a company-specific and systemic level and ultimately delivering more sustainable outcomes for investors.**

## Engaging on wider issues – Climate transition of financial institutions

**Banks, through their lending activity, have a substantial role to play in financing the transition to a low-carbon economy, with significant investment required to meet the Paris Agreement targets for annual global temperature increases. Much of this investment will come from the financial sector, including bank loans.**

**This Robeco theme targets banks spread across several markets, that have been selected based on their exposure to carbon-intensive sectors and current lending practices.**

**The engagement objectives are based on the TCFD recommendations, with the aim of improving disclosures around how banks develop and report on their climate transition strategies.**

### Sustainable Development Goals

The UN Sustainable Development Goals ('SDGs') are a comprehensive set of 17 global goals to achieve a better and more sustainable future for all. Over recent years Robeco has been taking steps to increase understanding of the impact of engagement on the SDGs.

Robeco investigates if there is alignment with the SDG targets in the research phase of its engagement themes. If so, objectives are defined that lead to positive outcomes aligned with the SDG targets. During the reporting period, 19 companies were targeted for SDG-related engagement, with 9 of the SDGs addressed in engagement objectives.

## External managers

We expect external managers to engage with investee companies and bond issuers as part of their mandate on our behalf and in alignment with our Responsible Investment Policy. This is supported by our quarterly ESG and carbon risk screening process, and the manager monitoring framework which includes a section for managers to report their engagement activity. The quality of a manager's stewardship approach is evaluated each quarter and is a key part of the formal annual review process.

## Escalation strategy

Should engagement not lead to the desired result, escalation may be necessary. A lack of responsiveness by the company may be addressed by conducting collaborative engagement with other institutional shareholders, registering concern by voting on related agenda items at shareholder meetings, attending a shareholder meeting in person and filing/co-filing a shareholder resolution. If the investment case has been fundamentally weakened, the decision may be taken to sell the company's shares.

## Escalation – Integrated mining company

**This reporting year saw the closure of an unsuccessful engagement with one of our portfolio companies. The company was highlighted for enhanced engagement due to several high profile environmental and health and safety issues. During the engagement, objectives were set for the company around their policies, transparency, mitigation, and risk management systems. Unfortunately, insufficient progress was made against the objectives and significant concern remained regarding the lack of oversight and lapses in risk management at the company.**

**In response, we:**

- **Assessed the materiality of the holding, including the size of the position, its weight in the benchmark and its overall contribution to risk.**
- **Held meetings internally with the Portfolio Manager, Research team, and RI team.**
- **Contacted other large shareholders, to understand their stewardship approach to monitoring and mitigating associated ESG risks to increase our knowledge.**
- **Held a meeting with the company to discuss the specific ESG risks, the progress and improvements made, and the future strategy to further mitigate risks.**
- **Discussed the findings at our Investment Strategy Committee meeting to determine the appropriate action.**

**Following conclusion of the above escalation process, we recognised the company's progress whilst acknowledging there was further work required. The decision was taken by the Portfolio Manager to reduce the position in the company.**

Alnmouth, Tyne & Wear

# ENGAGEMENT IN ACTION

## Engagement Theme: Governance

Good governance is at the core of any successful business. High standards of corporate governance typically feed through to robust oversight and good management of environmental and social factors. Company boards should adhere to standards of best practice in relation to issues such as leadership, effectiveness, accountability, diversity, relations with stakeholders and remuneration. Governance standards vary across markets, and this is an important area on which to engage with companies, standard setters, and regulators. The executive remuneration policy is one of the instruments companies use to guide, evaluate, and reward the behaviour and achievements of executives; therefore, an appropriately structured remuneration policy should align executive pay with company strategy, by incentivising executives to create long-term, sustainable shareholder value.
It is expected that where companies are potentially subject to elevated levels of environmental and societal risk as part of their business, the remuneration committee should also consider linking relevant metrics and targets to remuneration to focus management on these issues.

### Engagement with a European investment bank (Global Equity Alpha Fund)

**Reason for engagement:** The company was involved in separate client-related incidents, suggesting risk management oversight failures. Losses were incurred, and some personnel changes were made as a result. Many investors were concerned about the strength of risk management processes, governance structures and board competence.

**Objectives:** The aim of the engagement was to ensure that appropriate changes were made to restore confidence in the bank's risk management capabilities.

**Scope & Process:** Meetings were held with the bank's CEO, CFO, and board members to address perceived failures of risk management and responses. The company did not immediately address the chairmanship of the board's risk committee. Engagement expectations were not met, and several investors publicly stated that they would vote against this board member's re-election. Prior to the annual shareholder meeting, the risk committee chair announced his retirement from the board. Engagement continued as the bank further addressed its risk oversight processes.

**Outcome:** The departure of the risk committee chair represented a significant change in leadership in this area. Additional engagements also focused on the operational integration of risk management, with executives taking on key roles demonstrating relevant experience in the field. Engagement and voting played a significant role in the bank's risk management improvements.


Beverley, East Riding of Yorkshire

## ENGAGEMENT IN ACTION continued

### Engagement with BP plc (UK Listed Equity Fund, UK Listed Equity Alpha Fund, Sterling Investment Grade Credit Fund)

**Reason for engagement:** Carbon data of portfolios is monitored on an ongoing basis; this helps understand the climate-related risks inherent in our portfolios. Adequate disclosure by companies is, therefore, an important part of this process. The Carbon Disclosure Project ('CDP') is a leading initiative for climate data management and as such BP, as a major emitter of greenhouse gas emissions, would be a welcome addition to the CDP carbon database.

**Objective:** To seek enhanced carbon data and emissions disclosure from BP.

**Scope and Process:** Engagement with the Company took place over a number of months, instigated initially by letter, with follow up meetings also held with the Company's Investor Relations team.

**Outcome:** BP was open to engagement and emphasised that it aimed to be recognised as an industry leader in reporting transparency. The Company has made good progress in this space and is listening to feedback. Following increasing investor focus in this area, BP confirmed it would be responding to the CDP disclosure questionnaire.

### Engagement with a logistics technology company (Global Equity Alpha Fund)

**Reason for engagement:** A material ESG opportunity was identified for the Company to better measure its contribution to reducing systemic risks in the global supply chain and disclose its impacts.

Objectives: The objective was for the Company to improve the measurement of its impacts on ESG issues and to produce disclosure specifically highlighting the material impact for customers, employees, and shareholders.

**Scope and process:** Best practice ESG measurement and disclosure was shared with the Company. This included how infrastructure investments made by an industrial gases company had enabled it to better assess the long-term risks of climate change and set ambitious Sustainable Development targets.

**Outcome:** The management agreed it is their responsibility to measure ESG impacts and to inform investors, customers, and suppliers of the outcomes. The website was updated with specific disclosure on CO2 savings. In addition, the Company planned a step-by-step approach, first to include environmental disclosures in its investor and customer outreach, a goal of publishing an inaugural Sustainability Report in April 2022, and to invest in measuring and auditing environment factors.

### Engagement Theme: Transparency and Disclosure

Recent years have brought many developments in the corporate governance landscape, especially in emerging markets, with changes such as amendments to corporate governance codes and the introduction of a number of stewardship codes.

We believe that additional information and reporting from companies is essential for investors to understand the underlying risks and opportunities within portfolios and investee companies, enabling good investment decisions that take long-term risks into account. This is not only the case in relation to reporting and disclosure on climate-related risks and opportunities but also on social issues.

People are an important asset for companies as they are central to their long-term success. A spotlight has been shone on how companies treat and engage with their workforce as a result of the pandemic. This can be a material financial risk for investors but data on workforce issues is difficult to obtain and improved disclosure and transparency from companies is required. We are a supporter of the Workforce Disclosure Initiative which aims to improve human capital data disclosure from listed companies.


Yorkshire Dales, North Yorkshire

## Engagement Theme: Diversity

The need for diversity of thought and experience on boards and within organisations has never been more compelling. The pandemic has caused massive economic disruption with companies needing to be able to adapt and be innovative in order to be resilient and survive for the long-term.

Diversity is not limited to considerations of gender but also involves increasing the representation of other under-represented groups, such as racial and ethnic minorities, on boards. There is growing evidence that more diverse boards result in better-performing companies, leading to better investment returns and financial outcomes for investors.

Research by McKinsey shows not only that the business case remains robust but also that the relationship between diversity on executive teams and the likelihood of financial outperformance has strengthened over time. This was the case for gender, ethnic and cultural diversity. Boards with people from different backgrounds are more likely to approach issues from various perspectives, avoiding groupthink and leading to better-informed decision making and more effective supervision.

Diversity is clearly a prime candidate for active ownership approaches through voting and engagement. We are a member of the 30% Club Investor Group, which enables us to engage with companies to encourage change and harness investor collaboration to do this.

### Engagement with a UK Small Companies Trust (UK Listed Equity Alpha Fund)

**Reason for engagement:** A proactive engagement with a UK-based asset management company to understand the steps taken to foster Diversity, Equity & Inclusion ('DE&I') within their organisation.

**Objective:** To assess how the firm aims to increase workforce diversity and compare their DE&I practices to peers.

**Scope and Process:** During 2021, calls were arranged with the relevant executives. Discussions were focused on company policies and practices in talent management, diversity-related disclosure and their future commitments to improve diversity across the organisation.

**Outcome:** While diversity in terms of gender and ethnicity continues to be lacking across the asset management industry, the company identified DE&I as a material matter and is taking steps to address the imbalance. It was encouraging to see improved polices on maternity leave, reverse mentoring, efforts taken to reduce turnover levels and gender pay gap disclosures. The company recognised that to improve diversity, significant steps must be taken at the graduate intake level. This will allow more diverse employees to enter the industry and help broaden the employee base. Engagements with the company will continue to further improve their DE&I reporting and performance.


Stratford upon Avon, Warwickshire

# COLLABORATION

Newcastle, Tyne & Wear

## Investor collaboration

We seek to work collaboratively with other like-minded investors and organisations to maximise Border to Coast's influence on behalf of Partner Funds. In working together with other institutional investors, Border to Coast has a stronger voice and greater influence when voting and engaging on behalf of our Partner Funds. We also recognise the need to engage collaboratively in addressing market-wide and systemic risks. We continue to support collaborations that are aligned with our engagement focus areas of governance, transparency and disclosure, and diversity, as well as climate change, and evaluate new opportunities as they arise. Our membership and support of the following organisations allow us to collaborate with other institutions engaging with corporates, policymakers, standard setters and industry associations.

## Our collaborative partnerships

| | |
|---|---|
| **30% Club Investor Group** | • Campaigns for increased gender and wider diversity and inclusion in the boardroom and senior management.<br>• We have signed joint letters and engaged with companies on diversity along with other members of the initiative. |
| **Climate Action 100+** | • A five-year, investor-led initiative, to undertake collaborative engagement with the largest greenhouse gas emitters and other global companies.<br>• We are a supporter of the initiative and participate in the working group on shareholder resolutions. |
| **Institutional Investors Group on Climate Change ('IIGCC')** | • Provides a collaborative engagement forum for institutional investors to address climate-related risks and opportunities.<br>• We support the initiative through our participation in the Corporate Programme workstream, sign letters to companies and governments on climate-related strategy and policy and signed the Global Investor Statement to Governments. |
| **Investment Association** | • The trade and industry voice for UK investment managers on legal, regulatory and fiscal landscapes supporting members with industry insight, analysis and training.<br>• We are actively involved with the Investment Association. Our CEO, Rachel Elwell, was elected to the board in September 2020 and our Head of Responsible Investment, Jane Firth, sits on the Stewardship Committee. |
| **Investor Mining and Tailings Safety Initiative** | • An investor-led initiative convening institutional investors active in extractive industries including major asset owners and asset managers.<br>• We were an early supporter of the initiative and have engaged with mining companies to encourage disclosure of tailings facilities. |
| **Local Authority Pension Fund Forum ('LAPFF')** | • LAPFF is a forum for Local Government Pension Funds and is the UK's largest collaborative shareholder engagement forum, engaging across a broad range of ESG themes with investee companies.<br>• Border to Coast is a pool member of LAPFF and feeds into the annual engagement work plan. |
| **Occupational Pensions Stewardship Council** | • Set up by the Department for Work and Pensions in Q2 2021, the Council was established to promote and facilitate high standards of stewardship of pension assets.<br>• The Council provides a forum for sharing experience, best practice and research, and providing practical support. We are delighted to have joined as an inaugural member and look forward to working with our peers over the coming months and years. |
| **Principles for Responsible Investment** | • The world's leading advocate for responsible investment. It enables investors to publicly demonstrate commitment to RI, by supporting the six Principles for incorporating ESG issues into investment practice.<br>• Being a signatory to the PRI allows us to demonstrate our commitment to RI and how we implement the Principles. We encourage all our managers to be signatories and used the six Principles to inform and shape our first three-year RI strategy. |
| **Task Force on Climate-related Financial Disclosures ('TCFD')** | • A voluntary framework for companies and investors to provide climate-related information in their annual reports around governance, strategy, risk management and metrics.<br>• We support the TCFD, report annually against the recommendations and, as disclosed in this report, have participated in consultations around its wider adoption. |
| **The Transition Pathway Initiative** | • A global, asset owner-led initiative which assesses companies' preparedness for the transition to a low-carbon economy.<br>• We use the TPI tool to assess our portfolio investee companies and inform our voting and engagement. |
| **The Workforce Disclosure Initiative ('WDI')** | • This initiative was set up by ShareAction to improve data disclosure from listed companies on how they manage workers in their direct operations and supply chains.<br>• As a supporter of the WDI we engage with companies to encourage completion of the annual survey, disclosing important human capital data for investors. |

## Investor position statement support on climate transition planning

In July 2021, 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), of which we are members. The statement 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.

## Support for net zero aligned audits

In November 2021, 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. We also supported the equivalent letter to the French 'Big 4' auditors sent in February 2022.

## Cybersecurity

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. 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.

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.

This next 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 advanced or best practice.

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

## Workforce Disclosure Initiative

We have continued as a supporter of the Workforce Disclosure Initiative ('WDI'), and this year we have engaged with 12 companies as part of the annual survey to collect human capital management data. We have emphasised the importance of this type of data for investors and encouraged companies to respond. In Q2 2021, the WDI launched its findings report for its 2020 survey results. The survey covers topics including wage levels, staff turnover and workers' rights. 141 companies responded, up 20% from the previous year, with every economic sector covered. The high-level findings saw companies:

- Improving transparency on pay, with more progress needed to tackle inequalities.
- Having diversity and inclusion as priority areas.
- Making commitments to human rights, which are not always matched in practice.
- Are often not explaining how they are taking responsibility for their supply chains.

## Indigenous community rights and social licence

Following the destruction in May 2020 by Rio Tinto of the 46,000 year old Aboriginal heritage site in Juukan Gorge, Australia, we joined a group of investors in sending letters to 78 of the world's largest mining companies. A company's social licence to operate can be at risk if relationships with impacted communities are not well-managed, which can result in serious financial and reputational consequences; this is an industry-wide risk. Follow up engagement has continued throughout 2021 with around three quarters of companies responding to the original letter. The Australian legislative landscape has also progressed significantly. Collaboration will continue on this key issue with the development of the Mining 2030 Investor Agenda.


Rotherham, South Yorkshire

## Industry participation and public policy advocacy

Being a responsible investor not only means engaging with investment holdings on ESG factors but also with regulators, standards setters and public policymakers on systemic risks to help create a stable environment to enhance long-term portfolio returns. We are members of several industry bodies that enable us to engage on such issues.

We are members of the Investment Association and Rachel Elwell, our CEO, sits on the board of directors. She is also part of 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 and Lifetime Savings Association.

During the reporting year we saw an increasing number of consultations related to RI appearing in the marketplace, indicating a growing trend towards a desire for best-practice consensus. We recognise we have an important role in shaping the direction of RI-related policy and disclosure and therefore responded to a wide range of consultations including:

- Department for Work and Pensions ('DWP') consultation on the consideration of social risks and opportunities in investment decisions. An important step in ensuring the S in ESG is given an appropriate degree of focus by investors.
- DWP consultation on climate and investment reporting: setting expectations and empowering savers.
- Supported a letter from the Chair of the TPI, along with six asset owners, to the TCFD forward-looking financial sector metrics consultation.
- FCA discussion paper on sustainability disclosure requirements and investment labels.

We joined the Occupational Pensions Stewardship Council ('OPSC') as an inaugural member and are involved in several of the workstreams. The OPSC was set up to promote and facilitate high standards of stewardship of pension assets and is open to all UK pension schemes, Local Government Pension Schemes and pools.


Flamborough Beach, East Riding of Yorkshire

# VOTING

Chesterton, Warwickshire

## Exercising our rights and disclosure

Voting is fundamental to the exercise of our rights as providers of capital, including through our equity holdings and in any voting decisions linked to our fixed income portfolios.

We believe in transparent and robust voting decisions that hold companies to account and question them where their decisions and outcomes have challenged the trust, we seek to build with them. Our voting activity is published on our website on a quarterly basis and is available to view **here**.

As noted previously voting rights on externally managed equities are retained by Border to Coast. We actively monitor external manager voting activity on a quarterly basis to review alignment with our own views. Additionally, we discuss key votes with the external manager, to gauge their views ahead of voting. This is particularly useful where a manager is investing in a specialist market. In relation to fixed income, voting decisions relating to bondholder meetings has been outsourced to the relevant external managers as this is an investment decision.

## Proxy adviser support

Robeco, our Voting and Engagement provider use Glass Lewis, a leading independent provider of global governance services, as a proxy voting advisor to provide voting recommendations based upon Border to Coast's Voting Guidelines. Robeco's voting analysts analyse the merit of each agenda item to ensure voting recommendations are aligned with our bespoke Guidelines.

All Robeco's voting recommendations are reviewed by the Border to Coast RI team and portfolio managers prior to votes being executed. A degree of flexibility is required when interpreting the Voting Guidelines to reflect specific company and meeting circumstances. This allows for the override of voting recommendations where we want to vote contrary to Robeco's recommendation or contrary to our Voting Guidelines. These decisions are tracked as part of our annual audit and reported quarterly to our Partner Funds.

## Voting against management

Where a decision has been made not to support a resolution at a company meeting, Border to Coast will, where possible, engage with the company prior to the vote being cast.

Where there are areas of contention, the final decision on voting will ultimately be made by the Chief Executive Officer. These issues of contention are rare, and a suitable decision can usually be made following discussions with the Responsible Investment team, portfolio managers, Robeco, external investment managers (if required) and the company.

## Partner Fund role

Our Voting Guidelines were developed in collaboration with our Partner Funds and are reviewed with their input on an annual basis. However, there may be occasions when our Partner Funds may wish Border to Coast to vote its pro rata holding contrary to the agreed policy and a process is in place to facilitate this.

## Stock lending

Border to Coast has an active stock lending programme. We have a procedure in place to recall stock ahead of an AGM vote and restrict lending in certain circumstances including, but not restricted to, if the resolution is contentious, the holding is of a size which could potentially influence the voting outcome, or we have co-filed a shareholder resolution.

## Votes not cast

We aim to vote on our shareholdings in listed equity portfolios in every market where this is practicable. This may not always be possible due to share blocking or power of attorney requirements. During the reporting period, we voted on **97.95%** of our shareholdings across our equity holdings.

## Voting guidelines summary

Our position on key issues is summarised below.

The full Corporate Governance and Voting Guidelines can be found on our website **here**.

- Company boards, composition, and independence: The composition and effectiveness of the board are crucial to determining corporate performance as company behaviour has implications for shareholders and other stakeholders.
- Leadership: The role of the Chair is distinct from that of other board members and should generally be seen as such but should not be responsible for the day-to-day management of the business.
- Non-executive directors: The role of non-executive directors is to challenge and scrutinise the performance of management in relation to company strategy and performance. To do this effectively they need to be independent.
- Diversity: Board members should be recruited from as broad a range of backgrounds and experiences as possible. A diversity of directors will improve the representation and accountability of boards, bringing new dimensions to board discussions and decision making.
- Succession planning: We expect the board to disclose its policy on succession planning, the factors considered and where decision-making responsibilities lie.
- Board evaluation: A requisite of good governance is that boards have effective processes in place to evaluate their performance and appraise directors at least once a year.
- Stakeholder engagement: Companies should consider the interests of and feedback from stakeholders, which include the workforce.
- Directors' remuneration, annual bonus, and long-term incentives: Remuneration has serious implications for corporate performance. Bonuses should reflect individual and corporate performance targets which are sufficiently challenging, ambitious, and linked to delivering the strategy of the business and performance over the longer term.
- Audit: The audit process must be objective, rigorous and independent if it is to provide assurance to users of accounts and maintain the confidence of the capital markets.
- Political donations and lobbying: Companies should disclose all political donations and demonstrate where they intend to spend the money and that it is the interest of the company and shareholders.
- Dividends: Shareholders should have the chance to approve a company's dividend policy, and this is considered best practice. The resolution should be separate from the resolution to receive the report and accounts.
- Shareholder proposals: Shareholder proposals are assessed on a case-by-case basis. Consideration will be given as to whether the proposal reflects Border to Coast's Responsible Investment Policy and supports the long-term economic interests of shareholders.
- Climate Change: We expect companies with high emissions or in high emitting sectors to have a climate change policy in place, which at minimum includes greenhouse gas emission reduction targets and disclosure of Scope 1 and 2 emissions.

# VOTING IN ACTION

We consider our voting rights as an asset to be exercised carefully and therefore class all our votes as significant for the purposes of the EU Shareholder Rights Directive ('SRD II').

As mentioned previously, we produce quarterly voting records with rational for abstentions and votes against. To increase transparency, we began reporting all votes on a quarterly basis during the second half of 2021. You can view these on our website.

Reports on our voting activity are made available on a quarterly basis on our website. You can find further information here:

**Voting Reports**

Here we provide some examples of our voting activity during the year.

### BHP Group Plc ('BHP') (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:** Even though BHP's Climate Transition Action Plan provided thorough discussion of its climate-related considerations and capital expenditure 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?** 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 is 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.

Great Barford, Bedfordshire

### 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 1.5°C scenario under the Science Based Targets initiative ('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.

### Costco Wholesale Corporation (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.

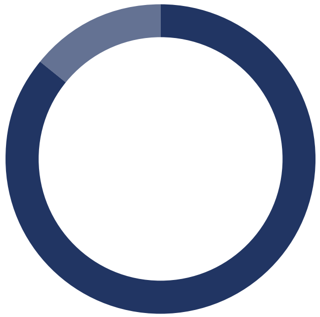
**Total number of meetings**

# 930

**Total resolutions voted**

# 12,206

**Global meetings votes with/against management**

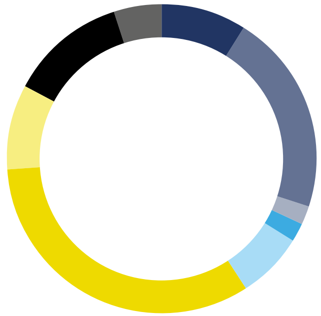


- With management: 86%
- Against management:14%

**Global meetings by geography**

- US: 15%
- Europe: 13%
- Asia: 7%
- Japan: 7%
- UK: 31%
- Emerging Markets: 27%

**Global votes against by category**



- Audit: 9%
- Remuneration: 21%
- Company Statutes: 2%
- Meeting Administration: 2%
- Political Donations: 7%
- Board: 33%
- Capital Management: 9%
- M&A: 0%
- Shareholder Proposals: 12%
- Other: 5%

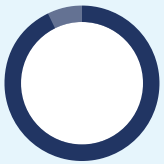
# ANNUAL VOTES BY FUND

## UK Listed Equity Fund

Total number of meetings **141**

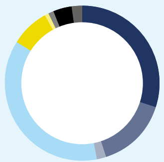
Total number of agenda items **2450**

**Meetings – votes with/ against management**



- With management: 93%
- Against management:7%

**Votes against by category**



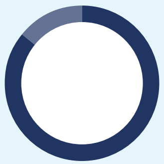
- Audit: 30%
- Remuneration: 15%
- Company Statutes: 2%
- Meeting Administration: 0%
- Political Donations: 37%
- Board: 8%
- Capital Management: 1%
- M&A: 1%
- Shareholder Proposals: 4%
- Other: 2%

## Overseas Developed Markets Equity Fund

Total number of meetings **297**

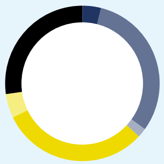
Total number of agenda items **4253**

**Meetings – votes with/ against management**



- With management: 86%
- Against management:14%

**Votes against by category**



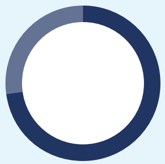
- Audit: 4%
- Remuneration: 31%
- Company Statutes: 2%
- Meeting Administration: 0%
- Political Donations: 0%
- Board:31%
- Capital Management: 5%
- M&A: 0%
- Shareholder Proposals: 27%
- Other: 0%

## Emerging Markets Equity Fund

Total number of meetings **252**

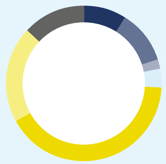
Total number of agenda items **2155**

**Meetings – votes with/ against management**



- With management: 73%
- Against management:27%

**Votes against by category**



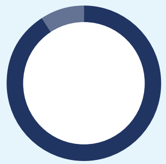
- Audit:9%
- Remuneration: 11%
- Company Statutes: 2%
- Meeting Administration: 4%
- Political Donations: 0%
- Board: 41%
- Capital Management: 20%
- M&A: 0%
- Shareholder Proposals: 0%
- Other: 13%

## UK Listed Equity Alpha Fund

Total number of meetings **206**

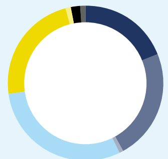
Total number of agenda items **3162**

**Meetings – votes with/ against management**



- With management: 91%
- Against management:9%

**Votes against by category**



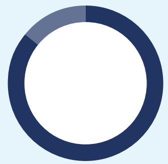
- Audit: 19%
- Remuneration: 23%
- Company Statutes: 1%
- Meeting Administration: 0%
- Political Donations: 30%
- Board: 23%
- Capital Management: 1%
- M&A: 0%
- Shareholder Proposals: 2%
- Other: 1%

## Global Equity Alpha Fund

Total number of meetings **165**

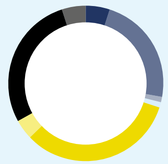
Total number of agenda items **2430**

**Meetings – votes with/ against management**



- With management: 86%
- Against management:14%

**Votes against by category**



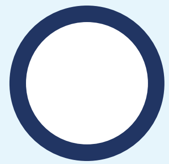
- Audit: 5%
- Remuneration: 23%
- Company Statutes: 1%
- Meeting Administration: 1%
- Political Donations: 0%
- Board: 33%
- Capital Management: 4%
- M&A: 0%
- Shareholder Proposals: 28%
- Other: 5%

## Listed Alternatives Fund

Total number of meetings **1**

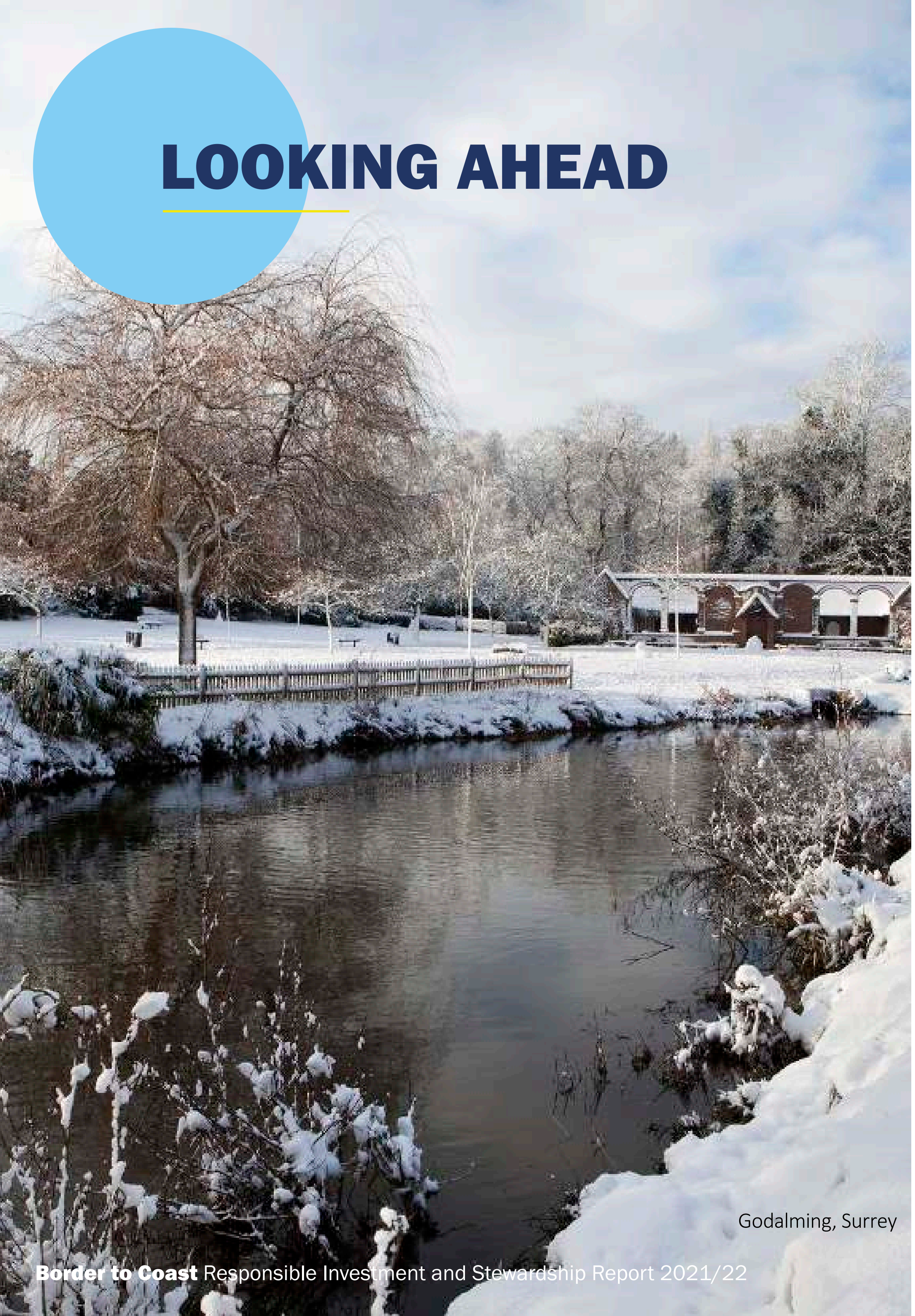
Total number of agenda items **1**

**Meetings – votes with/ against management**



- With management:100%
- Against management:0%

# LOOKING AHEAD


Godalming, Surrey

Responsible Investment has moved from a 'nice to have' to a 'need to have'. This has been emphasised by the uncertainties created due to the ongoing pandemic, climate change and global conflicts. The impact of biodiversity loss is being increasingly recognised with the Taskforce on Nature-related Financial Disclosures issuing its draft framework and we are seeing increasing regulation on ESG-related issues across markets. As investors and stewards of our Partner Funds' capital, we have an important role to play in working with the industry to drive positive change and address systemic risks.

## Ukraine response

On 1st March 2022 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.

Additionally, we have taken the decision to suspend voting at Russian company meetings. This decision was taken following consultation with Robeco as our Voting and Engagement partner and other industry participants and reflects our assessment of the risks involved in taking active decisions on exercising voting rights at the current time.

We will continue to keep this under review as well as our approach to stewardship with Russian companies.

During 2021 we carried out three extensive pieces of work; setting the direction for our RI strategy for the next 3-year period, reviewing our priority engagement themes, and developing and publishing our Climate Change Policy including our net zero commitment. This sets the scene for the work we will be doing over the next three years, and further into the future.

## RI strategy 2022–2025

In 2019 we agreed a Responsible Investment strategy with the Board and Partner Funds and used the Principles for Responsible Investment as our strategic framework. The RI strategy has delivered its original objectives across all six strategic pillars.

When developing the strategy for the next 3-year period we have considered the fast-moving regulatory landscape, evolving best practice, how we can support our Partner Funds, use our collective influence, and improve investment returns.

We have adapted the framework previously used and evolved the strategic pillars to focus on four key areas. This will be the new framework and pillars for our RI strategy.

Our targets for 2025 include:

- ESG integration – all relevant material ESG factors are embedded into investment decisions across asset classes and we understand the impact of our investment decisions on the wider world.
- Active ownership – we set measurable engagement outcomes and articulate the impact on investment decisions. Our Voting Guidelines set clear indications for companies and the public.
- Industry engagement – we will further develop our engagement capability and engage on systemic risks with policymakers, regulators and standard setters to help create a stable environment to enhance long-term portfolio returns.
- Reporting and governance – we set clear external expectations for asset managers and industry and build public trust through robust reporting.

## Engagement themes

During the reporting year, we carried out a comprehensive review of our engagement priorities for the next three-year strategic period. We revised our engagement themes to focus our efforts on areas where we believe we can really make a difference and improve investment outcomes, through managing material risks and working with like-minded investors. We had input from our Investment Team and Partner Funds before arriving at the four themes which were approved by our Board and we will be taking forward as our priority engagement themes from 2022.

The four themes are:

### Systemic: Low Carbon Transition

The focus will be on companies in high emitting sectors and banks identified as key to financing the transition to a low carbon economy.

### Environmental: Waste and Water Management

The focus will be on companies with water-intensive operations and high levels of packaging waste.

### Social: Social Inclusion through Labour Management.

The focus will be on companies with high exposure to labour intensive operations and supply chain risk.

### Governance: Diversity of Thought.

The focus will be to enhance board and executive committee diversity and reduce the risk of 'group think'.

We will look to collaborate with other investors and specific targeted initiatives where possible to strengthen our voice, influence and chance of success. In some cases, this may be by joining new collaborative networks. We will also work closely with our Voting and Engagement provider.

As voting and engagement work hand in hand, the engagement themes will also shape how we vote at company meetings.

## Net zero

In recognition that climate change is a systemic risk and there is an urgent need to tackle the issue, we published our standalone Climate Change Policy in late September 2021. This incorporates our commitment to become net zero across our investment portfolios by 2050, or sooner. To demonstrate our commitment, we joined the Net Zero Asset Managers initiative ('NZAM'). .

We established a climate change project, sponsored by our CEO, which consists of a number of workstreams led by senior members of the Border to Coast team. The purpose of the project is to enable Border to Coast to establish our plan to achieve net zero, which we will publish in a roadmap in Autumn 2022. We are working closely with our Partner Funds throughout the process.

The roadmap will include:

- Setting interim targets for 2025 and 2030.
- An engagement strategy designed to achieve real economy emissions reductions within the sectors and companies in which we invest.
- Our plans to create and evolve investment propositions aligned with net zero emissions by 2050.
- Our approach to working with the industry to improve carbon data disclosure.

There will be new challenges and opportunities in the year ahead as sustainability, including biodiversity and climate change, remain key focus areas. As a large investor we can make a real difference through the investments we make, our role as an active steward, and engagement with policymakers, regulators and other market participants. We will continue to work with our strategic partners, and the wider industry to achieve these important goals.

# OUR PEOPLE

**Our approach to responsible investment and stewardship is managed and co-ordinated by our dedicated Responsible Investment team.**

**Jane Firth,**
Head of Responsible Investment

Jane is the Head of Responsible Investment at Border to Coast Pensions Partnership, where she is leading the development of Border to Coast's responsible investment strategy across internally and externally managed assets. Prior to joining Border to Coast, Jane worked for South Yorkshire Pensions Authority, one of our Partner Funds, as a portfolio manager. Additionally, she oversaw the Fund's voting activities, and was responsible for developing responsible investment policy and stewardship practice. Jane now sits on the Investment Association stewardship committee as an asset owner representative. She has a first-class honours degree in International Studies from the Open University.

**George Kendall,**
Responsible Investment Manager

George joined Border to Coast as Responsible Investment Manager in March 2021 to support our efforts across all areas of responsible investment and stewardship. Prior to joining Border to Coast, he spent four years with KPMG's investment advisory business, where he was a member of the responsible investment and multi-asset manager research teams. George has a master's degree in Accounting and Financial Management from the University of York and is a Chartered Member of the Chartered Institute for Securities and Investment.

**Alex Faulkner,**
Responsible Investment Analyst

Alex joined Border to Coast as Responsible Investment Analyst in 2019 and brings over ten years of experience in responsible investment and ESG-related issues, having previously worked at the Principles for Responsible Investment ('PRI') and the Carbon Disclosure Project ('CDP'). Alex has a BSc degree in Biodiversity from the University of Kent and a master's degree in Environmental Consultancy from the University of West England, Bristol.

# APPENDIX

Lincoln, Lincolnshire

## Principle 1: Purpose, strategy, and culture

See pages: 5, 6, 11, 14, 18 and 25

Details of our purpose, culture, structure, values, investment philosophy and how we have served the best interests of our Partner Funds is in the sections 'About us' and 'Our values and philosophy'.

How our investment strategy enables effective stewardship is in the 'Our values and philosophy' section; examples are in the 'Influencing corporate behaviour' and 'Collaboration' sections.

How our purpose and philosophy has guided our approach is in 'Implementation of responsible investment' and 'Enhancing our approach'.

## Principle 2: Governance, resources, and incentives

See pages: 7

Detail on our governance structures, processes, development, resourcing, incentives, and oversight of external providers is in the section 'Our governance'.

## Principle 3: Conflicts of interest

See pages: 9

How we aim to identify and mitigate conflicts, including those specifically related to stewardship activities are detailed in the section 'Our governance'.

## Principle 4: Promoting well-functioning markets

See pages: 11 and 25

Our approach to identifying market-wide risks is in the section 'Implementation of responsible investment'.

Working collaboratively with other stakeholders and industry initiatives to promote a well-functioning financial system and influence real-world outcomes is in the 'Collaboration' section.

## Principle 5: Review and assurance

See pages: 7 and 14

Developing our policies and our assurance process is in the section 'Our governance'.

How we ensure our reporting remains fit for purpose, best serves our Partner Funds, and how we develop and strengthen our approach is in the section 'Enhancing our approach'.

## Principle 6: Client and beneficiary needs

See pages: 5, 6, 7, 11 and 14

Detail of the assets under management can be found in the 'About us' section. Time horizon appropriateness is in the 'Our values and philosophy' section.

Developing our policies and approach in consultation with our Partner Funds and evaluating how effective our approach is in meeting their needs is in the sections 'Our governance' and 'Enhancing our approach'.

Managing assets in alignment with our policies is in the 'Implementation of responsible investment' section.

## Principle 7: Stewardship, investment and ESG integration

See pages: 7 and 11

Our approach to integration across various asset classes and markets is in the section 'Implementation of responsible investment'.

Our approach to the appointment of and setting expectations for external managers is in the sections 'Our governance' and 'Implementation of responsible investment'.

## Principle 8: Monitoring managers and service providers

**See pages: 7, 11 and 14**

Monitoring and reviewing third-party service providers (including our engagement partner and external managers) is in the sections 'Our governance' and 'Implementation of responsible investment'.

How we have reviewed, developed, and strengthened our approach to external manager monitoring is in the section 'Enhancing our approach'.

## Principle 9: Engagement

**See pages: 11, 18 and 22**

Our approach to engagement, with examples is in the sections 'Influencing corporate behaviour' and 'Engagement in action'.

How we set expectations for external managers to engage is in the 'Implementation of responsible investment and 'Influencing corporate behaviour' sections.

## Principle 10: Collaboration

**See pages: 11, 18 and 25**

Detail on our participation in collaborative engagement, together with outcome is in the 'Collaboration' section.

Expectations of external managers to engage collaboratively is in the 'Implementation of responsible investment' and 'Influencing corporate behaviour' sections.

## Principle 11: Escalation

**See pages: 11 and 20**

Setting expectations for external managers is covered in the sections 'Implementation of responsible investment' and 'Influencing corporate behaviour'. An example of engagement escalation is in the section 'Influencing corporate behaviour'.

## Principle 12: Exercising rights and responsibilities

**See pages: 7, 11, 29 and 32**

How we retain and exercise our voting rights and responsibilities is in the sections 'Our Governance', 'Implementation of responsible investment' and 'Voting'.

A synopsis of our voting policy and policy link, how we use proxy advisors and our approach to stock lending is in the 'Voting' section.

Voting information for our equity funds and specific examples including rationale and outcomes are in the 'Voting in action' section.

Sheffield, South Yorkshire

Stockton-on-Tees, Teeside

Border to Coast Pensions Partnership Limited is authorised and regulated by the Financial Conduct Authority (FRN 800511).

Registered in England (registration number 10795539) at the registered office:

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**bordertocoast.org.uk**

BORDER TO COAST PENSIONS PARTNERSHIP