

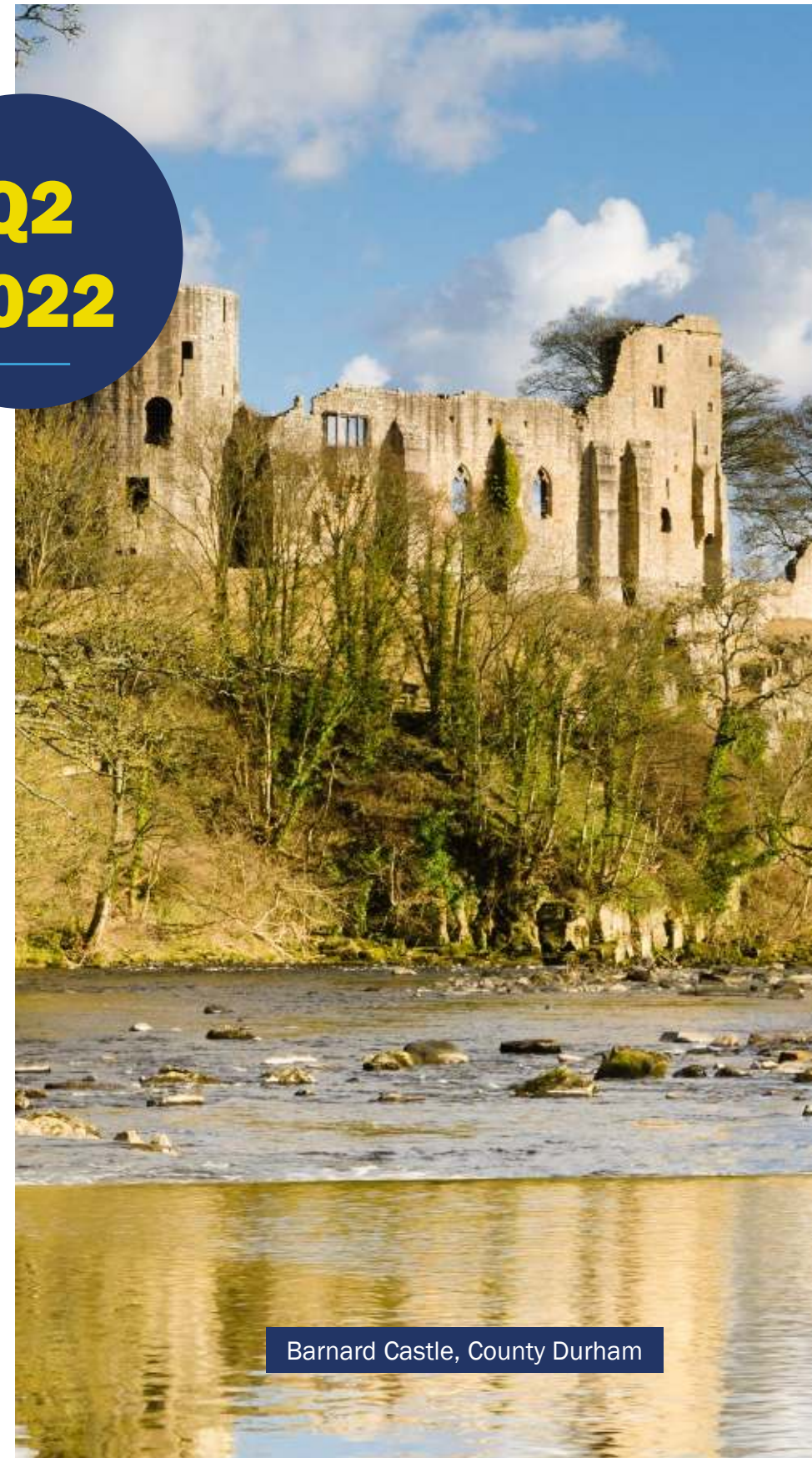
BORDER TO COAST

QUARTERLY STEWARDSHIP REPORT

**Q2
2022**



PENSIONS PARTNERSHIP



Barnard Castle, County Durham

OUR APPROACH TO RESPONSIBLE INVESTMENT

Border to Coast operates collective investment vehicles covering a wide range of asset classes in which the eleven Local Government Pension Scheme Funds (our ‘Partner Funds’), who are also our customers and shareholders, can invest to implement their strategic asset allocations.

We aim to make a difference to investment outcomes for our Partner Funds by delivering cost-effective, innovative, and responsible investment, thereby enabling sustainable, risk-adjusted performance over the long-term.

Integration

We are a strong advocate of Responsible Investment (RI) and believe businesses that are well-governed and run in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors.

Integrating environmental, social and governance (ESG) factors into our analysis helps us identify broader risks, which we believe leads to more informed investment decisions and improved risk-adjusted returns.

Active Ownership

As a long-term investor and representative of asset owners, we practice active ownership by holding companies and external managers to account on ESG issues that have the potential to impact corporate value. We also use our shareholder rights by voting at company meetings, monitoring companies, and via engagement and litigation.

Our approach to RI and stewardship is set out in our [RI Policy](#), [Corporate Governance & Voting Guidelines](#), and [Climate Change Policy](#), all of which can be viewed on our website.



Pegsdon Hills, Bedfordshire



Lincoln, Lincolnshire

QUARTERLY OVERVIEW

Our Investment Activity

Our second Private Markets Programme ('Series 2') was launched at the beginning of April with £4bn of commitments from our Partner Funds. Series 2 includes a £1.35bn Climate Opportunities Fund, with investments across private equity, infrastructure and private credit. It will be invested over a three-year period and will target sectors focused on having a material positive impact on climate change and support long-term net zero carbon emission goals and the global transition to a low carbon economy.

Voting

This quarter saw the peak of proxy voting season across developed markets. We voted at 573 meetings over the period, covering 8,750 agenda items. During the quarter, we supported a shareholder resolution at Credit Suisse and predeclared our voting intention. The resolution, led by ShareAction, called for the alignment of the bank's climate change financing with the goals of the Paris Agreement.

Engagement

530 company engagements were carried out over the quarter. Environmental topics were amongst the most common discussion points, including carbon reduction and net zero plans, opportunities in alternative fuels and electrification and the circular economy.

Collaboration

Climate change is a global issue and requires joined-up global action. It's for this reason that we've joined with a collaboration of UK pension funds, representing £400bn in assets, to look at how we can support the climate transition in emerging markets.

The aims of the collaboration are to understand how we can best work with emerging market companies on their readiness for the transition to a low carbon economy, and to consider the investment opportunities to support the transition. Further information can be found on our [website](#).

Our People

The Pensions and Lifetime Savings Association ('PLSA') held its first in-person LGPS Conference since 2019 this month. Daniel Loughney, one of our fixed income portfolio managers, spoke on his reflections on the future of the sustainable bond market and the effect of the International Capital Market Association's green bond principles. The article, reported by Room151, can be found [here](#). We are currently working with Partner Fund Officers to consider how we can best provide access to this important development in capital markets.

Our Head of Responsible Investment, Jane Firth, attended a roundtable event hosted by Room151 to discuss the role biodiversity will play in investment decision-making over the coming years. Issues covered included: the impact of the Taskforce on Nature-Related Financial Disclosure, biodiversity targets, the need for government incentives and investment vehicles. A full version of the full roundtable debate is available [here](#).

Our Head of Equities and Alternatives, Mark Lyon, spoke at the Sustainability In Practice 2022 conference at the University of Cambridge in April. The conference, hosted by Top1000Funds, invited industry practitioners to discuss the steps that investors are taking to integrate sustainability, including the impact on asset allocation and structural shifts of net zero.

INDUSTRY UPDATE

Paris alignment reporting in occupational pension schemes

The Department for Work and Pensions published its response to its October 2021 consultation in June. The consultation, sought views on proposals to require trustees of large occupational pension schemes to measure and report on the degree of alignment of their investment portfolios with the goals of the Paris agreement.

With effect from October 2022, trustees of occupational pension schemes in excess of £1bn will be required to calculate and report metrics setting out the extent to which their investments are aligned with the goals.

UK Transition Plan Taskforce

An increasing number of companies are making commitments to decarbonise their operations and reach net zero emissions. The detail provided in transition plans can vary significantly making it challenging for stakeholders to assess them. In April, HM Treasury formally launched a new UK Transition Plan Taskforce, to develop a standard for climate transition plans in the UK. The aim is for UK financial institutions and listed companies to develop and publish science-based transition plans that are credible, robust and “investable”, providing detail on how they will adapt and decarbonise as the UK moves towards net zero.

Science-based targets in financials

Recognising that financial institutions are key to enabling the systematic change needed to reach net zero, the Science Based Targets initiative (‘SBTi’) recently published a paper outlining a variety of new concepts for setting net zero targets for banks, asset owners, asset managers and other financial institutions on a science-based basis.

The paper looks to address a number of key issues, including defining net zero, the use of offsets, and fossil fuel phase-out approaches. It also paves the way for the SBTi’s Net-Zero Standard for Financial Institutions, due to be launched in early 2023. Further detail can be found [here](#).

Embedding stewardship in the asset manager and asset owner relationship

Our CEO, Rachel Elwell, sits on the board of the Investment Association (‘IA’) and is part of a steering group of investment managers, pension funds, investment consultants and lawyers established jointly by the IA and PLSA. The steering group recently published a report on strengthening the relationship between pension funds and investment managers.

The report seeks to address issues including a lack of clarity on stewardship expectations, and an overemphasis on short-term performance by setting out several recommendations for each stage of the relationship, from the appointment process, through to the ongoing monitoring of established relationships. Further detail can be found [here](#).

TNFD Framework update

The Taskforce on Nature-related Financial Disclosures (‘TNFD’) is a global initiative, with the aim of developing a risk management and disclosure framework for reporting and acting on nature-related risks and opportunities. June saw the release of the second beta version of its framework. This builds on the first iteration, released in March, and features additional guidance for pilot testing. Ongoing market feedback will support the further design and development of the TNFD recommendations due in September 2023. We will continue to monitor progress throughout the testing period.



Sheffield, South Yorkshire

OUR VOTING

Overview

The second quarter saw peak AGM voting season across developed markets. In total, we voted at 573 meetings, comprising of 8,750 agenda items. In 72% of meetings, we cast at least one vote against the recommendations of management. There were a relatively high number of votes opposing political donations, particularly in our UK-focussed Funds. These have been categorised under ‘other’ on the following page.

Shareholder proposals

The 2022 proxy season was even busier this year due to the high volume of ESG shareholder proposals making it onto agendas. This increase was to some extent caused by the US Securities and Exchange Commission, which issued new guidance in November 2021 on how they would interpret the rules used by companies to exclude ESG-related proposals. This made it more difficult for companies to remove proposals and conversely gave more power to investors to put their proposals forward.

Environmental matters were a focus for shareholder proposals, with investors calling for greater disclosure on climate-related impact, adoption of credible emissions-reduction targets, enhanced disclosure on lobbying activities and approaches to mitigating their impact on deforestation.

Social issues were also high on investors’ agendas, with resolutions focusing on diversity, equity and inclusion. Shareholder proposals requesting gender and racial pay gaps disclosure saw an increase in support, as did proposals asking companies to conduct racial equity audits.

On Governance, a high support rate was seen for shareholder proposals asking the company to separate the roles of CEO and Chair of the Board. This is supported by us as an independent chair can better oversee a company's executives and set a pro-shareholder agenda.

Shareholder rights

Driven by the COVID-19 pandemic, temporary legislation was enacted in many countries to allow for virtual-only shareholder meetings. With the temporary measures coming to an end, this proxy season has seen many companies proposing article amendments for discretion to hold shareholder meetings on a virtual-only basis. There are some benefits to this (lower costs, decreasing carbon footprint), but also concerns around participation and restrictions on the shareholder voice through management’s ability to filter out inconvenient questions. For this reason, we oppose any article amendments that grant companies the discretion to hold shareholder meetings in a virtual-only format outside exceptional circumstances. However, we support amendments enabling hybrid meetings, as these can both deliver benefits and increase shareholder participation.

Resolution votes with & against management

With 86%

Against 14%

573

Meetings
voted on

72%

Meetings with at
least one vote
against
management

8,750

Agenda
Items

Voting activity by region

11% Emerging

26%

UK

27%

Asia Pacific

17%

Europe

19%

US

QUARTERLY VOTES BY FUND

<div><div>UK Listed Equity Fund</div><div><div>Meetings:67</div><div>Items Voted:1,376</div><div>Approx. size:£3.4bn*</div></div><div><div></div><div></div></div><div><div>Votes with & against management</div><div><div>With:92%</div><div>Against:8%</div></div></div><div><div>Resolutions by Category</div><div><div>Board Related:17%</div><div>Audit:21%</div><div>Capital Management:0%</div><div>Executive Pay:21%</div><div>Other:41%</div></div></div></div>	<div><div>Overseas Developed Markets Equity Fund</div><div><div>Meetings:180</div><div>Items Voted:2,925</div><div>Approx. size:£5.3bn*</div></div><div><div></div><div></div></div><div><div>Votes with & against management</div><div><div>With:84%</div><div>Against:16%</div></div></div><div><div>Resolutions by Category</div><div><div>Board Related:37%</div><div>Audit:4%</div><div>Capital Management:4%</div><div>Executive Pay:40%</div><div>Other:15%</div></div></div></div>	<div><div>Emerging Markets Equity Fund</div><div><div>Meetings:150</div><div>Items Voted:1,711</div><div>Approx. size:£1.0bn*</div></div><div><div></div><div></div></div><div><div>Votes with & against management</div><div><div>With:83%</div><div>Against:17%</div></div></div><div><div>Resolutions by Category</div><div><div>Board Related:43%</div><div>Audit:14%</div><div>Capital Management:23%</div><div>Executive Pay:11%</div><div>Other:9%</div></div></div></div>	<div><div>UK Listed Equity Alpha Fund</div><div><div>Meetings:110</div><div>Items Voted:1,966</div><div>Approx. size:£1.3bn*</div></div><div><div></div><div></div></div><div><div>Votes with & against management</div><div><div>With:91%</div><div>Against:9%</div></div></div><div><div>Resolutions by Category</div><div><div>Board Related:31%</div><div>Audit:15%</div><div>Capital Management:0%</div><div>Executive Pay:23%</div><div>Other:31%</div></div></div></div>	<div><div>Global Equity Alpha Fund</div><div><div>Meetings:111</div><div>Items Voted:1,908</div><div>Approx. size:£5.9bn*</div></div><div><div></div><div></div></div><div><div>Votes with & against management</div><div><div>With:84%</div><div>Against:16%</div></div></div><div><div>Resolutions by Category</div><div><div>Board Related:44%</div><div>Audit:7%</div><div>Capital Management:4%</div><div>Executive Pay:25%</div><div>Other:20%</div></div></div></div>	<div><div>Listed Alternatives Fund</div><div><div>Meetings:39</div><div>Items Voted:521</div><div>Approx. size:£1.4bn*</div></div><div><div></div><div></div></div><div><div>Votes with & against management</div><div><div>With:91%</div><div>Against:9%</div></div></div><div><div>Resolutions by Category</div><div><div>Board Related:34%</div><div>Audit:13%</div><div>Capital Management:0%</div><div>Executive Pay:42%</div><div>Other:11%</div></div></div></div>
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* Size of Fund as at 30 June 2022

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

VOTING HIGHLIGHTS

Shell plc (UK Listed Equity, UK Listed Equity Alpha)

Shell is an international energy company with operations divided into: Upstream (exploration and production), Integrated Gas, New Energies, and Downstream (refining and distribution).

What did we do? We opposed the company's energy transition strategy and supported a shareholder proposal on emissions targets.

Our view: We had proactive engagement with Shell ahead of the AGM and welcomed the opportunity to hear from them on their energy transition strategy.

While we recognised that the company had a lot of positive aspects to their energy transition plan around alignment of scope 1 and 2 emissions targets, further areas of improvement were identified. These included the adoption of scope 3 targets and alignment of assumptions trending towards lower-carbon scenarios.

Follow This, a Dutch activist investor group, put forward a shareholder proposal requesting the company adopt more stringent emissions targets that are aligned with the goals of the Paris agreement. We will support reasonable requests for credible targets and disclosure, and therefore voted in favour of the proposal.

Voting outcome: Both proposals saw support fall relative to last year's AGM results, with commentators speculating the onset of the energy crisis being a factor in some investors' voting decisions. Although this was disappointing, we believe it is right to continue to set more demanding targets for companies, taking a stricter approach to transition plans. We informed Shell in advance of our voting intentions and look forward to continued dialogue with the company.

Activision Blizzard Inc (Overseas Developed Markets Equity)

Activision Blizzard is a developer and publisher of interactive entertainment content and services, distributing on video game consoles, computers and mobile devices.

What did we do? We supported a shareholder proposal requesting the company report on the effectiveness and results of its efforts to combat abuse, harassment, and discrimination amongst its workforce.

Our view: The company has faced scrutiny over allegations of a poor culture, marred by harassment and discrimination across its workforce. Against this backdrop, the June AGM saw the New York State Common Retirement Fund submit a proposal, requesting the company report on the effectiveness and results of its efforts to combat its cultural issues. Where we believe a shareholder proposal aims to increase disclosure on material ESG issues, we will vote in favour. We therefore voted to support the proposal.

Voting outcome: The proposal received support from approximately 63% of shareholders. In January, shareholders approved a proposed acquisition by Microsoft, another company in which we invest. The deal is currently subject to review by the US Federal Trade Commission and UK Competition and Markets Authority to assess the impact on competition in the market. We will continue to monitor the situation and, seek to understand how cultural issues in the company will be managed irrespective of the outcome of the proposed acquisition.



Newcastle, Tyne & Wear

OUR ENGAGEMENT

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

- **Internally:** Our internal portfolio managers engage directly with companies within their portfolios.
- **Externally:** Our appointed managers engage with companies on our behalf and provide details as part of their reporting cycles.
- **In Partnership:**
 - Robeco is our voting and engagement partner. They engage on our behalf with companies we own globally across several ESG themes. This allows us to better fulfil our stewardship objectives as an active shareholder.
 - We are members of the Local Authority Pension Fund Forum (LAPFF), a forum for Local Government Pension Funds, and the UK’s largest collaborative shareholder engagement forum. LAPFF engages across a broad range of ESG themes on behalf of its members, to maximise their influence as shareholders.
- **Other Collaborations:** Partnerships allow us to collaborate with like-minded investors and bodies to create a stronger voice on ESG issues. We work with several RI initiatives which support our ESG areas of focus. Further detail on our collaborative initiatives is available on our [website](#).

530

ENGAGEMENTS

Engagement activity covering period 01.04.22 to 30.06.22

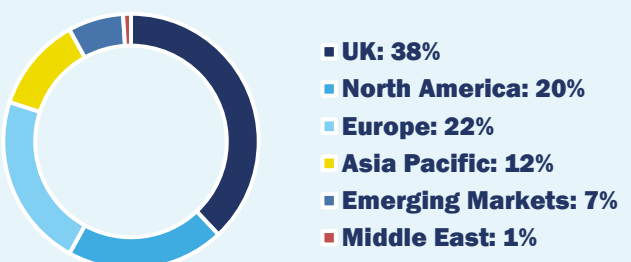
Breakdown of Engagements



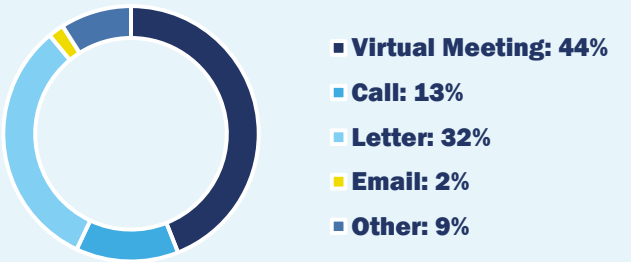
Breakdown by topic



Breakdown by region



Breakdown by type



ENGAGEMENT IN FOCUS

Engagement Theme Update: Net Zero Carbon Emissions 2.0

Q2 2022 saw the launch of Robeco's updated Net Zero Carbon Emissions engagement theme which works with companies towards achieving net zero emissions globally by 2050. This is necessary to reduce greenhouse gas emissions and limit further temperature rises.

The update focuses on expanding engagement with companies deemed to have a material impact on the climate, with the aim to focus on engagement with companies with the highest carbon footprint that need to transition towards net zero emissions. Equally importantly, that transition plans ensure reduction in real-world emissions over the next decade. This is instrumental in delivering our Low Carbon Transition engagement theme and our net zero commitment.

Following assessment additional companies were added to the thematic engagement. The engagement objectives for companies are based on, but not limited to the Climate Action 100+ Net Zero Benchmark, including to set long-term net zero targets, substantiated by credible short- and medium-term emissions reduction strategies.

The theme is expected to run to 2025 and includes 16 companies in which Border to Coast invests.

Engagement Theme Closure: Digital Innovation in Health Care

The health care sector has seen rapid growth in the provision of digital technologies and services over the last decade. Innovating products and service offerings drives competitive advantage for most companies in the sector and therefore represents a significant driver for future growth and shareholder value. The onset of the pandemic not only fast-tracked investment in this area, but effectively forced companies to overcome their non-technological barriers and adapt to remain competitive in the post-pandemic era. During May, Robeco concluded their engagement theme with the healthcare sector, which ran from Q2 2019. The theme focused on a variety of areas, drawing the following conclusions;

- The pace of digital transformation is accelerating across the sector and many firms have written their first vision statements and have set targets on utilising digital innovation.
- The pharmaceutical industry lags slightly behind other industry players such as medical equipment suppliers or health care information technology providers. Until recently, there was less of a need for the pharmaceutical sector to alter its business-as-usual approach, however this is changing.
- The pandemic has driven increased collaboration between public and private partners, where knowledge-sharing and data exchange is used to serve the broader health care system.

Progress was seen for all companies under engagement. Most companies under engagement have defined a comprehensive digital strategy and supported it by integrating newer digital technologies within their innovation process. More limited progress was seen in the area of cybersecurity, where despite having robust policies in place, companies remain reluctant to share detailed information on external attacks and internal policy adherence failure. While this particular theme has now closed, we continue to engage on cyber security matters through the collaborative initiative led by Royal London Asset Management which we have previously reported on.



Buttermere, Cumbria



Helmsley, North Yorkshire

OUR INITIATIVES & COLLABORATIONS



OUR PARTNER FUNDS



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Flamborough, East Riding