

**Q3
2022**

BORDER TO COAST

QUARTERLY STEWARDSHIP REPORT



PENSIONS PARTNERSHIP



Coatham, Teesside

OUR APPROACH TO RESPONSIBLE INVESTMENT

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

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

Integration

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

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

Active Ownership

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

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



Surrey Hills, Surrey



Stratford Upon Avon, Warwickshire

QUARTERLY OVERVIEW

Stewardship and TCFD Reporting

We have now published both our Responsible Investment and Stewardship (RI) Report and Taskforce on Climate-related Financial Disclosures (TCFD) Report for 2021/22.

The reports, available [here](#), set out in depth our work as a responsible investor, highlight the strength of the collective voice provided by pooling, and the positive impact it can have.

The RI Report provides a detailed view into our approach to stewardship and the management of the investment risks and opportunities associated with ESG factors, demonstrating our commitment to the UK Stewardship Code.

The 2021/22 period was Border to Coast's third year of reporting in line with the TCFD recommendations. The report details our approach to managing climate-related risks and opportunities within the four thematic areas of Governance, Strategy, Risk Management and Metrics and Targets.

Net Zero Implementation Plan

We have recently published our Net Zero Implementation Plan detailing how we will address the systemic risk of climate change, drive reductions in real world carbon emissions, and reduce our carbon footprint to net zero by 2050 or sooner.

The Plan marks an important step in our journey and demonstrates how we will continue to leverage our collective scale and influence to proactively engage with companies to decarbonise and create investment propositions aligned with net zero emission goals. You can read the plan in full [here](#).

Border to Coast Annual Conference

At the end of September, we hosted our annual conference in our home city of Leeds. The conference has an important place in our calendar, giving Partner Funds the opportunity to share experiences and join discussions on plans for our collective future.

Border to Coast colleagues presented on a range of topics, including our investment process, progress on our roadmap to net zero, and how we are providing access for Partner Funds to invest in climate solutions. There was also an in-depth look at our work as an active steward of assets, with our partners at Robeco, Royal London AM, NinetyOne and Baillie Gifford explaining how they engage with companies to drive positive change on our behalf.

Voting

This quarter saw a significant reduction in voting activity following the end of the peak proxy voting season. In total, we voted at 134 meetings over the period, covering 1,599 agenda items.

Engagement

248 company engagements were carried out over the quarter on a variety of topics. The most common area discussed was environmental impact, specifically in relation to climate strategy.

During the quarter, we carried out a follow-up exercise encouraging portfolio companies to engage with the Workforce Disclosure Initiative survey.

INDUSTRY UPDATE

‘Anti-ESG’ in the US

We believe integrating ESG factors into our analysis helps us identify broader risks that lead to more informed investment decisions. However, this year has seen a growing rise in anti-ESG sentiment in the US. A number of states, including Texas, Florida and Arizona have proposed, or enacted legislation aimed at deterring, or eliminating ESG considerations when investing state funds. Such legislation commonly targets financial institutions with exclusionary investment policies in fossil-fuel producing energy companies but has also been aimed at institutions seen to “boycott” state-relevant industries such as mining, firearms, or production agriculture.

We see this as an important development for Border to Coast to monitor and is a topic we continue to discuss with our US-based investment managers, whom we expect to continue to manage assets in line with our responsible investment policies.

UN Biodiversity Conference (COP15)

Biodiversity is deteriorating globally and according to experts the rate at which species are becoming extinct is accelerating. It is projected to worsen under business-as-usual scenarios. Climate change and biodiversity loss are interconnected, one further exacerbating the other. Biodiversity loss can have severe economic and social consequences and is therefore rising up the agenda for investors.

The UN Biodiversity Conference (COP15) takes place in Montreal in December. The aim is for global governments to agree to a new set of goals through the Convention on Biological Diversity (CBD) post-2020 framework process. The framework sets out a plan to implement broad-based action to protect biodiversity and restore ecosystems.

All sessions at COP15 will be streamed live [here](#).

IIGCC and TPI collaborate

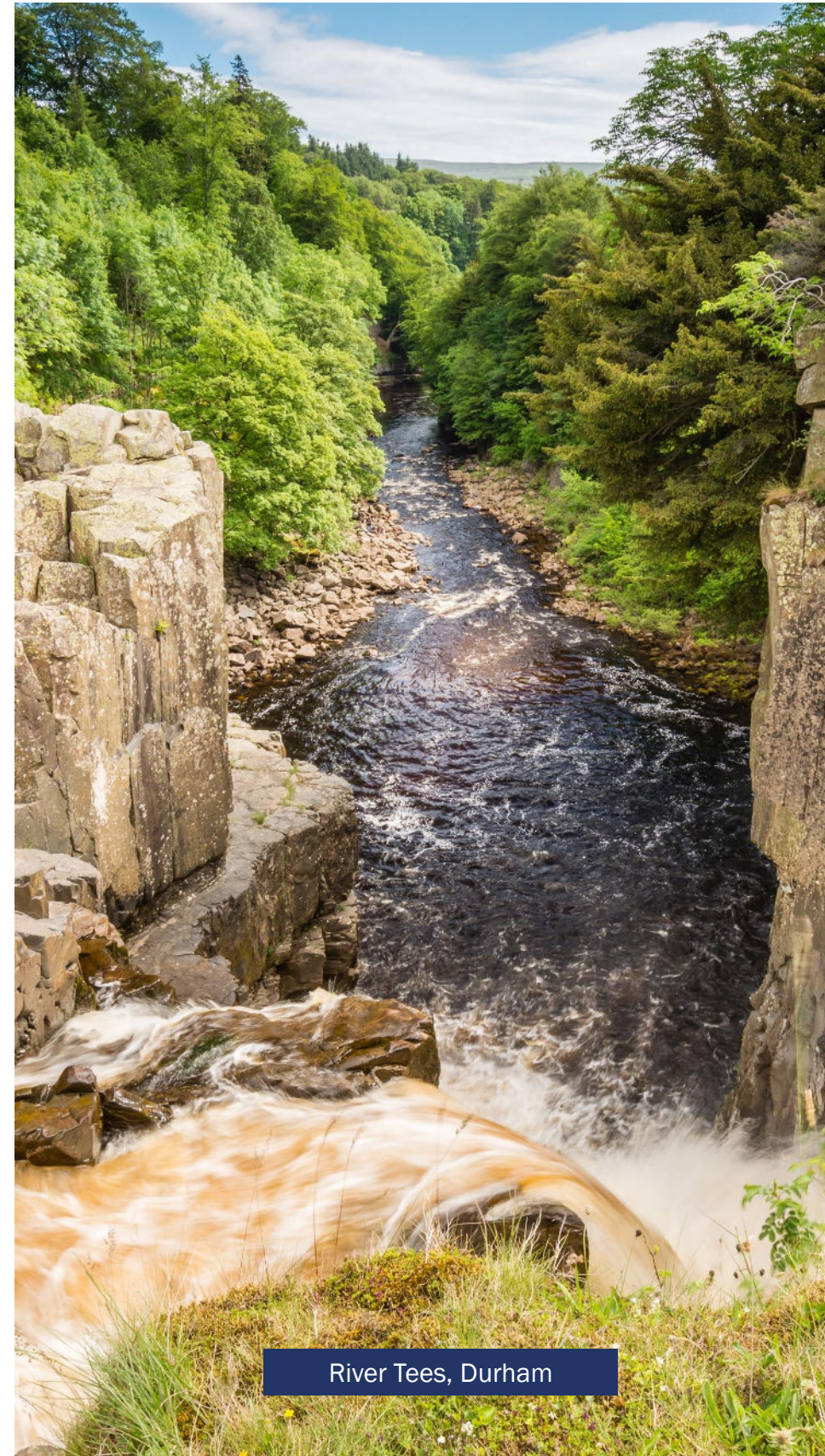
In recognition of the pivotal role that banks and financial institutions play in the transition to a low carbon economy, the Transition Pathway Initiative (TPI), in collaboration with the Institutional Investor Group on Climate Change (IIGCC) recently published a framework to assess banks on how they are transitioning to net zero. The Framework has been used to assess 27 banks across several areas, including commitments, targets, strategy, governance, policy engagement and reporting. The results showed that, although banks have made progress, there is still significant work needed for the sector to align with a 1.5° pathway. This development supports our work as part of our Low Carbon Transition engagement theme.

PRI consultation

To recognise the fast-changing landscape for responsible investment, the Principles for Responsible Investment (PRI), of which we are a signatory, has launched a global consultation to explore topics including the PRI’s vision, mission and purpose, the future of responsible investment and the value it provides to its signatories. The PRI is proposing to hold conversations with signatories from September to December and host a formal online consultation due to close in January 2023.

New framework to assess banks

July saw the IIGCC in collaboration with the TPI, publish an investor-led framework of pilot indicators. This was developed to assist investors assess how prepared banks are for the transition to net zero. The indicators cover six key areas including; net zero commitments; short- and medium-term targets; decarbonisation strategies; climate governance; climate policy engagement; and audit and accounts.



OUR VOTING

Overview

The third quarter saw a material reduction in voting activity following peak voting season. In total, we voted at 134 meetings, comprising of 1,599 agenda items. In 56% of meetings, we cast at least one vote against the recommendations of management.

Board elections

Good corporate governance is essential and an important area for investors to engage with companies on. It has not been seen as such a fashionable area to engage on as environmental and climate issues but if governance is not strong this can filter down into weaker management of social and environmental issues.

The election of board members by investors is a fundamental aspect of corporate governance. The Board of Directors is responsible for company oversight. Global best practice requires corporate boards to have the necessary independence levels, at Board and committee level. Expectations are that directors have relevant and diversified skills, expertise, and experience to reflect all stakeholders’ perspectives.

Historically, there has not been much scrutiny on the election of board directors, with investors often voting in line with management recommendations in what was previously seen as a routine exercise. However, recently there has been increased public interest in how investors are using their voting rights. This has led to increased scrutiny by investors when it comes to electing board members and demanding the opportunity to hold individual board members to account.

The growing trend signals that investors are beginning to more actively use their vote in holding the board of directors to account and in an increasing number of cases, to signal discontent around broader topics like environmental and social concerns.

This is consistent with Border to Coast’s approach and voting stance. We will vote against the Chair of the Board or relevant committee Chair on gender diversity, lack of independence and failure to make sufficient progress on decarbonisation.

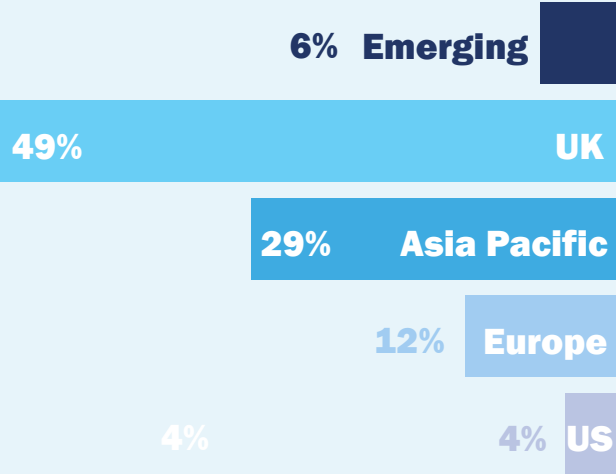
Resolution votes with & against management

With 96%

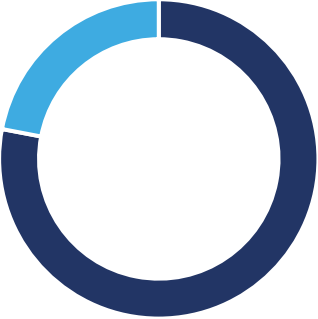
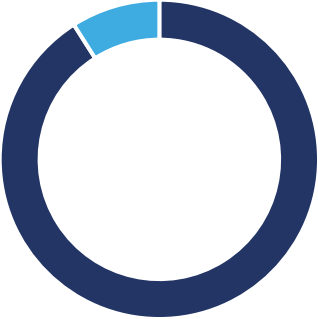
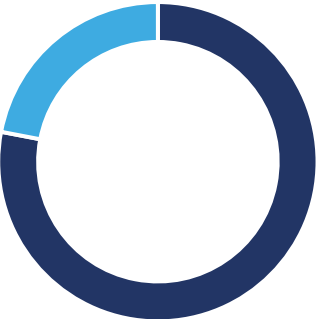
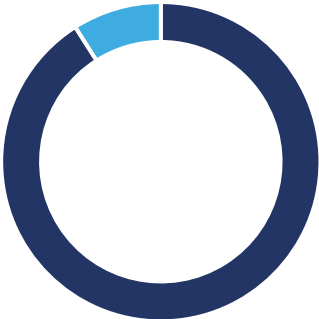
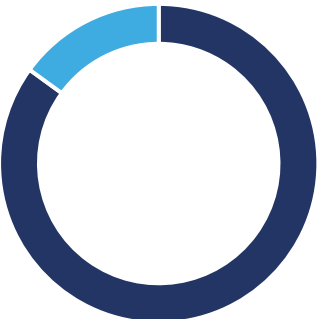
Against 4%



Voting activity by region



QUARTERLY VOTES BY FUND

UK Listed Equity Fund	Overseas Developed Markets Equity Fund	Emerging Markets Equity Fund	UK Listed Equity Alpha Fund	Global Equity Alpha Fund	Listed Alternatives Fund
Meetings: 31	Meetings: 12	Meetings: 40	Meetings: 51	Meetings: 15	Meetings: 8
Items Voted: 467	Items Voted: 124	Items Voted: 330	Items Voted: 731	Items Voted: 179	Items Voted: 106
Approx. size: £3.3bn*	Approx. size: £5.2bn*	Approx. size: £0.9bn*	Approx. size: £1.2bn*	Approx. size: £6.0bn*	Approx. size: £1.4bn*
					
Votes with & against management	Votes with & against management	Votes with & against management	Votes with & against management	Votes with & against management	Votes with & against management
With: 93%	With: 91%	With: 78%	With: 91%	With: 85%	With: 92%
Against: 7%	Against: 9%	Against: 22%	Against: 9%	Against: 15%	Against: 8%
Resolutions by Category	Resolutions by Category	Resolutions by Category	Resolutions by Category	Resolutions by Category	Resolutions by Category
Board Related: 19%	Board Related: 42%	Board Related: 49%	Board Related: 35%	Board Related: 43%	Board Related: 0%
Audit: 19%	Audit: 0%	Audit: 8%	Audit: 9%	Audit: 4%	Audit: 75%
Capital Management: 0%	Capital Management: 0%	Capital Management: 9%	Capital Management: 8%	Capital Management: 0%	Capital Management: 0%
Executive Pay: 19%	Executive Pay: 33%	Executive Pay: 12%	Executive Pay: 15%	Executive Pay: 35%	Executive Pay: 0%
Other: 43%	Other: 25%	Other: 22%	Other: 33%	Other: 18%	Other: 25%

* Size of Fund as at 30 September 2022

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

VOTING HIGHLIGHTS

Nike Inc (Overseas Developed Markets Equity)

Nike Inc is a US-based company which designs, develops, markets, and sells men's, women's, and children's athletic footwear, apparel, equipment, and accessories globally

What did we do?

We voted against an advisory vote on executive compensation (Say on Pay) and abstained on a shareholder proposal regarding the development of a policy to pause the sourcing of raw materials from China.

Our view:

In terms of the advisory vote, the compensation committee exercised its discretion to lower performance goals and increase awards,. We assessed the company's compensation programme looking at a number of factors, including pay structure, pay magnitude and transparency. We considered that the level of remuneration being proposed to be paid to executives was excessive and bore a significant cost for shareholders.

The shareholder proposal was filed by two institutional investors and called for the company to adopt a policy to pause the sourcing of cotton and other raw materials from China; this is following allegations that the Chinese government used Uyghur Muslims in forced labour practices. It was assessed that Nike does not appear to have sufficient traceability of cotton and other raw materials, rendering it unable to identify and address whether the materials it uses are linked to forced labor issues. Although we agreed with the spirit of the proposal, we did not agree with the wording of the resolution considering it to be too restrictive in practice and not in shareholders' best interests.

Voting outcome

The advisory vote on executive pay saw significant opposition from shareholders with dissent from 35% of the votes cast, up from 28% in 2021, thus showing an increasing level of shareholder scrutiny on the company's pay practices. In terms of the shareholder proposal, this was voted down, with investors siding with management over the restrictive nature of the proposals. We continue to engage with the Company on executive pay through the Executive Remuneration engagement theme being conducted by our Voting and Engagement partner.



York, North Yorkshire

OUR ENGAGEMENT

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

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

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ENGAGEMENTS

Engagement activity covering period 01.07.22 to 30.09.22

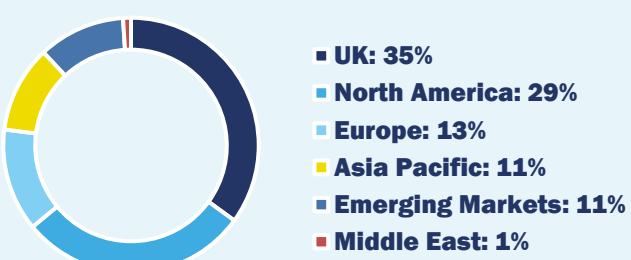
Breakdown of Engagements



Breakdown by topic



Breakdown by region



Breakdown by type



ENGAGEMENT IN FOCUS

Engagement Theme Launch: Diversity and inclusion

This quarter saw our engagement partner, Robeco, launch a new engagement theme on diversity and inclusion (D&I) focused on increasing diversity within the workforce. The intention is for this engagement to run continuously, rather than for the usual three-year period, gradually increasing coverage.

This engagement theme will support our priority theme of Diversity of Thought which is running for the next three years.

Why is this important?

The COVID-19 pandemic and a renewed focus on racial injustices have brought a heightened emphasis on diversity and inclusion within companies, institutions and society more generally. Diversity of thought and experience on boards is significant for good governance, it reduces the risk of ‘group think’ leading to better decision making. There can be a positive impact on corporate performance, where benefits can be seen from recruiting and retaining talent, enhancing corporate reputation, and improved decision-making. Building an inclusive and diverse workplace creates a positive impact on the workforce leading to enhanced productivity. Therefore, human capital management strategies, which include diversity and inclusion, are important in determining a company’s underlying quality and value and factors that investors should integrate into their investment decisions making.

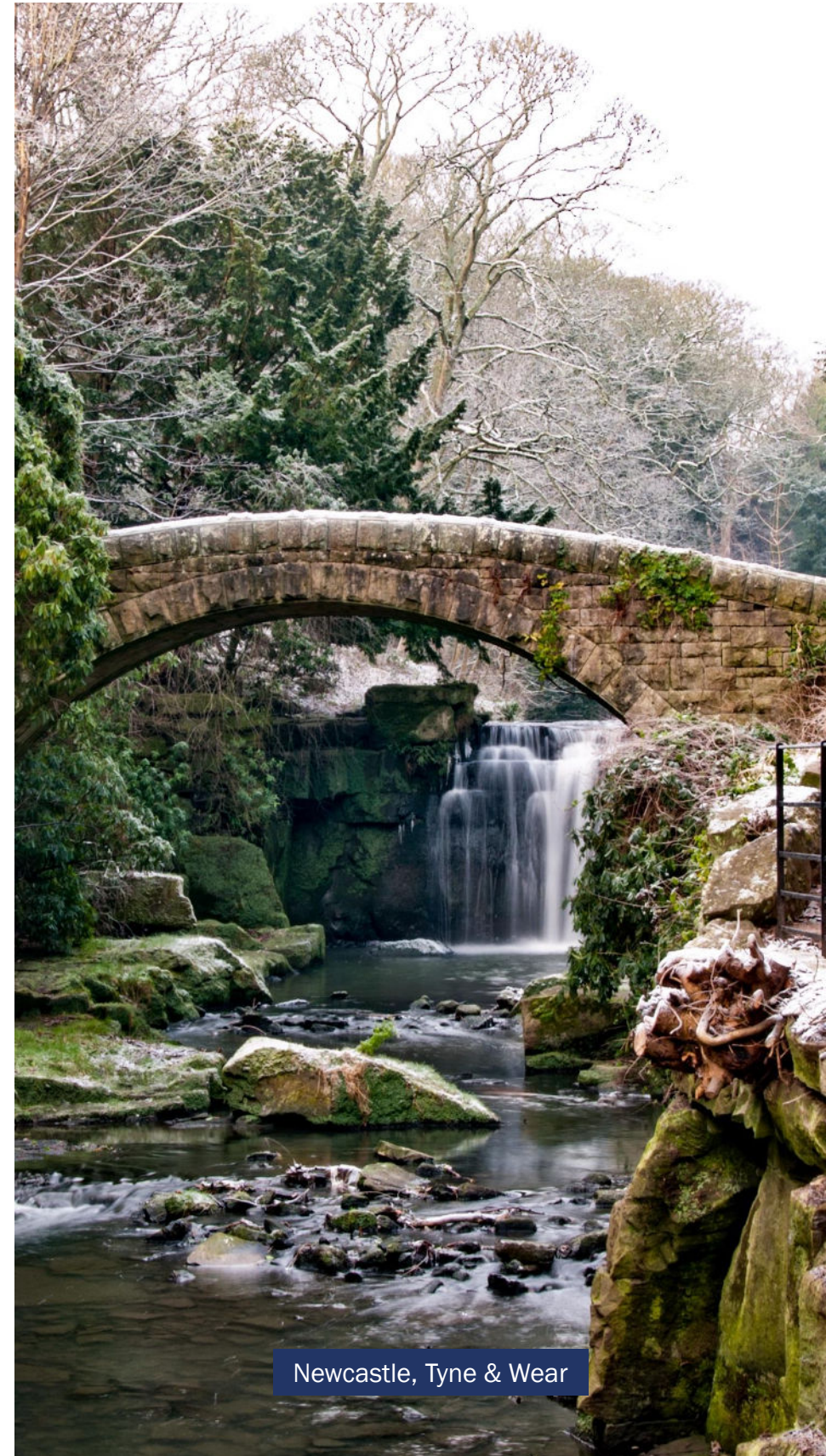
How will companies be assessed for engagement?

Insufficient data is the main challenge identified by investors when assessing companies’ efforts on diversity and inclusion. This can be an additional challenge due to the regulations in different jurisdictions where it is not permitted to gather certain types of data due to privacy restrictions. To determine which companies to consider as potential engagement cases, industries were identified that were seen as laggards in disclosing data on diversity. Then the Principle Adverse Impact (PAI) indicators, which are part of the EU sustainability reporting requirements, were assessed using third-party data. The 20 industries with the lowest levels of disclosures were prioritised for engagement.

What are the objectives?

Five engagement objectives have been formulated to facilitate engagement and dialogue with companies. These include:

- Developing a D&I policy with time-bound goals
- Defining and aligning strategies for talent management, covering recruitment, development, performance and succession planning
- Disclosing workforce diversity data
- Undertaking pay equity audits
- Promoting an inclusive culture



Newcastle, Tyne & Wear



OUR INITIATIVES & COLLABORATIONS



Signatory of:



STEWARDSHIP
CODE | 2021

ROBECO

Signatory of:



INVESTOR MINING
& TAILINGS SAFETY
INITIATIVE



OUR PARTNER FUNDS



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Red Hill, Lincolnshire