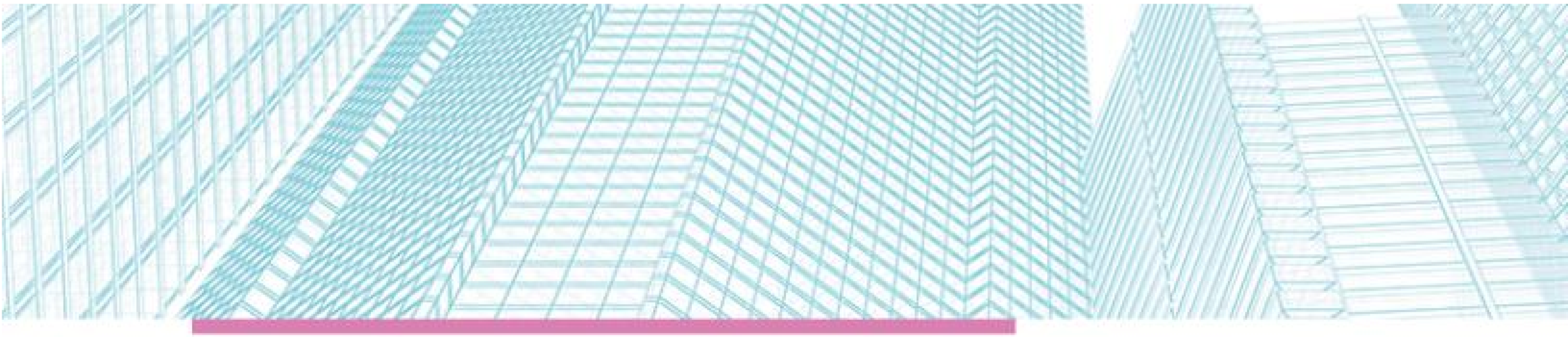
Border to Coast Pension Partnership
Listed Alternatives Fund



Proxy Voting Report

Period: January 01, 2023 - March 31, 2023

Votes Cast	44	Number of meetings	4
For	41	With management	41
Withhold	0	Against management	3
Abstain	0		
Against	3		
Other	0		
Total	**44**	**Total**	**44**

In 50% of meetings we have cast one or more votes against management recommendation.

General Highlights

Board quality in focus

Recent years have dramatically altered the corporate governance landscape as public company directors faced unique challenges including the COVID-19 pandemic, Russia's invasion of Ukraine, soaring energy prices, and a cost-of-living crisis. This shift placed a renewed focus on board quality, as both investors and regulators directed significant scrutiny towards the directors' efforts to navigate these turbulent times. Against this backdrop, regulators rolled out several initiatives aimed at strengthening board composition and director accountability.

In the US, proxy fights entered a new era of universal proxy cards. The new rules adopted by the Securities and Exchange Commission enable shareholders voting remotely in contested elections to vote for a combination of candidates from the competing slates put forward by the dissident shareholder and the incumbent board, as they could if voting in person. The ability of shareholders voting by proxy to cherry-pick candidates will overhaul the mechanisms by which proxy fights were carried out in the US thus far, rendering individual board members more susceptible to removal and placing them under increased scrutiny.

On the other side of the Atlantic, the collapse of financial service provider Wirecard prompted Germany to adopt the Act on Strengthening the Financial Market Integrity, which sets stricter requirements for the governance of listed firms. Most notably, it requires that audit committees comprise two financial experts, one with expertise in accounting and one with expertise in auditing. Furthermore, the new rules also provide that management board members may attend meetings between the auditor and the supervisory board or its committees only if their attendance is deemed essential.

In the UK, we see a continued push for more robust board diversity. In April 2022, the country's Financial Conduct Authority released new rules "to boost disclosure of diversity on listed company boards". These rules require companies to annually disclose whether they meet a set of three specified targets on a "comply or explain" basis. In line with the new provisions, women should make up at least 40% of the board and should hold at least one of the senior board positions, while at least one member of the board should come from an ethnic minority background.

At the same time, Asian markets are witnessing a trend of increased focus on board quality as well. Recently, in January 2023, the Monetary Authority of Singapore amended the country's corporate governance code to limit the tenure of independent directors to nine years. Before this change, directors could continue to be deemed independent after having served on the board for nine years if their appointment was approved via a two-tier vote from all shareholders, as well as from all shareholders excluding the company's directors, CEO and their associates. The regulator noted that the two-tier vote mechanism had been heavily used to retain long-serving independent directors, "inhibiting board renewal and progress on board diversity."

Market Highlights

Corporate governance reform in the US

Investors are increasingly looking beyond balance sheets to understand a company's 'double materiality' impact on the wider world. To reinforce this, regulators around the globe including the US Securities and Exchange Commission (SEC) are tightening their requirements for disclosure on corporate environmental, social and governance (ESG) issues.

While the focus on ESG has massively gained in importance, there is broad consensus that there are still shortcomings in the quality, consistency and comparability of issuers' ESG reporting, and investors often lack the appropriate tools to voice their concerns regarding a company's ESG performance. Against this backdrop, 2022 saw SEC adopt a host of new rules which will improve the quality of US companies' disclosure and enhance a board's accountability to shareholders. In this article, we look back at five of the most relevant regulatory initiatives rolled out in the US in 2022.

1. Universal proxy cards: A new era of proxy fights

One of the major changes introduced was the SEC's adoption of new rules requiring the use of 'universal proxy cards' (UPCs) for any meetings involving contested elections. These rules mark a major development in overhauling the mechanisms by which US proxy contests have been carried.

Previously, shareholders voting by proxy were unable to 'mix and match' nominees put forward by the incumbent board and the dissident shareholder, as they could if they were voting in person. They were therefore faced with a binary choice – to vote for one slate or the other, opting for no change or sweeping change. Now they will be provided with a slate including the names of all dissident and registrant nominees, thereby being able to choose nominees from either side.

An equal footing
We welcome this change. First, it places investors voting in person or by proxy on an equal footing. Second, the new rules strengthen the means by which shareholders can hold companies accountable for poor governance. While there has been no shortage of speculation regarding the potential consequences of UPCs, one thing is certain: individual board candidates will be more vulnerable to replacement, and will therefore face more scrutiny from shareholders and other stakeholders.

In light of this, a major advantage of the new rules is that they will likely force companies to bolster their disclosure on board composition, refreshment, and the process for director nominations, as well as making them carry out an effective evaluation of the board to withstand this growing scrutiny.

2. Revamp of the shareholder proposal rule

In a separate initiative, the SEC proposed changes to the process by which shareholder proposals are included in a company's proxy statement. Under rule 14a-8, a company may omit a shareholder proposal from its proxy statement if it falls within one of 13 substantive bases for exclusion.

The proposed amendments would revise three of these criteria – 'substantial implementation', 'duplication' and 'resubmission' – in an effort to "improve the shareholder proposal process and promote consistency".

In recent years, the existing rules drew criticism over concerns that the standards for exclusion were not being consistently implemented, thereby leading to unpredictable outcomes. The amendments, if adopted as proposed, would address these concerns by ensuring a clearer framework for the rule's application.

Important means of engagement

We support the changes and stated our position by taking part in the SEC's public consultation on the issue. We view the shareholder proposal process as being one of the most important means of engagement between companies and shareholders, and believe that an effective process is crucial in ensuring that a variety of ESG issues reach ballots, with the aim of instilling corporate governance reform.

It is worth noting that the shareholder proposal process is currently under scrutiny in various jurisdictions across the world. In Germany, a lawsuit filed in 2022 against a car manufacturer will test whether a German company has the right to refuse to table a shareholder proposal. In Australia, the inability of shareholders to propose an advisory resolution or a shareholder vote to express an opinion unless permitted by the company's constitution continues to draw significant criticism. Against this backdrop, the US model is widely perceived as striking a balance between protecting issuers from being swamped by frivolous proposals, and in facilitating shareholder suffrage.

3. Link between pay and performance

In 2022, the SEC introduced the most substantial change to US executive compensation rules since 2006 – the adoption of the Pay Versus Performance Disclosure Requirements. The new rules require registrants to clearly illustrate the relationship between executive compensation and the financial performance of the company by providing certain disclosures in a tabular format, accompanied by narrative and/or graphical disclosure.

This information will supplement the compensation discussion and analysis disclosures and must include a new measure: the 'executive compensation actually paid'. This figure must be calculated based on a prescribed formula and represents total compensation as reported in the summary compensation table, but adjusted to reflect changes in the value of stock awards and pension benefits.

Having appropriate remuneration

Both in our engagement and voting, we place great emphasis on whether companies have an appropriate remuneration program for executives. This is because we believe that a company's executive remuneration policy is one of the main instruments with which to guide, evaluate and reward the behavior and achievements of executives.

Hence, we welcome the new rules, as these will aid investors in their evaluation of companies' remuneration policies and practices. In addition, the new disclosure requirements will likely incentivize issuers to re-evaluate and strengthen the link between executive pay and performance.

4. The long-awaited clawback rule

The SEC's adoption of new rules implementing the clawback provisions of the Dodd-Frank Act was another noteworthy improvement. The rules direct national securities exchanges to adopt listing standards requiring issuers to adopt and apply a written clawback policy and to meet related reporting obligations.

The clawback policy must provide for the recoupment, upon either a 'big R' or a 'little r' accounting restatement, of incentive-based compensation received by current or former executive officers, based on erroneously reported financial information. The policy must apply irrespective of whether the executive engaged in misconduct or not, with the rules requiring that registrants provide detailed disclosure regarding actions to recover erroneously awarded compensation.

Enhancing transparency

We support the new rules as they will strengthen a board's accountability to shareholders and enhance the transparency of companies' disclosure. Notably however, some argue that companies may resort to increasing the ratio of fixed, time-based or discretionary pay, so as to shield executives from the prospect of recoupment, given that the new rules solely cover compensation tied to the achievement of a financial reporting measure.

We are strong proponents of pay-for-performance and consider that a significant portion of the executives' pay should be linked to the achievement of relevant objectives that are aligned with the firm's long-term strategy. Hence, we will oppose any changes which we assess would weaken the alignment between pay and performance.

5. Climate disclosure amidst ESG backlash

Finally, in 2022, the SEC proposed new climate-related disclosure requirements for registrants in an effort to "provide investors with consistent, comparable, and decision-useful information for making their investment decisions, and (...) provide consistent and clear reporting obligations for issuers."

Under the new rules, companies would be required to provide disclosure on, inter alia, the governance of climate-related risks, Scope 1 and 2 greenhouse gas emissions, and Scope 3 emissions if these are material. They also apply if the registrant has set an emissions reduction target that includes Scope 3, as well as various other qualitative and quantitative climate risk disclosures.

We expressed our support for the proposed rules in our response to the SEC consultation and consider that the new requirements will provide investors with climate-related information that is essential for appropriately pricing climate risks.

A driver of change

Moreover, we view the proposed requirements as more than just a call for greater disclosure, but as a driver of change. The new rules, if adopted as proposed, will force companies to review their policies and practices with regards to climate risk, and to evaluate whether their board members display sufficient climate-related expertise.

While the climate rule faces notable resistance given the growing US debate over sustainable investing and what critics refer to as 'woke capitalism', we strongly believe that the adoption of the rules will benefit investors and issuers alike.

The new regulations will require companies to step up their efforts by enhancing their disclosure, policies and practices. Achieving compliance should not be viewed as merely a box-ticking exercise. Instead, companies should ensure that they take a structured and systematic approach to addressing ESG issues material to their business.

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