Border to Coast Pensions Partnership submission to FRC consultation on the UK Stewardship Code

February 2025

Border to Coast is a partnership of 11 Local Government Pension Scheme funds (our 'Partner Funds') on behalf of which we are responsible for managing or overseeing £52.3bn of assets (at 31 March 2024). We were proud to recently be confirmed as a signatory to the UK Stewardship Code for the fourth consecutive year.

Responsible investment is embedded into our investment approach. The support we receive from Partner Funds for our work in this important area enables us to have a strong dedicated responsible investment team engaging with companies in our portfolios and our asset management partners both directly and through collaborations.

We are pleased to have the opportunity to respond to the proposed revisions to the Code and set out our views in detail below. While welcoming efforts to streamline the Code's requirements and ensure it operates effectively for all stakeholders, we hope further consideration will be given to some of the proposed changes to ensure the Code's value as a benchmark of effective stewardship practice is maintained.

We would be happy to discuss our views further.

Question 1: Do you support the revised definition of stewardship?

Border to Coast shares concerns that the revised definition could unintentionally diminish the Code's value as one of a limited number of important benchmarking standards which currently serves to distinguish effective stewardship practices from less effective ones.

The Code was first established in 2010 with the intention of enabling and encouraging institutional investors to engage with investee companies on long-term strategies and address systemic risks. We support the Code's foundational objectives, which sought to foster high standards of corporate governance, curb short-termism, and promote meaningful dialogue between investors and companies to drive sustainable growth and long-term returns.

The 2020 definition of stewardship does merit revision, but it is important to maintain the critical linkage it established between investor stewardship and the Code's broader goals.

Border to Coast would support the revised definition of stewardship, contingent on more robust supporting language. We recommend the supporting language should:

- **Have regard to investors' contribution to sustainable benefits, and mitigation of systemic risks, to the economy, the environment and society.**
- **Explicitly reference the relationship between climate change and investors' fiduciary duty.**
- **Emphasise the role of systems stewardship, collaborative engagement, and good practice.**
- **Recognise wider regulatory and policy frameworks.**

Border to Coast supports the IIGCC recommendation that robust supporting language takes an approach to economic, environmental, and societal benefits and risks in line with Section 172 (S172) of the Companies Act 2006, whereby directors are required to conduct their duties "and in doing so have regard…to" the long-term effects and wider stakeholders, including "the impact of the company's operations on the community and the environment". Investors' stewardship activities would likewise be conducted "with regard to their contribution to sustainable benefits, and mitigation of systemic risks to, the economy, the environment and society".

As proposed, no reference to fiduciary duty is made in the supporting language. Border to Coast echoes the recommendation by the Transition Finance Market Review to align the Code. While implicitly addressed, the definition's supporting language should make explicit the link between long-term sustainable value, climate change risk, and investors' fiduciary duties. Ideally, the FRC would draw on, or explicitly reference, the PRI's definition of stewardship which emphasises the "common economic, social and environmental assets on which [investors'] interests depend". Explicit reference to climate change is especially important in the context of materiality and the UK's climate ambitions.

We would like to take this opportunity to stress the value, importance and efficacy of collaborative engagement. Not all investors will conduct collaborative engagement – nor do we believe they should be required to. But collaborations such as Climate Action 100+ and the IIGCC Net Zero Engagement Initiative, amongst others, bring significant value to members and Border to Coast has seen first-hand the real-world impact of such collaborative engagement. It is an efficient and effective means of engagement.

As far back as the 2010 Code, the FRC argued that "institutional investors should be willing to act collectively with other investors where appropriate", noting that collaboration "may be the most effective manner in which to engage". This is extended through Principle 10 of the 2020 Code. While Border to Coast supports the creation of a single engagement principle (see our response to Q7), this should be supported by clear and explicit references to collaborative engagement in the supporting language of the definition.

Border to Coast emphasises the need for coordination and interoperability between definitions and concepts of stewardship across different aspects of the UK's regulatory and policy framework. For example, the UK Financial Conduct Authority (FCA) highlights stronger investor stewardship as one of its core ESG priorities. The FCA has stated that a key outcome of its ESG-related work is to promote active investor stewardship that positively influences companies' sustainability strategies, supporting a market-led transition to a more sustainable future.

The Code has always sought to promote long-term value for UK savers and pensioners through effective stewardship. However, where the Code previously "set high stewardship standards" to achieve this, it now seeks to promote a market for stewardship by "increasing transparency". Border to Coast is concerned by the FRC's shift from focusing on investor practices to disclosures when it could cover both. For many investors, including Border to Coast, the value of signatory status has been its association with strong stewardship practices. As a voluntary endeavour, signatory status should continue to be an indicator of best practice. However, adding "increasing transparency" to its objectives would be welcome.

Question 2: Do you support the proposed approach to have disclosures related to policies and contextual information reported less frequently than annually? If yes, do you support the approach set out above?

Border to Coast supports the proposals to streamline disclosure requirements and recommends that the FRC require policy disclosures on at least a triennial basis. We wish to see the Code retain its ambition and streamline reporting requirements.

Question 3: Do you agree that the Code should offer 'how to report' prompts, supported by further guidance?

Border to Coast is supportive of the shift to 'how to report' prompts and the provision of additional guidance. We stress the importance of practitioner input into additional guidance and the need to highlight good practice.

We welcome the opportunity to provide feedback through the consultation on sample reporting guidance for Engagement (Principle 3).

Elements in the sample guidance are commendable, namely:

- The need for signatories to detail the links between their policies and concrete examples of engagement in practice.
- Emphasising that engagement practices may vary by jurisdiction, particularly given the growing industry focus on the best approach to stewardship across markets, notably emerging markets and developing economies.
- Recognition that engagement occurs on a multi-year timeline.

The guidance could also be improved further by:

- Exploring definitions of stewardship, including engagement.
- Providing more detail on other asset classes.

Border to Coast would welcome further FRC guidance on approaches to defining 'engagement'.

To increase transparency on the different approaches to engagement in the market, and to enhance comparability, additional guidance could outline approaches to defining engagement and the Code could ask signatories to provide their own definitions/categorisations, strengthening the existing proposal to "explain the purpose of your engagements".

Engagement is conceived of in multiple different ways but can be broadly understood as being undertaken either for 'information' or for 'impact':

- Engagement for information can and does provide value to the stewardship process and is a worthwhile exercise by investors, particularly at the initial stages of engagement where investors often need data or other reporting to be able to clearly judge the existing situation. However, it is arguable whether this qualifies as 'engagement' if no further action is taken.
- Engagement for impact has a point of difference and seeks change in policy or practice.

To increase the comparability of engagement approaches and quality, it would be beneficial to require a distinction between the two and clear definitions of each.

Border to Coast collates its engagement activity using the following four categories, and has identified the first two as having 'no point of difference' (i.e. for 'information') and the latter two as having a 'point of difference' (i.e. for 'impact'):

Engagement categories	**Examples**	**Passive/Active**	**Does engagement seek change?**
1. To receive a general update	Attend an earnings call or company briefing	Passive engagement	No point of difference with company management
2. To gather specific ESG information	Attend a company briefing on a specific ESG issue or letters or meetings to request specific ESG information	Active engagement	
3. To request specific business change or new disclosure	Letters or meetings requesting changes to business strategy, governance, capital expenditure etc to manage ESG risk and opportunity, or requesting disclosure of ESG metrics or policy not currently in public domain		Point of difference with company management
4. To escalate engagement	Letters or meetings with Chair to advise of escalation, public statements, AGM questions, public pre-declaration of voting, or co-filing shareholder resolutions		

Question 4: Do you agree that the updated Code for Asset Owners and Asset Managers should have some Principles that are applied only by those who manage assets directly, and some that are only applied by those who invest through external managers?

Border to Coast supports the distinction made by the FRC between those who manage assets directly and those who invest through external managers, with each benefiting from principles tailored to their position and ability to influence.

It is critical that the Code considers the different role played by each party and provides a clearer conception of how the different parts of the investment chain can and should organise their stewardship activities.

Question 5: Do the Principles of the updated Code better reflect the different ways that stewardship is exercised between those who invest directly, and those who invest through third parties?

Same as above

Question 6: Do you agree that the updated Service Providers' Code should have some Principles that are applied only by proxy advisors, and some that are only applied by investment consultants?

Yes, we are supportive of the differentiation. However, the reference to identifying and responding to systemic risks is only included in the principles for investment consultants, not for proxy advisors. We recommend that the FRC includes this reference also for proxy advisors, given their role in shaping corporate governance and influencing investor voting on issues that can have broader implications for financial markets, economies, and society.

Question 7: Do the streamlined Principles capture relevant activities for effective stewardship for all signatories to the Code?

While Border to Coast broadly supports the streamlined Principles, we call for the FRC to deepen its support for collaborative engagement for interested investors.

We support the revision of the principles to subsume the collaborative engagement and escalation principles into an overarching engagement principle. This better reflects the realities of stewardship. The proposal is an improvement on the FRC's previous clarification that collaborative engagement and escalation need only occur and be reported on "where necessary". This risked framing both as tools of last resort.

Many investors, including Border to Coast, engage in collaborative initiatives and use escalation techniques as part of the day-to-day work of stewardship. For Border to Coast, both escalation and collaboration are invaluable components of stewardship strategy.

The problem has not been wholly solved, however. We note that the sample additional guidance asks: "If you took part in a collaborative engagement during the reporting period, why did you do so"? Singling out collaborative engagement here is unhelpful. Both individual and collaborative engagement are legitimate and effective stewardship tools, the choice to adopt one or other driven by a number of factors. Requiring a justification for collaborative engagement again risks creating a perception that it should only be undertaken "where necessary" or requires a defence.

We recognise that not all investors will undertake collaborative engagement. Nor should they be obligated to. However, it is important that the FRC and other regulators explicitly support collaborative engagement for interested investors as a legitimate and appropriate approach to stewardship. This is particularly important in response to spurious accusations of market manipulation.

We also note that Principle 4 introduces a requirement for investors to “describe the rationale for some of your voting decisions”. This is vague. In the 2020 Code, this requirement was accompanied by examples, such as votes against the board. We recommend that the wording be changed to “describe the rationale for your most significant votes”.

Question 8: Should signatories be able to reference publicly available external information as part of their Stewardship Code reporting, recognising this means Stewardship Code reports will no longer operate as a standalone source of information?

Border to Coast supports the ability to cross-reference publicly available external information but stresses the need to ensure that Stewardship Code reports remain readable on a standalone basis.

We recommend that a summary and salient aspects of the policy/document that is cross referenced is included in the stewardship report.

Question 9: Do you agree with the proposed schedule for implementation of the updated Code?

No concerns regarding the timeline.