

Supplementary Agenda

Surrey Pension Fund Committee

**Date & time**

Friday, 16
December 2022 at
10.00 am

Place

Council Chamber,
Woodhatch Place, 11
Cockshot Hill, Reigate,
Surrey, RH2 8EF

Contact

Joss Butler
joss.butler@surreycc.gov.uk

Chief Executive

Joanna Killian

We're on Twitter:
@SCCdemocracy

Supplementary Agenda

4 QUESTIONS AND PETITIONS

(Pages 1
- 4)

Six questions have been received from the public. These and the responses are attached.

8 BORDER TO COAST UPDATE

(Pages 5
- 46)

Annexes 1, 3 and 5 with track changes included.

Joanna Killian
Chief Executive

Published: 15 December 2022

This page is intentionally left blank

Surrey Pension Fund Committee – 16 December 2022**Item 4 - Public Questions****Q1 – submitted by Janice Baker**

Could the committee please give an overview of what is being done to gain information from companies on the extent to which they have been able to reduce CO2 emissions?

Any data on reductions in Scopes 1 -3 would be useful but I am particularly interested in how far Scope 3 emissions have been curtailed.

Reply:

Although the Task Force on Climate-related Financial Disclosures, TCFD, report may only be required for Local Authority Pension Schemes from the year 2023/24, the Surrey Pension Fund became a supporter of TCFD in 2019. This document lays out the Fund's approach to governance, strategy, risk management and metrics and targets regarding carbon emissions. Our latest TCFD report can be found on our website. Our current data analysis, for the asset classes where it is currently available, covers scope 1 and 2 emissions, not scope 3. Scope 3 emissions are not included at present because disclosure remains insufficient to use reliably in carbon footprinting analysis and may lead to double counting at a portfolio level.

Q2 – submitted by Jenny Condit

As I'm sure the Committee is aware, decisions by Insurance companies, with an estimated \$30 trillion of financial assets under management, will be crucial in whether the finance sector is able to drive containment of climate risk. This is in addition to the direct climate risk underwritten by the sector when it insures operations of fossil fuel companies. The lack of disclosure by insurance companies and their broad failure to even aspire to Paris compliance or other climate goals therefore means any leverage that can be harnessed to urge 'greener' behaviour must be seized.

Of particular concern right now is the East African Crude Oil Pipeline (EACOP). If completed it will displace up to 100,000 people and will produce perhaps 25 times its host nations' current annual emissions. Numerous banks and insurers have declined to underwrite EACOP, but laggards in the insurance industry need a nudge to also say 'no'. One of these is AIG.

The main publicly owned sponsor of the pipeline is TotalEnergies. So far as I can see, SPF does not own shares in Total, at least not through BCPP. However you do own shares in AIG. The BCPP Global Equity Alpha fund owned approximately £42mm value of AIG in March 2022; I make the SPF share of that to have been about £5mm.

At least 19 insurers, including many with major fossil fuel exposures, have ruled out the EACOP project. Strong pressure from all sides, including investors, has been effective. But AIG, which has a reputation for lagging its industry in responding to climate risk, has thus far refused to walk away from EACOP.

I believe it is high time that insurers generally become a clearer focus of SPF's and BCPP's engagement activities. So my question today is:

Will SPF urge BCPP to engage with AIG in the matter of EACOP, to urgently advise AIG management that it should not provide insurance cover to the construction or operation of this planet-harming pipeline?

Reply:

Whilst the Border to Coast Pensions Partnership's, BCPP, engagement on climate-related issues may previously have been focused predominantly on high emitting companies, there has been an increasing acknowledgement that the financial sector must play its part in financing the transition to a low carbon economy and their engagement focus has therefore expanded as a result.

In Q1 2021, their voting and engagement partner, Robeco, launched a new engagement theme on the climate transition of financial companies. Banks have been prioritised in the first instance and have been selected for engagement based on their exposure to carbon-intensive sectors, their current lending practices and overall sustainability ranking. It is possible that insurance companies come more formally into scope in the future.

BCPP expect external managers to engage with investee companies as part of their mandate on our behalf and in alignment with the BCPP Responsible Investment Policy. The quality of a manager's stewardship approach, particularly in relation to climate risk given BCPPs commitment to net zero and formal roadmap, is evaluated each quarter and is a key part of the formal annual review process for that manager.

Separately, the Chair of the Surrey Pension Fund Committee contacted the Local authority Pension Fund Forum, LAPFF, in February 2022 to emphasise the importance of engaging with financial institutions regarding their exposure to projects that negatively impact on climate change and to make sure this was included in the LAPFF 2022/3 workplan.

Q3 – Submitted by Kevin Clarke

Given the significant impact on climate change by burning fossil fuels identified in section 5.6 of the annual report, why can't your FF holdings be made public? Furthermore (if not made public), FF holdings have previously been shared with us following FOI requests, but we were informed that you'd prefer to share this information with us without going through the FOI process. To facilitate this, can you commit to publishing your fossil fuel holdings twice yearly, by the first working day of the following month?

Reply:

The Surrey Pension Fund is happy to provide this information on request, either directly or through the FOI process. Border to Coast Pension Partnership publish the holdings within each fund every 6 months with a lag to allow for confidentiality. Our other managers do not routinely publish holdings for confidentiality reasons, particularly where the holdings are in pooled vehicles. The Fund will revisit how this information can be routinely published. Twice yearly would seem reasonable but for confidentiality, the data will not be published without a time lag.

Q4 – Submitted by Lindsey Coeur-Belle

The 1.5C limit was enshrined into the Paris Agreement in 2015 as a shared goal of world governments. It is a crucial threshold beyond which heatwaves, rain, drought, flooding and sea level rise become increasingly intolerable.

The IPCC publishes an annual report showing how far actual emissions and trends remain from agreed-to limits. This year's Emissions Gap Report (April 2022); authored by hundreds of researchers and based on 18,000 studies; found that the amount of time left is small and shrinking.

Simon Stiell, Executive Secretary of UN Framework Convention on Climate Change stated, "Global emissions need to start a downward trajectory by 2025".

This means there is roughly 70 months left to have a 67% chance of staying under 1.5C.

Given this reality will the Committee step up and divest all fossil fuel investments by 2025, and if not, why?

Reply:

The Surrey Pension Fund, SPF, does not have a policy of exclusion regarding fossil fuel investments. Environmental, Social and Governance, ESG, factors are integrated into all decisions taken by our investment managers such that they are consistent with the Fund's fiduciary responsibility. All of the managers have extensive engagement programmes and this aligns with the SPF approach where real world change is targeted.

Q5 – Submitted by Trish Kiy

My question concerns the consultation exercise that was carried out following the publication of the draft Responsible Investment Policy. Please advise how many responses were received through the website and how many messages/emails or letters were received directly by the committee.

Has the analysis of this data been completed and if so when will this be shared with the public. What, if any, amendments to the policy do the committee expect to make and how will the finalised policy be monitored?

Reply:

Given the extension to the consultation period, the analysis of consultation feedback and data has not been completed yet. It is hoped that this information will be reviewed in January 2023, subject to agreement at the Pension Fund Committee on 16 December 2022.

Encouragingly, there were over 7000 responses. As previously agreed, all data and written responses will be published. Having reviewed the data the PFC will decide if any changes to the policy are required. Progress towards the priorities laid out in the policy will be monitored through the PFC.

Q6 – Submitted by Lucianna Cole

[BCPP published their roadmap to Net Zero in October](#), but SPF have not yet done this. You previously promised to set a Net Zero date for your portfolio, and you said this would be in your new investment policy that has not yet been created. Can you confirm if you will still be agreeing a Net Zero date, with a pathway to making this happen, including interim targets. Please outline the time frame for making this happen.

Reply:

After extensive research and analysis, Border to Coast Pensions Partnership, BCPP, have published their roadmap to net zero by 2050, including interim targets. The Surrey Pension Fund, SPF, approved the approach and metrics proposed by BCPP at the 23 September 2022 Pension Fund Committee, PFC, meeting. A key priority of the SPF is to set a net zero date and the trajectory to get there, as laid out in the Responsible Investment policy.

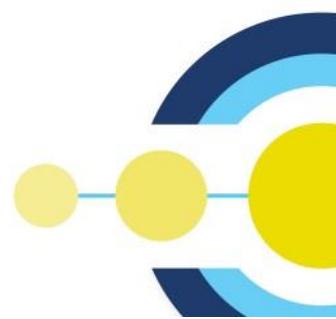
Committee members have asked for more information before setting a net zero date and a potential route to accessing this information will be discussed at the PFC meeting of 16 December 2022.

Responsible Investment Policy

Border to Coast Pensions Partnership



November 2021
January 2023



Responsible Investment Policy

This Responsible Investment Policy details the approach that Border to Coast Pensions Partnership ~~will~~ follows in fulfilling its commitment to our Partner Funds in their delegation of the implementation of certain responsible investment (RI) and stewardship responsibilities.

1. Introduction

Border to Coast Pensions Partnership Ltd is an FCA-authorized investment fund manager (AIFM). It operates investment funds for its eleven shareholders which are Local Government Pension Scheme funds (Partner Funds). The purpose is to make a difference to the investment outcomes for our Partner Funds through pooling to create a stronger voice; working in partnership to deliver cost effective, innovative, and responsible investment now and into the future; thereby enabling great, sustainable performance.

Border to Coast takes a long-term approach to investing and believes that businesses that are governed well, have a diverse board and run in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. Diversity of thought and experience on boards is significant for good governance, reduces the risk of 'group think' leading to better decision making. Environmental, social and governance (ESG) issues can have a material impact on the value of financial assets and on the long-term performance of investments, and therefore need to be considered across all asset classes in order to better manage risk and generate sustainable, long-term returns. Well-managed companies with strong governance are more likely to be successful long-term investments.

Border to Coast is an active owner and steward of its investments, ~~both internally and externally managed~~, across all asset classes. This commitment is demonstrated through achieving signatory status to the Financial Reporting Council UK Stewardship Code. The commitment to responsible investment is communicated in the Border to Coast UK Stewardship Code compliance statement. As a long-term investor and representative of asset owners, we ~~will~~ hold companies and asset managers to account regarding environmental, societal and governance factors that have the potential to impact corporate value. We ~~will~~ incorporate such factors into our investment analysis and decision making, enabling long-term sustainable investment performance for our Partner Funds. As a shareowner, Border to Coast has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It ~~will~~ practices active ownership through voting, monitoring companies, engagement and litigation.

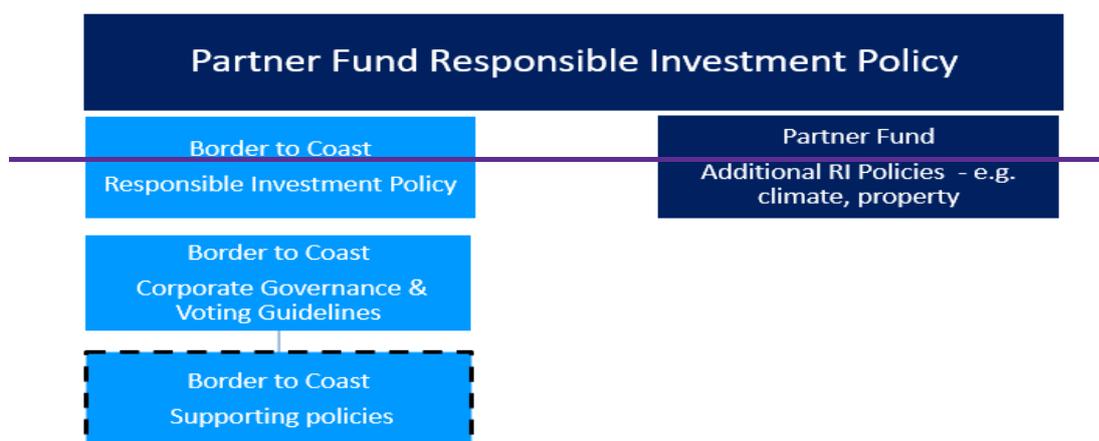
1.1. Policy framework

The LGPS (Management and Investment of Funds) 2016 regulations state that the responsibility for stewardship, which includes shareholder voting, remains with the Partner Funds. Stewardship day-to-day administration and implementation have been delegated to Border to Coast by the Partner Funds, on assets managed by Border to Coast, with appropriate monitoring and challenge to ensure this continues to be in line with Partner Fund requirements. To leverage scale and for operational purposes, Border to Coast has, in conjunction with Partner Funds, developed this RI Policy and accompanying Corporate Governance & Voting Guidelines to ensure clarity of approach on behalf of Partner Funds. This collaborative approach results in an RI policy framework illustrated below with the colours demonstrating ownership of the various aspects of the framework:

RI Policy Framework



RI Policy Framework



2. What is responsible investment?

Responsible investment (RI) is the practice of incorporating ESG issues into the investment decision making process and practicing investment stewardship, to better manage risk and generate sustainable, long-term returns. Financial and ESG analysis together identify broader risks and the opportunities leading to better informed investment decisions and can improve performance as well as risk-adjusted returns.

Investment stewardship includes active ownership, using voting rights, engaging with investee companies, influencing regulators and policy makers, and collaborating with other investors to improve long-term performance.

3. Governance and Implementation

Border to Coast takes a holistic approach to the integration of sustainability and responsible investment, which are ~~and as such it is~~ at the core of our corporate and investment thinking.

Sustainability, which includes RI, is considered and overseen by the Board and Executive Committees. Specific policies and procedures are in place to demonstrate the commitment to RI, which include the Responsible Investment Policy and Corporate Governance & Voting Guidelines (available on the [website](#)). Border to Coast has dedicated staff resources for managing RI within the organisational structure.

The RI Policy is owned by Border to Coast and created after collaboration and engagement with our eleven Partner Funds. The Chief Investment Officer (CIO) is accountable for implementation of the policy. The policy is monitored with regular reports to the CIO, Investment Committee, Board, Joint Committee and Partner Funds. It is reviewed at least annually or whenever revisions are proposed, taking into account evolving best practice, and updated, as necessary.

4. Skills and competency

Border to Coast ~~will~~, where needed, ~~take~~ proper advice in order to formulate and develop policy. The Board and staff ~~will~~ maintain appropriate skills in responsible investment and stewardship through continuing professional development; where necessary expert advice ~~is~~ ~~will be~~ taken from suitable RI specialists to fulfil our responsibilities.

5. Integrating RI into investment decisions

Border to Coast considers material ESG factors when analysing potential investments. 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. ESG issues ~~are~~ ~~will be~~ considered and monitored in relation to ~~both internally and externally managed all~~ asset ~~classess~~. The CIO ~~is~~ ~~will be~~ accountable for the integration and implementation of ESG considerations. Issues considered include, but are not limited to:

| Environmental | Social | Governance | Other |
|------------------------------|--|----------------------------------|----------------------|
| Climate change | Human rights | Board independence/ | Business strategy |
| Resource & energy management | Child labour | D iversity of thought | Risk management |
| Water stress | Supply chain | Executive pay | Cyber security |
| Single use plastics | Human capital | Tax transparency | Data privacy |
| Biodiversity | Human capital | Auditor rotation | Bribery & corruption |
| | Employment standards | Succession planning | Political lobbying |
| | Pay conditions (e.g. living wage in UK) | Shareholder rights | |

[When considering human rights issues, we believe that all companies should abide by the UN Global Compact Principles and the OECD Guidelines for Multinational Enterprises. Companies should have processes in place to both identify and manage human rights risks across their business and supply chain. Further detail on our voting approach is included in the Corporate Governance & Voting Guidelines.](#)

Whilst the specific aspects and form of ESG integration and stewardship vary across asset class, the overarching principles outlined in this policy are applied to all ~~internally and externally~~

managed assets of Border to Coast. More information on specific approaches is outlined below.

5.1. Listed equities (Internally managed)

Border to Coast looks 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 an 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 RI works with colleagues to ensure they are knowledgeable and fully informed on ESG issues. Voting and engagement should not be detached from the investment process; therefore, information from engagement meetings ~~is will be~~ shared with the team to increase and maintain knowledge, and portfolio managers ~~are will be~~ involved in the voting process.

5.2. Private markets

Border to Coast believes that ESG risk forms an integral part of the overall risk management framework for private market investment. An appropriate ESG strategy will improve downside protection and help create value in underlying portfolio companies. Border to Coast takes the following approach to integrating ESG into the private market investment process:

- 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 RI and reviewed by the alternatives investment team with support from the Head of RI as required.
- Managers are requested to complete an annual monitoring questionnaire which 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.
- Managers are requested to report annually on the progress and outcomes of ESG related values and any potential risks.
- Ongoing monitoring includes identifying any possible ESG breaches and following up with the managers concerned.
- Work with managers to improve ESG policies and ensure the approach is in-line with developing industry best practice.

5.3. 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 to manage risk. 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 much more difficult 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 corporates and sovereign bond performance.

5.4. Real estate

Border to Coast is ~~preparing to launch funds to make~~~~considering making~~ Real Estate investments through both direct properties and ~~indirect through investing in~~ real estate funds. For real estate funds, a central component of the fund selection/screening process will be ~~an assessment of~~~~reviewing~~ the General Partner and Fund/Investment Manager's Responsible Investment and ESG approach and policies. Key performance indicators will ~~include~~~~be~~ energy performance measurement, flood risk and rating systems such as GRESB (formerly known as the Global Real Estate Sustainability Benchmark), and BREEAM (Building Research Establishment Environmental Assessment Method). Our process will review the extent to which they are used in asset management strategies. We are in the process of developing our ESG and RI strategies for direct investment which ~~includes~~~~will involve~~ procuring a third-party manager and working with them to develop ~~our~~~~best-in-class~~ approach to managing ESG risks.

5.5. External manager selection

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 ~~which includes assessing and mitigating climate risk, and~~~~and to~~ their approach to engagement.

~~We~~ expect to see evidence of how material ESG issues are considered in research analysis and investment decisions. Engagement needs to be structured with clear aims, objectives and milestones.

Voting is carried out by Border to Coast for both internally and externally managed equities where possible and we expect external managers to engage with companies in alignment with the Border to Coast RI ~~P~~policy.

The monitoring of appointed managers ~~will~~ also ~~include~~~~s~~ assessing stewardship and ESG integration in accordance with our policies. All external fund managers ~~are~~~~will be~~ expected to be signatories or comply with international standards applicable to their geographical location. We ~~will~~ encourage managers to become signatories to the UN-supported Principles for Responsible Investment¹ ('PRI'). ~~We also encourage managers to make a firm wide net zero commitment and to join the Net Zero Asset Manager initiative (NZAM) or an equivalent initiative.~~ Managers ~~are~~~~will be~~ required to report to Border to Coast on their RI activities quarterly.

¹ [The UN-supported Principles for Responsible Investment \(PRI\) is the world's leading advocate for responsible investment enabling investors to publicly demonstrate commitment to responsible investment with signatories committing to supporting the six principles for incorporating ESG issues into investment practice.](#)

5.6. Climate change

The world is warming, the climate is changing, and the scientific consensus is that this is due to human activity, primarily the emissions of carbon dioxide (CO₂) from burning fossil fuels. We support this scientific consensus; recognising that the investments we make, in every asset class, will both impact climate change and be impacted by climate change. We actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect investments. We believe that we have the responsibility to contribute and support the transition to a low carbon economy in order to positively impact the world in which pension scheme beneficiaries live in.

Climate change is a systemic risk with potential financial impacts associated with the transition to a low-carbon economy and physical impacts that may manifest under different climate scenarios. Transition will affect some sectors more than others, notably energy, utilities and sectors highly reliant on energy. However, within sectors there are likely to be winners and losers which is why divesting from and excluding entire sectors may not be appropriate.

~~We believe that using our influence through ongoing engagement with companies, rather than divestment, drives positive outcomes. This is fundamental to our responsible investment approach. Our investment approach is not to divest or exclude entire sectors, however there may be specific instances when we will look to sell or not invest in some industries based on investment criteria, the investment time horizon and the likelihood for success in influencing company strategy and behaviour. Using these criteria and due to the potential for stranded assets, we interpret this to cover pure coal and tar sands companies and will therefore not invest in these companies. Any companies excluded will be monitored and assessed for progress and potential reinstatement at least annually. In addition, the transition to a low-carbon economy will undoubtedly affect the various stakeholders of the companies taking part in the energy transition. These stakeholders include the workforce, consumers, supply chains and the communities in which the companies' facilities are located. A just transition involves maximising the social and economic opportunities and minimising and managing challenges of a net zero transition. We expect companies to consider the potential stakeholder risks associated with decarbonisation.~~

Detail on Border to Coast's approach to managing the risks and opportunities associated with climate change can be found in our Climate Change Policy on our website.

6. Stewardship

As a shareholder Border to Coast has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It practises active ownership through the full use of rights available including voting, monitoring companies, engagement and litigation. As a responsible shareholder, we are committed to being a signatory to the 2020 UK Stewardship Code² and were accepted as a signatory in March 2022. have made an application to become a signatory by submitting our 2021

² The UK Stewardship Code aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders. <https://www.frc.org.uk/directors/corporate-governance-and-stewardship>

~~Responsible Investment & Stewardship Report to the Financial Reporting Council; We are also a signatory to the PRI, UN-supported Principles of Responsible Investment³.~~

6.1. Voting

Voting rights are an asset and Border to Coast ~~will~~ exercises its rights carefully to promote and support good corporate governance principles. It ~~will~~ aims to vote in every market in which it invests where this is practicable. To leverage scale and for practical reasons, Border to Coast has developed a collaborative voting policy to be enacted on behalf of the Partner Funds which can be viewed on our website at: Corporate Governance & Voting Guidelines. Where possible the voting policies are~~will be~~ applied to assets managed externally. Policies are~~will be~~ reviewed annually in collaboration with the Partner Funds. There may be occasions when an individual fund may wish Border to Coast to vote its pro rata holding contrary to an agreed policy; there is a process in place to facilitate this. A Partner Fund wishing to diverge from this policy will provide clear rationale in order to meet the governance and control frameworks of both Border to Coast and, where relevant, the Partner Fund.

6.1.1. Use of proxy advisors

Border to Coast use appointed Rebeco as Voting and Engagement provider to implement the set of detailed voting guidelines and ensure votes are executed in accordance with policies. Details of the third-party Voting and Engagement provider and proxy voting advisor are included in Appendix A.

A proxy voting platform is used with proxy voting recommendations produced for all meetings voted managed by ~~Rebeco as~~ the Voting & Engagement provider. The Rebeco's proxy voting advisor (~~Glass Lewis Co~~) provides voting recommendations based upon Border to Coast's Corporate Governance & Voting Guidelines ('the Voting Guidelines'). A ~~Rebeco~~ team of dedicated voting analysts analyse the merit of each agenda item to ensure voting recommendations are aligned with the Voting Guidelines. Border to Coast's Investment Team receives notification of voting recommendations ahead of meetings which are assessed on a case-by-case basis by portfolio managers and responsible investment staff prior to votes being executed. A degree of flexibility is required when interpreting the Voting Guidelines to reflect specific company and meeting circumstances, allowing the override of voting recommendations from the proxy adviser.

The Voting and Engagement provider Rebeco evaluates its~~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 the Rebeco's control framework and is externally assured. Border to Coast also monitors the services provided ~~by Rebeco~~ monthly, with a six monthly and full annual review.

Border to Coast has an active stock lending programme. Where stock lending is permissible, lenders of stock do not generally retain any voting rights on lent stock. Procedures are in place to enable stock to be recalled prior to a shareholder vote. Stock is~~will be~~ recalled ahead of meetings, and lending can also be restricted, when any, or a combination of the following, occur:

- The resolution is contentious.

³ ~~The UN-supported Principles for Responsible Investment (PRI) is the world's leading advocate for responsible investment enabling investors to publicly demonstrate commitment to responsible investment with signatories committing to supporting the six principles for incorporating ESG issues into investment practice.~~

- The holding is of a size which could potentially influence the voting outcome.
- Border to Coast needs to register its full voting interest.
- Border to Coast has co-filed a shareholder resolution.
- A company is seeking approval for a merger or acquisition.
- Border to Coast deems it appropriate.

Proxy voting in some countries requires share blocking. This requires shareholders who want to vote their proxies to deposit their shares before the date of the meeting (usually one day after cut-off date) with a designated depository until one day after meeting date.

During this blocking period, shares cannot be sold; the shares are then returned to the shareholders' custodian bank. We may decide that being able to trade the stock outweighs the value of exercising the vote during this period. Where we want to retain the ability to trade shares, we may refrain from voting those shares.

Where appropriate Border to Coast ~~will~~ considers s co-filing shareholder resolutions and ~~will~~ notifies esy Partner Funds in advance. Consideration iswill-be given as to whether the proposal reflects Border to Coast's Responsible Investment policy, is balanced and worded appropriately, and supports the long-term economic interests of shareholders.

6.2. Engagement

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 iswill-be to influence companies' governance standards, environmental, human rights and other policies by constructive shareholder engagement and the use of voting rights.

The services of specialist providers may be used when necessary to identify issues of concern. Meeting and engaging with companies are an integral part 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.

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

- 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 ~~will~~ seek to work collaboratively with other like-minded investors and bodies in order to maximise Border to Coast's influence on behalf of Partner Funds, particularly when deemed likely to be more effective than acting alone. This iswill-be achieved through actively supporting investor RI initiatives and collaborating with various other external groups e.g. LAPFF, the Institutional Investors Group on Climate Change, other LGPS pools and other investor coalitions.

- Due to the proportion of assets held in overseas markets it is imperative that Border to Coast is able to engage meaningfully with global companies. To enable this and complement other engagement approaches, [Border to Coast use an external Voting and Engagement service provider. ~~has been appointed. We Border to Coast~~ provides input into new engagement themes which are considered to be materially financial, selected by the external engagement provider on an annual basis, and also participates in some of the engagements undertaken on our behalf.](#)
- Engagement ~~will~~ takes place with companies in the internally managed portfolios with portfolio managers and the Responsible Investment team engaging directly across various engagement streams; these ~~will~~ cover environmental, social, and governance issues as well as UN Global Compact⁴ breaches or OECD Guidelines⁵ for Multinational Enterprises breaches.
- We ~~will~~ expect external managers to engage with investee companies and bond issuers as part of their mandate on our behalf and in alignment with our RI policies.

Engagement conducted can be broadly split into two categories: engagement based on financially material ESG issues, or engagement based on (potential) violations of global standards such as the UN Global Compact or OECD Guidelines for Multinational Enterprises.

When engagement is based on financially material ESG issues, engagement themes and companies are selected in cooperation with our engagement service provider based on an analysis of financial materiality. Such companies are selected based on their exposure to the engagement topic, the size and relevance in terms of portfolio positions and related risk.

For engagement based on potential company misconduct, cases are selected through the screening of news flows to identify breaches of the UN Global Compact Principles or OECD Guidelines for Multinational Enterprises. Both sets of principles cover a broad variety of basic corporate behaviour norms around ESG topics. Portfolio holdings are screened ~~on the on 1)~~ validation of a potential breach, ~~2)~~ the severity of the breach and ~~3)~~ the degree of to which management can be held accountable for the issue. For all engagements, SMART⁶ engagement objectives are defined.

In addition, internal portfolio managers and the Responsible Investment team monitor holdings which may lead to selecting companies where engagement may improve the investment case or can mitigate investment risk related to ESG issues. Members of the ~~Investment T~~eam have access to our engagement provider's [thematic research Active Ownership profiles](#) and engagement records. This additional information feeds into the investment analysis and decision making process.

⁴ UN Global Compact is a shared framework covering 10 principles, recognised worldwide and applicable to all industry sectors, based on the international conventions in the areas of human rights, labour standards, environmental stewardship and anti-corruption.

⁵ OECD Guidelines for Multinational Enterprises are recommendations providing principles and standards for responsible business conduct for multinational corporations operating in or from countries adhering to the OECD Declaration on International and Multinational Enterprises.

⁶ SMART objectives are: specific, measurable, achievable, relevant and time bound.

We engage with regulators, public policy makers, and other financial market participants as and when required. We encourage companies to improve disclosure in relation to ESG and to report and disclose in line with the TCFD recommendations.

6.2.1. Engagement themes

Recognising that we are unable to engage on every issue, we focus our efforts on areas that are deemed to be the most material to our investments - our key engagement themes. These are used to highlight our priority areas for engagement which includes working with our Voting and Engagement provider and in considering collaborative initiatives to join. We do however engage more widely via the various channels including LAPFF and our external managers.

Key engagement themes are reviewed on a three yearly basis using our Engagement Theme Framework. There are three principles underpinning this framework:

- that progress in the themes is expected to have a material financial impact on our investment portfolios in the long-term;
- that the voice of our Partner Funds should be a part of the decision; and
- that ambitious, but achievable milestones can be set through which we can measure progress over the period.

When building a case and developing potential new themes we firstly assess the material ESG risks across our portfolios and the financial materiality. We also consider emerging ESG issues and consult with our portfolio managers and Partner Funds. The outcome is for the key themes to be relevant to the largest financially material risks; for engagement to have a positive impact on ESG and investment performance; to be able to demonstrate and measure progress; and for the themes to be aligned with our values and important to our Partner Funds.

The key engagement themes following the 2021 review are:

- Low Carbon Transition
- Diversity of thought
- Waste and water management
- Social inclusion through labour management

6.2.2. Escalation

Border to Coast believe that engagement and constructive dialogue with the companies in which it invests is more effective than excluding companies from the investment universe. However, if engagement does not lead to the desired result escalation may be necessary. A lack of responsiveness by the company can 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.

6.2.3 Exclusions

We believe that using our influence through ongoing engagement with companies, rather than divestment, drives positive outcomes. This is fundamental to our responsible investment approach. Our investment approach is not to divest or exclude entire sectors, however there may be specific instances when we will look to sell or not invest in some industries based on investment criteria, the investment time horizon, and the likelihood for success in influencing company strategy and behaviour.

When considering whether a company is a candidate for exclusion, we do so based on the associated material financial risk of a company's business operations and whether we have concerns about its long-term viability. We initially assess the following key financial risks:

- regulatory risk
- litigation risk
- reputational risk
- social risk
- environmental risk

Thermal coal and oil sands:

Using these criteria and due to the potential for stranded assets, we will not invest in companies with more than 70% of revenues derived from thermal coal and oil sands. We will continue to monitor companies with such revenues for increased potential for stranded assets and the associated investment risk which may lead to the revenue threshold decreasing over time.

We support a just transition towards a low-carbon economy which should be inclusive and acknowledge existing global disparities. We recognise that not all countries are at the same stage in their decarbonisation journey and need to consider the different transition timelines for emerging market economies. Therefore, in the interests of a just transition we will assess the implications of the exclusion policy and where we consider it appropriate, may operate exceptions.

For illiquid assets the threshold will be 25%. This is due to the long-term nature of the investments and less ability for investors to change requirements over time.

Cluster munitions:

In addition, we will not invest in companies contravening the Convention on Cluster Munitions (2008). It is illegal to use these weapons in many jurisdictions and many signatories to the Convention regard investing in the production of cluster munitions as a form of assistance that is prohibited by the convention. Therefore, as a responsible investor we will not invest in the following:

- Companies where there is evidence of manufacturing cluster munition whole weapons systems.
- Companies manufacturing components that were developed or are significantly modified for exclusive use in cluster munitions.

Companies that manufacture "dual-use" components, such as those that were not developed or modified for exclusive use in cluster munitions, will be assessed and excluded on a case-by-case basis.

Restrictions relate to the corporate entity only and not any affiliated companies.

Any companies excluded will be monitored and assessed for progress and potential reinstatement at least annually.

6.3. Due diligence and monitoring procedure

Internal procedures and controls for stewardship activities are reviewed by Border to Coast's external auditors as part of the audit assurance (AAF) control review. ~~Rebeco, as a~~ The external Voting and Engagement provider, is also monitored and reviewed by Border to Coast on a regular basis to ensure that the service level agreement is met.

~~The Voting and Engagement provider~~ ~~Rebeco~~ also undertakes verification of its ~~stewardship active ownership~~ activities and the ~~Rebeco's~~ external auditor audits ~~stewardship active ownership~~ controls on an annual basis; this audit is part of the annual International Standard for Assurance Engagements control.

7. Litigation

Where Border to Coast holds securities, which are subject to individual or class action securities litigation, ~~we will~~, where appropriate, we participate in such litigation. There are various litigation routes available dependent upon where the company is registered. ~~We will~~ use a case-by-case approach to determine whether or not to participate in a class action after having considered the risks and potential benefits. ~~We will~~ work with industry professionals to facilitate this.

8. Communication and reporting

Border to Coast ~~is will be~~ transparent with regard to its RI activities and ~~will keep~~ s beneficiaries and stakeholders informed. This ~~is will be~~ done by making publicly available RI and voting policies; publishing voting activity on our website quarterly; reporting on engagement and RI activities to the Partner Funds quarterly; ~~;~~ and in our annual RI report.

We also report in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and provide an annual progress report on the implementation of our Net Zero Plan.

9. Training and assistance

Border to Coast ~~will offer~~ s the Partner Funds training on RI and ESG issues. Where requested, assistance ~~will be~~ s given on identifying ESG risks and opportunities in order to help develop individual fund policies and investment principles for inclusion in the Investment Strategy Statements.

The Investment Team receive training on RI and ESG issues with assistance and input from our Voting & Engagement Partner and other experts where required. Training is also provided to the Border to Coast Board and the Joint Committee as and when required.

10. Conflicts of interest

Border to Coast has a suite of policies which cover any potential conflicts of interest between itself and the Partner Funds which are applied to identify and manage any conflicts of interest, this includes potential conflicts in relation to stewardship.

Appendix A: Third-party Providers

| | | |
|---------------------------------------|---|----------------------------|
| <u>Voting and Engagement provider</u> | <u>Robeco Institutional Asset Management BV</u> | <u>June 2018 - Present</u> |
| <u>Proxy advisor</u> | <u>Glass Lewis</u> | <u>June 2018 - Present</u> |
| | | |

Corporate Governance & Voting Guidelines

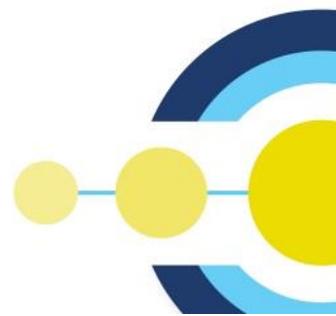
Border to Coast Pensions Partnership



PENSIONS PARTNERSHIP

November 2021

January 2023



1. Introduction

Border to Coast Pensions Partnership believes that companies operating to higher standards of corporate governance along with environmental and social best practice have greater potential to protect and enhance investment returns. As an active owner Border to Coast will engage with companies on environmental, social and governance (ESG) issues and exercise its voting rights at company meetings. When used together, voting and engagement can give greater results.

An investment in a company not only brings rights but also responsibilities. The shareholders' role includes appointing the directors and auditors and to be assured that appropriate governance structures are in place. Good governance is about ensuring that a company's policies and practices are robust and effective. It defines the extent to which a company operates responsibly in relation to its customers, shareholders, employees, and the wider community. Corporate governance goes hand-in-hand with responsible investment and stewardship. Border to Coast considers the UK Corporate Governance Code and other best practice global guidelines in formulating and delivering its policy and guidelines.

2. Voting procedure

These broad guidelines should be read in conjunction with the Responsible Investment Policy. They provide the framework within which the voting guidelines are administered and assessed on a case-by-case basis. A degree of flexibility will be required when interpreting the guidelines to reflect specific company and meeting circumstances. Voting decisions are reviewed with the portfolio managers. Where there are areas of contention the decision on voting will ultimately be made by the Chief Executive Officer. A specialist proxy voting advisor is employed to ensure that votes are executed in accordance with the policy.

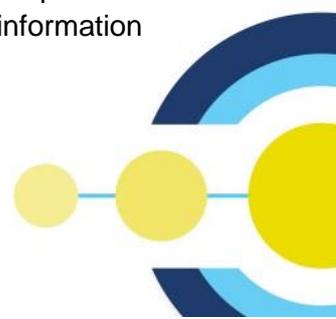
Where a decision has been made not to support a resolution at a company meeting, Border to Coast will, where able, engage with the company prior to the vote being cast. In some instances, attendance at AGMs may be required.

Border to Coast discloses its voting activity on its website and to Partner Funds on a quarterly basis.

We will support incumbent management wherever possible but recognise that the neglect of corporate governance and corporate responsibility issues could lead to reduced shareholder returns.

We will vote **For**, **Abstain** or **Oppose** on the following basis:

- We will support management that acts in the long-term interests of all shareholders, where a resolution is aligned with these guidelines and considered to be in line with best practice.
- We will abstain when a resolution fails the best practice test but is not considered to be serious enough to vote against.
- We will vote against a resolution where corporate behaviour falls short of best practice or these guidelines, or where the directors have failed to provide sufficient information to support the proposal.



3. Voting Guidelines

Company Boards

The composition and effectiveness of the board is crucial to determining corporate performance, as it oversees the running of a company by its managers and is accountable to shareholders. Company behaviour has implications for shareholders and other stakeholders. The structure and composition of the board may vary between different countries; however, we believe that the following main governance criteria are valid across the globe.

Composition and independence

The board should have a balance of executive and non-executive directors so that no individual or small group of individuals can control the board's decision making. They should possess a suitable range of skills, experience and knowledge to ensure the company can meet its objectives. Boards do not need to be of a standard size: different companies need different board structures, and no simple model can be adopted by all companies.

The board of ~~large cap~~ companies, excluding the Chair, should consist of a majority of independent non-executive directors although local market practices shall be taken into account. Controlled companies should have a majority of independent non-executive directors, or at least one-third independent directors on the board. As non-executive directors have a fiduciary duty to represent and act in the best interests of shareholders and to be objective and impartial when considering company matters, the board must be able to demonstrate their independence. Non-executive directors who have been on the board for a significant length of time, from nine to twelve years (depending on market practice) have been associated with the company for long enough to be presumed to have a close relationship with the business or fellow directors. We aspire for a maximum tenure of nine years but will review resolutions on a case-by-case basis where the local corporate governance code recommends a maximum tenure between nine and twelve years.

The nomination process of a company should therefore ensure that potential risks are restricted by having the right skills mix, competencies and independence at both the supervisory and executive board level. It is essential for boards to achieve an appropriate balance between tenure and experience, whilst not compromising the overall independence of the board. The re-nomination of board members with longer tenures should be balanced out by the nomination of members able to bring fresh perspectives. It is recognised that excessive length of tenure can be an issue in some markets, for example the US where it is common to have a retirement age limit in place rather than length of tenure. In such cases it is of even greater importance to have a process to robustly assess the independence of long tenured directors. Where it is believed an individual can make a valuable and independent contribution, tenure greater than nine years will be assessed on a case-by-case basis.

The company should, therefore, have a policy on tenure which is referenced in its annual report and accounts. There should also be sufficient disclosure of biographical details so that shareholders can make informed decisions. There are a number of factors which could affect independence, which includes but is not restricted to:

- Representing a significant shareholder.
- Serving on the board for over nine years.
- Having had a material business relationship with the company in the last three years.



- Having been a former employee within the last five years.
- Family relationships with directors, senior employees or advisors.
- Cross directorships with other board members.
- Having received or receiving additional remuneration from the company in addition to a director's fee, participating in the company's share option or performance-related pay schemes, or being a member of the company's pension scheme.

If the board has an average tenure of greater than 10 years and the board has had fewer than one new board nominee in the last five years, we will vote against the chair of the nomination committee.

Leadership

The role of the Chair is distinct from that of other board members and should be seen as such. The Chair should be independent upon appointment and should not have previously been the CEO. The Chair should also take the lead in communicating with shareholders and the media. However, the Chair should not be responsible for the day-to-day management of the business: that responsibility rests with the Chief Executive. The role of Chair and CEO should not be combined as different skills and experience are required. There should be a distinct separation of duties to ensure that no one director has unfettered decision making power.

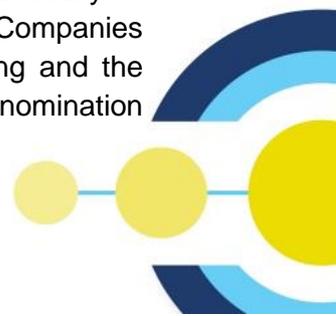
However, Border to Coast recognises that in many markets it is still common to find these positions combined. Any company intending to combine these roles must justify its position and satisfy shareholders in advance as to how the dangers inherent in such a combination are to be avoided; best practice advocates a separation of the roles. A senior independent non-executive director should be appointed, in-line with local corporate governance best practice, if roles are combined to provide shareholders and directors with a meaningful channel of communication, to provide a sounding board for the chair and to serve as an intermediary for the other directors and shareholders. Led by the senior independent director, the non-executive directors should meet without the chair present at least annually to appraise the chair's performance. Where the Chair and CEO roles are combined and no senior independent non-executive director has been appointed, we will vote against the nominee holding the combined Chair/CEO role, taking into consideration market practice.

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; free from connections and situations which could impact their judgement. They must commit sufficient time to their role to be able to carry out their responsibilities. A senior independent non-executive director should be appointed to act as liaison between the other non-executives, the Chair and other directors where necessary.

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. Companies should broaden the search to recruit non-executives to include open advertising and the process for board appointments should be transparent and formalised in a board nomination



policy. Companies should have a diversity and inclusion policy which references gender, ethnicity, age, skills and experience and how this is considered in the formulation of the board. The policy should give insight into how diversity is being addressed not only at board level but throughout the company, it should reflect the demographic/ethnic makeup of the countries a company is active in and be disclosed in the Annual Report.

We support the government-backed Davies report, Hampton Alexander and Parker reviews, which set goals for UK companies regarding the representation of women and ethnic minorities on boards, executive teams and senior management. Therefore, in developed markets without relevant legal requirements, we expect boards to be composed of at least 33% female directors. Where relevant, this threshold will be rounded down to account for board size. Recognising varying market practices, we generally expect emerging market and Japanese companies to have at least one female on the board. We will vote against the chair of the nomination committee where this is not the case and there is no positive momentum or progress. On ethnic diversity, we [expect FTSE 100 companies to have met the Parker Review target and FTSE 250 companies to disclose the ethnic diversity of their board and have a credible plan to achieve the Parker Review targets by 2024.](#) We will vote against the chair of the nomination committee at FTSE 100 companies where the Board does not have at least one person from an ethnic minority background, unless there are mitigating circumstances or plans to address this have been disclosed.

Succession planning

We expect the board to disclose its policy on succession planning, the factors considered and where decision-making responsibilities lie. A succession policy should form part of the terms of reference for a formal nomination committee. [The committee should comprise of a majority, comprised solely of independent directors or comply with local standards and be headed by the Chair or Senior Independent Non-executive Director except when it is appointing the Chair's successor.](#) External advisors may also be employed.

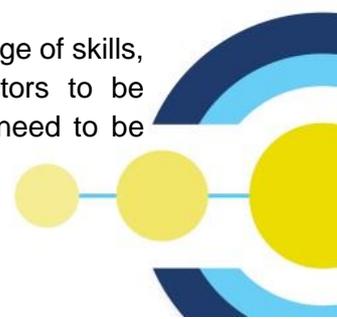
Directors' availability and attendance

It is important that directors have sufficient time to devote to the company's affairs; therefore, full time executives should not hold more than one non-executive position in a FTSE 100 company, or similar size company in other regions; nor the chairmanship of such a company. In the remaining instances, directors working as full-time executives should serve on a maximum of two publicly listed company boards.

With regard to non-executive directors, there can be no hard and fast rule on the number of positions that are acceptable: much depends upon the nature of the post and the capabilities of the individual. Shareholders need to be assured that no individual director has taken on too many positions. Full disclosure should be made in the annual report of directors' other commitments and attendance records at formal board and committee meetings. A director should attend a minimum of 75% of applicable board and committee meetings to ensure commitment to responsibilities at board level.

Re-election

For a board to be successful it needs to ensure that it is suitably diverse with a range of skills, experience and knowledge. There is a requirement for non-executive directors to be independent to appropriately challenge management. To achieve this, boards need to be



regularly refreshed to deal with issues such as stagnant skill sets, lack of diversity and excessive tenure; therefore, all directors should be subject to re-election annually, or in-line with local best practice. As representatives of shareholders, directors should preferably be elected using a majority voting standard. In cases where an uncontested election uses the plurality¹ voting standard without a resignation policy, we will hold the relevant Governance Committee accountable by voting against the Chair of this committee.

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. The annual evaluation should consider its composition, diversity and how effectively members work together to achieve objectives. As part of the evaluation, boards should consider whether directors possess the necessary expertise to address and challenge management on key strategic topics. These strategic issues and important areas of expertise should be clearly outlined in reporting on the evaluation. The board should disclose the process for evaluation and, as far as reasonably possible, any material issues of relevance arising from the conclusions and any action taken as a consequence. Individual director evaluation should demonstrate the effective contribution of each director. An internal evaluation should take place annually with an external evaluation required at least every three years.

Stakeholder engagement

Companies need to develop and maintain relationships with key stakeholders to be successful in the long-term. The board therefore Companies should take into account the interests of and feedback from stakeholders which includes the workforce. Considering the differences in best practice across markets, companies should report how key stakeholder views and interests have been considered and impacted on board decisions. Companies should also have an appropriate system in place to engage with employees.

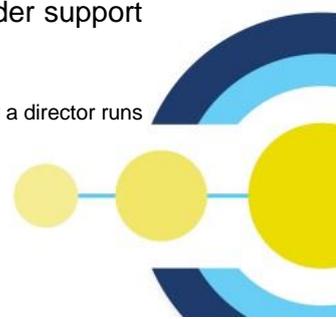
Engagement and dialogue with shareholders and wider stakeholders on a regular basis are key for companies; being a way to discuss governance, strategy, and other significant issues. Companies should engage with shareholders ahead of the AGM in order that high votes against resolutions can be avoided where possible.

-Where a company with a single share class structure has received 20% votes against a proposal at a previous AGM, a comprehensive shareholder and stakeholder consultation should be initiated. A case-by-case approach will be taken for companies with a dual class structure where a significant vote against has been received. Engagement efforts and findings, as well as company responses, should be clearly reported on and lead to tangible improvement. Where companies fail to do so, the relevant board committees or members will be held to account.

Directors' remuneration

Shareholders at UK companies have two votes in relation to pay; the annual advisory vote on remuneration implementation which is non-binding, and the triennial vote on forward-looking pay policy which is binding. If a company does not receive a majority of shareholder support

¹¹ A plurality vote means that the winning candidate only needs to get more votes than a competing candidate. If a director runs unopposed, he or she only needs one vote to be elected.



for the pay policy, it is required to table a resolution with a revised policy at the next annual meeting.

It must be noted that remuneration structures are varied, with not one model being suitable for all companies; however, there are concerns over excessive remuneration and the overall quantum of pay. Research shows that high executive pay does not systematically lead to better company performance. Excessive rewards for poor performance are not in the best interests of a company or its shareholders. Remuneration levels should be sufficient to attract, motivate and retain quality management but should not be excessive compared to salary levels within the organisation and with peer group companies. There is a clear conflict of interest when directors set their own remuneration in terms of their duty to the company, accountability to shareholders and their own self-interest. It is therefore essential that the remuneration committee is comprised solely of non-executive directors and complies with the market independence requirement.

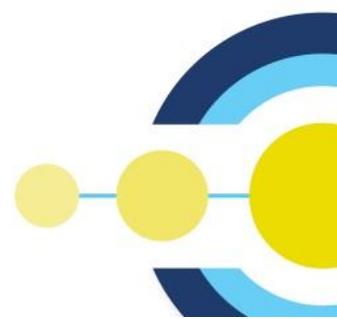
Remuneration has serious implications for corporate performance in terms of providing the right incentives to senior management, in setting performance targets, and its effect on the morale and motivation of employees. Corporate reputation is also at risk. Remuneration policy should be sensitive to pay and employee conditions elsewhere in the company, especially when determining annual salary increases.

Where companies are potentially subject to high levels of environmental and societal risk as part of its business, the remuneration committee should also consider linking relevant metrics and targets to remuneration to focus management on these issues. The selection of these metrics should be based on a materiality assessment that also guides the company's overall sustainability strategy. If environmental or social topics are incorporated in variable pay plans, the targets should set stretch goals for improved ESG performance, address achievements under management's control, and avoid rewarding management for basic expected behaviour. Where relevant, minimum ESG standards should instead be incorporated as underpins or gateways for incentive pay. If the remuneration committee determines that the inclusion of environmental or social metrics would not be appropriate, a clear rationale for this decision should be provided in the remuneration report.

The compensation provided to non-executive directors should reflect the role and responsibility. It should be structured in a manner that does not compromise independence, enhancing objectivity and alignment with shareholders' interests. Non-executive directors should, therefore, not be granted performance-based pay. Although we would not expect participation in Long-term Incentive Plans (LTIPs), we are conscious that in some exceptional instances non-executives may be awarded stock, however the proportion of pay granted in stock should be minimal to avoid conflicts of interest.

To ensure accountability there should be a full and transparent disclosure of directors' remuneration with the policy published in the annual report and accounts. The valuation of benefits received during the year, including share options, other conditional awards and pension benefits, should be provided. Companies should also be transparent about the ratio of their CEO's pay compared to the median, lower and upper quartiles of their employees.

- **Annual bonus**



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. Bonuses should be set at an appropriate level of base salary and should be capped. Provisions should be in place to reduce or forfeit the annual bonus where the company has experienced a significant negative event. For large cap issuers, we expect the annual bonus to include deferral of a portion of short-term payments into long-term equity scheme or equivalent. We will also encourage other companies to take this approach.

• Long-term incentives

Remuneration policies have over time become more and more complex making them difficult for shareholders to adequately assess. Border to Coast therefore encourages companies to simplify remuneration policies.

Performance-related remuneration schemes should be created in such a way to reward performance that has made a significant contribution to shareholder value. Poorly structured schemes can result in senior management receiving unmerited rewards for substandard performance. This is unacceptable and could adversely affect the motivation of other employees.

Incentives are linked to performance over the longer-term in order to create shareholder value. If restricted stock units are awarded under the plan, the vesting period should be at least three years to ensure that the interests of both management and shareholders are aligned in the long-term. Executives' incentive plans should include both financial and non-financial metrics and targets that are sufficiently ambitious and challenging. Remuneration should be specifically linked to stated business objectives and performance indicators should be fully disclosed in the annual report.

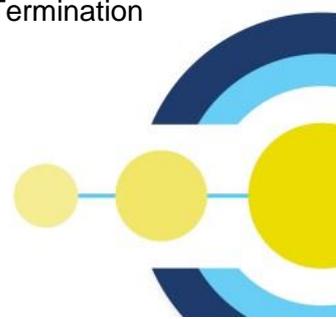
The performance basis of all such incentive schemes under which benefits are potentially payable should be clearly set out each year, together with the actual performance achieved against the same targets. We expect clawback or malus provisions to be in place for all components of variable compensation, [taking into account local market standards](#). We encourage Executive Directors to build a significant shareholding in the company to ensure alignment with the objectives of shareholders. These shares should be held for at least two years post exit.

The introduction of incentive schemes to all employees within a firm is encouraged and supported as this helps all employees understand the concept of shareholder value.

Directors' contracts

Directors' service contracts are also a fundamental part of corporate governance considerations. Therefore, all executive directors are expected to have contracts that are based upon no more than twelve months' salary. Retirement benefit policies of directors should be aligned with those of the majority of the workforce, and no element of variable pay should be pensionable. The main terms of the directors' contracts including notice periods on both sides, and any loans or third-party contractual arrangements such as the provision of housing or removal expenses, should be declared within the annual report. Termination benefits should be aligned with market best practice.

Corporate reporting



Companies are expected to report regularly to shareholders in an integrated manner that allows them to understand the company's strategic objectives. Companies should be as transparent as possible in disclosures within the [rReport](#) and [aAccounts](#). As well as reporting financial performance, business strategy and the key risks facing the business, companies should provide additional information on ESG issues that also reflect the directors' stewardship of the company. These could include, for example, information on a company's human capital management policies, its charitable and community initiatives and on its impact on the environment in which it operates.

Every annual report should include an environmental section, which identifies key quantitative data relating to energy and water consumption, emissions and waste etc., explains any contentious issues and outlines reporting and evaluation criteria. It is important that the risk areas reported upon should not be limited to financial risks.

We will encourage companies to report and disclose in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommendations, and the Workforce Disclosure Initiative in relation to human capital reporting.

Audit

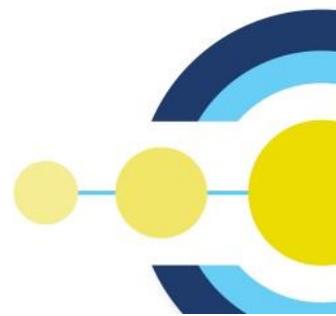
The audit process must be objective, rigorous and independent if it is to provide assurance to users of accounts and maintain the confidence of the capital markets. To ensure that the audit committee can fulfil its fiduciary role, it should be established as an appropriate committee composition with at least three members who are all independent non-executive directors and have at least one director with a relevant audit or financial background. Any material links between the audit firm and the client need to be highlighted, with the audit committee report being the most appropriate place for such disclosures. Audited financial statements should be published in a timely manner ahead of votes being cast at annual general meetings.

FTSE 350 companies should tender the external audit contract at least every ten years. Reappointment of the same firm with rotation of the audit partner, will not be considered as sufficient. If an auditor has been in place for more than ten fiscal years, their appointment will not be supported. For the wider market, the external audit contract should be put out to tender at least every ten years. Where an auditor has resigned, an explanation should be given. If the accounts have been qualified or there has been non-compliance with legal or regulatory requirements, this should be drawn to shareholders' attention in the main body of the annual report. If the appropriate disclosures are not made, the re-appointment of the audit firm will not be supported.

Non-Audit Fees

There is concern over the potential conflict of interest between audit and non-audit work when conducted by the same firm for a client. Companies must therefore make a full disclosure where such a conflict arises. There can be legitimate reasons for employing the same firm to do both types of work, but these need to be identified. As a rule, the re-appointment of auditors will not be supported where non-audit fees are considerably in excess of audit fees in the year under review, and on a three-year aggregate basis, unless sufficient explanation is given in the accounts.

Political donations



There are concerns over the reputational risks and democratic implications of companies becoming involved in funding political processes, both at home and abroad. Companies should disclose all political donations, demonstrate where they intend to spend the money and that it is the interest of the company and shareholders. Where these conditions are not met, or there is insufficient disclosure that the money is not being used for political party donations, political donations will be opposed. Any proposals concerning political donations will be opposed.

Lobbying

A company should be transparent and publicly disclose direct lobbying, and any indirect lobbying through its membership of trade associations. We will assess shareholder proposals regarding lobbying on a case-by-case basis; however, we will generally support resolutions requesting greater disclosure of trade association and industry body memberships, any payments and contributions made, and requiring alignment of company and trade association values. This includes expectations of companies to be transparent regarding lobbying activities in relation to climate change and to assess whether a company's climate change policy is aligned with the industry association(s) it belongs to.

Shareholder rights

As a shareowner, Border to Coast is entitled to certain shareholder rights in the companies in which it invests (Companies Act 2006). Boards are expected to protect such ownership rights.

- **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. Failure to seek approval would elicit opposition to other resolutions as appropriate unless there is a clearly disclosed capital management and allocation strategy in public reporting.

- **Voting rights**

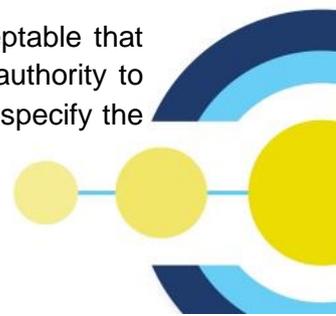
Voting at company meetings is the main way in which shareholders can influence a company's governance arrangements and its behaviour. Shareholders should have voting rights in equal proportion to their economic interest in a company (one share, one vote). Dual share structures which have differential voting rights are disadvantageous to many shareholders and should be abolished. We will not support measures or proposals which will dilute or restrict our rights.

- **Authority to issue shares**

Companies have the right to issue new shares in order to raise capital but are required by law to seek shareholders' authority. Such issuances should be limited to what is necessary to sustain the company and not be in excess of relevant market norms.

- **Disapplication of Pre-emption Rights**

Border to Coast supports the pre-emption rights principle and considers it acceptable that directors have authority to allot shares on this basis. Resolutions seeking the authority to issue shares with and without pre-emption rights should be separate and should specify the



amounts involved, the time periods covered and whether there is any intention to utilise the authority.

Share Repurchases

Border to Coast does not necessarily oppose a company re-purchasing its own shares but it recognises the effect such buy backs might have on incentive schemes where earnings per share measures are a condition of the scheme. The impact of such measures should be reported on. It is important that the directors provide a full justification to demonstrate that a share repurchase is the best use of company resources, including setting out the criteria for calculating the buyback price to ensure that it benefits long-term shareholders.

Memorandum and Articles of Association

Proposals to change a company's memorandum and articles of association should be supported if they are in the interests of Border to Coast, presented as separate resolutions for each change, and the reasons for each change provided.

If proposals to adopt new articles or amend existing articles might result in shareholders' interests being adversely affected, we will oppose the changes.

Mergers and acquisitions

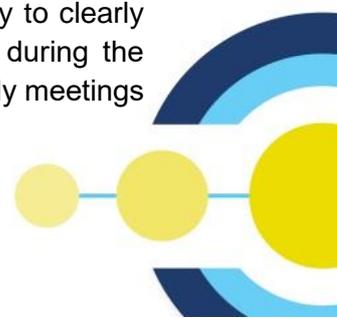
Border to Coast will normally support management if the terms of the deal will create rather than destroy shareholder value and makes sense strategically. Each individual case will be considered on its merits. Seldom will compliance with corporate governance best practice be the sole determinant when evaluating the merits of merger and acquisition activity, but full information must be provided to shareholders on governance issues when they are asked to approve such transactions. Recommendations regarding takeovers should be approved by the full board.

Articles of Association and adopting the report and accounts

It is unlikely that Border to Coast will oppose a vote to adopt the report and accounts simply because it objects to them per se; however, there may be occasions when we might vote against them to lodge dissatisfaction with other points raised within this policy statement. Although it is a blunt tool to use, it can be an effective one especially if the appropriate Chair or senior director is not standing for election.

Virtual Shareholder General Meetings

Many companies are considering using electronic means to reach a greater number of their shareholders. An example of this is via a virtual annual general meeting of shareholders where a meeting takes place exclusively using online technology, without a corresponding in-person meeting. There are some advantages to virtual only meetings as they can increase shareholder accessibility and participation; however, they can also remove the one opportunity shareholders have to meet face to face with the Board to ensure they are held to account. We would expect an electronic meeting to be held in tandem with a physical meeting. If extraordinary circumstances rule out a physical meeting, we expect the company to clearly outline how shareholders' rights to participate by asking questions and voting during the meeting are protected. Any amendment to a company's Articles to allow virtual only meetings without these safeguards will not be supported.



Shareholder Proposals

We will assess shareholder proposals on a case-by-case basis. Consideration will be given as to whether the proposal reflects Border to Coast's Responsible Investment policy, is balanced and worded appropriately, and supports the long-term economic interests of shareholders.

Shareholder proposals are an important tool to improve transparency. Therefore, we will, when considered appropriate, support resolutions requesting additional reporting or reasonable action that is in shareholders' best interests on material business risk, ESG topics, climate risk and lobbying.

Human rights

When considering human rights issues, we believe that all companies should abide by the UN Global Compact Principles and the OECD Guidelines for Multinational Enterprises. We expect companies exposed to human rights issues to have adequate due diligence processes in place to identify risks across their business and supply chain, in line with the UN Guiding Principles on Business and Human Rights. Where a company is involved in significant social controversies and at the same time is assessed as having poor human rights due diligence, we will vote against the most accountable board member or the report and accounts.

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. We use the Transition Pathway Initiative (TPI)² toolkit and the Climate Action 100+ Net Zero Benchmark (CA100+ NZB) to assess our listed equities investments. Both tools enable us to assess how companies are managing climate change, the related business risk and the progress being made. Where a company in a high emitting sector receives a score of zero or one by the TPI, or fails to meet the expectations above, we will vote against the Chair of the board if we consider the company is not making progress. Where a company covered by CA100+ NZB fails the first four indicators of the Benchmark which includes a net-zero by 2050 (or sooner) ambition, and short, medium and long-term emission reduction targets, we will also vote against the Chair of the board.

Climate change is a systemic risk which poses significant investment risks, but also opportunities, with the potential to impact long-term shareholder value. We believe it is vital we fully understand how companies are dealing with this challenge, and feel it is our duty to hold the boards of our investee companies to account.

Our primary objective from climate related voting and engagement is to encourage companies to adapt their business strategy in order to align with a low carbon economy and reach net zero by 2050 or sooner. The areas we consider include climate governance; strategy and Paris alignment; command of the climate subject; board oversight and incentivisation; TCFD

²The Transition Pathway Initiative ('TPI') is a global initiative led by asset owners and supported by asset managers. Aimed at investors, it is a free-to-use tool that assesses how prepared companies are for the low carbon transition.



disclosures and scenario planning; scope 3 emissions and the supply chain; capital allocation alignment, climate accounting, a just transition and exposure to climate-stressed regions.

For companies in high emitting sectors that do not sufficiently address the impact of climate change on their businesses, we will oppose the agenda item most appropriate for that issue. To that end, the nomination of the accountable board member takes precedence. Companies that are not making sufficient progress in mitigating climate risk are identified using recognised industry benchmarks including the Transition Pathway Initiative (TPI) and the Climate Action 100+ (CA100+) Net Zero Benchmark. We will vote against the Chair (or relevant agenda item) where companies are scored 2 or lower by the TPI. In addition, we will vote against the Chair for Oil and Gas companies scoring 3 or lower. Where a company covered by CA100+ Net Zero Benchmark fails indicators of the Benchmark, which includes a net zero by 2050 (or sooner) ambition, and short, medium and long-term emission reduction targets, we will also vote against the Chair of the Board.

Additionally, an internally developed framework is used to identify companies with insufficient progress on climate change.

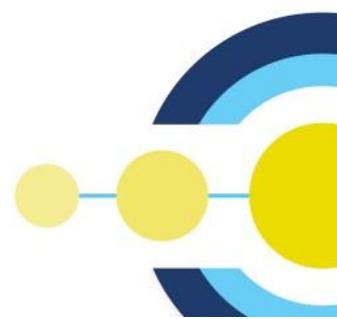
Banks will play a pivotal role in the transition to a low carbon economy, and we will therefore be including the sector when voting on climate-related issues. We will assess banks using the IIGCC/TPI framework and will vote against the Chair of the Sustainability Committee, or the agenda item most appropriate, where a company materially fails the first four indicators of the framework.

We support a just transition towards a low-carbon economy which should be inclusive and acknowledge existing global disparities. We recognise that not all countries are at the same stage in their decarbonisation journey and need to consider the different transition timelines for emerging market economies. Therefore, in the interests of a just transition we will assess the implications when considering our voting decisions on a case-by-case basis.

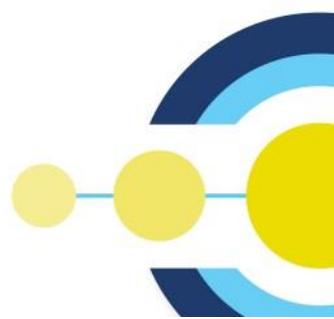
Investment trusts

Border to Coast acknowledges that issues faced by the boards of investment companies are often different to those of other listed companies. The same corporate governance guidelines do not necessarily apply to them; for example, investment companies can operate with smaller boards. However, the conventions applying to audit, board composition and director independence do apply.

The election of any representative of an incumbent investment manager onto the board of a trust managed or advised by that manager will not be supported. Independence of the board from the investment manager is key, therefore management contracts should not exceed one year and should be reviewed every year. In broad terms, the same requirements for independence, diversity and competence apply to boards of investment trusts as they do to any other quoted companies.



We may oppose the adoption of the report and accounts of an investment trust where there is no commitment that the trust exercises its own votes, and there is no explanation of the voting policy.



Climate Change Policy

Border to Coast Pensions Partnership



Policy Owner: The Chief Investment Officer
Live from: ~~October 2021~~ January 2023

Climate Change Policy

This Climate Change Policy details the approach that Border to Coast Pensions Partnership will follow in fulfilling its commitment to managing the risks and opportunities associated with climate change across the assets managed on behalf of our Partner Funds.

1 Introduction

Border to Coast Pensions Partnership Ltd is an FCA regulated and authorised investment fund manager (AIFM), operating investment funds for its eleven shareholders which are Local Government Pension Scheme funds (Partner Funds). As a customer-owned, customer-focused organisation, our purpose is to make a sustainable and positive difference to investment outcomes for our Partner Funds. Pooling gives us a stronger voice and, working in partnership with our Partner Funds and across the asset owner and asset management industry, we aim to deliver cost effective, innovative and responsible investment thereby enabling sustainable, risk-adjusted performance over the long-term.

1.1 Policy framework

Border to Coast has developed this Climate Change Policy in collaboration with our Partner Funds. It sits alongside the Responsible Investment Policy and other associated policies, developed to ensure clarity of approach and to meet our Partner Funds' fiduciary duty and fulfil their stewardship requirements. This collaborative approach resulted in the RI policy framework illustrated below with the colours demonstrating ownership of the various aspects of the framework:

RI Policy Framework



2 Policy overview

2.1 Our views and beliefs on climate change

The world is warming, the climate is changing, and the scientific consensus is that this is due to human activity, primarily the emissions of carbon dioxide (CO₂) from burning fossil fuels. Our planet has warmed by over 1°C relative to the pre-industrial average temperature, and we are starting to experience the significant effects of this warming. [This changes the world in which we live, but also the world in which we invest.](#)

Atmospheric CO₂ is at unprecedented levels in human history. Further warming will occur, and so adaptation will be required. The extent of this further warming is for humankind to collectively decide, and the next decade is critical in determining the course. If the present course is not changed and societal emissions of CO₂ and other greenhouse gases (GHG) are not reduced to mitigate global warming, scientists have suggested that global society will be catastrophically

disrupted beyond its capability to adapt, with material capital market implications.

Recognising the existential threat to society that unmitigated climate change represents, in 2015, the nations of the world came together in Paris and agreed to limit global warming to 2°C and to pursue efforts to limit the temperature increase to 1.5°C. A key part of the Paris Agreement was an objective to make finance flows consistent with a pathway towards low GHG emissions and climate resilience. This recognises the critical role asset owners and managers play, reinforcing the need for us and our peers to drive and support the pace and scale of change required.

In 2018, the Intergovernmental Panel on Climate Change (IPCC) published a special report, “Global warming of 1.5°C”¹, which starkly illustrated how critical successful adaptation to limit global warming to 1.5°C is. The report found that limiting global warming to 1.5°C would require “rapid and far-reaching” transitions in land, energy, industry, buildings, transport, and cities. This includes a need for emissions of carbon dioxide to fall by approximately 45 percent from 2010 levels by 2030, and reach ‘net zero’ around 2050. We support this scientific consensus; recognising that the investments we make, in every asset class, will both impact climate change and be impacted by climate change. [Urgent collaborative action is needed to reach net zero greenhouse gas emissions globally by 2050, and everyone has a part to play in ensuring the goal is met.](#)

2.2 Why climate change is important to us

The purpose of embedding sustainability into our actions is twofold: we believe that considering sustainable measures in our investment decisions will increase returns for our Partner Funds, in addition to positively impacting the world beneficiaries live in.

Our exposure to climate change comes predominantly from the investments that we manage on behalf of our Partner Funds. We develop and operate a variety of internally and externally managed investments across a range of asset classes both in public and private markets for our Partner Funds to invest in.

We try to mitigate these exposures by taking a long-term approach to investing as we believe that businesses that are governed well and managed in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. Climate change can have a material impact on the value of financial assets and on the long-term performance of investments, and therefore needs to be considered across all asset classes in order to better manage risk and generate sustainable, long-term returns.

Climate change is a systemic risk which poses significant investment risks, but also opportunities, with the potential to impact long-term shareholder value. [There are two types of risks that investors are exposed to, the physical risk of climate change impacts and the transitional risk of decarbonising economies, both can also impact society resulting in social risks.](#)

Transition to a low carbon economy will affect some sectors more than others, and within sectors there are likely to be winners and losers, which is why divesting from and excluding entire sectors may not be appropriate. We actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect investments. We believe that we have the responsibility to contribute and support the transition to a low carbon economy in order to positively impact the world in which pension scheme beneficiaries live in.

¹ <https://www.ipcc.ch/sr15/>

In addition, the transition to a low-carbon economy will undoubtedly affect the various stakeholders of the companies taking part in the energy transition. A just transition refers to the integration of the social dimension in the net zero transition and is part of the Paris Agreement, the guidelines adopted by United Nations' International Labour Organization (ILO) in 2015, and the European Green Deal. These stakeholders include the workforce and the communities in which the companies' facilities are located. We expect companies to consider the potential stakeholder risks associated with decarbonisation.

Our climate change strategy is split into four pillars: **Identification and Assessment, Investment Strategy, Engagement and Advocacy, and Disclosures and Reporting**. We will continue to monitor scientific research in this space; evolving and adapting our strategy in order to best respond to the impacts of climate change.

2.3 How we execute our climate change strategy

We integrate climate change risks within our wider risk management framework and have robust processes in place for the identification and ongoing assessment of climate risks.

We consider climate change risks and opportunities within our investment decision making process.



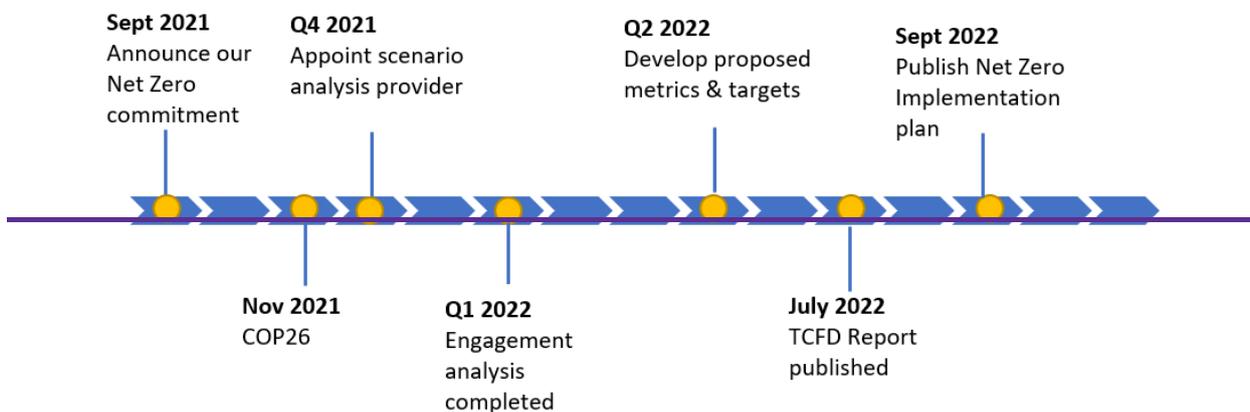
Border to Coast, as a large investor, aims to influence companies to adapt and articulate their climate change strategy, to enable them to be well prepared for the transition to a low carbon economy. This in turn will improve investment outcomes.

We are committed to transparency regarding our climate change issues and activities.

2.4 Roadmap

The roadmap demonstrates the milestones to implement the policy over the next 12 months. The roadmap demonstrates the future reporting and monitoring timeline for implementing our Net Zero plan.

8



3 Climate change strategy and governance

3.1 Our ambition – Net Zero

Our climate change strategy recognises that there are financially material investment risks and opportunities associated with climate change which we need to manage across our investment portfolios. We have therefore committed to a net zero carbon emissions target by 2050 at the latest for our assets under management, in order to align with efforts to limit temperature increases to under 1.5°C.

We recognise that assessing and monitoring climate risk is under constant development, and that tools and underlying data are developing rapidly. There is a risk of just focusing on carbon emissions, a backwards looking metric, and it is important to ensure that metrics we use reflect the expected future state and transition plans that companies have in place or under development. We will continue to assess the metrics and targets used as data and industry standards develop.

As a supporter of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), we ~~will~~ continue to embed climate change into our investment process and risk management systems, reporting annually on our progress in the TCFD report.

To demonstrate our Net Zero commitment, we joined the Net Zero Asset Manager initiative (NZAM) pledging to decarbonise investment portfolios by 2050 or sooner.

We are using the Net Zero Investment Framework to support us in implementing our strategy to being Net Zero by 2050.

~~In support of our Net Zero commitment~~We, we ~~have~~will developed and set out an implementation plan with which sets out the four pillars of our approach: governance and strategy, targets and objectives, asset class alignment, and stewardship and engagement. We believe success across these four elements will best enable us to implement the change needed. high-level targets for each of the four supporting pillars of our climate change strategy which will be published in September 2022The Net Zero Implementation Plan can be found on our website.

3.2 Governance and implementation

We take a holistic approach to the integration of sustainability and responsible investment; it is at the core of our corporate and investment thinking. Sustainability, which includes RI is considered and overseen by the Board and Executive Committee. We have defined policies and procedures that demonstrate our commitment to managing climate change risk, including this Climate Change Policy, our Responsible Investment Policy and Corporate Governance & Voting Guidelines which can be found on our [website](#).

3.3 Division of roles and responsibilities

The Board determines the Company's overall strategy for climate change and with support from the Board Risk Committee, more broadly oversees the identification and management of risk and opportunities. The Board is responsible for the overarching oversight of climate related considerations~~impacts~~ as part of its remit with respect to Border to Coast's management of investments. The Board approves the Responsible Investment strategy and policies, which includes the Climate Change Policy. Updates on Responsible Investment are presented to the Board at regular intervals, this includes activities related to climate change. The Board reviews and approves the TCFD report prior to publication.

The Climate Change Policy is owned by Border to Coast and created after collaboration and engagement with our Partner Funds. We will, where needed, take appropriate advice in order to further develop and implement the policy.

The Chief Investment Officer (CIO) is responsible for the implementation and management of the Climate Change Policy, with oversight from the Investment Committee, which is chaired by the Chief Executive Officer. Each year the CIO reviews the implementation of the policy and reports

any findings to the Board. The policy is reviewed annually, taking into account evolving best practice, and updated as needed.

The Investment Team, which includes a dedicated Responsible Investment Team, works to identify and manage environmental, social and governance (ESG) issues including climate change. Climate change is one of our responsible investment priorities and sits at the core of our sustainability dialogue. We are on the front foot with UK, European and Global climate change regulation, horizon scanning for future regulation and actively participate in discussions around future climate policy and legislation through our membership of industry bodies.

3.4 Training

Border to Coast's Board and colleagues maintain appropriate skills in responsible investment, including climate change, maintaining and increasing knowledge and understanding of climate change risks, available risk measurement tools, and policy and regulation. Where necessary expert advice is taken from suitable climate change specialists to fulfil our responsibilities. We also offer our Partner Funds training on climate change related issues.

3.5 Regulatory change management

Regulatory change horizon scanning is a key task undertaken by the role of the Compliance function, which regularly scans for applicable regulatory change. This includes FCA, associated UK financial services regulations, and wider regulation impacting financial services including Responsible Investment, and climate change. The relevant heads of functions and departments, as subject matter experts, also support the process and a tracker is maintained to ensure applicable changes are appropriately implemented.

4 Identification and assessment

4.1 How we identify climate-related risks

The Identification and Assessment pillar is a key element of our climate change strategy. Our investment processes and approach towards engagement and advocacy reflect our desire to culturally embed climate change risk within our organisation and drive change in the industry.

The risk relating to climate change is integrated into the wider Border to Coast risk management framework. The Company operates a risk management framework consistent with the principles of the 'three lines of defence' model, Primary responsibility for risk management lies with the Investment and Operations teams. Second line of defence is provided by the Risk and Compliance functions, which report to the Board Risk Committee, and the third line of defence is provided by Internal Audit, which reports to the Audit Committee and provides risk-based assurance over the Company's governance, risk and control framework. ~~with external assurance providers acting as a fourth line. Risks to the Company are owned and managed by the business or functional areas (1st Line of Defence) and are subject to oversight and challenge by the Risk and Compliance Function (2nd Line of Defence) and independent assurance by Internal Audit (3rd Line of Defence).~~

We consider both the transition and physical risks of climate change. The former relates to the risks (and opportunities) from the realignment of our economic system towards low-carbon, climate-resilient and carbon-positive solutions (e.g. via regulations). The latter relates to the physical impacts of climate change (e.g. rising temperatures, changing precipitation patterns, increased risk arising from rising sea levels and increased frequency and severity of extreme weather events).

4.2 How we assess climate-related risks and opportunities

We currently use a number of different tools and metrics to measure and monitor climate risk across portfolios. We acknowledge that this is a rapidly evolving area, and we are developing our analytical capabilities to support our ambition. Carbon data is not available for all equities as not all companies disclose, therefore there is a reliance on estimates. Data is even more unreliable

for fixed income and is only just being developed for Private Markets. We will work with our managers and the industry to improve data disclosure and transparency in this area.

We utilise third party carbon portfolio analytics to conduct carbon footprints across equity and fixed income portfolios, analysing carbon emissions, carbon intensity and weighted carbon intensity and fossil fuel exposure when assessing carbon-related risk, on a quarterly basis. The Transition Pathway Initiative (TPI)² tool and climate Action 100+ Net Zero Company Benchmark analysis is used to support portfolio managers in decision making with respect to net zero assessments. We use research from our partners and specific climate research, along with information and data from initiatives and industry associations we support.

We ~~continue to~~ ~~are~~ developing climate risk assessments for our listed equity investments that combines several factors to assess overall whether a company is aligned with the Paris Agreement (to limit global warming to 2°C), so that we can both engage appropriately with the company on their direction of travel and also track our progress. This ~~iss-will-necessarily-be~~ an iterative process, recognising that data, tools and methodologies are developing rapidly.

~~We are reviewing how we conduct scenario analysis across our portfolios, evaluating tools and external providers and different scenarios and expect to have this in place during 2022. We understand that scenario analysis is useful for understanding the potential risks and opportunities attached to investment portfolios and strategies due to climate change. We note that scenario analysis is still developing, with services and products evolving as data quality and disclosure from companies continues to improve. During 2022 we will be evaluating our third-party scenario analysis tools and conducting analysis using a number of different scenarios.~~

~~We are using the Net Zero Investment Framework to support us in implementing our strategy to being Net Zero by 2050. Work will be undertaken during 2022 to assess and define any targets based around this commitment.~~

5 Investment strategy

5.1 Our approach to investing

We believe that climate change should be systematically integrated into our investment decision-making process to identify related risks and opportunities. This is critical to our long-term objective of improving investment outcomes for our Partner Funds.

Border to Coast offers Partner Funds a variety of internally and externally managed investment funds covering a wide-ranging set of asset classes with different risk-return profiles. Partner Funds then choose the funds which support their strategic asset allocation.

Partner Funds retain responsibility for strategic asset allocation and setting their investment strategy, and ultimately their strategic exposure to climate risk. Our implementation supports Partner Funds to deliver on their fiduciary duty of acting in the best interests of beneficiaries.

We consider climate change risks and opportunities in the process of constructing and developing investment funds. Engaging with our investee companies and fund managers will be a key lever we will use to reach our Net Zero goals, but we also recognise the role of screening, adjusting portfolio weights, and tilted benchmarks in decarbonising our investments.

Climate change is also considered during the external manager selection and appointment process. We monitor and challenge our internal and external managers on their portfolio holdings, analysis, and investment rationale in relation to climate-related risks.

² The Transition Pathway Initiative ('TPI') is a global initiative led by asset owners and supported by asset managers. Aimed at investors, it is a free-to-use tool that assesses how prepared companies are for the low carbon transition.

We monitor a variety of carbon metrics, managing climate risk in portfolios through active voting and engagement, whilst also looking to take advantage of the long-term climate-related investment opportunities.

We believe in engagement rather than divestment and that by doing so can effect change at companies. Our investment approach is not to divest or exclude entire sectors, however there may be specific instances when we will look to sell or not invest in some industries based on investment criteria, the investment time horizon and if there is limited scope for successful engagement. Using these criteria and due to the potential for stranded assets, we interpret this to cover public market companies with 70% of revenue derived from thermal coal and oil tar sands companies and will therefore not invest in these companies. For illiquid assets a revenue threshold of 25% is in place, this is due to the long-term nature of these investments. Any companies excluded will be monitored with business strategies and transition plans assessed for potential reinstatement.

5.2 Acting within different asset classes

We integrate climate change risks and opportunities into our investment decisions within each asset class. The approach we take for each asset class is tailored to the nature of the risk and our investment process for that asset class. The timeframe for the impact of climate change can vary, leading to differing risk implications depending on the sector, asset class and region. These variations are considered at the portfolio level. This policy gives our overall approach and more detail on the processes and analysis can be found in our annual TCFD report.

Climate risks and opportunities are incorporated into the stock analysis and decision-making process for **listed equities** and **fixed income**. Third-party ESG and carbon data are used to assess individual holdings. We also use forward looking metrics including the TPI ratings, and Climate Action 100+ ('CA100+) Net Zero Company Benchmark and the Science Based Targets initiative (SBTi) to assess companies' transition progress. Internal, sell-side and climate specific research, and engagement information are also utilised. Carbon footprints are conducted relative to the benchmark. Climate scenario analysis is also conducted for listed equity and fixed income portfolios using third-party data.

For our **alternative funds**, ESG risks, which includes climate change, are incorporated into the due diligence process including ongoing monitoring. Across both funds and co-investments, we consider the impact of carbon emissions and climate change when determining our asset allocation across geographies and industries. We assess and monitor if our GPs track portfolio metrics in line with TCFD recommendations. Climate change presents real financial risks to portfolios but also provides opportunities with significant amounts of private capital required to achieve a low-carbon transition. We have therefore launched a Climate Opportunities offering and will be facilitating increased investment in climate transition solutions taking into account Partner Fund asset allocation decisions. We are therefore considering the role private markets will play in managing transition risk and how we can invest in climate change opportunities as part of our Private Markets offering.

To meet our commitment to reach net zero carbon emissions by 2050 or sooner, we have developed targets for our investments in line with the Net Zero Investment Framework (NZIF). We have set targets at two levels: portfolio level, which refers to our combined total investments in the asset classes covered by this plan, and asset class level, which refers to our investments split by investment type (i.e. listed equity, corporate fixed income etc). This covers 60% of our AUM (at 31/03/2022) and we will look to increase coverage across the rest of our investments when appropriate.

5.3 Working with External Managers

Assessing climate risk is an integral part of the External Manager selection and appointment

process. It also forms part of the quarterly screening and monitoring of portfolios and the annual manager reviews. We monitor and review our fund managers on their climate change approach and policies. Where high emitting companies are held as part of a strategy managers are challenged and expected to provide strong investment rationale to substantiate the holding. We ~~encourage expect~~ managers to engage with companies in line with our Responsible Investment Policy and to support collaborative initiatives on climate, and to report in line with the TCFD recommendations. In addition, we ~~encourage assess and monitor where~~ managers to make a firm wide net zero commitment, are making net zero commitments. We will work with External Managers to implement specific decarbonisation parameters for their mandate. We will monitor our managers' carbon profiles and progress against targets on a quarterly basis and as part of our annual reviews. We will also consider the suitability of those targets on an annual basis. Where carbon profiles are above target, this will act as a prompt for discussion with the manager to understand why this has occurred, any appropriate actions to be taken to bring them back to target, and the timescales for any corrective action.

6 Engagement and advocacy

As a shareholder, we have the responsibility for effective stewardship of all companies or entities in which we invest, whether directly or indirectly. We take the responsibilities of this role seriously, and we believe that effective stewardship is key to the success for our climate ambition. As well as engaging with our investee companies it is important that we engage on systemic risks, including climate change, with policymakers, regulators and standard setters to help create a stable environment to enhance long-term investment returns. ~~can be supported by effective stewardship and governance oversight.~~

6.1 Our approach to engagement

As a long-term investor and representative of asset owners, we will hold companies and asset managers to account regarding environmental, social and governance issues, including climate change factors, that have the potential to impact corporate value. We support engagement over divestment as we believe that constructive dialogue with companies in which we invest is more effective than excluding companies from the investment universe, particularly with regard to promoting decarbonisation in the real world. If engagement does not lead to the desired results, we have an escalation process which forms part of our RI Policy, this includes adverse voting instructions on related AGM voting items, amongst other steps. We practice active ownership through voting, monitoring companies, engagement and litigation. Through meetings with company directors, we seek to work with and influence investee companies to encourage positive change. Climate is one of our key engagement themes. We believe it is vital we fully understand how companies are dealing with this challenge, and feel it is our duty to hold the boards of our investee companies to account.

Our primary objective from climate related engagement is to encourage companies to adapt their business strategy in order to align with a low carbon economy and reaching net zNet-Zero by 2050 or sooner. The areas we consider in our engagement activities include climate governance; strategy and Paris alignment; command of the climate subject; board oversight and incentivisation; TCFD disclosures and scenario planning; scope 3 emissions and the supply chain; capital allocation alignment, a just transition and exposure to climate-stressed regions.

In order to increase our influence with corporates and policy makers we work collaboratively with other like-minded investors and organisations. This is achieved through actively supporting investor RI initiatives and collaborating with various other external groups on climate related issues, including the Institutional Investors Group on Climate Change (IIGCC), Climate Action 100+CA100+, the UN-supported Principles for Responsible Investment, the Local Authority Pension Fund Forum and the TPTransition Pathway Initiative.

In particular, we are currently focusing on the following actions:

- ~~Vote against company Chairs in high emitting sectors where the climate change policy does not meet our minimum standards, and/or rated Level 0 or 1 by the TPI, where there is no evidence of a positive direction of travel. When exercising our voting rights for companies in high emitting sectors that do not sufficiently address the impact of climate change on their businesses, we will oppose the agenda item most appropriate for that issue. To that end, the nomination of the accountable board member takes precedence. Companies that are not making sufficient progress in mitigating climate risk are identified using recognised industry benchmarks including the TPI and CA 100+ Net Zero Company Benchmark. Additionally, an internally developed framework is used to identify companies with insufficient progress on climate change.~~ Our voting principles are outlined in our Corporate Governance & Voting Guidelines. We are also transparent with all our voting activity and publish our quarterly voting records on our [website](#).
- Support climate-related resolutions at company meetings which we consider reflect our Climate Change Policy. We will co-file shareholder resolutions at company AGMs on climate risk disclosure and lobbying, after conducting due diligence, that we consider to be of institutional quality and consistent with our Climate Change Policy.
- Engage with companies in relation to business sustainability and disclosure of climate risk in line with the TCFD recommendations.
- Encourage companies to publish targets and report on steps taken to reduce greenhouse gas emissions.
- Work collaboratively with other asset owners in order to strengthen our voice and make a more lasting impact for positive change. Engagement is conducted directly, through our engagement partner Rebeco and through our support of collaborations. We also expect our external asset managers to engage with companies on climate-related issues.
- Use the IIGCC's Net Zero Stewardship Toolkit to develop our net zero stewardship strategy.
- Use carbon footprints ~~and~~ the TPI toolkit, CA100+ Net Zero Company Benchmark and SBTi to assess companies and inform our engagement and voting activity. This will enable us to prioritise shareholder engagement, set timeframes and monitor progress against our goals.
- Engage collaboratively alongside other institutional investors with policy makers through membership of the ~~Institutional Investor Group on Climate Change (IIGCC)~~. We will engage with regulators and peer groups to advocate for improved climate related disclosures and management in the pensions industry and wider global economy.

7 Disclosures and reporting

Transparency is one of our key organisational values. We disclose our RI activity on our website, publishing quarterly stewardship and voting reports, annual RI & Stewardship reports and our TCFD report. We are committed to improving transparency and reporting in relation to our RI activities, which include climate change related activities.

We will keep our Partner Funds and our stakeholders informed on our progress of implementing the Climate Change Policy and Net Zero commitment, as well as our exposure to the risks and opportunities of climate change. This will include:

- Reviewing annually how we are implementing this policy with findings reported to our Board and Partner Funds.

~~During 2021 and 2022 we will be focusing on the following actions:~~

~~Reviewing on an annual basis how we are implementing this Climate Change Policy. The findings~~

will be reported to our Board and Partner Funds, as well as made publicly accessible through our TCFD and Stewardship reports and other disclosures.

- ~~R~~reporting in line with the TCFD recommendations on an annual basis, including reporting on the actions undertaken with regards to implementation of this policy and progress against our Net Zero commitment. ~~climate change. We published our first TCFD report in 2020 and will look to evolve and refine our TCFD report, reflecting further developments that we undertake as part of implementation of this policy.~~
- ~~We will d~~Discloseing our voting activity and ~~r~~Reporting on engagement and RI activities, including climate change, to the Partner Funds quarterly and in our annual RI & Stewardship report.
- Discloseing climate metrics and targets that help to analyse the overall exposure of our portfolios to the risks and opportunities presented by climate mitigation and adaption.
- ~~Reporting our progress against the Net Zero Investment Framework.~~

This page is intentionally left blank