BORDER TO COAST ENGAGEMENT AND ESCALATION CASE STUDIES

Border to Coast's Responsible Investment (RI) strategy has four pillars with stewardship featuring prominently. We practice active ownership, using our voting rights and engage with companies on financially material issues. It is also important to engage with the wider industry, and we engage with policymakers, regulators and standard setters on systemic risks to help create a stable environment to enhance long-term portfolio returns. Collaboration and long-term relationships are an essential element to increase and build our influence.

We believe in leveraging our internal stewardship capabilities, our external engagement provider Robeco, third-party managers and our connections across the industry to improve standards in the companies in which we invest.

Engagement, depending on the issue, can be a longer term process. And even when companies have made changes and commitments, engagement will likely continue, monitoring, challenging and holding companies to account. If, however, engagement does not lead to the desired result, escalation may be necessary. There are many tools available to investors which could involve conducting collaborative engagement with other institutional shareholders, registering concern by voting on related agenda items at shareholder meetings, pre-declaring voting intentions, attending a shareholder meeting in person, and filing/co-filing shareholder resolutions. This isn't necessarily a linear process and in some cases actions can occur simultaneously. If following escalation, the investment case has been fundamentally weakened, the decision may be taken to reduce or sell the company's shares.

While we do not pursue escalation frequently, we have used it where we consider it appropriate as a key part of our broader RI strategy.

EXAMPLE ONE: BORDER TO COAST'S RESPONSIBLE INVESTMENT TEAM VOTING AND ENGAGEMENT: CLIMATE CHANGE AND OIL MAJORS & BANKS

Voting is an integral part of our engagement approach and escalation process. During the 2023 voting season, we introduced and began implementing our strengthened voting policy on climate change for oil majors and banks:

- We introduced voting against the Chair of the Board of oil companies which fail to meet one of the first four indicators of the Climate Action 100+ benchmark, which includes short, medium and long-term emission reduction targets. We will also vote against oil companies scored 3 or lower by the Transition Pathway Initiative (TPI), meaning they have not yet developed a strategic understanding of climate risks and opportunities or integrated this into business strategy and capital expenditure decisions. In the 2023 voting season, we voted against 95% of Oil Major Chairs.
- Alongside voting, Border to Coast will engage oil and gas companies on decarbonisation strategy and capital alignment with net zero goals and will raise concerns regarding the development of new fossil fuel reserves, which are incompatible with limiting global warming to 1.5C.
- We also introduced voting against the Chair of the Sustainability Committee at banks where the company has materially failed indicators of the Transition Pathway Initiative (TPI) framework for the sector. This includes banks that have not sufficiently integrated targets, decarbonisation strategy, or climate policy engagement into their business strategy. This year, we voted against the Chair of the Sustainability Committee at eight banks: Bank of America, Citigroup, Goldman Sachs, Groupe Credit Agricole, JP Morgan, Mitsubishi UFJ, SMBC, and UBS.

SHELL AND BP

Shell and BP are significant contributors to Border to Coast's financed emissions which we are seeking to reduce, to meet our net zero commitments. We determined that both companies have set insufficient medium-term emission reduction targets. We were also concerned about BP's backtracking on its climate targets which were put to a shareholder vote last year, and Shell's failure to meet every indicator of the Climate Action 100+ Net Zero Benchmark for the alignment of capital expenditure with net zero. Border to Coast held meetings with, BP and Shell ahead of the AGMs.

We notified both companies of our voting intentions in advance and advised that we would be voting against the re-election of the board Chairs in line with our strengthened climate voting policy. We also informed them we would be supporting an independent shareholder resolution of a Scope 3 emissions reduction target aligned with the Paris Agreement.

We believe that the low-carbon side of these businesses is integral to the global energy transition, and so it is important that Border to Coast continues engaging these companies as a responsible asset owner.

In April 2023, as part of engagement escalation, we signalled our concern by publicly predeclaring our votes ahead of the AGMs, attracting significant press coverage. Engagement is continuing with Shell and BP in the second half of the year.

EXAMPLE TWO: ENGAGEMENT AND ESCALATION VIA THIRD PARTY VOTING AND ENGAGEMENT SERVICE PROVIDER (ROBECO)

We work in partnership with Robeco, our voting and engagement partner, who engage with companies we own globally. Robeco actively uses its aggregate ownership rights, across its wide client base, to engage with companies in a constructive manner. They believe that engagement with companies contributes to both investment results and society.

Robeco carries out engagements for Border to Coast across around 20 ESG themes including climate change, biodiversity, human rights, diversity, governance and remuneration. Although themes generally run for three years, some themes due to the longer-term nature of the issue are being extended. We input into new themes on an annual basis. In 2023, Robeco adopted two themes driven by our preference: Just Transition and Diversity of Thought. Objectives and milestones are set for each engagement theme, and reporting on progress is provided on an ongoing basis. This allows us to better fulfil our stewardship objectives as an active shareholder in global markets and complements our other engagement approaches.

CLIMATE CHANGE - ESCALATION

As part of Robeco's engagement escalation strategy, in 2023 they filed a shareholder proposal at Berkshire Hathaway which focuses on the oversight of climate-related risks and opportunities. The shareholder resolution focused on the governance and oversight of climate-related risks by the Board. This follows on from progress made by the company earlier in the year, where they clarified the responsibilities of the audit committee to specifically articulate a responsibility for the management of climate-related risks and opportunities. The resolution seeks to better understand how this change is being implemented by the Board. This includes how the company integrates low-carbon assumptions into their reports and accounts. The company is expected to be stress testing its financial performance against low-carbon scenarios, including a 1.5°C scenario. Border to Coast supported the resolution which received around 17% of support from the company's shareholders.

EXAMPLE THREE: ENGAGEMENT AND ESCALATION VIA THIRD PARTY MANAGERS

Border to Coast utilises third-party managers for your following investments:

- Equities - Global Equity Alpha, UK Alpha, EM Alpha
- Fixed income - Multi Asset Credit
- Alternatives - Private Equity, Private Credit, Infrastructure, Climate Opportunities

In the case of utilising external managers, responsible investment is built into our initial selection, appointment and ongoing monitoring of managers.

EXTERNAL EQUITY MANAGERS

Responsible Investment integration starts at manager selection of Border to Coast's externally managed equity and fixed income funds. For every manager, initial due diligence involves a dedicated RI questionnaire, RI team interviews with the manager, and RI-specific scoring criteria. We monitor external managers quarterly in relation to RI and request examples of engagement conducted over the quarter; we also conduct a more extensive review annually. As part of our appointment and annual review process we provide feedback to our external managers on potential areas for improvement with respect to stewardship and RI. We expect managers to engage on financially material ESG issues and with top carbon emitters across portfolios.

ESCALATION ON EXTERNAL MANAGERS RESPONSIBLE INVESTMENT STANDARDS

At times, we must work proactively with the external manager to strengthen their RI approach. The quarterly and annual monitoring of external managers offers a key opportunity for our RI team to recognise possible areas for improvement. During the annual review of a manager, the RI team identified perceived weakness across both integration and stewardship. They downgraded the manager, and this was reported to our Investment Committee. We escalated it with the manager and held further calls to discuss the improvements needed. Following our intervention, we noted a material increase in the quality of the manager's disclosures and we have greater confidence in the integration of ESG factors.

ALTERNATIVES

Responsible investment is incorporated into each step of our private markets manager assessment framework. Our team includes a high-level ESG assessment and RI-specific scoring criteria as part of the initial due diligence. An ESG section is included in the final investment report presented at the Alternative Investments Sub Committee. Quarterly monitoring includes assessment of any ESG incidents, and we carry out an ESG monitoring questionnaire each year as part of our annual review and reporting.

US VENTURE CAPITAL – IMPROVING STANDARDS

Border to Coast will engage with General Partners (GP) where we believe their responsible investment standards and policies require improvement. This was the case when a GP identified an attractive Venture Capital (VC) opportunity for the Private Equity Portfolio. ESG is less well developed in VC, especially in the US. The GP was considering ESG-related criteria during its investment process but had no formalised policy. The Border to Coast Alternatives team engaged with the manager during the diligence process to outline ESG requirements and showcase industry best practice. Consequently, the manager introduced a formalised ESG Policy, and implemented an ESG diligence checklist to use as part of their standard diligence process for all new investments. They appointed a third-party specialist firm to conduct annual ESG training for their full team and added a series of ESG related questions to the annual reporting request issued to all portfolio companies. Border to Coast continues to engage with the manager to support further enhancements to their ESG process and procedures. Where a VC manager fails to collaborate with us, we may consider it appropriate to further escalate our approach. A similar VC manager was rejected for investment due to failing to engage or implement the required RI enhancement.

EXAMPLE FOUR: COLLABORATION

We collaborate with other like-minded investors and organisations to amplify Border to Coast's influence on behalf of our Partner Funds. As a member of the Local Authority Pension Fund Forum (LAPFF) we have added our voice to an influential group of local authority pension funds and pools, to maximise our influence as shareholders. We also look to collaborate with other like-minded investors and bodies. By partnering with other institutional investors, we can have a stronger voice and greater impact when voting and engaging with investments. We recognise that addressing market-wide and systemic risks requires collaborative efforts, and we are committed to engaging with other stakeholders to tackle these issues.

MODERN SLAVERY

Modern slavery is a widespread, criminal activity which has a significant economic impact globally. It is estimated to be a $150bn trade which involves approximately 40.3 million people in some form of slavery. The exploitation of people through forced labour and sexual slavery has been fuelled by a growing number of global migrants in search of prosperity (estimated at 60 million in 2019), more complex supply chains (brought about by globalisation) and weak enforcement by regulators. Section 54 (s54) of the Modern Slavery Act requires companies to publish a statement setting out what steps they have taken to ensure modern slavery is not taking place in their business or supply chains. But it lacks enforcement powers and standards of disclosure are generally low.

In January 2023, Border to Coast joined the 'Votes Against Slavery' initiative led by Rathbones and co-ordinated through the PRI Collaboration Platform. This collaborative engagement aims for radical improvement in supply chain transparency through s54. Failure to comply results in votes against the annual report and accounts. There were 38 companies from the FTSE 350 identified as non-compliant and requiring engagement ahead of AGM season which, if not responsive would lead to collective votes against their annual report and accounts. Of these companies, Border to Coast invested in 12. Following engagement, 11 of the 12 companies owned by Border to Coast have acted to become compliant with s54. The company that was non-compliant remains under engagement and is on our watch list ahead of the AGM in April 2024.

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