# BORDER TO COAST PENSIONS PARTNERSHIP

## RESPONSIBLE INVESTMENT AND STEWARDSHIP REPORT

**2022 - 2023**

BORDER TO COAST
PENSIONS PARTNERSHIP

# FOREWORD

**Responsible investment (RI) is rooted in the concept of duty of care. At Border to Coast, this is fundamental to fulfilling our purpose of making a difference for the Local Government Pension Scheme (LGPS).**

Since 2018 we have worked with our Partner Funds to establish a sustainable business with the capabilities needed to implement long-term investment strategies. We are now one of the UK's largest asset owner pools of capital.

While this report highlights our activities from the past year, our focus remains on the long-term and delivering the returns and impact our Partner Funds need to meet the benefits of over 1.1 million beneficiaries.

## A year of progress

In the past reporting year, our responsible investment approach has guided our decision-making as active stewards of our Partner Funds' capital. We have clarified and strengthened our voting position on critical issues like climate change and DE&I (diversity, equity, and inclusion). These updates are reflected in our Responsible Investment Policy, Corporate Governance and Voting Guidelines, and Climate Change Policy. Our voting policy clearly communicates our stance: on climate change we will actively vote against management to hold high emitters and banks accountable if they lack credible low carbon transition plans.

Voting is a powerful tool for influencing company behaviour, and we are committed to sending a strong message through our votes.

We believe in the power of engagement to improve standards in both the investment industry and the companies in which we invest. In the past year, we conducted over 1,800 engagements with companies, either independently or in collaboration with others. We also voted on over 13,000 resolutions at investee companies. We are proud to be recognised as a signatory to the Financial Reporting Council's Stewardship Code, which acknowledges our effective stewardship activity and outcomes.

A highlight of the year was publishing our Net Zero Implementation Plan in October 2022, detailing how we will deliver on our Net Zero commitment.

We also report against the Task Force on Climate-related Financial Disclosures (TCFD) framework with updates on our Plan. As part of this we are committed to supporting a just transition and during the year helped found the Emerging Markets Just Transition Investor Initiative to further this goal.

**Rachel Elwell**
CEO

> We could not have made the progress we've made, adapting to a fast-changing world, without the continued co-operation and collaboration of all our partners.
>
> With our focus on the long term we will continue to work as active stewards, making a difference on behalf of our Partner Funds with the collective voice that pooling brings.

## A collaborative approach

Collaboration, one of our core values, is essential in our approach given that environmental, social and governance (ESG) issues typically constitute market-wide, systemic risks. We work with like-minded investors and other stakeholders to use our collective scale to influence and to drive real change in corporate behaviour and to engage with policymakers and regulators to highlight where systemic solutions are required.

## Firm-wide efforts

Closer to home, there is a different role to play as we strive to improve the positive impact of our own operations. For example electricity at our Leeds office is sourced from renewable sources and we promote the use of public transport for commuting and business travel.

It was particularly pleasing to see our efforts to foster inclusion within Border to Coast recognised with the Investment Industry Contribution to Diversity & Inclusion award at Investment Week's Women in Investment Awards.

As a company whose Partner Funds stretch across the length and breadth of England, we understand the value of partnership. Indeed, it was harnessing our collective scale that enabled us to create offerings like our Climate Opportunities portfolio during the last year, and to have secured to date an estimated £65m of savings for our Partner Funds, thanks to the benefits of pooling.

**Rachel Elwell,**
**Chief Executive Officer**

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Surrey

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Our Responsible Investment & Stewardship Report has images from the areas represented by our Partner Funds.

**Cover image:** Ros Hill, Tyne and Wear

# HIGHLIGHTS

Responsible for
**£40.3BN**
of investments

Published
**NET ZERO**
Implementation Plan

Made first investments in our
**£1.4BN**
Climate Opportunities Portfolio

**13,080**
resolutions voted

**970**
meetings voted

Proportion of climate-related shareholder proposals supported
**73%**

**1,860**
engagements

**163**
Votes against management on diversity considerations

**Launched 4** new priority engagement themes

Retained signatory status to the
**UK Stewardship Code**

**PRI SCORES** 4 and 5 stars

**Awarded** Best Approach to Responsible Investment award at the LAPF Investments Awards 2022

**Awarded** Investment Industry Contribution to Diversity & Inclusion award at Investment Week's Women in Investment Awards

# ABOUT US

## Who we are

Border to Coast Pensions Partnership was created to pool the investments of like-minded LGPS funds: our 'Partner Funds'. Established in 2018, we are one of the largest LGPS pools in the UK. We are a customer-owned and customer-focused organisation. Everything we do is for the benefit of our Partner Funds.

## Our purpose

Our purpose is to make a difference for the LGPS. We do this by providing cost-effective, innovative, and responsible investment opportunities that deliver returns over the long-term. This is on behalf of the more than 1.1 million LGPS members, over 2,800 employers, and the millions of taxpayers associated with our Partner Funds. We are regulated by the Financial Conduct Authority (FCA).

## What we do

Our initial strategy to deliver our purpose of making a difference for the LGPS is based on building a sustainable business delivering responsible investment propositions that enable Partner Funds to implement investment strategy.

To date, we have launched nine propositions across public equity and fixed income portfolios and four private markets portfolios. We also provide investment advisory services to our Partner Funds.

## Delivering for our Partner Funds

To date, we have saved our Partner Funds an estimated £65m, a figure we expect to increase significantly in the coming years. Pooling is, however, about more than cost savings; it is about delivering value.

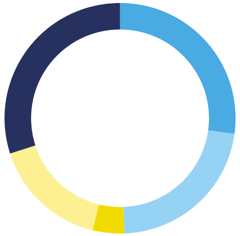
This includes providing new investment opportunities, using our collective voice in the investment and pensions industry, and helping to meet the challenge of ever-increasing reporting and regulatory demands.

## Our investments

Our Partner Funds have c.£58bn in investments, of which Border to Coast is directly responsible for the management of £40.3bn (as of 31 March 2023). We also provide support and advice on a further £8.2bn, primarily invested in index funds, which sit outside of the pool.

## Our Partner Funds

Bedfordshire Pension Fund
Cumbria Pension Fund
Durham County Council
ERPF East Riding Pension Fund
Lincolnshire Pension Fund
North Yorkshire Pension Fund
South Yorkshire Pensions Authority
Surrey Pension Fund
Teesside Pension Fund
Tyne and Wear Pension Fund Administered by South Tyneside Council
Warwickshire pension fund

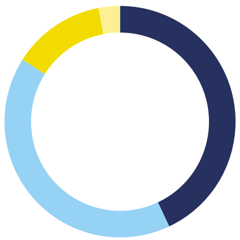


### Asset Allocation by Asset Class

| | |
|---|---|
| Equities (Internal) | 27% |
| Equities (External) | 22% |
| Fixed Income (Internal) | 4% |
| Fixed Income (External) | 16% |
| Private Markets | 30% |

### Asset Allocation by Region: Equities and Fixed Income

| | |
|---|---|
| North America | 29% |
| UK | 34% |
| Europe (ex-UK) | 19% |
| Asia Pacific | 8% |
| Emerging Markets | 10% |



### Asset Allocation by Region: Private Markets

| | |
|---|---|
| North America | 43% |
| Europe | 41% |
| Asia | 13% |
| Other | 3% |

*Please note totals may not sum to 100% due to rounding.

# OUR VALUES AND PHILOSOPHY

## Our values and behaviours


**Our values**

Our values underpin everything we do and ensure we can deliver on our purpose, to make a difference for the LGPS. They guide our judgements and build trust as a customer-owned, customer-focused organisation.

**We are collaborative:**
We depend on each other and build open and effective partnerships both internally and externally.

**We act with integrity:**
We do the right things for the right reasons and are transparent, fostering trust, respect and confidence.

**We are sustainable:**
We make decisions for the long term and invest in our people to deliver success for our Partner Funds.

Saltburn-by-the-Sea, Teesside

# **Our values and philosophy** continued

North Yorkshire

## Our investment philosophy

Our approach to investment is intrinsically linked to the objectives of our Partner Funds, whose time horizon is a long-term one, with investments intended to fund pension payments for scheme members many years and decades from now, and in some cases into the next century. As such, a deep understanding of the investments we make and the third parties we work with is crucial in developing and managing portfolios of assets and being responsible stewards of our Partner Funds' capital.

We launch strategies with a focus on long-term outcomes, an approach which magnifies the importance of considering ESG issues and the extent to which they can have a material impact on the value of financial assets. Stewardship, including engagement with companies, goes hand in hand with our philosophy, enabling us to establish long-term and constructive dialogues with management teams and participate in collaborative initiatives.

### Investment changes to support long-term outcomes

During the year, we introduced exposure to large-cap quality-focused stocks into our UK Listed Equity Alpha Fund to provide more defensive characteristics in market downturns.

Long-term outcomes were considered in portfolio construction, with different manager combinations assessed and analysed. This included historical performance attribution, forward-looking risk-based modelling, fundamental characteristics assessment, and stress testing as well as the impact on the Fund's carbon emissions.

Additionally, an assessment of each prospective manager's investment philosophy, process and stewardship approach and activities was made ahead of selection, in line with our approach to appointing external managers, which is discussed later in this report.

We held several workshops for our Partner Funds, both at the outset and throughout the process, to set out the rationale for the proposed change. To ensure transparency of our approach the Request for Proposal document was shared with our Partner Funds prior to the search. And finally, post-transition workshops were held to provide a summary of costs incurred as part of the transition process.

# OUR GOVERNANCE

**We have strong and transparent governance in place to enable oversight and accountability for our responsible investment activities.**

In March 2023 we completed our work with our shareholders on the review of shareholder governance, and all documents were signed by all parties. We will work to implement those changes and continue to ensure shareholder governance is fit for purpose.

## Oversight

Border to Coast's performance both as a Company and in delivering to our Partner Funds as investors is overseen by our Board, which is appointed by our shareholders. Our Partner Funds oversee how we are meeting expectations via both each Fund's pensions officer and, on a quarterly basis, Pensions Committees and also by a Joint Committee, which constitutes elected member representatives from each of the Partner Funds.

Oversight of RI is carried out by the Investment Committee and the Board and is an established item on the agenda for these meetings. Regular reports are also submitted to the Joint Committee and our Partner Funds. We believe our approach enables RI and stewardship activities to be given clear sight and consideration by investment personnel as well as senior leadership. Partner Fund representation on our Board is an important part of this oversight process.

## Development

Our approach to RI, including stewardship, is developed in collaboration with our Partner Funds and implemented through our Responsible Investment Policy, Corporate Governance and Voting Guidelines and Climate Change Policy, which are formally approved by the Board. The Chief Investment Officer is accountable for implementation of the policies which are reviewed at least annually.

Flamborough, East Riding




## Fair and balanced reporting

We see transparency as a key part of good governance and, as well as this annual Responsible Investment and Stewardship Report, we also publish publicly available quarterly updates on our stewardship activities and voting, report against the TCFD recommendations and produce fund-specific ESG and carbon reports for our Partner Funds.

We keep an ongoing channel of consultation open to ensure our Partner Funds' requirements have been considered in the design and implementation of our reporting. To ensure our reports are fair, balanced and digestible we invite comments and different perspectives from relevant stakeholders across Border to Coast, Partner Funds and the wider industry. Our annual reports are submitted to our Investment Committee and Board for input and discussion.

## Resourcing and incentives

Stewardship and RI are embedded in individual and team responsibilities. Border to Coast did not operate a performance-related pay scheme during the period; however, adherence to RI and stewardship policies formed a key part of the annual objective setting and performance review process for investment, risk and senior executive colleagues.

To support embedding ESG factors into investment decisions and stewardship, we have a dedicated Responsible Investment Team, which sits within the Investment Team and helps manage and co-ordinate our RI-related activities. Further support is provided by our strategic partners, including our voting and engagement partner.

The RI Team is led by Jane Firth, our Head of Responsible Investment. She is supported by five RI specialists. George Kendall and Alex Faulkner, as RI Managers work across all areas of RI including strategy, integration, monitoring and reporting. Colin Baines joined during the year to lead our approach on stewardship and Teju Akande joined as Climate Change Manager to hone our focus on company transition plans. Finally, Ben Taylor recently joined us as an RI Analyst.

## Training

Our Investment Team, other connected colleagues and Board undertake regular training to maintain the necessary skills in RI, to strengthen ESG knowledge throughout our organisation, and to embed our culture as a responsible investor. Sessions are often led by the RI Team with additional support and input from our strategic partners and other experts, where appropriate.

In 2022/23 several sessions were held with the Investment Team on topics including carbon metrics and targets and different investor tools such as the Transition Pathway Initiative (TPI) and Climate Action 100+ (CA100+) disclosure indicators. RI and stewardship training sessions were also conducted at team meetings and during lunch and learn sessions.

We also support our Partner Fund officers and committees through training sessions on RI-related issues which facilitate mutual understanding of the challenges they face and the support we can provide.

# Our governance continued

## Diversity and inclusion

Our recruitment is based on talent and merit, and 50% of our Board and 33% of our executive team are female. Diversity and inclusion are amongst our strengths, and in June 2022 we received the Investment Industry Contribution to Diversity & Inclusion award at Investment Week's Women in Investment Awards.

We seek to improve diversity by ensuring recruitment for our Graduate Programme is a fair and level playing field. Forty-two per cent of our current graduate trainees are female. In our recruitment, we aim to use search techniques and strategies that help attract candidates from the widest possible talent pool.

For a second consecutive year, in the summer of 2022 we supported GAIN (Girls Are Investors) in offering an eight-week internship for young women. One of the GAIN interns from 2021 has joined us full time on our graduate programme.

We voluntarily report on our gender pay gap; equal pay is reviewed in detail as part of overall pay reviews and our ongoing reward activity.

We are also working with the Investment Association (IA) and Cambridge University on a study on "Developing a Holistic Understanding of Inclusion" which aims to provide practical insights on developing a holistic approach to managing diversity.

## External providers

### Proxy voting and engagement

In 2022 we reappointed Robeco as voting and engagement partner to implement our set of detailed Voting Guidelines, ensure votes are executed in accordance with our policies and to carry out engagement with companies on our behalf. Robeco evaluates at least annually its proxy voting agent's quality of governance research and the alignment of customised voting recommendations to Border to Coast's Voting Guidelines. This review is part of Robeco's control framework and is externally assured.

Robeco also undertakes verification of active ownership activities and has an annual external audit of its active ownership controls; this audit is part of the annual International Standard on Assurance Engagements control framework. Border to Coast monitors the services provided by Robeco weekly, through individual vote assessments, monthly operations calls, and six-monthly and annual reviews.

### External managers

RI is incorporated into our external manager selection and appointment process, assessing the manager on their firm-level policies, research capabilities, and their approach to RI integration and stewardship. Voting rights on externally managed equities are retained by Border to Coast and voted according to our Voting Guidelines; however, we also monitor how external managers vote on key issues to determine if they are aligned with our approach. We expect external managers to engage with companies in alignment with Border to Coast's RI policy whether they manage an equity or fixed income mandate.

Oversight of external managers is carried out by the External Management Team (which sits within the Investment Team), supported by the RI Team. Managers are required to report to Border to Coast on their RI activities at least quarterly. A detailed review is conducted as part of the full annual review process. More detail on this process is covered later in this report.

### External review, audit and assessing effectiveness

Our internal procedures and controls for stewardship activities are reviewed by our external auditor as part of the assurance report on our internal controls. During the year our internal auditor also conducted a review of the governance of RI. We believe this dual approach is beneficial as it encourages feedback from different parties with different remits, which can give us a more diverse range of feedback to incorporate into our processes and procedures for the following year.

We conduct an Annual Satisfaction Survey to understand if we are serving the needs of our Partner Funds and how well we are delivering. The survey, round-table discussions at our annual conference, and both formal and informal feedback are important ways for us to listen and respond to the thoughts and needs of our Partner Funds. This ensures we continue to develop action plans to serve the needs of our Partner Funds.

Finally , Investment Committee and Investment Strategy Committee meetings both incorporate stewardship activity discussion with members from across our Investment Team and the wider Executive, ensuring an approach that is not siloed from the overall investment process.


Bamburgh Castle, Tyne and Wear

# **Our Governance** continued

Whitby Abbey, North Yorkshire



## Managing Conflicts of Interest

### Policies and approach

We have appropriate arrangements in place to ensure all reasonable steps are taken to prevent both business and colleague, including Board member, conflicts of interest from affecting the interests of our customers.

Our Conflicts of Interest Policy is approved by our Partner Funds, as shareholders, and is available on request. The process has been reviewed and going forward the policy will be approved by the Board.

We take steps to identify, avoid and manage any real or potential conflicts fairly and effectively. In addition, we have other supporting policies to avoid and manage conflicts of interest including Personal Account Dealing, Gifts and Hospitality, Market Abuse and Insider Dealing. The Conflicts of Interest Policy is reviewed annually, was revised and updated in 2022 and is available on request. These reviews consider changes to the business model, or any enhancements identified from internal reviews, such as Internal Audit or Compliance Monitoring reports.

Conflicts may arise between Border to Coast and the duty we owe our customers; firms connected to Border to Coast and the duty owed to customers; or duties owed by one customer to another. Examples of where potential conflicts may arise include but are not restricted to:

- development of new investment propositions,
- personal account dealing,
- substantial gifts and hospitality received that may influence behaviour, and
- insider information used to make a financial gain or avoid a loss.

### Stewardship conflicts

We recognise that in carrying out our stewardship activities, potential conflicts may arise. Examples include:

- Border to Coast colleagues having a personal or professional link to a company included in the engagement programme or on whose shares we vote,
- engaging with company management results in becoming an 'insider',
- in certain circumstances, Border to Coast may cast votes differently for separate sub-funds at the same shareholder meeting, to reflect differing investment outcomes or strategies among portfolio managers and investment processes, or for other technical reasons.

All colleagues receive training as part of their induction to Border to Coast and regular mandatory training to assist in identifying, preventing, or managing conflicts.

No conflicts of interest were identified in this reporting year. Should one have occurred it would be reported to the Head of Compliance or, in the case of Directors, the Company Secretary. Each conflict will be prevented or managed, and the full details logged in the conflicts of interest register held by the Compliance department. This is overseen by the Board Risk Committee. Any conflicts are escalated to the appropriate senior stakeholders, when necessary. If a conflict of interest cannot be managed or prevented, the conflict will be disclosed to the affected customers.

# OUR APPROACH TO RESPONSIBLE INVESTMENT

**RI is the practice of incorporating ESG issues into the investment decision-making process and being an active steward of investment holdings. The implementation of RI enables us to better manage risk, with a view to generating sustainable, long-term returns.**

The Border to Coast Responsible Investment Policy sets out our approach to RI and stewardship to help us manage risk and generate long-term returns for our Partner Funds.

More information and details of our Responsible Investment Policy are available on our website. Link:
**Responsible Investment Policy**

## Identifying and monitoring risk

We horizon scan for risks relating to market-wide or regulatory-related material impacts and actively monitor for ESG-related risks across our asset classes.

## ESG integration

We use ESG considerations to enhance our investment process. This ensures that we use all relevant information to inform our investment decisions, enabling us to better understand the risks and opportunities across the asset classes in which we operate.

## Engagement

We believe in engagement over divestment and use constructive shareholder engagement to influence company behaviour. We also engage with policymakers, regulators and other market participants to help create a stable environment to enhance long-term portfolio returns.

## Collaboration

We seek to amplify our voice through working with other like-minded investors.

## Voting

Where practicable, we aim to vote in all the markets in which we invest. We retain the ability to exercise our voting rights on company shares, including those managed externally.

## Reporting

We aim to be transparent, making our RI and voting policies publicly available as well as reporting on engagement and voting activity.

# IMPLEMENTATION OF RESPONSIBLE INVESTMENT

**RI is fully integrated into our investment process with ESG-related issues incorporated into investment decisions across portfolios and asset classes. Issues considered include, but are not limited to:**

**ENVIRONMENTAL**
Climate change
Resource & energy management
Water stress
Single use plastics
Biodiversity

**SOCIAL**
Human rights
Child labour
Supply chain
Human capital
Employment standards
Pay conditions

**GOVERNANCE**
Board independence
Diversity of thought
Executive pay
Tax transparency
Auditor rotation
Succession planning
Shareholder rights

**OTHER**
Business strategy
Risk management
Cyber security
Data privacy
Bibery & corruption
Political lobbying

## Identifying market-wide risks

The role of investors in supporting well-functioning markets is critical, and there is growing pressure from regulators and stakeholders for investors to step up in this regard. All areas of business must identify risks, and senior managers are accountable for assessing and managing risks within their areas of responsibility. To identify risks, we employ various processes such as horizon scanning, strategic planning, emerging risk analysis, and risk and control self-assessment.

Identified risks are categorised and managed based on our Risk Management Framework. We report our overall risk profile to the Board Risk Committee every quarter, where it undergoes review and scrutiny.

We actively horizon scan for emerging risks, opportunities and regulations which have the potential to impact markets and our ability to deliver returns for our Partner Funds. We do this through a variety of means, some of which are detailed in the following section.

### Research

Our Investment, Portfolio Risk and Operations Teams all have access to Bloomberg, providing real-time market data directly to their workspace. We also have access to a wide range of other third-party data, research providers and publications to support an informed view.

### Initiatives

Border to Coast is an active member of a variety of initiatives, which provides a forum for the discovery and discussion of market-wide risks. For example, we are members of the IA, the trade body that represents UK investment managers. Our CEO, Rachel Elwell, sits on the Board and our Head of RI, Jane Firth, sits on the IA Stewardship Committee as an asset owner representative.

### Across-teams forums

Border to Coast manages investments across a wide range of asset classes and our Investment Team is equipped with skills and experience across the market. We hold regular Investment Team meetings, with a focus on attendees discussing the environment they are facing currently and what material risks and/or opportunities are currently prevalent in their asset classes.

### Stress testing

With regards to identifying and protecting against market or systematic risks specifically, we have undertaken in-depth stress testing and scenario analysis of the portfolios managed by Border to Coast across over 50 different historic and hypothetical future risk events.

# Implementation of responsible investment continued

### Russia's invasion of Ukraine

We have robust systems in place to ensure that we are well-positioned with respect to systematic events. This was visible during the effective management of the Ukraine crisis and the subsequent sanctions restricting all transactions on Russian listed entities and the Rouble.

A working party involving all affected functions was rapidly put in place. The extent and materiality of the event was effectively assessed, implications were quantified, and structures were put in place to ensure the event could be dealt with in the most effective manner. This included daily across-team calls at the peak of the crisis to ensure the organisation could respond with agility in a rapidly changing environment.

Oversight was provided by the Investment Committee, senior management, and, ultimately, the Board of Directors. Border to Coast's Partner Funds were kept informed in a timely, open and transparent manner consistent with the organisation's values.

### Setting out our climate strategy

Climate change is a systemic threat and we are already witnessing the effects of global warming around the world. COP26, held in 2021, aimed to keep the goal of limiting the rise in global temperature to 1.5°C alive with the signing of the Glasgow Climate Pact and with it, the hope of limiting the damage of climate change.

During the year we published our Net Zero Implementation Plan, which formally outlines our strategy and ambitions, emissions targets and objectives, stewardship approach, and reporting and monitoring expectations. The Plan aims to put in place a formal roadmap towards mitigating climate change as a systemic risk. More information regarding this is provided later in the report.

**Responding to identified market-wide risks**

Lincolnshire

# **Implementation of responsible investment** continued

## Internally managed assets

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.

### Listed equity

We recognise the importance of understanding and assessing the ESG-related risks and opportunities that companies face. As such, we believe that the integration of ESG factors into the investment process is a necessary complement to the traditional financial evaluations of assets, provides valuable context for stock selection and portfolio construction and is essential for informed decision-making.

To achieve this, we use ESG data and research from specialist providers in combination with general stock and sector research. The Head of RI is responsible for ensuring that all team members are knowledgeable and well-informed on ESG issues. Voting and engagement are not separate from the investment process, but rather an integral part of it.

We actively involve portfolio managers in our voting process and share information from engagement meetings with the team to increase understanding, maintain knowledge and support the investment decision-making process.

### 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 more challenging 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 corporate and sovereign bond performance.

Roker Pier, Tyne and Wear

### Opportunities through ESG integration

By considering ESG-related factors when looking at investment opportunities, our Investment Team recognised the potential of an opportunity in India that could generate both long-term returns for our Partner Funds and clear social benefits.

Barely 10% of the Indian population has access to formal credit by some estimates, and as the world continues to recover from the economic impacts of the pandemic there is a growing opportunity for a company that can unlock access to finance for millions of entrepreneurs.

This was part of the case behind our decision to invest in **CreditAccess Grameen** last year, India's largest microfinance institution listed on both the New York Stock Exchange and the BSE in Mumbai.

Focused on providing micro-loans to customers in rural areas, it has relatively low default rates across its lending portfolio and gives loans that can lead to tangible improvements in living standards, from education initiatives to basic home improvements in rural areas. By providing small loans, in an increasingly tightly regulated space, it is growing rapidly and last year it reported 3.8 million active borrowers.

# Implementation of responsible investment
continued

## Externally managed assets

We take a comprehensive approach to integrating RI into our external manager appointment process. The request for proposal (RFP) criteria and scoring, as well as investment management agreements, include specific requirements related to the integration of ESG by managers into the investment process and their approach to engagement. We prioritise material ESG issues and expect evidence of their consideration in research analysis and investment decisions. Engagement should be structured with clear aims, objectives and milestones.

For externally managed equities, we retain voting rights and monitor voting activity quarterly to assess alignment with our RI policy and priority engagement themes. We expect external managers to engage with companies in accordance with our policies and encourage them to become signatories to the UN-supported Principles for Responsible Investment (PRI).

We monitor appointed managers to assess their stewardship and ESG integration in accordance with our policies and require them to report on their RI activities on a quarterly basis.

To standardise our assessment of external managers and improve comparability on ESG and climate risk assessment, ESG integration, engagement, and voting activity, we have developed our own monitoring framework. We also require all external fund managers to become signatories or comply with international standards applicable to their geographical location.

### RI integration in emerging markets manager selection

During the year, we selected two specialist emerging markets managers to support our forthcoming Emerging Markets Equity Alpha Fund. Having recently launched our Net Zero Implementation Plan, ESG and climate change considerations were a fundamental part of our process, with particular emphasis given to understanding each manager's approach to active engagement, recognising the limitations in some areas of emerging markets. The Fund's carbon impact was also taken into consideration, with analysis at 31 December 2022 suggesting its financed emissions are expected to be materially lower than its benchmark at launch.

Our selected managers have an extensive presence in emerging markets, and we believe this specialisation, amplified by how we have structured the Fund, strengthens our Partner Funds' access to investment opportunities that deliver sustainable, long-term returns. Each has a strong understanding of the ESG considerations in these markets and can ensure that we continue to proactively engage with portfolio companies as an active steward of LGPS assets.

The process included various elements such as the independent scoring and assessment of RFP responses by the RI Team, as well as interviews with prospective managers, attended by both RI Team members and the External Management Team.

### Working collaboratively with our external managers' processes

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 more widely. One of our managers, a high conviction, boutique manager with specialist knowledge in the Chinese market has been highly receptive to our feedback and has been working hard to strengthen their stewardship approach.

This year they updated their RI policy to reflect a greater emphasis on climate-related risks and adopted a proxy voting advisor to enhance their due diligence around corporate governance best practice. Additionally, they have joined CA100+ alongside their existing involvement in the Asia Investor Group on Climate Change, with the aim of providing more specialist insight into Chinese companies.

# Implementation of responsible investment continued


Lake Windermere, Cumbria

## Private markets

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.

General Partners (GPs) 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. Ongoing monitoring includes identifying possible ESG breaches and following up with the GPs concerned, as well as tracking improvements and targets met.

We recognise that RI is a growing challenge across private markets, and we therefore work with GPs to improve ESG policies and ensure the approach is in line with developing industry best practice, both prior to and after appointment.

## Real Estate

Our Real Estate proposition covers both Global (due to launch in 2023) and UK. Developing our approach to managing Real Estate responsibly has formed an important part of the wider proposition development process.

For Global Real Estate funds, an assessment of the GP and their approach to RI is a central component of the fund selection and screening process. Key performance indicators include energy performance measurement, flood risk and rating systems such as GRESB (Global Real Estate Sustainability Benchmark), and BREEAM (Building Research Establishment Environmental Assessment Method). We are also in the process of developing our strategy for UK direct real estate investment, which includes procuring a third-party manager and working with them to develop a best-in-class our approach to managing ESG risks prior to launch.

### Supporting net zero goals through private markets investments

Following the launch of our Climate Opportunities portfolio, we actively sought to build a portfolio of investment opportunities that support global decarbonisation on behalf of our Partner Funds.

For example, in October 2022, we committed €100m to the Clean Hydrogen Infrastructure Fund. The Fund invests exclusively in clean hydrogen and is focused on building proven technologies into mature infrastructure that can play a major role in decarbonising the global economy. It is the world's first and largest infrastructure fund solely focused on investments across the clean hydrogen value chain, from production and conversion, to storage, supply and usage.

### Developing our approach in Real Estate

As part of the development of our global Real Estate offerings, we procured a consultant adviser to assist with the selection of appropriate investee funds. A key component of the procurement was to understand the RI capabilities of the consultant to ensure that RI issues are well-embedded as they support our fund selection process. A collaborative approach was taken to the procurement, with our RI Team involved in both the development of the questions and scoring of responses.

Additionally, an ESG due diligence questionnaire will be used in all fund selection, taking into account established practice from Border to Coast investment processes, alongside established industry practice from organisations such as the European Association for Investors in Non-Listed Real Estate Vehicles.

# ENHANCING OUR APPROACH

Leith Hill, Surrey

RI and stewardship are constantly evolving as the world continues to change. Reflecting new risks, increasing regulation, emerging opportunities, and higher reporting expectations, we have sought to enhance our approach in a variety of ways over the reporting year.

## Net zero roadmap and implementation

In October 2022 we published our Net Zero Implementation Plan detailing how we will address the systemic risk of climate change, drive reductions in real world carbon emissions, and reduce our carbon footprint to net zero by 2050 or sooner.

The Plan marks an important step in our journey and demonstrates how we will continue to leverage our collective scale and influence to proactively engage with companies to decarbonise and create investment propositions aligned with net zero emission goals.

As part of the Plan, we engaged with the external investment managers of our in-scope assets to communicate with them our expectations for their individual mandates. We also held meetings with external managers of out-of-scope assets to educate them on our Plan, understand more around data gaps and challenges, and to understand how the managers are working to address these challenges.

## Enhancing our policies

As mentioned as part of our governance process, we review our RI Policy, Voting Guidelines and Climate Change Policy as part of a regular annual cycle. Revisions aim to further strengthen our approach to RI implementation and outline how we will utilise active ownership to push for positive change in our portfolio companies, considering our interpretation of evolving market best practice.

### Voting enhancements on human rights

Human rights are receiving an increased focus from investors. To recognise the importance of this area, we have included a new section within our Voting Guidelines.

We believe that all companies should abide by the UN Global Compact (UNGC) Principles and the Organisation for Economic Co-operation and Development (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.

# Enhancing our approach continued


Bamburgh, Tyne and Wear

### Voting enhancements on climate change

Amendments have also been made to the Voting Guidelines to further strengthen our approach on climate change and to support our net zero commitment.

This year we have revised when we will vote against the Chair of the Board based on the TPI and CA100+ Net Zero Benchmark indicators and will vote against the Chair where a company is scored two or lower by the TPI, with higher expectations for the oil and gas sector, with votes against the Chair if scored three or lower.

As banks will play a pivotal role in the transition to a low carbon economy, we have set out our climate-related voting intentions for the sector. We will assess banks using the framework developed by the Institutional Investors Group on Climate Change (IIGCC) and the TPI. We will vote against the Chair of the Sustainability Committee, or appropriate agenda item if a company materially fails the bespoke TPI framework for banks.

### Voting enhancements on diversity

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. This year we have expanded our expectations for companies to disclose the ethnic diversity of their Board and have a credible plan to achieve the Parker Review targets by 2024 from FTSE100 companies to FTSE250 companies. As members of the 30% club investor group, we also engage with FTSE 350 companies where there is less than 33% of female representation on the Board.

## Voting and engagement procurement

During the year, we finalised a thorough public procurement process for stewardship support to meet the active ownership requirements of Border to Coast on behalf of our Partner Funds.

First appointed in July 2018, Robeco provides deep active ownership expertise and tailor-made support for our specific voting and engagement priorities. The ability to leverage their proprietary voting assessment framework, client portal, voting research, and the ability to effectively measure the impact of voting and engagement practices, were key factors in Robeco's reappointment.

## Strengthening our approach in external management

### Annual review process

Each year, our external investment managers are subject to a formal review. As part of this process, the RI Team issues a detailed questionnaire covering areas such as policy changes, resourcing, RI integration, engagement and record on voting. Additional documents are requested to demonstrate the approach. Previously, the RI team would hold a deep-dive call with the manager to discuss both their response and their quarterly disclosures in order for the RI Team to independently score the manager on RI-related activity.

This year, we reviewed the process to ensure a more joined-up approach with our External Management Team. Specifically, we have discontinued the RI-Team only meeting, with members of the RI Team jointly attending a single, extended call with the External Management Team.

This revised approach has yielded more constructive conversations, particularly around the investment process, ESG integration and triggers for company-specific engagement.

### Complementarity analysis on manager appointment

As part of the manager appointment process, we enhanced the focus of RI as part of manager complementarity. This area of our process focuses on how different managers' styles can impact upon their exposure to ESG-related risks, based upon which areas of the market they have traditionally, and are expected to have, exposure to. This has allowed us to consider the expected impact at an aggregated level, as well as on a manager-specific basis.

## Strengthening our approach in private markets

### Initial due diligence questionnaire enhancements

During the year, we made changes to our due diligence questionnaire for private markets managers.

Revisions included, but were not limited to:

- A new standalone question on their approach to human rights and details of human rights policies.
- A new 'climate' section containing two assessed questions related to emissions metrics and climate-related disclosure.

### Annual monitoring questionnaire enhancements

During the year, we incorporated two new climate-related questions to our annual monitoring framework, specifically focusing on GP net zero targets and more granular information on carbon metrics.

## Continuing to drive standards in private markets

During the reporting year, we continued our work in seeking to understand and improve the quality of RI-related reporting in the private markets space. In January 2023, we issued our annual monitoring questionnaire to managers across our private equity, private debt, and infrastructure mandates. The questionnaire 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.

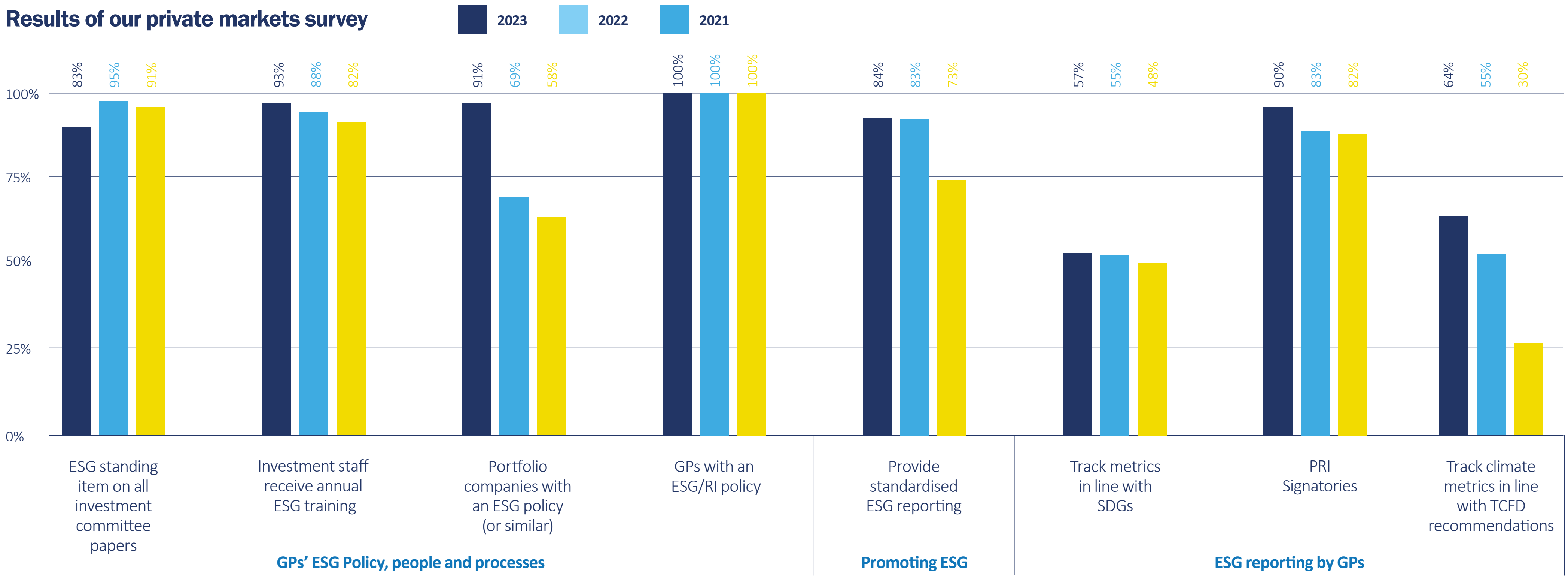
All 58 GPs that were sent the questionnaire responded and there was a notable increase in the quality and consistency of responses compared to the previous years. All the GPs have an ESG policy in place at the firm-level for the third year in a row. This is despite the number of GPs increasing by almost 40% year-on-year. Nearly all metrics measured increased significantly for the second year in a row. This was particularly noticeable in the number of GPs tracking climate metrics in line with TCFD recommendations, which increased from 30% to 64% between 2021 and 2023. This reflects the rapid adoption and improvement in the collection and monitoring of climate risks within private markets.

However, given our focus on this area at due diligence and selection phase, we acknowledge that our sample is unlikely to be representative of the broader market where the real number of GPs collecting climate metrics will be far lower. We did see the number of GPs who have ESG as a standing item on Investment Committee papers drop in the year. While we feel the number of 83% is still high compared with the market, this drop was linked to the growth in our venture capital and early-stage investors where ESG processes are less mature.

We continue to work with the industry to develop standardised reporting on ESG and carbon metrics and are supporting the ESG Data Convergence Initiative (EDCI). This is the industry's first-ever collaboration to align an initial set of standardised ESG metrics and mechanisms for comparative reporting. We are active in providing feedback to keep improving the Initiative through contributing to the Benchmark Functionality Working Group and the LP Focus Group.

In line with EDCI's reporting timescales we have contacted the GPs who report to EDCI for their carbon and ESG data. We also continue to engage with our GPs to encourage them to sign-up to EDCI or, where they are not ready to commit to signing up, to start tracking and reporting their ESG data aligned with the standard.

### Results of our private markets survey



## Developing our Reporting

### Quarterly fund reporting

We continue to evolve our detailed fund-specific RI reports, covering key ESG risks, carbon data and information concerning potential laggards and high carbon emitters. The reports were initially produced for our listed equity funds and expanded to include our Sterling Investment Grade Credit Fund last year. This year we enhanced this further with the release of our Listed Alternatives Fund report.

## Using our experience to support Partner Funds

### Obtaining feedback

At Border to Coast, we recognise the importance of ensuring that our work benefits our Partner Funds as both our customers and owners.

### Training and workshops

Recognising that our Partner Funds face increasing pressure to be well-informed stewards themselves, we continued to carry out training sessions with our Partner Funds during the reporting year, both individually and through group workshops. Topics have included RI integration, approach to engagement and voting and carbon metrics ahead of our Net Zero Implementation Plan launch.

We also host quarterly workshops throughout the year for our Partner Funds to discuss RI-related issues. The workshops provide an open forum for discussing challenges and considering how we can support our Partner Funds. It also enables us to discuss what has worked well throughout the year and what improvements can be made to the support provided on an ongoing basis.

We have reflected this feedback in the way we provide data for reporting purposes, both on a quarterly basis and, specifically, in relation to stewardship reporting.

### Annual Satisfaction Survey

RI, both the day to day practicing of, and rapidly evolving reporting requirements, remains a priority for our Partner Funds. We therefore include several items covering RI in our annual survey, which we then utilise to develop an action plan to ensure we continue to serve our Partner Funds' needs.

Staithes, North Yorkshire

# INFLUENCING CORPORATE BEHAVIOUR

**We believe 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 will be to influence companies through constructive shareholder engagement.**

Meeting, and engaging, with companies is an integral part of our 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 with investee companies, where possible, across all markets.

## Our approach to engagement

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

**Border to Coast-led:**
Engagement takes place with companies in our internally managed portfolios through our portfolio managers and the RI Team engaging directly.

**External managers:**
We expect external managers to engage with investee companies and bond issuers as part of their mandate on our behalf and in alignment with our Responsible Investment Policy. This is supported by our quarterly ESG and carbon risk screening process, and the manager monitoring framework which includes a section for managers to report their engagement activity. The quality of a manager's stewardship approach is evaluated each quarter and is a key part of the formal annual review process.

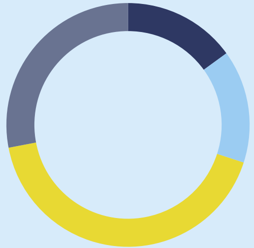
**Engagement partner:**
Due to the proportion of assets held in overseas markets, it is imperative that we can engage meaningfully with global companies. To enable this, and to complement other engagement approaches, Robeco engage on our behalf with companies we own globally, to support our priority themes as well as engaging across several other ESG themes. This allows us to better fulfil our stewardship objectives as an active shareholder.

**Collaboration:**
We also work collaboratively with other like-minded investors and organisations to maximise Border to Coast's influence on behalf of our Partner Funds. 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 provide more detail in relation to this in the 'Collaboration' section.

**Industry engagement and advocacy:**
As well as engaging with companies, it is important that we engage with policymakers, regulators and other industry bodies on RI-related issues. Some of the ways we do this include our membership of industry bodies and initiatives, responding to consultations and engaging with service providers.

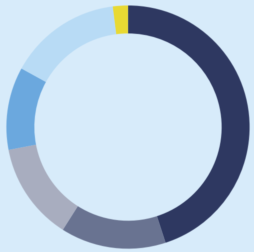
## Our engagement activity

**Total number of engagements** **1,860**



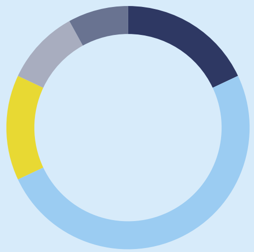
**Engagement summary**

| | |
|---|---|
| Border to Coast | 15% |
| Engagement Partner (Robeco) | 15% |
| LAPFF | 42% |
| External Managers | 28% |



**Breakdown by topic**

| | |
|---|---|
| Environmental | 45% |
| Social | 14% |
| Governance | 13% |
| ESG General | 11% |
| Business Strategy | 15% |
| Other | 2% |



**Breakdown by region**

| | |
|---|---|
| North America | 18% |
| UK | 50% |
| Europe (ex-UK) | 14% |
| Asia Pacific | 10% |
| Emerging Markets | 8% |

Surrey

## LAPFF engagement on climate-related voting

In early 2023, LAPFF, together with collaborative investors, reached out to the Chairs of all FTSE listed companies (excluding investment trusts) to request that companies provide an opportunity for shareholders to vote on their strategies for reducing greenhouse gas emissions. This “Say on Climate” vote aims to promote transparency and accountability regarding one of the most urgent and financially significant risks faced by these companies.

In preparation for the upcoming 2023 AGM season, the letter expressed appreciation for Boards that have already granted shareholders the chance to have a “Say on Climate” through a resolution on the ballot paper.

However, it also urges all companies to follow suit by disclosing their plans for transitioning in line with a 1.5°C temperature target. Furthermore, companies were encouraged to allow investors to oversee the strength of these plans by enabling a vote on the strategy and any associated capital expenditure requirements.

As members of LAPFF, we incorporate the Forum’s engagement activity in our reporting statistics.

## Our escalation strategy

Should engagement not lead to the desired result or where there is a lack of responsiveness or progress by the company, it may be necessary to escalate our approach. This may 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 reduce or sell the company’s shares.

## Our engagement priorities

In our previous report, we highlighted an exercise we had undertaken to prioritise thematic areas for engagement. This was done to take into consideration our growth and emerging risks across the assets we manage. The key drivers of this exercise were financial materiality and our ability to leverage our scale and influence.

Following consultation with our Partner Funds and other stakeholders, the following four priority themes were selected and launched on 1 April 2022:


Activity in relation to each of these four areas is detailed later in this report.

# **Influencing corporate behaviour** continued

## Engaging on wider issues

Robeco undertakes active engagement on our behalf across over 20 different ESG themes. Objectives and milestones are set for each engagement theme, and reporting on progress is provided on an ongoing basis. The themes are launched throughout the year and typically run for three years. Border to Coast provide input into the annual engagement theme review conducted by Robeco on issues considered to be financially material. This allows us to leverage Robeco's support on our existing thematic priorities whilst also ensuring our engagement scope can be broadened to other, financially material areas.

Over the reporting period, Robeco has undertaken active engagement on our behalf on issues including biodiversity, circular economy, healthcare, human rights, and corporate governance. Engagement also takes place with companies that have breached the UNGC Principles. Robeco continues to launch and enhance existing themes during the period, covering a wide range of issues and sectors, including focused themes on forced labour and modern slavery in Asia, just transition in emerging markets and tackling tax transparency.

### Sustainable development goals

The UN Sustainable Development Goals (SDGs) are a comprehensive set of 17 global goals to achieve a better and more sustainable future for all. Over recent years Robeco has been taking steps to increase understanding of the impact of engagement on the SDGs.

Robeco investigates if there is alignment with the SDG targets in the research phase of its engagement themes. If so, objectives are defined that lead to positive outcomes aligned with the SDG targets. During the reporting period, 20 companies were targeted for SDG-related engagement, with 13 of the SDGs addressed in engagement objectives.

### Engagement theme closure: single-use plastics

In 2019, Robeco launched an engagement program with a focus on achieving a material shift towards a more circular plastic packaging model, with a view to addressing the waste issue of single-use plastics. Active dialogue was held with several companies, encouraging collaboration with each other, governments, NGOs and other stakeholders along the plastic value chain on topics such as innovation, recycling and lobbying for regulatory change.

Five of our portfolio companies were included in the scope of the engagement (Danone, Henkel, Nestle, PepsiCo, and Proctor & Gamble) and after three years of engagement, positive progress was seen in all five companies in a variety of areas.

Examples include:

**Nestle SA (Overseas Developed Markets Equity Fund, Global Equity Alpha Fund):**
Made progress in its roadmap to mitigate deforestation and eliminate harmful plastics. The process is expected to complete in 2024 by fully eliminating products made of a mix of plastics and papers, including laminates, caps and pvc liners.

**PepsiCo Inc. (Global Equity Alpha Fund):**
Has established best practice in avoiding waste via its SodaStream platform. The platform enables users to track their intake, set goals and measure their positive environmental contribution via plastic bottles avoided.

### Engagement theme closure: digital innovation in health care

The healthcare sector has rapidly adopted digital technologies and services over the past decade, which drives competitive advantages and future growth. The pandemic accelerated investment and forced companies to overcome non-technological barriers.

Robeco's three-year engagement theme with the healthcare sector ended in May 2022; conclusions drawn from the engagement included that digital transformation across the sector had accelerated, pharmaceutical companies were lagging, and there was increased collaboration between public and private partners.

All companies under engagement made progress in defining comprehensive digital strategies but limited progress was seen in cybersecurity due to a reluctance to share detailed information on attacks and policy adherence failures.

While this theme has closed, cybersecurity matters continue to be addressed through a collaborative initiative led by Royal London Asset Management (RLAM), which we provide further detail on later.

Grasmere, Cumbria

## Engagement theme enhancement: global controversy

Events such as the war in Ukraine, the military regime in Myanmar, and the climate crisis have driven a renewed focus on the social responsibility of companies and their operations. In response to this, our voting and engagement partner, Robeco, updated its approach to assessing the behaviour of companies through their enhanced engagement program. This new approach aims to ensure robust governance around oversight, alongside strengthened assessment of a company's behaviour with respect to commonly accepted international norms and ethical standards, such as the **UNGC** and **OECD** Guidelines.

Specifically, the updated approach includes:

- a strengthened oversight through a newly-established Controversial Behaviour Committee, focusing on assessment of company behaviour and implications;
- the sourcing of robust data on UNGC and OECD guidelines breaches; and
- onboarding a dedicated controversy engagement specialist to lead the renewed process and enhanced engagements with companies.

## Engagement with Adobe Inc. (Overseas Developed Markets Equity Fund, Global Equity Alpha Fund)

Adobe Inc (Adobe) is a global, diversified software company, operating in digital media and publishing and advertising.

Engagement with the Company highlighted that its most significant link to the SDGs is the risk of its involvement in the manipulation of digital content, among which are artificial intelligence-created 'deepfakes'. The potential for adverse use of products such as their flagship editing software, Photoshop, and its video counterpart, Premier, exposes the Company to societal risks embodied by SDG 16 (peace, justice, and strong institutions).

To address these risks, Adobe has created a digital watermark to facilitate transparency and authentication.

As part of the engagement, the Company has been encouraged to roll out this tool across all of its product suite. The Company has also taken a leading role in a cross-sector collaboration that seeks to create an open industry standard for content authentication.

# PRIORITY THEMES IN ACTION


Lincolnshire

## Low-carbon transition

Oil and gas companies play a significant role in greenhouse gas emissions and global warming. The transition to net zero emissions is critical for reducing the impact of climate change, and these companies must be a part of the solution, reducing their carbon footprint and positioning their business towards cleaner and more sustainable energy sources. This will require investments in new technologies, infrastructure, and workforce retraining.

Additionally, banks are important for climate change because they play a crucial role in financing economic activities. They can drive change by financing sustainable projects and transitioning away from fossil fuels. Banks can provide funding for renewable energy, energy efficiency and other climate solutions. They can also promote sustainable business practices by offering incentives and setting standards for companies to meet. Banks can also play a role in helping businesses transition to a low carbon economy by providing financing, advisory services, and risk management tools. Through their actions, banks can have a significant impact on reducing greenhouse gas emissions and promoting a more sustainable future.

This theme aims to engage companies in high-emitting sectors and banks identified as key to financing the transition to a low-carbon economy. Our primary objective is to encourage companies to adapt their business strategy 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, Board oversight and incentivisation, TCFD 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.

We have set ourselves a target for 80% of Border to Coast's emissions to be subject to engagement by 2025 (and 100% by 2030). We are on track to achieve this with 73% under engagement as of March 2023.

Our voting enhancements on climate issues have led to significant votes against management at AGMs, including opposing Chair of the Board re-elections and 'Say on Climate' management resolutions and supporting independent climate resolutions. Pre- and post-AGM engagement has accompanied these votes.

# **Priority themes in action** continued



The Black Mill, East Riding

**Engagement with Enel Spa (Sterling Investment Grade Credit Fund)**

Enel is an Italian multinational manufacturer and distributor of electricity and gas, and its predominant shareholder is the government of Italy. The Company is amongst the highest emitters across our fixed income assets. Engagement has been carried out under the CA100+ initiative for several years and recently, significant improvements have been seen in the Company's emissions reduction targets, transition plan, and climate policy advocacy. Key actions taken include the Company obtaining external verification by the Science-Based Targets Initiative (SBTi) on its emissions reduction targets alignment with a 1.5°C scenario, committing to phase out thermal power generation (coal and natural gas) and exit gas sales to customers, and aligning its capital investments with its net zero targets. Enel has also disclosed its first industry association review to ensure that its climate policy engagement (direct and indirect via industry associations) is consistent with the goals of the Paris Agreement. This progress has been recognised by the CA100+ initiative's Net Zero Benchmark disclosure assessment by becoming the first and only company assessed to fully meet the Disclosure Framework criteria in 2022.

**Engagement with an energy and services company (UK Listed Equity Alpha Fund)**

The Company is a multinational energy and services business, with its principal activity being the supply of electricity and gas to consumers in the United Kingdom and Ireland. The Company put forward a 'Say on Climate' vote at its 2022 AGM. Analysis was carried out on the transition plan and collaboration with other CA100+ participants was undertaken to take other views into account. Ultimately, the plan was voted against. While the Company has made significant progress over recent years in developing its plan, it was from a very low base. There is a lack of material short-term emissions targets, and its targets are not yet approved by the SBTi. Following the vote, a follow-up call with the Company was held to further discuss plans and expectations. Objectives have been set for the Company, which include improving climate expertise on the Board, strengthening the approach to scenario analysis and the Company doing more to proactively lead the energy transition for its customers, as opposed to reacting to changing conditions. Engagement with the Company is ongoing.

**Engagement with Sumitomo Mitsui Financial Group (Overseas Developed Markets Equity Fund)**

Engagement with Sumitomo Mitsui Financial Group (SMFG) is conducted through three different channels: directly with the Company, collaboratively through the Asia Research and Engagement group and as members of the IIGCC. Over time, we have seen an increase in the bank's receptiveness to investor feedback. For example, SMFG was previously a laggard in the disclosure and transparency of its climate-related financing. However, once the Company recognized that investors had short-term expectations related to net zero commitments, the bank began to act. SMFG reorganised its internal governance structure to allocate more resources to climate risk management and data collection throughout its business segments.

These changes have, in turn, led to a significant increase in the quality of available disclosures.

# Priority themes in action continued

## Waste and water management

Water scarcity and pollution are growing concerns in many parts of the world, and companies have a responsibility to use water sustainably and efficiently. Implementing water management practices such as reducing water usage, recycling wastewater and monitoring water quality can help companies to minimise their environmental impact and ensure long-term water availability.

Effective waste management is also crucial for companies to reduce their environmental impact and comply with regulations. Companies generate a significant amount of waste, and improper disposal can lead to pollution, health risks and legal penalties. By implementing waste reduction, reuse and recycling practices, companies can minimise their waste and contribute to a circular economy.

Implementing efficient water and waste management practices can also lead to cost savings through reduced water and waste disposal fees, improved operational efficiency, and increased resource productivity. Companies may also benefit from enhanced reputation and customer loyalty by demonstrating their commitment to environmental sustainability.

As part of this theme, companies are being engaged based on their exposure to water-intensive operations and/or production of high levels of packaging waste and plastic pollution. The aims of the theme are to encourage companies, where they are not already, to implement effective waste reduction, including the reduction of plastic use and waste going to landfill; regularly review water stewardship policies across their operations and encourage companies to report and disclose data on water consumption.

Scarborough, North Yorkshire

Great Barford, Bedfordshire

## Engagement with water utilities companies (Sterling Index-Linked Bond Fund, Sterling Investment Grade Credit Fund)

The UK water utility sector faces significant financial and reputational risk with regular negative media coverage of sewage pollution into rivers and seas, and water and sewerage companies receiving a record amount in fines for pollution incidents in 2021. Ofwat has the power to issue fines up to 10% of a company's turnover and order companies to return to compliance, and the Government has announced plans to allow the Environment Agency to impose sanctions more often without lengthy court cases.

In January 2023, Border to Coast joined a collaborative engagement initiative led by Royal London Asset Management (RLAM) with the water utility sector in the UK.

The aim is to improve practice, define best practice and encourage a faster pace of change in companies persistently lagging. Specific areas of focus include water pollution, climate change mitigation and adaption including nature-based solutions, biodiversity, circular economy, antimicrobial resistance, governance and industry collaboration.

We are leading the collaborative engagement with Yorkshire Water, and our first exploratory meeting took place in March 2023. We will also support engagement with all 10 of the other water utility companies covered by the engagement programme. All 11 water utility companies are held by Border to Coast in our fixed income funds.

## Engagement with Anglo American plc (UK Listed Equity Fund, UK Listed Equity Alpha Fund)

Anglo American is a diversified mining company operating globally. Water security risk is a major issue for the mining industry, which relies heavily on water for various operations. Chile, where water scarcity is a critical issue due to a mega drought, accounts for 85% of the Company's total copper production, making water availability crucial for the Company's productivity and ability to obtain mining licenses in the country.

To better understand the Company's water stewardship approach, engagement meetings were held with management, including the CEO, to discuss the issues and potential mitigants. Water scarcity is a complex issue, and each mine faces unique challenges.

For example, the Los Bronces mine in Chile faced drought challenges, but the Company took action to mitigate the problem. It studied water recovery from tailings dams and found that it could recover up to 85% of trapped water. Additionally, the Company partnered with Aguas Pacífico to receive desalinated water, which could fulfil over 45% of the mine's water needs by 2025.

In the second phase, Anglo American plan to swap every kilolitre of desalinated water for two litres of wastewater from Santiago, which it can use in its mining operations. This innovative approach showcases the Company's commitment to water stewardship and the impact of water scarcity on its production and acquiring new licenses in water-scarce regions.

# **Priority themes in action** continued

## Social inclusion through labour management

Social inclusion refers to the process of creating an environment in which all individuals and groups feel valued and respected. Effective management of human capital both within a company and across its supply chain can help to ensure that the workforce is being utilised to its full potential, that labour costs are minimised and that products and services are delivered on time and to the required standards. It may also help to ensure compliance with labour laws and regulations, reduce the risk of supply chain disruptions and improve relationships with suppliers.

By ensuring the fair treatment of its workforce and supply chain, companies can benefit from improving working conditions, reducing the risk of negative publicity and promoting a positive workplace culture. It can lead to more sustainable business practices and support broader sustainability goals, which is becoming increasingly important for companies to remain competitive and meet the expectations of customers, investors, and other stakeholders.

This theme aims to engage companies with high exposure to labour-intensive operations and poorer-performing companies in relation to workforce development and supply chain labour management risk to promote sustained, inclusive growth with productive and decent work for all. This includes engaging with companies on modern slavery policies, the development of monitoring systems, the use of influence to encourage suppliers to adopt higher labour management standards and improving disclosure of labour management practices.

Hartlepool, Durham

### Engagement with an educational materials provider (Multi-Asset Credit Fund)

The Company provides educational materials throughout Europe. During a recent review, a social risk was identified due to the Company's outsourcing of printing and folio-binding activities to the Far East.

Senior management were engaged with to encourage improved disclosure of the Company's supply chain and to obtain details on how they monitor and audit their operations to ensure compliance with local labour rules. Initially, management was unable to provide examples of previous measures taken to protect labour rights.

However, they subsequently committed to a full supply chain review and to disclosing findings and any policy improvements to lenders.

We feel comfortable continuing to invest in the Company because of management's willingness to review and improve internal processes. Ongoing dialogue will continue with management to ensure that progress is made towards these objectives.

# **Priority themes in action** continued

## Engagement on workforce disclosure

The Workforce Disclosure Initiative (WDI) investor coalition is made up of 63 institutions, with $10tn in assets under management. Through an annual survey and engagement programme, new data is generated on workforce practices, which we can then integrate into our investment analysis. The survey covers topics including wage levels, staff turnover and workers' rights.

During the year, we have continued as a supporter of the WDI and in 2022 we engaged with 24 companies following the release of the survey results. We have continued to emphasise the importance of this type of data for investors and encouraged companies to respond.

In March 2023, the WDI published its findings report based on the 2022 survey results. Responses were received from 167 companies, slightly down from the previous year. However, 24 countries were represented and companies from all 11 Global Industry Classification Standard sectors reported. Six thematic findings were identified, covering job quality, human rights, emerging markets, marginalised workers, the cost-of-living crisis and supply chain data. High level findings were:

- Responding companies are leading the way on supply chain data.
- Disclosure varies significantly across sectors.
- Companies are making more data public than ever.
- Many industries are failing to collect enough data on human rights.
- Emerging market companies are leading the way in some crucial areas of disclosure, despite being perceived as riskier.

## Engagement on modern slavery (UK Listed Equity Fund, UK Listed Equity Alpha Fund)

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, eight of the 12 companies owned by Border to Coast have acted to become compliant with s54.

South Yorkshire

# Priority themes in action continued

## Diversity of thought

Diversity across a company is important, as it can lead to more innovative ideas and better problem-solving, help avoid groupthink and cognitive biases, improve employee engagement and retention, and enable companies to better understand, and connect with, diverse customer groups. By having a diverse workforce, companies can benefit from a variety of unique ideas and approaches to challenges, challenge assumptions and identify blind spots, and make better-informed decisions. Fostering a culture of diversity and inclusion can lead to a more positive workplace culture, higher job satisfaction and lower turnover rates. Finally, having a diverse workforce can help companies tailor their products and services to meet the needs of their diverse customer base.

The need for diversity of thought and experience on Boards has never been more compelling. The COVID-19 pandemic caused massive economic disruption, with companies needing to be able to adapt, be innovative, be resilient and survive for the long-term. The focus of this engagement is to encourage companies to make a formal assessment of the diversity of their leadership and workforce, develop diversity management programs with a focus on both the management of and promotion of equal opportunities and to report and disclose data to key initiatives and work towards meeting requirements.

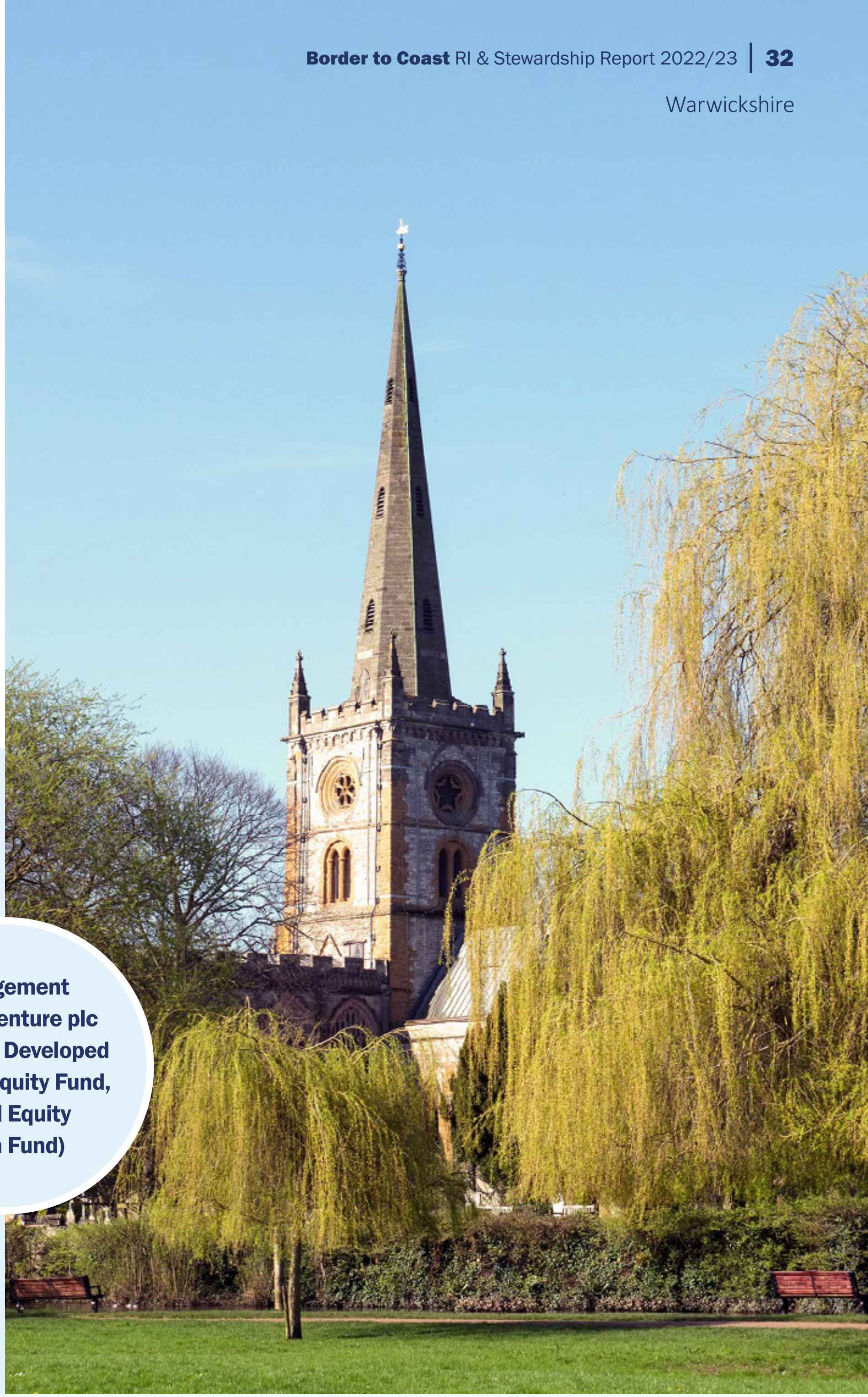
**Engagement with Accenture plc (Overseas Developed Markets Equity Fund, Global Equity Alpha Fund)**

Accenture is a professional services company, providing strategy and consulting services globally. Discussions were held to assess Accenture's progress on both gender equality and diversity more broadly. The scope of the meeting was driven by the integration of diversity and inclusion goals into its new growth model that was announced to investors in April 2022.

During the meeting, the Company outlined the steps it is taking to help meet its stated goal of achieving gender parity. Specifically, promotions are expected to play a key role in furthering the careers of women within the Company.

In 2022, over 1,000 managing directors were promoted, with female employees constituting 37% of those and 29% of the Company's managing directors are now women, approaching its goal to grow the percentage of female managing directors to 30% by 2025.

The Company is also aiming to boost diversity more generally through its apprenticeship program, which provides alternative access into entry-level roles that traditionally required a four-year degree. Accenture appears to be taking steps to increase diversity across both its workforce and leadership in both the short and long-term, however engagement will continue with the Company on developments and publication of interim progress.



Warwickshire


## Encouraging progress on race equity

We are a member of the 30% Club UK Investor Group, which brings together more than 40 investors with £11tn in assets under management with an objective to drive change with companies on inclusion and diversity.

In 2022, the Group published a Race Equity Statement which called for more transparency from companies on racial diversity data and to set out how they plan to increase racial diversity and inclusion in their workforces.

We joined the Race Equity Working Group which is engaging with companies in the FTSE 350 that are not yet meeting the Parker Review requirements.

## Engagement with Cinemark Holdings Inc (Multi-Asset Credit Fund)

Cinemark Holdings Inc (Cinemark) is a US-based cinema chain operating hundreds of theatres throughout the US and South and Central America. During the engagement with the Company, there were two key objectives in mind: to discuss their Diversity, Equity & Inclusion (DE&I) efforts and to review Board independence and refreshment planning, given that two affiliated directors were up for re-election. Several calls were conducted with the Company over the year to stay updated on their DE&I priorities, and based on our most recent engagement, it is believed that the Company recognises the importance of incorporating DE&I into its long-term Board refreshment plan.

The engagement was viewed as positive, Cinemark's strong culture is maintained by site-level manager efforts to promote team connections and inclusivity, with a particular focus on diversity. The hiring of a dedicated DE&I director further underscores the Company's commitment to this issue.
The Company was receptive to feedback and committed to assigning two longer-term Board appointments in 2023 and undergoing a full long-term structure plan that prioritises DE&I.
In addition, the Company disclosed that it is making progress on its first published ESG report, which is expected to be finalised in mid-2023 and will include more information on DE&I.

# COLLABORATION

## Investor collaboration

We collaborate with other like-minded investors and organisations to amplify Border to Coast's influence on behalf of our Partner Funds. 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.

As illustrated in some of the case studies in the previous section, we actively support collaborations that align with our engagement focus areas. We continuously evaluate new opportunities for collaboration as they arise. Our membership and support of various organisations enables us to work with other institutions to engage with corporates, policymakers, standard setters, and industry associations to collectively drive positive change.

**Supporting a just transition in emerging markets**

Climate change is a global issue and requires joined-up global action. The Emerging Markets Just Transition Investor Initiative, of which Border to Coast is a founding member, recently published draft guidance to support investment decision making and future allocations to emerging markets.

It follows the creation of the initiative in May 2022, with 12 UK pension pools and funds with assets of c.£400bn committing to address how to best support the transition in emerging markets.

Collectively, the group is exploring how it can have a greater impact and help drive real world change by understanding the opportunities and mechanisms available to direct investments that support the low carbon transition whilst supporting economic growth in developing regions.

**Global investor statement on the climate crisis**

In September 2022, we, along with 530 other investors, signed the 2022 Global Investor Statement to Governments on the Climate Crisis.

The statement urges governments to implement policies consistent with a just transition limiting global temperature rise to 1.5°C, proposing policies such as medium and long-term climate strategies, transitioning energy away from fossil fuels, ending deforestation, bolstering climate finance and strengthening disclosures.

Tyne and Wear

# **Collaboration** continued

Last year, we reported on our support for a collaborative engagement initiative on the growing risk of cybersecurity, led by one of the external managers for our Sterling Investment Grade Credit Fund, RLAM. As reported, the next phase of the initiative focused on uncovering the leadership and resources that underpin governance and risk management, corporate culture, and systems, with an emphasis on supply chains and corporate action as areas of enhanced risk.

The increase in corporate reliance on technology due to hybrid working, coupled with rising geopolitical tensions such as Russia's invasion of Ukraine, has heightened potential cybersecurity risks. Engagement with companies has been vital to better understand this area, especially given the limited regulation and lack of public disclosure. Many companies are hesitant to share information about breaches that do not require disclosure. However, the US Securities and Exchange Commission proposed a new rule this year to standardise cybersecurity disclosure by public companies, including the timely reporting of material incidents and Board oversight of cybersecurity risk.

It was found that regulators in the financial services, infrastructure and healthcare sectors have increased their scrutiny and risk oversight. In acknowledgement of this, the initiative plans to focus on companies with a history of poorer cybersecurity performance, moving away from the more heavily regulated sectors.

**Continuing our support for collaborative action on cybersecurity risk**

Barnard Castle, Durham

## Industry participation and public policy advocacy

Being a responsible investor not only means engaging with investment holdings on ESG factors, but also with regulators, standard setters and public policymakers on systemic risks to help create a stable environment to enhance long-term returns.

During the reporting year, we continued to respond to consultations aimed at shaping the direction of RI-related policy and disclosure as well as supporting initiatives that seek to raise the profile of systemic issues at government-level.

### Participating in the development of industry initiatives

To recognise the fast-changing landscape, the PRI, of which we are a signatory, launched a global consultation to explore topics including the PRI's vision, mission and purpose, the future of RI and the value it provides to its signatories.

Border to Coast provided a response to the consultation, holding several conversations with the organisation with a specific focus around its governance and strategic direction. We were one of 1,487 signatories to participate, representing 27% of the signatory base.

In its February 2023 meeting, the PRI Board evaluated the outcomes of the formal consultation. The consultation conveyed clear messages about the importance of measuring progress in ways that acknowledge the diverse signatory base, creating a more flexible PRI strategy-setting process, and reviewing the mission statement and governance to ensure they align with the signatory goals.

### Contributing to UK Government direction

In autumn 2022, the Government asked Chris Skidmore MP to conduct a review of the Government's net zero target and the UK's approach to meeting that commitment. This was a wide-ranging review encompassing all sectors of the UK economy and beyond.

We provided focused feedback to the review, highlighting our Net Zero Implementation Plan and drawing attention to two specific challenges in terms of the importance of policy and regulatory certainty needed to unlock investment in this area, and seeking government support for industry-led collaboration to address inconsistencies in the quality and availability of data across asset classes.

### Embedding stewardship in the asset manager and asset owner relationship

As a member of the Board of the IA, our CEO, Rachel Elwell, is part of a steering group of investment managers, pension funds, investment consultants and lawyers, established jointly by the IA and Pensions and Lifetime Savings Association. The steering group published a report in June 2022 on strengthening the relationship between pension funds and investment managers.

The report seeks to address issues including a lack of clarity on stewardship expectations and an overemphasis on short-term performance by setting out several recommendations for each stage of the relationship, from the appointment process, through to the ongoing monitoring of established relationships.

### Influencing responsible investment reporting requirements

The framework around investing responsibly is becoming more formal. This is a move we broadly support, and will help to drive more consistent climate reporting and manage the risks of 'greenwashing'.

The Department for Levelling up, Housing and Communities recently consulted on LGPS reporting on climate change risks. Working with Partner Funds, we submitted a response which welcomed the direction of travel alongside highlighting the risks. For example, the potential amalgamation of data produced using different methodologies.

In 2022, we responded to the FCA's consultation on Sustainability Disclosure Requirements and investment labels. In our response, we expressed support for efforts to tackle 'greenwashing', while also highlighting potential unintended consequences from the proposed new regulations.

# VOTING

## Exercising our rights and disclosure

Voting is fundamental to the exercise of our rights as providers of capital, including through our equity holdings and in any voting decisions linked to our fixed income portfolios. Our voting activity is guided by our Voting Guidelines, which are summarised in the Appendix and available to view in full on our website.

We believe in transparent and robust voting decisions that hold companies to account and question them where their decisions and outcomes have challenged the trust we seek to build with them. Our voting activity is published on our website on a quarterly basis and is available to view **here**.

As noted previously, voting rights on externally managed equities are retained by Border to Coast. We actively monitor external manager voting activity on a quarterly basis to review their alignment with our own views. Additionally, we discuss key votes with the external manager to gauge their views ahead of voting. This is particularly useful where a manager is investing in a specialist market. In relation to fixed income, voting decisions relating to bondholder meetings are made by the relevant external managers as this is an investment decision.

## Russian voting suspension

In response to Russia's invasion of Ukraine, we reviewed our approach to stewardship in Russian companies.

In light of increasing sanctions against personnel tied to the Putin regime, we viewed continuing to exercise our voting rights on Russian securities as a material risk.

As the wider market began to shun Russia as an investable market, the lack of quality proxy voting research meant we were unable to take a fully informed view on individual agenda items. We therefore took the decision to suspend voting in this market.

Bedfordshire

# **Voting** continued

Stratford Canal, Warwickshire



## Proxy adviser support

Robeco, our voting and engagement partner, use Glass Lewis, a leading independent provider of global governance services, as a proxy voting advisor to provide voting recommendations based upon Border to Coast's Voting Guidelines. Robeco's voting analysts analyse the merit of each agenda item to ensure voting recommendations are aligned with our bespoke Voting Guidelines.

All Robeco's voting recommendations are reviewed by the Border to Coast RI Team and portfolio managers prior to votes being executed. A degree of flexibility is required when interpreting the Voting Guidelines to reflect specific company and meeting circumstances. This allows for the overriding of voting recommendations where, due to further analysis, information and engagement, we wish to vote contrary to Robeco's recommendations or contrary to our Voting Guidelines. These decisions are tracked as part of our annual audit and reported quarterly to our Partner Funds.

## Voting against management

Where a decision has been made not to support a resolution at a company meeting, Border to Coast will, where possible, engage with the company prior to the vote being cast.

Where there are areas of contention, the final decision on voting will ultimately be made by the Chief Executive Officer. These issues of contention are rare, and a suitable decision can usually be made following discussions with the RI Team, portfolio managers, Robeco, external investment managers (if required) and the company.

## Partner Fund role

Our Voting Guidelines were developed in collaboration with our Partner Funds and are reviewed with their input on an annual basis. However, there may be occasions when our Partner Funds may wish Border to Coast to vote its pro rata holding contrary to the agreed policy and a process is in place to facilitate this. During the reporting year, there were no occasions where Partner Funds determined to vote their shares contrary to the collective Voting Guidelines.

## Stock lending

Border to Coast has an active stock lending programme. We have a procedure in place to recall stock ahead of an AGM vote and restrict lending in certain circumstances including, but not restricted to, if the resolution is contentious, the holding is of a size which could potentially influence he voting outcome, or we have co-filed a shareholder resolution.

## Votes not cast

We aim to vote on our shareholdings in listed equity portfolios in every market where this is practicable. This may not always be possible due to share blocking or power of attorney requirements. During the reporting period, we voted on **98.5%** of our shareholdings across our equity holdings.

# VOTING IN ACTION

Durham

**We consider our voting rights as an asset to be exercised carefully and therefore class all our votes as significant for the purposes of the EU Shareholder Rights Directive.**

As mentioned previously, we produce quarterly voting records with rationale for abstentions and votes against. We also include a dedicated section on voting in our quarterly stewardship reports and include case studies of how we have voted in more detail. For transparency, reporting on all votes is published quarterly on our website.

Reports on our voting activity are made available on a quarterly basis on our website. You can find further information here:

Voting Reports

Corporate Governance and Voting Guidelines

## Implementing voting enhancements

In last year's report, we noted the enhancements to our Voting Guidelines in the areas of climate change and diversity; specifically in relation to the action we would take where Boards fail to incorporate sufficient consideration to these areas.

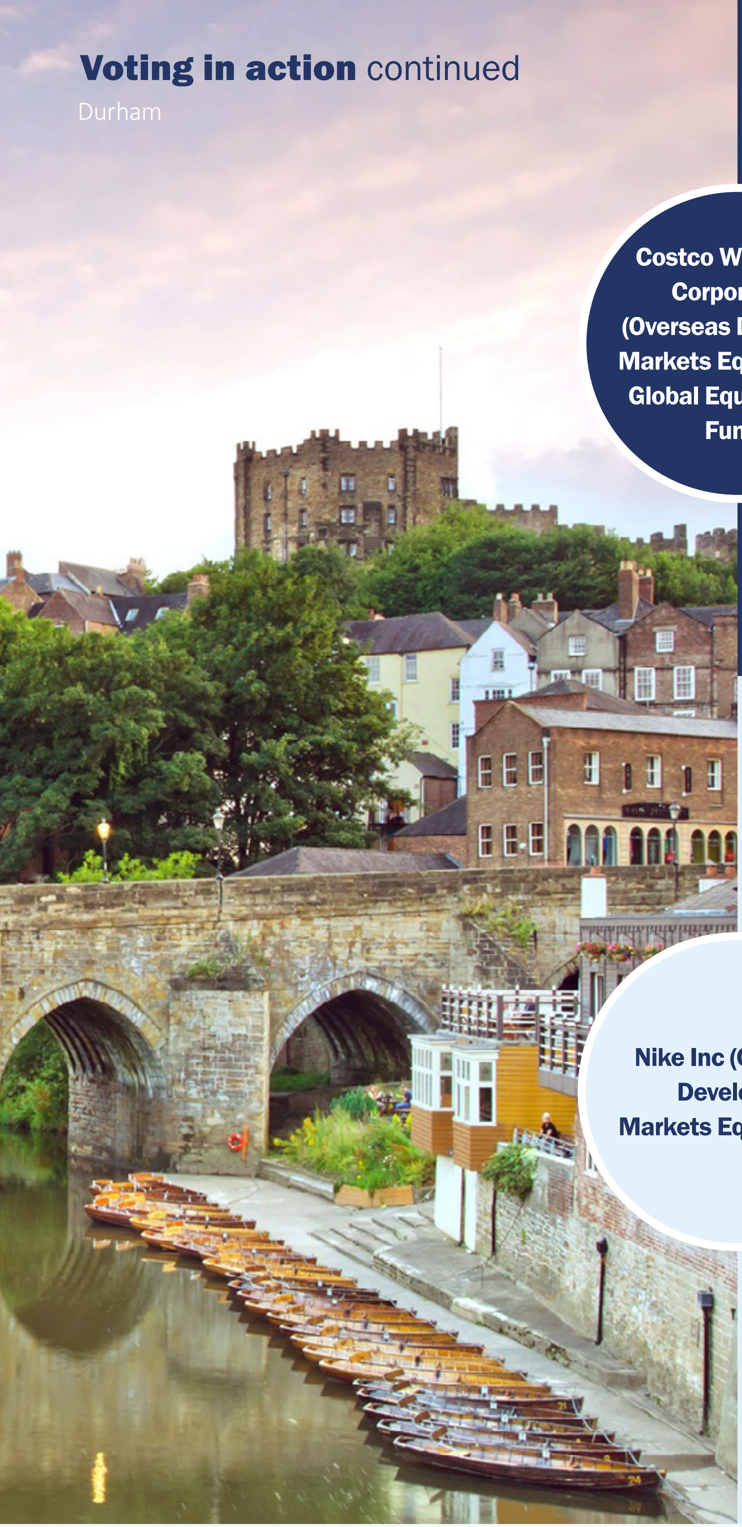
Our voting enhancements on climate have led to significant votes against management at AGMs, including opposing Chair of the Board re-elections and 'Say on Climate' management resolutions and supporting independent climate resolutions. Pre- and post-AGM engagement has accompanied these votes.

During the reporting year, we voted against 93% of company transition plans. Additionally, we voted to support 73% of climate-related shareholder proposals, voting against those proposals that were deemed to be overly prescriptive or not in best interest of shareholders.

On diversity, we exercised votes against the election of Board members on 163 occasions, an increase of 70% on 2021/22.

# Voting in action continued

Durham



## Selected voting activity over 2022/23

### Costco Wholesale Corporation (Overseas Developed Markets Equity Fund, Global Equity Alpha Fund)

Costco Wholesale Corporation (Costco) operates a chain of cash and carry membership warehouses globally.

**What did we do?**

We voted against the re-election of the Chair of the nomination committee.

**Our view:**

In line with our stance on improving diversity in leadership positions, our expectation in developed markets without relevant legal requirements is for Boards to be composed of at least 33% female directors. We will therefore vote against the Chair of the nomination committee where this is not the case and there is no positive momentum or progress.

**Voting outcome:**

The re-election of the Chair of the nomination committee saw a vote against management of over 18%, highlighting an increasing investor focus on gender diversity amongst senior leadership. Where practical to do so, companies subject to a vote against management will be contacted to explain our minimum expectations.

### Nike Inc (Overseas Developed Markets Equity Fund)

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

**What did we do?**

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

**Our view:**

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

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

**Voting outcome:**

The advisory vote on executive pay saw significant opposition from shareholders with dissent from 35% of the votes cast, up from 28% in 2021, thus showing an increasing level of shareholder scrutiny on the Company's pay practices. In terms of the shareholder proposal, this was voted down, with investors siding with management over the restrictive nature of the proposals.

# **Voting in action** continued

Teesside

BHP Group Limited (UK Listed Equity Fund, Overseas Developed Markets Equity Fund)

BHP Group Limited (BHP) is an Australia-based resources company. The Company is a producer of commodities, including iron ore, copper and nickel.

**What did we do?**

We voted against a shareholder proposal regarding lobbying activity alignment with the Paris Agreement and supported a shareholder proposal that requested the Company include climate sensitivity analysis in financial statements.

**Our view:**

Both environmental shareholder proposals were filed by the Australian Centre for Corporate Responsibility (ACCR). The proponent of both proposals clearly intended for BHP to become a climate leader in terms of climate policy advocacy and climate accounting.

The shareholder proposal regarding lobbying activity alignment with the Paris Agreement, requested that the company proactively advocate for Australian policy consistent with the Paris Agreement's objective of limiting global warming to 1.5°C. After careful consideration, we decided not to support this proposal. While we support the principle in spirit, we ultimately believed the resolution to be too broad and ambiguous.

Although we believe companies should provide shareholders with adequate disclosure to allow them to understand the nature of their advocacy and lobbying activities, the Supervisory Board and management should retain the flexibility to assess each policy idea of the Australian government on its merits.

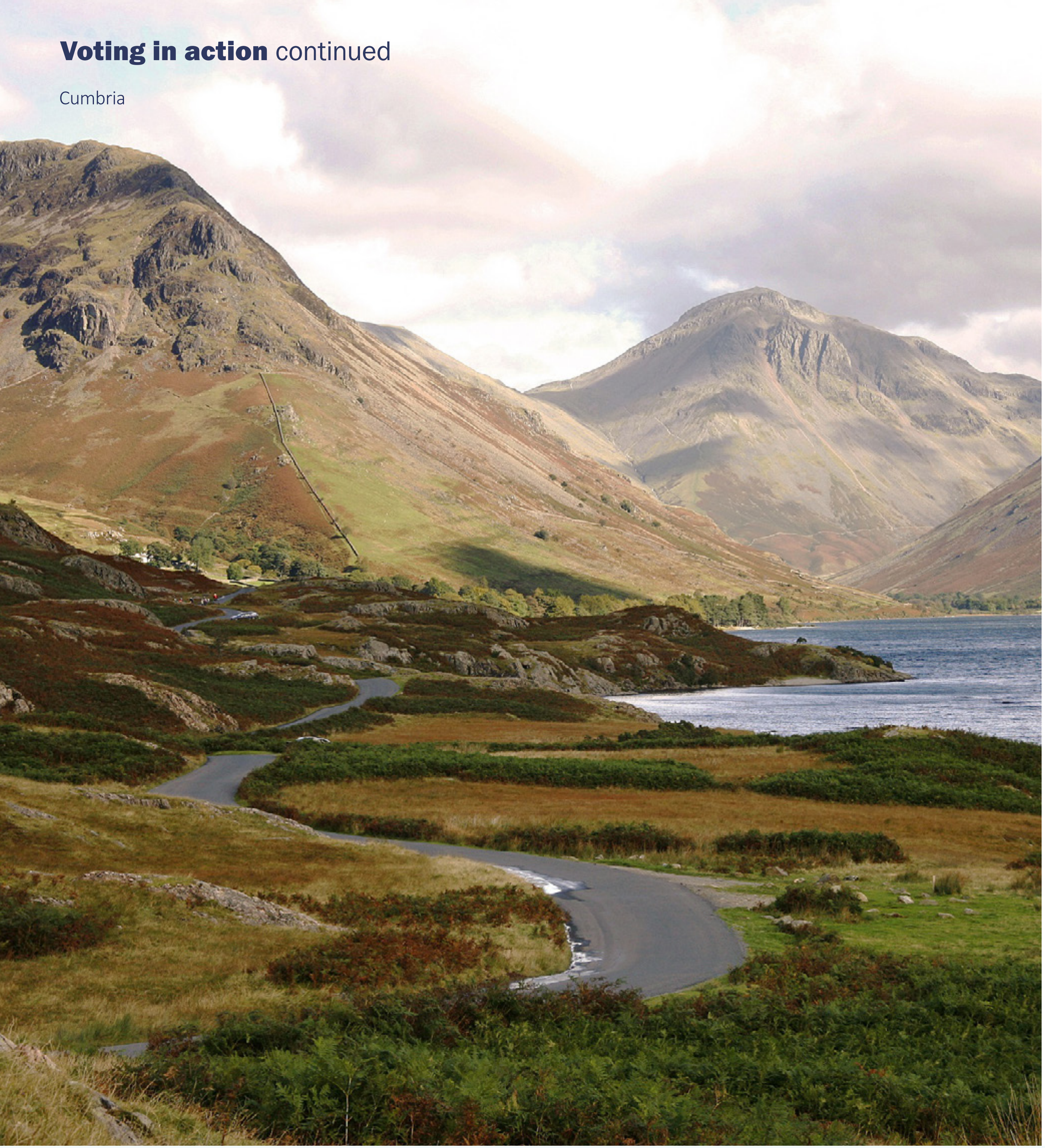
The other resolution filed by the ACCR requested the Company include a climate sensitivity analysis in its audited financial statements. After analysing BHP's efforts and those of other major resource companies, we decided to support this shareholder proposal. While BHP's disclosures are generally good, we believe the quantitative substantiation of scenario analysis can be further improved by third-party verification. We believe that BHP could further improve by reporting the assumed commodity prices and assessing the impact of assets under different climate scenarios. Finally, several international accounting bodies have stated that material climate change issues should be considered in the preparation and audit of financial statements.

**Voting outcome:**

The shareholder proposal on lobbying received 13% support and the shareholder proposal on climate accounting and audit received 19% support. We continue to engage with the Company through the Net Zero Carbon Emissions engagement theme being conducted by our voting and engagement partner.

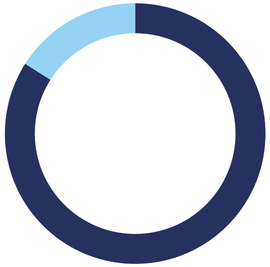
# **Voting in action** continued

Cumbria



**Total number of meetings:**
# 970

**Total resolutions voted:**
# 13,080

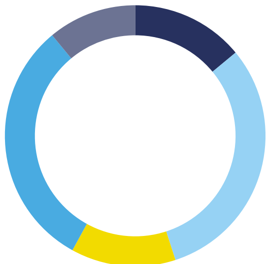


### Votes with and against management

| | |
|---|---|
| With management | 84% |
| Against management | 16% |

### Votes against management by category

| | |
|---|---|
| Board related | 39% |
| Remuneration | 23% |
| Audit | 11% |
| Capital management | 8% |
| Political donations | 8% |
| Shareholder proposals | 5% |
| Company statutes | 3% |
| Meeting administration | 1% |
| Other | 2% |



### Voting activity by region

| | |
|---|---|
| North America | 14% |
| UK | 31% |
| Europe (ex-UK) | 13% |
| Asia Pacific | 31% |
| Emerging Markets | 11% |

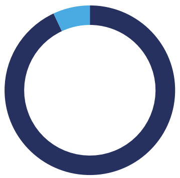
# ANNUAL VOTES BY FUND

## UK Listed Equity

Total number of meetings: **125**

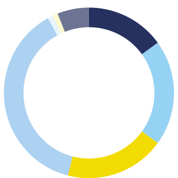
Total number of agenda items: **2,224**

**With management/ Against management**



| | |
|---|---|
| With management | **93%** |
| Against management | **7%** |

**Votes against by category**



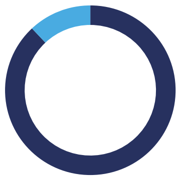
| | |
|---|---|
| Board related | **15%** |
| Remuneration | **20%** |
| Audit | **19%** |
| Capital management | **0%** |
| Political donations | **38%** |
| Shareholder proposals | **1%** |
| Company statutes | **1%** |
| Meeting administration | **0%** |
| Other | **6%** |

## Overseas Developed Markets Equity

Total number of meetings: **273**

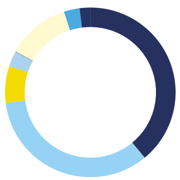
Total number of agenda items: **3,962**

**With management/ Against management**



| | |
|---|---|
| With management | **88%** |
| Against management | **12%** |

**Votes against by category**



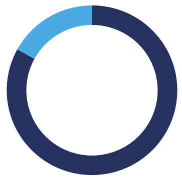
| | |
|---|---|
| Board related | **39%** |
| Remuneration | **34%** |
| Audit | **7%** |
| Capital management | **3%** |
| Political donations | **0%** |
| Shareholder proposals | **12%** |
| Company statutes | **3%** |
| Meeting administration | **0%** |
| Other | **2%** |

## Emerging Markets Equity

Total number of meetings: **268**

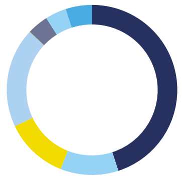
Total number of agenda items: **2,639**

**With management/ Against management**



| | |
|---|---|
| With management | **83%** |
| Against management | **17%** |

**Votes against by category**



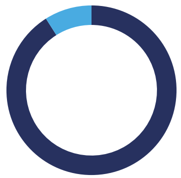
| | |
|---|---|
| Board related | **45%** |
| Remuneration | **11%** |
| Audit | **12%** |
| Capital management | **19%** |
| Political donations | **0%** |
| Shareholder proposals | **0%** |
| Company statutes | **4%** |
| Meeting administration | **4%** |
| Other | **5%** |

## UK Listed Equity Alpha

Total number of meetings: **209**

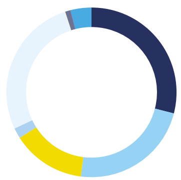
Total number of agenda items: **3,301**

**With management/ Against management**



| | |
|---|---|
| With management | **91%** |
| Against management | **9%** |

**Votes against by category**



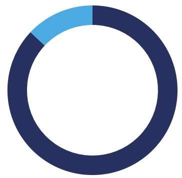
| | |
|---|---|
| Board related | **29%** |
| Remuneration | **23%** |
| Audit | **14%** |
| Capital management | **2%** |
| Political donations | **27%** |
| Shareholder proposals | **0%** |
| Company statutes | **1%** |
| Meeting administration | **0%** |
| Other | **4%** |

## Global Equity Alpha

Total number of meetings: **201**

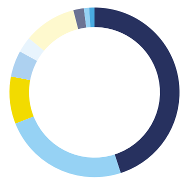
Total number of agenda items: **2,750**

**With management/ Against management**



| | |
|---|---|
| With management | **87%** |
| Against management | **13%** |

**Votes against by category**



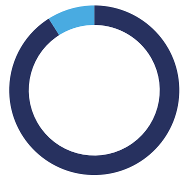
| | |
|---|---|
| Board related | **45%** |
| Remuneration | **24%** |
| Audit | **9%** |
| Capital management | **5%** |
| Political donations | **3%** |
| Shareholder proposals | **10%** |
| Company statutes | **2%** |
| Meeting administration | **1%** |
| Other | **1%** |

## Listed Alternatives

Total number of meetings: **56**

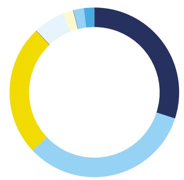
Total number of agenda items: **705**

**With management/ Against management**



| | |
|---|---|
| With management | **91%** |
| Against management | **9%** |

**Votes against by category**



| | |
|---|---|
| Board related | **30%** |
| Remuneration | **33%** |
| Audit | **25%** |
| Capital management | **0%** |
| Political donations | **6%** |
| Shareholder proposals | **2%** |
| Company statutes | **0%** |
| Meeting administration | **2%** |
| Other | **2%** |

# APPENDIX

Beauchief Abbey, South Yorkshire

## Reporting against the principles of the UK Stewardship Code:

### Principle 1: Purpose, strategy, and culture

See pages: 5, 6, 7, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 36, 37 and 38

We provide details of our purpose, culture, and values in the ‘About us’ and ‘Our values and philosophy’ sections. Separately, we detail our investment philosophy in the ‘Our values and philosophy’ section.

We discuss how our investment strategy enables effective stewardship in the ‘Our values and philosophy’ section, along with demonstrable examples in both the ‘Influencing corporate behaviour’ and ‘Collaboration’ sections.

How our purpose and philosophy has guided our approach is detailed in the ‘Implementation of responsible investment’ and ‘Enhancing our approach’ sections.

We have provided detail on how our purpose, beliefs and strategy have served the best interests of our Partner Funds in the ‘About us’ section, where we discuss delivering for our Partner Funds. Additionally, we highlight the changes we have made in the reporting year in the ‘Enhancing our approach’ section, which provides examples of how we have worked to better serve the interests of our Partner Funds.

### Principle 2: Governance, resources, and incentives

See pages: 8, 9, 10 and 11

We provide detail on our governance structures, processes, development, resourcing, incentives and oversight of external providers in the ‘Our governance’ section.

### Principle 3: Conflicts of interest

See pages: 8, 9, 10 and 11

We have discussed how we develop our conflicts of interest policy, which is approved by our Partner Funds. Additionally, we explain how we aim to identify and mitigate conflicts, including those specifically related to stewardship activities. Both are detailed in the ‘Our governance’ section. While we cannot disclose our full policy publicly, it is available on request.

### Principle 4: Promoting well-functioning markets

See pages: 13, 14, 15, 16, 17, 36, 37 and 38

We discuss our approach to identifying market-wide risks in the ‘‘Implementation of responsible investment’ section.

How we work collaboratively with other stakeholders and industry initiatives to promote a well-functioning financial system and influence real-world outcomes is documented in the ‘Collaboration’ section.

### Principle 5: Review and assurance

See pages: 8, 9, 10, 11, 18, 19, 20, 21, 22 and 23

We discuss the development of our policies and our assurance process in the ‘Our governance’ section.

Separately, we discuss how we ensure our reporting remains fit for purpose, best serves our Partner Funds and how we develop and strengthen our approach through continuous, collaborative improvement in the ‘Enhancing our approach’ section.

## Principle 6: Client and beneficiary needs

See pages: 5, 6, 7, 8, 9, 10, 11, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22 and 23

We provide detail of the assets we are responsible for investing in the 'About us' section. Separately, we discuss time horizon appropriateness in the 'Our values and philosophy' section.

We detail how we develop our policies and approach in consultation with our Partner Funds in the 'Our governance' and 'Enhancing our approach' sections.

We provide detail on how we manage assets in alignment with our policies in the 'Implementation of responsible investment' section.

We discuss the provision of, and development of, reporting in both the 'Implementation of responsible investment' and 'Enhancing our approach' sections.

We discuss the evaluation of the effectiveness of our approach in respect to Partner Fund needs and views in the 'Our governance' and 'Enhancing our approach' sections.

## Principle 7: Stewardship, investment and ESG integration

See pages: 8, 9, 10, 11, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22 and 23

We detail our approach to integration across various asset classes and markets in the 'Implementation of responsible investment' section.

Our approach to the appointment of, and setting expectations for, external managers is detailed in the 'Our governance' and 'Implementation of responsible investment' sections.

We have discussed how we utilised our monitoring framework to evaluate external manager approaches and escalate, where necessary, in the 'Enhancing our approach' section.

## Principle 8: Monitoring managers and service providers

See pages: 8, 9, 10, 11, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22 and 23

We detail how we monitor and review third-party service providers (including our engagement partner and external managers) to ensure they are continuing to meet both our and Partner Fund requirements in the 'Our governance' and 'Implementation of responsible investment' sections. Separately, we detail how we have reviewed, developed and strengthened our approach to external manager monitoring in the 'Enhancing our approach' section.

## Principle 9: Engagement

See pages: 3, 14, 15, 16, 17, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34 and 35

We detail how we set expectations for external managers to engage on our behalf in both the 'Implementation of responsible investment' and 'Influencing corporate behaviour' sections.

We provide detail on our approach to engagement, together with examples of both closed and ongoing engagement activity in the 'Influencing corporate behaviour' and 'Priority Themes in action' sections.

## Principle 10: Collaboration

See pages: 13, 14, 15, 16, 17, 24, 25, 26, 27, 36, 37 and 38

We detail how we set expectations for external managers to engage collaboratively on our behalf in both the 'Implementation of responsible investment' and 'Influencing corporate behaviour' sections.

Additionally, we provide further detail on our participation in collaborative engagement, together with outcomes in the 'Collaboration' section.

## Principle 11: Escalation

See pages: 13, 14, 15, 16, 17, 24, 25, 26 and 27

We have discussed how we set expectations for external managers in the 'Implementation of responsible investment' and 'Influencing corporate behaviour' sections.

We have discussed how we set expectations for others in the 'Implementation of responsible investment' section. We provide further detail around our escalation strategy in the 'Influencing corporate behaviour' section.

## Principle 12: Exercising rights and responsibilities

See pages: 8, 9, 10, 11, 13, 14, 15, 16, 17, 39, 40, 41, 42, 43 and 44

We detail how we both retain and exercise our voting rights and responsibilities in the 'Our Governance', 'Implementation of responsible investment' and 'Voting' sections.

In the 'Voting' section, we have provided a link to the full policy and our voting records and a summary of our Corporate Governance and Voting Guidelines on page 49. We also provide detail on how we utilise proxy voting advisors, the extent to which Partner Funds may override the guidelines and our approach to stock lending.

We have provided detail on how we have voted across our equity funds, together with examples which detail both rationale and outcomes in the 'Voting' section.

We note that decisions relating to fixed income security amendments are made by our external managers as an investment decision. This is noted in the 'Voting' section.

## A summary of our collaborative initiatives

| Name | Description and activity |
|---|---|
| **30% Club Investor Group** | • Campaigns for increased gender and wider diversity and inclusion in the boardroom and senior management.<br>• We have signed joint letters and engaged with companies on diversity along with other members of the initiative. |
| **Climate Action 100+ (CA100+)** | • A five-year, investor-led initiative, to undertake collaborative engagement with the largest greenhouse gas emitters and other global companies.<br>• We are a supporter of the initiative and have fed into a recent consultation on future strategy. |
| **FCA Vote Reporting Group** | • Established in November 2022, the group aims to develop comprehensive and standardised shareholder vote reporting proposals for UK asset managers.<br>• The proposals will include voting categories, rationales for voting, supporting technology and hosting. Improving vote reporting will help asset owners evaluate asset managers and enable consistency and comparability in reporting and is very much aligned with Border to Coasts existing approach. |
| **Institutional Investors Group on Climate Change (IIGCC)** | • Provides a collaborative engagement forum for institutional investors to address climate-related risks and opportunities.<br>• We support the initiative through our participation in the Corporate Programme workstream, sign letters to companies and governments on climate-related strategy and policy, and signed the Global Investor Statement to Governments in 2022.<br>• We use tools developed for investors and asset owners including the Net Zero Investment Framework and Net Zero Stewardship Toolkit. |
| **The Investment Association** | • The trade and industry voice for UK investment managers on legal, regulatory and fiscal landscapes supporting members with industry insight, analysis and training.<br>• As mentioned previously, we are actively involved with the IA with our CEO sitting on the Board and our Head of RI on the Stewardship Committee. |
| **Investor Mining and Tailings Safety Initiative** | • An investor-led initiative convening institutional investors active in extractive industries including major asset owners and asset managers working with industry and stakeholders.<br>• We were an early supporter of the initiative and have engaged with mining companies to encourage the disclosure of tailings facilities. |
| **LGPS Cross Pool RI Group** | • The forum allows us to work with and learn from our peers in LGPS pooling, with a specific focus on tackling new and challenging requirements across RI and stewardship. |
| **Local Authority Pension Fund Forum (LAPFF)** | • LAPFF is a forum for Local Government Pension Funds and is the UK's largest collaborative shareholder engagement forum, engaging across a broad range of ESG themes with investee companies.<br>• Border to Coast is a pool member of LAPFF and feeds into the annual engagement work plan. |

## A summary of our collaborative initiatives

| | |
|---|---|
| **Occupational Pensions Stewardship Council** | • Set up by the Department for Work and Pensions in Q2 2021, the Council was established to promote and facilitate high standards of stewardship of pension assets.<br>• The Council provides a forum for sharing experience, best practice and research, and providing practical support. We joined as an inaugural member in 2021 and actively participate in the various working groups. |
| **Principles for Responsible Investment (PRI)** | • The world's leading advocate for responsible investment. It enables investors to publicly demonstrate their commitment to RI, by supporting the six Principles for incorporating ESG issues into investment practice.<br>• Being a signatory to the PRI allows us to demonstrate our commitment to RI and how we implement the Principles. We encourage all our managers to be signatories and used the six Principles to inform and shape our first three-year RI strategy. |
| **Task Force on Climate-related Financial Disclosures (TCFD)** | • A voluntary framework for companies and investors to provide climate-related information in their annual reports around governance, strategy, risk management and metrics.<br>• We support the TCFD, report annually against the recommendations and, as disclosed in this report, have participated in consultations around its wider adoption. |
| **The ESG Data Convergence Initiative (EDCI)** | • A collaboration of private equity stakeholders which was set up to create an initial set of standardised ESG metrics and mechanism for comparative reporting in private markets.<br>• We joined in 2022, which was the 'pilot' year for the initiative. Despite this, more than 300 general partners and limited partners representing ~$26tn in assets under management have signed up and more than 2,000 portfolio companies were included in the pilot dataset.<br>• We continue to contribute to the Initiative to help improve it and increase adoption. We anticipate that while the benchmark ESG data will be useful for us to compare and contextualise GPs/portfolio companies ESG profiles but also for it to be a useful platform for annual data collection from GPs. |
| **The Workforce Disclosure Initiative (WDI)** | • This initiative was set up by ShareAction to improve data disclosure from listed companies on how they manage workers in their direct operations and supply chains.<br>• As a supporter of the WDI, we engage with companies to encourage completion of the annual survey, disclosing important human capital data for investors. |
| **Transition Pathway Initiative (TPI)** | • A global, asset owner-led initiative which assesses companies preparedness for the transition to a low-carbon economy.<br>• We support the TPI and use the tool to assess our portfolio investee companies and inform our voting and engagement. |
| **UK Pension Schemes RI Roundtable** | • The forum is a collective, incorporating UK Pension Schemes including both LGPS schemes and pools as well as corporate schemes.<br>• The forum allows us to learn and share knowledge with a wide range of peers in the UK Pension Scheme space, encouraging standardisation in approach and establishment of best practice across RI and stewardship. |

# OUR VOTING GUIDELINES SUMMARY

Humber Bridge, East Riding

Our position on key issues is summarised on this page. The full Corporate Governance and Voting Guidelines can be found on our website here.

**Leadership:** The role of the Chair is distinct from that of other Board members. The Chair should be independent upon appointment and should not have previously been the CEO.

**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.

**Diversity:** Board members should be recruited from as broad a range of backgrounds and experiences as possible. A diverse group of directors will improve the representation and accountability of Boards, bringing new dimensions to Board discussions and decision making.

**Succession planning:** We expect the Board to disclose its policy on succession planning, the factors considered and where decision-making responsibilities lie.

**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.

**Stakeholder engagement:** Companies should consider the interests of, and feedback from, stakeholders, which includes the workforce.

**Directors' remuneration:** 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.

**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.

**Political donations and lobbying:** Companies should disclose all political donations and demonstrate where they intend to spend the money and that it is in the interest of the company and shareholders.

**Dividends:** Shareholders should have the chance to approve a company's dividend policy, this is considered best practice. The resolution should be separate from the resolution to receive the report and accounts.

**Shareholder proposals:** Shareholder proposals are assessed on a case-by-case basis. Consideration will be given as to whether the proposal reflects Border to Coast's Responsible Investment Policy and supports the long-term economic interests of shareholders.

**Climate change:** Our primary objective from climate-related voting and engagement is to encourage companies to adapt their business strategy 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 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.

PENSIONS PARTNERSHIP

Border to Coast Pensions Partnership Limited is authorised and regulated by the Financial Conduct Authority (FRN 800511).

Registered in England (registration number 10795539) at the registered office:

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**bordertocoast.org.uk**

**2022 - 2023**

Flamborough Landing Beach, East Riding