

Pension Fund Committee

3 December 2020

Border to Coast Pensions Partnership Responsible Investment Policy



Report of John Hewitt, Corporate Director of Resources

Purpose of the Report

- 1 To provide the Committee with an update on the approach to Responsible Investment at Border to Coast Pension Partnership (BCPP).

Executive summary

- 2 BCPP's Responsible Investment Policy and Corporate Governance & Voting Guidelines were originally developed in 2017 in conjunction with all eleven Partner Funds and are due to be reviewed annually.
- 3 The Committee has previously approved the Policies and is asked to approve the updated Policies which BCPP have reviewed with their voting and engagement partner Robeco.

Recommendation(s)

- 4 It is recommended that the Committee:
 - (a) Provides any comments on the Policies;
 - (b) Notes and approves the Responsible Investment Policy and Corporate Governance & Voting Guidelines Policy included in Appendices 1 and 2 that BCPP will operate on behalf of the Pension Fund for assets transferred into the pool, and;
 - (c) Authorise the Corporate Director of Resources to amend the Fund's Investment Strategy Statement (ISS) in line with the principles of BCPP's RI Policy

Background

- 5 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended) require LGPS administering authorities to formulate and publish a statement of their investment strategy in accordance with guidance published by the Secretary of State. This must include details of how Environmental, Social and Governance (ESG) issues are incorporated into the investment decision-making process and a policy on investment stewardships - the exercise of rights (including voting rights) attaching to investments.
- 6 The Fund's Investment Strategy Statement, published on the Council's website, sets out the Fund's policy on ESG and stewardship (often referred to collectively as Responsible Investment or RI Policy).
- 7 Although the Pension Fund will still retain control over its own policy on responsible investment, as The Fund's assets are transferred to the pool responsibility for implementing this policy will move to BCPP. In the same way that the Fund has previously relied on its fund managers to take into account any relevant ESG issues when acquiring, retaining or realising investments, and in exercising any investment rights (including voting), the Fund will rely on BCPP to implement its RI Policy in respect of assets in the pool.
- 8 The Committee originally approved BCPP's Responsible Investment Policy back in 2017 and has subsequently approved an update to the Policy the years following. The 11 Administering Authorities in BCPP and their Pension Funds are again being asked to approve the updated RI Policy that BCPP will operate. BCPP's Responsible Investment Policy and its Corporate Governance and Voting Policy are included at Appendix 1 and 2. At the time of writing, these documents were to be approved at BCPP's Joint Committee meeting on 24 November 2020.
- 9 The updated Policies have been reviewed by BCPP's voting and engagement partner Robeco using the International Corporate Governance Network Global Governance Principles, UK Stewardship Code and Principles for Responsible Investment as benchmarks.
- 10 BCPP currently have no restrictions or exclusions regarding sectors or specific stocks. Exclusions and divestment, in certain cases, eliminate the ability for BCPP to drive change within a company. Externally managed mandates have not been set up with restrictions in place. BCPP's policy reiterates the importance of engagement rather than divestment (from sectors as opposed to individual, poorly managed companies).
- 11 In respect of climate change, BCPP expect high emitting companies and those in high emitting sectors to have climate change policies in

place meeting certain requirements. If this is not the case, there is the potential to vote against board chairs where no progress is being made. This is also the case for companies rated at zero or one by the Transition Pathway Initiative³ (TPI). Regards diversity, BCPP's expectations of companies in respect of diversity representation on boards have been included in the Voting Guidelines. A summary of the key updates to the Policy are included in Appendix 3.

- 12 The approach BCPP will take in its RI Policy is consistent with the approach the Pension Fund has set out in its Investment Strategy Statement and requires its current fund managers to adopt. It is more detailed and includes, for example, a specific section on how the potential impact of climate change on investment risk will be taken into account.
- 13 BCPP will consider the following areas during 2021, in advance of next year's policy update:
 - The development of a standalone climate change policy;
 - The measurement of transition risk and the implications of setting targets, including the potential to set a net zero carbon target;
 - The role of private markets in managing transition risk, and;
 - Implications of an exclusion policy if engagement is ineffective.
- 14 At the time of writing, BCPP's Head of Responsible Investment was scheduled to present the policy to the Committee on 27 November 2020.

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