

Pension Fund Committee

9 December 2021

Border to Coast Pensions Partnership Responsible Investment Policy



Report of Paul Darby, 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 and the key changes highlighted in Appendix 1;
 - (b) Notes and approves the Responsible Investment Policy and Corporate Governance & Voting Guidelines Policy included in Appendices 2 and 3 that BCPP will operate on behalf of the Pension Fund for assets transferred into the pool;
 - (c) Approves the adoption of the BCPP Voting Guidelines for the Fund's asset managers outside of the pool, and;
 - (d) 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 in 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 2 and 3. These documents were supported by BCPP's Joint Committee, constituted of each of the 11 Partner Fund Chairs, at its meeting on 23 November 2021.
- 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 Fundamental to BCPP's RI approach is the belief that influence through ongoing engagement with companies, rather than divestment, drives positive outcomes. BCPP's approach is not to divest or exclude entire sectors, however there may be specific instances when BCPP will look to sell or not invest in some industries based on investment criteria, the investment time horizon and the likelihood for success in influencing company strategy and behaviour. BCPP's Climate Change Policy however includes specific exclusions covering companies with >90% of revenue from thermal coal and tar sands.

This is the first time BCPP have had exclusions. The specific exclusions of thermal coal and tar sands are based on investment criteria, and the potential for stranded assets.

- 11 BCPP's approach to Climate Change is outlined in its existing Policy, included for reference in Appendix 4. Regards diversity, BCPP consider diversity and diversity of thought on Boards to be significant for the good governance of a company. This investment belief is reflected through both the RI Policy and in the Voting Guidelines.
- 12 In terms of Engagement, BCPP have reviewed their Engagement Themes using a newly developed framework. This is the first review of BCPP's priority themes, and the process followed is outlined in the RI Policy. The new themes are Low-Carbon Transition, Waste and Water Management, Social Inclusion through Labour Management and Diversity of thought.
- 13 A summary of the key updates to the Policy and Voting Guidelines are included in Appendix 1.
- 14 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. At the time of writing, BCPP were scheduled to present the policy to the Committee at a training session on 2 December 2021.

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