

Pension Fund Committee

8 December 2022

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, Corporate Governance and Voting Policy, and its Climate Change Policy are included at Appendix 2, 3 and 4 respectively. These documents were presented to BCPP's Joint Committee, constituted of each of the 11 Partner Fund Chairs, at its meeting on 30 November 2022.
- 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 >70% of revenue from thermal coal and tar sands (or 25% for Private Markets).

- 11 Last year it was highlighted that controversial weapons were an area considered for exclusion, but this was deferred due to lack of available data. As additional screening tools are now available it is proposed to extend the exclusion policy to cover companies manufacturing cluster munition whole weapons systems and companies that manufacture components that were developed or are significantly modified for exclusive use in cluster munitions.
- 12 BCPP's approach to Climate Change is outlined in its standalone Policy, included for reference in Appendix 4. The Policy has been reviewed by Robeco and against asset managers and asset owners to determine developments across the industry. As noted above, the revenue threshold for thermal coal and oil sands is reduced to 70% and includes a lower threshold (25%) for Private Markets, this is to reflect the illiquid nature of these types of investments.
- 13 In terms of Engagement, BCPP reviewed their Engagement Themes last year using a newly developed framework. That was the first review of BCPP's priority themes, and the process followed is outlined in the RI Policy. The continuing Engagement Themes are Low-Carbon Transition, Waste and Water Management, Social Inclusion through Labour Management and Diversity of thought.
- 14 A summary of the key updates to the Policy and Voting Guidelines are included in Appendix 1. 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.

Contact: Paul Cooper

Tel: 03000 269798

Appendix 1 – Summary of Key Changes



1 RI Policy – key changes

Section	Page	Type of Change	Rationale
1. Introduction	2	Amendment	Update on UK Stewardship Code signatory status.
1.1 Policy framework	3	Amendment	Revised diagram to include Climate Change Policy
2. What is responsible investment	3	Amendment	Insertion of 'opportunities'.
3. Governance and implementation	3	Amendment	Revision on use of term 'sustainability'.
5. Integrating RI into investment decisions	4	Amendment	Remove 'internally and externally managed'.
	4	Addition	Add 'Pay conditions' to table under social issues
	4	Addition	New text on human rights.
5.2 Private markets	5	Addition	Reference to annual monitoring questionnaire.
5.4 Real estate	6	Amendment	Revised in line with TCFD report.
5.5 External manager selection	6	Addition	Update on climate change and net zero.
5.6 Climate change	7	Amendment	Text on exclusions cut and moved to new section.
	7	Addition	New text on just transition.

Section	Page	Type of Change	Rationale
6 Stewardship	7	Amendment	Update on Stewardship Code signatory status
6.1.1 Use of proxy advisors	8	Amendment	Removal of Voting & Engagement provider name.
6.2.3 Exclusions	11 - 13	Addition	New section on exclusions.
6.3 Due diligence and monitoring procedure	13	Amendment	Removal of Voting & Engagement provider name.
8. Communication and reporting	13	Addition	Reporting on progress on implementation of Net Zero Plan.
10. Conflicts of interest	14	Addition	Includes reference to stewardship conflicts.
Appendix A	14	Addition	New section referencing third-party providers.

2 Voting Guidelines – key changes

Section	Page	Type of Change	Rationale
Composition and independence	3	Amendment	Remove 'large cap'.
	4	Addition	Detail on expectations of overall board tenure.
Leadership	4	Addition	Clarification on voting intention, considering market practice.
Diversity	5	Amendment	Expectations of FTSE 100 and FTSE 250 companies.
Succession planning	5	Amendment	Remove 'solely' to cover all jurisdictions.
Stakeholder engagement	6	Addition	Additional reference to key stakeholders and expectations of the board.
Long-term incentives	8	Addition	To cover standards for other markets.
Human rights	14	Addition	New section to articulate voting approach and expectations of companies.

Climate change	12	Amendment	Text amended to reflect changes to Climate Change Policy.
	13	Amendment	Revised thresholds for TPI and CA100_ indicators.
	13	Addition	New text regarding banks
	13	Addition	New text on just transition.

3 Climate Change Policy – key changes

Section	Page	Type of Change	Rationale
2.1. Our views and beliefs on climate change	2	Addition	Impact of climate change on the investment universe.
2.2 Why climate change is important	3	Addition	Reference to physical and transition risk.
	4	Addition	Included text on a Just Transition.
2.4 Roadmap	6	Revision	Replace with timeline going out to 2050.
3.1 Our ambition – Net zero	7	Amendment	Reference use of NZIF and joining NZAM.
3.5 Regulatory change management	8	Revision	Reviewed by Head of Compliance.
4.1 How we identify climate-related risks	8	Revision	Revised in line with TCFD report.
4.2 How we assess climate-related risks and opportunities	9	Revision	Update on climate change scenario analysis.
5.1 Our approach to investing	9	Addition	Text on engagement as a key lever for reducing emissions – investee companies and fund managers (private markets).
	10	Amendment	Revise exclusion threshold to 70% from 'pure'; 25% for illiquid assets.
5.2 Acting within different asset classes	10	Addition	Extra data sources used.
	10	Amendment	Reference to Climate Opportunities offering.
	10	Addition	Reference to targets set at portfolio and asset class level.
5.3 Working with external managers	11	Addition	Engagement expectations.
	11	Addition	Encourage managers to set firm wide net zero commitment and join NZAM.

Section	Page	Type of Change	Rationale
	11	Addition	Working with managers on decarbonisation parameters for mandates.
6. Engagement and advocacy	11	Addition	Reference to engagement with regulators, policy makers etc.
6.1 Our approach to engagement	11	Addition	Additional areas for engagement e.g. Just Transition.
	12	Amendment	Revisions to voting text in line with proposed revisions to Voting Guidelines.
	12	Addition	Reference to use of Net Zero Stewardship Toolkit.
7. Disclosures and reporting	12/13	Amendment	Reporting on Policy implementation and progress against Net Zero commitment.