

Local Pension Board

7 December 2023

**Border to Coast Pensions Partnership
Responsible Investment Policy**



Report of Paul Darby, Corporate Director of Resources

Purpose of the Report

- 1 To provide the Board 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 Pension Fund 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 and have been asked to approve the 2023 update.

Recommendation(s)

- 4 It is recommended that the Board note the Report.

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 external 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 transitioned into the pool, which now covers the majority of the Fund's asset allocation.
- 8 The Durham 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 28 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. The policies have also been reviewed against best-in-class asset managers, and asset owners considered to be RI leaders to determine how best practice has developed. All seven other pools' climate change policies were also reviewed.
- 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 >25% of revenue from thermal coal and oil sands (or 25% for Private Markets). BCPP will exclude public market companies in developed markets with >50% revenue derived from thermal coal power-generation and will apply a >70% threshold in emerging markets to support a just transition towards a low-carbon economy.

- 11 Last year it was highlighted that additional screening tools were available, and it was 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. The exclusion relating to controversial weapons has been extended to cover landmines, biological and chemical weapons.
- 12 The exclusions in place take into account material financial factors and are limited to areas where it is important to give explicit indications to the investment decision makers. The changes are not expected to lead to any significant changes to existing BCPP investment portfolios as these risks are already reflected in the investment decision making process.
- 13 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.
- 14 In terms of Engagement, BCPP previously reviewed their Engagement Themes using a newly developed framework in 2021. 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.
- 15 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 and investment beliefs the Pension Fund has set out in its Investment Strategy.

Appendix 1 – Summary of Key Changes

1 RI Policy – key changes

Section	Page	Type of Change	Rationale
2. What is responsible investment	3	Addition	RI approach potential to add value (reflecting our Chair's comments).
5. Integrating RI into investment decisions	4	Addition	Add just transition to the table under social issues.
	4	Addition	Additional text on human rights and engagement
	4	Addition	New text on biodiversity as an investment risk and how we engage.
5.1 Listed equities	5	Addition	More detail on integration process.
5.2 Private markets	5/6	Addition	Additional information on annual questionnaire and involvement in industry initiatives.
5.3 Fixed income	6	Amendment	Moved text on engagement.
5.4 Real estate	6/7	Amendment	Updated for progress made ahead of launch.
5.5 External manager selection	7	Addition	Update on engagement to support net zero; PRI assessment considered in selection and monitoring.
5.6 Climate change	7/8	Amendment	Amendment to wording on a just transition and expectations of companies.
	8	Addition	Additional wording on Net Zero and stewardship.
6. Stewardship	8	Amendment	Inserted 'where appropriate' regarding litigation.
6.2 Engagement	11	Amendment	Engagement with wider industry to create stable environment.
6.2.2 Escalation	12	Addition	Extra tools as part of escalation.
6.2.3 Exclusions	12/13	Amendments and addition	Revenue thresholds reduced for thermal coal and oil sands. Controversial weapons exclusions broadened. New exclusion for thermal coal power generation.
9. Training and assistance	14	Addition	Included wider colleagues.

2 Voting Guidelines – key changes

Section	Page	Type of Change	Rationale
Diversity	5	Amendment	Expectations of UK companies on board gender diversity.
		Addition	FTSE 250 on racial diversity and US companies.
Audit	9	Addition	Plans to retender.
Shareholder proposals	12	Addition	General stance on proposals aligned with Paris Agreement.
Climate change	13	Addition	5 th CA100+ Net Zero Benchmark indicator added.
		Addition	Adding Urgewald Global Coal Exit List as industry benchmark tool.
		Amendment	Caveat around TPI scoring and data.
		Addition	Stance on Say on Climate items not aligned with Paris Agreement.

3 Climate Change Policy – key changes

Section	Page	Type of Change	Rationale
2.2 Why climate change is important to us	3	Addition	Additional wording taken from the Climate Change Report – importance, our role, and opportunities.
		Amendment	Revision to just transition wording.
3.1 Our ambition – Net zero	5/6	Addition	Inserted reference to our Net Zero targets – wording moved from 5.2
3.3 Division of roles and responsibilities	6	Addition	Wording in line with Climate Change Report.
4.1 How we identify climate-related risks	7	Revision	Wording in line with Climate Change Report.
4.2 How we assess climate-related risks and opportunities	8	Addition	Update on climate change scenario analysis. – in line with Climate Change Report.

5.1 Our approach to investing	8/9	Addition	Additional wording on consideration when excluding.
		Amendment	Revise exclusion threshold for thermal coal and oil sands.
		Addition	New exclusion on thermal coal power generation.
5.2 Acting within different asset classes	9	Amendment	Paragraph moved to 3.1.
		Addition	Approach for Real Estate.
6.1 Our approach to engagement	10/11	Amendment	Inserted 'where considered to be appropriate' regarding litigation.
		Addition	Reference to engagement and targets.
		Amendment / addition	Focus areas including voting and engagement.
7. Disclosures and reporting	12	Amendment	Revised wording on transparency and reporting.