

Pension Fund Committee

17 December 2024

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 Border to Coast's Responsible Investment Policy and Corporate Governance & Voting Guidelines were originally developed in 2017 in conjunction with all eleven Partner Funds and are to be reviewed on an annual basis.
- 3 The Committee has previously approved the Policies and is asked to approve the updated Policies which Border to Coast have reviewed with their voting and engagement partner Robeco. Current versions of the policies are available online at https://www.bordertocoast.org.uk/publications/?_sfm_publication_document_type=Responsible%20Investment%20Policies.

Recommendation(s)

- 4 It is recommended that the Committee:
 - (a) Provides any comments on the Policies and the key changes highlighted in Appendix 1 to 3;
 - (b) Notes and approves changes to (i) the Responsible Investment Policy, (ii) the Corporate Governance & Voting Guidelines Policy, and (iii) the Climate Change Policy included in Appendices 1, 2 and 3 which Border to Coast will operate on behalf of the Pension Fund for assets transferred into the pool;
 - (c) Approves the adoption of the Border to Coast Voting Guidelines for any remaining assets held 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 Border to Coast'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 retains responsibility for its beliefs and objectives relating to responsible investment, as the Fund's assets have transferred to the pool, responsibility for implementing this policy has transferred to Border to Coast for pooled assets. 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 the RI Policy in respect of assets transitioned into the pool, which now covers the majority of the Fund's asset allocation.
- 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. Border to Coast's current policies are published online at https://www.bordertocoast.org.uk/publications/?_sfm_publication_document_type=Responsible%20Investment%20Policies.
- 9 Proposed changes to the Responsible Investment Policy, Corporate Governance and Voting Policy, and its Climate Change Policy are included at Appendix 1, 2 and 3 respectively. These documents were presented to BCPP's Joint Committee, constituted of each of the 11 Partner Fund Chairs, at its meeting on 26 November 2024.
- 10 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.

- 11 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.
- 12 The existing 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.
- 13 In previous years it was highlighted to the Committee 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.
- 14 The exclusion relating to controversial weapons had been extended to cover landmines, biological and chemical weapons. 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.
- 15 For 2024, there are only minor changes to the RI Policy, with material changes to both the standalone Climate Change Policy, and Voting Policy relating to deforestation. The proposed amendments to the RI Policy, set out in full in Appendix 1, are:
 - (a) Amendment to clarify that ESG risk forms part of the risk management framework,
 - (b) Update following Real Estate launch and ESG scorecard.
- 16 BCPP's approach to Climate Change is outlined in its standalone Policy, with proposed changes set out in Appendix 3. The Policy has been reviewed by Robeco and against asset managers and asset owners to determine developments across the industry. Key changes (reflected in Appendix 3) are:
 - (a) Amendment correcting the objectives of the Paris Agreement,
 - (b) Amendment correcting the 2050 Net Zero Targets,

- (c) Proposed addition to the Policy to mitigate deforestation risk.
- 17 The only material change is the proposed approach to companies with high exposure to deforestation risk commodities. Deforestation can result in the loss of market access, more expensive financing, stranded assets, regulatory costs, and reputational risk. For companies with such exposures where there are either a lack of adequate mitigations or are involved in severe deforestation controversies, Border to Coast will oppose the re-election of the Chair of the Sustainability Committee.
- 18 In terms of Voting Guidelines, 2024's assessment of best practice asset owners and asset managers' voting policies identified deforestation as a gap in Border to Coast voting policy. The only material change to the Voting Policy therefore relates to deforestation as a climate change issue. Regulatory pressures on companies to curb deforestation are increasing, with the EU agreeing regulation which will require companies to conduct due diligence on commodity imports to ensure they are deforestation free.
- 19 The proposed changes to the Voting Policy, as set out in Appendix 2, are:
 - (a) Addition setting general intention to vote in favour of shareholder proposals that ask companies to mitigate deforestation risks,
 - (b) Addition setting stance on companies with high exposures to deforestation risk commodities.
- 20 Responsible Investment and sustainability are central to Border to Coast's corporate and investment ethos and a key part of delivering Partner Fund objectives. Increasing regulation and pressure from beneficiaries and stakeholders has propelled RI and ESG up the agenda for investors and our Partnership. There may be reputational risk if we are perceived to be failing in our commitment of this objective. It is therefore recommended, as set out in Paragraph 4, that the Committee support the proposed changes.
- 21 Finally, Quarterly Responsible Investment Reports covering ESG and Carbon Metrics are appended as follows:
 - (a) Appendix 4 – Global Equity Alpha
 - (b) Appendix 5 – Listed Alternatives
 - (c) Appendix 6 – Investment Grade Credit
 - (d) Appendix 7 – Emerging Markets Alpha

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