



## Regulatory and Other Committee

### Open Report on behalf of Andrew Crookham, Executive Director - Resources

Report to:	<b>Pensions Committee</b>
Date:	<b>9 January 2020</b>
Subject:	<b>Border to Coast Responsible Investment Policy and Corporate Governance Voting Guidelines Review</b>

#### Summary:

Border to Coast Pensions Partnership (Border to Coast) reviews their Responsible Investment (RI) Policy and Corporate Governance and Voting Guidelines annually. This report highlights the changes from the last version for the Committee to consider, and to approve the alignment of the new version to the current Lincolnshire policy and guidelines.

#### Recommendation(s):

That the Committee:

- 1) Considers the proposed Border to Coast Responsible Investment Policy and Corporate Governance and Voting Guidelines;
- 2) Agrees to align the Lincolnshire RI Policy and Voting Guidelines to Border to Coast's; and
- 3) Notes the report.

#### Background

1. The LGPS (Management and Investment of Funds) 2016 regulations state that the responsibility for stewardship, which includes shareholder voting, remains with the Partner Funds. Stewardship, day-to-day administration and implementation have been delegated to Border to Coast once assets transition, with appropriate monitoring and challenge to ensure this continues to be in line with Fund requirements. To leverage scale and for operational purposes, Border to Coast, in conjunction with Partner Funds, has an RI Policy and accompanying Corporate Governance & Voting Guidelines to ensure clarity of approach.
2. Border to Coast reviews their RI policy and Corporate Governance & Voting Guidelines (the Voting Guidelines) annually or when material changes need to be made. The annual review process commenced in August to ensure any revisions required would be in place ahead of the 2020 proxy voting season.

As part of the review procedure, input is taken from the Joint Committee and the Partner Funds, to ensure that Border to Coast is able to represent a strong, unified voice. The Joint Committee considered the draft documents at its meeting on 20 November 2019, and all of the Partner Funds have taken them to their respective Committees.

3. Following the creation of the original policies in 2017, the Committee approved the recommendation to create a Lincolnshire Pension Fund RI Policy and Voting Guidelines that were aligned to the Border to Coast documents. These are realigned following each annual review, after any amendments to the Border to Coast policies have been considered by the Committee. The proposed revised Border to Coast policies (attached at appendix A and B).
4. Responsible Investment and sustainability are central to Border to Coast's corporate and investment ethos and a key part of delivering the Partner Funds' objectives. There may be reputational risk if Border to Coast is perceived to be failing in their commitment of this objective.

#### **Key changes to the RI Policy**

5. The RI policy underwent a substantial rewrite last year to allow Border to Coast to satisfy future PRI (Principles of Responsible Investment) reporting requirements, whilst maintaining consistency with the principles previously adopted. This year the review has taken into account SRD II (Shareholder Rights Directive II) requirements which are incorporated into the FCA's rule changes published at the end of May 2019, and also further improvements to satisfy PRI reporting.
6. ESG factors are considered when analysing potential and ongoing investments. The table covering potential issues has been expanded to include additional ESG issues as examples; this is not an exhaustive list. The additions are seen as posing increasing risks to investors, with regulation, and increased government and political pressure. For example, water stress has been added as risks are both regional and multidimensional, and for some industries it is a material issue. Single-use plastics has also risen up the agenda, driven by consumers, with implications for a number of industries.
7. The climate change section of the policy has been expanded to include extra detail on the systemic risk. As Border to Coast is already implementing the specific points in the policy the wording has been changed to reflect this.
8. One area not included in the revised policy is Border to Coast's approach to exclusions. This is an area covered in the PRI reporting framework. Border to Coast do not currently have an exclusion policy or any red-lines for investing and will need to undertake further work to assess investment implications and impact if they were to adopt any red-lines and/or exclusions and how this would affect Partner Funds' assets held outside the pool.
9. The amendments to the RI policy are highlighted in the table below:

Section	Page	Type of Change	Rationale
Introduction	4	Addition/clarification	Investment time horizon
Integrating RI into investment decisions	5	Addition	Additional ESG issues: water stress, data privacy, single-use plastics, political lobbying.
Climate Change	7/8	Addition	Extra detail on climate change as a systemic risk. Additional detail on risks and opportunities.
		Clarification	Change from "will therefore look at" to "is".
Stewardship Use of proxy advisors	8/9	New sub-section	To comply with the SRD II, need to name and describe use of proxy advisors.
Engagement	10	Restructuring	Bullet points for engagement status.
	11	Addition	Detail on engagement process – required by PRI and SRD/FRC.
Escalation	11	Addition – new sub-section	Detail on options when initial engagement ineffective – required by PRI.
Due-diligence and monitoring	11/12	Addition – new sub-section	Detail of audit of stewardship activities – required by RI.
Communication and reporting	12	Clarification	Change from "consider" to "will also be reporting in line with TCFD recommendations".

10. The policy is very closely aligned to how the Lincolnshire Fund considers it should act as a responsible investor, with no contentious issues.

### **Key changes to the Corporate Governance and Voting Guidelines**

11. The Corporate Governance & Voting Guidelines were expanded at the last review to reflect global corporate governance trends, not just UK best practice.
12. Following Robeco's (the advisor to Border to Coast) evaluation this year a number of minor revisions were proposed to align the Voting Guidelines with the ICGN Global Governance Principles and the UK Corporate Governance Code. Border to Coast want to avoid ambiguity within the Voting Guidelines, however best practice can vary across markets and jurisdictions; an example

being Japan where the Company Law does not require the separation of the roles of chairman and CEO. This is an area for future consideration as to whether voting guidelines for some individual markets need developing.

13. Amendments are highlighted in the table below and are a mixture of minor additions and clarifications to reflect global variations of market practice.

<b>Section</b>	<b>Page</b>	<b>Type of Change</b>	<b>Rationale</b>
Company Boards – composition and independence	5	Addition/clarification	Change of "9 years" to "9-12 years". Clarification that this will also depend upon market practice.
Leadership	6	Addition	Changed "mst" to "should" to cover market practice outside the UK.
Diversity	7	Clarification	Additional wording to clarify stance.
Board Evaluation	7/8	Addition	Good practice for Board to disclose these evaluations.
Directors' remuneration	9	Addition	Transparency on pay ratios.
Long term incentives	9	Addition	Encourage Executive Directors to hold stock to align interests with those of shareholders.
Directors' contracts	10	Addition	Limit termination benefits in-line with market best practice.
Audit	10	Addition	Publish audited financial statements ahead of shareholder deadline – to cover the Korean market where this does not always happen. Additional text to cover audit tender requirements for markets outside the UK.
Political donations	11	Clarification	Ensure money not being used to fund political parties.
Lobbying	11	Clarification	Alignment of company and trade association values.

14. The guidelines reflect best global practice and there are no contentious issues.

15. Officers recommend that the Committee considers the proposed Border to Coast RI Policy and Corporate Governance and Voting Guidelines, and approves the realignment of the Lincolnshire Fund's current RI Policy and Corporate Governance and Voting Guidelines.

### **Conclusion**

16. The LGPS (Management and Investment of Funds) 2016 regulations state that the responsibility for stewardship, which includes shareholder voting, remains with the Partner Funds. The day-to-day stewardship administration and implementation will be delegated to Border to Coast by the Partner Funds, once assets are transitioned. To leverage scale and for operational purposes, Border to Coast, in conjunction with Partner Funds, has an RI Policy and accompanying Corporate Governance and Voting Guidelines to ensure clarity of approach on behalf of Partner Funds. Border to Coast reviews these policies at least annually, and any changes are brought back to the Joint Committee and the underlying Pension Committees for consideration.
17. The Committee are recommended to consider the draft documents and approve the realignment of the Lincolnshire Pension Fund's current documents.

### **Consultation**

#### **a) Have Risks and Impact Analysis been carried out?**

Yes

#### **b) Risks and Impact Analysis**

The Pension Fund has a risk register which can be obtained by contacting the author of this report.

### **Appendices**

These are listed below and attached at the back of the report	
Appendix A	Border to Coast Responsible Investment Policy
Appendix B	Border to Coast Corporate Governance and Voting Guidelines

This report was written by Jo Ray, who can be contacted on 01522 553656 or [jo.ray@lincolnshire.gov.uk](mailto:jo.ray@lincolnshire.gov.uk).

This page is intentionally left blank