

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

Report to:	<b>Pensions Committee</b>
Date:	<b>07 January 2021</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. 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).

3. 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.

### **Border to Coast's Review Process**

4. Border to Coast reviews their RI policy and Corporate Governance & Voting Guidelines annually, or when material changes need to be made. The 2020 annual review process commenced in July to ensure any revisions required were in place and agreed with the Board and Partner Funds ahead of the 2021 proxy voting season.
5. The current policies were evaluated by Robeco, Border to Coast's voting and engagement provider, considering the global context and best practice. This included consideration of the International Corporate Governance Network (ICGN) Global Governance Principles, the UK Corporate Governance Code and the UK Stewardship Code.
6. As part of the review procedure, input is also taken from the Joint Committee and the Partner Funds, to ensure that Border to Coast is able to represent a strong, unified voice. A workshop was held with Partner Funds officers on 22 September where the proposed policies were shared and feedback was received. A briefing on the updated policies was held on 18 November for the Joint Committee members and the Joint Committee considered the draft documents at its formal meeting on 24 November 2020. All of the Partner Funds have taken them to their respective Committees for their comment and approval.
7. Divestments following unsuccessful engagement and specific climate-related exclusions have not been included in this review, as work will be undertaken on these areas ahead of the 2021 Policy Review process.

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

8. The last two reviews of the Border to Coast RI Policy have seen it develop substantially to satisfy future PRI reporting requirements and take account of the Shareholder Rights Directive II (SRD II) requirements, which are incorporated into the FRC's rule changes. This year there are several minor additions and amendments but no substantial changes.
9. On climate change, some minor changes have been made to the RI policy and to the Voting Guidelines, with consideration given to the comments from Partner Funds at the Joint Committee RI workshop. Border to Coast expect high emitting companies and those in high emitting sectors to have climate change policies in place meeting certain requirements. If this is not the case, there is the potential to vote against board chairs where no progress is being

made. This is also the case for companies rated at zero or one by the Transition Pathway Initiative (TPI). There is also reference to the use of the TPI toolkit for assessing portfolio holdings and reporting on climate risk through the Taskforce on Climate-related Financial Disclosures (TCFD) report.

10. The amendments to the RI policy are highlighted in the table below:

<b>Section</b>	<b>Page</b>	<b>Type of Change</b>	<b>Rationale</b>
1. Introduction	2	Clarification	Implementation of policy.
1.1 Policy Framework	2/3	Addition	Policy framework context.
5. Integrating RI into investment decisions	4	Additions	Biodiversity. Text explaining "overarching principles" apply to all asset classes.
5.1 Listed equities – internally managed	4	Clarification	Extra text to clarify process
5.2 Private markets	5	Addition	Monitoring ESG policies and encourage improvement
5.4 External manager selection	5	Additions	Extra detail on expectations. PRI Principle 4: We will promote acceptance and implementation of the principles within the investment industry.
5.5 Climate change	6/7	Additions	Reference to climate risk reporting via TCFD report. Use of TPI. Vote against Chairman where rated zero or one by TPI. Private market investment themes.
6. Stewardship	7	Additions	Extra clarification text. Commitment to 2020 UK Stewardship Code.
6.1 Voting	7	Addition	Clarification on split voting circumstances - clear rationale from Partner Fund.
6.1.1 Use of proxy advisors	8	Clarifications	Monitoring of Robeco. Updated text on share blocking.
6.2 Engagement	9/10	Additions	Input into Robeco process for new themes. Include OECD Guidelines breaches. Sharing engagement information.

9. Training and assistance	11	Addition	Training for Investment Team, Board and Joint Committee.
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11. 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

12. The Corporate Governance & Voting Guidelines have been reviewed by Robeco considering best practice. There are several minor amendments including proposed additions and clarification of text.
13. Amendments are highlighted in the table below and are a mixture of minor additions and clarifications to reflect global variations of market practice.

Section	Page	Type of Change	Rationale
Diversity	5	Addition/clarification	Rewording and increasing scope of approach.
Re-election	5/6	Addition/clarification	Board member election using majority voting standard.
Board evaluation	6	Addition	Assess skills.
Stakeholder engagement	6	Addition	Company response where significant votes against received.
Directors' remuneration	6/7	Clarification Addition	Rephrasing. Greater detail on ESG incorporation in exec. Pay.
Annual bonus	7	Addition	Deferral of portion of short-term bonus.
Political donations	9	Clarification	Oppose political donation proposals.
Dividends	10	Addition	No publically disclosed capital allocation strategy.
Virtual shareholder General Meetings	11	Addition	Loosen current approach but need to safeguard shareholder participation.
Shareholder proposals	12	Addition	Expand text to include types of proposal usually supported.
Climate change	12	Addition	Vote against Chairman if high emitting company with TPI score of zero or one.

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 is delegated to Border to Coast by the Partner Funds, for assets under their management. 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) 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

## **Background Papers**

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

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