



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

Report to:	Pensions Committee
Date:	16 December 2021
Subject:	Border to Coast Responsible Investment Policy and Corporate Governance Voting Guidelines Review

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;
- 3) Agree to consider a Fund Climate Change Policy later in 2022 when the Committee have revisited their Investment Beliefs; and
- 4) 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 Corporate Governance & 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 are attached at appendix A and B.

3. The review in 2020 identified the need for a standalone Climate Change Policy which has been developed outside the normal RI Policy review period and was approved by the Border to Coast Board on 21st September and shared with Partner Funds via the Joint Committee. This is attached at appendix C.
4. The Border to Coast Climate Change Policy includes specific exclusions covering companies with >90% of revenue from thermal coal and tar sands. This is the first time that Border to Coast have had exclusions and considerable engagement was undertaken with Partner Funds on this issue, including within the training presentation to this Committee in September. The approach to exclusions is articulated in the revised RI Policy.
5. It is recommended that the Committee consider their approach to a Lincolnshire Pension Fund Climate Change Policy later in 2022, after they have revisited their Investment Beliefs.
6. 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

7. Border to Coast reviews their RI policy and Corporate Governance & Voting Guidelines annually, or when material changes need to be made. The 2021 annual review process commenced in July to ensure any revisions required were in place and agreed with their Board and Partner Funds ahead of the 2022 proxy voting season.
8. The review timeline is set out below:



9. Current policies were evaluated by Robeco, the voting and engagement provider, considering the global context and shift in best practice. This included consideration of the recently revised International Corporate Governance Network (ICGN) Global Governance Principles, the UK Corporate Governance Code and the UK Stewardship Code.
10. The policies of best-in-class asset managers and asset owners considered to be RI leaders were also consulted to determine how best practice has developed. Policies assessed included RLAM, LGIM, NZ Super, NEST and Brunel. Border to Coast have also taken into account the Investment Association Shareholder Priorities for 2021.
11. As part of the review procedure, input is also taken from the Joint Committee and the Partner Funds, to ensure that Border to Coast can represent a strong, unified voice. A workshop was held with Partner Funds officers in October where the proposed policies were shared, and feedback was received. Briefings on the updated policies were held in November for the Joint Committee members and the Joint Committee considered the draft documents at its formal meeting on 22 November 2021. All of the Partner Funds will be or have taken them to their respective Committees for their comment and approval.

Engagement Theme Review

12. The three priority areas for engagement with portfolio companies were set in 2018. These are 'Governance', 'Diversity' and 'Transparency and Disclosure'. Whilst recognising that these areas continue to be important, Border to Coast wanted to reflect its growth and maturity as an organisation and review the themes whilst also considering the views of Partner Funds. They developed an Engagement Themes Framework consisting of four stages, to assist with the process and set themes for the next strategic period.
13. An initial 'long list' of nine potential themes was shared with the Investment Committee in April and their Board in May. Input from the Partner Funds was received via workshops held for the Officers Operation Group and Joint Committee; this was shared with their Board. Feedback from Partner Funds and the Border to

Coast Board was then used to identify four themes to take forward to the final stage (defining objectives and milestones).

14. Further work and analysis was done to determine the overall engagement objective, core objectives to be measured and the approach to be taken. Assistance was also provided by Robeco.
15. The four final themes were presented to the Border to Coast Board on 11th November and approved. These are set out below, with high-level aims:

Low Carbon Transition:

Climate change is a systemic risk with potential financial impacts associated with the transition to a low-carbon economy and physical impacts under different climate scenarios. Transition will affect some sectors more than others, notably energy, utilities and sectors highly reliant on energy. The focus will be on the big carbon emitting companies and banks.

Engagement objective: Climate change is a systemic risk that poses significant risks and opportunities for our portfolio investments. In high emitting sectors companies need to adapt and, in some cases, fundamentally change their business models. The aim of this engagement is to focus on the companies in high emitting sectors and banks identified as key to financing the transition to a low-carbon economy, to commit to credible plans to meet net-zero targets.

Waste and Water Management:

The focus is on companies assessed as having high exposure to water-intensive operations and/or producing high levels of packaging waste and plastic pollution.

Engagement objective: Water is becoming an increasingly scarce and costly resource and a material financial risk for companies and investors. Packaging waste is a huge environmental problem with increasing regulation. This engagement theme will focus on engaging portfolio companies with high exposure to water-intensive operations, exposure to operations producing high levels of packaging waste to develop policies and initiatives to address the issue(s).

Social Inclusion through Labour Management:

This theme seeks to blend two of the previous proposed themes around Social Inclusion and Supply Chain Management. The focus is on companies assessed as having high exposure to labour intensive operations, those scoring lower on human capital development and those that are scoring lower on supply chain labour management. This includes engaging with companies on modern slavery policies.

Engagement objective: Human capital management and supply chain issues are recognised as financial risks emphasised by the pandemic. Engagement will be with companies with high exposure to labour-intensive operations and lower scoring companies in relation to human capital development and supply chain labour

management risk. The aim is to promote sustained, inclusive growth with productive and decent work for all, including elimination of child labour in supply chains.

Diversity of Thought:

The focus will be on companies that have been flagged as not having diversity management programs in place, including UK companies that are not meeting the recommendations of the Hampton Alexander and Parker Reviews where we believe we hold sufficient market cap to have an influence.

Engagement objective: The need for diversity of thought and experience on boards has never been more compelling. The pandemic has caused massive economic disruption with companies needing to be able to adapt and be innovative in order to be resilient and survive for the long-term. The focus of this engagement is to enhance the diversity of boards, reducing the risk of ‘group think’ leading to better decision making and wider diversity across the organisation. This in turn should increase the resilience and long-term sustainability of companies. To ensure a pipeline of diverse talent is being developed and utilised, this engagement will also cover improving the approach to building diversity and inclusion in executive committees, other senior leadership roles and throughout the workforce.

Key changes to the RI Policy

- 16. This year’s RI Policy review reflects work undertaken during the year, including the development of the Climate Change Policy and associated exclusions, and the refreshment of the key engagement themes.
- 17. The amendments to the RI policy are highlighted in the table below:

Section	Page	Type of Change	Rationale
1. Introduction	2	Addition	Include wording on diversity/diversity of thought.
5.4 Integrating RI into investment decisions – Real estate	5	Addition	New asset class.
5.6 Climate change	6	Revision	Section edited as Climate Change Policy details our approach.
5.6 Climate change	6	Addition	Wording on exclusions covered in Climate Change Policy.
6. Stewardship	8	Revision	Explanation on UK Stewardship Codes signatory status.
6.2.1 Engagement themes	11	Addition	New section on key engagement themes and review process.

18. 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

19. The Corporate Governance & Voting Guidelines have been reviewed by Robeco considering best practice. Asset owner and asset manager voting policies and the Investment Association Shareholder Priorities for 2021 have also been used in the review process. There are several minor amendments including proposed additions and clarification of text.
20. The amendments to the Corporate Governance & Voting Guidelines are highlighted in the table below.

Section	Page	Type of Change	Rationale
Diversity	5	Addition	Strengthening position on ethnic diversity at FTSE 100 companies.
Long-term incentives	8	Clarification	Splitting out executives from other employees.
Directors' contracts	8	Clarification	Executive pensions.
Lobbying	10	Addition	Company stance on climate change lobbying.
Shareholder proposals	12	Clarification	Shareholders' best interests.
Climate change	12	Addition	Strengthening voting stance to include CA100+ net zero benchmark indicators.

21. The guidelines reflect best global practice and there are no contentious issues.
22. It is recommended 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

23. 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.

24. The Committee are recommended to consider the draft documents and approve the realignment of the Lincolnshire Pension Fund's current documents, and to consider their approach to a Lincolnshire Pension Fund Climate Change Policy later in 2022, after the Investment Beliefs have been revisited.

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
Appendix C	Border to Coast Climate Change Policy

This report was written by Jo Ray, who can be contacted on 01522 553656 or jo.ray@lincolnshire.gov.uk.

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